



International Conference on  
Green Business, and  
Entrepreneurship

Trisakti University  
Faculty of Economics



Faculty of Economics,  
Trisakti University

# PROCEEDING OF International Conference on Green Business and Entrepreneurship

HOTEL SALAK THE HERITAGE, BOGOR, INDONESIA

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Cetakan Pertama April 2015

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Andreas Wahyu Gunawan  
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Luki Adiati Pratomo

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## PREFACE

I am delighted to present that Faculty of Economics has become the host of this international conference theme is the “Green business and Entrepreneurship”. This is truly be a Jubilee Event. I would like to extend a special welcome to all distinguished guests, faculty members, participants and students. On behalf of my Conference Organising Committee, I am welcoming you to Hotel Salak Heritage, Bogor.

The seminar gave special attention to the area of green business activities, green economics as well as to become an entrepreneur to facilitate the social entity in developing their competencies in order to have job creation and build network amongst business practitioners, institutions and governments.

This conference has 38 papers and I would like to thank them who have made this conference a success. Our major challenge moving forward would be transforming “the green concepts” into reality and with any growing field, there is a critical need for more reliable research, educational programmes to society about “the green concepts” if we are to have informed, skilled and professionals’ human resource to drive the concept forward.

Lastly, I pass on my sincere thanks to all sponsors particularly Freeport, Bank Mandiri and to those who made the conference becoming successful.

To sum up, I hope you enjoy our hospitality and wish you the best with the rest of the programme

Thank you.

DR. Andreas Wahyu Gunawan, MBA  
Conference Chair

**International Conference on Green Business and Entrepreneurship**

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**THE ANALYSIS OF IMPLEMENTATION OF PSAK 50 AND PSAK 55 AND ITS  
INFLUENCES TOWARD INCOME FOR LISTED COMPANIES IN INDONESIAN  
STOCK EXCHANGE**

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**ABSTRACT**

This research aimed to analyze the differences in the value of receivables and company profit and loss before and after implementation of SFAS No. 50 and 55 (Revised 2006). This study also analyzes the disclosure, measurement, presentation and disclosure before and after implementation of SFAS 50 and 55 (Revised 2006)

This study discusses the analysis before and after the application of SFAS No. 50 and 55 (Revised 2006) on securities companies. SFAS No. 50 and 55 (Revised 2006) is a standard that regulates the recognition and measurement and the presentation and disclosure of financial instruments, one of which is receivable. The new accounting standards introduced the calculation of impairment of receivables based on individual or collective assessment.

This research is a qualitative study with a descriptive design. This research took a sample of 30 companies that are members of the exchange securities on the Stock Exchange in 2009 and 2010. The results of this research are: (1) Some of the Company did not elect to provide any allowance for decline in customer receivables (2) in conducting the presentation of customer accounts receivable recovery there is one company that classifies to other income (3) Presentation of the change in equity report only 3 Company who made adjustment for impact SFAS no 55 (4) almost all of the samples revealed the company's policies and principles decrease in receivables in the notes to the financial statements and the impact of the application of SFAS No. 55 provide significant impact on the decline and recovery of the Company's income statement.

Researchers suggest to the management of the Company in order to provide training to employees of the Company in order to apply IAS 50 and 55 to the maximum so that the financial statements may be in accordance with applicable accounting standards.

Keywords: Corporate securities, financial instruments, operating income, IAS 50 and 55 (Revised 2006), receivables, financial assets.

## **1. INTRODUCTION**

Since the 1980s, there has been debate and criticism of accounting standards governing the treatment of financial instruments at the time, which wants recognition and disclosure that more will be reasonable value (fair value) of the financial instrument (Jones, 1988). Measurement of financial instruments with a historical cost approach (historical cost) are no longer able to portray the real economic conditions with increasing complexity of financial instruments (Jones, 1988), in this case the securities company. In September 2006, the financial accounting Association (IAI) issued an exposure draft (ED) PSAK (Statement of financial accounting standards) 50 and 55 about the financial instrument, which is the adoption of IAS 32 and IAS 39 has been amended. PSAK No. 55 (revised 2006) introduces fair value option, here the company is permitted to measure financial instruments outside for the purposes the trading, with a reasonable value. PSAK No. 50 set of financial instruments: Presentation and Disclosures PSAK No. 55 Meanwhile set about financial instruments Recognition and measurement. The second implementation of PSAK limit is January 1, 2009.

The main focus is financial reporting information about profit and its components because this information plays a significant role in the decision-making process by external parties especially investors. The investors are the financiers who holds the risk so that the provisions of the financial statements of companies that they need to be citations, assuming it will also meet the information needs of financial statements of the other users. Kirschenheiter and Melumad (2002) in Juniarti and Carolina (2005) suggests that the information return is a component of the financial statements of companies that aim to assess the performance of management, helps mengestimasi the ability of the representative income in the long term, and to estimate the risk of the investment or loan funds. This caused the investors are more likely to pay attention to earnings in the income statement for the purposes of making investment decisions.

The importance of this profit realized by information management, so that management tends to do the disfunctional behavior (behavior not appropriate), that is by doing the smoothing profits to address numerous conflicts that arise between the management of the various parties with an interest in the company (Sugiarto, 2003). The difference of information or of information asymmetry occurs when an agent or Manager as the party that manages the company's internal information management has relatively more and knowing that information is relatively faster compared to external parties. In these conditions, the Manager may use

information he knew to manipulate financial statements as an attempt to maximise its prosperity (and Baridwan Salno, 2000). In this case the company or management can make a profit with the alignment gap decrease value therefore PSAK 50 and 55 and minimize fraud perpetrated by Companies in conducting measurements.

## **2. REVIEW OF THE LITERATURE**

The company effects (PE) is the party that performs business activities and have the permission of the financial services authority as an underwriter of Securities (PEE), Brokerage (PPE), Effects and or investment manager (MI).

The role of the securities companies in general are as follows:

- a. As a proponent of the existence of the capital market, in terms of turnover funds and Supporting information
- b. systems and exchange activities as part of the capital market and as a business unit.
- c. Increasing activity to invest in the capital market to enhance the national economy.

As for the functions of the securities companies in general are as follows:

- a. As the provider of investment funds and the flow of information between investors and other investors and investors with Issuers.
- b. As the spearhead of the capital markets in raising investment volumes and movements.

Whereas the task of securities companies in General among others, as follows:

- a. Promote the capital market and enhance people's interest to invest in the capital market as an alternative investment.
- b. Help mobilize funds for the public at large by means of trade in Securities between investors with other investors and investors with Issuers.

As for the securities company has a function in the initial public offering in providing services, among others:

- a. Conduct transactions on financial asset for the benefit and customer account nor the interests and own account.
- b. Create or rather establish financial asset to its customers and then sell them to

investors.

- c. Provide advice and perform the management of financial assets of its customers.

### **PSAK 50 and 55 (Revisi 2006)**

Effective January 1, 2010, the financial statements of companies in Indonesia to implement PSAK revision here:

1. PSAK No. 50 (revised 2006), financial instruments: Presentation and disclosure.
2. PSAK No. 55 (revised 2006), financial instruments: recognition and Measurement.

PSAK No. 50 (revision 2006) resulted in the disclosure of financial instruments including several broader qualitative disclosures relating to financial risk and the purpose of the company.

PSAK No. 55 (revised 2006) provides guidance on the recognition and measurement of financial instruments and contracts to purchase non-financial items. Among other things, on January 1, 2010, the company had to do the classification of financial assets and liabilities assets and calculation of the effective interest rate method when an asset or liability measured at amortized acquisition cost (amortized cost) obtained previously and still bersaldo at the time of the initial application of PSAK is determined based on future cash flows that will be retrieved from the application of this PSAK up to early maturity of the financial instrument. In addition, it also changed the way the PSAK Companies in measuring financial asset values decline depending on the classification of financial instruments.

Financial assets are classified into financial assets measured at fair value through the income statement (FVTPL), financial assets held to maturity (HTM), financial assets available for sale (AFS) or loans granted and accounts receivable. This classification depends on the nature and purpose of the acquisition of financial assets and is determined at the time of his initial.

### **Previous Research**

Chen et al (2009) examines the impact of the adoption of IFRS in the financial statements of the quality of the sample companies in the 15 Member States of the European Union. This research uses 5 indicators in measuring the quality of financial statements i.e. smoothing profits (income smoothing), earnings management, accrual, accrual diskresi quality,

and timeliness of recognition of losses. The results showed that the quality of financial reporting improved in the period following the adoption of IFRS.

Fiechter (2010) in his research entitled "Application of the Fair Value Option under IAS 39: Effects on the Volatility of Bank Earnings" examines whether the application causing the volatility level of FVO different profit during the time period from January 2006 to July 2007 with using a sample of 227 bank from 42 countries. Despite the reasonable value accounting in General is believed to be able to increase earnings volatility, found evidence that the bank applies the FVO can reduce accounting mismatches with reported earnings volatility levels lower than that do not apply.

Emanuela (2012) in his research entitled "analysis of the application of PSAK NO. 50 and 55 (revised 2006) for Impairment of receivables at the company Multifinance" researching financing companies were listed on the Indonesia stock exchange in 2009-2010. This explains how the research process and the method of calculating the financing company in mengestimasi the value decrease of accounts receivable by a reasonable value method approach will then be presented and disclosed in the report. The study is based on 10 samples.

The results showed the percentage of total accounts receivable lease financing receivables plus consumer finance receivables factoring and each is 93,36% and 92,23% over total assets in 2010 and 2009. This indicates that the value of receivables is very influential to the asset value of the company. The issue regarding the decline in accounts receivable will also decline significantly influential asset finance companies. This research focuses on receivables and a decrease in the value of accounts receivable financing for consumers to see the implications of the application of PSAK NO. 50 and 55 (revised 2006) on company financing.

### **3. RESEARCH METHODOLOGY**

In this study, the authors used two methods of research are the study of literature and data analysis (data analysis). The primary research data are the financial statements, the annual report and the audit report on the effect of companies consists of quantitative and qualitative information. The sample used in this study is financial companies report an effect that has been audited and is listed on the Indonesia stock exchange. In the financial report that examined the financial report was concluded on December 31, 2009 (before application) and 2010 (after application). Discussion in this study done by comparative analysis of financial accounting reports sample securities company registered in BEI. This analysis is intended to gain

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understanding and overview of the application of PSAK NO. 50 & 55 (revision 2006) on securities companies as seen from the recognition, measurement, presentation and disclosure of revenue account. In addition, this analysis is intended to give you an idea about the consequences that arise from the application of PSAK NO. 50 and 55 (revised 2006) against the performance of the company due to the decline in reserves calculation of customer receivables.

#### 4. ANALYSIS and DISCUSSION

##### 4.1 The Customer Receivables Value Analysis

Following is the financial position which includes total assets, total customer receivables and accounts receivable percentage compared to the total assets on December 31, 2010 and 2009, the company's stock into a sample research:

Tabel 4.1. Percentage of accounts receivable against the company's assets

##### Securities

No	Code security Company	Total Asset		Total customer receivable		Percentage of receivables to total assets	
		2010	2009	2010	2009	2010	2009
1	FS	317,635,368,880	374,469,762,606	202,420,260,710	144,665,039,643	64%	39%
2	OK	185,722,759,102	112,465,658,641	8,604,732,388	9,603,418,564	5%	9%
3	PS	71,241,506,836	72,806,494,177	4,489,056,307	6,344,322,465	6%	9%
4	SH	153,324,732,750	158,169,826,459	27,832,992,653	10,510,807,405	18%	7%
5	RG	68,974,591,317	30,043,799,057	28,560,706,390	99,076,972	41%	0%
6	DX	1,394,207,160,116	784,702,580,610	334,454,621,805	97,485,403,789	24%	12%
7	DR	1,252,538,148,947	634,292,056,606	362,146,770,140	91,051,727,445	29%	14%
8	RB	80,118,187,644	66,477,563,503	1,112,584,072	1,771,724,086	1%	3%
9	CC	1,586,542,273,000	1,485,001,095,000	445,158,139,000	259,347,725,000	28%	17%
10	NI	1,184,977,818,000	985,441,592,000	162,264,513,000	106,605,129,000	14%	11%
11	CG	125,769,121,560	98,960,034,557	10,943,607,427	-	9%	0%
12	DB	722,197,000,000	381,170,000,000	506,883,000,000	250,092,000,000	70%	66%
13	GW	103,910,977,000	87,926,494,000	4,047,750,000	-	4%	0%
14	CS	1,789,345,000,000	1,162,682,000,000	32,188,000,000	5,111,000,000	2%	0%
15	KZ	1,341,691,540,365	851,854,274,776	749,076,232,513	425,722,429,806	56%	50%
16	DP	228,725,974,356	205,429,086,779	26,853,284,938	26,485,885,753	12%	13%
17	BK	822,122,542,150	565,128,024,249	317,397,015,716	142,195,203,278	39%	25%
18	RX	482,492,196,000	394,443,091,000	205,423,626,000	128,890,642,000	43%	33%
19	ML	543,222,311,166	431,472,361,893	281,404,430,813	237,401,759,090	52%	55%
20	AG	1,050,063,772,270	1,000,540,943,454	670,173,457,008	500,900,921,802	64%	50%
21	ZP	314,314,735,460	275,681,252,232	73,844,558,159	67,067,992,698	23%	24%
22	EP	746,298,396,428	681,990,618,682	197,632,196,468	128,141,343,653	26%	19%
23	KS	812,366,817,106	478,226,424,990	181,243,619,470	84,535,934,432	22%	18%
24	RO	224,898,051,337	143,859,661,313	55,773,460,362	15,402,505,378	25%	11%
25	PG	367,468,374,134	204,714,729,626	159,675,458,048	25,270,092,266	43%	12%
26	FM	56,673,963,110	48,368,317,782	4,889,130,146	6,108,540,740	9%	13%
27	GR	1,411,325,507,860	1,030,849,857,639	408,639,830,414	126,745,303,251	29%	12%
28	HD	343,188,558,650	346,350,872,853	86,861,879,042	57,139,413,402	25%	16%
29	AI	794,707,693,210	454,627,575,825	357,326,320,730	107,875,962,099	45%	24%
30	LG	858,287,816,000	938,381,881,000	339,579,723,000	287,916,346,000	40%	31%

Source: author's processed

## **4.2 Presentation of the result analysis**

### **4.2.1 Presentation on the report analysis of financial position**

The company may present a client's accounts receivable gross (gross value receivables reduced his descent) or net (net value receivable). Table 4.2. Presentation of Customer Receivables and reserves decline in reports on the financial position in 2010 and 2009

No	Kode perusahaan	2010	2009
1	FS	NET	NET
2	OK	None	None
3	PS	NET	NET
4	SH	None	None
5	RG	NET	NET
6	DX	None	None
7	DR	None	None
8	RB	None	None
9	CC	NET	NET
10	NI	NET	NET
11	CG	None	None
12	DB	None	None
13	GW	None	None
14	CS	None	None
15	KZ	None	None
16	DP	None	None
17	BK	None	None
18	RX	None	None
19	ML	None	None
20	AG	None	None
21	ZP	NET	NET
22	EP	None	None
23	KS	None	None
24	RO	NET	NET
25	PG	NET	NET
26	FM	None	None
27	GR	None	None
28	HD	NET	NET
29	AI	None	None
30	LG	NET	NET

Source: author's processed

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In table 4.2. We can see that each of the 10 companies in 2010 and 2009 voted present accounts receivable clients financial position report the net value of the accounts receivable or customer presented clean. In addition there are 20 companies for 2010 and 2009 who does not choose serves up the decline in even after the author does further analysis there are 7 Companies namely DX, KZ, DP, BK, AG, AI, who in his notes to financial statements have a decline in accounts receivable reserves.

### **4.2.2 Presentation of analysis in the statement of comprehensive income**

Table 4.3. Classification of Load and recovery of Receivables Loss on securities companies in 2010 - 2009

No	Kode perusahaan	Klasifikasi beban penurunan piutang	Klasifikasi pemulihan penurunan piutang
1	FS	other expenses	Net-off impairment receivable expenes
2	OK	None	None
3	PS	General expenses	Net-off impairment receivable expenes
4	SH	None	None
5	RG	other expenses	Net-off impairment receivable expenes
6	DX	General expenses	Net-off impairment receivable expenes
7	DR	other expenses	Net-off impairment receivable expenes
8	RB	None	None
9	CC	General expenses	Net-off impairment receivable expenes
10	NI	General expenses	Net-off impairment receivable expenes
11	CG	None	None
12	DB	None	None
13	GW	None	None
14	CS	None	None
15	KZ	General expenses	Net-off impairment receivable expenes
16	DP	General expenses	Net-off impairment receivable expenes
17	BK	other expenses	Net-off impairment receivable expenes
18	RX	None	None
19	ML	None	None
20	AG	other expenses	Net-off impairment receivable expenes
21	ZP	General expenses	Net-off impairment receivable expenes
22	EP	None	None



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No	Kode perusahaan	Klasifikasi beban penurunan piutang	Klasifikasi pemulihan penurunan piutang
22	EP	None	None
23	KS	None	None
24	RO	other expenses	Net-off impairment receivable expenses
25	PG	other expenses	Net-off impairment receivable expenses
26	FM	None	None
27	GR	None	None
28	HD	Pendapatan lain-lain	Net-off impairment receivable expenses
29	AI	General expenses	Net-off impairment receivable expenses
30	LG	General expenses	Net-off impairment receivable expenses

Source: author's processed

Classification and disclosure in the CALK over burden decline in accounts receivable from table 4.3. seen that the sample of 30 securities companies only 1 company that backed up his client's receivables and classifying the receivables impairment reserves into other revenue components in the comprehensive income statement in 2010 and 2009.

**Classification of disclosure in the CALK & recovery decreased the value of accounts receivable**

From table 4.3. There are 17 companies in 2010 and 2009, the decrease in the value of accounts receivable recovery classifies as a deduction expenses decrease in accounts receivable reserves. And there are 13 companies in the years 2010 and 2009 which did not make allowance for receivables. HD is the only company from a sample of 30 companies audited by KAP Ramawendra income expressing the company's accounts receivable backup.

Table 4.4. Disclosure of the Impairment of receivables Recovery Classification on notes to financial statements

Classification	Total Company
Described specifically	2
Described unspecifically	9
not explained	6

Source: author's processed

Explained the specifics: CALK explains to the account where the recovery of receivables impairment are classified in the income statement

Described as not specific: CALK just explained that the recovery of declining value of accounts receivable are recognized in income, without explaining to the component where the restoration of classified

Not explained: the company does not provide information related to the classification of recovery decrease the value in the CALK

From table 4.4 look that only 2 companies that describe specific disclosures the classification of receivables impairment recovery, namely CC & NI. HD is the only company that classifies the recovery value of loss into account other revenue and is the only company from the sample audited company 10 HOOD Ramawendra. There were 9 companies that describe the specific disclosure but not the classification of receivables impairment recovery. The company just revealed that the decline in the value of accounts receivable recovery is recognized in the profit loss statement without mentioning in which parts are classified. And there are 6 companies that don't explain the disclosures the classification of receivables impairment recovery.

#### **4.2.3 Presentation on report analysis of changes in equity in the financial statements of the year 2010**

Table 4.5. The initial application of the Related Adjustment disclosures PSAK 55 (revised 2006) year 2010

No	Kode perusahaan efek	Penyesuaian PSAK 55 (revisi 2006)
1	FS	none
2	PS	none
3	RG	none
4	DX	none
5	DR	none
6	CC	none
7	NI	exist
8	KZ	none
9	DP	none
10	BK	none
11	AG	none
12	ZP	none
13	RO	exist
14	PG	none
15	HD	none
16	AI	none
17	LG	exist

Source: author's processed

In table 4.5 looks that 3 companies who are members of the exchange effects on related adjustments already doing IDX application early PSAK 55 (revised 2006) in 2010. While the company's 14 samples that do not conduct related adjustment allowance application the beginning of PSAK No. 55 (revised 2006) year 2010.

In table 4.5 visible mutations decrease the value of accounts receivable clients one of its components is the adjustment related to the application of PSAK No. 55 (Revised 2006). On the accounting policy in the CALK, to fourteen of the companies mentioned that starting January 1, 2010 has adopted PSAK No. 50 & 55 (Revision 2006) conducted a prospective basis. But in reality to the fourteen companies perform the initial implementation of PSAK No. 55 (Revised 2006).

#### 4.2.4 Analysis of Disclosures in the notes to financial statements

##### a) Accounting Policy

##### Financial Instruments: Accounting Policies

Table 4.6 look that only 5 of the 30 samples are not specific companies disclose the accounting policy regarding the company's financial instruments. The rest are pretty specific company 25 reveal accounting policy regarding financial instrument for revealing the 4 to 7 points of disclosure.

Table 4.6 Table Mutation Decreased the value of customer accounts receivable

Keterangan	RG	DX	CC	NI	KZ	DP
beginning balance	32,500,000	11,921,848,324	-	29,328,019,000	18,581,492,249	11,577,540,310
Provision / (recovery) for impairment	200,000,000	2,329,443,124	-	(131,865,000)	(18,581,492,249)	(204,142,798)
Elimination during the year	(32,500,000)	-	-	-	-	-
The amount of the allowance value	200,000,000	14,251,291,448	-	29,196,154,000	-	11,373,397,512

Keterangan	BK	AG	ZP	RO	PG
beginning balance	458,395,692	100,558,578,683	107,018,665	14,392,109,291	6,089,341
Provision / (recovery) for impairment	(402,640,478)	20,762,772,024	-	(11,094,666,724)	-
Elimination during the year	(55,755,214)	-	-	-	(6,089,341)
The amount of the allowance value	-	121,321,350,707	107,018,665	3,297,442,567	-

Keterangan	AI	DR	HD	FS	PS	LG
beginning balance	1,348,464,931					
Provision / (recovery) for impairment	-	no explanation	no explanation	no explanation	no explanation	no explanation
Elimination during the year	-					
The amount of the allowance value	1,348,464,931					

Source: author's processed

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Table 4.7 Accounting Policies financial instruments

Accounting policies of financial instruments	RG	DX	CC	NI	KZ	DP	BK	AG	ZP	RO	PG	AI	DR	HD	FS
categories of financial assets and liabilities	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
initial recognition	x	x	x	x	x	x	x	x	x	x	x			x	
Subsequent measurement		x	x	x						x				x	
derecognition		x	x	x		x	x	x	x		x	x		x	
Impairment of financial assets		x			x	x	x	x	x	x	x	x	x		
equity instruments	x										x	x	x		
effective interest method											x	x			
reclassification of financial assets			x	x	x	x	x	x			x	x			
offsetting	x		x	x	x	x	x	x							x
fair value measurement	x	x	x	x	x	x	x	x					x	x	

Accounting policies of financial instruments	PS	LG	OK	SH	RB	CG	DB	GW	CS	RX	ML	EP	KS	FM	GR
categories of financial assets and liabilities	x	x	x	x		x	x	x	x		x	x	x	x	x
initial recognition							x	x	x			x			
Subsequent measurement				x		x	x	x							
derecognition		x				x			x			x	x	x	
Impairment of financial assets		x				x	x	x	x		x	x	x	x	x
equity instruments		x		x										x	
effective interest method		x					x		x			x	x	x	
reclassification of financial assets		x									x	x	x	x	x
offsetting				x		x	x	x	x		x			x	x
fair value measurement				x			x	x			x			x	x

Source: author's processed

x:accounting policy is contained in the financial statements.

Table 4.8. Disclosure of the Accounting Policies for financial instruments securities company in 2010

No	Code Security	Category	Number of points disclosure
1	FS	not specified	1
2	OK	not specified	1
3	PS	not specified	1
4	SH	specific enough	5
5	RG	specific enough	5

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No	Code Security	Category	Number of points disclosure
6	DX	specific enough	6
7	DR	specific enough	4
8	RB	not specified	0
9	CC	specific enough	7
10	NI	specific enough	7
11	CG	specific enough	5
12	DB	specific enough	7
13	GW	specific enough	6
14	CS	specific enough	6
15	KZ	specific enough	6
16	DP	specific enough	7
17	BK	specific enough	7
18	RX	not specified	0
19	ML	specific enough	5
20	AG	specific enough	7
21	ZP	specific enough	4
22	EP	specific enough	6
23	KS	specific enough	6
24	RO	specific enough	4
25	PG	specific enough	7
26	FM	specific enough	7
27	GR	specific enough	5
28	HD	specific enough	6
29	AI	specific enough	6
30	LG	specific enough	6

Source: author's processed

**Category disclosure of assessment:**

1. Very specific : Describes more than 8 points the disclosure
2. Specific Enough : Describes the 4-7 pts disclosure
3. Not specific : Describes the 0-3 points the disclosure

**Mutation/change in allowance for impairment losses**

Same as the disclosure of information about the list of age-appropriate accounts receivable due date, all companies sampled in 2010 and 2009 has reduced reserve calculation mutation present accounts receivable. Decrease in accounts receivable reserves calculation mutation company sample can be seen in table 4.5.

PSAK NoO. 55 (revised 2006) changed the way companies in measuring the decline in the value of financial assets depends on the classification of financial instruments. Because of

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this PSAK is applied in the initial implementation of the prospective, has no influence over the number reported in 2009, impairment loss on financial assets arising as a result of the initial implementation of PSAK No. 55 (revised 2006) charged to retained earnings.

Results of research on the effects of corporate financial statements became a member of the Exchange in BEI year 2010 indicate that 3 companies from 30 sample company has been presenting the impact of early application of PSAK NO. 55 (revised 2006) and a decrease in accounts receivable reserves calculation and membebankannya on the balance of earnings mutasinya can be seen in the reports of changes in equity.

### **Risk Management**

On a study of 30 financial report 2010 top securities companies who are members of the Exchange in the Indonesia stock exchange, from table 4.9 can be seen that 25 companies have revealed management reseko.25 the company disclosure focus on risks arising from financial instruments and how those risks are managed.

Table 4.9. Disclosure of the accounting policies of the company's risk management

Financial risk management policies	RG	DX	CC	NI	KZ	DP	BK	AG	ZP	RO	PG	AI	DR	HD	FS
Share price risk	-	-	x	x	-	-	-	-	-	-	-	-	-	-	-
operational risk	-	x	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest rate risk	-	x	x	x	x	x	x	x	x	x	x	-	-	x	-
Credit risk	x	x	x	x	x	x	x	x	x	x	x	x	x	x	-
Liquidity risk	x	x	x	x	x	x	x	x	x	x	x	x	x	x	-
Capital risk	-	-	-	-	-	-	-	-	-	-	x	-	-	x	-
Market value risk	x	-	-	-	-	-	-	-	x	x	x	x	-	-	-
Foreign exchange risk	-	x	x	-	x	x	x	x	-	-	-	-	x	x	-
Capital management	-	-	-	x	-	-	-	-	x	-	-	-	-	-	-

Financial risk management policies	PS	LG	OK	SH	RB	CG	DB	GW	CS	RX	ML	EP	KS	FM	GR
Share price risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
operational risk	-	-	-	-	-	-	x	-	-	-	-	-	-	-	-
Interest rate risk	-	x	-	-	-	-	x	-	x	-	x	x	x	x	x
Credit risk	-	x	-	x	-	x	x	x	x	-	x	x	x	x	x
Liquidity risk	-	x	-	x	-	x	x	x	x	-	x	x	x	x	x
Capital risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Market value risk	-	x	-	x	-	-	x	-	-	-	-	x	x	-	x
Foreign exchange risk	-	-	-	-	-	x	x	x	x	-	x	-	-	x	-
Capital management	-	-	-	-	-	x	-	-	-	-	-	-	-	-	-

Source: author's processed

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Table 4.10. Disclosure of the accounting policies of the company's risk management

No	Code Security	Category	Number of points
1	FS	not specific	0
2	OK	not specific	0
3	PS	not specific	0
4	SH	specific enough	3
5	RG	specific enough	3
6	DX	specific enough	5
7	DR	specific enough	3
8	RB	not specific	0
9	CC	specific enough	5
10	NI	specific enough	5
11	CG	specific enough	4
12	DB	Very specific	6

No	Code Security	Category	Number of points
13	GW	specific enough	3
14	CS	specific enough	4
15	KZ	specific enough	4
16	DP	specific enough	4
17	BK	specific enough	4
18	RX	not specific	0
19	ML	specific enough	4
20	AG	specific enough	4
21	ZP	specific enough	5
22	EP	specific enough	4
23	KS	specific enough	4
24	RO	specific enough	4
25	PG	specific enough	5
26	FM	specific enough	4
27	GR	specific enough	4
28	HD	specific enough	5
29	AI	specific enough	3
30	LG	specific enough	4

Source: author's processed

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Category assessment disclosure:

1. Very complete: Explaining the risks of financial instruments (credit risk, operational risk, liquidity risk and market risk) and four (4) risk management pillar
2. Full: Describes the risks of financial instruments (credit risk, operational risk, liquidity risk and market risk)
3. Less complete: Explain less than 3 risks of financial instruments (credit risk, liquidity risk and market risk)

### **4.3 Impact analysis the application of PSAK NO. 50 and 55 (revised 2006) on company's performance**

Change a policy must give effect to its users, as well as the initial implementation of PSAK NO. 50 and 55 (revised 2006) effective January 1, 2010 give impact on the financial statements in 2010 for companies that implement it. In the final analysis in Chapter 4, we can see the impact of the application of PSAK NO. 50 and 55 (revised 2006) against performance in the comprehensive income statement. As we know, the load reduction in accounts receivable will be included into income.

Following this research will look at whether the application of PSAK NO. 55 (revised 2006) will increase or decrease the value of the company's income from 2009 to 2010. The following is the increase or decrease in net profit in 2009 of securities companies into 2010.

Table 4.11. Percentage Increase/Decrease Profit loss from 2009 to 2010

Company	2010	2009	Increase/Decrease	in
	Profit and loss	Profit and loss	Profit and loss	percentage
PT Am Capital Indonesia	1,462,816,516	6,066,352,198	(4,603,535,682)	-76%
PT Net Sekuritas dan anak perusahaan	1,880,021,828	7,456,999,710	(5,576,977,882)	-75%
PT Paramitra Alfa Sekuritas dan anak perusahaan	(1,126,630,092)	562,835,600	(1,689,465,692)	-300%
PT Artha Securities Indonesia	(309,628,231)	4,867,728,700	(5,177,356,931)	-106%
PT Profindo International Securities	903,811,942	744,079,126	159,732,816	21%
PT Bahana Securities	57,258,220,991	39,511,398,240	17,746,822,751	45%
PT OSK Nusadana Securities Indonesia	29,936,122,361	8,049,098,858	21,887,023,503	272%
PT Nikko Securities Indonesia	1,052,057,881	(4,778,690,621)	5,830,748,502	122%
PT Mandiri Sekuritas dan anak perusahaan	103,322,404,000	46,173,697,000	57,148,707,000	124%
PT BNI Securities	19,865,469,000	922,838,000	18,942,631,000	2053%
PT Citigroup Securities Indonesia	2,084,181,786	9,381,430,784	(7,297,248,998)	-78%
PT Deutsche Securities Indonesia	53,305,000,000	22,483,000,000	30,822,000,000	137%
PT HSBC Securities Indonesia	13,699,953,000	18,742,369,000	(5,042,416,000)	-27%
PT Credit Suisse Securities Indonesia	127,995,000,000	92,885,000,000	35,110,000,000	38%
PT CLSA Indonesia	83,104,412,272	62,137,095,221	20,967,317,051	34%
PT DBS Vickers Securities Indonesia	(3,286,269,806)	(2,366,219,973)	(920,049,833)	-39%
PT J.P. Morgan Securities Indonesia	88,700,893,853	22,784,198,143	65,916,695,710	289%
PT Macquarie Capital Securities Indonesia	(19,014,661,000)	(10,219,832,000)	(8,794,829,000)	-86%



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Company	2010	2009	Increase/Decrease	in
	Profit and loss	Profit and loss	Profit and loss	percentage
PT Merrill Lynch Indonesia	106,444,455,655	36,789,137,921	69,655,317,734	189%
PT Kim Eng Securities	23,276,912,039	29,325,754,020	(6,048,841,981)	-21%
PT Mega Capital Indonesia	24,007,203,428	29,319,799,533	(5,312,596,105)	-18%
PT MNC Securities	74,787,133,472	2,015,053,328	72,772,080,144	3611%
PT Kresna Graha Sekurindo Tbk	27,494,687,556	12,441,876,349	15,052,811,207	121%
PT NISP Sekuritas	24,398,543,650	(38,330,838,646)	62,729,382,296	164%
PT Panca Global Securities Tbk	18,223,708,531	16,171,541,221	2,052,167,310	13%
PT JJ NAB Capital Tbk	1,796,845,595	2,285,756,236	(488,910,641)	-21%
PT Panin Sekuritas Tbk	239,527,996,185	149,366,753,917	90,161,242,268	60%
PT HD Capital Tbk dan anak Perusahaan	4,072,678,055	8,388,376,413	(4,315,698,358)	-51%
PT UOB Kay Hian Securities	18,328,699,770	15,097,232,793	3,231,466,977	21%
PT Trimegah Securities	16,007,032,000	21,186,993,000	(5,179,961,000)	-24%

In table 4.11. seen that the net profit for all the company samples from 2009 to 2010 has increased from 13% to 3611% and a decrease of -18% to -300%. Decrease in receivables decrease backup load from 2009 to 2010, giving an impact on increases in percentage of the net profits of the company. But the decrease in receivables decrease backup load is not the only cause of the increase in percentage of the net profits of the company. There are still many components that support the rise in net profit for the company, such as the efficiency of the expenditure, the promotion, the company's expansion, income generation and much more.

## 5. CONCLUSION

In the study of sebelumnya using 10 samples of the company while the research is now using 30 sample Company, where the results of such research on the representation decreased accounts receivable on financial position report previous research found 6 companies presenting its accounts receivable in net and gross method while the rest use on research now there are 10 companies that his presentation in the net and the rest are not described using the receivable rendering what method used. On the presentation of accounts receivable decrease in the comprehensive income statement there were 9 companies classify the sample recovery decreased the value of accounts receivable as a deduction expenses decrease in accounts receivable reserves and there is only one company that classifies the recovery value of the loss of income as a component of accounts receivable others while at penelitian now there is similarly research is now only 1 company that classifies the recovery of accounts receivable as a decline in other income components while the rest entered into the income statement are not specific. On presentation of necessary changes in equity reports there are 8 companies that make adjustments related to the application of PSAK NO. 55 while the rest have yet to make adjustments while the research is now only 3 companies that make adjustments while the rest has not made any

adjustments related to the application of PSAK NO. 55. The disclosure policy and the principle of decreasing accounts receivable on notes to financial statements there are 2 very specific Company revealed accounting policy regarding the company's financial instruments and the rest just exposing just enough while on the basis of research right now there are 5 companies that do not disclose the specific accounting policies regarding financial instruments and 2 companies that simply did not disclose the accounting policy regarding financial instruments while the rest are quite revealing regarding financial instruments. In previous studies mentioned that the application of PSAK 50 and 55 provide impact on increases in percentage of the net profits of the company as well as with the research application of PSAK NO. 50 and now 55 give impact on the increase in percentage of the net profits of the company despite the many components that support the rise in net profit for the company, such as promotional expenses, efficiency, expansion of the company, increased sales and much more.

This research was limited only to the decline in the value of accounts receivable to determine necessary changes of PSAK NO. 55. Suggestions for the next research is to explore the accounts in the financial statements that are experiencing the impact of the latest regulatory changes such as higher in this study discusses the industrial securities company in Indonesia stock exchange who have an account as Portfolio effect where the influential account of the income of an enterprise or Effects in terms of PSAK NO. 55 Companies can check the decline in value of an asset of the company whether or not current assets current that can affect a company's net profit for itself.

This research was done at the time the bonds Accounting Indonesia has issued a Draft of PSAK 50 Exposure, PSAK NO. 55, PSAK NO.60 by 2013. Researchers have yet to examine further whether the draft exposure influence on the company's financial statements Effect or influence on all the companies that have an impact upon the issuance of the plan of his PSAK applies next year 2015, therefore further research can take into account the PSAK publishing is making the company's net profit to be higher or even be dropped upon the implementation of PSAK No 55.

Issues such as taxation is also interesting for the company due to the effects of the subject discussed two income tax final income i.e. one and another non-final, research income is quite interesting to see how companies do income smoothing to aspect taxation.

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**THE EFFECTS OF NARRATIVE ONLINE ADVERTISING ELEMENTS TO  
ATTITUDE TOWARD A PRODUCT**

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**ABSTRACT**

The paper aims to present a comprehensive framework for the effects of narrative online advertising elements to attitude toward a product. The paper also seeks to account explicitly for the differences in interactivity, vividness, entertainment, self referencing and attitude toward a product found among customers who saw the ad online Honda.

Data were obtained from 120 respondents. Multiple regression modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into narrative online advertising elements should focus on attitude toward a product as important consequences.

The findings propose that narrative online advertising and vividness has positive effects to attitude toward a product, whereas other hypotheses not supported by data. Marketing research should pay more attention to the role of narrative online advertising elements in gaining service provider customers. Because of the positive influence on marketing success, managers should focus on interactivity, vividness, entertainment, self referencing and attitude toward a product primarily with customers who saw the ad online Honda. However, narrative online advertising elements also seem to be a good device to gain customers from competitors.

The contributions of the paper are, firstly, a more complete framework of the effects of narrative online advertising elements to attitude toward a product analyses simultaneously. Secondly, the study allows a direct comparison of the difference in interactivity, vividness, entertainment, self referencing and attitude toward a product between customers.

**Keywords:** narrative online advertising, interactivity, vividness, entertainment, self referencing and attitude toward a product.

## 1. Introduction

Online advertising can be defined as a method of advertising with the use of the internet and the web with the aim of delivering marketing messages (promotion) to attract customers. The rising popularity of the internet growing through intelligent devices, social networks, and continuous breakthrough in mobile and web technologies. The technology has produced a generation of smart and knowledgeable buyer. Online advertising is the key to the successful development of a company. Judging from surveys that prove that most of the companies that are developing using online advertising as advertising marketing of products or services produced therefore attitude toward a product is the key to success in online advertising to influence the marketing strategy of an enterprise.

Attitude toward a product plays an important role in determining the choice of the person's behavior and intentions (Dabholkar, 1994 in Ching et al., 2013), because it reflects a person's evaluation of an object (Ajzen and fishbein, 1977 in Ching et al., 2013) evaluation or assessment existing beliefs of a person at a particular time (Fishbein and Ajzen, 1975 in Ching et al., 2013). Interactivity is defined the extent to which an individual can act and react to certain stimuli (Florenthal and Shoham, 2010 in Ching et al., 2013). Clarity of perception suggests that the vividness of the ad which is one of the most prominent of advertising that gives the emotional response to consumer contribution (Mooradian et al, 2008 in Ching et al., 2013).

Entertainment is defined as an attitude of accepting the existence of web advertising with relaxing and fulfilling pleasure in researching via the internet. Previous research has revealed that many people are using the internet to search for enjoyment, relaxation, entertainment and consumer value and expect a high entertainment value in online advertising on the web (Childers et al., 2001 in Ching et al., 2013). Self referencing defined as cognitive processing strategies which consumers connect information messages to the self structure each (Burnkrant and Unnava, 1989 in Martin et al., 2013). It seeks to achieve by the principals of marketing saw the potential that exists in an advertisement and see the influence of interactivity, vividness, entertainment, self referencing and narrative online advertising on the attitude toward a product. The formulation of the problem in this research is whether there is influence of the narrative online advertising effect (interactivity, vividness, entertainment, and self-referencing) against the attitude toward a product?

## **2. The cornerstone of the theory**

### **2.1 Interactivity**

Interactivity is seen from the extent to which an individual can act and react to any advertising (Shoham, Florenthal and 2010 in Ching et al., 2013). In the internet-based online application (e.g. advertising), interactivity requires establishing two-way communication online directly between a user and a software application (Gurau, 2008 in Ching et al., 2013). As the web continues to develop the technology, advertising and interactive media have begun to build a strong relationship. Interactive media allows advertisers to build a two-way interaction with the audience by using new web-based format and techniques to increase user engagement and persuasive attraction (Sundar and Kim, 2005 Mike Ayer, in 2014).

### **2.2 Vividness**

One of the factors that affect consumer behavior in the presence of clear that saw the ad from the content of the ads displayed. Previous studies in the field of advertising online found a positive effect of clarity over online advertising effectiveness, measured by the level of interaction with online advertising (Lohtia et al. 2003; Fortin and Dholakia 2005 in Cvijikj et al., 2012). The vividness of the consumer attitude towards greatly influences the desire to buy a product, because the existence of clarity in a positive ad can affect consumer attitude toward the product (Taylor and Shaw, 2002 in Madan and Singhal, 2014).

### **2.3 Entertainment**

An attitude of accepting the existence of ads with calm and satisfy pleasure in researching via the internet with an entertainment on the ads that are displayed to consumers. Previous research has revealed that many people are using the internet to search for pleasure, relaxation, and the entertainment value and they are expecting a high entertainment value in online advertising (Childers et al, 2001 in Ching et al., 2013). In the presence of an ad on the entertainment consumers can see that web-based media is so much fun.

### **2.4 Self Referencing**

Self reference is made as a cognitive processing strategy where consumers relate information from message advertising to consumers (Burnkrant and Unnava, 1989 in Martin et al., 2013). For example, consumers may be associated with existing ad information while viewing, such as remembering the experience of buying the product in the same ads.

Information on the ads more easily associated with previously saved information for frequently accessed continuously so it is easy to remember it.

### **2.5 Narrative online advertising**

Experience marketers engage consumers pulling in an event or experience that good to make them feel that they are active participants in the event, while providing them enough information to make an informed decision (Gilmore and Pine, 2002 in Ching et al., 2013). The advantages of marketing are the ability to interact on a personal level and to present the product in the ads. Good experiences to have beneficial effects on consumer attitudes, moods, and consumer behavior (Demangeot and Broderick, 2006 in Ching et al., 2013).

### **2.6 Attitude Toward a product**

Subjective assessment of attitude is a behavior which determines a person to act in every way. Whereas the attitude of consumers towards advertising where positive or negative changes in behavior which belonged to after seeing an ads. Consumer attitudes toward marketing activities are important from both theoretical and managerial point of view (Gaski and Etzel, 1986 under Prof. Bhatt, 2014). As consumer attitudes significantly affect consumer behavior response to marketing activities. Because of that attitude toward the ad became an important factor in the success of marketers reach the goal of advertising. Attitudes towards a product are very important in a process of selling products to consumers.

## **3. Hypothesis**

### **3.1 Interactivity**

Previous research has shown a direct effect of the interactivity of online advertising is seen in some websites. Moreover interactivity is the biggest factor in consumer behavior toward online advertising. In addition, the high interactivity helps to build long-term customer relationships (Fiore et al, 2005; Heldal et al., 2004 in Ching et al., 2013). Thus, the positive influence of high interactivity of consumer attitudes towards a product:

H1. The positive effect of interactivity advertisement attitude toward a product.



### **3.2 Vividness**

One of the factors that affect consumer behavior in the presence of clear that saw the ad from the content of the ads displayed. Previous studies in the field of advertising online found a positive effect of clarity over online advertising effectiveness, measured by the level of interaction with online advertising (Lohtia et al., 2003; Fortin and Dholakia 2005 in Cvijikj et al., 2012). Thus, the clarity of positive ads can affect consumer confidence about the attitude towards the product:

H2. The positive effect of vividness advertisement attitude toward a product

### **3.3 Entertainment**

Entertainment meets pleasure peruses the internet. previous research has revealed that many people are using the internet to search for pleasure, relaxation and entertainment value (Childers et al., 2001; Mathwick et al, 2001 in Ching et al., 2013), and consumers expect high entertainment value in online advertising. Therefore, the ads entertaining that stimulate and create an effective response to the pleasure and enjoyment can produce a favorable attitude to the product:

H3. The positive effect of entertainment advertisement attitude toward a product.

### **3.4 Self Referencing**

When viewing an ad, consumers often engage in self reference, a process in which consumers apply to ad relevance for assessing its own (Debevec and Iyer, 1988 in Ching et al., 2013). This is done by encouraging consumers to relate to the product or the situation with its own consumer experience. Thus, the narrative ads online that promotes yourself more successful reference in developing positive attitudes towards a product:

H4. Self referencing advertisement effects of positive attitude toward a product.

### **3.5 Narrative Online Advertising**

The advantages of marketing are the ability to interact on a personal level and to present the product in the ads. A good experience to have beneficial effects on consumer attitudes, moods, and consumer behavior (Demangeot and Broderick, 2006 in Ching et al., 2013). The different forms of marketing the online experience, such as: blogs, chat rooms, virtual community. Previous research shows that web sites that display features and completeness on display

advertising often contribute to consumer behavior online (Eroglu et al., 2003; Turley and Milliman, 2000 in Ching et al., 2013).

H5. Narrative online advertising effect positive toward the attitude toward a product.

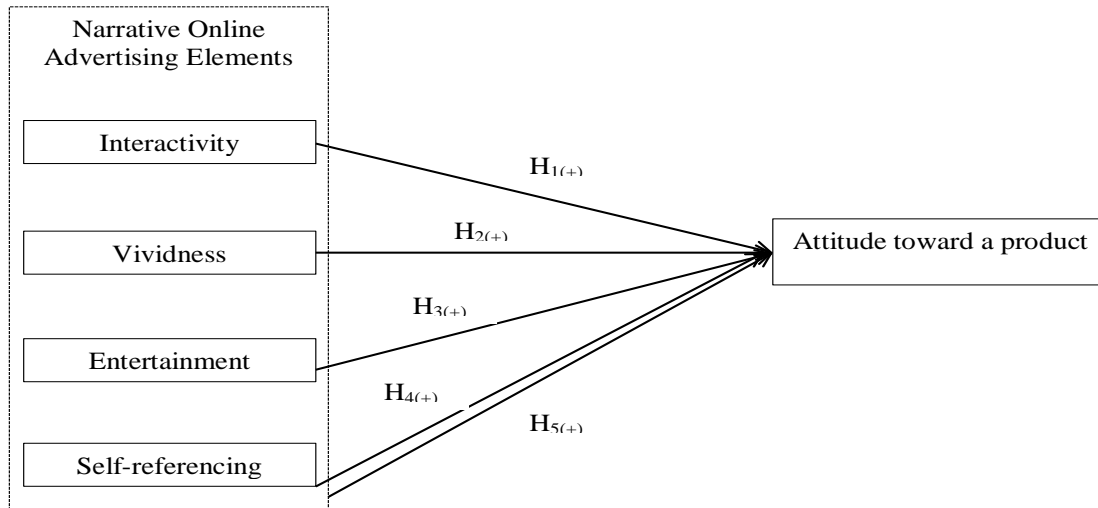


Figure 1. Conceptual Framework (Ching et al., 2013)

#### 4. Methodology

##### 4.1 Measurement

Narrative online advertising effect consists of a 4 dimensional vividness of interactivity, entertainment, and self referencing derived from Ching et al. (2013). In this narrative online advertising effect measured from 16 items (4 dimensions) with a 5 point *likert* scale, 1 = strongly disagree, 5 = strongly agree, 16 items. Attitude toward a product measured using instruments that refer to the Ching et al. (2013). Attitude toward a product is measured from 5 item *likert* scale with 5 points, 1 = strongly disagree, 5 = strongly disagree, 5 items.

##### 4.2 Data collection procedure

Data collection through the dissemination of written questionnaires to 120 respondents in the scope of the Trisakti University, withdrawing samples by using a non-probability sampling

methods, sampling technique with a purposive sampling with criteria consumers who've never seen ads online Honda minimal 6 months.

### 4.3 Data analysis

There are several tests to measure and analyze the data before the test connection to the investigation such as Cronbach's Alpha used to measure reliable data with SPSS, standardized factor loading for each statement is the average between 0.545 and 0.860, invalid constructs reliable average between 0.722 and 0.892. All of the criteria showed all the items validity and reliability. After knowing the results of the reliability and validity of the next step did multiple regression testing.

**Table I**  
Measurement

Variables	<i>Anti image</i>	<i>Cronbach's Alpha</i>
Interactivity (Ching et al., 2013 )		0.604
Online advertising provides an interesting experience Honda	0.627	
Online ads give you options of <b>Honda</b> products	0.670	
By looking at the Honda ads online for longer I can understand the contents of these advertisements	0.637	
Vividness (Ching et al., 2013 )		0.664
Online advertising performance Honda clearly visible	0.735	
The appearance of online ads Honda is very interesting	0.679	

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Online advertising <b>performance</b> Honda look real	0.719	
The sound quality is good on the Honda ads online	0.679	
Quality web design that makes online advertising Honda clearly visible and attractive	0.744	
Entertainment (Ching et al., 2013)		0.656
<b>Contents of the</b> online ads Honda is so much fun	0.735	
Contents of the online ads Honda <b>is great</b>	0.641	
The appearance of the Honda <b>ads online</b> is good	0.690	
Online advertising has a short duration of Honda	0.744	
Self Referencing (Ching et al., 2013)		0.645
The Honda ads online made me think about the use of the product	0.745	
Advertising online is easy at Honda recall	0.677	
Online advertising Honda related to my personality	0.724	
<b>The Honda</b> ads online made me think about my experience	0.701	
Attitude toward a product (Ching et al., 2013)		0.643
I believe the online advertising products, Honda is very interesting	0.732	

I think that <b>online advertising</b> on nice Honda products	0.787
I had a positive evaluation of online advertising products Honda	0.669
Honda <b>products</b> on online advertising deserves to be purchased	0.689
Honda products on online advertising is very interesting	0.685

Notes : measurement using *likert* scale five; 1 = strongly disagree, 5 = **strongly agree**

#### **4.4 Demography sample research**

Gender, age, never seen the Honda ads online within six months, the frequency of seeing ads.

**Table II**  
Characteristics of respondents

Characteristics	Category	The frequency of	The percentage of (%)
Gender	Men	77	64.2
	Women	43	35.8
Age	18 years – 22 years	88	73.3
	23 years – 27 years	27	22.5
	28 years – 32 years	5	4.2
Never seen the Honda ads online	yes	120	100

within six months			
	no	0	0
The frequency of seeing ads	2 times	34	28.3
	3 times	30	25
	>3times	56	46.7

### 5. Discoveries and results

Statistical tests were conducted to test the hypothesis by using Regression. Table III shows the results, H1 data was not supported ( $\beta = 0.020$ ,  $p = < 0.05$ ). This shows the interactivity affect attitude toward a product, the H2 is also supported ( $\beta =$ ,  $p = 0.591 < 0.05$ ) this indicates that the vividness of influencing attitude toward a product. H3 not supported ( $\beta = 0.194$ ,  $p = < 0.05$ ) showed that entertainment affect attitude toward a product. H4 isn't supported ( $\beta = -0.205$ ,  $p = < 0.05$ ) showed that the self referencing affect attitude toward a product. H5 in support ( $\beta = 19.592$ ,  $p = < 0.05$ ) showed narrative online advertising affect attitude toward a product.

**Table III**  
Hypothesis Testing

Hypothesized path	<i>Estimate (<math>\beta</math>)</i>	<i>p-value</i>	Decision
H1: there is a positive influence of Interactivity attitude toward a product	0.020	0.46	H1 Not Supported

H2: there is a positive influence to the Vividness of attitude toward a product	0.591	0.000	H2 Supported
H3: there is a positive influence Entertainment against the attitude toward a product	0.194	0.084	H3 Not Supported
H4: there is a negative influence Self Referencing to the attitude toward a product	-0.205	0.1955	H4 Not Supported
H5 positive influence There Narrative Online Advertising against the attitude toward a product	19.592	0.000	H5 Supported

## 6. Contributions, implications and future research directions

From the results of research that has been done gives some feedback referable to the marketing manager at a Honda product seen from online advertising narrative. With input and suggestions for marketing managers will make consumers like to see online advertising product narrative Honda.

## 7. The limitations of the Research

Like any study, this study has limitations. The first study examined only in one place, namely the consumer has seen online advertising product narrative the Honda at Trisakti University in Jakarta, and therefore cannot apply to the consumer outside of Jakarta. Both of these studies use only 120 respondents as research samples. The third study was limited to the independent variable that affects the attitude toward a product against the product narrative the interactivity of online advertising, vividness, entertainment, self referencing.

## 8. Research in the future

In the research in the future, we recommend that you use the respondents from other universities and outside Jakarta so that the number of respondents more, future research should increase the number of respondents. Researchers then we recommend that you add new independent variables such as consumer response (Chang et al., 2013) which is not included in this study because of the desire of consumers who saw the ad online narrative that could change and other factors.

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**THE EFFECTS OF COGNITION, AFFECTION, CONATION AND BRAND  
AWARENESS TO FUTURE PURCHASE INTENTION**

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**ABSTRACT**

The paper aims to present a comprehensive framework for the effects of cognition, affection, conation and brand awareness to future purchase intention. The paper also seeks to account explicitly for the differences in cognition, affection, conation, brand awareness and future purchase intention found among smartphone customers. Data were obtained from 120 respondents. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into cognition, affection, conation and brand awareness should focus on future purchase intention as important consequences. The findings propose that cognition, affection, conation and brand awareness has positive effects to future purchase intention. Marketing research should pay more attention to the role of future purchase intention in gaining smartphone customers. Because of the positive influence on marketing success, managers should focus on cognition, affection, conation, brand awareness and future purchase intention primarily with smartphone customers. However, future purchase intention also seems to be a good device to gain customers from competitors. The contributions of the paper are, firstly, a more complete framework of the effects of cognition, affection, conation and brand awareness to future purchase intention analyses simultaneously. Secondly, the study allows a direct comparison of the difference in cognition, affection, conation and brand awareness between smartphone customers.

**Keywords:** cognition, affection, conation, brand awareness, future purchase intention.

## **1. Introduction**

Smartphone is a cellular phone that excels compared to other cellular phones. At the moment, Smartphone is not only used to fulfill consumer's need to communicate, but has been a significant part in someone's lifestyle. Moreover, there are in fact many smartphone companies that enter Indonesia's smartphone market and most of them have dominated the smartphone market in Indonesia.

Thus, a company has to be highly competitive to maintain and attract consumers so they would have a future purchase intention for the same product of the company. One of the ways that can be conducted is through paying attention and strengthening of consumer's level of emotional bond after purchase and strengthening the product brand awareness. The first emotion that needs strengthening by the smartphone companies is cognition, which is an offer to consumers to think rationally of what they should do (Mayer et al., 1994 in Sharifi, 2014). Consumers who own a positive rational thought towards a product and the trust on the last product will encourage the consumer to have a future purchase intention of the same product.

The second level of emotion is consumer's emotional feeling (affection). On the affection emotional level is the stage where the consumers are under a control of feelings for purchase intention of a product (Mayer et al., 1994 in Sharifi, 2014). Consumers controlled by feelings of satisfaction, comfort, and happiness of a product utilized previously will encourage a future intention purchase of the same product. The last level of emotion is conation, which is the impact of cognition and affection emotional level that usually will encourage the purchase intention of a product (conation).

There are, in fact, more factors that encourage the future purchase intention of the same product, but the company must create the brand awareness. Brand awareness is how far a consumer recognizes a particular brand (Yadin, 2002 in Sharifi, 2014). Consumers who have known the product well will not hesitate to have a future intention purchase of the same product. Therefore, the problem formulation of this research is "Is there an impact of cognition, affection, conation, and brand awareness on future purchase intention?"

## **2. Theoretical Base**

### **2.1 Cognition**

Cognition is a mental process used to know the thing that the consumer want, as well as some aspects such as perception, reasoning, and decision making (Kim et al., 2007 in Mc Court and Bahli, 2014). Cognition can be defined as the knowledge and belief about a product created

after combining the direct experience or information received by the consumer (Assel, 2004; Guiltan et al., 1997; Lutz et al., 1986; Rosenbreg and Hasland, 1960 in Wu and Wang, 2011). The belief created from the consumer will usually encourage the consumer to own a purchase intention of the same product. Moreover, in the cognition process is often about the perception of amount of information and risks that will happen towards an action or a product that will be purchased in the future (Eroglu *et al.*, 2001 in Kim and Lennon, 2010).

## **2.2 Affection**

Affection is related to the emotion that generates a feeling, whether feeling of preference or dislike towards an object. Affection can be defined as a behavior that reflects feeling, evaluation or emotion towards the object of behavior. The main factor of affection is in the form of emotional bond, satisfaction, and preference of consumer towards something, such as a product or brand (Howlett, 1998; Lee and Cunningham, 2001 in Liu, Wong, Zuniga, Meng and Pang, 2012). Affection itself has a tendency to have a direct impact on the future purchase intention of a product. The bigger the impact of affection such as consumer's preference towards a product or a brand, the higher the consumer's intention to buy the product or brand (Brijs, 2006; Helsop et al., 2004, 2008; Orbaiz and Papadopoulos, 2003 in Maher and Carter, 2011).

## **2.3 Conation**

Conation is a series of cognition and affection emotional level that can act to purchase a product (Mayer et al., 1994 in Sharifi, 2014). Consumers who have a positive feeling during and after the purchase usually will have a future purchase intention (Sharifi, 2014). Conation can also be defined as an intention or commitment to act towards a particular purpose, in this matter a particular purpose can be in the form of the intention of consumer to purchase the same product in the future. Consumers who have a strong conation will have the desire to purchase the same product and brand again.

## **2.4 Brand awareness**

Brand awareness is how far a consumer can know a product (Yadin, 2002 in Sharifi, 2014). Brand awareness is an important part of consumer's knowledge of a product, the strength of the brand's presence in consumer's mind and how easily the knowledge can be recalled in consumer's mind (O'guinn, Allen and Semenik, 2009 in Dhurup, Mafini, and Dumandi, 2014). The matter above can encourage consumers to easily admit the existence of a product in a

market. According to Dolak, (2003) in Subhani and Osman (2010), Brand awareness consists of Brand recognition, Brand recall performance.

## **2.5 Future Purchase Intention**

Future purchase intention is regarded as a post purchase process (Wilkie, 1994; Blackwell et al., 2001; Salomon et al., 2006 in Sharifi, 2014). Post purchase intention is often used to predict consumer's behavior in the future (Kuo et al., 2009 in Ghalandari, 2013). The meaning of future behavior is related with consumer's intention to buy product from the same purchase and share the purchase experience to other people (Zeithaml et al., 1996; Wang et al., 2006 in Ghalandari, 2013). Consumers who conducted another purchase intention are based on positive feelings and consumer's satisfaction from previous purchase experiences. Moreover, positive response in the form of positive feelings on actions in the past will create a strengthening of the possibility of future purchase intention, because the consumer have positive thoughts about what is received in the past (Sutisna, 2001 in Halim, Dharmayanti, Karina, Brahmana, 2014).

## **3. Hypothesis**

### **3.1 Cognition, Affection, Conation, and future purchase intention**

Cognition is an offer made to consumers to think rationally about what should be done (Mayer et al., 1994 in Sharifi, 2014). The positive rational thought resulted from thinking process will affect consumers to conduct a purchase intention of the same product in the future. Then, affection is the emotion or feeling of consumers about a particular product or brand (Schiffman and Kanuk, 2002 in Qolbi et al., 2014). The bigger the direct effect of affection such as the preference of consumer towards a product or brand, the higher the future purchase intention of the consumer towards the product or brand (Brijs, 2006; Helsop et al., 2004, 2008; Orbaiz and Papadopoulos, 2003 in Maher and Carter, 2011). Conation is an intention and commitment to act towards a particular purpose. In this case, the particular purpose is to buy the same product in the future. Thus, the consumer who owns a strong conation will have the desire to purchase the same product again (Oliver, 1997 in Ma, 2014). Moreover, consumers who have a positive feeling during and after the purchase, future purchase intention will likely to be established (Sharifi, 2014). Based on the description above, the hypothesis of this research is:

H1: Cognition positively affects future purchase intention.

H2: Affection positively affects future purchase intention.

H3: Conation positively affects future purchase intention.

### **3.2 Brand awareness and affection, conation, future purchase intention**

Brand awareness can affect consumer's behavior and give a positive effect on the perception towards a particular brand (Ardestani, Mirabi, Kazemi, and Far, 2014). Consumers who have a high awareness will be able to directly think of a brand specifically when they want to conduct a purchase (Chi, Yeh, Yang, 2009), this matter caused many consumers to choose their own brand with little information processing (Handerson *et al.*, 2003 in Sharifi, 2014). Moreover, brand awareness can affect the consumer's decision in affection level, which means that the brand awareness of the consumer can affect consumer's feelings (Villarejo and Sanchez, 2005 in Tamara, 2014).

Consumers who are already familiar with a brand will create a positive feeling, which encourage them to choose the familiar or more well-known brand than the brand that had just entered the market (Vanhuele, 1995 in Kim, 2012). When consumers have a strong brand perception and awareness, then consumers will intend to buy more of the same products (Khuong and Giau, 2013). This is because the product is already very familiar and even became a top of consumer's mind. Consumer who thinks of a brand previously related will encourage consumer to conduct a future purchase intention (Macdonald and Sharp, 2006 in Sharifi, 2014). Consumers who strong high brand awareness will affect consumers in their future purchase intention (Brewer and Zhao, 2010). Based on the description, the hypothesis of this study is:

H4: Brand awareness positively affects cognition

H5: Brand awareness positively affects affection

H6: Brand awareness positively affects conation

H7: Brand awareness positively affects future purchase intention

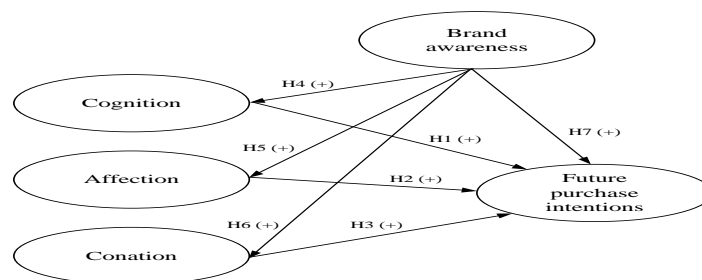


Figure 1. Conceptual Framework (Sharifi, 2014)

## **4. Methodology**

#### **4.1 Measurement**

The five variables in this research is cognition, affection, conation, brand awareness, and future purchase intention. Cognition is measured with eight statement items adapted from the study of Sharifi (2014) and Nasser, Yusoff, Islam, Alnasser (2014). Affection is measured with 7 statement items adapted from the study of Sharifi (2014) and Nasser et al. (2014). Conation, Brand awareness, and future purchase intention is measured with two, three, three statement items taken from the study of Sharifi (2014). All statement items of the variables are measured by using six *likert* scale points started from 1 “strongly disagree” to 6 “strongly agree”.

#### **4.2 Data collection procedure**

The data collection is conducted through the distribution of questionnaire to 120 respondents in Universitas Trisakti area, the sample is obtained through the non probability sampling method. The technique of sample collection is purposive sampling with the criteria of consumer that has used apple smartphone for at least 6 months and has purchased apple smartphone at least twice.

#### **4.3 Data Analysis**

There is some examination to measure and analyze the data before testing the relationship in this research such as Cronbach’s Alpha which is used to measure reliable data with SPSS, and the measurement is also processed with AMOS 6 to confirm the factor and validity model of all theoretical construct in this study. Standardized factor loading for every statement is between 0.545 and 0.860 on average, the reliable construct is 0.722 and 0.892 on average. All criterions show that all items are valid and reliable. After obtaining the reliable and validity results, the next step is to conduct the relationship test of this study using Structural equation modeling (SEM).

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<b>Measurement</b>		
Variabel	<i>Standardized factor loading</i>	<i>Cronbach's Alpha</i>
<b>Cognition</b> (Sharifi, 2014 and Nasser, Yusoff, Islam, Alnasser (2014))		0.839
<i>Iphone</i> brand offers an interesting price for me	0.545	
<i>Iphone</i> product that I obtain is in accordance with the price I paid	0.560	
I am sure that <i>iphone</i> is useful for my needs	0.662	
I am sure that <i>iphone</i> is perfect to use	0.697	
I am sure that <i>iphone</i> is easy to use	0.702	
I am sure that <i>iphone</i> is safe to use	0.751	
I am sure that using <i>iphone</i> is good	0.770	
I am sure that using <i>iphone</i> will give benefit for me	0.708	
<b>Affection</b> (Sharifi, 2014 and Nasser et al., 2014)		0.892
Using <i>iphone</i> gives a satisfaction for me	0.669	
Using <i>iphone</i> makes me happy	0.801	
I like <i>iphone</i>	0.815	
I feel comfortable using <i>iphone</i>	0.818	
I believe on the <i>iphone</i> that I use	0.786	
When I use my <i>iphone</i> , I feel secure from cellular phone's virus	0.571	
I feel happy when using <i>iphone</i>	0.747	
<b>Conation</b> (Sharifi, 2014)		0.800
I am very committed towards <i>iphone</i> brand	0.893	
I think <i>iphone</i> brand is appropriate to be maintained in its use	0.750	
<b>Future purchase intention</b> (Sharifi, 2014)		0.722
I intend to buy the <i>iphone</i> brand again in another time	0.761	

I recommend this <i>iphone</i> brand to friends and families	0.703
There is a possibility for me to consider again to buy <i>iphone</i> brand	0.585
<b>Brand awareness</b> (Sharifi, 2014)	0.842
I am aware of the existence of <i>iphone</i> brand	0.724
<i>Iphone</i> is an apple brand that is very familiar for me	0.868
When I think about smartphone, <i>iphone</i> brand is the first brand that occurs in my mind	0.797

Notes : the measurement uses six likert scale; 1= strongly disagree, 6= strongly agree

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#### 4.4 Estimation and Fit

*Goodness of fit indices: Chi-square = 258.837, p = 0.000, goodness of fit index (GFI) = 0.790, The Root Mean Square Error Of Aproximation (RSMEA) = 0.075, Adjusted Goodness – of – Fit Index (AGFI) = 0.740, Normed fit Index (NFI) = 0.781, Turker – Lewis Index (TLI) = 0.883, Comparative Fit Index (CFI) = 0.790, CMIN / DF = 1.672. The average result still fulfills the criteria and can still be used for next examination. Therefore, the measurement model is in accordance with a good data.*

#### 4.5 Research Sample Demography

Sex, age, occupation type, Apple smartphone used, smartphone purchase frequency.

### 5. Findings and Result

The statistical test used to test the hypothesis of this study is SEM. In table IV, the result shows that H1 is supported ( $\beta = 0.408, p = < 0.05$ ). The result shows that the cognition of consumers affect the future purchase intention, H2 is supported as well ( $\beta = 0.383, p = < 0.05$ ) which shows that conation affects the future purchase intention. H4 is supported ( $\beta = 0.258, p = < 0,05$ ) which shows that the brand awareness affect cognition. H5 is supported as well ( $\beta = 0.498, p = < 0.05$ ) which shows that the brand awareness affect the conation. The test of H7 is



supported ( $\beta = 0.255, p = < 0.05$ ) which shows that the hypothesis 7 of brand awareness affect the future purchase intention.

**Table II**  
**Testing Hypothesis**

Hypothesized path	Estimate ( $\beta$ )	p-value	Decision
H1: There is a positive impact of Cognition towards future purchase intention	0.408	0.009	H1 Supported
H2: There is a positive impact of Affection towards future purchase intention	0.383	0.000	H2 Supported
H3: There is a positive impact of Conation towards future purchase intention	0.255	0.005	H3 Supported
H4: There is a positive impact of Brand awareness towards cognition	0.258	0.001	H4 Supported
H5: There is a positive impact of Brand awareness towards affection	0.498	0.000	H5 Supported
H6: There is a positive impact of Brand awareness towards conation	0.796	0.000	H6 Supported
H7: There is a positive impact of Brand awareness towards future purchase intention	0.255	0.0135	H7 Supported

## **6. Contribution, Implication, and Direction of future researches**

This study follows the previous result to reveal the factors affecting the future purchase intentions (Sharifi, 2014). This research has a few practical implications. This shows that in order to improve cognition, Apple company has to offer an interesting price for consumers through the cooperation between banks. Moreover, consumer's feeling which mostly affect the future purchase intention encourage the Apple company to give a secure feeling from cellular phones viruses for consumers by creating antivirus application. The strong intention and commitment of consumers will strengthen consumer's future purchase intention, so the company must give a price coupon to tie the consumers to stay committed to the previous product purchase. In this matter, the brand awareness can affect future purchase intention, so the

company must emphasize the promotion through television advertisement and street billboards. This study found that there is parents affect the consumer's decision to own a future purchase intention, which is caused by the fact that these respondents of this research are university students. With the results of this research, Apple has to create cooperation with book publisher to provide educational books in eBooks application, specifically university lesson books.

## **7. Limitation**

Just as other researches, this study has its limitations. First, the number of the sample is 120 respondents during the data collection. Second, the research only collect sample from respondents in Universitas Trisakti area. Third, this research is only conducted on one brand of smartphone product. Fourth, the study only includes independent variable such as cognition, affection, conation, brand awareness and future purchase intention in which there are still other variables that can be included. Fifth, there is an impact of parents in Apple smartphone purchase, caused by the age of respondents which is 18-22 years old.

## **8. Future Research**

In the future research, the number of respondents must increase for over 120 respondents. It is recommended for the research sample to include not only sample from Universitas Trisakti, but expanded to other areas such as West Jakarta. It is expected that the future research can expand more than just one brand of smartphone product to other products of gadget brands and in the service sector (Sharifi, 2014). Moreover, future researchers can add a preference variable to strengthen the future purchase intention (Sharifi, 2014). The next research can also expand the characteristic of respondents in age, occupational type, which is added because they can already make their own purchase decision for themselves and not anymore affected by parents.

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**BATIK CONVENTION BUSINESS ACCELERATION THROUGH CREATIVE  
INDUSTRY MANAGAMENT TO SUPPORT THE ACCELERATION OF REGIONAL  
ECONOMIC DEVELOPMENT IN SURAKARTA**

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**ABSTRACT**

The main objective of this research is to improve the welfare of batik convection artisans and entrepreneurs and improve the management of the creative industries in order to accelerate regional economic development in Surakarta area. More specifically, the objectives of this study were (1) to identify the potentials of batik convection business, (2) identify the contribution of batik convection business to the community's economy and regional economic development, (3) explore the factors that support and hinder the development of batik convection business, (4) identify management system of batik convection business, and (6) develop a model for accelerating batik convection business.

The study involved 33 micro, small, and medium-sized batik convection businesses. Primary data were collected through in-depth interview with a questionnaire guide, focus group discussion, surveys, and document analysis method (content analysis). Data were analyzed using an interactive analysis, internal-external analysis, and supply-demand analysis.

The results show that batik convection business in Surakarta area has great potentials, and also have a great contribution to the community's economy and regional economic development in the region of Surakarta. There are several factors supporting batik convection business development such as a quite high buying interest and governement policy to revitalize batik. Factors that inhibit the development of batik convection business are the difficulty of getting young age employees, the price increase of imported raw materials, the lack of business institutionalization, as well as the lack of protection from the government in exporting batik products. Another result is the formulation of a model for batik convection acceleration in Surakarta through creative industry management model called MISO (Management, Intensification, Solution, and Outcome).

***Keywords: batik convection, business acceleration, creative industry, regional economic development.***

## **1. INTRODUCTION**

### **1.1. Background**

The rivalry in confection business which produces various fashionable or stylish clothes that follow market preferences is getting tougher. The city of Solo or Surakarta is one of the areas that have an excellent potency to develop confection business because it is considered as one of batik centers in Indonesia. In 2012 the number of Small Medium Enterprises (SMEs) in Surakarta is 10.630; most of these SMEs are engaged in confection and batik field. The number of SMEs has increased from 2010 which only recorded 6.075 SMEs (Dinas Koperasi & UMKM Kota Surakarta, 2013). On the other hand, there is a new trend in the young generation taste of fashion which now prefers batik as fashionable clothes. This new fashion trend thus demanding batik artisans and entrepreneurs to provide products that can accommodate both young generation and old generation taste. This means that artisans and entrepreneurs must produce a fashionable, qualified, and high taste batik clothes which fulfill consumer's expectation.

The development of batik confection business is useful in supporting the effort to revitalize batik as cultural assets and local wisdom. By this way, batik will be sustained and growing, because it has become national pride and identity. The preservation and development of batik can be done through the effort in building creativity which is able to create an image and change the mindset about batik. Today, batik already has a positive image where batik can be worn by all generations, be it old or young, and even children. The design and motive of batik is developed to meet market tastes, which increasingly provides appreciation to Indonesia cultural wealth.

However, there are several problems in the development of batik confection business in Surakarta, whether the problems in production contexts (production, management, human resource) or in consumer contexts (market and marketing). Besides that, up to this time the businessmen or entrepreneurs in this area tend to operate independently and partially. An effort to build a positive synergy in business operation with their fellow entrepreneurs to avoid unhealthy competition is not developed yet. To maintain the sustainability of the business, an integrated management, good coordination, and right form of organization is needed. The development and reinforcement of organizational management plays a role in maintaining business stability and anticipates unhealthy competition which leads to price war that will harm the SMEs.

## **2. LITERATURE REVIEW**

### **2.1. Confection Business**

Confection business includes a process known as CMT, which consist of cutting clothing pattern, making (sewing), and trimming-installing buttons and ornaments/accessories, put embroideries, etc (Andalas, 2008). Confection business includes in small and medium scale enterprises which has opportunity to support the acceleration of economic development of society and regions economic. To achieve this, confection business needs proper management so that it can grow properly, among others through perseverance in building a strong connection with customers and sufficient equity (Andalas, 2008).

### **2.2. Business Management**

Business management is an effort to manage overall business activity professionally to achieve a predetermined goal, whether in the aspect of profit or the other goals determined by managers. The elements of business management consist of production management, marketing management, distribution management, financial management, human resource management, and organizational management. Organizational management is a tradition and regulation that conforms the demand for empowerment and modernization, as well as group organization that capable to produce various products to develop a comparative advantage or competitive advantage (Rintuh, 2003: 59).

### **2.3. Creative Industry**

A creative industry is an industry that emphasizes creativity, skill, and talent which is then synergized to produce an intellectual creation. The products produced by creative industry have a creative value as its added value which will be enjoyed by consumers and achieve a higher appreciation. However, creative products have some disadvantages which is also a characters of creative industry, namely short product lifecycle, high risk, high margin, high diversity, high competition, and easy to imitate.

According to the Ministry of Trade of Republic Indonesia (2008), there are 14 types of creative industries which consist of advertising, architecture, arts and antiques market, art craft, performing arts, design (graphic, interior, etc), fashion design, videos-film and photography, interactive games, music, publishing-press, computer service and software, television and radio, and research and development.

#### **2.4. Creative Economy**

**Creative economy is economic activities that based on creativity, skill, and individual talent to create a creative ability and creativity which has an economic value and has an impact on community welfare. The developmen of creative economy in Indonesia is supported by President Instruction Number 6 in 2009 about the development of creative economy which basically contains an intrustion for all Ministers, Head of Non Departmental Government Institutions, Governors, and Regents/Mayors to support the policy of creative conomy development in 2009-2015.**

The development of creative economy demands a commitment and participation from all stakeholders. According to the Ministry of Trade of Republic Indonesia (2008) stakeholders that become a main pillar of creative economy implementation consist of Intellectuals, Businessmen, and Government. The synergy among these three main elements is known as The Triple Helix. Intellectuals contribute in creating a concept or model through a research which can find a new technology that is more effective and efficient. Businessmen contribute in preparing and managing resources to strengthen their industry. The government has a role as facilitator to achieve the development of industry and creative economy (Departemen Perdagangan RI, 2008).

### **3. RESEARCH METHOD**

This research was conducted in Surakarta city, Central java province. This research is a descriptive research and employed qualitative approach. This research also generated results from potency analysis, problems, and solution about the acceleration of batik confection business as an excellent local product. Data used in this study are primary and secondary data which derived from private sectors, community and government, including Dinas Koperasi dan UMKM Kota Surakarta (Cooperation and SMEs Agency of Surakarta City), Dinas Kebudayaan dan Pariwisata (Culture and Tourism Agency), Dinas Sosial Tenaga Kerja dan Transmigrasi (Social, Manpower, and Transmigratio Agency), Badan Perencanaan Pembangunan Daerah (Regional Development Agency), Badan Pusat Statistik (Bureau for Central Statistic), and five subdistricts in Surakarta city as well as the representation from entrepreneurs and employees of batik confection business.



The data was collected through site observation method, focus group discussion, survey, in-depth interview, and existing document study. The samples were chosen by purposive and snowball sampling technique. To acquired data validity, the researchers used source triangulation method (Moleong, 2000).

This research employed interactive analysis (Miles & Huberman, 1984), internal-external analysis, and supply-demand analysis. Interactive analysis is an analysis to see relationship between each research process which consists of data collection, data presentation, data reduction, and verification/drawing conclusion.

#### **4. RESULTS AND DISCUSSION**

##### **4.1. The Potency of Batik Confection Business**

**Batik confection is a synergized potentiation with the culture characters of Surakarta city. The development of this business also supported by the existence of an outlet which is known as the icon of Surakarta city such as Pasar Klewer, and the other outlets like stores, department stores, boutiques, and various shopping center which also exist in this area.**

**There are 33 SMEs that engaged in batik confection field. This shows that the people of Surakarta, which scattered in five subdistricts have an interest to conduct a business in producing clothes made from batik.**

In this research, to identify the potency of batik confection business in can be assessed on: (1) easy access to raw materials, (2) easy acces to find employees, (3) the increase in buyers' interest to batik, (4) the increase in sales, (5) the increase in capital, (6) the increase in production output, (7) the increase in profit, and (8) supporting factors. The summary of batik confection business potency in Surakarta based on processed data is presented in the following table:

Table 1. Value from the Majority of Respondents on Eight Determinant Factors of Batik Confection Potency in Surakarta.

No	Faktor	Nilai Persentase	Keterangan
1	Kemudahan Mendapatkan bahan baku	85.2	Mayoritas menyatakan mudah mendapatkan bahan baku
2	Kemudahan mendapatkan tenaga kerja	21.4	Mayoritas menyatakan kesulitan mendapatkan TK
3	Rata-rata peningkatan minat pembeli	41.2	Mayoritas menyatakan rata-rata kenaikan minat beli konsumen meningkat 10% (angka terkecil dari alternatif pilihan jawaban)
4	Rata-rata peningkatan penjualan	27.8	Menyatakan kenaikan penjualan sebesar 30% per tahun
5	Rata-rata peningkatan jumlah modal	28.6	Menyatakan ada peningkatan modal 10-20% per tahun
6	Rata-rata kenaikan jumlah produksi	28.6	Rata-rata kenaikan jumlah produksi mengalami peningkatan 15% per tahun
7	Rata-rata peningkatan laba	16.7	Rata-rata kenaikan laba sebesar 10-15% per tahun
8	Faktor penghubung		Minat beli, kemudahan mendapat TK, kemudahan mendapatkan BB. Dan biaya produksi yang rendah

Based on the summary presented in Table 1 about the eight indicators of batik confection business potency above, it can be concluded that the potency of batik confection business in Surakarta area can be considered as high/good. Thus, the existence of batik confection business in Surakarta needs an attention from various parties. This was intended that the existence of batik confection industry will be able to support the acceleration of community revenue improvement and local economic development towards the establishment of community welfare in Surakarta area, as well as to support the effort in revitalizing batik as national cultural asset.

### **5. The Contribution of Batik Confection Business on Community Economy and Local Economic Development in Surakarta Area**

The real contributions of the existence of batik confection business are: (1) create new job opportunities or decrease the number of unemployment, (2) increase the synergy with surrounding area through utilization of raw materials, (3) increase in financial benefits/family income, and (4) contribution to family economy. Following is the results of descriptive analysis of batik confection business contribution on aforementioned points:

**5.1. Contribution in the Opening of New Job Opportunities**

Batik confection business is a type of business that considered as labor intensive category. Thus, the existence of batik confection business in Surakarta will obviously assist the city government in their effort to reduce the number of unemployment through the creation of job opportunities. This is can be seen from the number of employees who categorize working in batik confection as their main job (84%) and from the number of employees involved in this business (92.2%) comes from the same area.

**5.2. Synergy with Surrounding Areas**

The existence of batik confection business also contributes in the cooperation synergy among regions. It can be seen from the source of raw materials used in production process of batik confection. The raw materials come from inside and outside area of where the business operated. The analysis results show that 82.1% of raw materials used in the production process in a batik confection SMEs come from local area, while the 17.9% stated that their production process used raw materials from outside area of where the SMEs operate.

**5.3. Contribution on the Increase in Family Income**

To work in batik confection industry as main job is the decision made by the employees in batik confection SMEs studied. This high number is, of course, affected by consideration of income which will be received by employees. The results show that the average wage in batik confection industry has met the requirement for minimum wages determined by the city government.

The average daily wages of batik confection employees in Surakarta shows that he majority of employees (76%) received less than Rp 50.000 every day. While 16% stated that they have daily wage around Rp 50.000 – Rp 100.000, and the remaining 8% stated that they have a daily income above Rp 100.000 each day.

#### **5.4. Contribution on Family Economy**

The contribution to family economy showed by the ability of income to fulfill family life necessities. The majority of respondents use their revenue from batik confection to fulfill primary needs (29%), to fulfill health care needs 23%, to fulfill household facilities needs (21%), and the rest 15% to fulfill social needs. However, 12% of respondents stated that their income from batik confection are used for education.

#### **6. Supporting Factors of Batik Confection Business Development in Surakarta**

Batik confection is a business that is likely to progress and develop due to the existence of supporting factors such as people's eagerness to quickly or instantly get the clothes they want. Following are supporting factors of batik confection business development in Surakarta that successfully identified by the researchers: high interest to buy batik clothes, local government policy to wear batik, school policy that requires their students to wear batik, and the existence of batik industry in Surakarta.

#### **7. Inhibiting Factors of Batik Confection Business in Surakarta**

Several factors that inhibit the development of batik confection business in Surakarta are as follows:

##### **1. Difficulty in finding employees**

Eventhough the number of workforce in Surakarta is large enough, but in reality it is difficult for batik confection to find employees who are willing to work in confection field. Usually, young workforce is not interested to work in confection field, including batik confection.

##### **2. The increase in raw materials price**

The increase in raw material price is a factor that will cause the increase in production cost, which in turn will affect batik confection business development.

##### **3. High production cost**

The high production cost as a result from the increase of raw material price and employees wage makes the development of batik confection business is hampered.

4. Nonexistence of organization

Basically, the existence of organization be it an association or group and the other forms has a contribution in providing several assurances, among others the assurance in the stability of raw materials supply, stability in raw materials price, stability in selling price, and assurance to avoid unhealthy competition.

5. The lack of protection from government in exported products, including batik clothes, especially for producers.

## **8. Business Management of Batik Confection Business in Surakarta, Then and Now**

A business management that is integrated, well coordinated, and correct organizational form is needed to support the acceleration in increasing community income and the economic development of an area toward the establishment of community welfare in Surakarta, as well as supporting the revitalization of batik as national cultural asset.

### **8.1. Human Resource Management**

Human resource management organizes and manages human resource through the functions of: recruitment, employee development, compensation, and employee dismissal (Handoko, 2003). Human resource management is considered good if managers are able to optimally control the employee turn over rate. This research results show that the turn over rate in batik confection business is low (75%). This low rate shows that employees like to work in batik confection business. (Deslerr, 2002).

There were various means that has been done by confection business to motivate its employees, among others are the provision of holiday allowance, and the provision of social security (Jamsostek and transportation facility).

### **8.2. Marketing Management**

Marketing management shows various efforts made to fulfill the needs and wants of consumers through delivery of goods and services that are meaningful to both parties by means of a transaction (Dharmmestha and Irawan, 2007).

The result of studies in marketing field shows that most of the products are sold in the Surakarta ex-residency area (37.9%). This result shows that batik confection business needs a real effort from city government, businessmen or entrepreneurs, community, and other parties to spread the information about batik confection products to the other area. Through this method, batik confection business can expand its target market. Currently, most of the batik confection business introduce their products through exhibition/event and word of mouth (24.3%), usually business in micro and small scale still use a simple management in managing its business.

Operation management means managing the matter of production or operation, both in goods and services, efficiently and effectively. This research results show that most of SMEs run their pproduction independently without conducting a subcontract. Besides that, these SMEs has conducted quality control check (85.7%) and 78% respondents stated that their production outputs are fit with the expected quality.

### **8.3. Financial Management**

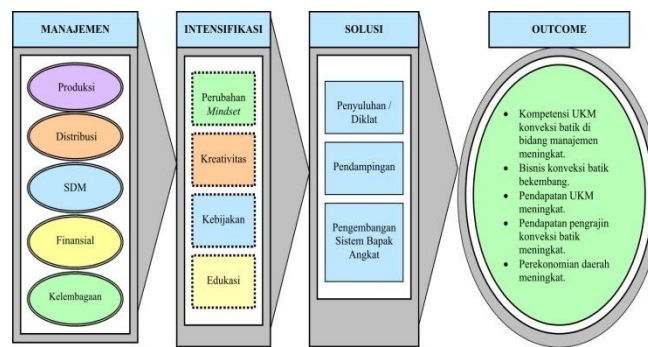
This research result in financial management field shows that most of the respondents run their business using their own capital (78.1%), 60.7% stated that they have capital adequacy, have a good realtionship with bank (60.7%), and have maintain a cash book.

## **9. Model**

**To conduct batik confection business acceleration, a model of creative industry management need to be developed so that batik confection business can be run smoothly and well developed. In preparing the model the researchers need to consider the potency and problems related to batik confection cusiness in Surakarta. Based on potency analysis and problems, the researchers found several findings:**

- 1. SMEs that engaged in batik confection production have a good potency to be developed in order to increase community economy and regional economy.**
- 2. SMEs that engaged in batik confection production in Surakarta have not applied a professional management.**
- 3. Batik confection business in Surakarta has not supported by special policy from city government of Surakarta which pays special attention to the effort in developing batik confection business.**

Based on several findings which based on the analysis of potency and problems in batik confection business, the researchers construct a model of creative industry management to accelerate the development of batik confection business. This model is then named MISO model. This naming is based on main elements that construct the model. The model is still in its draft form and tentative because the preparation of the model only involve the researchers team and have not involve all stakeholders directly. As for the main elements included in the model are Management, Intensification, Solution, and Outcome. (See picture below)



The explanations of the main element included in MISO model are as follows:

### 1. Management

The first element from MISO model is management. Management is a process of planning, organizing, coordinating, and controlling of resource to achieve predetermined goals effectively and efficiently.

Management has four functions, namely design, organize, rule, coordinate, and control. Management in MISO model is focussed in creative industry management. Creative industry is an industry that focussed on creativity, skill, and talent which synergized to create an intellectual creation.

## 2. Intensification

In this model, intensification means the effort taken seriously in high frequency by all stakeholders to achieve a better condition so that it can accelerate the development of batik confection business. In this case, stakeholders cover government, private sectors, and community.

### (1) Government

Government support can be manifested in the commitment to implement policies, like the application of Surakarta Mayor decree about the use of uniform made from batik which produced traditionally by batik artists or batik confection business in Surakarta. Besides the commitment to support the effort to regenerate batik artist through formal track like education channel by inserting batik as one of local content in education, facilitate the increase in technology in batik confection production that preserve traditional value so that it will sustain the real characters of batik. The commitment also can come by establishing cooperation with the community and private sectors (SMEs) in utilizing the technology as an effort in improving the quality and quantity of batik confection business produced by artists/batik confection SMEs.

### (2) Private Sectors

- Private sectors (businessmen or SMEs) who produces batik confection has a responsibility to participate and develop batik handicraft as excellent product that can support the improvement of regional economy.
- Private sectors (businessmen or SMEs) have commitment to participate in regenerating batik artists through various means such as the implementation of incentive system so that the existence of batik and batik confection business as a cultural asset will be sustained.
- Private sectors (businessmen or SMEs) participate in implementing the technology that can improve the quality of batik confection products produced by the artists.
- Private sectors (businessmen or SMEs) have a consistency in supporting the development of quality and quantity of batik confection products produced.



(3) Community

- Community has a sense of belonging to batik, thus is motivated to participate in preserving batik, and to increase the adequate understanding and knowledge about batik.
- Community has a responsibility in the effort to preserve batik as local cultural asset, which at the same time can become the identity of local wisdom through the development of batik confection business.
- Community is actively participating in the effort to regenerate batik artistsan through the construction of mindset about economic value of handicraft that has its own segment.
- Community has willingness to develop themselves including in utilizing technology that created to improve the quality of batik confection products.
- Community conducts a real action/activity in developing their self ability to produce a qualified batik confection products.

3. Solution

Basically, solution is a way out toward a desired goal, in this matter the development of batik confection business in Surakarta. To resolve the problem that related with the acceleration of batik confection business in Surakarta, the first thing to be done is providing assistance about creative industry.

4. *Outcome*

The fourth element of MISO model is outcome. Basically, outcome is an output as a result of a process which can be used indirectly. In the MISO model, the outcome is more a longterm than a shortterm. Outcome from the model which aims to accelerate confection business is as follow:

- (1) The competence of batik confection SMEs in management field is increasing.
- (2) Batik confection business in Surakarta is developing.
- (3) The income of batik confection SMEs is increasing.
- (4) The income of batik artistsan is increasing.
- (5) Regional economy is increasing.

### **Conclusion**

Based on the research results on batik confection business acceleration through the development of creative industry management to support the acceleration in Surakarta economic development, the researchers can draw following conclusions:

1. Batik confection business potency in Surakarta is large enough. The center for SMEs that engaged in batik confection is spread in all subdistricts in Surakarta. Batik confection business potency is supported by the easyness in acquiring raw materials, easyness in finding employees, a significant increase in the customers' interest to purchase batik, a significant increase in sales, a significant increase in capital, a significant increase in the number of production, and a significant increase in profit. This shows that people in Surakarta have a big motivation to conduct a business in confection or finished clothes production, especially in batik confection.
2. The contribution of batik confection business on community economy and regional economic development in Surakarta is quite significant. It can be seen from several aspects that includes job in batik confection become the main job, employees come from Surakarta areas, providing contribution to the regional synergy, can increase family income, and a significant contribution to family income.
3. The supporting factors in the development of batik confection business in Surakarta are quite good. It can be seen from the high interest to buy batik confection products, the existence of government policies to develop the market for batik confection products such as the existence of obligation for employees to wear batik uniform, the easiness in finding employees, the easiness in acquiring raw materials, low production cost, the high number batik industry as the suppliers of raw materials for batik confection, and government policy to revitalize batik including the provision of training in producing batik and making stamp for batik.
4. The inhibiting factors in the development of batik confection business in Surakarta include the existence of finding young employees, the increase in imported raw materials, the nonexistence of organization, and the lack of protection from government on exported products, including batik clothes export, especially for producers.
5. Management system that is implemented by batik confection business in Surakarta up to this time is still a non-professional management. Eventhough in some cases there are a good

management, but overall it can be said that the management is not optimal yet. As an example, eventhough human resources have managed properly, as evidenced by the low employees' turnover and an effort to motivate employees, but social security is still low. Likewise in terms of marketing. So far, marketing areas are limited, promotion medias used also still limited. In terms of production, quality control has not conducted optimally. In terms of financial management, the majority of businessmen and entrepreneurs only use their own capital. Hence, the improvement in management is necessary with a focus on improving profesionality, reinforcement of creativity, and development of innovation by developing a model that suits with the characteristic of potencies and problems faced by batik confection business in Surakarta.

6. The model prepared to support the effort in conducting a proper management to accelerate batik confection business development in Surakarta is then named as MISO model (Management, intensification, Solution, Outcome). The management model in MISO model is focused in creative industry management. Creative industry is an industry that focused on creativity, skill, and talent which is synergized to produce an intellectual creation. Therefore, the assistance to develop a professional management system in batik confection business SMEs need to be focused on the improvement of competencies, both knowledge and skill of businessmen and artistsan in batik confection business management.

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**THE INFLUENCE OF BOARD OF DIRECTOR, BOARD OF COMMISSIONER, AND  
FOREIGN OWNERSHIP TOWARDS CORPORATE SOCIAL RESPONSIBILITY  
DISCLOSURE**

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**ABSTRACT**

The purpose of this research is to examine the effect of number of Board of Director, number of Board of Commissioner, and foreign ownership on Corporate Social Responsibility disclosure. The existence of inconsistent results from previous studies led to the issue becoming an important topic for research.

This research used the method of descriptive statistics, with the data collection method of documentation and literature technique. This research used Corporate Social Responsibility disclosure that measured by corporate social responsibility in the annual reports, based on indicators from BAPEPAM regulation. The data used in this research are the data of number of Board of Director, number of Board of Commissioner, and the percentage of foreign ownership of 42 manufactured firms listed in Indonesian Stock Exchange (IDX) in the year 2011, 2012, and 2013.

Test results show that number of board of director, number of board of commissioner, and foreign ownership do not have significant influence towards Corporate Social Responsibility Disclosure. The results of this research have differences from the previous researches because of previous researches used the data over the past few years compares with this research. This research uses the data in recent year (2011, 2012, and 2013).

**Keywords:** corporate social responsibility disclosure, foreign ownership, number of Board of Director, number of Commissioner

## **I. INTRODUCTION**

Corporate Social Responsibility (CSR) is concept or attitude that made a company is not only has obligation as shareholders, but also have social responsibility towards others who has interest as stakeholders. The parties who concerned with a company are customer, employee, owner or investor, supplier, competitor, and also community (Rika and Islahuddin, 2008). CSR as a form of corporate responsibility towards the environmental and the society where the company is located. These ideas are based on the 3P (profit, people, planet) according to the Global Compact Initiative is the company's goal is not only hunt economic benefits (profit) but also for the welfare of people, and have concern for the preservation of the environment of this planet. (Nugroho, 2005). Nurmansyah (2006) found although the company's main goal is to getting maximal profit, a company cannot be separated from the community. Therefore, companies are no longer faced with the responsibility that rests on the single bottom line (corporate value), which is reflected in its financial condition only. But responsibility company must base on triple bottom lines, which mean besides financial, they are should concern about social and environmental. Because financial condition is not enough to guarantee companies value growth sustainably.

Corporate sustainability will only be guaranteed if, companies pay attention to the social and environmental dimensions. It is a fact how the resistance of the surrounding community, in different places and times surfaced against companies that do not pay attention to perceived social aspects, economic and environmental life. CSR at the first was voluntary needs improved to be mandatory CSR. (Mag-dalena and Herlina, 2008) found the fact that in the long run, companies that have a commitment to CSR 's share price has increased very significantly compared with companies that do not engage in the practice of CSR.

CSR is one media that is used to demonstrate the company's concern on the surrounding community. CSR is also good solution to gain legitimacy in society. The company hopes that if by implement Corporate Social Responsibility, company will get social legitimacy and maximize the financial measures for the long term. Implementation CSR activity cannot be apart from Good Corporate Governance's implementation. General guidance Good Corporate Governance (GCG) Indonesia state if the main purpose of implementation Good Corporate Governance is to encourage the emergence of consciousness and corporate responsibility to the community and environment. Therefore CSR become one of the most important factors in implementing GCG.

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Based on agency theory, number of board of director and number of board of commissioner can help to less the agency conflict. Which is they are a part of the internal mechanisms of Good Corporate Governance. And foreign ownership can help company to get the legitimacy society.

In accordance with the company articles of association, board of directors lead, manage the company business and representing companies including in the public interaction with all legal in a trial, by facilitating the achievement of vision, the mission and the target company. The prominent role of the board of directors means to coordinate the activities of the company effectively to the attainment of objective of his strategy. This was accomplished through a regular meeting to discuss the need to find solutions for the direct concern in the business. With so the number of board of directors who are aware of the importance of CSR in doing sustainable development will make companies perform the disclosure of CSR.

The board of commissioners shall be responsible to do inspection and provides guidance to a board of directors, as stipulated in the articles of Association Company and decisions No. 40, 2007 on Limited Liability Company. They also should be responsible for any deviation behavior on the board of directors in performing their duties. In their capacity as checker, the commissioner holds an important role in supporting the operation of effective, Good Corporate Governance, and meet the obligation of CSR. This reflected the influence of their agreement to the company strategy and the implementation of the strategic plans of the board of directors that effective and efficient way to achieve the purpose of the company. With this also the number of the board of commissioners will affect the decision made by the board of directors, to achieve sustainable development in doing the CSR disclosure.

In the case of foreign ownership, foreign ownership is considered influential in making the application of CSR to maintain legitimacy and reputation of the company. Foreign ownership is considered to be concerned about the disclosure of corporate social responsibility. Based on some information, foreign countries, especially Europe and the United State are among the countries are very concerned about social issues; such violations of human rights, education, labor and environmental issues such as greenhouse effect, illegal logging, and water pollution. It also is made in the last few years, multinational companies began to change their behavior in order to maintain the legitimacy of the operation and reputation of the company (Simerly and Li, 2001).



## **II. LITERATURE REVIEW**

### **Agency Theory**

The agency theory explained that the agency relationship arises when one or more persons (the principal) employ another person (the agent) to provide a service and then delegate decision-making authority to the agent (Jensen and Meckling, 1976).

In the process of maximizing the value of the company will arise a conflict of interest between principal and agent is often called the agency problem. Agency theory suggests that between the principal and the agent have different interests that led to the conflict, called the agency conflict (agency conflict). The core of agency theory is making of a good contract to align the interests of principal and agent in the conflict of the different interests (Moeljono, 2005).

### **Stakeholder Theory**

Stakeholders are parties interested in the company that may affect or be affected by the activity of the company. Organizations have many stakeholders such as employees, community, country, suppliers, capital markets, competitors, industry bodies, foreign governments and others. Stakeholder theory states that the company's survival depends on the support of stakeholders who affect or be affected by the activities of the company (Ghozali and Chariri 2007).

Thus, the existence of a company is strongly influenced by the support given by the company's stakeholders. The survival of the company depends on the support of stakeholders and the support should be sought so that the activity of the company is to seek such support. The more powerful the stakeholders are, then the greater the company to adapt. Social disclosure is considered as part of a dialogue between the company and its stakeholders.

### **Legitimacy Theory**

Legitimacy is considered as the assumption that the actions taken an entity are a desired action, apposite or in accordance with the system, norms, values, beliefs and definitions developed socially (Rawi and Munandar, 2010).

Legitimacy theory says that the organization is constantly trying to convince that they are carried out in accordance with the limits and norms of the community in which they are located.

Companies are increasingly aware that the survival of the company also depends on the company's relationship with society and the environment in which it operates. By doing legitimacy of the organization, can be seen in the community give something positive to the company and something desired or sought the company from community. Which is something good for business and development.

According Sayekti et al (2007) explained that companies that implement CSR activities tend to gain legitimacy from the people, so that the conflict of interest between the public and the company can be minimized.

According to the World Business Council for Sustainable Development (Rika and Ishlahuddin, 2008) states Corporate Social Responsibility or CSR is defined as the commitment of business to contribute to sustainable economic development. That means CSR is a business commitment to play a role in economic development that can work with employees and their representatives, the local community and the wider community to improve the quality of life, in a way that is good for business and development. The concept of Corporate Social Responsibility involves the responsibility of a partnership between government, community resource agencies, and local communities. This partnership is not passive and static. This partnership is a shared responsibility between stakeholders socially.

### **Corporate Social Responsibility**

Corporate Social Responsibility is expressed in the report called Sustainability Reporting. Sustainability Reporting is reporting on economic policy, environmental and social, influence and performance of the organization and its products in the context of sustainable development. Sustainability Reporting should be a strategic document that puts high berlevel issues, challenges and opportunities Sustainability Development that took him to the core business and industrial sectors.

(Erwansyah 2009) found there are several benefits of CSR for companies, among others; maintain and boost the reputation and brand image of the company, obtain a social license to operate, reduce the risk of the company's business, expanding access to resources for the company's operations, open the boarder market, reduce costs, for example the impact of waste disposal; improving relationships with stakeholders and regulators, Increase employee morale and productivity, opportunity to get the award. In the long term, CSR will become a strategic

asset and a competitive business climate amid corporations demanding ethical business practices and responsible.

### **The Impact of Board of Director towards CSR Disclosure**

Board of director is the company organ authorities and full responsibility to manage the company to the interests of the company, in accordance with the purpose of the company and represent the company, both inside and outside the court in accordance with the provisions of articles of association.

According to Fama and Jensen in Sabeni (2002), BOD is a mechanism internal control that responsible to supervise top management act, including supervise the information that will put in annual report. Numbers of BOD are expected to affect the information that will be put in annual report, so if BOD duties are connected to CSR disclosure. It means, more the numbers of BOD will give more composition of expertise and experience possessed the BOD. So number of BOD will give effect to expand CSR disclosure in a company. It means that number of BOD can encourage companies to increase CSR disclosure. So this study will try to examine the impact of number of BOD on the CSR disclosure. Based on the description above, the hypothesis can be formulated as follows:

$H_{01}$ : There is no positive significance influence between numbers of Board of Director with Corporate Social Responsibility Disclosure

$H_{a1}$ : There is a positive significance influence between numbers of Board of Director with Corporate Social Responsibility Disclosure

### **The Impact of Board of Commissioner towards CSR Disclosure**

The commissioner is the organ in charge of supervising the Company generally or in accordance with the articles of association and provides advice to the board of director.

Board of commissioner is a mechanism to control and give advice to the management. In this case management has responsibility to increase efficiency and the competitiveness of company, while commissioner has responsibility to supervise management (FCGI, 2002).

Through the monitoring role of BOC, the company can be run appropriate with existing regulation and kept awake the sustainability of company (Sulastini, 2007). So if BOC duties are connected with CSR, it means more the number of BOC will give more composition of expertise and experience possessed the BOC. So BOC will do better monitoring activity (Akhtarudin et.al., 2009). With monitoring that better then it is hoped the disclosure of information CSR could be more extensive because it minimizes the probability information that is covered. It means that number of BOC can encourage companies to increase CSR disclosure. So this study will try to examine the impact of number of BOC on the CSR disclosure. Based on the description above, the hypothesis can be formulated as follows:

Ho<sub>2</sub>: There is no positive significance influence between numbers of Board of Commissioner with Corporate Social Responsibility Disclosure

Ha<sub>2</sub>: There is a positive significance influence between numbers of Board of Commissioner with Corporate Social Responsibility Disclosure

### **The Impact of Foreign Ownership Towards CSR Disclosure**

Foreign ownership is the number of shares owned by foreign individuals or institutions in the shares of companies in Indonesia. In this case it can be said that stock ownership owned by multinational corporations. Foreign ownership in the company is a party that is considered to be concerned about the disclosure of corporate social responsibility (Djakman and Machmud, 2008). Because as we know, the countries in Europe are very attentive to the social issues that are being experienced, for example, human rights, education, labor, and the environment such as the greenhouse effect, illegal logging, and water pollution. It is also what makes the past few years; multinational companies began to change their behavior in order to maintain the legitimacy of the operation and reputation of the company (Fauzi, 2006).

Companies with foreign ownership in them more responsive to social issues and the environment developed at this time. European countries and the United State are among the countries are very concerned about social issues; such as violations of human rights, education, labor and environmental issues such as greenhouse effect, illegal logging, and water pollution. It is also what makes the past few years multinational companies began to change their behavior in order to maintain the legitimacy of the operation and reputation of the company (Fauzi, 2006).

Multinational companies or with foreign ownership primarily see the advantages to be gained comes from its stakeholders, typically based on the home market (market place operates) which can provide the existence of long-term high (Suchman, 1995). Disclosure of social responsibility is one of the selected media companies to demonstrate corporate responsibility towards society and the environment. Multinational companies, especially companies of Europe and the United State are promoting social issues and environment issues (Machmud and Djakman, 2008). In other words, if the company has a contract with the foreign stakeholders, both in ownership and trade, the company will be supported fully in the implementation and disclosure of CSR. Thus, the implementation of CSR and multinational companies believed to be higher than the national companies. Tanimoto and Suzuki (2005) examines board social responsibility disclosure in the financial statements of public companies in Japan, proving that foreign ownership of public corporations in Japan a motivating factor for many social responsibility disclosure by GRI. Thus, firms that disclose with better CSR will result in improved performance of the company.

Based on the above hypothesis can be formulated as follows:

H<sub>03</sub>: There is no positive significance influence between Foreign Ownership with Corporate Social Responsibility Disclosure

H<sub>a3</sub>: There is a positive significance influence between Foreign Ownership with Corporate Social Responsibility Disclosure

### **III. RESEARCH METHODOLOGY**

#### **Population and Sampling Design**

The populations for this study are all companies listed on the Indonesia Stock Exchange for the years 2011, 2012, and 2013. While the sample selection by using purposive sampling method with the purpose of obtaining a representative sample in accordance with the some specified criteria.

The sample criteria that will be used are as follows:

1. The company is listed in Indonesia Stock Exchange for the year 2011,2012, 2013.
2. Publish the full annual report for the year 2011, 2012, 2013.

3. The companies have a complete data related to the variables used in this study, which may include number of BOD, number of BOC, foreign ownership, and CSR disclosure.

**Table 1**

Criteria	
Numbers of manufacture company that listed in Indonesia stock exchange	128
Samples which have information about numbers of BOD, numbers of BOC, and foreign ownership, and CSR	42

### **Type and Data Source**

Data used in this research is secondary data is data the company's annual report 2011, 2012, 2013 periods. The data used is the data that can be obtained from the Indonesian Capital Market Directory and annual reports obtained through the corner of the Indonesia Stock Exchange (IDX) and from the website [www.idx.co.id](http://www.idx.co.id) The data of this study include manufacturing company data covering the period 2011, 2012, 2013 are considered fairly represent conditions in Indonesia. Reasons for using the data from the Indonesia Stock Exchange because it is the largest exchange and can present business conditions in Indonesia.

### **Data Collecting Method**

Data collection methods used in this research is to create a list (checklist) social disclosure. In addition, by studying the documentation is done by collecting secondary data from Indonesian Capital Market Directory (ICMD), BEI Faculty of Economics, and IDX sites [www.idx.co.id](http://www.idx.co.id).

The hypothesis to be tested in this study is testing the effect of number of BOD, number of BOC, and foreign ownership towards CSR disclosure. The model used to test the effect of variables specific to CSR disclosure in this study is expressed in the following regression equation:

$$Y = \alpha + \beta_1KM + \beta_2KI + \beta_3KA + e \dots \dots \dots (1)$$

Explanation:

Y = Corporate Social Responsibility Disclosure(CSRD)

$\alpha$  = Constanta

$\beta_1$ -  $\beta_3$  = coefficient regression independent variables

BOD = Broad Of Director

BOC = Broad Of Commissioner

FO = Foreign Ownership

e = *error term*,(error rate estimator in research)

Regression analyzes were performed to determine how much influence among the independent variables on the dependent variable. Statistical tests performed are:

#### IV. RESULTS AND DISCUSSION

##### Classical Assumption Test

Testing classical assumptions used in this study include the normality test,multicollinearity test, autocorrelation test, heterocedastisity test.

**Table 2**

##### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BOD	42	4	9	6.19	1.254

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BOC	42	5	9	6.45	1.214
FO	42	.18	.95	.6505	.18708
CSRD	42	1	1	1.00	.000
Valid (listwise)	N 42				

Table 2 describes variables descriptive statistically. In this research, minimum is the lowest number from series of observations, maximum is the highest number from series of observation, mean is the sum of all data values divided by the number of data, while standard deviation is the root of the number of the square of the difference in the value of data with an average divided by the number of data. This table shows descriptive variable research with the amount of data each variable valid as many as 42 is as follows:

1. Broad of director has a minimum value as much as 4, maximum value as much as 9, and mean 6,19 with standard deviation 1.254.
2. Broad of commissioner has a minimum value as much as 5, maximum value as much as 9, and mean 6.45 with standard deviation 1.214
3. Foreign ownership has a minimum value as much as 0.18, maximum value as much as 0.95, and mean 0.6505 with standard deviation 0.18708

**Table 3**

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.135	3	.045	.270	.847 <sup>b</sup>
	Residual	6.341	38	.167		
	Total	6.476	41			

a. Dependent Variable: CSRD



b. Predictors: (Constant), FO, BOC, BOD

In this research, F count shows 0.270 and F table used 5% (0,05) significance level,  $df_1 = 3$ ,  $df_2 = 38$  shows 2.85. So, F count (0.270) less than F table (2.85) which means  $H_0$  accepted. In other words, there is no significance influence between the number of BOD, the number of BOC, and FO towards CSR.

**Table 4**

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.067	.477		2.239	.031
1 BOD	-.021	.053	-.067	-.400	.691
BOC	-.033	.054	-.101	-.612	.544
FO	.135	.353	.063	.382	.705

a. Dependent Variable: CSR

In this research, Table 4 shows T-count from BOD is -0.400, from BOC is -0.612, and from FO is 0.382. Based on T-table with 5% (0.05) significance level  $df = 41$  sides shows 1.683. According to this research from BOD shows  $-T\text{-table} < T\text{-count} < T\text{-table}$  ( $-1.683 < -0.400 < 1.683$ ) that means,  $H_0$  accepted. Then, from BOC and FO also shows  $-T\text{-table} < T\text{-count} < T\text{-table}$  which is for BOC ( $-1.683 < -0.612 < 1.683$ ), and for FO ( $-1.683 < 0.382 < 1.683$ ) so that also proves  $H_0$  accepted. Generally in this case based on partially (BOD, BOC, and FO with CSR), there is no influence significance between number of BOD, BOC, and FO with CSR.

## **V. CONCLUSION**

This research aims to know the impact of number of board of director, number of board of commissioner, and foreign ownership towards CSR disclosure. From three hypotheses of this study, there are some conclusions that can be drawn from this study:

1. Number of BOD doesn't have significance influence towards CSR disclosure. This study concluded, now people are already aware of the importance of CSR disclosure. So the number of BOD is no longer reference to the company do CSR disclosure.
2. Number of BOC doesn't have significance influence towards CSR disclosure. This study concluded, there is no significance influence between BOC and CSR disclosure, which is it proves there are consistent result between this research and previous research.
3. Foreign ownership doesn't have significance influence towards CSR disclosure. This study concluded, now people in Indonesia already aware of the importance of CSR disclosure, which each company has a program of CSR. So the shares of foreign ownership have no effect on the company to do CSR disclosure.

## **Limitation**

This study has several limitations, such as:

1. There are limitations of the sample. This research only got 14 companies multiplied by 3 years as a sample. This limitation occurs because of the difficulty in obtaining data researchers annual report published in the Internet site.
2. Limited observation period during the 3 years of observation. Because it makes the sample is getting less that suppose to be to be investigated.

## **Implication**

CSR is an important role that must be done. To find out what kind of CSR has be done by a company, the company need put CSR disclosure in annual report. CSRD has become the responsibility of the BOD to be entered into the annual report. Because it is one of BOD responsibility which must be fulfilled In accordance with the company articles of association. CSRD is also importance to BOC because board of commissioners shall be responsible to do

inspection and provides guidance to a board of directors, as stipulated in the articles of Association Company and decisions no. 40, 2007 on Limited Liability Company. In their capacity as checker, the commissioner holds an important role in supporting the operation of effective, good corporate governance, and meet the obligation of CSR. So it supposed to be BOC duty to guidance BOD to di CSR disclosure. CSRD is importance to foreign ownership, because CSRD can maintain legitimacy and reputation of the foreign company from the community.

### **Recommendation**

Based on the result of this study, and the previous research. There are a few advices such as:

1. Next research needs to consider the capacious sample. This aim to get the resulting conclusions has wider coverage.
2. Item of Corporate Social Responsibility should always be updated to conform the conditions prevailing in the society.
3. Adding a variable that can amplify the effect of the independent variable on the dependent variable or CSR Disclosure.
4. To get better measurement of CSRD, next research can explain other existing industries (not only manufacture industry) but other industries listed on the Stock Exchange.

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**APPENDICES**

Appendices 1: Criteria of Sample

		BOD	BOC	FO	CSRD
ADMG	2011	4	8	0.18	0
	2012	6	8	0.5	0
	2013	5	8	0.5	1
BRAM	2011	6	8	0.6	1
	2012	7	8	0.6	1
	2013	7	8	0.6	1
CTBN	2011	6	8	0.81	1
	2012	7	8	0.81	1
	2013	6	8	0.81	1
DELTA	2011	5	7	0.65	1
	2012	5	6	0.65	1
	2013	5	6	0.65	1
IKBI	2011	5	6	0.93	1
	2012	6	6	0.93	1
	2013	5	6	0.93	0
INDF	2011	9	9	0.5	0
	2012	8	7	0.5	1
	2013	9	7	0.5	1
KBLI	2011	5	6	0.72	1
	2012	5	7	0.58	1
	2013	5	7	0.74	1
MASA	2011	7	7	0.68	1
	2012	7	7	0.48	1
	2013	7	5	0.53	1

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NIKL	2011	5	5	0.55	1
	2012	5	5	0.55	1
	2013	5	7	0.55	1
PSDN	2011	6	7	0.55	0
	2012	6	5	0.55	0
	2013	6	5	0.55	1
SMCB	2011	8	7	0.91	1
	2012	8	6	0.95	1
	2013	8	7	0.95	1
SMGR	2011	6	6	0.49	1
	2012	7	5	0.49	1
	2013	7	5	0.49	1
TPIA	2011	7	5	0.95	1
	2012	7	5	0.95	1
	2013	7	5	0.95	1
VOKS	2011	6	5	0.49	0
	2012	5	5	0.49	0
	2013	4	5	0.53	1



**Appendices 2: Descriptive Statistics**

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
BOD	42	4	9	6.19	1.254
BOC	42	5	9	6.45	1.214
FO	42	.18	.95	.6505	.18708
CSR	42	1	1	1.00	.000
Valid (listwise)	N 42				

**Appendices 3: Normality Test**

**One-Sample Kolmogorov-Smirnov Test**

		BOD	BOC	FO
N		42	42	42
Normal Parameters <sup>a,b</sup>	Mean	6.19	6.45	.6505
	Std. Deviation	1.254	1.214	.18708
Most Extreme Differences	Absolute	.186	.194	.181
	Positive	.186	.194	.181
	Negative	-.145	-.174	-.157
Kolmogorov-Smirnov Z		1.205	1.256	1.170
Asymp. Sig. (2-tailed)		.110	.085	.129

a. Test distribution is Normal.

b. Calculated from data.

**Appendices 4: Multicorrelation test**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.067	.477		2.239	.031		
BOD	-.021	.053	-.067	-.400	.691	.912	1.096
BOC	-.033	.054	-.101	-.612	.544	.944	1.060
FO	.135	.353	.063	.382	.705	.933	1.072

a. Dependent Variable: CSRD

**Appendices 5: Autocorrelation Test**

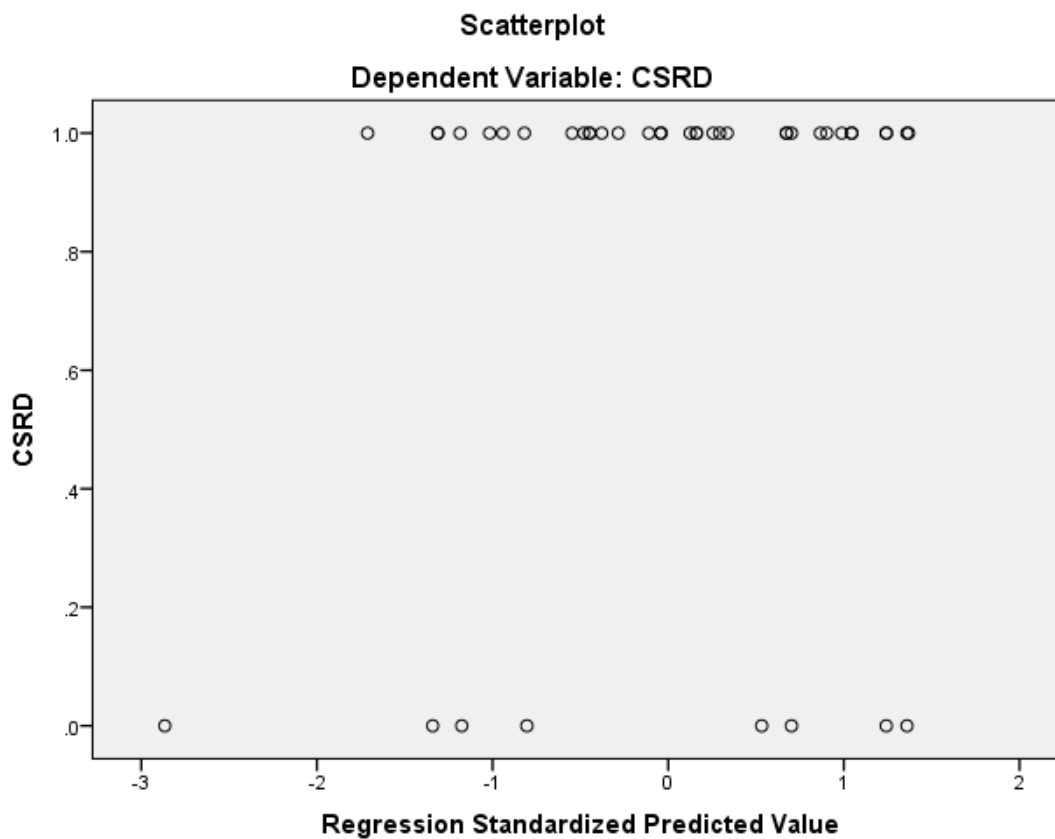
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.144 <sup>a</sup>	.021	-.056	.408	1.216

a. Predictors: (Constant), FO, BOC, BOD

b. Dependent Variable: CSRD

**Appendices 6: Heteroschedasticity Test**



**Appendices 7: multi linear regression**

Coefficient Correlation ( $R^2$ ) Test

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.144 <sup>a</sup>	.021	-.056	.408

a. Predictors: (Constant), FO, BOC, BOD

F-Test

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.135	3	.045	.270	.847 <sup>b</sup>
	Residual	6.341	38	.167		
	Total	6.476	41			

a. Dependent Variable: CSRD

b. Predictors: (Constant), FO, BOC, BOD

T-Test

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.067	.477		2.239	.031
	BOD	-.021	.053	-.067	-.400	.691
	BOC	-.033	.054	-.101	-.612	.544
	FO	.135	.353	.063	.382	.705

a. Dependent Variable: CSRD

### Appendices 8: Frequencies test

**Statistics**

	BOD	BOC	FO	CSRD

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N	Valid	42	42	42	42
	Missing	0	0	0	0
Mode		5	5	.55	1

**Frequency Table**

**BOD**

	Frequency	Percent	Valid Percent	Cumulative Percent
4	2	4.8	4.8	4.8
9	2	4.8	4.8	9.5
8	4	9.5	9.5	19.0
Valid 6	10	23.8	23.8	42.9
7	11	26.2	26.2	69.0
5	13	31.0	31.0	100.0
Total	42	100.0	100.0	

**BOC**

	Frequency	Percent	Valid Percent	Cumulative Percent
9	1	2.4	2.4	2.4
6	8	19.0	19.0	21.4
Valid 8	9	21.4	21.4	42.9
7	11	26.2	26.2	69.0
5	13	31.0	31.0	100.0
Total	42	100.0	100.0	

**FO**

	Frequency	Percent	Valid Percent	Cumulative Percent
.18	1	2.4	2.4	2.4
.48	1	2.4	2.4	4.8
.58	1	2.4	2.4	7.1
.68	1	2.4	2.4	9.5
.72	1	2.4	2.4	11.9
.74	1	2.4	2.4	14.3
.91	1	2.4	2.4	16.7
.53	2	4.8	4.8	21.4
Valid .60	3	7.1	7.1	28.6
.65	3	7.1	7.1	35.7
.81	3	7.1	7.1	42.9
.93	3	7.1	7.1	50.0
.49	5	11.9	11.9	61.9
.50	5	11.9	11.9	73.8
.95	5	11.9	11.9	85.7
.55	6	14.3	14.3	100.0
Total	42	100.0	100.0	

**CSRD**

	Frequency	Percent	Valid Percent	Cumulative Percent
NO CSRD	8	19.0	19.0	19.0
Valid CSRD	34	81.0	81.0	100.0
Total	42	100.0	100.0	

**SIGNIFICANCY AND CONSISTENCY ANALYSIS ON INDIVIDUAL FACTORS OF  
ETHICAL DECISION MAKING WITH ANALYTICAL HIERARCHY PROCESS (AHP)**

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**ABSTRACT**

Researches about ethical decision making (EDM) is now more explaining the influence of individuals and organizational factors to the different stages of ethical decision making (ethical awareness, ethical judgments, ethical intentions and ethical behavior). Whereas to apply the factors or one of the factors which are most useful in the development of individual's ethical decision making still need to consider influencing's significance and consistency of these factors upon the ethical decision making. Thus there is a gap to do the researches in order to identify the significance and consistency.

The objective of this study is to propose a simple identification of significance and consistency of the research results for the development of accountant's ethical decisionmaking. This study uses a simple method in evaluating the conclusions of EDM research and Analytical Hierarchy Process (AHP) in identifying the significance and consistency, likes make comparisons to each conclusions of ethical decision-making research related to accounting.

The results of this study identified the highest number in six major categories of significance and consistency likes ethical philosophy, gender, and moral intensity as first best three individual factors. Second best three are education, ethical climate and cognitive moral developments (CMD). Ethical philosophy, gender and intensity strongly influence EDM. Strong's application of ethical education will increase ethical climate and CMD in influencing EDM. Contribution of this study are the developments of individual ethical decision-making of professional accountants in Indonesia

**Keywords:**

Ethical philosophy, gender, moral intensity, education, ethical climate, CMD, and ethical decision making.

## **INTRODUCTION**

The importance of decision-making in the accounting practices were the making decisions based on critical ethics considerations by accountants (Barlaup *et al.*, 2009). Accounting can be used to increase focus in considerations and behaving ethically profession, then accountant ethical behavior can restore trust and confidence in the capital market system with reduced cases of financial reporting irregularities. Critical ethics consideration is necessary in the judgment of the ethical issues in financial reporting and taxation practices. There are some pressure from superior managers (*pressure obedience*) with strong influence on the choice of management accountants ethical situation related tax compliance by cutting unreasonable traveling and entertainment expenses, (Buttross *et al.*, 2011). To maintain critical ethics consideration, accountants in their profession needs to take its critical ethics upgrading periodically.

In line with the above facts, (Billiot *et al.*, 2012) examines the effect of the educational process in different contexts about the ethical sensitivity and moral judgment levels of accounting students who attend the intermediate accounting classes. The findings of this study is that the placement of students in the ethical context has developed a measure of sensitivity as well as the ethical and moral considerations, then suggest the importance of ethical education, particularly about the ethical decision making discussion undertaken in the study, and the implementation of ethical education for accountants who have engaged in accounting practices, in such forms of ethics refreshing exercises.

Research (Schweikart, 1992) about a conditional approach to cognitive theory (*cognitive-contingency theory*) is said that this is useful in explaining and predicting ethical behavior of accountants. If the factors that influence ethical behavior have been known, then later we substitute these factors with another's, so the results change and deliver results more ethical decision again or vice versa. Furthermore (Schweikart, 1992) also explained that the existence of professional codes are constantly being developed to accommodate this theory. Then cognitive moral development (CMD), which became the basis of cognitive-contingency theory and implementation code of ethics, has a major influence on ethical decision making.

Selection and determination of a decision involving the behavioral aspects of decision-makers. Similarly, implementing or making up accounting information plays an important role in supporting the operation of daily business organization and motivation by providing performance measures through the accounting system. (Khomsiyah and Indriantoro 2000)



concluded that ultimately, accounting is not a static, but will continue to evolve in order to meet the information needs of its users, along with the development of environmental accounting. Similarly (O'Fallon and Butterfield 2005) using the stages of ethical decision (Rest's 1999; 2000) who have developed further than the six steps of moral reasoning's or judgments (Kohlberg 1968), so a review of ethical decision making research proposes four stages of ethical decision making sequence to describe how the stages of cognitive theories of individuals in order to they face an ethical dilemma.

This stage can be shortened to the following: 1) the recognition of ethical (*ethical recognition or awareness*) which is the individual stages can interprets a particular situation as an ethical or unethical; 2) ethical considerations (*ethical judgment*) is the phase of the individual performing the determination of an action is morally right; 3) intention to act ethically (*ethical intention*) is the stage that prioritizes an ethical alternative over other alternatives; and 4) ethical behavior (*ethical behavior*) the beginnings of a job to behave ethically. Review conclusion of the study on ethical decision making in accounting, with each construct variables can be shown in table I.1 which can be seen in appendix 1.

(Brierley and Cowton, 2000), and (Cowton, 1998) puts professionals qualitative analysis to discuss the conflicts that occur in the organization of accountants and propose the use of secondary data in business ethics research. The use of secondary data then became the basis of this research to explain the influence of individual factors rank, and situational with current ethical decision making so as to facilitate its application. While research has been done over many previous studies conclude how the influence of individual factors, organizational and situational at stages of ethical decision making, or directly ethical behavior, (Ford and Richardson, 1994).

On the other hand practically to apply the factors or one of the factors which are most useful in the development of an individual's ethical decision making still need to consider the review and consideration of the initial or repeated influence of these factors on top of the ethical decision making. So there is a gap to do research in order to identify the significance and consistency of these factors.

This study suggests the following research questions:

1. How the most significant factors' role in the ethical decision making by accountants?
2. How to identify the consistency identification of factors that are most useful in the development of ethical decision making by accountants in business organization?

Based on the such research motivation, research background and research questions that have been developed, the study aims:

1. To identify the most significant factors' role in accountants ethical decision making.
2. To identify how consistent of the most important factors for the development of ethical decision making in the accountants profession in business?

## LITERATURE

Company's profit increments are also the performance of the accounting profession with its financial reporting. Accountants ethical decision making is an important aspect of the success and sustainability of a professional career in accounting or finance major that impact on the survival of the company through an increase in the profit generated. Anything that says success will not mean, without the role of ethical decision making by management accountants in each business organizations (Barlaup *et al.*, 2009). So that an accurate ethical decision making is very important aspect of the success and continuity of one's professional career in business organizations

Definition of ethical decision making:

*Ethical decision making is defined as "a process in which the individual individual-use rationale for determining whether a particular issue is right or wrong" (Carlson et al., 2002).*

While ethics may be described as a systematic attempt to understand moral concepts and propose and defend the principles and theories associated with right and wrong behavior. Later in the Merriam Webster Collegiate Dictionary, quoted by (Barlaup et al., 2009) describes four basic understanding of ethics:

- (1) Discipline particular with respect to what is said to be good or bad about the duty and moral obligation.

- (2) A set of principles and moral values.
- (3) A theory or system of moral values.
- (4) Certain principles of good governance should be conducted individual or group

Researchers often make a distinction between ethics and morality, in which ethics is a theory of action, is good and right, and morality is a record that indicates re ethical practices.

Based on the model (Rest's, 1999), (Jones, 1991) have built a model of ethical decision making contingent issues. Jones argues that most models of ethical decision making in ethical business research developed on the (Rest, 1999) is a four-component model of the sequence. Nevertheless, none of these models has formed a characteristic ethical issue itself either as an independent factor or moderating factors. Therefore, Jones has developed a variety of things from its own ethical issues such as ethical intensity component, into a model of ethical decision-making process. (Jones, 1991) says that people react differently to ethical issues in the case are systematically related to the characteristics of the issue itself. (Jones, 1991) later claimed that certain characteristics of the ethical issue itself is an important determinant of ethical decision-making process.

According to (Ponemon *et al.*, 1997) ethical decision making is a theoretical design that originally derived from social psychology, and social philosophy which is then applied to the science of economics, for example; (Kohlberg, 1968), (Fishbein and Ajzen, 1975), (Rest 1986), (Norren, 1988), (Macintosh, 1995). Based on the documentation of the development of moral psychology that began with the work of a notes of children psychologist named (Piaget, 1932 to 1966) quoted by (Ponemon *et al.*, 1997), then (Kohlberg, 1968) subsequently developed a stage theory of moral development (Kohlberg, 1968) which can be seen in table II.1 in Annex 2

Recognition of ethical (*ethical recognition*) is a fundamental and important stage of ethical decision making, because by admitting a means to initiate ethical issues ethical decision making.

*"An individual's recognition that his or her potential decision or action could influence the interests, welfare, or expectations of the self or others in a way that may conflict with one or more ethical principles", (Butterfield et al., 2000) quoted by (Musbah, 2010).*

Ethical recognition as "an acknowledgment by the individual that a potential decision or action that may affect the willingness of individuals, welfare, or the expectations of his own or the other party in a manner that may cause conflicts on one or more ethical principles"

Research (Hwang et al., 2008) is intended to examine the impact of culture on accounting and auditing professionals present and future and have the intention to introduce it in the Chinese culture. This study resulted in the finding that the majority of the respondents believe that the general sense of a morality is the most important factor to be sounded.

The second phase of the process of ethical decision making is ethical considerations or ethical judgment.

*(Trevino, 1986) defines ethical considerations (ethical judgment) as "cognitive processes in terms of an individual determines the set of actions that are morally right or wrong" or "cognitive process in which an individual determines the courses of action are morally right or wrong". The main element of this definition is that the cognitive skills will be used by decision makers when faced with an ethical issue to distinguish true or false.*

Ponemon (1990) states that one way to understand these three levels is to think about these things differently in relationship between things themselves with rules that exist in society and its expectations. The six stages of moral judgment of Kohlberg's theory adapted three levels of morality can be described in Table II.2 which can be seen in appendix 2. Next (Venecia, 2005) conducted a study comparing how different ethical considerations (*ethical reasoning*) and (*ethical judgment*) between students accounting in Taiwan with the United States (USD). The results of this study stated that accounting students in Taiwan make the process of ethical considerations higher than the accounting students in the United States.

According to (Rest's, 1986) which states that motivation or intention ethics (*ethical intention*) is

*"a certain level of commitment to take a series of actions, placing moral values above other values, and taking personal responsibility for the results of the ethical".*

However (Shaw, 2006) argue the intention is not motivation, because motivation is a motivation to act something is the purpose of a particular action aimed at the realization of an end goal. Although previously (Armstrong *et al.*, 2002) using the term virtue has reinforced the theory by using the model developed (Thorne, 1998) argue that ethical motivation is to get the certainty level of commitment to action, placing ethical values above other values, and ensure that there is a moral responsibility for obtaining the results of moral goodness. Therefore, at this stage,

certain individuals will consider ethical values in relation to other values in the intention to bring up ethical (Jones, 1991; Rest, 1986).

Furthermore, the decline in ethical intentions began to appear will result in ethical behavior. In a more general model of ethical decision making, such as the (Rest, 1986; Jones, 1991; Azjen, 1991) and (Buchan, 2005; Kohlberg, 1976, and Trevino, 1986), which also has been mentioned set of ethical intentions is an important, thus (Sweeney, 2009). Similar as in the models (Rest's, 1986 and Jones, 1991), ethical intentions is the end result which is influenced by ethical judgments. Previous empirical studies show a significant moderating effect on the relationship of ethical climate that is the pressure of social responsibility and the rules or code of ethics between ethical judgment and behavioral intentions, (Barnet and Vaicys, 2000).

Ford and Richardson inform clearly, that individual factors are;

*"Categories of factors which include the unique factors associated with the individual ethical decision-makers. So this is all variable factors are closely associated with the birth of a person (eg, nationality, gender, age and so on), and also related to the process of development and social activities of individuals (eg, personality, behavior attitudes, values, education, religion, occupation and so on), these factors then present the overall experience and outward circumstances which would bring a particular individual is in the process of ethical decision making.*

Research (Musbah, 2010) investigated individual factors consist of; age, awareness, policy, education, employment, job satisfaction, experience, gender, locus of control, Machiavellianism, organizational commitment, philosophical values, as well as professional associations of age, gender, level of education, experience and moral philosophy.

## RESEARCH METHODS AND DATA COLLECTION

According to (Hartono, 2004), research design is a plan research structure of the process and the results into valid wherever possible, objective, efficient, and effective. In general, to be performed in this study can be explained in the process of finding solutions to problems after conducting in-depth studies and analyzes the situation. Managers in organizations are commonly busy in studying and analyzing the problems and therefore visible in the form of a number of research activities as they make decisions in the workplace (Sekaran, 2006). While business research as a systematic managed assessment or investigation which is done critically done

based on the objective data, and scientifically proposed to a specific problem, relating to finding answers or solutions (Sekaran, 2006).

The data collection of this research is based on literature reviews to collected research's related professionals ethical decision making in the of accounting, auditing and taxation fields. The summarized literature reviews in Table I - Research Overview Related Business Ethics - Ethical Decision Making in the Appendix 1.

This study identifies the significance of the simple method is to make comparisons to the results of the research literatures ethical decision making that can be collected, to see where the individual factors that significantly influence ethical decision making in four stages; recognize of ethical (*ethical awareness*), ethical considerations or orientations (*ethical judgments*), intentions to act ethically (*ethical intention*) and realistic ethical acts (*ethical behavior*) and showed a trend of consistency in the various studies that have been carried out.

Furthermore, to identify the factors that are most influence in the development of ethical decision making by individuals used the Analytical Hierarchy Process (*AHP*). This is a decision support tool to assist complex problems solving of many factors associated, with conducting a pairwise comparison of expert judgments regarding to individual factors. The purpose of this study is to determine the best individual factors of the various criteria. The results of this study it is concluded that the comparison includes factors such as factor individual selection criteria, the selection process of the individual factors, the complexity of individual ethical decision making process.

This research was conducted using the method of *AHP* analysis to determine the consistency of the opinion of the researchers in the field of individual ethical decision making by using the identification of the factors in Table I – The Summary of Research Results of Ethical Decision Making (*EDM*) in Appendix 1. Furthermore, this data is used as the basis for the initial ranking sourced from some conclusions of the empirical researches as substitution for expert opinion.

## RESULTS

The significance and consistency identifications have been done by using a table that records the total of research conclusions related to independent factors of those significant or not significant relationships between the independent factors with the dependent factor. Identification of the significance based on results summary of *EDM* researchs from awareness to behavior and total

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EDM at Table I.1 – I.5 in Appendix I, while the consistency of conclusions significance in the individual factors ratings (*consistency ratio*) in Table III - 1 to III - 3, in appendix III, appendix IV, appendix V, appendix VI and appendix VII.

Identification the significance and consistency based on spreadsheet's matrixs showed several trends as follows;

**Tabel VIII: identification the Significance and Consistency**

<i>Identification the Significance and Consistency</i>										
<i>N</i>	<i>EDM – Awareness</i>		<i>EDM - Judgment</i>		<i>EDM - Intention</i>		<i>EDM – Behavior</i>		<i>Total EDM</i>	
<i>1</i>	<i>EDU</i>	<i>0.2465</i>	<i>Phil</i>	<i>0.3175</i>	<i>Phil</i>	<i>0.2118</i>	<i>Phil</i>	<i>0.3328</i>	<i>Phil</i>	<i>0.2790</i>
		<i>3</i>		<i>7</i>				<i>4</i>		<i>3</i>
<i>2</i>	<i>GDR</i>	<i>0.2218</i>	<i>INT</i>	<i>0.2927</i>	<i>NAT</i>	<i>0.1932</i>	<i>GD</i>	<i>0.3046</i>	<i>GD</i>	<i>0.2493</i>
		<i>2</i>				<i>5</i>	<i>R</i>		<i>R</i>	<i>4</i>
<i>3</i>	<i>Phil</i>	<i>0.2166</i>	<i>GDR</i>	<i>0.1550</i>	<i>INT</i>	<i>0.1867</i>	<i>ED</i>	<i>0.0946</i>	<i>INT</i>	<i>0.1915</i>
		<i>4</i>	<i>l</i>	<i>8</i>		<i>8</i>	<i>U</i>	<i>2</i>		<i>5</i>
<i>4</i>	<i>Age</i>	<i>0.1041</i>	<i>EDU</i>	<i>0.0839</i>	<i>CM</i>	<i>0.1531</i>	<i>CM</i>	<i>0.0911</i>	<i>ED</i>	<i>0.0858</i>
		<i>1</i>		<i>1</i>	<i>D</i>	<i>1</i>	<i>D</i>	<i>5</i>	<i>U</i>	<i>6</i>
<i>5</i>	<i>NAT</i>	<i>0.0945</i>	<i>NAT</i>	<i>0.0756</i>	<i>GD</i>	<i>0.1320</i>	<i>INT</i>	<i>0.0748</i>	<i>NAT</i>	<i>0.0757</i>
		<i>4</i>		<i>8</i>	<i>R</i>	<i>8</i>		<i>6</i>		<i>4</i>
<i>6</i>	<i>INT</i>	<i>0.0529</i>	<i>Awa</i>	<i>0.0259</i>	<i>OIE</i>	<i>0.0848</i>	<i>SGO</i>	<i>0.0543</i>	<i>CM</i>	<i>0.0599</i>
		<i>5</i>	<i>r</i>	<i>6</i>				<i>1</i>	<i>D</i>	<i>2</i>
<i>7</i>	<i>ProAf</i>	<i>0.0477</i>	<i>CM</i>	<i>0.0255</i>	<i>ED</i>	<i>0.0213</i>	<i>NAT</i>	<i>0.0241</i>	<i>Age</i>	<i>0.0336</i>
	<i>f</i>	<i>4</i>	<i>D</i>		<i>U</i>	<i>6</i>		<i>3</i>		<i>3</i>
<i>8</i>	<i>OIE</i>	<i>0.0156</i>	<i>OIE</i>	<i>0.0236</i>	<i>LOC</i>	<i>0.0168</i>	<i>OIE</i>	<i>0.0234</i>	<i>OIE</i>	<i>0.0249</i>
		<i>7</i>		<i>1</i>		<i>6</i>		<i>9</i>		<i>3</i>
<i>9</i>	<i>CI</i>	<i>0.1045</i>	<i>CI</i>	<i>0.1016</i>	<i>CI</i>	<i>0.038</i>	<i>CI</i>	<i>0.1156</i>	<i>CI</i>	<i>0.0231</i>

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10	RI	1.41	RI	1.41	RI	1.41	RI	1.41	RI	1.41
11	CR	0.0741	CR	0.0721	CR	0.027	CR	0.082	CR	0.0164

In the awareness stage education, gender, philosophy ethics are the three main factors that most significantly influence ethical decision making whole ethical philosophy, gender, and ethical intensity are factors that significantly influence ethical decision making in the majority of researches have been done. Education, gender and ethical philosophy are individual factors those have consistently been ranked as three priority factors to provide ethical decision makers be awarded to the ethical issues in EDM of individuals with a highest score of significant influences in accordance with research results summary. The ranked of average normalization by spreadsheets AHP are 0.24653, 0.22182 and 0.21664 respectively. Then the analysis of the consistency ratio (CR) as formulated in  $(CR = CI / RI)$ ;  $0,1045 / 1.41 = 0.0741 < 0.10$  (*recommended standard AHP suggested by Saaty T.L.*) was far below the standard suggested means very consistent.

Three main factors that most significantly influence ethical decision making in the stage of ethical judgment are ethical philosophy, moral intensity and gender. The ranked of average normalization by spreadsheets AHP for ethical philosophy, moral intensity and gender are 0.31757, 0.2927 and 0.15508, and again the analysis of the consistency ratio (CR) is  $0,1016 / 1.41 = 0.0721 < 0.10$  (*recommended standard AHP suggested by Saaty T.L.*).

Then most significant factors of ethical decision making in the stage of ethical intention are ethical philosophy, nationality and moral intensity. The ranked of average normalization by spreadsheets AHP for ethical philosophy, nationality and moral intensity are 0.2118, 0.19325 and 0.18678, with the consistency ratio (CR) is  $0,038 / 1.41 = 0.027 < 0.10$  (*recommended standard AHP suggested by Saaty T.L.*).

The most significant factors in the last stage of ethical decision making are Ethical philosophy, gender and education became three top significant factors ranked in the average normalization by spreadsheets AHP with a range scores are 0.33284, 0.3046 and 0.09462, with the consistency ratio (CR) is  $0,1156 / 1.41 = 0.0164 < 0.10$  (*recommended standard AHP suggested by Saaty T.L.*).



As a whole ethical philosophy, gender, and ethical intensity are factors that significantly influence ethical decision making in the majority of researches have been done. Ethical philosophy, gender and ethical intensity are individual factors have consistently been ranked as three priority factors to provide ethical decision making of individuals with a score of significant influences based on the ranked of average normalization according to AHP are 0.27903, 0.24934 and 0.19155. Then the analysis of the consistency ratio (CR) as formulated in  $(CR = CI / RI)$ ;  $0,0231 / 1.41 = 0.0164 < 0.10$  (*recommended standard by AHP suggested by Saaty T.L.*).

#### CONCLUSIONS, IMPLICATIONS AND SUGGESTIONS

This research is suggesting individuals to use ethical philosophy, gender and ethical intensity as the integrated approach in developing ethical decision making (EDM). Other three factors could be developed in supporting to these individual factors, such as education, nationality and cognitive moral development (*CMD*). Education, nationality and *CMD* are individual factors, but some individuals also classify nationality as a given conditions by each individuals country. Each conditions of country influences national conditions of business organizations, then become an individual ethical climate in their individual decision makings. Ethics refreshing trainings to individuals within an organizations or workplace can increase the ethical awareness and cognitive moral development of individuals.

Business organization is very necessary to develop educational programs and training in the field of ethics, particularly the ethical decision making, through the implementation of corporate codes of ethics, so that can be understood by all elements within the organizations. Periodic discussion groups of workers about ethics should be done routinely in order to establish communication and understanding each other. Thus creating a nuanced ethical climate on the basis of awareness and thoughtful judgments.

If individuals in the organization will emphasis ethical awareness' step to be developed, they have to focused for ethical education and training programs. Ethical philosophy, moral intensity and gender will dominate the ethical decision making (EDM) development from the stage of ethical judgment, but in the stage of ethical intention the individuals should also develop their moral intensity and ethical climate to retain and promote ethical decision making. Two individual factors ethical philosophy and gender have same ranks in the behavior stage of EDM and integrated EDM.

There are also suggestions that can be given to the weaknesses this research are:

1. More compilation of original empirical research data related to EDM of individuals in business organizations directly from each authors or publishers especially in accounting, auditing and taxation. Even more to support the identification of significance and consistency, this article uses EDM reviews from (Ford and Richardson, 1994; Loe *et al.*, 2000; O'Fallon and Butterfield, 2005; Craft, 2013 and Dae Jin, 2012).
2. Electronic data processing by using data another advanced statistical processing software.
3. Continuous research's with more empirical studies that include factors such as individual and organizational; intensity of the four stages of ethical and unethical decision making (*ethical awareness, ethical considerations, ethical intentions and ethical behavior*)

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### Appendix 1

PROCES I: Identification of Significant Individual Factors			
NO.	FACTORS	Sign	Rank
1	Age	47	7
2	Cognitive Moral Development	69	6
3	Education dan work experience	80	4
4	Gender	113	2
5	Nationality	73	5
6	Other individual effect	41	8
7	Philosophy/value orientations	127	1
8	Intensity	104	3

**Table I – 1 Summary of Research Results of Ethical Decision Making (EDM)**

PROCES I: Identification of Significant Individual Factors				PROCES I: Identification of Significant Individual Factors			
NO.	FACTORS	Sign	Rank	NO.	FACTORS	Sign	Rank
1	Age	21	4	1	Philosophy/value orientations	45	1
2	Education dan work experience	31	1	2	Gender	40	3
3	Gender	31	2	3	Nationality	22	5
4	Philosophy/value orientations	29	3	4	Education	28	4
5	Nationality	20	5	5	Cognitive Moral Development	13	7
6	Professional Affiliation	14	7	6	Awareness	14	6
7	Moral Intensity	16	6	7	Moral Intensity	43	2
8	Other Individual Effects	8	8	8	Other Individual Effects	12	8

**Table I – 2 Summary of Results of EDM Research – Awareness**

**Table I – 3**

**Summary of Results of EDM Research – Judgment**

PROCES I: Identification of Significant Individual Factors				PROCES I: Identification of Significant Individual Factors			
NO.	FACTORS	Sign	Rank	NO.	FACTORS	Sign	Rank
1	Cognitive Moral Development	24	4	1	Gender	20	2
2	Gender	22	5	2	Philosophy Ethics	24	1
3	Nationality	28	2	3	Moral Intensity	8	5
4	Other Individual Effects	18	6	4	Significant others	8	6
5	Philosophy Ethics	29	1	5	Education and Work experiences	12	3
6	Moral Intensity	24	3	6	Cognitive moral development	12	4
7	Education and Work experiences	9	7	7	Nationality	3	7
8	Locus of control	6	8	8	Other Individual Effect	3	8

**Table I – 4 Summary of Results of EDM Research – Intention**

**Table I – 5**

**Summary of Results of EDM Research – Behavior**

### Appendix 2

Level One: Pre-conventional Morality	Stage 1: Punishment-Obedience Orientation
	Stage 2: Instrumental Exchange Orientation
Level Two: Conventional Morality	Stage 3: Good Boy- Good Girl Orientation
	Stage 4: Law and Order Orientation
Level Three: Post-Conventional Morality	Stage 5: Social Contract Orientation
	Stage 6: Universal Ethical Principle

**Table II – Six Stages of Moral Reasoning (Source: Musbah, 2010)**

**Appendix 3**

PROCES II: Transformation from Expert Ranks								
Factors	1	2	3	4	5	6	7	8
	Age	CMD	EDU	GDR	NAT	OIE	PHIL	INT
1 Age	1	0.5	0.3333	0.16667	0.5	1	0.14286	0.2
2 CMD		1	0.5	0.25	1	3	0.2	0.25
3 EDU			1	0.33333	1	4	0.25	0.33333
4 GDR				1	3	9	1	2
5 NAT					1	5	0.25	0.25
6 OIE						1	0.11111	0.14286
7 PHIL							1	2
8 INT								1
Total								

**Table III.1 : Matrix Formulation EDM**

PROCES III: Fair wise Comparison Matrics									
NO.	FAKTORS	1	2	3	4	5	6	7	8
		Age	CMD	EDU	GDR	NAT	OIE	PHIL	INT
1	Age	1	0.5	0.3333	0.16667	0.5	1	0.14286	0.2
2	CMD	2	1	0.5	0.25	1	3	0.2	0.25
3	EDU	3	2	1	0.33333	1	4	0.25	0.33333
4	GDR	6	4	3	1	3	9	1	2
5	NAT	2	1	1	0.33333	1	5	0.25	0.25
6	OIE	1	0.33333	0.25	0.11111	0.2	1	0.11111	0.14286
7	PHIL	7	5	4	1	4	9	1	2
8	INT	5	4	3	0.5	4	7	0.5	1
	TOTAL	27	17.833	13.083	3.69444	14.7	39	3.45397	6.17619

**Table III.2 : Matrix Fair Wise Comparison - EDM**

PROCES IV: Normalization and Consistency Ratio Measurement													
NO.	FACTORS	1	2	3	4	5	6	7	8	TOTAL	AVERAGE	CM	RANK
		Age	CMD	EDU	GDR	NAT	OIE	PHIL	INT				
1	Age	0.037	0.028	0.0255	0.04511	0.034	0.02564	0.04136	0.03238	0.26906	0.03363	8.1689	7
2	CMD	0.0741	0.0561	0.0382	0.06767	0.068	0.07692	0.0579	0.04048	0.47937	0.05992	8.122	6
3	EDU	0.1111	0.1121	0.0764	0.09023	0.068	0.10256	0.07238	0.05397	0.68686	0.08586	8.1389	4
4	GDR	0.2222	0.2243	0.2293	0.27068	0.2041	0.23077	0.28952	0.32382	1.99469	0.24934	8.2704	2
5	NAT	0.0741	0.0561	0.0764	0.09023	0.068	0.12821	0.07238	0.04048	0.6059	0.07574	8.1096	5
6	OIE	0.037	0.0187	0.0191	0.03008	0.0136	0.02564	0.03217	0.02313	0.19946	0.02493	8.0708	8
7	PHIL	0.2593	0.2804	0.3057	0.27068	0.2721	0.23077	0.28952	0.32382	2.23227	0.27903	8.3046	1
8	INT	0.1852	0.2243	0.2293	0.13534	0.2721	0.17949	0.14476	0.16191	1.53239	0.19155	8.3458	3
	TOTAL	1	1	1	1	1	1	1	1				
											CI	0.0231	
											RI	1.41	
											CR	0.0164	

**Table III.3 : Normalization and Consistency Ratio Measurement EDM**

**Appendix IV**

PROCES II: Transformation from Expert Ranks								
Factors	1	2	3	4	5	6	7	8
	Age	EDU	GDR	PHIL	NAT	ProAff	INT	OIE
1 Age	1	0.3333	0.3333	0.33333	1	4	3	9
2 EDU		1	1	1	3	8	7	9
3 GDR			1	1	3	5	5	9
4 PHIL				1	3	5	4	9
5 NAT					1	2	3	9
6 ProAff						1	1	7
7 INT							1	9
8 OIE								1
Total								

**Table IV.1 : Matrix Formulation EDM – Awareness**



PROCES III: Fair wise Comparison Matriks									
NO.	FAKTORS	1 Age	2 EDU	3 GDR	4 PHIL	5 NAT	6 ProAff	7 INT	8 OIE
1	Age	1	0.3333	0.3333	0.3333	1	4	3	9
2	EDU	3	1	1	1	3	8	7	9
3	GDR	3	1	1	1	3	5	5	9
4	PHIL	3	1	1	1	3	5	4	9
5	NAT	1	0.3333	0.3333	0.3333	1	2	3	9
6	ProAff	0.25	0.125	0.2	0.2	0.5	1	1	7
7	INT	0.3333	0.1429	0.2	0.25	0.3333	1	1	9
8	OIE	0.1111	0.1111	0.1111	0.1111	0.1111	0.14286	0.1111	1
	TOTAL	11.694	4.0456	4.1778	4.22778	11.944	26.1429	24.1111	62

**Table IV.2 : Matrix Fair Wise Comparison EDM - Awareness**

PROCES IV: Normalization and Consistency Ratio Measurement														
NO.	FACTORS	1 Age	2 EDU	3 GDR	4 PHIL	5 NAT	6 ProAff	7 INT	8 OIE	TOTAL	AVERAGE	CM	RANK	
1	Age	0.0855	0.0824	0.0798	0.07884	0.0837	0.15301	0.12442	0.14516	0.83285	0.10411	8.8162	4	
2	EDU	0.2565	0.2472	0.2394	0.23653	0.2512	0.30601	0.29032	0.14516	1.97226	0.24653	8.8206	1	
3	GDR	0.2565	0.2472	0.2394	0.23653	0.2512	0.19126	0.20737	0.14516	1.77456	0.22182	8.6801	2	
4	PHIL	0.2565	0.2472	0.2394	0.23653	0.2512	0.19126	0.1659	0.14516	1.73308	0.21664	8.6434	3	
5	NAT	0.0855	0.0824	0.0798	0.07884	0.0837	0.0765	0.12442	0.14516	0.75634	0.09454	8.698	5	
6	ProAff	0.0214	0.0309	0.0479	0.04731	0.0419	0.03825	0.04147	0.1129	0.38194	0.04774	8.4238	7	
7	INT	0.0285	0.0353	0.0479	0.05913	0.0279	0.03825	0.04147	0.14516	0.42361	0.05295	8.3409	6	
8	OIE	0.0095	0.0275	0.0266	0.02628	0.0093	0.00546	0.00461	0.01613	0.12535	0.01567	8.0771	8	
	TOTAL	1	1	1	1	1	1	1	1					
												Consistency Index -----	CI	0.1045
												Random Index from AHP -----	RI	1.41
												Consistency Ratio -----	CR	0.0741

**Table IV.3 : Normalization and Consistency Ratio Measurement EDM -Awareness**

### Appendix V

PROCES II: Transformation from Expert Ranks									
	Factors	1 PHIL	2 GDR	3 NAT	4 EDU	5 CMD	6 AWAR	7 INT	8 OIE
1	PHIL	1	3	5	6	9	9	2	9
2	GDR		1	5	4	4	5	0.16667	9
3	NAT			1	1	4	4	0.14286	5
4	EDU				1	5	5	0.2	5
5	CMD					1	1	0.11111	1
6	AWAR						1	0.14286	1
7	INT							1	9
8	OIE								1
	Total								

**Table V.1 : Matrix Formulation EDM – Judgments**

PROCES III: Fair wise Comparison Matriks									
NO.	FAKTORS	1 PHIL	2 GDR	3 NAT	4 EDU	5 CMD	6 AWAR	7 INT	8 OIE
1	PHIL	1	3	5	6	9	9	2	9
2	GDR	0.3333	1	5	4	4	5	0.16667	9
3	NAT	0.2	0.2	1	1	4	4	0.14286	5
4	EDU	0.1667	0.25	1	1	5	5	0.2	5
5	CMD	0.1111	0.25	0.25	0.2	1	1	0.11111	1
6	AWAR	0.1111	0.2	0.25	0.2	1	1	0.14286	1
7	INT	0.5	6	7	5	9	7	1	9
8	OIE	0.1111	0.1111	0.2	0.2	1	1	0.11111	1
	TOTAL	2.5333	11.011	19.7	17.6	34	33	3.8746	40

**Table V.2 : Matrix Fair Wise Comparison EDM - Judgments**

PROCES IV: Normalization and Consistency Ratio Measurement													
NO.	FACTORS	1	2	3	4	5	6	7	8	TOTAL	AVERAGE	CM	RANK
		PHIL	GDR	NAT	EDU	CMD	AWAR	INT	OIE				
1	PHIL	0.3947	0.2725	0.2538	0.34091	0.2647	0.27273	0.51618	0.225	2.54052	0.31757	9.2127	1
2	GDR	0.1316	0.0908	0.2538	0.22727	0.1176	0.15152	0.04302	0.225	1.24065	0.15508	9.466	3
3	NAT	0.0789	0.0182	0.0508	0.05682	0.1176	0.12121	0.03687	0.125	0.60542	0.07568	8.19	5
4	EDU	0.0658	0.0227	0.0508	0.05682	0.1471	0.15152	0.05162	0.125	0.67127	0.08391	8.1655	4
5	CMD	0.0439	0.0227	0.0127	0.01136	0.0294	0.0303	0.02868	0.025	0.20401	0.0255	8.5229	7
6	AWAR	0.0439	0.0182	0.0127	0.01136	0.0294	0.0303	0.03687	0.025	0.20766	0.02596	8.4323	6
7	INT	0.1974	0.5449	0.3553	0.28409	0.2647	0.21212	0.25809	0.225	2.34161	0.2927	10.095	2
8	OIE	0.0439	0.0101	0.0102	0.01136	0.0294	0.0303	0.02868	0.025	0.18886	0.02361	8.134	8
	TOTAL	1	1	1	1	1	1	1	1				
											Consistency Index -----	CI	0.1016
											Random Index from AHP -----	RI	1.41
											Consistency Ratio -----	CR	0.0721

**Table V.3 : Normalization and Consistency Ratio Measurement EDM – Judgments**

### Appendix VI

PROCES II: Transformation from Expert Ranks									
	Factors	1	2	3	4	5	6	7	8
		CMD	GDR	NAT	OIE	PHIL	INT	EDU	LOC
1	CMD	1	1	1	2	0.5	1	8	9
2	GDR		1	0.5	1	0.5	1	8	9
3	NAT			1	3	1	1	9	9
4	OIE				1	0.3333	0.25	5	7
5	PHIL					1	1	9	9
6	INT						1	9	9
7	EDU							1	2
8	LOC								1
	Total								

**Table VI.1 : Matrix Formulation EDM – Intention**

PROCES III: Fair wise Comparison Matriks									
NO.	FACTORS	1	2	3	4	5	6	7	8
		CMD	GDR	NAT	OIE	PHIL	INT	EDU	LOC
1	CMD	1	1	1	2	0.5	1	8	9
2	GDR	1	1	0.5	1	0.5	1	8	9
3	NAT	1	2	1	3	1	1	9	9
4	OIE	0.5	1	0.3333	1	0.3333	0.25	5	7
5	PHIL	2	2	1	3	1	1	9	9
6	INT	1	1	1	4	1	1	9	9
7	EDU	0.125	0.125	0.1111	0.2	0.1111	0.11111	1	2
8	LOC	0.1111	0.1111	0.1111	0.14286	0.1111	0.11111	0.5	1
	Total	6.7361	8.2361	5.0556	14.3429	4.5556	5.47222	49.5	55

**Table VI.2 : Matrix Fair Wise Comparison EDM - Intention**

PROCES IV: Normalization and Consistency Ratio Measurement													
NO.	FACTORS	1	2	3	4	5	6	7	8	TOTAL	AVERAGE	CM	RANK
		CMD	GDR	NAT	OIE	PHIL	INT	EDU	LOC				
1	CMD	0.1485	0.1214	0.1978	0.13944	0.1098	0.18274	0.16162	0.16364	1.22486	0.15311	8.2514	4
2	GDR	0.1485	0.1214	0.0989	0.06972	0.1098	0.18274	0.16162	0.16364	1.05624	0.13203	8.1946	5
3	NAT	0.1485	0.2428	0.1978	0.20916	0.2195	0.18274	0.18182	0.16364	1.54596	0.19325	8.3182	2
4	OIE	0.0742	0.1214	0.0659	0.06972	0.0732	0.04569	0.10101	0.12727	0.67844	0.0848	8.2538	6
5	PHIL	0.2969	0.2428	0.1978	0.20916	0.2195	0.18274	0.18182	0.16364	1.69441	0.2118	8.3123	1
6	INT	0.1485	0.1214	0.1978	0.27888	0.2195	0.18274	0.18182	0.16364	1.49426	0.18678	8.3532	3
7	EDU	0.0186	0.0152	0.022	0.01394	0.0244	0.0203	0.0202	0.03636	0.17092	0.02136	8.1187	7
8	LOC	0.0165	0.0135	0.022	0.00996	0.0244	0.0203	0.0101	0.01818	0.1349	0.01686	8.1304	8
	TOTAL	1	1	1	1	1	1	1	1				
											Consistency Index -----	CI	0.038
											Random Index from AHP -----	RI	1.41
											Consistency Ratio -----	CR	0.027

**Table VI.3 : Normalization and Consistency Ratio Measurement EDM -Intention  
Appendix VII**

PROCES II: Transformation from Expert Ranks								
Factors	1	2	3	4	5	6	7	8
	GDR	PHIL	INT	SGO	EDU	CMD	NAT	OIE
1 GDR	1	1	5	5	6	6	9	9
2 PHIL		1	6	6	7	7	9	9
3 INT			1	1	0.3333	0.33333	6	6
4 SGO				1	0.3333	0.33333	3	3
5 EDU					1	1	4	4
6 CMD						1	3	4
7 NAT							1	1
8 OIE								1
Total								

**Table VII.1 : Matrix Formulation EDM – Behavior**

PROCES III: Fair wise Comparison Matriks									
NO.	FAKTORS	1	2	3	4	5	6	7	8
		GDR	PHIL	INT	SGO	EDU	CMD	NAT	OIE
1	GDR	1	1	5	5	6	6	9	9
2	PHIL	1	1	6	6	7	7	9	9
3	INT	0.2	0.1667	1	1	0.3333	0.33333	6	6
4	SGO	0.2	0.1667	1	1	0.3333	0.33333	3	3
5	EDU	0.1667	0.1429	3	3	1	1	4	4
6	CMD	0.1667	0.1429	3	3	1	1	3	4
7	NAT	0.1111	0.1111	0.1667	0.33333	0.25	0.33333	1	1
8	OIE	0.1111	0.1111	0.1667	0.33333	0.25	0.25	1	1
	Total	2.9556	2.8413	19.333	19.6667	16.167	16.25	36	37

**Table VII.2 : Matrix Fair Wise Comparison EDM - Behavior**

PROCES IV: Normalization and Consistency Ratio Measurement													
NO.	FACTORS	1	2	3	4	5	6	7	8	TOTAL	AVERAGE	CM	RANK
		GDR	PHIL	INT	SGO	EDU	CMD	NAT	OIE				
1	GDR	0.3383	0.352	0.2586	0.25424	0.3711	0.36923	0.25	0.24324	2.43677	0.3046	9.2796	2
2	PHIL	0.3383	0.352	0.3103	0.30508	0.433	0.43077	0.25	0.24324	2.66273	0.33284	9.4383	1
3	INT	0.0677	0.0587	0.0517	0.05085	0.0206	0.02051	0.16667	0.16216	0.59886	0.07486	7.9246	5
4	SGO	0.0677	0.0587	0.0517	0.05085	0.0206	0.02051	0.08333	0.08108	0.43445	0.05431	8.2928	6
5	EDU	0.0564	0.0503	0.1552	0.15254	0.0619	0.06154	0.11111	0.10811	0.757	0.09462	9.1104	3
6	CMD	0.0564	0.0503	0.1552	0.15254	0.0619	0.06154	0.08333	0.10811	0.72922	0.09115	9.1927	4
7	NAT	0.0376	0.0391	0.0086	0.01695	0.0155	0.02051	0.02778	0.02703	0.19305	0.02413	8.415	7
8	OIE	0.0376	0.0391	0.0086	0.01695	0.0155	0.01538	0.02778	0.02703	0.18792	0.02349	8.3213	8
	TOTAL	1	1	1	1	1	1	1	1				
											CI	0.1156	
											RI	1.41	
											CR	0.082	

**Table VII.3 : Normalization and Consistency Ratio Measurement EDM - Behavior**

**CONSUMER ENVIRONMENTAL AWARENESS FROM THE PERSPECTIVE OF  
NEW ECOLOGICAL PARADIGM (NEP), ATTITUDE AND BEHAVIOR**

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**ABSTRACT**

Consumers play a pivotal role in the efficiency program of energy which supports the environmental friendly consumption for environmental sustainability. The energy generation is very much depends on non-renewable resources which are originated from fossil, such as coal, oil and gas. The fact is that the fossil resource so limited which is predicted will be last in the near decade. The usage of fossil energy is also blamed as the cause of global warming and climate change. But in the other hand, the usage of renewable energy such as wind, solar power, geothermal ocean waves have not been utilized due to several reasons such as the estimated cost is predicted very expensive, capacity factor and technological barrier. The changing in consumer consumption behavior is important to solve or at least to ease the challenge of the scarcity of fossil energy. Now we can see the growing interest to the environmental protection which led to the emergence of new environmental paradigm (NEP).

This research will test using the new environmental paradigm scale to predict the consumer awareness, afterwards to test the degree of relationship between environmental awareness to the environmental concerns, then to test the influence of environmental awareness to the attitude of energy saving consumption, and finally to test consumer attitude of energy saving consumption to the behavior of energy consumption. Respondents are well educated consumers with minimum master degree holder. This research finds that the degree of high educated consumer environmental awareness based on NEP scale is moderate, but not high. In the meantime, there is no strong relation between environmental awareness and environmental concerns. Consumer's environmental concern has no influence towards attitude of energy saving consumption. Finally, attitude of energy saving consumption influenced the energy consumption behavior, in another words both attitude toward energy consumption and the behavior of energy consumption has strong relationship.

**Keywords:** Environmental awareness, environmental concerns, new environmental paradigm, attitude of energy saving consumption, and energy saving consumption behavior.

## **I. Introduction**

### Background

Dilemma between the usages of fossil energy for present welfare versus the need of conservation long has been discussed. Fossil energy which is non-renewable resources in the past is assumed as abundant, but nowadays is getting scarce, despite its effect to the environment – pollution caused global warming and climate changing, still current top rank energy source. It is like rivalry between the need to live today versus conservation for future welfare. Unfortunately, technology has not provided a good signal to solve the problem in the future (Peccei and Ikeda, 1988).

Meanwhile, modern society life very much depends on this non-renewable fossil energy, such as coal, oil and gas which is very limited and predicted will be unavailable in a very short time (US EPA Energy Conservation, 1997). It is not just limited in quantity, but fossil energy consumption also has a bad impact to the environment. There has been some efforts to find renewable energy alternatives from wind, water, solar, geothermal, biofuel, and other renewable energy, but unfortunately the development is likely unsatisfactory due to technology limitation, inefficiency and high cost (Yusgiantoro, 2004).

Interest on sustainable energy consumption is very important, as all relate to our live not only at household level but also businesses can not be separated from the usage of the energy. Furthermore, energy plays a pivatol role in the development of national economy and the effort for a better welfare. Therefore, any disruption on the energy power supply will cause damaging effect on economy and people live. Therefore modern life can not be apart from the support of the energy. Energy is the mechine growth in the modern economiy (Reusswig, Lotze-Campen and Gerlinger, 2009).

The biggest challenge for energy saving program is that consumer has not fully understood the usage of energy wisely. One of the factors is that due to low tariff for most energy products (electricity, oil, gas and other non-renewable energy). Contrary, state electricity (PLN) pays more money for producing electricicty which is Rp. 2000 per KWh using diesel compared to what it sells to the consumer Rp. 600 per KWh. In another words government via PLN provides huge subsidy of around Rp. 1,400 per KWh for the household electricity consumption (Mochtar,

BUMN Track, 2008). With this condition therefore it is necessary to wake up society awareness that electricity is not a cheap product.

In the other hand, based on earlier study in consumer behavior, electricity energy is a low involvement product, with the routine usage, and in some ways shown inertia factor, and habit plays dominant role in decision process (Watson, Viney and Schomaker, 2002). These characteristics might influence consumer behavior in using/consuming electricity energy.

Another challenge in energy saving program is that the fact that Indonesians categorized as boros consumers in consuming electricity compared to other nations. No wonder that the usage of electricity increased sharply from year to years, this does not match with the development rate of electricity power (Kompas, 2009). Therefore, campaign on energy consumption pattern change is very important in the country, although to change consumption pattern is one of the toughest challenges in the effort of environment conservation and sustainable development (United Nations 1992, in McGovern, 2007). The majority of electricity consumption is household consumption (93%), only 7% used for business, industry and offices (PLN, 2010), therefore consumer awareness, concerns and attitude towards the energy consumption issue is very important and very strategic to study. Therefore, focus of the study is on demand side management.

Reasons for this research are due to several research gaps from the previous researches. In the context of pro-environmental consumption, proofs of the previous research findings are inconclusive in nature. They are not clear if environmental concern which is reflected in attitude is also reflected in daily energy consumption behavior. So far, has not been found any research on the relationship between environmental awareness and environmental concerns and its effect on the attitude and its implication on energy consumption behavior. Previous studies on the effect of the environmental awareness towards pro-environmental behavior are limited on intention only, not on actual consumption behavior. Changing of consumer's consumption behavior is believed as one of the alternative steps which can be contributed by marketing management discipline to adapt the level of supply with the level of demand.

This research study and analyse relationship between environmental awareness and environmental concern in the context of new environmental paradigm, and to test the effect of environmental concern toward the attitude of energy saving consumption, finally to test the attitude of energy saving consumption towards behavior of energy saving consumption.

## **II. Theoretical Framework**

### 2.1. Environmental Awareness

Natural environmental conservation and protection is a field which attract more interest of decision maker, marketer, consumer and society as a whole (Baker and Sinkula, 2005, Banerjee, Iyer and Kashyap, 2003, Granzin and Oslen, 1991, Menon and Menon 1997, in Grinstein and Nisan, 2009). Research on this field discussed on ways took by the government, business and consumer to develop and protect the environment. It is estimated 30% to 40% of the environmental damage has been caused by private household consumption activities. Therefore, to change consumer behavior can be able to give a substantial effect to the environment (Stern, 1999).

With limitation of non-renewable energy resources on earth, it is important to conserve the current non-renewable energy resource or in another way consumers are urged to use renewable energy resources so that natural resources can be still available sufficiently for the next generation. Energy conservation also important due to consumption of non-renewable resources has a bad impact on the environment, such air and water pollution (EPA, 2007). Therefore, with the increasing of awareness on the environment (Dunlap, et al, 2000), the messages on environmental communication (such as social advertising) which encourage pro-environmental behavior is expected to get well acceptance from the society.

To solve environmental problem, in many cases, involve certain degree of social change, that is a change in ways where individual and group aim their live with sort of adjustments. In practice, current efforts are made to make these social change programs work to change bad practices into something more productive and beneficial in the effort to increase human life quality (McGovern, 2007). Social change in the context of communication campaign is an organized effort by a group (change agent) with the objective to persuade other parties (target groups) to accept, modify, or to neglect certain ideas, attitude, practices and behavior (Kotler and Lee, 2008).

The growing environmental concern has lead to consumer appeal which is demonstrate their concern by their buying decision making on environment friendly product, such as green product. Number of pro-environment consumer constantly increase, therefore increasing the

number of population target on pro-environment marketing and demarketing effort on environmental based products (Grinstein and Nisan, 2009).

With the growing awareness on environmental conservation, social scientists for decades have investigated motivation of the individuals to involve in pro-environmental behavior (Clark et al, 2003), to get more detail understanding on why people participate in pro-environmental behavior. This understanding is important for decision/policy makers, besides, scientist search for solutions or ways on environmental problems which is believed need in some ways a change in behavior.

## 2.2. Environmental Concern in the Context of New Environmental Paradigm

Consumer behavior is a study which involve several process when an individual or group select, buy, use, or dispose post purchase product, ideas, service, experience to satisfy need and want (Solomon, 2007). In the marketing context, study on consumer behavior has been growing rapidly which indicate the important of understanding on market behavior for marketing program effectivity. The challenge faced by marketers is that human behavior is very complex, consisting variety of different factors which formed or blocked individual preference, both internally or externally (Egmond and Bruel, 2007), therefore, many factors in forming or blocking individual preference.

In this context shown by Solomon (2007) who argued that one of fundamental premises in the field of modern consumer behavior are people often purchase a product not because of what the product can do, but what it means for them. This principle is not necessary mean that basic function of the product is not important, but the role of product in our live has been extended far beyond task and performance of the product. A deeper meaning of a product can help to differentiate it from others, similar goods and services – overall the same, but people will choose a brand that has an image (even personality) consistent with the underlying need. In another words, consumption is a self expression or symbolic benefit for consumers (Aaker, Berger and Heath 1999, in Grinstein and Nisan, 2009). Consumption has an important role in the conversation about identity, social cohesiveness and cultural meaning. In another hand, consumers often locked in unsustainable consumption pattern through combination of habit, institutional barrier and social norms (Jackson, 2004). This behavior is an important drive on consumer preference and choice. Furthermore, self conception and behavior associated with self



expression depend on certain social role owned by consumers, the degree of importance of the consumer's role and product domain (Aaker 1999 et al, in Grinstein and Nisan, 2009).

Rational choice model argued that we behave in a way to maximize expected benefit for ourselves as individual from our action. Premise of rational model choice explains that human behavior is a continual process to make planned choices among a set of different behavior. Facing with these choices based on rational choice theory human calculated expected benefit and costs from different actions, and choose one offered the highest expected net benefit (Jackson 2004). Futhremore, Jackson argued that rational choice emphasized on individual as unit of analysis. These individuals make choices based on rational consideration consist of individual evaluation and expected subjective result.

There are two approaches in an effort for consumer behavior change to be more pro-environment firstly behavior is perceived as an external function, and second, as an internal factor. Several model of consumer behavior focus on internal antecedent of behavior, such as values, attitude, and intention. The second model focuses more on external factors such as incentives, norms and institutional barriers. Several models are very good in explain ilect merefleksikan pentingnya variabel konstekstual atau situasional, dan sebaliknya (Jackson, 2004).

In the other hands, psychologists concentrate to relate internal psychological variables on behavior. Based on this approach it is found that pro-environmental behavior originated from values, beliefs and attitude that direct individual to certain behavior or action. Therefore, psychologist recognizes that awareness, education, guilty feeling and persuasion as tools to emerge behavioral change.

Concern on energy conservation affects electricity consumption behavior. According to Leiserowitz, Maibach, Roser-Renouf (2008), in total, half of American said that they have done some improvement in energy saving in their houses, meanwhile others intent to do the same thing on the next 12 month. A large number of population said they are going to have some improvement in energy saving at their home, and intend to purchase fuel saving car.

Meanwhile, Dietz, Fitzgerald and Shwom (2005) argued that values influence thought and behavior toward environment. Values help to decide on how to think about choices and what to do. Values don't act solely but together with other factors in shaping decision. The well known

study on value orientation is a research conducted by Dunlap et al (2000) regarding new environmental paradigm. It has been confirmed there are three different value orientations on pro-environmental behavior: biospheric, social (altruistic) and egoistic (Dietz et al, 2005).

New Environmental Paradigme scale so far is the most used and accepted tools to measure environmental concern (high/low). This scale consists of 15 items with 7 points of likert scale, as the original scale. Developed by Dunlap and Van Liere (1978) and then revised by Dunlap et al (2000) has significantly corelated with values, norms, knowledge of climate change and risk perception (Schultz and Zelezny, 1998). In this research will be taken 15 item of questions which is really relevant. The highest score indicates higher environmental concern.

*H1: Consumer environmental awareness influences consumer environmental concern*

### 2.3. Energy Saving Attitude

Attitude is generally believed as important factor for marketing because it is assumed has causal relationship among attitude, intention and behavior. Hawkins, Best and Coney (1989), in Hini et al (1995) argued that due to its importance meaning attitude become an important point considered in setting marketing strategy. Even it is said that attitude has been linked directly with behavior change. It is said that behavior change is a function of change on intention to behave, in another case, change on intention relate with change on attitudep (Hini et al, 1995).

Attitude is general evaluation about people (including oneself), object or issues and permanent in nature (Ijzen and Fishbein, 1980; Solomon, 2007). Attitude can be in form of positive or negative feeling associated with specific behavior. According to Ajzen and Fishbein (1980), in general an individual will have favorable attitude toward certain behavior if he believes that the performance of the behavior in general will tend to the positive result. In the other hand, if an individual believe that in general the negative result will occur from the behavior, then he will have negative attitude.

Relationship between attitude and behavior is mediated by intention (Ajzen and Fishbein, 1980). Based on behavioral model intention to behave proposed by Fishbein, in certain situation behavior is the same with intention to behave, where considered in general attitude to perform behavior and subjective norm about behavior. To maximaze relationship between attitude-behavior Ajzen and Fishbein (1980) proposed four requirements to measure attitude: time, action, context and target (TACT).

*H2: Consumer environmental concern influences Consumer energy saving consumption attitude*

#### 2.4. Energy Consumption Behavior

Consumption has been the front row in the history (Miller 1995, in Jackson, 2004). To question consumption in certain degree means to prevent the history itself. To involve in the effort to change consumption pattern and consumer behavior, in a way means to work with focus and details with fundamental aspect from our social world, and processed without knowing the level of our complexity and its sophistication then it is the same with inviting the unavoidable failure.

In a simple phrase it is said that consumption can be seen as a functional effort to increase individual and collective welfare by providing goods and services needed to fulfill people needs and wants (Mas-Collel et al, 1995, Begg et al, 2003, in Jackson, 2004). Further more Jackson argued by emphasizing in consumer wants and power in consumer choice economics take utilitarian approach widely to evaluate consumer goods and services. Therefore, consumer behavior is not merely purchasing behavior, some among others such as energy conservation and traveling can be classified as consumer behavior (Jackson, 2004).

Energy saving behaviors refer to some actions which is not very often, but important and significantly reduce household and transportation energy use, such as turn off the light when it is not used, using saving energy light, adjusting thermostat based on weather condition, etc. (Leiserowitz, Maibach, and Roser-Renouf, 2008).

Therefore, understanding consumer behavior mainstream is prerequisite to understand how to motivate or encourage pro-environmental consumer behavior. Terminology of sustainable consumption relatively new, however debat on consumption, consumer behavior and consumerism have been much longer (Jackson, 2004).

*H3: Consumer environmental attitude influences consumer energy consumption behavior*

### **III. Research Methodology**

#### 3.1. Research Population and Sample

Research Population is civitas academica STEKPI School of Management (University of Trilogi), consisting of lecturers, employees, graduate school students and parents. Sampling method is based on convenience sampling. This research uses survey design to test relationship among variables. To test participant environmental concern will be used New Environmental Paradigm scale (Dunlap et al, 2000).

#### 3.2. Method of Data Analysis

##### 3.2.1 Descriptive Analysis

This analysis is a description in nature and explanation on respondent characteristics, such as: age, gender, education, status and occupation using SPSS soft ware version 14.

##### 3.2.2 Quantitative Analysis

This analysis is conducted by processing data to be analysed using statistical tools on variables studied, consisted of:

1. Validity Test

Validity test Uji is used to make sure validity items of questions in defining a variable, in another word to test if measurement tools test in the form of question list really measure what it has to be measured. Validity test will be conducted on each item of question, with a mechanism to compare calculated  $r$  with  $r$  table. Item of question will be assumed valid if calculated  $r > r$  table.

2. Reliability

Reliability test is to measure consumer stability and consistency in answering questions in the questionnaire. In this research reliability test is used simultaneously on all question items. Questions are reliable if value of Cronbach alfa  $> 0.60$  (Hair et al., 2006).

3. Correlation test

Correlation test ( $r$  test) is used to test correlation (relationship) between two variables which will be stated with correlation coefficient. In this research will be tested direction of relationship and cohesiveness of the relationship between environmental awareness

with environmental concern. The positive relationship will be shown by its significant level (less than 0.05) and correlation coefficient value.

Correlation coefficient value will determine the cohesiveness of correlation, further more correlation cohesiveness will be grouped as follows (Sujarweni, 2007):

- a. 0.00 up to 0.20: correlation has a very week cohesiveness
- b. 0.21 up to 0.40: correlation has a week cohesiveness
- c. 0.41 up to 0.70: correlation has a strong cohesiveness
- d. 0.71 up to 0.99: correlation has a very strong cohesiveness

#### 4. Simple regression test

Simple regression analysis method will be used in this research because relevant with one of research objectives to test emphirical of the effect of environmental concern toward attitude of energy saving consumption, and to test the effect of attitude toward energy consumption behavior.

Decision criterion to determine the effect of independent variable toward dependent variable and cohesiveness of the relationship among variable are determined on significant level based on alfa 0.05, coefficient (B), r test value and R square test results.

#### 3.3. Variable measurements

Variables in this research consisting of: Environmental awareness, Environmental concern, Energy saving consumption attitude and Energy consumption behavior.

Environmental awareness measurement is conducted with two questions delivered on the questioner as indicators, measurement of environmental concern will adopt New Environmental Paradign scale (Dunlap et al 2000), meanwhile energy saving consumption attitude will be measured directly by proposing four questions as indicators. Meanwhile, energy consumption behavior construct measurement is tested by using eight questions as indicator. Variable measurement will be applied in several indicators by using likert scale of 1-7 in form of questioner.

#### **IV. Analysis**

##### **4.1. Descriptive Analysis**

Descriptive analysis is conducted to 75 respondents involved in this research on relevant characteristics such as age, gender, education and job status.

Respondent's age mostly between 41-50 years (53%). This is categorized as mature age range, often indicated as wise, experienced and possibly has sense of responsibility toward environment. It can be concluded also that this range of age has to be more responsible on the environmental issues. Meanwhile, respondents gender relatively in balance between male (49.3%) and female (50.7%), therefore, it provides description that gender relatively well distributed. There is no indication that gender has caused different behavior toward environment. Respondent level of education is mostly undergraduate (73.3%), master degree (24%) and doctoral degree (2.7%). In general respondents are well educated people. This group typically perceived has a broaden view on environment (Jackson, 2004).

##### **4.2. Quantitative Analysis**

Quantitative Analysis is conducted to test validity and reliability, to analyse the relationship among variables and to analysis on the influence of one independent variable toward dependent variable.

###### **4.2.1 Validity and Reliability test**

Environmental awareness variable: Validity and reliability test are conducted on 30 respondents. All question items for environmental awareness are valid ( $N=30$ ), indicated by calculated  $r > r$  table (0.312) and reliable (Cronbach Alfa 0.77).

Environmental concern variable: Ten items of questions to measure environmental concern variable is valid ( $N=30$ ), except 5 items are out from questioner because calculated  $r < r$  table (0.312). Questions in this questioner refer to new environmental paradigm scale from Dunlap et al (2000). The fact that there are several unvalid questions indicate that this scale likely need sort of adjustment in the context to measure environmental concern in Indonesia. For reliability test indicates all of the respondents answer on all item questions are reliable (Cronbach Alfa 0.72).

Energy saving consumption attitude variable: All item of questions to measure energy saving attitude variable are valid (N=30), indicated by calculated  $r > r$  table (0.312). Overall respondent responses on question items are reliable (Cronbach alfa 0.67).

Energy Consumption Behavior variable: Overall items of question to measure energy consumption behavior are valid (N=30), indicated by calculated  $r > r$  table (0.312). Respondent responses on overall items of question are reliable (Cronbach alfa 0.85).

#### 4.2.2 Analysis on Environmental Concern

SPSS version 14 processing shown respondent environmental concern is medium, not high (M=5.1). It can be concluded although respondents have high education level, but based on New Environmental Paradigm (NEP) scale (Dunlap et al 2000) showed moderate result compared to range 1-7 likert scale. This is a clue that level of education does not always correlate with environmental concern.

#### 4.2.3 Relationship between Environmental Awareness to Environmental Concern

Based on SPSS version 14 results correlation between environmental awareness and environmental concern has shown level of sig. 0.009 which is less than 0.05. There are positive relationship between environmental awareness and concern, however the level of cohesiveness is weak ( $r=0.30$ ). This is in line with previous finding based on NEP measurement that respondent environmental concern is not high, although respondent may have high environmental awareness, but it did not reflect their concern.

This is a challenge for environmental campaign due to the fact from this research that high environmental awareness does not always lead to environmental concern, so that has to be found other ways to increase environmental concern. This finding indicates a challenge in educating and campaigning environmental protection issues. So that has to be integrated with some other effort to increase environmental concern, such as social campaign for pro environment (through social advertising) or open the reward dan punishment approach.

#### 4.2.4 The Effect of Environmental Concern toward Energy Saving Attitude

The test result concludes that environmental concern did not really affect energy saving attitude. The positive effect is small ( $r = 0.143$ ), therefore from statistical point of view it did not affect dependent variable significantly. From correlation point of view there is positive correlation, but weak cohesiveness relationship. Another finding to confirm this conclusion could be indicated from its level of significant of 0.221 which is greater than  $\alpha$  0.05. Conclusion: environmental concern has no influence toward energy saving attitude. Next using R square test it is proof only 2% of environmental concern can explain energy saving attitude. 98% is explained by other factor out side of this research.

Therefore, positive energy saving attitude might generally be formed due to energy consumption cost and some other economical factors not by its environmental concern, such as by the increase of tariff, saving energy campaign to minimize energy cost, therefore, it is more due to egocentric orientation: cost or financial loss consideration not because of environmental concern.

#### 4.2.5 The Effect of Energy Saving Attitude toward Consumer Energy Consumption Behavior

SPSS Output showed there are strong and significant influences of consumer energy saving attitude toward consumer energy consumption behavior (level of sig. 0.000 less from  $\alpha$  0.05), means that consumer attitude of energy saving consumption influenced significantly toward energy consumption behavior. This finding support earlier research that attitude is a strong predictor on behavior (Ajzen, 1991). R square test showed that attitude of energy saving could explain consumer energy consumption behavior amounted to 39.5%. The remaining of 60.5% is explained by other factors outside of this research. Therefore, individual attitude on energy saving consumption could reflect his behavior in energy consumption behavior. The more positive on consumer attitude toward energy saving, the more concern in energy consumption behavior. Therefore, in the context energy conservation, including electricity, effort to encourage positive attitude is crucial because it will affect the expected behavior.



## **V. Conclusion**

### 5.1. Conclusions

1. Based on measurement using new environmental paradigm scale respondents have medium environmental concern (M=5.11), so that categorized not high compared to the maximum likert scale (1-7).
2. There are positive relationship between environmental awareness and environmental concern, but not too strong.
3. Consumer environmental concern did not influence consumer energy saving attitude.
4. Consumer saving energy attitude influenced energy consumption consumer behavior. Both variables have strong positive relationship.

## **VI. Limitation and Suggestion for the Next Research**

### 6.1. Limitation of the research

1. Behavioral measurement for energy consumption is conducted by consumers self report. This method relatively easy, however it has also weaknesses such as subjective in nature. Responden response might be bias and did not reflect reality.
2. Population target is limited to civitas academica STEKPI School of Busniess and Management, so it might not reflect the whole energy consumer's response.

### 6.2. Suggestions for the next research

1. To enrich this research, it is suggested for further research with a wider population target.
2. Next research is suggested to use experimental design, so that causal relationship can be be well tested.

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**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE TO  
STOCKPRICE OF BANKING AND MINING INDUSTRY LISTED AT INDONESIA  
STOCK EXCHANGE (IDX)**

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**ABSTRACT**

*This research is purposed to determine the influence of CSR disclosure on stock price of banking and mining companies that listed at Indonesia Stock Exchange (IDX). There are two models of this research, the first model without control variable BETA and PBV. And the second model included control variable BETA and PBV. BETA is proxy of risk and PBV is proxy of growth.*

*This research was conducted on 30 mining and banking companies that listed in Indonesia Stock Exchange (IDX) for the period 2006-2007. The methodology research in this research is purposive sampling. Data analysis methods used Pearson for validity test, P-P Plot for normality test, Variance Inflation Factory (VIF) for muticollinearity test, LM-test for autocorrelation, and Glejser for heterrocedacity test. T-test and F-test was used to test hypothesis.*

*The result of this research is in the first model (without control variable BETA and PBV), CSRI disclosure, Unexpected Return (UE), interaction between CSRI & UE which is not influenced by CAR of mining and banking companies that listed at IDX. The second model (included control variable BETA and PBV) indicated that CSRI disclosure, Unexpected Return (UE), interaction between CSRI & UE, Price to Book Value (PBV), BETA, interaction BETA & PBV which is not influenced by CAR of banking and mining companies that listed at IDX.*

*Keywords: corporate social responsibility disclosure, earning respond coefficient (ERC), price to book value (PBV).*

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### **INTRODUCTION**

Various researches indicate that the number of companies conducting disclosure or implementation of corporate social responsibility (CSR) is getting increased. A lot of companies are getting aware of the importance of application of corporate social responsibility (CSR) as part and strategy of business. Global survey for the Economist Global Intelligence unit indicates that 85% of senior executives and investors from various organizations have made corporate social responsibility (CSR) as main consideration in making decision. Although corporate social responsibility is still compulsory in character, but it can be said that almost all companies as available in Indonesia Stock Exchange have disclosed corporate social responsibility (CSR) in their annual report in various contents as it is forwarded by Sayekti (2006). The company is getting more conscious that the company survival also depends on company relationship with its community and environment where the company is operating. This matter is in line with legitimacy theory which states that company has contract with the community for conducting its activities based on the values of justice, and how the company is responding to various groups of interest for legitimizing the company action Tilt (1994). In Indonesia, CSR is stated in Law of Limited Liability Company No. 40 of 2007. In the Article under title the Competitive Advantage of Corporate Philanthropy as contained in Harvard Business Review of 2003, Michael E. Porter and Mark R Kramer said, so far the objective of economy and social tends to be seen from the viewpoint which is different and contradictory to each other. The company cannot be separated from the surrounding environment because basically the company really depends on the location where it is operating. The opinion of Milton Friedman which said that the main objective of corporation was to merely acquire profit was getting left out. In reverse, the concept of triple bottom lines (profit, planet, and people) which become the idea of John Elkington is getting into mainstream of business ethics. Profit is believed as main information as presented in financial report of Lev Company (1989). The question is how far the advantage of profit and loss of the user of financial report has become important matter, both for the researcher, practitioners and also authorities of policy makers. A lot of models of equity earnings which are possibly influenced by assumption of calculation and also manipulated possibilities as conducted by company management, so that it is required other information beside profit for predicting the return of company share. It is found some matters which have caused market

responses which are varied against profit, namely it is persistency of profit, beta, company capital structure, profit quality, growth opportunities, and informativeness of price (Scott, 2000). The value of earning response coefficient (ERC) is predicted higher if the company profit is more persistent in future. Likewise, if the quality of profit is getting better, then it is predicted the value of earning response coefficient (ERC) will be getting higher. Beta reflects systematic risk. Investor will evaluate current profit for predicting profit and return in future. If such future return is getting more risks, then the reaction of investor against unexpected earnings of company is getting lower. In other words, if Beta is getting higher, then ERC will be getting lower (Scott, 2000). The company capital structure also has influence against Earning Response Coefficient (ERC). Profit increase (before interest) for company of high levered has ERC which is lower as compared to the company of low levered (Scott, 2000). The company having growth opportunities is expected to provide high profitability in future, and it is expected more persistent profit. As such, ERC will be higher for company which has growth opportunities Scott (2000). It is found several factors which influence the company share price in the stock exchange, indication from the market response against company share is indicated with the presence of Earning Response Coefficient (ERC) which measuring is made by proxy with CAR. Other factor also influences the market response against profit is informativeness of that market price itself. The higher informativeness of share price, then the content of information from profit is getting reduced. Therefore, ERC will be getting lower if the inromativeness of share price is increasing or if the size of company is increasing, Scott (2000). Based on the above description, the hypothesis as submitted in this research is as described below.

**Model 1** (without control variable)

**Ha1** : UE and CSRI has an significant influence on CAR without control variable (BETA and price-to-book-value (PBV) ratio

**Ha2** : UE (unexpected earning) has an significant influence on CAR without control variable (BETA and price-to-book-value (PBV) ratio

**Ha3 :** CSRI (corporate social responsibility index) has an significant influence on CAR without control variable (BETA and price-to-book-value (PBV) ratio).

**Model 2** used control variable (BETA and PBV)

**Ha4 :** UE and CSRI has an significant influence on CAR by including control variable (BETA and price-to-book-value (PBV) ratio)

**Ha5 :** UE (unexpected earning) has an significant influence on CAR by including control variable (BETA and price-to-book-value (PBV) ratio)

**Ha6 :** CSRI (corporate social responsibility index) has an significant influence on CAR by including control variable (BETA and price-to-book-value (PBV) ratio).

## METHODOLOGY

### **Dependent Variable: Cumulative Abnormal Return (CAR)**

Dependent variable in this research is Cumulative Abnormal Return (CAR) which is calculated daily for the period of 15 months, namely from January 1, 2006 up to March 31, 2007. The measuring of abnormal return in this research is using market adjusted model which assumes that the measuring of expected return of the best measuring of company share expected return is market index return like the one as disclosed by Pincus (1993). Following is the formula for calculating abnormal return:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$$



$$AR_{it} = R_{it} - R_{mt}$$

Where:

AR<sub>it</sub>: Abnormal Return for company I on day-t.

R<sub>it</sub>: Daily return on company I on day-t.

R<sub>m</sub>: Return of market index on day-t.

P<sub>it</sub>: Share price of company I on time t-1.

IHSG<sub>t</sub>: Combined Share Price Index on time t-t.

IHSG<sub>t-1</sub>: Combined Share Price Index on time t-1.

### **Independent Variable**

Independent variable in this research is implementation of CSR as reflected in the disclosure of CSR information in company annual report or CSR disclosure index (CSRI). then the measuring of CSRI variable is using content analysis that measures variety of CSRI. Content analyst is one of the methods of CSR measuring which have been used a lot in the previous researches. The measuring instrument of CSRI which will be used in this research refers to instrument as used by Sembiring (2005) which has grouped CSR information into 7 (seven) categories: environment, energy, manpower, product, community involvement, and public. Total item of CSR is ranging between 63 up to 78, depending on the type of industry/company.

### **Control Variable**

Even though it is found some variables which are predicted for being able to influence the response against profit, but this research only use 2 control variables, namely BETA which constitutes the proxy of risk and price to book value (PBV) which constitutes the proxy

of growth opportunities. BETA is predicted for having negative influence against ERC, whereas PBV is predicted to have positive influence against ERC. Scott (2000).

### **Determining Research Sample**

Determining member of sample in this research shall use justified purposive sampling which mean member of sample is determined based on certain criteria. The sample criteria in this research are:

1. Member of sample in this research is listed public company which is included in the group of LQ45 index of year 2006/2007, as contained in the list of LQ45 public companies based on the decision of capital market authorities/Bapepam.
2. Member of sample has never been delisting from Indonesia Stock Exchange (BEI), in the period of two years consecutively.
3. Member of sample shall issue annual report which is audited by public accountant office and preparing disclosure on the implementation of corporate social responsibility (CSR).

### **Research Model**

#### **Model 1 (without control variable):**

$$CAR = b_0 + b_1UE, b_2CSRI + b_3UE*CSRI + \varepsilon$$

#### **Model II (with control variable):**

$$CAR = B_0 + b_1UE + b_2CSRI + b_3BETA + b_4PBV + b_5UE*CSRI + b_6UE*BETA + b_7UE*PBV + \varepsilon$$

Remarks:

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- CAR : Daily Cumulative Abnormal Return of company for 15 months starting from January 1, 2006.
- UE : Unexpected earnings of company which is calculated by using the assumption of random walk (profit before extraordinary post of year 2006 deducted with profit before extraordinary post of year 2005), and implemented with company profit in the initial period.
- CSRI : Corporate social disclosure index (measuring the type of CSR as disclosed by the company in its annual report).
- BETA : Corrected BETA as obtained from ICMD database and PRPM which constitutes proxy of risk.
- PBV : Price to book value ratio which constitutes proxy of company growth.
- UE\*CSRI : Interaction of UE and CSRI variables.
- UE\*BETA : Interaction of UE and BETA variables.
- UE\*PBV : Interaction of UE and PBV variables.
- $\varepsilon$  : error term

If the level of CSR information disclosure is influencing informativeness from earnings, or if CSR information is influencing ERC, then it is predicted interaction coefficient between variable of unexpected return (UE) and CSRI ( $b_3$  in model 1 and  $b_5$  in model II) from Model I will be significant and having negative signed; Whereas for seeing the influence of control variables (BETA and PBV) against ERC, then it is seen consecutively the significance and direction of coefficient  $b_6$  and  $b_7$  in Model II

## **RESULT AND DISCUSSION**

### **Hypothesis Testing**

#### **Determination Coefficient ( $R^2$ Testing and Adjusted $R^2$ )**

Table 1

Result of  $R^2$  Test and Adjusted  $R^2$

<b>Model</b>	<b><math>R^2</math></b>	<b><i>Adjusted <math>R^2</math></i></b>
1.	0,068	-0,040
2.	0,167	-0,098

Based on the result of regression test above it is known that regression Model 1 is found  $R^2$  value amounting to 0.08, which means variation in the variables of UE, CSRI, and UE\*CSRI can explain variables in CAR variable amounting to 6.8% whereas the remaining can be explained by other factors which are not taken part in the research. In regression Model 2 it is acquired  $R^2$  value amounting to 0.167, which means the variants in variables UE, CSRI, BETA, PBV, UE\*CSRI, UE\*BETA, and UE\*PBV may explain the variation in variable CAR amounting to 16.7% ( $0.167 \times 100\%$ ) whereas the remaining can be explained by other factors which are not taken part in the model.

#### **F Test (Simultaneous Testing)**

This testing is applied for testing whether collectively the whole independent variables have significant impact against dependent variable.

Table 2

Result of F Test (Simultaneous Test)

<b>Model</b>	<b><i>F</i></b>	<b><i>Sig.</i></b>
1.	0,627	0,604
2.	0,631	0,726

#### **Hypothesis Testing (F Test) – Model 1**

Hypothesis (**Ha1**) is stated that “UE and CSRI has an significant influence on CAR without control variable (BETA correction and ratio of price-to-book-value PBV ratio)”. Based on the result of F-Test Model 1 above, it is known that the value of significant value amounting to 0.604 is more than 0.05, then **Ho** is accepted which means UE, CSRI and UE\*CSRI collectively do not influence against CAR.

#### **Hypothesis Testing (F Test) – Model 2**

Hypothesis (**Ha4**) is stated that “UE and CSRI has an significant influence on CAR by including control variable (BETA correction and ratio of price-to-book-value PBV ratio)”. Based on the result of F-Test Model 2 above as mentioned in **Table 2**, it is known that the significant value amounting to 0.726 is more than 0.05, then **Ho** is accepted which means UE, CSRI, BETA, PBV, UE\*CSRI, UE\*BETA and UE\*PBV collectively do not influence against CAR.

#### **t-Test (Partial Testing)**

Partial testing (t-Test) is applied for testing whether individually independent variable has significant impact against dependent variable

Table 3.

Result of Test Model 1.

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.467	2.540		-.184	.856
UE	3.266	3.642	.6359	.897	.378
CSRI	.150	.112	.290	1.336	.193
UE*CSRI	-.122	.136	-.6408	-.902	.375

a. Dependent Variable: CAR

### Model of Regression 1

$$\text{CAR} = -0.467 + 3.266 \text{ UE} + 0.150 \text{ CSRI} - 0.122 \text{ UE} * \text{CSRI} + \epsilon$$

Based on the result of t-Test on **Table 3** above it is found that the constant variable has negative coefficient amounting to -0.467 which means if other variable is deemed constant, then CAR is undergoing decrease amounting to -0.467. Such constant influence is not significant because the probability value amounting to 0.856 is more than 0.05.

Hypothesis (**Ha2**) is stated that “UE has an significant influence on CAR without control variable (BETA and price-to-book-value PBV ratio)”. Based on **Table 3**, above, it is known that coefficient of variable UE is positive amounting to 3.266, which means its coefficient 1 in UE will increase CAR amounting to 3.266. However the influence of UE is not significant because of the result of t-Test in **table 3** above it is known that the significance of variable UE amounting to 0.378 is more than 0.05, then **Ho** is accepted which means there is no significant impact of variable UE against variable CAR.

Hypothesis (**Ha3**) is states that “CSRI has an significant influence on CAR without control variable (BETA and price-to-book-value PBV ratio)”. Based on **Table 3**, above, it is known that coefficient of variable CSRI is positive amounting to 0.150, which means its increase of 1 in CSRI will increase CAR amounting to 0.150. However, the influence of CSRI is not

significant because of the result of t-Test in **Table 3** above it is known that the significance of variable CSRI amounting to 0.193 is more than 0.05, which means **H<sub>0</sub>** is accepted which means there is no significant impact of variable CSRI against variable CAR.

### Equity Model of Regression II

Table 4

Result of t-Test Model 2

Model		Coefficients <sup>a</sup>			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	2.987	5.912		.505	.618
	UE	5.569	6.015	10.841	.926	.365
	CSRI	.074	.128	.143	.580	.568
	BETA	-31.209	57.032	-.127	-.547	.590
	PBV	.199	.387	.116	.515	.612
	UE*CSRI	-.018	.155	-.966	-.119	.907
	UE*BETA	-54.058	51.777	-10.184	-1.044	.308
	UE*PBV	.154	.468	.310	.329	.745

a. Dependent Variable: CAR

$$\text{CAR} = 2.987 + 5.569\text{UE} + 0.074\text{CSRI} - 31.209\text{BETA} + 0.199 \text{PBV} - 0.018 \text{UE*CSRI} - 54.058 \text{UE*BETA} + 0.154 \text{UE*PBV} + \xi$$

Based on the result of t-Test above it is known that constant variable has positive coefficient amounting to 2.987, which means if other variable is deemed constant then CAR is undergoing increase amounting to 2.987. Such constant impact is not significant because the probability value amounting to 0.618 is more than 0.05.

Hypothesis (**Ha5**) is stated that “UE has an significant influence on CAR by including control variable (BETA and price-to-book-value PBV ratio)”. Based on the result of hypothesis testing in **Table 4** above, it is known that coefficient of variable UE is positive amounting to 5.569, which means each increase of 1 in UE will increase CAR amounting to 5.569. The impact of UE is not significant because of the result of t-Test above it is known that the

significance of variable UE amounting to 0.365 is more than 0.05, then **H<sub>0</sub>** is accepted which means there is no significant impact of variable UE against variable CAR.

Hypothesis (**Ha6**) is stated that “CSRI has an significant influence on CAR by including control variable (BETA and price-to-book-value PBV ratio)”. Based on the result of hypothesis testing in **Table 4** above, it is known that coefficient of variable CSRI is positive amounting to 0.074, which means each increase of 1 in CSRI will increase CAR amounting to 0.074. The impact of CSRI is not significant because of the result of t-Test it is known that the significance of variable CSRI amounting to 0.568 is more than 0.05, then **H<sub>0</sub>** is accepted which means it is found significant impact of variable CSRI against variable CAR.

Hypothesis (**Ha4**) is stated that “UE and CSRI has an significant influence on CAR by including control variable (BETA correction and ratio of price-to-book-value PBV ratio)”. Based on the result of hypothesis testing in **Table 4** above, it is known that coefficient of variable UE\*CSRI is negative amounting to -0.018, which means each increase of 1 in CSRI will decrease CAR amounting to -0.018. The impact of UE\*CSRI is not significant because of the result of t-Test it is known that the significance of variable UE\*CSRI amounting to 0.907 is more than 0.05, then **H<sub>0</sub>** is accepted which means it is not found any significant impact of variable UE\*CSRI against variable CAR.

## **CONCLUSION**

Research of **first model** which has not included control variable BETA correction and price to book value (PBV), is acquired a result that it is not found significant impact from variables UE and CSRI collectively against variable CAR without control variable BETA correction and ratio price-to book-value (PBV), this matter is known from significant value amounting to 0.604 more than 0.05. Research of **second model** which has included control variable BETA and ratio of price-to-book-value (PBV), is acquired a result that it is not found any significant impact from variables UE and CSRI collectively against variable CAR by having included control variable BETA correction and ratio of price-to-book-value (PBV), this matter is known from the significant value amounting to 0.726 more than 0.05. So, based on the two matters as above mentioned, it can be concluded that the disclosure of implementation of



corporate social responsibility (CSR) has no impact against the price of public company share in Indonesia Stock Exchange.

### **Implication of Research**

This research may provide contribution to the stakeholders concerning the importance of implementation of company social responsibility constitutes very important matters even though empirically it does not have direct impact against the public company share price in Indonesia Stock Exchange. For investors and potential investors, you have to be more careful because this research is not able to prove the influence from the implementation of social responsibility against share price; however, the investor is better to choose shares of public companies which have implemented social responsibilities. For further aim of research, it is expected to add the coverage of respondents by means of extending the period of observation and classifying the category of company in CSR implementation.

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**STUDY OF VULNERABILITY OF FARMER AGAINST THE IMPACT OF  
CLIMATE CHANGE AT PELAGA VILLAGE, BADUNG, BALI.**

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**ABSTRACT**

Agriculture is one the vulnerable economic sectors to the impacts of climate change .Pelaga village at Badung district, Bali located at the upper watershed Ayung where most of the population engaged in agriculture either as farmers or farm laborers . This research aimed to assess the vulnerability of farmers in dealing with climate change through three (3) components: exposure , sensitivity and adaptive capacity of farmers.

This study used both quantitative and qualitative methods through interviews then the data were scored to determine vulnerability. The results showed that all farmers in Pelaga village has already experienced by the impacts of climate change. In this case, farmers who have savings and other livelihood as well as the amount of a little family would be not vulnerable to the impacts of climate change . However, farmer who has no other livelihood with a has a high number of family members was likely vulnerable to climate change

**Keywords:** agriculture, vulnerability, climate change, farmer

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### **INTRODUCTION**

Global warming due to the accumulation of pollutants diatmofser form of greenhouse gases such as CO, CO<sub>2</sub>, CH<sub>4</sub>, NO and others have caused disruption on the earth's climate system or so-called climate change. Climate change a change inclimate elements such as temperature, precipitation, windsat least declarethe value ofthe average (mean) and the variance in the span of a few decades (30 years) according to the World Meteorological Organization/WMO). The change sare quite sharp and sometimes very extreme climate events causing extreme disasters such as floods, drought and high winds/tornado. Agriculture is the economic sectors most vulnerable to the negative effects of climate change. Incidence of droughts and floods will directly affect the productivity of the plant because of damage plant and supporting infrastructure such as irrigation systems, farm roadsand others. Three main factors associated with global climate change impacts on the agricultural sector are; (1) changes in rainfall pattern sand climate extremes (floods and droughts), (2) an increase inair temperature, and(3) an increase in sea level.

The changes are quite clearly experienced community that rising temperatures, erratic rainfall perceived. Change the start and end of the season. Alteration beginning of the rainy seasonin Badung district has changed from October turns into November and ends in April, so the rainy season tends to be shorter. These circum stances make the rainy season becomes relatively short and dry season becomes longer. Starting time of the rainy season which resulted in a shift difficult for farmers to set the time and pattern cropping well. In the dry season, drought has been felt by residents, especially farmers'fields and the early with drawal of the rainy season starts exacerbating drought problems facing society is becoming increasingly long. This causes difficulty for water for public drinking water and water for agriculture and live stock especially in August. Pelaga Village is a village located in the upstream watershed area Ayung a regional catchment area for the Badung district. Most of the population is engaged in agriculture eitheras farmers or farm laborers. Agriculture in the Pelaga Village also divided into dry land agriculture and wetlands. Given the fact that climate change has been felt by the public, so far not yet known the extent of the vulnerability of farmers in the Pelaga Village to climate change. In view of the 798 households in 59% Pelaga Village economy is based on existing farmland.

Therefore the aim of this study will examine the extent to which the vulnerability farmers in the village of Pelaga in the face of the impact of climate changes. For achieve the objectives of this study, the target are defined as follows:

- a. Analyze trends of climate change and the criteria and indicators of vulnerability of farmers in the Pelaga Village
- b. Assessing the vulnerability of farmers in the Pelaga Village in the face of climate change, components occurs through exposure, sensitivity and its capacity adaptive farmers.

Hopefully this study can be beneficial to the interests of governments, communities to take, science and agricultural development in the future. The benefit to the government, this research can be used as a reference or basis for the government in making policies for enhancing food security and agricultural revitalization to realize food self-sufficiency, increase farmers' income, as well as the preservation of the environment and natural resources as well adapting to climate change is happening now. Benefits to the community, this study can be used as of learning and knowledge for farmers in adapting to climate change that can guarantee life and environmental sustainability in the future. Benefits to science, this research is expected can contribute to the development of science and can be used as an advanced research material in the study of adaptation to climate change impacts in other agricultural sectors in the government or in the context of perception policies and programs in government.

## **METHOD**

Vulnerability is the level of ability of an individual or group of people, a community in anticipate, cope with, maintain viability and to save themselves from the impact of the posed by hazards (hazard) naturally. Vulnerability is always changing as conditions changesocio-economic and environmental conditions in the vicinity. In this study the concept of vulnerability refers to the susceptibility proposed by Turner et al. ((2003), where the vulnerability (V) is an overlay function of exposure (E), sensitivity (S), and adaptive capacity (AC), which further expressed in mathematical form by Metzger et al., (2006)

$$V = f(E, S, AC)$$

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The above function is expressed more in the form of mathematical equations by Hamzah (in press) and also have the same developed by UHU-EHS (2006) to:

$$V = (E \times S) / AC$$

The mathematical equations qualitative and described in order to analyze the extent of vulnerability of farmers Pelaga Village in the face of climate change. In the agricultural sector to climate change, exposure visits climate change, the sensitivity of farmers to changes, and the ability of farmers to deal with the impact climate change. In this case there are several parameters used in this study is based on research performed O'Brien et al. (2004) and Teri (2003) and Nhemacena, Beghin and Glwdys (2006).

For this study, researchers based on the definition of the vulnerability of the IPCC (Intergovernmental Panel on Climate Change) where the vulnerability of the region to climate change and variability is described by three elements: exposure, sensitivity, and adaptive capacity (IPCC 2001), as follows:

- 1) Exposure (E) can be interpreted as an immediate danger (ie, stressors), and the nature and extent of change a regional climate variables (eg. temperature and rainfall, extreme weather events).
- 2) Sensitivity (S) describes the human-environment that can aggravate the condition hazards, improve danger, or the triggering effect.
- 3) Adaptive Capacity (AC) is the potential for implementing adaptation measures that help preventand mitigate potential impacts.

Based on the essence of vulnerability and existing formulas above, it is known that the susceptibility versus proportional to the exposure and sensitivity, and inversely proportional to the adaptive capacity of farmers. To be able to analyze the extent to which the vulnerability of farmers in Pelaga villages, researchers make the indicator based on the scores that have been determined.

$$V = (E \times S) / AC$$

Vulnerability will be high when the exposure and sensitivity (IKS) high but adaptive capacity (IKA) is low. Vulnerability in this study is divided into five (5) levels: very high, high, medium, low andvery low.

The impact of climate change is very influential in the agricultural sector, the vulnerability assessment is very required in determining climate change adaptation strategies.

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Therefore, research was conducted at the Pelaga Village. The reason for choosing the location of the present study is based on: 1) the characteristics of farmers Pelaga Village that has more than one type of paddy farmland associated with the effect of climate change on agricultural sector seen from the source of water used, 2) initial study has been done which states that farmers Pelaga Village already feeling the impact of climate change, but have not studied the extent to which the vulnerability of farmers in the village. To assess vulnerability of farmers in the face of climate change impacts several stages of research that has been done.

The type of data that is related to the condition of farmers in the Pelaga Village like land, land type, household size, income level, age, level of education. While the data associated with environment / climate change is the data of rainfall, temperature, farmers' perceptions of climate change and the incidence of extreme climate. In measuring the extent of vulnerability of farmers in the face of climate change, using the basic theory relationship between Exposure, Sensitivity and Adaptive Capacity. The variable component is exposure changes in temperature, changes in precipitation, climate events and perceptions of climate change. As for the components sensitivity, measured variables include family size, type of tenure, type fields, range lands agricultural water sources and irrigation conditions. Adaptive capacity component / adaptive capacity, the variables analyzed is the level of education, owned savings, active in the organization, other livelihood and way of adaptation.

Primary data is taken from interviews with respondents drawn from the sampling method purposive sampling. Respondents came from the village and other areas but have long engaged in rural agricultural. The terms of the respondents are as follows: 1) a rice farmers who have or working in the rice fields and Pelaga Village or companion farmers, 2) have lived in the Pelaga Village more than 15 years, 3) willing and possess the ability to explain the theme / topic to be discussed. Respondents selected from the search results, obtained 21 (twenty-one) of respondents who meet the specified criteria. Interviews were also conducted with officials PPL local agricultural farmers who assisted in performing their activities.

This study is a descriptive exploratory data analysis is the inductive data analysis, namely the flow of thinking to infer from the data that is specific to the general conclusions drawn. After do interview the researchers conducted a scoring respondents to parameters that have been set and identified. Scoring technique is a technique in analyzing the data to create a



value of existing circumstances, and ordered by the ranking has been made in accordance with the criteria specified in the policy applicable. Scoring techniques in this study use is still associated with the super imposed technique. With the technique scoring is expected that researchers can assess the extent of vulnerability of farmers in the face of climate change based parameter sensitivity, exposure and adaptive capacity that exists.

## **RESULTS AND DISCUSSION**

### **ANALYSIS OF EXPOSURE / EXPOSURE OF CLIMATE CHANGE IN THE AGRICULTURAL SECTOR PELAGA VILLAGE**

In the dry season the respondents felt that the temperature is getting hotter than the temperature of the dry season perceived started around 1996. Rising temperatures in the dry season by respondent alone - the eye is not simply because of the increase in global temperatures but can also be affected by the reduction of green land, felling roadside trees, conversion of dry land into land for housing and factories as well as the activity manufacture of highway where the manufacturing process do hill planted much earlier trees. In the rainy season the respondents from all groups stated that the temperature of the cold season usually accompanied by rain and wind is quite strong since 1997. So in general there has been a change microclimate associated with changes in temperature in the dry season and the rainy season. So in general it can be concluded that there has been microclimate changes either in the form of changes in temperature during the dry season and the rainy season. As already described changes in rainfall patterns are also a criterion of climate change isstressor or exposure to the agricultural sector in the Pelaga Village. Based on the interview, 69% the village of respondents stated that the rainfall in the last 18 years in the heavy rainy season is more than previous decade although the intensity is not too tight (rare). This is starting to be felt occurred since 1997 to now. While 29% of respondents said that they felt rainfall today ordinary only the intensity of the meetings (often).

On the parameters of rainfall can be concluded thata change in rainfall and the frequently season in the rainy and dry season climatological Pelaga Village, has dry season of the month April to September and the wet season from Octoberto March. The opinion of the

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respondents stated that are now being changed. The beginning of the rainy season in November and ends in March. Early dry season starting in April and ending in October, meaning the dry season becomes longer than normally. But in certain years they had encountered no dry season, it rained the whole climate. The respondents have addressed that there have been changes in both the start and end of these as on and the rainy season, dry season incidence of early and late season changes related to the impact of extreme climatic phenomenon on El Nino events or La Nina. According to the study Parminta, the El Nino phenomenon in Indonesia during the last 20 years occurred in 1994, 1997, 2001, 2003, 2004, and 2006

Most respondents testified that the longest drought ever experienced the society in the period 1980 for over 9 months and period 1990 for 7-9 months. Impact drought of extreme climate events identified by respondents include reduction in water availability so farmers shortage of water to irrigate their fields. Especially farmers who use water from the water source in Pelaga Village very experienced reduced water availability. Lack of water is certainly raises the risk of failure harvest and reduced crop productivity in the rainy season the farmers can cultivate their land between 0.26 ha - 0.50 ha / farmer but the dry season when they had planted only about 0-50 ha, there are even farmers who could not cultivate their fields altogether. Extreme climate events (El Nino) illustrating that the agricultural sector, climate change and anomalies are very vulnerable to changes in food production. If a decline in productivity due to harvest. The failure due to drought and changes in season and high rainfall then the chances of food insecurity will be very large. The existence of extreme climate events that have felt the respondents and supported by the data, a show one exposure to climate change is of extreme climate events.

### **SENSITIVITY ANALYSIS OF FARMERS IN DEALING WITH THE IMPACT OF CLIMATE CHANGE**

The sensitivity of the farmers in dealing with climate change is a condition that can farmer environment-exacerbate the impact of climate change on farmers in the Pelaga Village. In this case the researcher using the state variable number of family members covered, tenure, type of rice fields owned, source irrigation water and the condition. In this study the

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researchers grouped the respondents on the basis of variable-sensitivity is considered susceptible to there searchers. Where researchers examined respondents with number of family members covered less than equal with 4 family members (group A) and respondents with a number of family members of more than 4 people (groupB). In families that have a family member is less than or equal to 4 family members (group A) there are about 70% of respondents and 30% for group B where the number of family members covered is greater than 4 people (score 2)

Conditions of paddy irrigation system also determines the sensitivity of the farmers, in case of a shortage or excess of water in the event of extreme climatic impact will be determined by the condition of irrigation. If irrigation is good then distribution of water in times of drough twill be optimized without fear of water that seeped into the land sooner or water flow is not smooth because of the damage. Under the conditionof 65% of respondents identifying group A that the irrigation system is somewhat broken and needs to be improved, while 14% said damaged irrigation systems and 7 percent said nothing. But some are saying the irrigation system has been goodby 14% of respondents, such as shown in Figure 14. Most respondents said that they felt that Ayung springs also shrinking from year to year. Based on the identification and description of respondents obtained some factors suspected to be the cause of these changes, among others, are:

- a. A decreased number of trees that absorb water and felling trees.
- b. Increasing number of buildings.
- c. As more users or people who use water.
- d. The number of employed residents drill wells (underground water use).
- e. The management and utilization of water by water companies with massive.
- f. Reduced spring

Distance source of irrigation water to agricultural land is also one of the factors that can exacerbate the impact of climate change, where the greater the distance the greater the eat water resources impacts will be felt by farmer especially in case of drought. The source of water used by farmers in agricultural Pelaga Village comes from the eye Ayung water. These springs are also a source of drinking water used by the residents around and taps for water supply Badung district. From of respondents who have a high sensitivity to impact climate change is the farm where the distance is more than 1 kilometer.

Sensitivity can also be influenced by the diversity of crops planted by farmers, while farmers only one crop, then he will be sensitive to be affected by climate change. Because if the plant crop failures then their income is also reduced even food supplies are also reduced. Because of the description of the respondents obtained information that 50% -100% of agricultural products such as rice partially stored and consumed great for everyday use. However, for agricultural products such as vegetables and pulses mostly sold, so that crop diversity can also affect the times of drought, because if only grow rice and the rice crop failure then nothing can be sold or consumed.

#### **CAPACITY ANALYSIS OF ADAPTATION PELAGA VILLAGE FARMERS.**

Adaptive capacity is the capacity of farmers in adapting to climate change for reduce potential damage and take advantage of opportunities when affected by climate change. In reviewing adaptive capacity of farmers in the Pelaga Village of western researchers make a generalize to the whole respondents with confirmed results of in-depth interviews with local extension officers. Variables examined in this study include the ability to save, level of education, active in organizations and other livelihood sources because there are no significant differences in adaptive capacity each respondent represents. The study researchers identified that the majority of farmers / rural Pelaga educated respondents graduated Elementary School in the amount of 31 % of the total respondents (score 4). As can be noted that the diagram below respondents who graduated from high school (score of 6) and not graduate (score 3) about 24%. This is in line with the description of the village PPL Pelaga that most of the farmers has an adaptive rate pretty low on the education level parameters where only graduating from elementary school. On the parameters of activity of respondents in organizations almost all farmers in the village members of the farmer group (96%).

In the opinion of the respondents to join their farmer groups obtain several advantages, among others:

- Gaining experience and knowledge of agriculture through the development of agricultural extension and of sharing between members

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- Obtain capital and effort to develop agriculture through PUAP program, and be able to access assistance, loans or grants from the government
- Can access agricultural infrastructure managed by group and farmers do not have it.

In the case of agricultural facilities and infrastructure such as water pumps, tractors, irrigation structures have been provided and managed by the group. But there is also a rent to personal and some are rented at the group level with rental costs approximately Rp 50.000, - / day. As for building irrigation farmers have local knowledge to maintaining irrigation channels with the tradition of "Subak". Where in this tradition of farmers together to maintain, cleaning and repairing drains from springs Ayung. Nearly 50% of respondents chose to have savings in the form of goods, while the other 40% do not have 10% savings while others prefer to have savings in the bank and savings groups. Largely respondents who have opted allocation savings for capital increase agricultural purposes, tuition fees, for unexpected needs and retirement savings. With the savings will reduce the negative impacts of climate change, because farmers can use the savings in the event of crop failure and reduced productivity to meet their needs.

Source of additional income is also one of the parameters of the adaptive level of farmers, if farmers have additional income besides farming will have a high degree of adaptive in the face of climate change impacts. On a side income source parameters include income as a result of the village, farmers goats, cattle ranchers, construction workers etc and some will not have other sources of income other than farming.

Most respondents rely only on agricultural land it is proved there are about 38% of respondents did not has a side job. These numbers will certainly affect the income of farmers at changes season. In the event of crop failure due to miss season predictions, then they will be very vulnerable. However this can also be avoided if they do adaptation in case of shortage of water availability on during the dry season. If they adapt to changing rice plants into crops that are usually requires little water so farmers can reduce the adverse effects of the lack of water availability.

## **STUDY ON CLIMATE CHANGE VULNERABILITY FARMER**

Vulnerability of farmers to climate change is the degree or level of ease of a system exposed or inability to cope with the adverse effects of climate change, including climate variability and extreme climate (susceptibility) is determined by three factors: the level of exposure (exposure), the level of sensitivity and adaptive capabilities. Vulnerability of farmers to climate change impacts in the Pelaga Village assessed with reference to the equation developed by Hamzah (in press) and also have the same developed by UHU-EHS (2006), namely:

$$V=(E \times S) /AC$$

Based on the weighting of variables and indicators that have been defined above, the results of the analysis of the scoring of each variables per respondent. Where the vulnerability of farmers in the village at the level not vulnerable (62%) and a bit vulnerable (38%). This means that 38% of farmers rather susceptible to the adverse effects of climate change, this is due by a fairly high degree of sensitivity and adaptive capabilities are a bit low. Where they do not have livelihood side line, no savings and had no adaptation measures for this when there is a change climate, however the existence of enough groups to help them mitigate the effects of existing as they can get help facility while 68% of the farmers are not vulnerable to the impacts of climate change given its high level of adaptive capability although some have a higher level of sensitivity.

## **CONCLUSION**

Vulnerability of farmers to climate change impacts are not solely due only from the level of exposure / exposure of farmers to climate change but are determined by the circumstances of each farmer, the environment and supporting farmers around the state. When an extreme climate, changes in temperature and precipitation as well as the change of seasons that impact the decline in the productivity of farmers in the village have rather high level of sensitivity in terms of the number of family members, tenure, type of paddy, the state of farmland irrigation and the distance to the water source. However, only 38% of farmers were considered slightly fragile because adaptive ability levels are rather high in terms of

liveliness

within the organization, the ability to save and level of education. While 68% is not considered vulnerable because of the level of high adaptive capabilities.

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**ANALYSIS OF SUSTAINABILITY REPORTING OF COMMERCIAL BANKS  
THROUGH THE PERFORMANCE OF SHARES**

**Gilbert Rely**

**Dr.Yvonne Augustine Sudiby, Ak., M.M., CMA**

**ABSTRACT**

How is the tendency of some banks listed on the Indonesia Stock Exchange (IDX) publishes sustainability report by following the global sustainability reporting indicators as described in GRI.4 framework, in particular the financial services sector (FSS), which is specific performance indicators, guidelines for this GRI.4, we examine the sustainability report, annual reports and the financial statements (financial report) in 2013 which has a number of branch banks are quite extensive, and see the development of the performance of its shares on the Indonesian Stock Exchange (IDX), the indicators are considered, among others; environmental, labor practices and decent works, product responsibility, human rights and community, sustainability report 2013 (obtained from [www.google.com](http://www.google.com) and [www.idx.co.id](http://www.idx.co.id)), then analyzed on the code which uses content-based technique, which is useful information for the public or interested parties associated with the level of reporting, followed by the disclosure of which is based on the practice of labor and environmental issues, while disclosure of product responsibility and human rights information is not too be The main concern in the banking activities, the subject of the Financial Services Sector (FSS) certain disclosures, almost all indicators required by the FSS has been reported and just have not reported all of the FSS indicators, findings indicate that social disclosure of commercial banks could develop a more holistic from time to time resembles the type of structured reporting to the point with the label, this study is expected to contribute to the literature of social disclosure, in particular the development of Indonesian banks.

**Keywords:**

Sustainability Report, Annual Report, Financial Statements (Financial Report), the Global Reporting Initiative (GRI), the Financial Services Sector (FSS), Performance Shares, Banking.

## **PART I**

### **INTRODUCTION**

This study uses secondary data, especially on the sustainability report (sustainability report), annual reports (annual report) and financial statements (financial report) 2013 issued by banks listed on the Indonesia Stock Exchange.

Previously there was a study done on commercial banks in developing countries (Khan et al, 2009; Khan, 2010; Belal, 2000; Priest, 2000; Belal & Owen, 2007; Islam and Deegan, 2008), subsequent studies (Khan et al, 2009; Khan, 2010) is more focused on social disclosure practices in the banking sector of social disclosure bank to meet the interests of stakeholders, among others; elements of banking governance, existing literature still looks not so specifically describes the tendency of banks to incorporate sustainability indicators in social disclosure in reporting, there is a tendency of banks to make sustainability reporting by all the indicators required by the Global Reporting Initiative (GRI), in particular the Financial Service Sector (FSS), the purpose of this study was to understand the social disclosure practices of commercial banks operating in Indonesia by using GRI G4's 2013 sustainability report, and specific GRI Financial Sector (FSS).

Indonesian Banking has published sustainability reports, annual report and financial statements 2013 is assumed to be appropriate for the study, while there is growing research that focuses on social and environmental reporting practices by banks in the context of developed countries, most research focuses on the behaviour of banking disclosure the context of developing countries, particularly in Indonesia has been emphasized in the literature disclosure of sustainability of the banking sector (Achua, 2008, p.3), where banks are required to build a "reputation capital" to gain public confidence.

Banks will have implications for sustainability at a reasonable level, recent research efforts (Khan et al., 2009; Khan, 2010), seen in the context of private banks that show social responsibility programs which have increased along with proven international awards received, then, The question that arises is, whether banking in Indonesia actually has implemented major social and environmental indicator as required within the framework of global reporting guidelines GRI financial sector?.

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Type of reporting or working framework, such as GRI, ISO 14001 (International Standard Organization), 2000 WRI (World Resources Institute) to submit a report on the company's corporate social responsibility and / or corporate performance reports (Reynolds and Yuthas, 2007), considered the GRI framework quite spacious (Willis, 2003) and is widely used as a basic framework for coding structure in making sustainability reporting, analysis can be performed on the contents of the annual report and / or sustainability reports in developed and developing countries. Guidelines on preparing sustainability report as stipulated in the provisions of the GRI to financial institutions is a major initiative of management companies that tend to focus on promoting the primary responsibility of the financial sector in promoting sustainable development.

Various fact, GRI is built on the foundations of the triple bottom line (Elkington, 1997), its usefulness for providing accounting reporting framework in social work and a comprehensive sustainability reporting based on global multi-stakeholder process. Fowler (2002) suggested that the GRI is made to increase the quality, rigor and utility of sustainability reporting, there is a large amount of support and engagement of representatives from business, non-governmental organizations, accounting bodies, investor organizations and unions and different constituencies have worked to build consensus around a set of reporting guidelines with the aim to be published to the public.

Then other researchers, (Kolk, 2005, 2004, Waddock, 2004) stressed that the GRI includes three innovative aspects of the organization, e.g., multi-stakeholder to develop reporting guidelines, instituting successive production process and create an organization to serve as a maid. GRI guidelines define certain principles and indicators that banks can use to measure and report economic, environmental performance, and social ([www.globalreporting.org](http://www.globalreporting.org)), with the GRI standards can be developed for a voluntary reporting framework in promoting the practice of making sustainability reporting at the level of the equivalent to financial reporting, comparability. This study specifically examined the reporting practices of corporate social banking in Indonesia by comparing key indicators of sustainability as described in the GRI framework.

Systematic writing consists of Part I Introduction, section II presents an overview of social responsibility, Part III Sustainability Reporting Practices. Section IV presents the research design. Part V Analysis of Findings. Section VI final section, discusses Conclusions and Implications Research.

### **1.1 Scope and Problem Formulation Research**

The scope of this research problem formulation and to answer questions, as follows,

1. The size of any indicator that is transparently reported by Bank Indonesia in preparing sustainability reports?
2. The size of any indicator, reported in the GRI sustainability reporting GRI G4 when compared with the FSS?
3. The size of any indicators used in determining the level of materiality in sustainability reporting GRI G4 to banking in Indonesia?
4. What is the measure of consistency in the G4 GRI sustainability report on the performance of stocks?

### **1.2 Objectives and Benefits Research**

The purpose and benefits of research to answer the problem of existing restrictions, namely,

1. The size of any indicator that is transparently reported by Bank Indonesia in preparing sustainability reports?
2. The size of any indicator, reported in the GRI sustainability reporting GRI G4 when compared with the FSS?
3. The size of any indicators used in determining the level of materiality in sustainability reporting GRI G4 Banking in Indonesia?

4. What is the measure of consistency in the G4 GRI sustainability report on the performance of stocks?

Referring to the above-mentioned problem definition, that is at issue in this study is whether the consistency of sustainability reporting in banks in Indonesia with the application of the GRI to the performance of its shares?

Researchers set a limitation of the study in order to facilitate research in the process of data collection and analysis, restriction is meant, among other things,

1. Based on the research aspects of the object, then the object of research is that the bank publishes a sustainability report, annual report and financial reports in 2013 and listed on the Indonesia Stock Exchange (BEI).

2. Based on the aspect of time, this study analyses data that occurs during the period of 2013, especially for banking has published sustainability reports, annual reports and financial statements in 2013, and has been published on the website of each bank, or [www.idx.co.id](http://www.idx.co.id) (Indonesia Stock Exchange) until February 28, 2015.

3. Based on the aspects of the unit of analysis, the variables to be studied is, GRI indicators used in preparing the sustainability report, the difference indicator GRI G4 with FSS (Financial Sector), setting policy for determining the size of the bank management level of materiality to the GRI indicator, size consistency in sustainability reports GRI G4 on the performance of stocks?.

**Results of this study are expected to provide benefits, as follows,**

**1. for researchers**

As a means of research to determine whether there are factors affecting the sustainability reporting on commercial banks with GRI on the performance of shares listed on the Indonesia Stock Exchange?

## **2. for readers**

As a source of information for multi-stakeholders who need more information on the sustainability report issued by the bank itself.

## **3. for further research**

As the data or information for further research.

### **1.3. Significance of Research**

The significance of this study to ensure the consistency of sustainability reporting can improve the performance of banking stocks that provide sustainability reports.

### **1.4. Limitations Research**

Researchers aware of the limitations of time and capabilities of researchers, to be able to drive this research to establish the boundaries issue, as follows,

1. The size of any indicator that is transparently reported by Bank Indonesia in preparing sustainability reports?
2. The size of any indicator, reported in the GRI sustainability reporting GRI G4 when compared with the FSS?
3. The size of any indicators used in determining the level of materiality in sustainability reporting GRI G4 to banking in Indonesia?
4. What is the measure of consistency in the G4 GRI sustainability report on the performance of stocks?

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1. Literature Review**

##### **2.1.1. Legitimacy Theory**

In fact that banks around the world have received pressure from various stakeholders (Multy stakeholders) are diverse, among others, Shareholders, Investors, Media, NGOs and Consumers (Bhattacharya et al, 2004; Ogrizek, 2001; Frenz, 2005; Jeucken, 2001; 2004; Coupland 2005) found in the business must be responsible and ethical, Around the world, financial institutions are aware of the importance of the settlement of the issues of sustainability. Researcher (Hopkins and Cole, 2003; Ian, 2005) found that the operation is not socially responsible can have a negative impact on the stock price and reputation of the bank and there are many customers who ask for the position of the bank's social responsibility, then, the responsible investors socially (Carbon Disclosure Project: [www.cdpproject.net.id](http://www.cdpproject.net.id)) collectively have raised concerns on the company to consider the contemporary global issues such as corporate responsibility on climate change in recent years. NGOs in addressing issues of social responsibility in the banking sector (Eucken, 2001; Bouma et al, 2001; Baron, 2000; Bhattacharya, 2004; Decker 2004 Wilmshurst & Frost, 2000; Patten, 2002) and the strong involvement of stakeholders this have an impact as a key driver to revolutionize the Corporate Sustainability Reporting (CSR) and reporting, study in the UK banking sector, Almona (2005) that the Government as policy makers and regulatory advocacy programs directly affect the operations of the bank, while Decker (2004) noted that banks have been unwilling to comply with the rules; Related to the responsibility towards the environment, Miles (1987), found as a provider of goods and services required, policies and business practices of the banking industry should be tied to the public interest, general business decisions in relation to issues such as the availability, affordability and security has moved into the public arena and has become a practice that multilateral institutions like the World Bank and the UN often exert



pressure on banking activities in avoiding the social and environmental risks, and hope that banks in providing loans to support sustainable development, then banks can use the GRI guidelines in establishing the principles of company policy and using GRI indicators in measuring, reporting the performance of economic, environmental and social, and in the reporting of issues that should be a common concern, such as greenhouse gas emissions (global warming) and [www.globalreporting.org](http://www.globalreporting.org) for review labour standards and human rights.

## **2.2 Framework**

### **2.2.1. Sustainability Reporting Practice.**

While corporate accountability in achieving sustainable development has gained significant public attention, previous studies (Gray et al, 1996, 2001; Deegan and Rankin, 1996; Gray, 1995a, KPMG, 2005) have documented a substantial increase in the level of corporate reporting, and more and more companies publish various types of sustainability reports (KPMG, 2005), information and figures published in GRI ([www.globalreporting.org](http://www.globalreporting.org)) has shown an increase in the number of companies that report publicly its performance on various indicators of sustainability, that the company which operates both in developed countries and developing concentrating on GRI sustainability indicators including annual reports and sustainability reports (sustainability reporting) and the rate of adoption of sustainability reporting occurs in countries in North America, Latin America, and Asia, both in Oceania and Africa, [www.globalreporting.org/GRIReports/GRIReportsList/](http://www.globalreporting.org/GRIReports/GRIReportsList/).

Banking in Indonesia is not all made sustainability report on its operations, and there has been no systematic study is done to understand whether social reporting practices by banks in Indonesia can be compared with sustainability indicators as described in the GRI framework, this study aims to understand whether banking in Indonesia expresses its social responsibility compared with GRI indicators, indicators of what is reported in GRI sustainability reporting GRI G4 when compared with the FSS, the size of what the indicators used in determining the level of materiality in sustainability reporting GRI G4 for Banking in Indonesia, then whether there is consistency of sustainability reporting in banking in Indonesia, with the GRI on the performance of the stock, the purpose of this study is to answer these questions, to ascertain

the extent to which banking activities in Indonesia have reported a sustainability report as mandated by the GRI FSS in terms of supporting the continuity of its operational activity.

### **2.2.2 Descriptive Analysis**

The study was based descriptive analysis or sustainability reports issued by banks in 2013, which were investigated on the description applied GRI indicators G4 anything, doing comparable with GRI FSS, then linked to stock performance levels seen in 2013 and 2014, then studied also with quarterly financial statements I to III for the period March 2013, June 2013, September 2013, December 2013, March 2014, June 2014, September 2014.

## **CHAPTER III**

### **RESEARCH METHODS**

#### **3.1 Research Design**

The main instrument of this research using descriptive analysis and content (content) to examine sustainability reporting and performance shares are reported in the annual report, in the literature of social reporting, there are some units of analysis used as words, sentences or absence of disclosure (not applicable (NA)), (Gray et al, 1995a, 1997; Guthrie et al, 2004; Guthrie and Parker, 1990; Holsti, 1969; Cowen et al, 1987; Hackston and Milne, 1996; Tilt and Symes, 1999; Unerman, 2000; Milne and Adler, 1999), (Cowen et al., 1987) about the existence of the disclosure, consideration of the measurement method used in this study to look at signals or trends in sustainability reporting in a systematic rather than getting an accurate record of any problems and are emphasized in research This, to explore the quantity of sustainability indicators sample bank rather than the actual quality in the context of reporting.

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According to the research question, use the guidelines G4 along with the FSS guidelines applicable to financial institutions, as discussed in the literature section that GRI is intended to develop a voluntary reporting framework that tries to promote sustainability reporting practices to a level equivalent to financial reporting and comparability, then GRI guidelines used as a guide to a comprehensive procedure for both data qualitative and quantitative information, which provided a structured framework working on the content of the sustainability report.

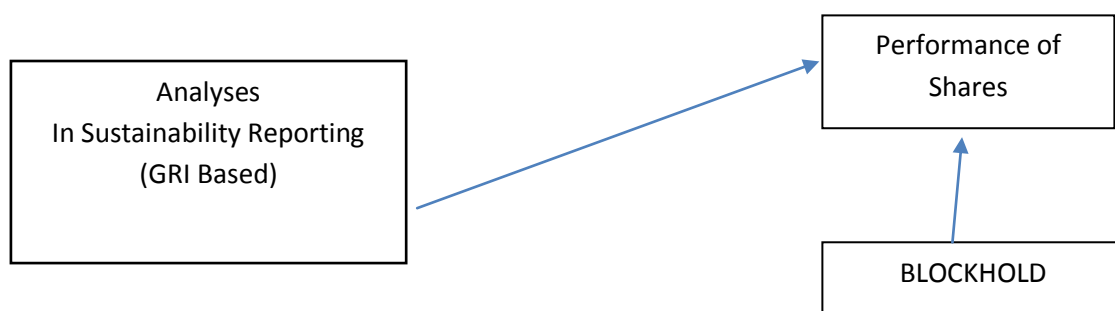
The basic Content in such cases arranged in six (6) categories of general economic performance, environmental and social, including,

- (A) Economic (economic)
- (B) Environmental (environmental)
- (C) Practice of employment and decent work (labour practices and decent work)
- (D) Human rights (human rights)
- (E) The responsibility of products and (product responsibility)
- (F) Society (society).

That the information for the economic performance of companies as an element of sustainability is listed in the GRI guidelines, to identify trends in the banking voluntarily disseminate information on social and environmental performance, within each general category, GRI also provides a list of certain aspects, for example, for environmental disclosure, aspects such as material (material), energy (energy), water (water), biodiversity (biodiversity), emissions (emissions), sewage and garbage (effluent and waste), products and services (product and service), compliance (compliance) and transport (transport), overall (overall), environmental assessment and environmental supplies grievance mechanisms (GRI G4, 2013). For the purpose of content analysis and coding used for this study, a list of indicators of sustainability derived from GRI and GRI G4 FSS presented in appendix 2, procedure or technical in detail in this study are described below.

For coding purposes, at first, the complete structure of sustainability indicators derived from GRI guidelines G4 (Appendix 1) with a number of stages, among others,

- 1) Involves the field of sustainability: environmental, labour practices and decent work, human rights, product responsibility and society.
- 2) involves identifying a particular aspect, for example, labour practices and decent works separated in certain aspects such as employment, labour relations / management, health and safety, training and education, diversity and equal opportunity.
- 3) Lists the GRI indicators FSS.
- 4) present the research framework with the following models;



BLOCKHOLD = Percentage of ownership of a company owned by block holder

At least 5% and not affiliated with the Management.

### **3.2 Population, Sample and Data Collection Methods**

The study was based on information from a secondary data source, where data collected from banks that publish sustainability reports in 2013 on the Indonesian Stock Exchange (IDX). The relationship between firm size and the amount of information CSR, is evidenced in the literature previously (Gray et al 2001; Zeghal and Ahmed: 1990; Hackston and Milne, 1996).

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Banking considered in this study include the top five (5) commercial banks, while the other banks that have not been published tub does not become the object of research, although it may be only a few who are reported on CSR activities in their annual reports (annual report) or report corporate governance (good corporate governance).

Sample population considered in this study have important illustration of the company representing the banking sector, which is listed on the Indonesia Stock Exchange (IDX), in order to address social issues, banking publish a sustainability report on activities of the company for one year, which can be accessed by the public, through media website (Adams et al, 1998; Gray et al, 1995a, 1995b; Guthrie and Parker, 1990, Roberts, 1992; Singh and Ahuja, 1983), this study gives attention to the sustainability report (sustainability reporting) issued, in addition to then, there is also the annual report and / or governance report is a report published by many other banks in Indonesia, (Belal 2000, Khan et al, 2009; Khan, 2010) as a corporate communications tool.

Making the study design there are several perspectives to consider, among,

### 1) Type of research related to its level

Judging from the formulation of the problem is determined, this study belong to the descriptive studies and analyses, this study done so that researchers can better illustrate the relationship between the indicator under study and explain the relationship between the indicator by doing comparable on the resulting performance has been carried out in connection with the reporting sustainability with GRI G4 and FSS.

### 2) Methods of data collection

Based on the method of data collection, monitoring method used in this study, where to get the desired information is done by direct observation on the sustainability report 2013 published by the banks that the research samples, which data could be obtained through searching via [www. google.com](http://www.google.com), and [www.idx.co.id](http://www.idx.co.id). The researchers collected data to support this research through the study of literature and formulating any information obtained

from various data banks that publish sustainability reports in 2013 and compared with the performance of the stock.

3) The purpose of the study

This study included correlational study aimed to identify the relationship between the GRI indicators and GRI G4 FSS studied, by doing with comparable on the purpose of publishing a sustainability report with G4 compared with the stock performance.

4) The study by researcher's descriptive analyst

This study was included in the descriptive analysis of the study, so the researchers' ability to manipulate the variables under study is not necessary, because the indicator under study already existed before the researchers conducted the study, and researchers can not affect the variables or the results of research.

5) The time dimension

If viewed from the dimension of time, this research combines the study of a cross (cross section) to study time series of data (time series), which is termed by pooling. Study time series of data (time series) compile the data chronologically arranged according to time on a particular variable, namely 2013 and quarterly reports I to III both for 2013 and 2014.

6) The scope of the research topic

This study is a descriptive analysis, to determine the level of performance over the stock before and after the bank published its sustainability report, conclusions about the findings presented by the degree to which the sample is representative of the performance of these banks.

7) Environmental research

Judging from the research environment by using secondary data, namely, annual reports, sustainability reports, GRI guidelines GRI G4 and FSS, and the financial statements as of December 31, 2013 and quarterly financial statements through September 30, 2014, and year

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end financial report of 2014, seen the development of stock performance compared with quarterly financial I to III, to see the development of stock performance.

8) The unit of analysis

The unit of analysis in research related to the subject is sustainability reports and annual reports and financial statements.

9) The perception of the subject

In this study, the perception of the subject cannot affect the final results of research are directly or indirectly due to the data studied banking sustainability report 2013 published on each bank's website, the website [www.idx.co.id](http://www.idx.co.id) and Indonesian Capital Market Electronic Library (ICAMEL )

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### 3.3 Operational Variable Research

GENERAL STANDARD DISCLOSURES				
<ul style="list-style-type: none"> <li>• Strategy and Analysis</li> <li>• Organizational Profile</li> <li>• Identified Material Aspects and Boundaries</li> <li>• Stakeholder Engagement</li> </ul>		<ul style="list-style-type: none"> <li>• Report Profile</li> <li>• Governance</li> <li>• Ethics and Integrity</li> </ul>		
SPECIFIC STANDARD DISCLOSURES				
Category	Economic		Environmental	
Aspects <sup>1</sup>	<ul style="list-style-type: none"> <li>• Economic Performance +</li> <li>• Market Presence</li> <li>• Indirect Economic Impacts</li> <li>• Procurement Practices</li> </ul>		<ul style="list-style-type: none"> <li>• Materials</li> <li>• Energy</li> <li>• Water</li> <li>• Biodiversity</li> <li>• Emissions +</li> <li>• Effluents and Waste +</li> <li>• Products and Services</li> <li>• Compliance</li> <li>• Transport</li> <li>• Overall</li> <li>• Supplier Environmental Assessment</li> <li>• Environmental Grievance Mechanisms</li> </ul>	
Category	Social			
Sub-Categories	Labor Practices and Decent Work	Human Rights	Society	Product Responsibility
Aspects <sup>1</sup>	<ul style="list-style-type: none"> <li>• Employment</li> <li>• Labor/Management Relations</li> <li>• Occupational Health and Safety +</li> <li>• Training and Education</li> <li>• Diversity and Equal Opportunity</li> <li>• Equal Remuneration for Women and Men</li> <li>• Supplier Assessment for Labor Practices</li> <li>• Labor Practices Grievance Mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Investment +</li> <li>• Non-discrimination</li> <li>• Freedom of Association and Collective Bargaining</li> <li>• Child Labor</li> <li>• Forced or Compulsory Labor</li> <li>• Security Practices</li> <li>• Indigenous Rights</li> <li>• Assessment</li> <li>• Supplier Human Rights Assessment</li> <li>• Human Rights Grievance Mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Local Communities +</li> <li>• Anti-corruption</li> <li>• Public Policy</li> <li>• Anti-competitive Behavior</li> <li>• Compliance</li> <li>• Supplier Assessment for Impacts on Society</li> <li>• Grievance Mechanisms for Impacts on Society</li> </ul>	<ul style="list-style-type: none"> <li>• Customer Health and Safety</li> <li>• Product and Service Labeling +</li> <li>• Marketing Communications</li> <li>• Customer Privacy</li> <li>• Compliance</li> <li>• Product Portfolio ++</li> <li>• Audit ++</li> <li>• Active Ownership ++</li> </ul>



### **3.4. Standard Public Disclosure (General Standard Disclosure)**

Applies to all organizations preparing sustainability report and depending on the choice of the organization "fit" option (reporting principles and disclosure standards, the organization must identify the required common disclosure standards to be reported.

Public disclosure standards are divided into seven (7) sections:

- 1) Strategy and Analysis, G4-1
- 2) Organizational Profile, G4-9, G4-10, G4-11, G4-12, G4-13, G4-14, G4-15
- 3) Identified Aspects of Materials and Limits, G4-18, G4-19, G4-20, G4-21
- 4) Stakeholders' (Stakeholder Engagement) G4-24, G4-25, G4-26
- 5) The report profiles, G4-33
- 6) Governance, G4-38, G4-41, G4-50, G4-51, G4-54, G4-55 and
- 7) Ethics and Integrity, G4-56, G4-57, G4-58

### **Previous research**

1 Khan et al, 2009, Khan 2010, Belal, 2010, Imam, 2000, Belal & Owen, 2007, Islam and Deegan, 2008. More focused on social disclosure practices in the banking sector social disclosure of the bank to meet the interests of stakeholders, among others; elements of bank governance.

2 Achua, 2008, p3. Disclosure sustainability of the banking sector is required to build a "reputation capital" to gain public confidence.

Reynolds and Yuthas 3, 2007. That the company shall make a report the company's corporate social responsibility or performance report.

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4 Elkington, 1997. That GRI is built to provide a working framework in social accounting and reporting with a comprehensive sustainability reporting based on global multi-stakeholder process.

Fowler 5, 2002. To suggest that the GRI is made to increase the quality, rigor and utility of sustainability reporting, there is a large amount of support and engagement of representatives from business, non-governmental organizations, accounting bodies, investor organizations and unions and different constituencies have worked to build consensus about one reporting guidelines with the aim to be published to the public.

6 Kolk, 2005, 2004, Waddock, 2004 has stressed that the GRI includes three innovative aspects, e.g., multi-stakeholder to develop reporting guidelines, instituting successive production processes and creating organizational serve as waiters.

7 Bhattacharya et al, 2004, Orgrizek, 2001, Frenz, 2005, Jeuken, 2001; 2004, Coupland, 2005. Whereas in the business should be responsible and ethical, as well as the necessary solutions to issues of sustainability.

8 Hopkin and Cole, 2003, Ian, 2005. That operation is not socially responsible can have a negative impact on the stock price and reputation of the bank and there are many customers who ask for the position of social responsibility of banks and investors ask for carbon disclosure responsibilities.

Jeuken 9, 2001, Bouma et al, 2001; Baron, 2000; Bhattacharya, 2004; Decker, 2004, Wilmshurt & Frost, 2000; Patten, 2002. That involvement strong interest to have an impact as a key driver to revolutionize the reporting Corporate Sustainability (CSR) and reporting.

Almona 10, 2005 whereas the Government as policy makers and regulatory advocacy programs directly affect the operations of the bank.

Decker 11, 2004 that banks are willing comply with the rules on responsibility to the environment.

12 Miles, 1987 that as providers of services and goods required, policies and business practices should be tied to the banking industry in the public interest, common business

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decision in relation to issues such as the availability, affordability and security has moved into the public arena and into a practice that multilateral institutions like the World Bank and the UN often directs pressure to banking activities in avoiding the social and environmental risks, and presumably bank loans to support sustainable development.

Jeuken 13, 2004 Stakeholders (Stakeholder) in connection with the provision of loans to customers that are not socially responsible, getting criticism from the public.

14 Gray et al, 1996, 2001, Deegan and Rankin, 1996; Gray 1995a, KPMG, 2005 Documenting a substantial increase in the level of reporting companies and companies publish sustainability reports of various types.

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## RESEARCH DESIGN

### EXPLANATION

1 Gray et al, 1995a, 1997, Guthrie et al, 2004; Guthrie and Parker, 1990, Holsti, 1969, Cowen et al, 1987, Hackston and Mine, 1996, tilts and Symes, 1969, Unerman, 2000, Milne and Adler 1999, Cowen et al, 1987. The study used a descriptive analysis and content (content) to examine sustainability reporting and performance shares are reported in the annual report and sustainability report.

The analysis used as words, sentences or the presence or absence of disclosure (disclosure).

2 Adams et al, 1998, Gray et al, 1995a, 1995b, Guthrie and Parker 1990, Roberts, 1992, Singh and Ahuja, 1983. To address social issues shall be reported in the sustainability report.

## RESEARCH SAMPLE DESCRIPTION

### 1 VARIABLE INDEPENDENT

Sustainability reports, annual report and financial statements 2013 and the quarterly financial statements I to III, 2014.

Analyses in sustainability reporting (GRI Based)

### 2 Dependent Variables

Performance shares acquired from the transaction stock price (price history) in a certain period, which on the rise and fall of the stock price, trade volume for 2013 and 2014.

3 VARIABLE CONTROL BLOCKHOLD = shareholdings above 5% and has no affiliation with the Management, for 2013 and 2014.

**CHAPTER IV**

**ANALYSIS OF RESULTS AND DISCUSSION**

**4.1: AREA DISCLOSURE**

To identify areas of sustainability reporting adopted by banks in Indonesia, and to answer research questions, then, researchers conducted a content analysis on categorical variables (yes / no) for disclosures made, thus, our concentration on environmental, labour practices and decent work, product responsibility, human rights and the public in accordance with the guidelines of the GRI G4, then made counting the number of banks that disclose at each 6 (six) or category, as shown in Table 1 (a), while the bank- banks surveyed reported economic indicators (100%), employment (100%) and the environment (22.5%), product liability (57.1%) and human rights (15.3%).

**Table 1: Frequency of disclosure**

No.	<i>Disclosures</i>	<i>% of Disclosures</i>
1.	Economic	100%
2.	Environmental	22.5%
3.	Labor Practice & Decent work	100%
4.	Product Responsibility	57.1%
5.	Human Rights	15.3%
6.	Society	80.0%

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For all categories of specific disclosures are shown in Table 1 (b), where there are some banks reveal more about the information on the contribution to natural disasters and "reason" (donation grants), this action proves that the bank concerned with social activities, in addition to the donations education, trustworthiness to the advancement of education with scholarships, pocket money and others that education is well developed, then it could be in the form of loans for tuition, provision of academic books and so on.

Here we present a table on the application of GRI indicators GRI G4 and FSS has been implemented by 5 (five) banks, among others, Bank Danamon Indonesia (BDI), Bank Negara Indonesia (BNI), Bank of East Java (BJTM), Bank Rakyat Indonesia (BRI) and Bank International Indonesia (BII) for 2013, can be presented as follows;

**Table 2 APPLICATION of GRI G4**

No	Description	GRI G4	BDI	BNI	BJTM	BRI	BII	Average
1.	General Standard Disclosures	GRI G4 1-58	34 or 59.65 %	Reported 34 or 59.65 %	Reported 54 or 94.74%	Reported 44 or 77.19 %	Reported 34 or 59.65%	77.92%
2.	Specific Standard Dislosures- Economic	G4 DMA - G4 EC9	Reported 08 or 80%	Reported 08 or 80%	Reported 08 or 80%	Reported 03 or 30%	Reported 5 or 50%	37%
3.	Environmental	G4 DMA – G4 EN26	Reported 05 or 20%	Reported 02 or 8%	Reported 6 or 24%	Reported 11 or 44%	Reported 3 Or 12%	26.4%
4.	Product & Service	G4 - EN27 - EN31	Reported 04 or 57,14 %	Reported 0 or 0%	Reported 4 or 57,14 %	Reported 1 or 14.29 %	Reported 0 or 0%	9%
5.	Supplier Labor Practice Assessment	G4- EN32- EN33	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	NA
6.	Environmental Suffering	G4- EN34	Not Appli	Not Appli	Reported 100%	Not Applic	Not Applic	1%

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	Mechanisme		cable	cable		able	able	
7.	Labor Practices	G4-LA1-LA7	Not Applicable	Not Applicable	Reported 100%	Reported 6 or 85.71%	Reported 2 or 28.57%	18.71%
8.	Occupational Helath & Safety	G4-DMA-G4-LA8	Reported 2-100%	Reported 2-100%	Reported 1 - 50%	Reported 1-50%	Reported 2-100%	26%
9.	Training	G4-DMA-G4-LA9	Reported 2-100%	Reported 2-100%	Reported 1 - 50%	Reported 1-50%	Reported 2-100%	26%
10.	Education	G4-LA10-LA11	Reported 2-100%	Reported 1-50%	Reported 2 - 100%	Reported 1-50%	Reported 2-100%	26%
11.	Diversity & Equality of Opportunity	G4-LA12	Not Applicable	Not Applicable	Reported - 100%	Reported - 100%	Not Applicable	2%
12.	Equal Remuneration For Women and Men	G4-LA13	Not Applicable	Not Applicable	Reported - 100%	Reported - 100%	Not Applicable	2%
13.	Supplier Labor Practice Assessment	G4-LA14-LA16	Reported 1-33,34%	Reported 1-33,34%	Reported 2 – 66,7%	Reported 1-33.34%	Reported 1-33.34%	27%
14.	Human Rights	G4-HR1-HR12	Reported 3-23,08%	Reported 2-15,38%	Reported 8 – 61,54%	Reported 7-53.84%	Reported 2-15.38%	23.07%
15.	Society	G4-SO1-SO5	Reported 4-80%	Reported 4-80%	Reported 3 – 60%	Reported 3-60%	Reported 2-40%	22%
16.	Public Policy	G4-SO6	Not Applicable	Not Applicable	Not Applicable	Reported – 100%	Not Applicable	1%
17.	Anti Competitive	G4-SO7	Not Applicable	Not Applicable	Reported – 100%	Not Applicable	Not Applicable	1%
18.	Anti-Adherence	G4-SO8	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	1%
19.	Assessment of Suppliers to	G4-SO9 – SO10	Not Applicable	Not Applicable	Reported 1-50%	Not Applicable	Not Applicable	1%

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	Influence on Society		cable	cable		able	able	
20.	Complaint to the Impact on Society	G4-SO11	Not Applicable	Not Applicable	Reported 1–100%	Not Applicable	Not Applicable	1%
21.	Product Responsibility	G4-PR1-PR5	Reported 2-50%	Reported 1-25%	Reported 4– 100%	Reported 4– 100%	Reported 1-25%	16%
22.	Marketing Communications	G4-PR6-PR7	Not Applicable	Not Applicable	Reported 1– 50%	Not Applicable	Not Applicable	1%
23.	Customer Privacy	G4 – DMA – G4 – PR8	Reported 2-100%	Reported 1-50%	Reported 1– 50%	Reported 1– 50%	Reported 2-100%	16%

**TABEL 3**

**FINANCIAL SERVICE SECTOR SUPPLEMENT STANDARD DISCLOSURES**

1.	GRI FSS	G4 – DMA – G4 – FS12	Reported 9-69,2%	Reported 2 – 15,4%	Reported 7– 53,8%	Reported 6-35.29%	Reported 4-23.53	Average 30.15%
2.	Local Communities	G4 – DMA – G4 – FS13 – FS14	Reported 2-100%	Not Applicable	Reported 2– 100%	Not Applicable	Not Applicable	Average 4%
3.	Product Responsibility	G4 – DMA – G4 – FS15- FS16	Reported 2-100%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Average 2%

Banks that have been made and the sustainability reporting has a positive impact to the society, it is seen an increase in funds from the public that saving activities, open a checking account and placing of deposits, which in aggregate for each bank, among others, to the performance in 2013, BDI third party funds increased by 21.4% compared to the year 2012, BNI increased by 13.28% when compared to 2012, and Bank Jatim increased 17% when



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compared to the year 2012, then seen to bank earnings from interest income increased of 6.75% for 2013 compared to 2012 (BDI), 15.50% and 17.4% for BNI to BJTM. On the other hand that the top third-party funds from the public can be described as follows,

**Table 5 - Comprehensive Profit (Loss)**

Billion IDR

<b>DANAMON</b>	Des 2012	Des 2013	Maret 2013	Juni 2013	Sep 2013	Average
<b>Interest Income</b>	18,858,281	20,130,834	4,781,105	9,670,837	14,762,040	8,525,387.13
Cost of Interest	5,936,173	6,599,794	1,447,165	2,987,819	4,658,476	2,703,678.38
Procentage	31.48	32.78	30.27	30.90	31.56	19.62
<b>BNI</b>	Des 2012	2013	Maret 2013	Juni 2013	Sep 2013	Average
<b>Interest Income</b>	22,704,515	26,450,708	5,942,820	12,232,132	19,047,635	10,797,226.25
Cost of Interest	7,245,524	7,392,427	1,651,116	3,335,721	5,226,912	3,106,462.50
Procentage	31.91	27.95	27.78	27.27	27.44	17.79
<b>BJTM</b>	Des 2012	2013	Maret 2013	Juni 2013	Sep 2013	Average
<b>Interest Income</b>	2,883,065	3,385,537	746,522	1,558,380	2,449,925	1,377,928.63
Cost of Interest	904,646	913,320	184,439	423,934	662,023	386,045.25
Procentage	31.38	26.98	24.71	27.20	27.02	17.16
<b>BRI</b>	Des 2012	2013	Maret 2013	Juni 2013	Sep 2013	Average
<b>Interest Income</b>	49,610,421	59,461,084	13,352,466	27,023,251	42,082,450	23,941,209.00
Cost of Interest	13,126,655	15,354,813	3,433,654	6,995,143	10,886,958	6,224,652.88
Procentage	26.46	25.82	25.72	25.89	25.87	16.22
<b>BII</b>	Des 2012	2013	Maret 2013	Juni 2013	Sep 2013	Average
<b>Interest Income</b>	9,289,335	10,914,380	2,577,841	5,256,441	7,911,438	4,493,679.38
Cost of Interest	4,168,848	5,399,510	1,196,830	2,446,152	3,776,205	2,123,443.13

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Procentage	44.88	49.47	46.43	46.54	47.73	29.38
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**Table 6 – Comprehensive Profit (Loss)**

Billion IDR

<b>DANAMON</b>	Des 2012	Des 2013	Maret 2014	Juni 2014	Sep 2014	Average
<b>Interest Income</b>	18,858,281	20,130,834	5,612,922	11,294,883	17,088,812	9,123,216.50
Cost of Interest	5,936,173	6,599,794	2,187,858	4,551,372	6,917,361	3,274,069.75
Procentage	31.48	32.78	38.98	40.30	40.48	23.00
<b>BNI</b>	Des 2012	2013	2014	Juni 2014	Sep-14	Average
<b>Interest Income</b>	22,704,515	26,450,708	7,526,634	15,672,354	24,413,464	12,095,959.38
Cost of Interest	7,245,524	7,392,427	2,237,450	4,918,764	8,019,411	3,726,697.00
Procentage	31.91	27.95	29.73	31.38	32.85	19.23
<b>BJTM</b>	Des 2012	2013	2014	Juni 2014	Sep-14	Average
<b>Interest Income</b>	2,883,065	3,385,537	961,587	1,945,691	2,994,553	1,521,304.13
Cost of Interest	904,646	913,320	233,375	532,078	863,520	430,867.38
Procentage	31.38	26.98	24.27	27.35	28.84	17.35
<b>BRI</b>	Des 2012	2013	2014	Juni 2014	Sep-14	Average
<b>Interest Income</b>	49,610,421	59,461,084	17,099,293	35,033,675	54,433,582	26,954,756.88
Cost of Interest	13,126,655	15,354,813	4,698,068	10,007,715	16,509,337	7,462,073.50
Procentage	26.46	25.82	27.48	28.57	30.33	17.33
<b>BII</b>	Des 2012	2013	2014	Juni 2014	Sep-14	Average
<b>Pendapatan Bunga</b>	9,289,335	10,914,380	3,240,818	6,591,847	9,898,084	4,991,808.00
Biaya Bunga	4,168,848	5,399,510	1,793,389	3,638,451	5,569,387	2,571,198.13
Prosentase	44.88	49.47	55.34	55.20	56.27	32.64

**TABEL 7 - PERFORMANCE of SHARES**

<b>No.</b>	<b>Year</b>	<b>Danamon</b>	<b>BNI</b>	<b>BJTM</b>	<b>BRI</b>	<b>BII</b>
1	2012	5,650	3,700	380	6,950	405
2	2013	3,775	3,950	375	7,250	310
3	2014	4,525	6,100	460	11,650	208
4	April 2015	4,530	6,950	490	12,950	198

#### **4.2. SUSTAINABILITY REPORT FINANCIAL SERVICES SECTOR ACCORDING (FSS)**

It is hoped this research can answer research questions that have been outlined and may provide further insight on the functionality and usability of sustainability reports for stakeholders, especially in the financial and banking sector (financial services sector), in particular, the question of this study to examine the extent to which banking revealed in sixteen (16) items sustainability that has been designed for the financial services sector, then conducted a detailed coding structure, based on the GRI FSS, and view information qualitatively and quantitatively using a categorical variable (yes / no disclosure).

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**TABLE 8 GRI FSS INDIKATORS**

*% of*

**CLOSING**

G4-DMA	Policies With Specific Environmental And Social Components	33.33
G4-FS1	Policies with specific environmental and social components that are implemented in the line of business	33.33
G4-FS2	Procedures For Assessing And Screening Environmental And Social Risks	66.66
G4-FS3	Processes For Monitoring Clients' Implementation Of And Compliance With Environmental And Social Requirements Included In Agreements Or Transactions	66.66
G4-FS4	Processes For Improving Staff Competency To Implement The Environmental And Social Policies And Procedures	66.66
G4-FS5	Interactions With Clients/Investees/Business Partners Regarding Environmental And Social Risks And Opportunities	66.66
G4-FS6	Percentage Of The Portfolio For Business Lines By Specific Region, Size (Micro/SME/Large)	100
G4-FS7	MONETARY VALUE OF PRODUCTS AND SERVICES DESIGNED For Microfinance And SMEs	100
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line is distinguished by its purpose	NA
G4-FS9	The scope and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	NA
G4-FS10	Percentage and number of companies in the portfolio of institutions that have intracting by the reporting	NA

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	organization in environmental issues or social	
G4-FS11	The percentage of affected assets and negative by balancing positive environmental or social	NA
G4-FS12	Voting policy applied to environmental issues and social at stake where the reporting organization holds the right to vote or advise on voting	NA
	<b>LOCAL COMMUNITIES</b>	
G4-FS13	Access Points In Low-Populated Or Economically Disadvantaged Areas	66.66
G4-FS14	INITIATIVES TO IMPROVE ACCESS TO FINANCIAL SERVICES	100
	<b>PRODUCT RESPONSIBILITY</b>	
G4-DMA	Policies For The Fair Design And Sale Of Financial Products And Services	33.33
G4-FS16	Initiatives To Enhance Financial Literacy By Type Of Beneficiary	33.33

In Table 2 proves to prove the existence of a shortage of disclosure in sustainability reporting as set out in the financial services sector (FS1-FS16), and some banks did not comment on whether there is any event or occurrence in its business activities as stipulated in the indicator FS8, FS9, FS10, FS11 and FS12, these results illustrate that the bank has implemented a reporting policies as set in GRI FSS, the results of this analysis reveal the overall sustainability reporting sample bank is not in line with the equivalent standard GRI reporting practices are structured, because there is no FSS GRI indicators given comments yet.

Previous research (Walden and Schwartz 1997; Deegan and Rankin, 1999; Niskanen and Nieminen, 2001; Deegan et al, 2002; Islam and Deegan, 2010, in the literature on CSR that the social reporting there must be a positive or negative information, there is a tendency company for not reporting adverse events, with possible consideration it can affect the performance of the company, in practice only report positive information, the disclosure of

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information regarding the GRI FSS (4 of 16 indicators FSS), and is considered necessary accountability and disclosure in the information social and environmental stakeholders (Cooper and Owen, 2007; Cooper et al 2003; Lehman, 2001, 1999, 1995; Gray et al, 1996, 1997). Bank Indonesia, Central Bureau of Statistics, International institutions, such as the International Finance Corporation (IFC) is expected to develop accountability and related disclosure practices in the banking industry, Bank Indonesia regulators need to encourage commercial banks to carry out CSR activities are dynamic and provide benefits to the community around the company.

In relation to accountability and sustainability reporting, the expected presence of regulatory initiatives together global partners to influence banks to carry out all indicators of GRI FSS, thus, expected Bank Indonesia will tend to continue to support the activities to implement a more structured social accountability by involving stakeholders in line with the practice in developed countries for the implementation of the guidelines of the GRI.

**TABLE 9 - MATERIALITY LEVERAGE**

<b>INDICATOR</b>	<b>DESCRIPTION</b>	<b>BDI</b>	<b>BNI</b>	<b>BJTM</b>	<b>BRI</b>	<b>BII</b>
G4-PR	Safe Banking	1	15	N/A	N/A	N/A
G4-PR	Easy Access to Banking Services	2	16	N/A	N/A	N/A
G4-PR	Clear and Transparent Information about product and service	3	15	N/A	N/A	N/A
G4-SO	Anti-Corruption and Anti-Fraud	4	12	N/A	N/A	N/A
G4-SO	Financial services for the Micro and SME Segment	5	2, 3	N/A	N/A	N/A
G4-HR	Respecting Human Right	6	9	N/A	N/A	N/A
G4-LA	Employee Training and Development	7	8	N/A	N/A	N/A
G4-LA	Contributing to Community Welfare	8	13	N/A	N/A	N/A
G4-LA	Employee Welfare and	9	6, 7	N/A	N/A	N/A

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	Remuneration					
G4-LA	Donation and Social Contribution	10	13	N/A	N/A	N/A
G4-HR	Human Right Assessment for Supplier	11	10	N/A	N/A	N/A
G4-PR	Environmental and Social Risk Analysis in credit process	12	11	N/A	N/A	N/A
G4-PR	Banking services in Remote Area	13	14	N/A	N/A	N/A
G4-EN	Green House and Gas Management	14	4	N/A	N/A	N/A
G4-EN	Financing for Renewable Energy Development	15	5	N/A	N/A	N/A
G4-EC	Economics Highlights	0	1	N/A	N/A	N/A
G4-EC	Market Presence	N/A	2	N/A	N/A	N/A
G4-EC	Economic Impact	N/A	3	N/A	N/A	N/A
G4-EC	Material	N/A	4	N/A	N/A	N/A
G4-EN	Energy	N/A	5	N/A	N/A	N/A
GA-LA	Labour	N/A	6	N/A	N/A	N/A
GA-LA	Healthy	N/A	7	N/A	N/A	N/A
GA-LA	Education & Training	N/A	8	N/A	N/A	N/A
GA-LA	Practical Assessment	N/A	9	N/A	N/A	N/A
GA-SO	Human Right Assessment for Supplier	N/A	10	N/A	N/A	N/A
GA-SO	Local Community	N/A	11	N/A	N/A	N/A
GA-SO	Anti Corruption	N/A	12	N/A	2	N/A
GA-PR	Public Policy	N/A	13	N/A	N/A	N/A
GA-PR	Product Labelled & Service	N/A	14	N/A	N/A	N/A
GA-PR	Customer Privacy	N/A	15	N/A	N/A	N/A
GA-FS	Portofolio of Product	N/A	16	N/A	3	N/A

With noted criteria for determining the level of inter-bank materialitas always different, this is because the company's perspective terhadap management is also different and can not be equated, other things can be caused by cultural differences of each bank.

## **CHAPTER V**

### **CONCLUSION, LIMITATIONS AND FUTURE RESEARCH**

This study uses secondary data on keberlanjutan report of 2013 issued by banks with which already apply the GRI guidelines and GRI G4 FSS indicators, in reality little is presenting a sustainability report, since many banks are simply presenting a report on governance (corporate governance) and the first quarterly financial report (March 2014) to the quarterly III (September 2014) to see the progress on the interest income and interest expense (interest income and interest expense).

Banks would be expected to contribute a wide social responsibility to the community, especially regarding continuing education, so that more highly educated people for the progress of nations, of participating in the Banking can provide scholarship programs both at the high school to college, with the hope will create a reliable workforce and can contribute to development in Indonesia.

With its social responsibility reporting of social, can form their banking commitments will birth the works proper and employment practices and the use of products that are environmentally friendly and improvement wage level in order to avoid violation of the rights of the employees. Banking policies in Indonesia are fulfilling all indicators FSS already better than banks that have not presenting a sustainability report.

By paying attention to the research findings above, it is possible implications for the disclosure of social literature, especially in developing country contexts, banks report information about social activities on getting better, one of the implications, Bank Indonesia will always need to disseminate pentingnya implement social responsibility, so will many banks run social policy.

The study's findings related to the GRI FSS and confirmed the findings of previous studies. However, the existence of social and environmental disclosure practices of the



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company (if any) in the context of developing countries is directly driven by international expectations (Islam and Deegan, 2008).

These results indicate that if a bank to submit a report on sustainability performance in a period of time, of course, can have a positive impact will progress toward the performance of the bank towards the better, especially in the case of third-party funds (savings, current accounts and deposits), then interest expense compared to interest income on third party funds for each bank up to September 2014 compared to the performance in 2013, among others; BDI amounted to 23% (19.62%), BNI of 19:23% (17.79%), Bank of East Java (BJTM) at 17:35% (17:16%), BRI by 17:33% (16:22%) and BII amounted to 32.64% (29.38%).

As for the calculation of the percentage increase (decrease) in third-party funds in 2013 compared with the previous year (2012) is 21.43% (BDI), 13.28% (BNI), Bank of East Java (BJTM) 17.01% , 8.96% (BRI) and 24.77% (BII), then the average quarterly growth I through III, among others, for the BDI amounted to 4.76%, BNI amounting to 5.63%, BJTM 37.39%, 11.98% and BII BRI (3:41% ). Then to the average interest expense for the period 2012, 2013, quarterly reports I through III in 2014 as follows, BDI 34.59%, 29.59% BNI, BJTM 27.22%, 02.27% and BII BRI 50.23%.

For the performance shares, the stock price is increasing significantly when the banks has implemented all the GRI regulation which is represented in the sustainability reporting through yearly development.

Most of the banks are still not present a sustainability report in accordance specific guidelines GRI FSS, especially for social and environmental disclosure, theoretical explanations may be offered to understand the special motivation of social and environmental disclosure, then give an explanation guided by two theoretical perspectives; positivist and normative perspective. Positive perspective to explore the "why" the organization reported the social and environmental information through the corporate media, eg. sustainability report, in order to secure or retain legitimacy or to meet people's expectations. Another perspective, this being a normative perspective is that disclosure decisions should not be responsive to the perceived legitimacy of the threat but should be based on beliefs about what the manager deemed responsible.

This study only considers one period but research findings may change from time to time, and up to this time, there are no regulatory requirements in the context of Indonesia and the banking sector to service assurance with regard to non-financial information, and maybe there will always be debate about quantity than quality of disclosure.

Banks serving the sustainability report is still relatively small, and it is expected there would be many banks are willing to issue sustainability reports, for future research, would be able elaborated addition of measurement tools on sustainability reporting and may be compared and investigated further what its compliance with regulatory trends of regulators in Indonesia.

**TABLE 9. SUSTAINABILITY FIVE FOCUS AREA**

Sustainability Pillars	Focus Area	Our Commitment	GRI G4 Material Aspects	G4 Reported Indicators
Customer & Marketplace	Customer First	High customers satisfaction index	Product & Service Labelling	PR5
		Fair, inclusive banking and enhancing financial literacy	Product and Service Labelling; Marketing Communication	FS15; FS16; PR3; PR6
		Safe & secure banking	Customer Privacy	PR8
		Supporting SMEs and the Microfinance sector to grow	Product Portfolio	FS6; FS7

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		Increasing access to banking services	Local Communities	FS13; FS14
	A Healthy Bank	Market growth and solid financial performance	Economic Performance	EC1
Best Practice, Corporate Governance & Compliance	Improving and Learning from the Best	Implement national and international standards in the banking sector and other relevant guidelines	Commitments to External Initiatives	G4-15; G4-16
	Governance and Compliance	Abide by law and regulations	Compliance	PR9
		A firm internal control and monitoring mechanism	Anti Corruption	SO3; SO4
	Supplier Relationship	Supplier compliance towards Danamon Code of Conduct and all relevant law and regulations	Supplier Labour Practice Assessment; Security Practice; Supplier Labor Practice Assessment; Supplier Human Rights Assessment	LA14; LA15; LA16; HR7; HR10
Employee	Employee	Become an employer of	Economic	EC3; EC5;

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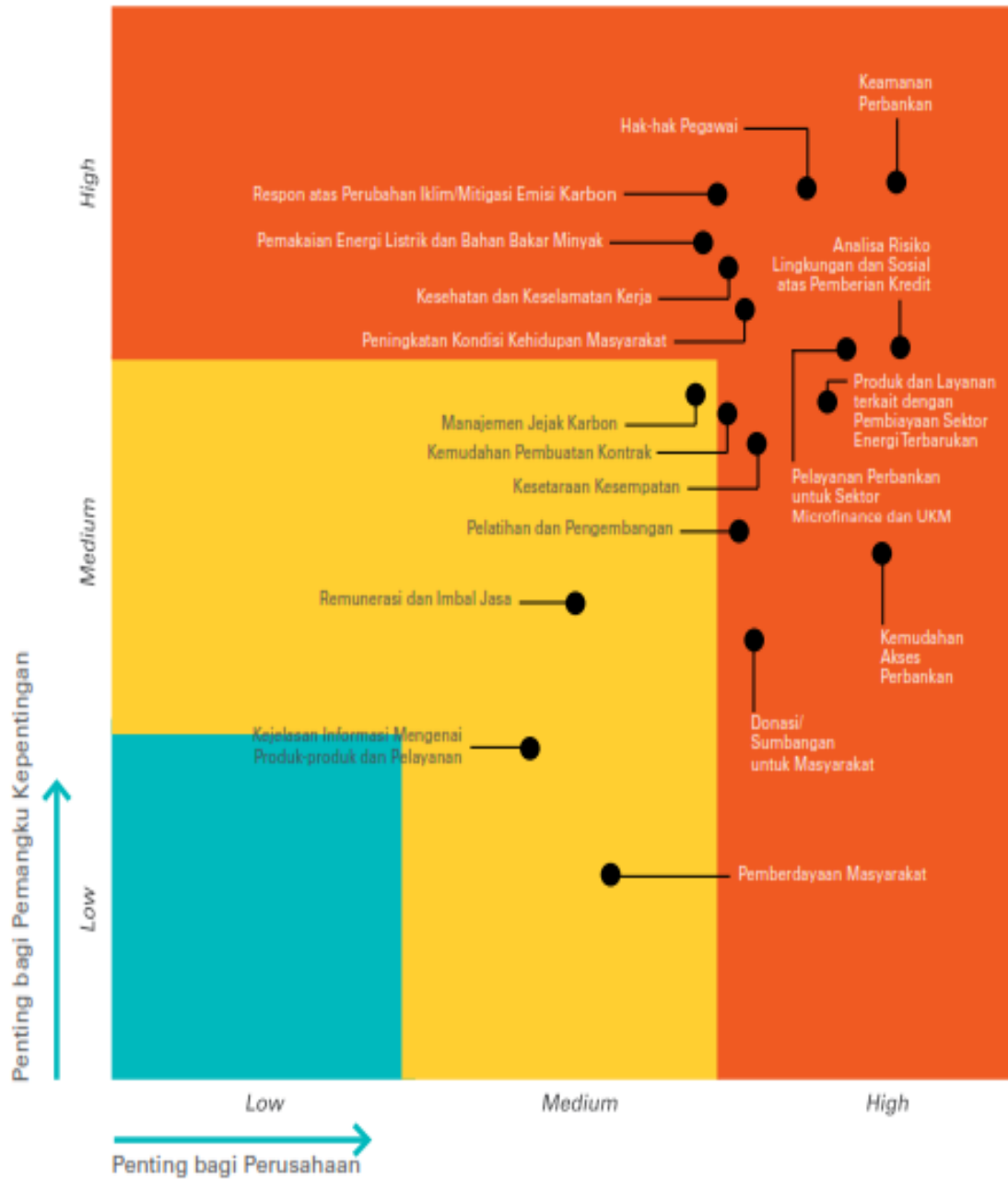
	satisfaction and creating a rewarding working experience	choice	Performance; Market Presence; Training and Education	LA9; LA10; LA11
		Creating a healthy and safe working environment	Occupational Health and Safety	LA8
Environment	Responsible Financing Through the Implementation of Environmental and Social Credit Risk Assessment Policy	All creditors must be assessed regarding their environmental and social performance as a part of credit and risk analysis process as stated in the Danamon Environmental & Social Credit Risk Policy	Product Portfolio	FS1; FS2; FS3; FS4; FS5
	Wise Energy Usage	Reduce electricity consumption	Emission	EN16; EN19
	Waste Management	Reducing the amount of waste to the landfill through Reduce, Reuse, Recycle programs	Effluent and Waste	EN23
		Reduce paper consumption	Effluent and Waste	EN23
	Climate	Reduce carbon emission	Emission;	EN16;

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	Change	from business and employee traveling activities	Transportation	EN19; EN30
		Implementation of Green Building Principles for Bank Danamon offices	Emission	EN16; EN19; EN30
	Environment Conservation	Investing in environmental conservation programs	Overall	EN31
Social Responsibility	Corporate social investment through Yayasan Danamon Peduli and other Trust.	Social programs covering social community welfare and behavioral changes through the Pasar Sejahtera, Regional Icon, Bulan Kepedulian Lingkungan and other social community programs	Indirect Economic Impacts; Social Communities	EC7; EC8; SO1

**TABEL 10**  
**STAKEHOLDERS LIST**



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**BRAND HAS A CRUCIAL ROLE TO INCREASE  
THE MARKETING PERFORMANCE**

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**ABSTRACT**

Marketing performance evaluation is the key factor to develop an effective and efficient organization. Several researches found the role of brand to increase marketing performance. In other hand, several empirical facts found that brand has no role in increasing the marketing performance, also brand is not the main decision for consumer to buy products. This study is general discussion with main purpose to know the role of brand to increase the marketing performance. In conclusion, in tight competition atmosphere that products is getting more and more, if company doesn't have a strong brand the company will unable to increase the marketing performance. Subsequently, company will collapse. While for business beginner merely to keep the focus only on selling activity, yet prepare to build a strong brand for his product when the business is getting bigger.

**Keywords :** Marketing performance, Brand, Effective and efficient.



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Marketing performance is the benchmark in marketing activity in an organization or company. Besides, it also viewed as a concept to measure how successful marketing performance for certain product in a company (Kotler, 2011).

Marketing performance evaluation basically is the key to develop an effective and efficient organization. Ferdinand (2000) stated that marketing performance is the main factor to measure the strategy affects that company applied. In addition, employee performance has a strong affect to organization to change a better managerial attitude and behavior (Miller, 1994).

Frosen (2009) stated that *“the measurement of marketing performance has been a central concern in marketing for decades”*. Several indicators used to measure the marketing performance are sale volume, total number of customer, and profit (Ferdinand, 2000), sales (value and or volume), profit, gross margin, perceived quality, total number of consumers, customer satisfaction, market share (volume/value), awareness, marketing spend, number of consumer complaint, number of new customers, loyalty/retention, shareholder value, and brand/product knowledge (Frosen, 2009).

Various researchers have been conducted to determine the impact of brand in marketing performance. For many companies, having a strong brand is the most valuable asset because with a strong, unique and joyful brand will create customer trust and reduce uncertainty to the risk of products, therefore these will bring the company leading the business competition that is more strict (Kotler & Keller, 2009). Moreover, by creating and increasing a customer trust to the brand, it will make customer be loyal to products/ customer loyalty (Power & Whelan, 2008). However, there are some successful businesses without strong brand. Some entrepreneurs with various background and business have been successful change the small business to home industry with teens or hundred billions even trillion profit. (<http://bisnisrumahan19.com>). Some examples of successful business story: (1) successful business story from culinary business: (a) Mrs. Kustinah, earned profit 300 billion each month - she creates business home with small capital, now she has 10 frying pans and she has employees to help her to run the business. Today, her profit is up to hundreds million. (b) Rizky Elsany, Nuget fish - started with capital only one million, Rizky and her husband run a culinary business with typical menu, Nuget fish. From their business, now they are being a successful entrepreneur with capital business started only one million. (2) successful business

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story from home online business: (a) Eka Lesmana, just finish his school at Junior High School - online business has change his life, with high entrepreneur spirit, he earns tens or hundreds million just from his home online business. (b) Anne Ahira - one of the pioneer in Internet marketing has successful to get profit up to tens or hundreds million. (3) successful business story from used goods business: (a) Irma Suryati, she earns tens million each month from her business to use patchwork for being doormat. Not only got high income but she also got many awards from various institutions as her attention to give training and skill to women and transgender. (b) Bob Novandy - The former prestidigitator a plastic bottle into the lights beautiful variegated shape-Bob started his business in August 2003. Bob often had orders from various cafe and restaurant around Jakarta, even from big company. His earnings reaches up to 11 million each month.

Based on the issue above, the role of brand to increase marketing performance is significant to discuss.

### **Supporting Points**

Marketing activity is absolutely must be implemented properly by every company to its sustainability. Therefore, marketing needs to recognize as a function and a concept of corporate strategy to reach an excellent marketing performance. Marketing is the main purpose of a company. Every individual in a company must have deep attention to marketing since marketing activity is very crucial to achieve company sustainability. The most important from marketing and related matters that bind its function and customer is brand (Aaker, 2001).

Marketing principally is to build a brand into customers' mind. If the company success to build a strong brand, company reach excellent marketing performance. On the contrary, if the company failed, lot of efforts such as advertising, promotion, publication or many more will not achieve marketing performance program.

Marketing is branding. Both concepts are strong related. More, the company has done any contributions to the process of development brand , and marketing could no longer viewed as a function separately from all the success of the company. Therefore, every employee in the company should have deep attention to marketing, and especially in branding.

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However, a lot of empirical fact found that brand has no role for the success of company, or the most main factor of the decision of customer to purchase products. In the following table, the results of study that is not supporting the brand's role in improving the marketing performance.

**Table 1**  
**Result of Study that Support No Relationship between**  
**Brand to Marketing Performance**

<b>Result Study</b>	<b>Context</b>	<b>Researcher</b>
1. No relationship between Strong Brand to Customer Satisfaction.	The Dreamland Luxury Villas and Spa, Bali, Indonesia.	Leliga (2012)
2. No Relationship between Brand Uniqueness to Customer Satisfaction.	Pakistan Telecommunication sector.	Malik <i>et al.</i> , (2012)
Although, improvements in Brand Image will increase Customer Satisfaction and improve Brand Quality, but Service Quality is the strongest correlation and increase results in a positive impact on Customer Satisfaction.		
Trust in Brand is not related to Customer Loyalty.	Pre Paid IM3 Card User Depok City, Indonesia.	Ningsih & Segoro (2012)
There is significant affect Brand Image, Product Quality and Price to Customer to buy product. But, the main factor for customer to purchase	PT. Chandra Jaya Sukses (Chair Production Recliner Merek Lazboy), Indonesia.	Natalia (2014)

product is Price.

Brand Identity not related to Brand Trust. Toyota Brand, Indonesia. Tingkir (2014)

1. Producer Image is not related to Customer Loyalty. Oil Company, PT. Pradipta (2014)  
Pertamina (Persero)
2. Product Image is not related to Customer Loyalty. Enduro 4T di Makassar, Indonesia.

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Source: Collected from scholars.

### **Contrasting Points**

In marketing, brand has become an important to distinguish an offer to one company into another, also marketing determine the success of the company (Kotler & Keller, 2011). Consumers see a certain brand as a crucial part of the products, and brand able to increase the value of product. For loyal consumer, brand will add the value since it strong their mind to the information process, and increase the sense of confidence in purchase products and also increase the satisfaction (Kotler & Keller, 2011). A brand has high Brand Image, Brand Loyalty and Brand Equity will increase marketing performance because it easily to influence customer either loyal or new customer. It is possible since the brand association has been known (strong/unique/favorable), and promotion will be more effective (Aaker, 1996). Some of the benefits of stronger Brand Image of company (Kotler & Keller, 2011) are: (1) give special temptation to customer, (2) easily to get the customers' loyalty, (3) open opportunity to company to determine higher selling price, (4) opportunities for entrepreneur to make their business different from other, (5) own certain feature of products that differ from competitors. Next, Giddens & Hofmann (2002) explained that with Brand Loyalty will increase: (1) Volume of sales - Brand loyalty, lost customer could be reduced, and will increase the selling products of the company. (2) The ability company to determine maximum price - Customer who has not sense of brand loyalty is often insensitive to the changing price. (3) Customer

with brand loyalty often looks for their favorite brand and less attention to promotion activity. (4) Brand loyalty among loyal customer will make company reduce the cost of promotion product since they keep looking for the brand not others. Meanwhile according to Kotler (2000), High brand equity gives some competitive advantages to company, namely: (1) company will reduce the promotion cost since the customer has sense of loyalty to their products. (2) Company position to business partner or relation become stronger. (3) Company able to determine premium price than their rival because having trusted brand quality to customer. (4) Company easier to expand their brand. (5) Strong brand able to protect company from unstable condition. In the following table is the Brands' role to increase marketing performance:

**Table 2**  
**Result Study that Support the Relationship between Brand to Marketing Performance**

<b>Result Study</b>	<b>Context</b>	<b>Researcher</b>
Brand Image has dominant role predicting Customer Satisfaction in the hospitality industry.	Backpacker Hostels.	Chitty <i>et al.</i> , (2007)
There is a positive effect of Brand equity (including all dimensions: Brand Trust, Brand Attitude, Brand Attachment, Brand commitment) to Behavioral Loyalty.	Five Stars Hotel in Indonesia.	Riorini (2011)
There is Relationship between Brand Favorability to Customer Satisfaction.	The Dreamland Luxury Villas and Spa, Bali, Indonesia.	Leliga (2012)

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1. User Image has a positive effect to Pre Paid Card IM3 User Ningsih & Segoro (2012)  
Customer Loyalty. Depok City, Indonesia.
2. Product Image has a positive effect  
to Customer Loyalty.

The study affirmatively proved by this Hewlett Packard product Ahmed *et al.*, (2014)  
consequence that Brand Loyalty can consumers in Pakistan.  
increased by the Satisfaction of  
customer and repeat the purchase of  
the same product.

Advertisement on brand image has Students from schools and Durrani *et al.*, (2015)  
positive impact on colleges in Pakistan.  
Teenagers' buying behavior

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Source : Collected from scholars.

### **Conclusion**

Name of brand or also known as branding is the crucial part in marketing, because branding differ certain products to another. Branding also gives secure to customer of its quality product; whenever the customer purchases the products they will get same quality as previous. Besides, company able to sell with high price since branding gives emotional benefit because customer has been loyal to products. Basically, marketing itself is to build a branding to the customers' mind. If company succeed building the branding, at the same time company has high performance marketing.

Now, a market opportunity for small and medium enterprises (SME's) is getting bigger. It is because the products are unique and interesting. Although, there are several

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SME's not in good condition because the products are not in demand as the products unwell known or "*failed branding*".

Consequently, in tight competition while the products is also getting more and more, small or big company who doesn't have strong brand will not able to increase marketing performance and the will failed in the competitive business atmosphere. In the meantime, for new beginner just stay focuses on the selling activity yet prepare to build a strong brand if the company is getting bigger later.

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### **IMPACT OF FOREIGN BANK PENETRATION ON BANKING COMPETITION AND EFFICIENCY IN INDONESIA DURING 2000-2011**

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### **Abstract**

The existence of foreign banks within a country is to facilitate international trade transactions. As a consequence, foreign banks provide some breakthroughs for local companies to access worldwide financing. It means, through foreign banks, foreign companies can enter the domestic market in terms of financing, investment, or else.

The purpose of this study is to measure the impact of foreign banks penetration in Indonesian banking industry. The impacts to be measured are limited only in terms of competition and efficiency during 2000-2011. The concentration is measured by the concentration ratio and Herfindahl-Hirschman Index. The competition is measured by Panzar-Rosse and Conjectural Variation approach. The efficiency is measured by the Standard Profit Efficiency approaches.

To measure the impact of foreign bank penetration, we implemented the panel regression method with SUR (Seemingly Unrelated Regression). This study found that foreign ownerships on Indonesian banking industry tends to increase in time and reduce the competition and efficiency; with Panzar-Rosse approach, its market structure resembles with the monopolistic competition; large banks tend to acquire more market share (concentrated); and foreign banks are more efficient than other groups of banks.

**Keywords:** foreign banks, competition, Panzar-Rosse, Conjectural Variation, Standard Profit Efficiency

## **1. Introduction**

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In Indonesia, bank ownership is classified to 5 categories i.e. state-owned, banks owned by province governments (BPD, *Bank Pembangunan Daerah*), national private, foreign, and joint venture. National private banks are comprised of banks allowed to trade foreign exchange (BUSN Devisa, *Bank Umum Swasta Nasional*) and the ones that not allowed (BUSN Non-Devisa).

As of August 2014, there are 4 state-owned banks, 67 national private banks (comprising of 38 BUSN Devisa and 29 BUSN Non-Devisa), 26 BPDs, 12 joint venture banks, and 10 foreign banks.

With Rp 410.5 trillion as its assets, the foreign banks commands the industry by 7.87%. The figure doesnot include the joint venture banks that has a share in the market up to 4.83%. Both groups control the banking market in Indonesia by 12.70%, exclusive of the size of Islamic banking market in Indonesia.

Although the share has been relatively low, in figures, yet, the impacts of foreign exposures remain elusive. The pressures come to real as the exchange rate of Indonesian rupiah moves unpredictable and are hard to be calculated and synchronised with the existing foreign reserves that available at present and at the shortest time.

Therefore, any attempts to liberalise and reform the banking sector should be considered as restrictive and discriminatory. Barriers to entry in terms of strict regulations and tight supervisions serve the functions such asto (1) protect investors; (2) maintain the financial system and its stability nationwide; (3) control the capital flights (hot money) as it can cause the rupiah fluctuates abruptly; (4) preserve the pool of funds steady and available at a longer time; (5) create the same level of playing field to all players and at the same time; (6) reduce the information asymmetry; and (7) reduce the potential conflicts of interests with the affiliates or not.

The restrictions on foreign banks are not without preservations. They are reputed as the cause and the source of contagion to the instability of the financial system of any given country.

They have the capability as a destabilising force as they can move enourmous and gigantic funds in a very relatively short time. This capability has caused many monetary authorities remain powerless and crippled.

Likewise the ineffective impacts of monetary policy. They appear to be immune and insensitive to any policy taken. They seem to evade easily in terms of fulfilling the strict

requirements of Basel accords (regulatory frameworks of the I, II, III) in terms of capital, liquidity, and leverage ratios.

Yet, the existence of foreign banks in Indonesia has been regulated by Bank Indonesia through its

- a. Decree No.32/37/KEP/DIR dated 12 May 1999 regarding Requirements and Procedures to Open A Branch Office, A Supporting Branch Office, and A Representative Office of A Bank Legalised Offshore.
- b. Regulation No.8/16/PBI/2006 dated 5 Oct. 2006 regarding Single Presence Policy in Indonesian Banking Industry, which was revoked by
- c. Regulation No.14/24/PBI/2012 dated 26 Dec. 2012 regarding Single Presence Policy in Indonesian Banking Industry.

In 2004, Hadad et al criticised that the first regulation (Decree No.32/37/KEP/DIR) that set the capital requirement for the foreign bank branch can cause the fluctuations of the equity or business funds of the foreign bank.

Although it can be beneficial, it is speculative in nature. Such capital requirement has left the foreign bank unable to put its equity as a bumper to anticipate the loss incurred and as a tool to control its asset growth.

Foreign ownership in a bank in Indonesia can take 3 forms, that is as a branch office (which is called as a foreign bank), as a subsidiary through a joint venture or merger with, or acquisition of local banks, or as a representative office.

Foreign ownerships in a bank are not limited to individuals, corporations, government agencies, but have expanded to various consortiums comprised of institutions such as SWFs (Sovereign Wealth Fund), family (investment) offices, or else.

According to Usman (2012), the regulations to foreign banks indeed increase the competition in pursuing the fee based income over credit channeling or loan syndications, but not in credit disbursement particularly to small and medium companies. In general, the single presence policy just lowered the efficiency of Indonesian banking industry.

## **2. Literature Review**

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Many researches on foreign banks appear to make the definition of foreign banks diminutive and to its measurement as well. Some researchers had taken its measurement for granted. They assume that foreign banks measurements can be represented only by one or two indicators such as its number, the number of branches, total assets, productive assets, or else.

Given the enormous amounts of ratios within the financial reports that do exist and possible, the measurements for existence of foreign banks can be tens of indicators. It only requires how we elaborately define earnings, revenues, incomes, profits, sales, etc.

Yet, the definition of foreign banks in Indonesia remains vague and unclear. Its latest definition was provided in the Banking Act No.10/1998, as an amendment to the Act No.7/1992. The second amendment has been registered as the priority in the national legislation process of the parliament by 2014.

Recently, some discourse to redefine the foreign banks in Indonesia has resurfaced. Previously, in May 2012, the discourse once was delivered by Muliaman Hadad, then Deputy Governor of Bank Indonesia.

In the US, as of 18 February 2014, The Fed has set the final rule strengthening supervision and regulation of Large Foreign Banking Organisations (LFBOs) and large US bank holding companies. They all have to comply with the Fed's requirements on capital, debt levels, and annual stress tests.

The enhanced prudential standards set by the Fed are to address some sources of vulnerability and material weaknesses in the traditional framework for supervising and regulating major financial institutions and assessing risks.

As the worst impacts of foreign banks are recognised, its potential and positive impacts to the industry have been very well observed. At some level, foreign banks can accelerate the competition to be efficient and well-operated. They also can raise the the industrial concentration that effects the industry in terms of competition and efficiency.

According to Focarelli and Pozzolo (2005) and Goldberg (2007), foreign banks are often beneficial for the host economies, particularly on the financial sector that enhances welfare through economic growth (Bayraktar and Wang, 2006). So were their role in improving the efficiency of the host country banks (Bayraktar and Wang, 2005; Claessens, Demirguc-Kunt, and Huizinga, 2000, 2001; Claessens and Lee, 2002).

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According to Cetorelli and Goldberg (2006), in 1990, 9 banks classified as Money Center Banks (MCBs) were controlling the foreign exposure market by 70% in the US. As a result of mergers, the number declined to 4, and their market share increased to 81% in 2005.

MCBs are not necessarily the largest US banks by asset size. The 4 group of MCBs are Bank of America Corp, Citigroup, JP Morgan Chase & Co, and Wells Fargo.

In Canada, the 6 largest banks controlled the Canadian banks' assets by 92% and 96% of all foreign exposures (Santor, 2005).

The competition spreads to more sophisticated lending-borrowing mechanisms, safer and more secured deposits, access to (syndicated) foreign loans, foreign exchange deals, and so on.

Internally, the competition takes the forms of enhanced capabilities in innovation, technology, and expertise in managerial, marketing, recruitment and training, cost efficiency, work effectiveness, etc. This implies to a more appreciation, that is increased real wages and welfare.

As the bank gains efficiency through reduced production costs, the company can lower the price offered and becomes competitive. Economies of scale can induce further reduction in price and cost.

According to some researches; that is Claessens et al (2001), Gelos et al (2004), Peria and Mody (2004), Berger, Hasan, and Klapper (2004); foreign banks increase the competition as the Net Interest Margin (NIM) became lowered.

According to Poshakwale and Qian (2010) and Lehner and Schinizer (2008), foreign banks are able to increase the efficiency as it can reduce its operating expense.

As a matter of fact, such trends (lowered profitability) can lead the industry to a nightmare, that is further reduction of profit level as a whole, cut-throat competition, predatory pricing, and so on.

According to Usman (2012), this does not happen in Indonesia. The competition has increased the NIM, operating income ratio, and profitability of the banking industry.

In the meantime, foreign banks can make the industry becomes more concentrated. As it happens, the competition gets lowered (Bikker and Haaf, 2000).

As it becomes more concentrated, the industry is losing efficiency significantly, but not in the industry that has matured (Demirgüç-Kunt, Laeven, and Levine, 2004)

As the competition becomes fiercer, violations to the existing rules occur in terms of legal lending limit, loan loss provision, debt restructuring and/or early remediation, asset valuation and maintenance, accounting standard and principles, and so on.

In the US, the sophisticated nature of lending-borrowing mechanism has rather been a bit abused by LFBOs. The LFBOs operating in the US has been transformed into the funding branch, instead as the traditional lending branch. They have become heavily rely on unstable short-term wholesale funding, and reap benefits in terms of discount window provided by the Fed.

### **3. Previous Studies**

Syofyan (2002) had analysed the relationship between the market structure and the performance of the banking industry in Indonesia during 1983-1994. She found that the industry pruned to support the structure-performance hypothesis as higher profit correlated with higher concentration of the market, not because of the efficiency.

According to Usman (2010), the concentration of banking industry in Indonesia tends to lower during the period of 1999-2009 and the competition became monopolistic in nature (Usman, 2011).

Usman (2012) also found that foreign banks did increase the competition, leaving the NIM unaltered. He also urged the Indonesian monetary authority to set the rules for foreign banks to fully comply with Indonesian laws. The first thing to do is to legalise the foreign bank as a legal subject by establishing its entity as a corporation (PT, *Perseroan Terbatas*) under Indonesian statute.

As foreign banks establishments fail to lower its efficiency, measured by its NIM, the industry remains highly concentrated and leaving banks with small to medium scale vulnerable as the targets of foreign acquisitions.

### **4. Research Gaps**

Most past studies measure foreign banks by the number, office branches, assets, deposits, loans disbursed, and so on in relation to its impact to the competition and concentration in the (Indonesian) banking industry. None has used foreign ownership in any bank operating in Indonesia.

This research will implement foreign ownership in the local bank as the measurement of foreign (bank) penetration in Indonesian banking industry.

## 5. Research Method

This research will make a quantitative analysis based-on the financial reports of 114 banks operating in Indonesia during 2000-2011. As the period of observation configure the analysis to be time-series and the number of banks configure the analysis to be cross-section, such combination makes data panel analysis to be the research method implemented.

Estimation to the data panel model can be carried out through 3 approaches, that is pooled-least square (PLS), fixed effect model (FEM), and random effect model (REM). To select the best approach between PLS and FEM, we implement the Chow test. To select the best approach between FEM and REM, we implement the Hausman test (Baltagi, 1995).

## 6. Model Formation

Based on Fig. 1., we can derive two models to estimate the impacts of foreign bank penetration and industrial concentration on the degree of market competition. The second model to estimate is the impacts of those 3 variabels on market efficiency.

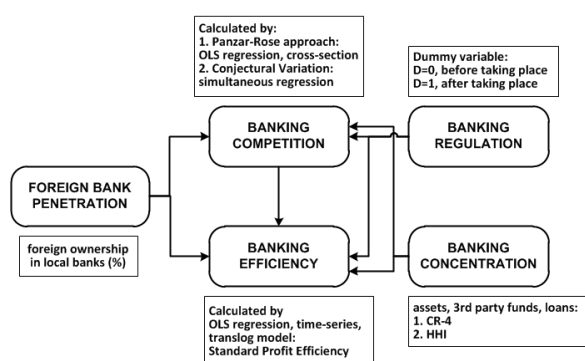


Fig. 1. Analytical framework of this research

## 7. Measurement



Foreign bank penetration is measured by portion of foreign ownership in the local banks. Market concentration level is measured by concentration ratio and HHI (Herfindahl-Hirschman Index).

The first market competition level is measured by using Panzar-Rose approach with the basic models developed by Vesala (1995) and Shaffer (2004). We adjusted the model by adding 3 other variables, that is EQ (equity to asset ratio), CASH (deposit to cash ratio), and LO (net disbursed loans to assets). This leads to the model formation of Eq.(1).

$$\ln INTR_{it} = \alpha + \beta \ln AFR_{it} + \gamma \ln PPE_{it} + \delta \ln PCE_{it} + \zeta_1 \ln EQ_{it} + \zeta_2 \ln CASH_{it} + \zeta_3 \ln LO_{it} + e \dots\dots\dots (1)$$

whereas,

$\beta, \gamma, \delta, \zeta_1, \zeta_2, \zeta_3$  serve as regression coefficients for their respective independent variables.

INTR: ratio of interest earnings to total assets

AFR : ratio of interest expense to total deposits

PPE : ratio of labour expenses per manpower

PCE : ratio of administrative and operational expenses to total assets as the proxy of input price of fixed assets

e : error term

The sum of the first three regression coefficients ( $\beta + \gamma + \delta$ ) is to measure the competition level coefficient (H) of the industry. If H is equivalent to 0, statistically, the market structure for the banking industry is monopoly or collusive oligopoly.

If H is equivalent to 1, statistically, the market structure for the industry is perfect competition or contestable market. If H is not equivalent to 0 and 1, statistically, the market structure is monopolistic.

The second market competition level is measured by using Conjectural Variation approach with the model developed by Angelini and Cetorelli (2003). We adjusted the model by adding “ln(NPL)” as a control variable in cost equation. The addition is to include the

variabel of troubled banks in dealing with loan repayments and lowered credit disbursements (Kubo, 2006). This leads to the model formation of Eq.(2).

$$\begin{aligned} \ln C_i = & \beta_0 + \beta_1 \ln q_1 + \frac{\beta_2}{2} (\ln q_i)^2 + \\ & \sum_{k=1}^2 \gamma_k \ln \omega_{k,i} + \sum_{k=1}^2 \phi_k \ln q_i \ln \omega_{k,i} + \\ & \frac{1}{2} \sum_{k=1}^2 \gamma_{kk} (\ln \omega_{k,i})^2 + \\ & \gamma_{12} \ln \omega_{1,i} \ln \omega_{2,i} + \rho \cdot \ln(NPL_i) + \varepsilon_i \\ & \dots\dots\dots (2) \end{aligned}$$

$$\begin{aligned} R_i = & \beta_i C_i + \beta_2 C_1 \ln q_i + \\ & \sum_{k=RW}^2 \phi_k \ln \omega_{k,i} + \sum_m \left( \frac{\bar{\theta}}{\eta} \right)_m q_i + \\ & v_i \\ & \dots\dots\dots (3) \end{aligned}$$

whereas,

$\beta, \gamma, \phi, \rho$  serve as estimation parameters

$\varepsilon, v$  : error terms

$q_i$  : total loans (credits) disbursed

$R_i$  : interest income

$p_i$  : ratio of interest income to total credits

$NPL_i$  : non performing loans

$C_i$  : interest expenses and labour expenses

$\omega_{R,i}$  : ratio of interest expense to liabilities

$\omega_{W,i}$  : ratio of labour expenses per manpower

$\bar{\theta}/\eta$  : competition level

$m$  : year of observation

The Eq.(4) provides estimated profit for each bank. For each year, bank with the highest profit was set as the benchmark. As Eq.(5) provides calculated efficiency for each bank, its

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value was then compared with the bank whose value was set as the benchmark by Eq.(4) as a measurement for APEFF (Average Profit Efficiency).

$$\ln(\pi + \theta) = f_{\pi}(w, p, z, v) + \ln u_{\pi} + \ln \varepsilon_{\pi} \dots \dots (4)$$

whereas,

- $\pi$  : profit indicators
- $w$  : vector to measure input price
- $z$  : fixed output
- $v$  : other potential economic factors that can affect the performance
- $u$  : efficiency measurement
- $\varepsilon$  : random error term

Efficiency of the banking market is measured by using a model suggested by Berger and Patti (2003), that is Standard Profit Efficiency (SPEFF), Eq.(5). SPEFF assumes that the input and output variables are exogenous factors in nature that can affect the profit.

$$SPEFF^i = \frac{\hat{\pi}^i}{\hat{\pi}^{max}} = \frac{(\exp[f_{\pi}(w^i, p^i, z^i, v^i)] \times \exp[\ln \hat{u}_{\pi}^i]) - \theta}{(\exp[f_{\pi}(w^i, p^i, z^i, v^i)] \times \exp[\ln \hat{u}_{\pi}^{max}]) - \theta} \quad (5)$$

whereas,

- $\ln \hat{u}_{\pi}^{max}$  : maximum observe value of its efficiency term
- $i$  : value of the i-th company

SPEFF is to measure how close for a bank to generate the profit near its predicted value with best practices in dealing with exogenous conditions. The maximum value for the best practice firm is 1. This firm is then set as the benchmarked bank, with the SPEFF value by 1 or 100%.

SPEFF is also defined as a proportion of the maximum of potential profit that can be generated by a bank. A bank with SPEFF value by 0.8 means that the bank can generate profit by 80% of its maximum potential profit.

The efficient bank is indicated by its SPEFF value which is greater or equivalent to 0.8. It means that such bank is capable to generate profit at least 80% of the benchmarked bank.

Single Presence Policy No 8/16/PBI/2006 is used as policy variable that represent by dummy variable, where  $SPP = 0$  for before 2006  $SPP = 1$  for period 2006 and after.

## **8. Research Findings**

The average foreign ownerships in large-scale local banks tends to grow, from 31% in 2000 to 54% in 2011; while medium-scale local banks grew from 24.5% in 2000 to 31% in 2011; and small-scale local banks grew from 8% in 2000 to 22.6% in 2011.

In total, foreign ownership in all banks grew from 21% in 2000 to 36% in 2011. These figures were not associated with the real and absolute values of assets, equity, capital, etc of the banks, but purely the relative value within each bank.

A bank is classified as the largest bank as its assets are more than Rp 10 trillion; as the medium-scale bank as its assets value is between Rp 1 to Rp 10 trillion; and as the small-scale bank as its assets is less than Rp 1 trillion.

Three financial indicators used to measure the concentration ratios are assets, credits, and deposits. Through the measurement of concentration ratios of the 4 largest banks and the HHI, the banking industry became less concentrated from 2000 to 2011. In CR-4, the concentration ratio got lowered from 55.6% to 45.5%; and in HHI, from 11.3% to 6.9%.

By implementing Panzar-Rose approach, market competition in Indonesian banking industry is measured to be monopolistic, mostly. In 2006, the competition was measured as perfect as the value of H-stat was 0.963. The second highest H-stat value, 0.914, which happened in 2007 set the competition as monopolistic. This is answering the Eq.(1) question.

With Conjectural-Variation approach, the market competition was measured by estimating the equation with simultaneous regression with SUR (Seemingly Unrelated Regression) method.

The estimated figures of Eq.(2) and Eq.(3) are known as the Lerner Index, the Conjectural-Variation competition coefficients. The regression results show that the market structure of Indonesian banking industry has been monopolistic in nature.

The estimated figures of Eq.(4) and Eq.(5) are to measure bank efficiency coefficients, SPEFF. The regression results show that foreign banks and BPDs were the most efficient

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groups of banks within Indonesian banking industry, in general. Yet, several national private banks, state-owned banks, and joint venture banks can be included as the most efficient banks as well.

Two main models, that is competition equation and efficiency equation, were regressed with SUR. The competition equations to be regressed are as follows:

$$PR_{it} = f(PBA_{it}, CRASET_{it}, IHHASET_{it}, SPP_{it}, e_{1it}) \quad (6)$$

$$PR_{it} = f(PBA_{it}, CRKREDIT_{it}, IHHKREDIT_{it}, SPP_{it}, e_{2it}) \quad (7)$$

$$PR_{it} = f(PBA_{it}, CRDPK_{it}, IHHDPK_{it}, SPP_{it}, e_{3it}) \quad (8)$$

$$CV_{it} = f(PBA_{it}, CRASET_{it}, IHHASET_{it}, SPP_{it}, e_{4it}) \quad (9)$$

$$CV_{it} = f(PBA_{it}, CRKREDIT_{it}, IHHKREDIT_{it}, SPP_{it}, e_{5it}) \quad (10)$$

$$CV_{it} = f(PBA_{it}, CRDPK_{it}, IHHDPK_{it}, SPP_{it}, e_{6it}) \quad (11)$$

The efficiency equations to be regressed are as follows:

$$SPEFF_{it} = f(PBA_{it}, CRASET_{it}, IHHASET_{it}, PR_{it}, CV_{it}, SPP_{it}, e_{7it}) \quad (12)$$

$$SPEFF_{it} = f(PBA_{it}, CRKREDIT_{it}, IHHKREDIT_{it}, PR_{it}, SPP_{it}, CV_{it}, e_{8it}) \quad (13)$$

$$SPEFF_{it} = f(PBA_{it}, CRDPK_{it}, IHHDPK_{it}, PR_{it}, CV_{it}, SPP_{it}, e_{9it}) \quad (14)$$

whereas *i* represents of a bank, *t* represents of a period; PBA is foreign bank penetration; PR is the competition level with Panzar-Rosse approach; CV is the competition level with Conjectural Variation approach; CRASET is the concentration ratio the 4 largest banks in terms of assets; CRKREDIT is the concentration ratio in terms of credit; IHHKREDIT is the Herfindahl-Hirschman Index for credit; CRDPK is the concentration ratio in terms of

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deposits; IHHDPK is the Herfindahl-Hirschman Index for bank deposits; SPEFF is Standard Profit Efficiency; SPP is Single Presence Policy

Table – 1

The impacts of foreign bank penetration to the industry in terms of concentration and competition

Independent Variables	Dependent Variables					
	PR1	PR2	PR3	CV1	CV2	CV3
Best model	PLS	FEM	PLS	FEM	FEM	FEM
PBA	0.02	<b>-0.06</b>		<b>0.04</b>	-0.01	0.99
CRASET	<b>8.37</b>			<b>6.48</b>		
IHHASET	<b>6.82</b>			2.62		
CRKREDIT		-2.64			-0.51	
IHHKREDIT		-19.6			6.12	
CRDPK			-1.77			1.25
IHHDPK			-5.70			<b>10.66</b>
SPP	0.01	<b>0.02</b>	0.02	-0.04	<b>-0.13</b>	<b>-0.11</b>
Adj R2	0.01	0.73	-0.01	0.79	0.80	0.71
F-Stat Prob	0.69	0.00	0.69	0	0	0

Remarks:

1. Bold figures represent \*\*\*

2. Underlined figures represent \*\*

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The results of panel data regression with SUR was shown in Table–1. Based on the adjusted R-squared values, the best models that fulfilled the Goodness of Fit and F-stat criteria are PR2, CV1, CV2, and CV5.

In PR2 model, the foreign bank penetration has negative effects on the competition. So were the concentration ratios in terms of bank credits and bank deposits. Single Presence policy has positive effect on the competition.

Table–2 shows that foreign bank penetration has lowered the efficiency in the banking industry, as indicated by the concentration ratios in terms of assets and bank credits. As the industry became concentrated, the banking industry got less efficient. Single Presence Policy has positive effect on efficiency.

Table – 2

The impacts of foreign bank penetration, market concentration, and market competition to the efficiency in the banking industry

Independent Variables	Dependent Variables		
	SPEFF	SPEFF	SPEFF
Best model	PLS	PLS	PLS
PBA	-0.045***	-0.056***	0.008
CRASET	-3.541***		
IHHASET	-1.303*		
CRKREDIT		-0.771	
IHHKREDIT		-6.961***	
CRDPK			-3.207**
IHHDPK			-3.01***
PR	-0.002	0.0167	0.002

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CV	-0.328***	-0.451***	-0.128
SPP	0.113	0.329***	0.520***
Adj R-Squared	0.139	0.379	0.385
F-Stat Prob	0.028	0.02	0.016

## 9. Recommendations

Foreign banks can make monetary authorities in the world powerless in maintaining and securing the financial stability. The incurred costs that entangled the national governments can reach the total value of more than US\$ 1 trillion in debts.

The 2008 global financial crisis has taught many national governments to restrict and limit the foreign banks' activities, even the US government. Its central bank, The Fed, has recently set the final rule for strengthening supervision and regulation of LFBOs.

Such new policy issued is full of controversy as it is not without consent by the affected institutions. They claim that the policy is very discriminative and incriminating the burdens to comply with The Fed's requirements on capital, debt levels, and annual stress tests.

The conditions borne by Indonesian central bank have been less convenient as Indonesia has been very dependent on capital influx from offshore accounts. Such accounts are mostly owned by the Indonesian entities and individuals. The accounts have been used as the parking storage of proceeds from international transactions.

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**UNBALANCED RELATIONSHIP AND SUPPLIERS PERFORMANCE : AN EMPIRICAL  
STUDY IN JAKARTA**

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**ABSTRACT**

*The aim of the study was to investigate the development of domestic suppliers performance as the result of modern retailer-supplier business relationships which they had controlled by the effect of combinations of regulations, competition and buyer power. The paper presents the results of a survey of packaged processed foods suppliers, which formed part of a wider study of buyer-supplier relationships in Indonesia's modern retailer supply chains. The findings of this study indicate that the results demonstrate the heterogeneity relationships between supplier and modern retailer in the main commodity grocery sectors. The extent to which modern retailers challenged by competition, supply chain strategy and market share are likely to influence the way in which modern retailers deal with suppliers. A part of the suppliers indicated that they get benefited substantially from the presence of modern retailers, however, they also face several challenges brought about by buyer power as imposition of several unfair relationship terms, price fixing, and poorly supervision as cause of the development and growth of suppliers limitedly. This study attempts to show the results of the research in Indonesia to empirically measure the effect of regulation, competition and buyer power on modern retail-supplier relationships and the impact on suppliers performance. Further study is needed to refine the results of this initial study.*

**Keywords** – *Regulation, Competition, Buyer Power, Modern Retail-Supplier Relationships, Supplier Performances*

## **INTRODUCTION**

An increase in the buyer power of modern retailers results in transfer of risks and reducing the competition among suppliers and would influence consumers through reduction of innovation, long term losses, choices, and higher prices. The effect are often neglected, that affects sustainability of consumption and production (Nicholson and Young, 2012). Modern paradigm stated that the platform of modern retailer is place having constraint and potential to bring about unfair competition (*competitive bottlenecks*) and have two-sided markets (Rochet and Tirole, 2005). An example of two-sided market is credit card market, where banks would face two-sided markets -- the market of clients holding the credit card and merchant market (Berasategi, 2013).

In the competition among modern retailers, the interest of suppliers and consumers is closely related. Losses suffered by suppliers would also causes losses to consumers and vice versa. Supplier and consumer are in the same boat. The interest of consumers in the competition among modern retailers could be seen by referring to the concept of services, price, quality and range (Nicholson and Young, 2012).

Competition among modern retailers and their suppliers in Indonesia is very tight with the fast growing number of outlets of modern retailers and their suppliers, following the liberalization in the regulation on retail industry. Tight competition has led to concentration and strengthening of bargaining position, growing buyer power of modern retailers that result in the emergence of anti-competition move and caused an unbalanced condition in the supplier-modern retailer relationship that hurts the suppliers (Muslimin and Nuryati, 2007). Although the government has sought to prevent such malpractice by issuing a series of regulations and policies including Presidential Regulation (Perpres) 112/2007, Trade minister regulation (Permendag) no.53/2008, Law no.5/1999, Law no.8/1999, unfair competition continues.

In 2005, modern retailer Carrefour introduced business relations which was not fair to its suppliers and in 2009, Carrefour increased market concentration and exploited the surplus in its suppliers, resulting in condition of being unbalanced and negative impact on competition. Competition policy could be used to cope with offences as a result of market concentration and buyer power (Dodd and Asfaha, 2008). Competition authorities in Indonesia (KPPU), based on the competition policy of the Law /5/1999 have punished and fined modern retailer Carrefour on the two competition offences (KPPU 2009).

The condition of being unbalanced in the supplier-modern retailer relationships concerned complex factors, but what is worth research is how far the regulation, competition, bargaining

power and buyer power could determine partnership or relationships between suppliers and modern retailers and how much the impact on the performance of the suppliers. Therefore, this research is aimed : (1) Examining empirically the impact of regulations on competition and suppliers-modern retailers relationship, competition on suppliers-modern retailers relationship, buyer power on suppliers-modern retailers relationship, suppliers-modern retailers relationship on the performance of suppliers ; (2) Developing buyer-seller relationships models based on the theory of relationship marketing within the scope of the content and implementation of regulation ; (3) Improved regulation Perpres 112/2007, Permendag 53/2008 and competition policy UU/5/1999 amendments.

## **REVIEW OF LITERATURE**

**Regulations :** A number of researchers have identified the main characteristics of regulation. Baldwin and Cave (1998) in Amod (2009) stated that regulation is : (1) Imposition of rules by the government with mechanism in control and its upholding, normally applied through public agency ; (2) Regulation is a direct intervention in economy and the intervention could be in any forms; (3) Regulation is all mechanisms of social control, consisting of all mechanisms of social control and have impact on all aspects of characteristics of sources intentionally or unintentionally.

**Competition :** Porter (1980, 1985) in Hunt (2000) stated that competition is a continued attempt by corporations to grab comparative advantage in resources that will give leading position in market competition and most important to have a super financial performance. Udayasankar *et al.* (2009) stated that competition is a mechanism of market operation that allows a company to operate naturally and has a tendency, if competition is tighter creating greater market efficiency. Competition is a match between companies in selling goods and service they produce (KPPU, 2009).

**Buyer Power :** Specifically a number of researchers describe the buyer power as a bargaining power or a countervailing power. But a number of other researchers define buyer power as a strength of demand for lower price that: (1) The buyer power is wider than the strength of monopsony ; (2) The buyer power is more than just the ability to cut prices (Chen, 2008).

**Buyer-Supplier Relationships :** Relationship marketing is a concept that includes interaction between buyers and sellers at a point where relationships or partnership is developed to provide room for future business deals. The goal of marketing relationship marketing is to expand and serve the consumers through partnership or relationships between suppliers and buyers. Buyer-



seller relationships is mutually beneficial relationships or partnership. It would expand through exchange of mutual benefit (Walz, 2009).

**Performance :** The performance of suppliers is determined by a number of complex factors. In connection with the aspect of performance of suppliers, performance of suppliers constitutes results of the impact of factors, that is relationships between suppliers and buyers, asymmetric powers of two parties and intensity of competition (Chuah *et al.*, 2010).

This research used a grand theory that most closely models of combination of influence of regulations, competition and buyer power over relationships between suppliers and modern retailers and their influence on the performance of suppliers which is theory of relationship marketing, in particular the concept of buyer-seller relationships.

**Hypothesis of Research :** The hypothesis being presented is as follows: : H<sub>1</sub>: Regulation has its influence on competition ; H<sub>2</sub>: Regulation has its influence on relationships between suppliers and modern retailers ; H<sub>3</sub>: Competition has its influence on relationships between suppliers and modern retailers ; H<sub>4</sub>: Buyer power has its influence on relationships between suppliers and modern retailers ; H<sub>5</sub>: Relationships between suppliers and modern retailers has its influence on the performance of suppliers. The Figure 1 below shows the conceptual framework of research.

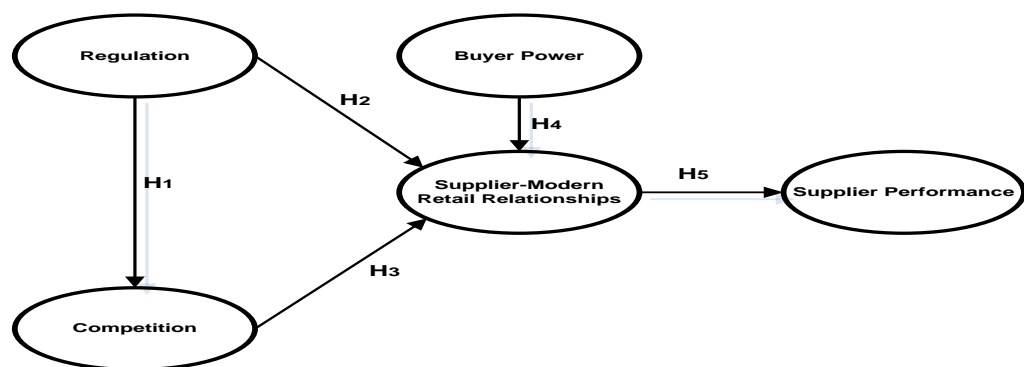


Figure 1. Conceptual Framework of Research

## **MATERIALS AND METHODS**

This research is a quantitative research which is descriptive and verifying in nature. Population or units of analysis are 3555 supplier companies of foodstuff, mostly based and operating in the Greater Jakarta area. Supplier companies are large scale, medium, small and micro enterprises (Law on UMKM, 2008).

**Data collection :** As part of quantitative research, 217 questionnaires were sent to each group of companies by scale and 101 of the questionnaires were returned but four of them were not complete. Therefore, there were 97 questionnaires which were fully and validly answered by suppliers of packaged food including 48 large scale companies, 18 medium scale companies, 10 small scale companies and 23 micro scale companies.

**Modeling :** This research is verifying in nature, to see the relationships between variables through hypothesis and modeling as well as solution techniques using the method of Structural Equation Modeling (SEM) analysis was utilized using Partial Least Square (PLS) (Chin, 2000 ; Chin, 2001 ; Ghozali, 2011).

## RESULTS

Table 1 below shows the characteristics of suppliers including : (1) Comparison of the number and percentage of respondents holding position in the supplier companies ; (2) Number and percentage of the production and trade ; (3) The scale of supplier companies among the respondents in this research,

Table 1. Characteristics of supplier companies

Positions/Products/Scales	Number	Percentage (%)
Positions :		
- Directors	8	8.25
- Managers	59	60.82
- Staff	30	30.93
Production and trade		
- Packaged foods	47	48.45
- Bottled drinks	29	29.90
- Self treatment	18	18.56
- Packaged foods and drinks	2	2.06
- Packaged foods and drinks and self treatment	1	1.03
Business scale:		
- Large (> Rp 10 billion)	46	47.42
- Medium (Rp 500 million – Rp 10 billion)	18	18.56
- Small (Rp 50 million – Rp 500 million)	10	10.31

- Micro (< Rp 50 million)	23	23.71
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Source : data processed using SPSS 18

**Results of Evaluation of Measurement Model :**

It is concluded that all indicators are valid where--- value at more than 0.55 means that there is internal consistency of statements in the questionnaires that construct of the entire dimensions could be formed. Similarly with coefficient of cronbach’s alpha all dimensions or construction with a number of questions, all bigger (0.797-0.960) than 0.60 which means all constructs are reliable.

**Evaluation of Model of Measuring :**

The discriminant test of the validity of first phase through *cross loading* value produced indicators which have good discriminant validity. Second phase test to evaluate the discriminant validity of construct by seeing the value of Average Variance Extracted (AVE). Based on the root value of AVE all constructs have good discriminant validity. Output latent variable correlation is used to compared the maximum value of construct correlation with the root value of AVE. The result is dominated by construct which has higher root value of AVE than the correlation maximum value. Therefore, all constructs of dimension have good discriminant validity.

The output of composite reliability and cronbach’s alpha shows that the value of composite reliability for all constructs is more than 0.7, indicating that all constructs in the model is estimated to meet the criteria of discriminant validity. In the cronbach’s alpha, the value recommended is more than 0.6 (Chin, 2000 ; Yamin and Kurniawan, 2011; Ghazali, 2011). The result showed that the value of cronbach’s alpha for all constructs is more than 0.6. Therefore, it could be concluded that all constructs being tested have good reliability.

**Result of Evaluation of Structural Model :** Hypothesis test of this research used PLS method. Figure 2 shows (For detail or full model see in Appendix).

**Effect of Factors, Path Coefficients, t-Statistics and Significances :**

Based on evaluation of structural model coefficient values of path coefficient values and t-statistics of all constructs could be determined that relationships between variables and impact of variables on other variables (significance), strength of relationships between variables, effect of independent variables on dependent variables to test the hypothesis of the research, could be seen (Yamin and Kurniawan, 2011; Ghazali, 2011). Table 2 below shows effect of factors, path coefficients, t-statistics, and significances.

Table 2. Effect of Factors, Path Coefficients, t-Statistics and Significances

The Effect of Factors/Constructs	Path Coefficients	t-stat	Sig.
Effect of regulation on competition	0.421	2.191	p<0.05
Effect of regulation on relationships between PS-RT	0.102	2.901	p<0.05
Effect of competition on the relationships between PS-RT	0.366	5.246	p<0.05
Effect of buyer power on the relationships between PS-RT	0.066	2.005	p<0.05
Effect of dimensions of KO, KF, MK, KJ, KP on The relationships between PS-RT :			
Commitment-KO	0.164	2.005	p<0.05
Conflict-KF	0.064	2.184	p<0.05
Conflict resolution-MK	0.085	2.804	p<0.05
Cooperation-KJ	0.244	5.152	p<0.05
Trust-KP	0.346	6.442	p<0.05
Effect of relationships between PS-RT on suppliers performance	0.998	449.631	p<0.05

Source : Output SmartPLS Version 2.0

## DISCUSSION

Regulations including Presidential Regulation (Perpres) 112/2007 and Regulation of The Trade Minister 53/2008, have greater details on partnership, trading terms and nurturing, while supervision of consumer welfare and protection with the Law/5/1999, on prohibition of monopoly and unfair business competition and the Law /8/1999, on protection of consumers. The regulations rule that cooperation between suppliers-modern retailers, must be implemented under the principle of mutual benefit, clear, reasonable, fair and transparent and trading terms must be clear, reasonable, fair, mutually beneficial and agreed upon by both sides without pressure.

In practice, modern retailers apply unilateral terms in determining partnership, trading terms, imposition of cost or discount, promotional cost and change in the form of sales contract on suppliers. The fact would have effect on partnership and competitiveness of suppliers and would

distort competition in market of suppliers, on the other hand the supervision and development are not sufficiently effective. In order that the regulation is effective, it is necessary to promote the Presidential Regulation and The Regulation of The Trade Minister into laws, as law regulations are more binding for business players or policy makers in retail industry. Sanctions, process of law enforcement and the law enforcers must be determine in greater details in the law regulation. As for the law enforcers, there must be an institution which functions specially to uphold the law. Through the model, the position of controlling retail industry would be very strong and would be very strong to bind all stakeholders in retail industry (KPPU, 2009).

## **CONCLUSION AND SUGGESTION**

### **Conclusion**

Regulations have strong effect on competition showing the importance of regulations in determining whether competition is good or bad. However, the impact of regulations is not effective partly because the regional administrations have not succeeded in fully or effectively arranging zonation and distance between retail modern outlets and weak regulation on licensing procedure that competition is not conducive.

Regulations have weak effect on the relationships between suppliers and modern retailers as indicated by the domination of the bargaining power of modern retailers resulting in unbalanced relationships between suppliers and modern retailers. The weak impact is caused by regulation being not effective, not firm in slapping sanctions and implementation being not clear.

Competition has fairly strong impact on the relationships between suppliers and modern retailers. The tighter the competition the closer would be the relationships between suppliers and modern retailers. However, the effect of competition in its implementation is determined more by the characteristics of modern retailers in competition which are expansive in building up its bargaining power that the bargaining power of supplier is weak facing modern retailers.

Buyer power has weak effect on the relationships between suppliers and modern retailers. As shown by the study, not all aspects of the relationships between suppliers and modern retailers are influenced by the buyer power. The effect of buyer power is marked only by the big cost burden imposed on suppliers.

Relationships between suppliers and modern retailers has strong impact on the performance of suppliers. Asymmetry in power which is controlled by modern retailers causes strong effect of relationships between suppliers and modern retailers on the performance of suppliers in improving the performance of suppliers.

**Suggestion**

Further studies are recommended to analyze the effect of buyer power on small and medium scale suppliers and to see the variations of the relationships between suppliers and modern retailers. Other studies needed include factor making regulations not effective on zonation, operating time of stores, and distance between outlets of modern retailers.

Big suppliers and those selected by modern retailers have showed an improvement in performance but other suppliers such as micro and small suppliers have remained in the doldrums. Therefore, improvement is necessary in The Presidential Regulation 112/2007, Regulation of The Trade Minister 53/2008 and in the implementation of the competition policy UU/5/1999. The regulations have to be properly implemented and there should be coordination between the central government and the regional administrations. Detailed and clear guidelines should be provided in maintaining good relationships between suppliers and modern retailers. Micro and small suppliers should be effectively involved. Socialization needs to be intensified, no administrative charge (listing fee) against micro and small scale and the amendments of competition policy UU/5/1999, for example, an increase for the authority of the Commission (KPPU) in obtaining direct evidence, foreclosure, leniency program and violations should be strictly dealt with sanction.

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**THE EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON CUSTOMER RELATIONSHIPS**

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**ABSTRACT**

The paper aims to present a comprehensive framework for the effects of corporate social responsibility on customer relationships. The paper also seeks to account explicitly for the differences in corporate social responsibility, trust, commitment, level of purchase, WOM and follow performance found among service provider customers. Data were obtained from 100 service provider customers. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into corporate social responsibility should focus on trust, commitment, level of purchase, WOM and follow performance as important consequences. The findings propose that corporate social responsibility has positive effects on customer relationships. Marketing research should pay more attention to the role of corporate social responsibility in gaining service provider customers. Because of the positive influence on marketing success, managers should focus on corporate social responsibility primarily with service provider customers. However, corporate social responsibility also seems to be a good device to gain service provider customers from competitors. The contributions of the paper are, firstly, a more complete framework of the effects of corporate social responsibility on customer relationships analyses simultaneously. Secondly, the studies allows a direct comparison of the difference in trust, commitment, level of purchase, WOM and follow performance between service provider customers.

**Keywords:** corporate social responsibility, trust, commitment, level of purchase, WOM, follow performance.

## **1. Introduction**

Business development in the last few years shows the fundamental changes of the concept that *corporate social responsibility (CSR)*, or social responsibility. Responsibility is company expanded more than taking its resources and engaged in activities designed to increase the profits. CSR is one of the company's efforts to create and maintaining a balance between the social functions and the environment (*triple bottom line*) Ambadar (2008).

According to Castaldo et al. (2009), CSR affect a desire will from the consumer products company sold contains a promise to respect ethical values. Research results indicate company ethic behavior for social responsibility has a positive impact to the environment. In the long-term, CSR performance has already give benefits at many companies (Dahlia and Veronica, 2008).

Government regulation of CSR was found in Law Number 40 of 2007: (1) a limited liability company (PT) run the business activities related in natural resources must undertake social and environment responsibility, (2) Social and environmental responsibility referred to in verse 1 is the company that is an obligation and be counted as company expenses which will be done in proper and moderate, (3) The company that does not perform duties as referred to in verse 1 will viewed skepticism in accordance with the applicable legislation and (4) Further social and environment responsibility stated in Government Regulations.

The competition of growing telecommunication happened among others in the same fields in Indonesia (Taparan and Juniarti C, 2011). There are so many cellular operator in telecommunication industry in Indonesia, such as, GSM, PT Telkomsel (Simpati, AS and Halo), PT Indosat Tbk (Mentari, IM3 and Matrix), PT EXCELCOMINDO Axiata (Xplor, XLBebas and XLJempol), PT HCP Three (Three) and PT Axis (Axis). In the market share CDMA consists of several cellular operator such as PT Telkom (with Flexi), PT Bakrie Tel (with Esia), PT Mobile-8 (with Fren and Hepi), PT Smart (with Smart) and PT Sampoerna Tel Tbk (with Ceria). Recent Data Indonesian Cellular Telecommunication Association of (ATSI), shows the sum of cellular customers in Indonesia at the year of 2011 has reached more than 240 million, increase 60 million customers rather than in 2010. The spread of Cellular customers in Indonesia is fantastic ([www.teknojurnal.com](http://www.teknojurnal.com)).

The GSM markets operators in Indonesia still dominated by the three largest operator companies, PT Telkomsel (Simpati, AS and Halo), PT Indosat Tbk (Mentari, Im3 and Matrix), PT EXCELCOMINDO Axiata (Xplor, XLbebas and XLjempol). The development of telecommunication operator in Indonesia describe in table 1 below:

**Table. 1 GSM Telecommunication Markets operator in Indonesia**

No	Name of the company	The launch	Brand product	The market share		
				2008	2010	2012
1	PT Telekomunikasi Seluler Tbk (PT Telkomsel)	May 1995	Simpati (Pre Paid), AS Card (pre paid) and Halo (Post-Paid)	32.8 Million	96 Million	109.88 Million
2	PT Indosat Tbk	November 1995	Mentari (Pre Paid), IM3 (pre paid) and Matrix (Post-Paid)	20.5 Million	45.1 Million	52.1 Million
3	PT Excelcomindo Pratama (Excel Axiata)	June 1996	Pro XL (Pre Paid), Bebas (pre paid), Jempol (pre paid) and Xplore (Post-Paid)	18.4 Million	41 Million	46.4 Million

Source: [www.bisnis-kti.com](http://www.bisnis-kti.com)

The table shown PT Telekomunikasi Seluler Tbk (Telkomsel) dominated the market with gains market share of 109.88 million in 2012, followed by PT Indosat Tbk with a market of 52.1 million and PT Excelcomindo Pratama with a market of 46.4 million subscribers. Telkomsel was compelled to make innovations leading with achieving the best service to its customers and remain as the largest mobile phone operator in Indonesia ([www.telkomsel.com](http://www.telkomsel.com)). It is required performance in various ways to be a champion in telecommunication industry cellular operator to make customers loyal. Companies realized that the value of long-term relationship with customer impact strength benefits (Barry et al. 2008). This research will explain CSR program on PT Telkomsel which impacts outcomes, such trust and customer commitment to be a loyal user. What if the formulation of customer commitment affects on the levels of purchase, word of mouth (WOM) and follows performance. Therefore, the problem formulation of this research is “Is there any influence on CSR program to trust, customer commitment, the level of purchase, word of mouth (WOM), and follow performance in this research?”

## **2. Theoretical Base**

### **2.1. Corporate social responsibility**

While many definitions of CSR exist, even become more popular, there is still cannot find a single meaning of CSR. Johnson and Johnson (2006) in Hadi (2011) defines *Corporate Social Responsibility is about how companies manage the business processes to produce an overall positive impact on society*. Therefore, company must be able to maintain the operations business products that give positive orientation for people and the environment.

Crowther David (2008) in Hadi (2011) dispersed the principles of corporate social responsibility into three, *Sustainability* has related to a significant concern about company action for future resources. Second for, *Accountability* is the result of company assigned for activities responsibility that has been done. Accountability can be advertised as media to build image and network to stakeholders. *Third, Transparency* is an important principle for external parties that have a role to reduce information asymmetry, misunderstandings, especially information and accountability impacts of the environment. Ambadar (2008) defines CSR is one of the company's efforts to create business continuity balancing between benefits, social functions, and preservation of the environment live (*triple bottom line*).

## **2.2. Customer trust**

A Study of Cempakasari and Yoestini (2007) trust concept is an effort to construct marketing relationship. Doney and Cannon (1997) stated that trust is a complex matter, include integrity, reliability and trust placed a group with others. In essence to learn and understand the company is the first step toward strategic development and effective marketing.

According to Morgan and Hunt, (1994) classic views that trust is common expectation by an individual who believe anyone else. Literature of trust recommends that self-confidence are of the parties that can be trusted, have integrity in accordance with the quality such as consistent, competent, friendly, honest, responsible, willing to help, and sincere. Then, Doney and Cannon (1997), also define trust is as reflection from the two (2) that are important, *Credibility*, based on the extent belief that companies have the skills to provide effectiveness and reliability, and *Benevolence*, where possible based on supplier's trust concern and motivate a positive impact in the company.

Hasan (2009) explained the definition loyalty as a basic concept and customer loyalty showed a tendency to buy a brand or specific services with high consistency, behavior concept, will repurchase associated with brand loyalty. The difference is, if the brand loyalty considers psychological commitment to a certain brand, the repurchase behavior will relate to buy brand

repeatedly. The product of specific brand will dominated the market as only one alternative and constantly doing promotion to attract and persuade customer repurchase the same brand.

### **2.3. Customer Commitment**

According to Mowen and Minor in Mustikawati (2009), loyalty is positive attitude to the product, committed to the product and repurchase. Furthermore, loyal consumer will referenced products both goods and services to other people. Commitment is behavior to defend the effort and maintaining meaningful long-term relationships on both sides (Fandy, 2000). Gremler and Brown (in Hasan, 2008) mention customer loyalty is customers who are not only buying a repurchase goods and services, but also has a commitment and positive attitude toward services company.

As Mispan (2002) said that trust have positive development commitment to our customers, so customers have a strong will to continue to work for long term. This means empirically research shows evidence that confidence is variable antecedent was able to maintaining the perpetuity relationship as well as to establish a relationship with quality based on our commitment and long-term relationships.

### **2.4. Levels of Purchase**

In a study Cempakasari and Yoestini (2003); Nursatyo (2003) clarified that a long-term relationship between companies and customers will remain eternal and sustainable when the foundation is committed to the production by companies, and commitment to company's reputation. A Study Garbarino and Johnson (1999) said that the commitment as formula that patent in maintaining long-term overall relationship marketing. More clarified that the commitment is an important values in maintaining quality of relationship and long-term in distribution channels.

### **2.5. Word Of Mouth (WOM)**

Word of mouth (WOM) could not be invented or was created. Because word of mouth will be done by the consumer willingly or without any rewards. Related to communication in an organization, according to Hoskins (2007) in nature is word of mouth communication or the conversation between one people to another. Here, the organization according to Hoskins (2007) function as an interactive place directly that require communications word of mouth is a form of cooperation between the two or more people in achieving goal together to live and grow

dynamically. Communication by word of mouth is one of effective in speed up the marketing process and provides a boost to the company.

## 2.6. Follow Performance

Quality support for the customer builds a strong engagement with the company. In the long-term, this responsibility will allow the company to understand in broad customers' expectation and their needs. The companies can maximize acceptable experience and minimize less favorably experience from customers to accomplish customer satisfaction (Atmawati and was, 2007).

## 2.7. Conceptual Framework

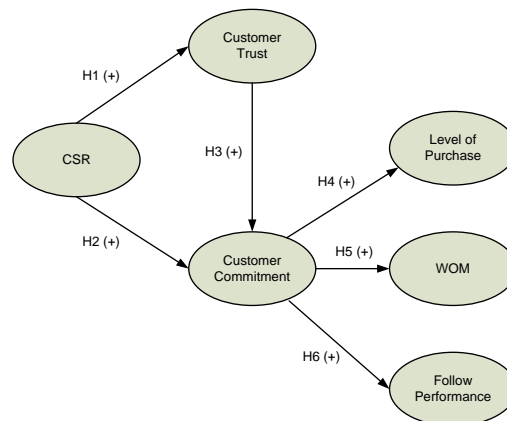


Figure 1. Conceptual Framework

Source: Lacey and Hensel (2010)

## 3. Methodology

### 3.1. Research Method

This refers to the research by Lacey and Hensel (2010), about hypothesis testing is influencing between associated variables with other factors. The analyses used in this research are individual pre-paid customers and the post-pay which using Telkomsel products of Halo, Simpati, and AS card. Based on the process, this research is using quantitative approach. Quantitative Research is an objective approach, includes data collection, analysis and using statistics testing method. Meanwhile, the collecting data is using the survey method with cross sectional data, that observed and collecting in a certain period of time (Hermawan, 2005).

### 3.2. Instrument Test

Research Instrument is questionnaire. The researchers assessed instrument for each statement to check measurement reliability and validity by using the *software program Statistics Social Science* (SPSS) version 17.0 for Windows.

**Table I**  
**Measurement**

Variable	<i>KMO</i>	<i>Anti-Image</i>	<i>Cronbach's Alpha</i>
<b>CSR</b>	0,795		0,900
As one of the cellular operator that great, the Company has many corporate social responsibility program (CSR)		0,833	
Cellular operator by Telkomsel involving local communities and the environment in the CSR program		0,858	
Telkomsel Cellular operator committed to take an active part of CSR program.		0,811	
CSR Program Telkomsel cellular operator, held in charity activities		0,726	
CSR program from Telkomsel cellular operator is an effort to assist government provide the Millennium Development Goals (MDGs)		0,751	
<b>Customer Trust</b>	0,658		0,738
Cellular operator by Telkomsel has integrity for products offered		0,765	
Telkomsel products offered can be trusted		0,640	

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by the customer/ users

By Telkomsel cellular products offered, company must be honest and true in providing information to customers 0,619

**Customer Commitment** 0,736 0,781

Product issued by Telkomsel cellular operator is important for me 0,820

I am eager to learn the newest information on the products of cellular operator Telkomsel 0,727

I was really concerned with products from Telkomsel and CSR program prepared by company 0,776

The benefits will be on my side, if I always support CSR program from Telkomsel 0,692

**Level Of Purchase** 0,500 0,857

I buy new product that was issued by the operator cellular Telkomsel 0,500

All used as a means of communication I use cellular operator from Telkomsel 0,500

**Word of Mouth** 0,729 0,895

I was provide users to give the latest information on telkomsel cellular operator 0,721

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products when the topics conversation is about cellular operator

I am willing to recommend cellular operator products to the friends telkomsel I met when topics cellular operator emerged in the conversation 0,660

I am willing to encourage friends to use Telkomsel product 0,804

**Follow Performance** 0,722 0,837

I follow the update news from Telkomsel cellular products 0,763

I follow CSR program performance held by cellular operator Telkomsel 0,696

I was willing to participate in CSR program that arranged by cellular operator Telkomsel 0,713

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\*The whole answered is measured by using *likert* scale 5 points: 1 = very disagree to 5 = very agree.

**3.3. Data Collection**

Data Collection in this research performed by questionnaire spreading pre paid and post-pay customers that use cellular operator Telkomsel, Halo, Simpati, and As card in Jakarta. Pre paid population is customer and the post-pay that use cellular operator Telkomsel, consisting of Halo, Simpati, and AS card in Indonesia. Population are pre-paid and post-paid customers from respondents 110 consume Halo, Simpati and AS card in Indonesia. Samples method has used *purposive sampling* as one of the *non-probability sampling* techniques, where researchers choose the samples members is based on specific criteria (Malhotra, 2006).

**3.4. Data Analysis Method**

Data have been collected processed by using *Structural Equation Modeling* (SEM). This method used with the consideration relationships between variables that occur simultaneously. SEM is precisely use to change one dependent to independent variable for the next relations. SEM is a similar method to a combination data processing, using *factor analysis and multiple regression analysis*. Further, SEM reflect together regression analysis impact on significant.

#### 4. Finding and Result

The statistical test used to test the hypothesis of this study is SEM. In table II, the result shows that H1 is supported ( $\beta = 0,725, p = < 0.05$ ). The result shows that CSR affect customer trust. H2 is supported as well ( $\beta = 0,276, p = < 0.05$ ) which shows that CSR affect customer commitment. H3 is supported ( $\beta = 0,492, p = < 0.05$ ) which shows that customer trust affect customer commitment. H4 is supported as well ( $\beta = 0,557, p = < 0.05$ ) which shows that customer commitment affect level of purchase. H5 is supported as well ( $\beta = 0,630, p = < 0.05$ ) which shows that customer commitment affect WOM. The test of H6 is supported ( $\beta = 0,665, p = < 0.05$ ) which shows that the hypothesis 6 of customer commitment affect the follow performance.

**Table II**  
**Testing Hypothesis**

Hypothesized path	Coefficient ( $\beta$ )	<i>p-value</i>	Decision
H1: There is a positive impact of CSR towards customer trust	0,725	0,000	H1 Supported
H2: There is a positive impact of CSR towards customer commitment	0,276	0,006	H2 Supported
H3: There is a positive impact of customer trust towards customer commitment	0,492	0,000	H3 Supported
H4: There is a positive impact of customer commitment towards level of purchase	0,557	0,000	H4 Supported
H5: There is a positive impact of customer	0,630	0,000	H5 Supported

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commitment towards WOM

H6: There is a positive impact of customer commitment towards follow performance	0,665	0,000	H6 Supported
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## **5. Contribution, Implication, and Direction of future researches**

This study offers a view of the real world about the value of CSR for companies that are considered as the company is socially responsible and how it relates to the customer from the customer's trust and commitment that form. Corporate social responsibility holds the greatest potential value as a source of competitive advantage for companies that integrate CSR into their business models. Suggested PT Telkomsel expand the network of base stations in many locations both urban to rural areas in order to avoid further complaints signal interference. PT Telkomsel also recommended compensation to existing customers who have impaired. Suggested PT Telkomsel has an exciting program of educational activities and social for existing customers use a minimum of 6 months with compelling ads, so that existing customers have increasingly comfortable using the mobile phone operator PT Telkomsel.

## **6. Limitation**

Just as other researches, this study has its limitations. First, the number of the sample is 110 respondents during the data collection. Second, the research only collect sample from respondents in Universitas Trisakti area. Third, this research is only conducted on one of provider telecommunication. Fourth, the study only includes variable such as CSR, customer trust, customer commitment, level of purchase, WOM and follow performance in which there are still other variables that can be included. Fifth, there is an impact of parents in provider telecommunication choice, caused by the age of respondents which is 18-22 years old.

## **7. Future Research**

In the future research, the number of respondents must increase for over 110 respondents. It is recommended for the research sample to include not only sample from Universitas Trisakti, but expanded to other areas such as West Jakarta. It is expected that the future research can expand more than just one of provider telecommunication to other provider telecommunication. Moreover, future researchers can add a preference variable to strengthen the future purchase intention. The next research can also expand the characteristic of respondents in age, occupational type, which is

added because they can already make their own purchase decision for themselves and not anymore affected by parents.

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**THE EFFECT OF PERCEPTION OF MALL TOWARD BRAND AFFECT, BRAND TRUST  
AND PATRONAGE LOYALTY**

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**ABSTRACT**

This study aimed to determine the effect of perception of mall toward brand affect, brand trust and patronage loyalty. The number of taken in this study were 176 respondent from students of Trisakti University which had visited Taman Anggrek Mall. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Result from the study showed that perception of mall not has positive effect and significant to brand affect. Brand affect and brand trust to patronage loyalty has positive effect and significant. Brand trust to brand affect has positive effect and significant. This study can be used as a reference for Taman Anggrek Mall's manager to conduct training to employees in order to improve and better serve customers in a friendly, and do role playing to employees in order to improve the experience of interacting directly with customers, and will increase consumer positive perception and loyalty.

**Keywords:** perception of mall, brand affect, brand trust, patronage loyalty.

## **Introduction**

The development of mall industry in Jakarta is improving. This development is in accordance with technological development, increase in competitors and consumers' needs. The condition encourages mall developers to concentrate on understanding preference behavior and consumer motivation. Then, it is also necessary to comprehend how the shopping center has an appeal on consumers (Hernandez and Gomez, 2012). The appeal of mall includes its entertainment as a large factor of interest towards consumers' perception on shopping centers (Sit *et al.*, 2003; El-Adly, 2007; Rajagopal, 2009 in Zhang *et al.*, 2013). The uniqueness of shopping center's atmosphere can also cause the mall to be more interesting for consumers, which will generate positive experience, emotional response and positive perception on malls (Jain *et al.*, 2011 in Khong and Ong, 2014).

Perception of mall is the awareness or judgment formed as a result of the experience felt by the consumers towards the mall (Khong and Ong, 2014). Positive perceptions can cause a profitable behavior towards the mall (Shim and Eastlick, 1998; Steyn *et al.*, 2010 in Khong and Ong, 2014), which then influence the mall's positive image and improve brand trust and brand affect (Chebat *et al.*, 2010 in Khong and Ong, 2014). If the mall party can form a positive perception of mall, then the brand trust and brand affect of consumers will increase.

One literature about brand shows that brand trust and brand affect are two important factors to measure the relationship between consumer and mall (Khong and Ong, 2014). Brand trust is defined as the willingness of consumer to rely on the ability of the brand to conduct its stated function (Chaudhuri and Holbrook, 2001 in Khong and Ong, 2014). Brand trust is an important mediator factor on consumer's behavior before and after the product purchase and it causes a long-term loyalty and strengthens the relationship between two parties (Liu *et al.*, 2011 in Geçti1 and Zengin, 2013). Meanwhile, brand affect is defined as the brand potential to receive positive emotional response by the average of consumers as the effect of its use (Chaudhuri and Holbrook, 2001 in Khong and Ong, 2014). Brand affect has a significant impact on loyalty (Taylor *et al.*, 2004; Matzler *et al.*, 2008; Jahangir *et al.*, 2009 in Geçti1 and Zengin, 2013). Brand trust and brand affect that has been felt by mall customers finally affect patronage loyalty.

Patronage loyalty for shopping centers is reflected from the commitment of consumers towards malls and willingness to take extra efforts to shop at the mall (Khong and Ong, 2014). According to Lam and Burton (2006 in Yap and Shahidan, 2013), loyal consumers are likely to participate in repetitive purchase which then increase the purchase at the mall. Consumer loyalty is a key element in company strategy (Ramanathan and Ramanathan, 2011 in Marimon *et al.*, 2014).

Thus, the problem formulation of this research is “Is there an impact of perception of mall on brand affect, brand trust, and patronage loyalty?”

## **Theoretical Base**

### **Perception of Mall**

Perception of Mall is the awareness or judgment formed as a result of the experience felt by the consumers towards the mall (Khong and Ong, 2014). In the context of mall, the perception is formed by conducting visits to each mall, even though marketing stimulation helps to strengthen the perception through marketing communication. The evaluation of favorite mall can be based on the shopping experience, product quality, various products and services given at the mall (Burns and Warren, 1995; Chebat et al., 2010; Matzler et al., 2006; Michon et al., 2005; Stoel et al., 2004 in Khong and Ong, 2014). Therefore, it is important for a mall to own the right strategy to fulfill consumer needs and consumer preference in general is likely to conduct visits to the mall if they are satisfied (Lee and Overby, 2004 in Khong and Ong, 2014).

### **Brand Affect**

Brand affect describes the relationship between consumer and brand in a certain category and can be regarded as consumer’s general evaluation for the brand (Matzler *et al.*, 2006 in Geçtil and Zengin, 2013). Brand affect can be defined as the brand the brand potential to receive positive emotional response by the average of consumers as the effect of its use (Chaudhuri and Holbrook, 2001 in Geçtil and Zengin, 2013). Brand affect influence the close relationship of consumer towards a brand. Likewise, one literature shows that beneficial and positive emotion is related with the high level of brand loyalty (Chaudhuri and Holbrook, 2002 in Kabadayi and Alan, 2012). Consumer loyalty will increase if consumer is in a positive emotional condition and can also increase consumer’s positive behavior towards the brand (Dick and Basu, 2004 in Kabadayi and Alan, 2012).

### **Brand Trust**

Brand trust is consumer’s willingness to rely on a brand based on their confidence on that brand (Becerra and Korgaonkar, 2011; Chaudhuri and Holbrook, 2002; Delgado-Ballester *et al.*, 2003 in Becerra and Badrinarayanan, 2013). Brand trust affects consumer behavior and consumer relationship towards behavior brand including purchase, attitude and loyalty of behavior, perception of brand value, brand commitment and brand direction (Chaudhuri and Holbrook, 2001, 2002;



Delgado-Ballester *et al.*, 2003; Elliott and Yannopoulou, 2007 in Beccera and Badrinarayanan, 2013).

### **Patronage Loyalty**

Patronage loyalty is the formation of loyalty conducted by the company to maximize lifetime value of consumers towards the company (Wakefield and Baker, 1998 in Khong and Ong, 2014). Patronage loyalty towards shopping centers is reflected from consumer's commitment to go to the mall and their willingness to take extra effort to shop there. *Patronage loyalty* in a mall is the formation of consumer attitude towards a mall (Matzler *et al.*, 2006 in Khong and Ong, 2014). Loyal customer is likely to have a higher recommendation intention and repurchase intention (Wang *et al.*, 2011). According to Ehigie (2006 in Yap and Shahidan, 2013), loyalty can be defined as a feeling of commitment on the consumer part for product, brand, marketers or service that use the same operator, possibility to take new products and recommend company service.

### **Deriving the construct and hypotheses**

#### **Perception of Mall, Brand Affect and Brand Trust**

Perception can be seen as the awareness or appraisal formed as a result from the real experience. Evaluation on mall that is favored by the consumer can be based on shopping experience, product quality, various products and services given at the mall (Burns and Warren, 1995; Chebat *et al.*, 2010; Matzler *et al.*, 2006; Michon *et al.*, 2005; Stoel *et al.*, 2004 in Khong and Ong, 2014). The shopping environment and atmosphere also create a positive perception of mall. Basically, positive perception of consumer towards the mall can encourage a beneficial attitude towards the mall (Shim and Eastlick, 1998; Steyn *et al.*, 2010 in Khong and Ong, 2014), even create a positive image of the mall which will increase brand affect and brand trust (Burns and Warren, 1995; Chebat *et al.*, 2010; Wakefield and Baker, 1998 in Khong and Ong, 2014). Based on the discussion, the following hypotheses were derived:

H<sub>1</sub>: Perception of Mall has a positive impact on Brand Affect.

H<sub>2</sub>: Perception of Mall has a positive impact on Brand Trust.

#### **Brand Affect and Patronage Loyalty**

Chaudhuri and Holbrook (2001 in Khong and Ong, 2014) stated that brand affect is positively related with purchase behavior and patronage loyalty. Brand affect has a significant impact towards attitude and behavior of brand loyalty (Khong and Ong, 2014). In other words, a mall that creates a positive emotional response, the experience and satisfaction will likely have more patronage.

Consumer's emotional feeling towards a brand is related with the level of consumer loyalty towards a brand (Chaudhuri and Holbrook, 2002 in Kabadayi and Alan, 2012). Based on the discussion, the following hypotheses were derived:

H<sub>3</sub>: Brand Affect has a positive impact on Patronage Loyalty.

### **Brand Trust and Patronage Loyalty**

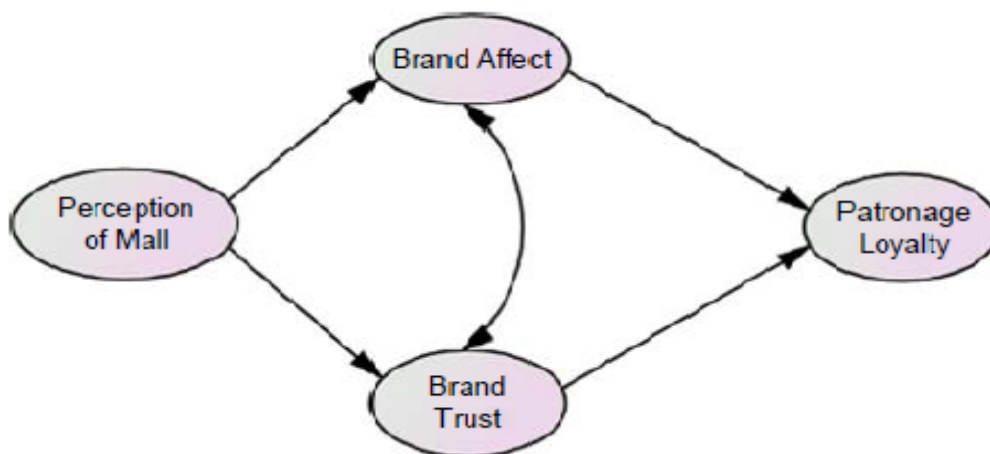
One of the most important factors that directly influence patronage loyalty is brand trust (Geçti1 and Zengin, 2013). Trust is a strong emotion of satisfaction and it might be because it is better in predicting loyalty. Trust also has a positive effect towards loyalty and helps to attract new customers and later can maintain the existing ones other than influencing satisfaction as a whole (Hsu, 2007 in Beccera and Badrinarayanan, 2013). Based on the discussion, the following hypotheses were derived:

H<sub>4</sub>: Brand trust has a positive impact on Patronage Loyalty.

### **Brand Trust and Brand Affect**

Brand trust and brand affect are two important construction in determining a relationship between Perception of mall and patronage loyalty. Brand trust and brand affect is related with each other because they share variations in affective view, hedonic values and emotional response (Ong *et al.*, 2012 in Khong and Ong, 2014). Both constructions create an emotional response (Khong and Ong, 2014). Based on the discussion, the following hypotheses were derived:

H<sub>5</sub>: Brand Trust has a positive impact on Brand Affect.



**Figure 1. Conceptual Framework**

**Measurement**

Four variables used in this research are perception of mall, brand affect, brand trust and patronage loyalty. Perception of mall revelation was measured with five items adapted from a study by Khong and Ong (2014). Brand Affect measured by five items adapted revelation of the study by Khong and Ong (2014). Brand trust is measured by the revelation that five items adapted from a study by Khong and Ong (2014). Patronage loyalty revelation was measured with five items adapted from a study by Khong and Ong (2014) all items of revelation variables were measured using a five-point *Likert* scale that starts from 1 "strongly disagree" to 5 "strongly agree".

**Data Collection**

Data collection through written questionnaires to 176 respondents in the scope of Trisakti University, sampling using non-probability sampling method sampling technique with purposive sampling which criteria consumers with the frequency of shopping at the mall Taman Anggrek at least 2 times within 6 months.

**Data analysis and findings**

There are several tests to calculate and analyze the data before testing the relationship to be observed that as Cronbach's Alpha was used to measure reliably the data with SPSS, except that this calculation is also processed with AMOS 6 to confirm factor model and the validity of all constructs a theory in this study. Standardize factor loadings for each statement of the average between 0.545 and 0.799, the construct reliable the average between 0.770 and 0.871. The overall average results shows that all items meet the validity and reliable criteria. Then the next steps to test the desired relationships using Structural Equation Modeling (SEM).

**Table I**  
**Measurement**

<b>Variables</b>	<b>Standardized factor loading</b>	<b>Cronbach's Alpha</b>
<b>Perception of mall</b> Khong and Ong (2014)		
The type of products that Taman Anggrek Mall offered follow the development trend of the moment.	0.773	0.805
Taman Anggrek Mall offered lot variety of	0.762	

products.		
Taman Anggrek Mall offered high products quality.	0.704	
Taman Anggrek Mall provided height quality of services.	0.587	
I was satisfied with the service in Taman Anggrek Mall.	0.545	
<b>Brand Affect</b> Khong and Ong (2014)		0.871
I liked Taman Anggrek Mall, and I will always choose Taman Anggrek Mall.	0.748	
I always shop in Taman Anggrek Mall.	0.756	
I feel good when visiting Taman Anggrek Mall.	0.829	
Shopping at the Taman Anggrek Mall makes me happy.	0.777	
Shopping at the Taman Anggrek Mall fun for me.	0.686	
<b>Brand trust</b> Khong and Ong (2014)		0.770
Taman Anggrek Mall is a mall that could be trusted.	0.672	
Taman Anggrek Mall is a mall which is safe to visit.	0.636	
I believe Taman Anggrek Mall.	0.712	
I rely on Taman Anggrek Mall.	0.716	
<b>Patronage loyalty</b> Khong and Ong (2014)		0.867
I will continue to visit Taman Anggrek Mall each want to shop.	0.799	
I intend to continue to visit Taman Anggrek Mall.	0.784	
I am committed to Taman Anggrek Mall.	0.784	

I am willing to make an extra effort to shop in  
Taman Anggrek Mall than others. 0.791

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**Estimates and Fit**

*Goodness of fit indices: Chi-square = 266,191, p = 0,000, goodness of fit index (GFI) = 0,845, The Root Mean Square Error Of approximation (RSMEA) = 0,077, Adjusted Goodness - of - Fit Index (AGFI) = 0,796, normed fit index (NFI) = 0,843, Turker- Lewis Index (TLI) = 0,896, Comparative Fit Index (CFI) = 0,912, CMIN / DF = 2,048. The overall average results still meet the criteria and are able to be used for further testing. Thus, the measurement models in accordance with good data.*

**Table II**  
**Characteristics of respondents**

Characteristics	Category	Frequency	Percentage (%)
Gender	Man	57	32.4
	Woman	119	67.6
Age	17 years - 19 years	54	30.7
	20 years - 22 years	101	50.4
	> 23 years	21	11.9
Frequency of Purchase	2-3 times	51	34.6
	4-5 times	62	29.5
	> 5 times	53	35.8

**n: 176**

**Table III**  
**Hypotheses testing**

<i>Hypothesized path</i>	<i>Estimate (<math>\beta</math>)</i>	<i>p-value</i>	<i>Decision</i>
H1: There is a positive impact perception of mall on brand affect.	0.240	0.063	H1 Not Supported
H2: There is a positive impact perception of mall on brand trust.	0.771	0.000	H2 Supported
H3: There is a positive impact brand Affect on patronage loyalty.	0.156	0.023	H3 Supported
H4: There is a positive impact brand trust on patronage loyalty.	0.756	0.000	H4 Supported
H5: There is a positive impact brand affect on brand trust.	0.328	0.022	H5 Supported

### **Discovery and results**

Statistical tests were conducted to test the hypothesis by using SEM. In Table III shows the results, the H1 is not supported ( $\beta = 0.408, p = > 0.05$ ). This shows that consumers perception of mall do not affect brand affect, while H2 is supported ( $\beta = 0.771, p = < 0.05$ ) in this case shows that the perception of mall affects brand trust. H3 is supported ( $\beta = 0.156, p = < 0.05$ ) shows that brand affect affect patronage loyalty. H4 is supported ( $\beta = 0.756, p = < 0.05$ ) shows that brand trust affects patronage loyalty. Similarly H5 supported ( $\beta = 0.328, p = < 0.05$ ), this shows the brand trust affects brand trust.

### **Discussion and implications**

This research is based on the previous research conducted by Khong and Ong (2014). Based on the findings of this research, it shows that increasing the perception of mall will increase brand trust, which will cause the increase in patronage loyalty whether directly or through brand affect. The mall management needs to give training and role-playing to employees, so the positive perception and consumer loyalty can increase. Then, increase and conduct cooperation with famous brands of the world to be marketed at the mall, so the purchase power of consumer will increase, making Taman Angrek Mall to be the consumer's choice to shop. Then, holdings live music or food festival every weekend by inviting celebrities and maintenance of machines and electronic devices in the mall. Lastly, it is important for Taman Angrek Mall to keep the consistency and quality of

products, services, and building. Moreover, administering exhibition and routine events on religious big days and New Year event, this will encourage consumer to be willing to conduct extra effort to visit and shop at Taman Anggrek Mall.

### **Limitation**

This present study had several limitations. First, this study only took samples of student respondents in the scope of Trisakti University. Second, this study only used a sample of 176 respondents at the time of data collection. Third, this study was only done in one mall only. Fourth, research is just entering the variable perception of mall, brand affect, brand trust and patronage loyalty that enables there are other variables that can be entered.

### **Direction for future research**

In future research, the number of respondents to be added exceeds 176 respondents, for data to be better. Future studies should use the sample not only Trisakti University, but extends to all areas in Jakarta. Future research is expected to expand the research not only with one mall Taman Anggrek, but other malls like Plaza Senayan, Senayan City and Pondok Indah Mall. In addition, researchers in the future could add a variable to add another variable, atmospheric and attractiveness (Teller and Reuttere 2008 in Khong and Ong, 2014).

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**MODEL DESIGN KNOWLEDGE MANAGEMENT SYSTEM  
FOR DISASTER MITIGATION**

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**ABSTRACT**

Limited knowledge and limited geographical access into the factors that lead to knowledge can't spread. On the other hand the government's disaster management officials often confused how to behave towards a condition on the status of disaster. Purpose of this research is to create a useful application KMS to empower communities through disaster mitigation knowledge and a guide for the competent authority in the standard operating procedure. Methodology of research conducted first assess the current running condition, then conduct interviews of user needs and design a new system model. Model of Knowledge Management System that will be developed is divided into two parts. The first part is internal to the system requirements by government officials on disaster mitigation work procedure system, while the second part is the external that are intended for people to be able to dig disaster mitigation knowledge is local knowledge in a variety of Indonesian culture that can be used for disaster mitigation, knowledge is then in codification to be stored in the database and then distributed and is expected to be applied by the public so as to create a culture of disaster mitigation

**Keywords:** *disaster mitigation, geographical access, knowledge management system, culture*

## **1. INTRODUCTION**

Indonesia is located in the southern region of the earth's plates as well as Japan, should always be ready to face natural disasters such as earthquakes, volcanoes, landslides, floods and even tsunamis. Although a bit late but felt the government's decision established the National Disaster Management Agency (BNPB) in 2008 was the right decision to coordinate the various actions related to the threat of natural disasters in Indonesia. But the problem is not immediately completed with the formation of the agency. The form of the State of Indonesia which consists of hundreds of islands spread from Sabang to Merauke, inadequate transportation agencies in 34 provinces require disaster management in the provinces is called the Regional Disaster Management Agency (BPBD). BNPB acknowledges the constraints on human resources (HR) during the streak cope with natural disasters in the homeland. Limited human resources capacity at the level of BPBD into its own obstacles in the overall disaster management activities. BNPB requires reliable HR truly special knowledge and expertise in disaster management, considering almost all regions of Indonesia are vulnerable disaster. BNPB's main role is to give guidance and direction to the disaster relief efforts that include disaster prevention, emergency response, rehabilitation and reconstruction in a fair and equitable and establish the standardization and implementation of disaster management needs based on legislation. While in the area of disaster management is handled by BPBD structurally under the Local Government (Local Government), while the BNPB coordinative in nature. Based on the National Disaster Management Plan 2010-2014 is stated in the report there is still a problem that the lack of a comprehensive disaster management plan. Every disaster strikes, who do what has not been clear. Everybody wants to help, but sometimes you do not know what to do. Moreover, at the time before the disaster, what to do sometimes still confused. In some activities actually carried out by several agencies, resulting in overlapping information / activities are different from one another that even confusing users (government / institution / community). Things like this should be made a disaster management plan which involves various disaster management actors.

The success of the organization in the face of competition is to make the human resources (HR) as an asset in its implementation by focusing on the application of knowledge, skills and attitudes in the work. To meet the challenges that the HR needs to have knowledge developed so as to make the work with maximum performance. In the era of knowledge when it is so understanding of the concept of knowledge management (KM) into an absolute thing to note (Kuo, 2011). Again, according to Kuo (2011) the application of KM in the organization comes from the culture and

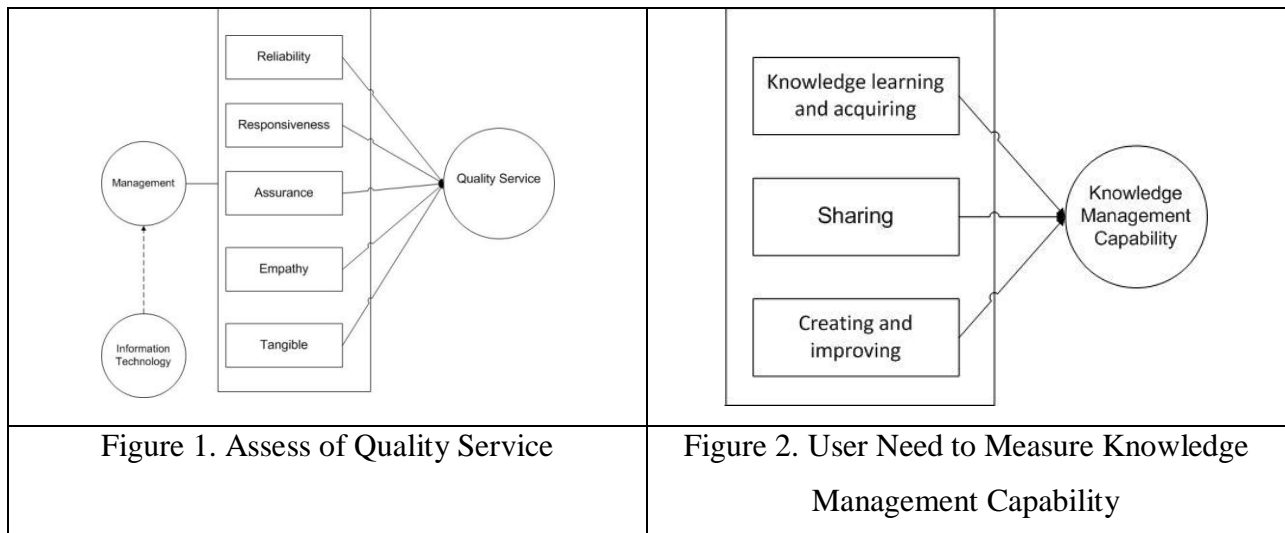
structure of the organization itself that stimulates achievements - achievements in every aspect of the implementation of the task.

Definition of Human Resource Management is a process by which an individual is recruited to be part of an organization to perform tasks/work specifically where their performance will be monitored and awards will be given if the individual can perform increase in productivity (Tichy, Fombrun and Deyanna, 1982). According to Gupta, Iyer and Aronson (2000) Knowledge Management is a process that helps organizations to acquire, select, manage, disseminate and transfer important information that is used for solving problems and making decisions. Currently, many organizations took the initiative to empower knowledge management, but not everything is optimal in empowering knowledge. BNPB as one of the main pillars in the face of disaster mitigation was required to have a level of service that is very reliable. Indonesia's geographical conditions in disaster-prone areas make BNPB must always be ready to prevent, anticipate and recovering the problems caused by the disaster. It required policy tools, frameworks, procedures and work instructions are adequate both in terms of scope and depth of information. According to Laudon and Laudon (2006), Knowledge Management value chain consists of two (2) activities of the Information Systems Management & Organization activity and activities for successful implementation. In the aspect of the activity, which includes 4 activities ranging from the Acquire (Acquisition) is a process for how organizations acquire knowledge, then the Store which is a process of how knowledge has been acquired can be stored, followed by Disseminate the process for dissemination of information and knowledge to all employees companies and ultimately process for implemented. Apply the knowledge management process in an organization. For activities in the field of information systems, acquisition is the process of knowledge discovery and data mining can be performed through the Store while the document management system and knowledge database, then Disseminate need intranet portal, e-mail, search engines and collaborative groups, as well as to Apply can be implemented in a decision support system and enterprise application. For activities in the field of Management and Organization, Acquire process is done through the creation of knowledge culture in organizations through the establishment of a practical community, while the Store is done through the creation of organizational culture through the routine activities of the organization, then Disseminate done through training and activities in the informal networks, Apply and be able to produce new products and services, new features, new markets and business activities of information technology-based processes.

**2. METHODOLOGY**

**2.1. Assess The Current Running Condition**

To get information about the situation and condition of the people in the disaster prone areas and also how the services provided by the competent authorities and BNPB and BPBD, then made 92 Questionnaires deployment to affected people in the area Pare - Kediri (West Bitung village and Mulyo Redjo) and Merapi area - Yogyakarta as well as through a qualitative approach using the census as a method of data collection. For the assessment of service quality, measurements used in five dimensions, namely reliability, responsiveness, assurance, empathy and tangible as seen in figure 1.



**2.2. Conduct Interviews Of User Needs**

While the proposed FGD interviews with three items questions about learning and acquiring knowledge, sharing, creating and improving as seen in figure 2. Census involves 11 members of Search and Rescue (SAR) and Quick Response Team (TRC) in Yogyakarta, which is done through Group Discussion (FGD).

**2.3. Data And Information**

In addition, secondary data and information obtained from a variety of print media and publications BNPB, also interview with BNPB’s personnel.

## **RESULT**

### **3.1. Quality Service**

The processed data to measure service quality gaps of local government agencies in the areas of disaster victims in Yogyakarta, Pare Kediri and the results showed the same conclusion just different amount of value Mean Rank Gap. The service quality gap analysis in Pare Kediri agencies and Yogyakarta are as follows:

- 1) Reliability: a gap of quality of services received by the respondent with the quality of service expected by respondents from the services provided by BPBD. Therefore, the ability BPBD in shaping services accurately and without dependence are still not being met.
- 2) Responsiveness: a gap of quality of services received by the respondent with the quality of service expected by respondents from the services provided by BPBD. Therefore, the ability BPBD in the form of willingness to help and provide fast service still can not be met.
- 3) Assurance: a gap of quality of services received by the respondent with the quality of service expected by respondents from the services provided by BPBD. Therefore, the ability BPBD in terms of knowledge and courtesy are still not being met.
- 4) Empathy: a gap of quality of services received by the respondent with the quality of service expected by respondents from the services provided by BPBD. Therefore, the ability BPBD in giving attention to the people still have not been met.
- 5) Tangible: a gap of quality of services received by the respondent with the quality of service expected by respondents from the services provided by BPBD. Therefore, the ability BPBD the physical appearance of personnel and equipment officers still have not been met.

### **3.2. Knowledge Management Capability**

Each FGD members actively involved in the discussion and focus on their work - one in each activity. Very good understanding of each member and can be seen from the background were recent campus activity during which every individual who wants to join in the SAR and the TRC should have a background or past experience as a lover of nature. One of the reasons in the recruiting of nature lovers more based on duties and responsibilities as a rescue team and who incidentally has a TRC similarities in the work to be done. Each question asked to use an item construct questionnaires and the answers given are very helpful in research. In terms of learning and acquiring knowledge of each member of the FGD always get the material from more senior colleagues for field work / same task. The learning process is ongoing since each member included in the team. Knowledge learning to natural disasters has been obtained since they are in the nature

lover team while in college and continue forged during the process of becoming a member of the SAR and the TRC. The use of knowledge management as a tool in educating people become the main point to be able to spread understanding of the natural disaster mitigation. In terms of sharing, each member of the SAR and TRC periodically (1 week) always had an informal meeting between the members to discuss various issues concerning new developments in terms of disaster mitigation. Knowledge gained when members provide information, learning and understanding of the importance of disaster mitigation and its association with the new findings in terms of mitigation techniques to educate the public about the region is regarded as a dangerous area. For creating and improving each member is also expected to always improve in areas of their competence in terms of disaster mitigation. The results are expected to help educate people around the disaster area to make it more effective.

### **3.3. Obtain Data and Information**

- a) BNPB has a Center for Disaster Management Education and Training in Sentul, West Java.
- b) BNPB has set Knowledge Management into the Mission INA-DMAC (Disaster Management Acceleration Center), which aims to increase competence in disaster areas for officials, the business community and society.
- c) BNPB has lack of competent human resources in the field of disaster are certified national / international.
- d) BNPB has compiled a competency-based training program but have not yet standardized, integrated and national / international.
- e) BNPB has SKKNI Disaster (disaster management competency list)
- f) The extent of the coverage area of the entire Indonesian islands scattered in various difficult for disaster management in Indonesia.
- g) Lack of understanding on disaster mitigation by rural people.
- h) The existence of diversity values (wisdom) locally in various regions that indirectly support hazard mitigation.
- i) BNPB have a policy for the development of innovation and knowledge of disaster through partnership with various universities in Indonesia.

#### 4. DISCUSS

##### 4.1. Model Design KMS For Disaster Mitigation:

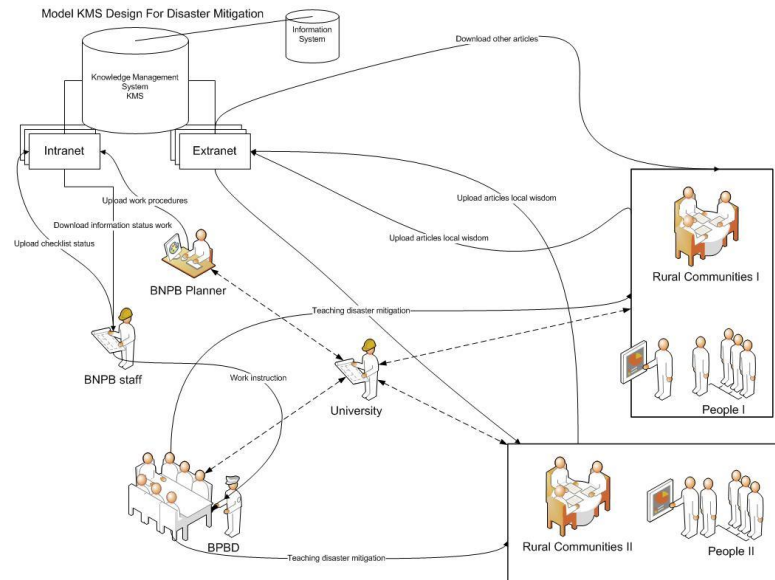


Figure 3. Rich Picture KMS Proposal

Development of Knowledge Management System (KMS) divided by 2 (two) parts intranet or extranet.

##### 4.1.1. KMS Intranet

Intranet applications prepared by the planning staff BNPB to upload all disaster mitigation procedures into the KMS database. BNPB staff then perform the configuration settings in the procedure that has been submitted by the planning staff to fill the achievement of the target point. Furthermore, the staff coordinator BPBD perform various disaster mitigation socialization to local communities together with community care disaster. The role of community care and supporting disaster mitigation socialization spread to the entire community of the area. Then the staff coordinator BPBD progress update progress on disaster mitigation activities to those activities considered to achieve the target achievement. University research team acting as KMS application developers and help BNPB / BPBD in implementing the use of KMS

##### 4.1.2. KMS Extranet

KMS models extranet goal is to empower the knowledge society towards disaster mitigation. Planting a culture of reading and writing is needed in this model through a process of learning and mentoring by the University to the community care team environment disaster in the area of how to



write an effective article and communicative knowledge or knowledge of how to exploration various local wisdom related to disaster mitigation. The knowledge base article will be uploaded in the website of knowledge management system (KMS) and can be accessed by the public through the means of the internet and disseminated via email member. The KMS website will connect communities care about the environment disaster in some pilot areas to interact in uploading the articles of knowledge. Through BPBD support to the programs of environmental disaster care community activities, cultural plantings are expected to read and write can run continuous for many residents in the community area

#### **4.2. Culture Reading and Writing Is Critical Success Point**

Reading and writing is a habit that requires continuous training. Culture of reading and writing for Indonesian citizens is still low. Culture of writing is still lower when compared with the culture of reading. It is a challenge to implement KMS success. To build a culture of reading and writing the necessary infrastructure and library books that need to be built up to the village level. Construction of the library can be synergized with the construction of learning centers. Financial support from various stakeholders is expected, for example from the companies through its Corporate Social Responsibility (CSR). The existence of the library and internet facilities will complement the instructional media for the public to inculcate the culture of reading and writing.

### **5. CONCLUSION**

- 1) Due to extensive and fragility of Indonesian locations so that the disaster is a shared responsibility between government agencies and the public. Therefore, the people must be empowered knowledge through increased understanding of disaster mitigation
- 2) KMS for disaster mitigation requires two types namely intranet models required by BNPB and BPBD to determine work procedures and extranet models are used to empower the community.
- 3) The existence of community care in the area of environmental disaster is very important to spread knowledge to people so that the area required to support the implementation of various programs BPBD disaster mitigation activities undertaken by the community.
- 4) The existence of shared access KMS by some communities care about the environment in the area will be the motivation to read, write and share knowledge of disaster mitigation. Dissemination of knowledge can be done in community activities and programs spread via email on a mobile communication facility phone today.



- 5) Team University through coordination with BNPB and BPBD can be directional and companion care to community environmental disaster.
- 6) Culture of reading and writing became an important factor in the successful implementation of KMS. This requires a variety of activities as well as information technology management activities in order to create a culture.

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**THE ROLE OF HUMAN INPUT IN ERP SYSTEM IMPLEMENTATION**

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**ABSTRACT**

**Purpose** - Enterprise Resource Planning (ERP) systems enhance the working quality and productivity of a company by offering integration, standardization, and simplification of multiple business transactions. The purpose of this research is to examine the influence of top management support, user support, and consultant support to enterprise resource planning (ERP) system implementation effectiveness.

**Research object** - Employees who works in several banks in Jakarta.

**Data Collection Method** - The data of this research obtained by administering 125 questionnaires directly to the research object.

**Sampling technique** - *convenience sampling method*.

**Findings** - The results of this research shows that all of the independent variables which is top management support, user support, and consultant support have a positive correlation to the ERP implementation effectiveness.

**Keywords** - Top Management Support, User Support, Consultant Support, Enterprise Resource Planning (ERP) Implementation.

## 1. Introduction

The banking sector today has a high level of need for the development of technologies and systems that work more effectively and efficiently for the creation of better business performance. In response to intense global competition, many companies have implemented a new information system, known as Enterprise Resource Planning (ERP) system. ERP systems are packaged business software systems, capable of sharing common data, and accessing information in a real time (Tsai *et al.*, 2010). ERP system works essentially by integrating the whole business information, allowing organizations to manage effectively their resource of people, materials, and finance (Markus *et al.*, 2000). The overall resources of an enterprise can be planned, managed and integrated through ERP (Yang, 2006). Nowadays, ERP systems are being increasingly adopted by organizations of any kind and size, in order to avoid technical obsolescence and create sustainable competitive advantages (Al-Mashari *et al.*, 2003; Willis and Willis-Brown, 2002). (Tsai *et al.*, 2007) also indicated that implementing ERP systems can bring benefits for companies, for example reducing cycle time, improving flow efficiency, and rapidly generating financial information. ERP systems enable managers to control the whole business and accelerate decision making. Even ERP system has so many advantages, but the implementation of such a system is not always effective. ERP system implementation often fail to meet company goal. The cause of the general disappointment regarding ERP system effectiveness lies in number of reasons, including a misconception about the system's potential (Bradford and Florin, 2003; Hong and Kim, 2002; marnewick and Labuschagne, 2005; Motwani *et al.*, 2005 in Maditnos *et al.*, 2011).

## 2. The conceptual framework of the study

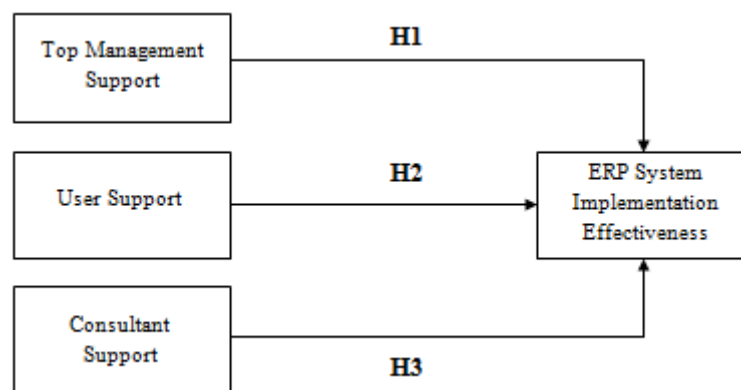


Figure 1.

The aim of the study is to examine the causal relationships between four research variables:

- (1) top management support (human input > internal support);
- (2) user support (human input > internal support);
- (3) consultant support (human input > external support);
- (4) ERP system effective implementation (consequence).

*2.1 Top Management Support (TMS).* Top management support describes the extent to which executive managers of the adopting firm provide the attention, resources, and authority required for ERP implementation. Top management support is a prerequisite for the successful ERP system implementation (Wang & Chen, 2006). Top management support is a prerequisite for the successful ERP system implementation. Top managers supervise the whole implementation procedure, enable resource distribution, and support conflict management (Wang and Chen, 2006). Furthermore, top management has the responsibility to align the new ERP system with the current business practices and prepare the employees for the change brought by the new technology. When top management works closely with various ERP users in the direction of the successful implementation of the ERP system, the communication between business groups is being enhanced and conflict resolution becomes attainable (Thong et al., 1996; Thong, 2001).

***H1. A positive correlation exist between Top Management Support and ERP System Implementation Effectiveness.***

*2.2 User Support.* User support refers to the psychological state of business users toward the changes caused by the implemented ERP system, as well as toward the use of the system for performing their task (Wang & Chen, 2006). The users of an ERP system are usually the ones required to adjust their daily working practices to the new system's requirements. Apparently, becoming familiar with a new ERP system is not an easy task and involves hard working and patience from the part of users (McLachlin, 1999; Soh *et al*, 2000; Wang & Chen, 2006 in Maditinos *et al*, 2011). Otherwise, users are not motivated to support the ERP system in that they are not willing to cooperate with the consultants and assimilate the knowledge transferred to them.

This situation provokes conflicts in the consultant-client relationship and hinders communication (Wang and Chen, 2006).

***H2. A positive correlation exist between User Support and ERP System Implementation Effectiveness.***

*2.3 Consultant Support.* Consultants play a major part in the ERP implementation challenge, since they have the technical knowledge and expertise to assist users in filling the unavoidable knowledge gap that derives from implementing a new ERP system. Competent consultants are valuable to ERP implementation because significant knowledge asymmetry typically exists between the client and consultants. Knowledge asymmetry can induce client dependence on consultants, increasing the importance of consultant quality for ERP implementation. Under that logic, the consulting process become necessity for any company that is willing to implement an ERP system (Freeman & Dart, 1993; Wang & Chen, 2006).

***H3. A positive correlation exist between External Consultant Support and ERP System Implementation Effectiveness.***

### **3. Research Methodology**

*3.1 Sample of the study* - The data of this research can be obtained from primary data, because the information that obtain directly from several Banks in Jakarta (Standard Chartered Bank, OCBC, Mandiri, BNI, BRI).

*3.2 Measures* - The questionnaire of the present study is based on items (questions) that have been used by various previous researchers (Freeman and Dart, 1993; Jiang et al., 2000; Lee and Kim, 1992; Shin and Lee, 1996). The five-point Likert scale was used for the measurement of all variables (1 = “strongly disagree” to 5 = “strongly agree”). Table 1 demonstrates the seven research variables, the number of items used for their measurement and the studies from which they where adapted.

<b>Variables</b>	<b>Number of items</b>	<b>Adapted from</b>
<b>Top management support</b>	7	Lee and Kim (1992)
<b>User support</b>	5	Jiang et al. (2000)
<b>Consultant support</b>	10	Freeman and Dart (1993)
<b>ERP effective implementation</b>	4	Shin and Lee (1996)

*Table 1. The measurement of the variables of the study.*

*3.3 Data collection* - After making all necessary telephone calls, 125 questionnaires were distributed to 5 companies that agreed to participate in the survey. The data of this research obtained by administering 125 questionnaires directly to the research object and returned as much as 125 questionnaires.

*3.4 Validity and reliability* - Validity test is used to measure the accuracy of measuring instruments that used in the testing. In this study, the testing of validity was carried out on all instruments contained in the questionnaire. Those instruments can be said to be valid if they have a strong value towards total value (score). The testing of validity is done by looking for correlations of each indicator toward the total score. The testing method used is correlation of “Pearson Product Moment” that processed with software SPSS version 22. The result can be seen from Pearson Correlation value on the total score of every instruments in the variable. Criteria of decision making of validity test are by comparing *p-value* with a level of significant of 5%: if *p-value* < *alpha* 0.05 then the instrument is *valid*, but if *p-value*  $\geq$  *alpha* 0.05 then the instrument is *invalid*.

Instruments used to measure variables top management support (consist of 7 instruments), user support (consists of 5 instruments), consultant support (consists of 10 instruments), ERP implementation effectiveness (consist of 4 instruments), have *p-value* < 0.05 which means the instruments are valid. In other words, there is an internal consistency in the questions of questionnaire.

Reliability test is used to test the consistency of the data and measuring the extent to which the instruments used can be trusted or relied upon. The test is to determine the consistency of respondents' answers, which means if respondents are asked the similar questions repeatedly then the answer of respondents will not significantly change. In this study, it will be conducted the

testing of internal consistency reliability by using the value of Cronbach's Alpha. Method of reliability test used Cronbach's Alpha that was processed with SPSS software version 22. The result can be seen from *Cronbach's Alpha* coefficient of each variable. Criteria of decision making of reliability test are as follows: if *Cronbach's Alpha*  $\geq 0.6$  then the construct is *reliable*, but if *Cronbach's Alpha*  $< 0.6$  then the construct is *unreliable*.

The construct of top management support, user support, and consultant support have the coefficient of Cronbach's Alpha  $> 0.6$ , which means that Cronbach's Alpha can be accepted (acceptable) or the construct of easily operated, gathering information quickly, and conflict resolution are reliable.

## 4. Results

### 4.1 Validity and reliability

Variable	Coefficient Correlation	p-value	Decision
Tms1	0.574	0.000	valid
Tms2	0.667	0.000	valid
Tms3	0.708	0.000	valid
Tms4	0.529	0.000	valid
Tms5	0.596	0.000	valid
Tms6	0.627	0.000	valid
Tms7	0.648	0.000	valid

*Table 2. Validity Test Results of Top Management Support.*

Variable	Coefficient Correlation	p-value	Decision
User1	0.760	0.000	valid
User2	0.788	0.000	valid
User3	0.815	0.000	valid
User4	0.798	0.000	valid
User5	0.799	0.000	valid

*Table 3. Validity Test Results of User Support.*

Variable	Coefficient Correlation	p-value	Decision
Cons1	0.583	0.000	valid
Cons2	0.657	0.000	valid
Cons3	0.711	0.000	valid
Cons4	0.725	0.000	valid
Cons5	0.683	0.000	valid
Cons6	0.671	0.000	valid
Cons7	0.601	0.000	valid
Cons8	0.675	0.000	valid
Cons9	0.659	0.000	valid
Cons10	0.529	0.000	valid

*Table 4. Validity Test Results of Consultant Support.*

Variable	Coefficient Correlation	p-value	Decision
Erp1	0.626	0.000	valid
Erp2	0.757	0.000	valid
Erp3	0.729	0.000	valid
Erp4	0.794	0.000	valid

*Table 5. Validity Test Results of ERP Implementation Effectiveness.*

No	Variable	N of Items	Cronbach's Alpha
1	Top management support	7	0.732
2	User support	5	0.849
3	Consultant support	10	0.847
4	ERP implementation effectiveness	4	0.702

*Table 6. Reliability Test Results.*



#### 4.2 Coefficient of Determination $R^2$

Coefficient of Determination  $R^2$  is a statistical method that explains how much of the variability of a factor can be caused or explained by its relationship to another factor.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.659 <sup>a</sup>	.435	.421	.518021

a. Predictors: (Constant), Consultant support, Top management support, User support

From the table 4.5 above, it can be seen that the coefficient (r) is equal to 0.659. the value indicates that the correlation or relationship between top management support, user support and consultant support stated to have strong relationships with ERP system implementation effectiveness due to have a correlation value greater than 0.50.

While the value of Adjusted R Square (coefficient of determination) is equal to 0.421 which means that the variation of the ERP system implementation effectiveness variables can be explained by Top management support, user support and Consultant support variables as much as 0.421 or by 42.1% while the remaining 57.9% is explained by other factors that are not included in this study.

#### 4.3 Testing the Overall Significance (F-Test)

This null hypothesis is a joint hypothesis that  $\beta_2$  and  $\beta_3$  are jointly or simultaneously equal to zero. A test of such a hypothesis is called a test of *overall significance* of the observed or estimated regression line, that is, whether  $Y$  is linearly related to both  $X_2$  and  $X_3$ . If probability of  $F$  test lower than 0.05, then joint hypothesis can be supported, it means all independent variables affected to dependent variable simultaneously. (Gujarati, 2010).

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.987	3	8.329	31.038	.000 <sup>a</sup>
	Residual	32.470	121	.268		
	Total	57.457	124			

a. Predictors: (Constant), Consultant support, Top management support, User support

b. Dependent Variable: ERP implementation effectiveness

Based on the results of the regression analysis that presented in the table above it appears that the test of ANOVA or F test obtained F count of 31.038 (F table: 2.70) with a significant level of 0.000. Therefore F count is greater than the F table and the probability is much smaller than 0.05, which means  $H_a$  accepted that it can be said that the top management support, user support and consultant support together have an influence on ERP system implementation effectiveness.

#### 4.4 Hypothesis testing using *t* test

We can use the *t* test to test a hypothesis about any *individual* partial regression coefficient. The *t* distribution can be used to establish confidence intervals as well as test statistical hypothesis about the true population partial regression coefficients. If the computed *t* value exceeds the critical *t* value at the chosen level of significance, we may reject the null hypothesis; Otherwise, we may not reject it.

If we use probability of *t* value lower than 0.05 at the chosen level of significance, we may reject the null hypothesis; otherwise, we may not reject it. (Gujarati, 2010).

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.537	.368		1.459	.147
	Top management support	.240	.099	.206	2.416	.017
	User support	.280	.086	.312	3.235	.002
	Consultant support	.326	.140	.254	2.335	.021

a. Dependent Variable: ERP implementation effectiveness

Based on the results above, the sig value for each independent variable is lower than 0.05. it means that each hypothesis is accepted which state that there is positive correlation exist between each independent variable to independent variable (H1, H2, H3).

There is general agreement in the literature that greater top management concern and involvement in MIS development will lead to greater success. Top management can motivate users to participate in the process and use MIS (Lee and Kim, 1992). IS/IT usage and user satisfaction is largely influenced by perceived usefulness. Among the organizational factors, top management support was found to have the strongest effect on IS/IT usage and user's satisfaction, followed by availability of training and user involvement (Rouibah, *et al*). Furthermore, IS literature also suggest that "good systems" should fit the objectives of the organization, and that top management is a key player in the process of helping the system meet organizational objectives (Neumann, 1994).

Researchers have espoused that user input and system analysts input are of equal importance when developing a successful system (Robey & Farrow, 1982). User willingness to support the project and accept the changes brought about by the new system motivates users to express themselves more frankly regarding their thoughts and requirements during implementation (Wang & Chen, 2006).

consultants make important contributions during ERP implementation, probably by transferring a full range of technical knowledge and reifying organizational requirements and exigencies into system configurations. Consultants also can contribute to ERP system quality indirectly by enhancing conflict resolution. Competent consultants can negotiate among cross-functional users, ensuring that the concerns of different functions are fully addressed during implementation. Consultants who care for the client and are sufficiently knowledgeable should also be able to communicate more effectively with users, reducing the potential for misunderstanding and increasing user engagement in system implementation. consultants generally are those who actually perform the system configuration. The solutions they offer should directly influence the implemented ERP system quality, independent of their interactions with the client (Wang & Chen, 2006).

## **5. Conclusion**

Based on the collected data and the testing that has been done on the problem by using a multiple linear regression model, it can be concluded as follows:

1. There is positive correlation between Top Management Support and ERP Implementation Effectiveness. It means that Top Management Support can increase the Effectiveness of ERP Implementation.
2. There is positive correlation between User Support and ERP Implementation Effectiveness. It means that User Support can increase the Effectiveness of ERP Implementation.
3. There is positive correlation between Consultant Support and ERP Implementation Effectiveness. It means that Consultant Support can increase the Effectiveness of ERP Implementation.

## **6. Managerial Implication**

The result of this study implies that there is positive correlation between every independent variables and independent variable. This results can give advise to the company who wants to have an effective implementation of a system.

1. The company must have a top management that enjoy helping people grow, love to create positive environments, want to correct mistakes inflicted on the company because a great manager cares deeply about their staff, and goes out of his way to protect, train, care for, and reward their own team, even if their primary motivation is their own success.
2. The company must have user that love to learn, because it will support the transition of system in the company. This is one of the problems of the ineffectiveness of a system in the company. User often lazy to learn a new system because they consider it too complicated etc.
3. The company must have experienced consultant and maintain a good relationship with the consultant, because it will help the company to contact the consultant whenever the company needs help dealing with the system.

## **7. Research Limitations**

This research takes 5 banks in jakarta which is Standard Chartered Bank, BRI, Mandiri, BNI, OCBC. The criteria of selected bank is the bank that using ERP system. This research only examines the relationship among ERP system implementation effectiveness, top management

support, user support, and consultant support. The data that gathered in this research is come from 125 respondents.

### **8. Suggestion for Further Research**

Further research on the effective implementation of the ERP systems is suggested with larger samples that would, probably, offer more information and strengthen the initial outputs of the present research. Moreover, it would be interesting to include additional variables to the proposed conceptual framework of the present study (e.g. change management, team morale and motivation, training, job redesign) and finally, gather empirical data from all company personnel, so as to achieve a rounder view of the subject under investigation.

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**THE EFFECTS OF BRAND AWARENESS AND BRAND IMAGE TO PERCEIVED QUALITY, BRAND LOYALTY AND PURCHASE INTENTION**

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**ABSTRACT**

The paper aims to present a comprehensive framework for the effects of brand awareness and brand image to perceived quality, brand loyalty and purchase intention. The paper also seeks to account explicitly for the differences in brand awareness, brand image, perceived quality, brand loyalty and purchase intention found among Nike's customers. Data were obtained from 150 respondents. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into brand awareness and brand image should focus on perceived quality, brand loyalty and purchase intention as important consequences. The findings propose that brand awareness and brand image has positive effects to perceived quality, brand loyalty and purchase intention. Marketing research should pay more attention to the role of brand awareness and brand image in gaining Nike's customers. Because of the positive influence on marketing success, managers should focus on perceived quality, brand loyalty and purchase intention primarily with Nike's customers. However, brand awareness and brand image also seems to be a good device to gain customers from competitors. The contributions of the paper are, firstly, a more complete framework of the effects of brand awareness and brand image to perceived quality, brand loyalty and purchase intention analyses simultaneously. Secondly, the study allows a direct comparison of the difference in brand awareness, brand image, perceived quality, brand loyalty and purchase intention between Nike's customers.

**Keywords:** brand awareness, brand image, perceived quality, brand loyalty, purchase intention.

## **1. Background**

Seeing the sport fashion and brand development so far, of course they cannot be parted from some big company names who supplied the sports products such as Nike, Adidas, Puma, and other popular brands discussed before. Specifically for the first name, to this day, Nike is the leading company in the brand strength that they have. Based on Nike's data in 2013, they occupied the 24<sup>th</sup> rank as the brand with the highest value in the world of Interbrand version, or went up of two ranks from last year, whereas in 2013 Nike has a brand value of 17.985 billion dollar, which increased of 13% from the previous year. In other aspects, Nike occupied the first position as the most valuable brand for sporting goods category (<http://www.bestglobalbrands>, 2013).

Moreover, the acquisition of Nike last year was not very different whereas in 2014, Nike was still the most valuable sports brand of the Forbes version with the brand value estimation amounted to 19 billion dollars (increased \$1.9 billion from the previous year), Nike was the highest brand followed by ESPN and Adidas. Forbes found that, Nike almost dominated 20% of the footwear market all over the world and 62% of United States of America where the stock price in stock market had increased of 50% after the last five years (<http://www.brandchannel.com>, 2014).

The increase in Brand Value from the last three years showed that brand strength owned by Nike have an impact on profit which proved the high consumer purchase intention towards the product launched by Nike. Purchase intention itself, according to Irawan (2011) is the strong willingness, a very high passion and tendency of heart to receive something by conducting a sacrifice, receiving something by paying money. This explains that the high brand value owned by Nike shows that there are also high will, passion, and tendency of heart that consumers own to have the Nike product even though they have to pay with some sacrifice through paying money that might not be cheap.

Based on the high consumer interest towards products launched by Nike, there are some matters that can cause that, firstly is the good quality owned by Nike products whereas the marketing concept is known as perceived quality which is related with the information on whether there is or there is no gap between consumer's perceptions towards product quality. The matter is related with the perception on performance, resilience and reliability. Second, it is a good thing that the image, which is attached with Nike so far, is recognized as the concept of brand image which reflected a certain brand image towards a certain impression in its relation with habit, lifestyle, benefits, product attributes, geographic, price, competitor, celebrity, and others. Third, is the large number of fans that have already loved the Nike brand, thus they always purchase and love every Nike product, which is known as the concept of brand loyalty which reflects the level of attraction

consumers have towards a certain brand. It includes a committed buyer, a buyer who likes the brand, a satisfied buyer, and a habitual buyer and switcher buyer. The last factor or the fourth factor is the high level of society's awareness of Nike so there are many people who don't have much brand alternative to be chosen if they need sports apparel, this is known as brand awareness which means the ability of a buyer candidate to recognize or recall that a brand is a part of a certain product category.

Theoretically, the research conducted by Nasreen et al. (2014) found that the element or dimension of brand equity consists of brand awareness, brand image, perceived quality, and brand loyalty; each has their own impact on consumer's purchase intention. Moreover, it is found that brand loyalty has a stronger impact compared to other dimension, followed by perceived quality, brand image, and brand awareness. Based on the previous description, it is shown that the high consumer interest on the Nike brand is perceived as a cause of the high value of brand equity that Nike has, whereas each dimension such as brand awareness, brand image, perceived quality, and brand loyalty can be considered very satisfactory by society, thus encouraging them to have a purchase intention for every product launched by Nike. Thus, it can be concluded that it is interesting to know whether the dimension of consumer-based brand equity has an impact in creating a purchase intention on Nike product.

## **2. Literature Review**

### **2.1. Consumer Based Brand Equity**

The concept present in the theoretical assumption used to abstract the elements present in the studied phenomenon which is the purchase decision is an impact of a few stimulus given in a marketing strategy, one of it is the formation of brand equity on a product. According to Aaker (1992), brand equity is a set of a brand assets and liabilities; is linked to the brand's name and symbols: can subtract from, as well as add to, the value provided by a product or service; and provides value to customers as well as to the firm. To increase the value of a brand, Keller (2000) proposed a model called *Customer-Based Brand Equity*. This model is based on 4 main questions: (1) How far is the ability of the company to clearly and in details formulate the brand identity? (Who are you); (2) How far is the ability of the company to develop an association that is meaningful for the consumer? (What are you); (3) How is the response of consumers towards the association that the brand proposed? (What about you); (4) How is the interaction that occurs between brand and consumer that cause the bond between the two to become stronger? (What about you and me).

Thus, this research defines brand eEquity as the potential that exists in a certain brand that is measurable, used, or developed from the brand's name on a product because it relates to the brand awareness, brand association, perceived quality, brand loyalty, which then can be the factor that influences consumer's purchase decision. Brand equity research becomes very important for companies, because now and in the future, the marketing competition is a competition of brands.

## **2.2. Brand Awareness**

Aaker defined brand awareness as the ability of potential consumers to recognize or remember that a brand is a part of a certain product category. Brand awareness itself gives value, among them are: (1) giving a place for association towards the brand; (2) introducing a brand; (3) is a signal for the existence of commitment and substance of the brand; (4) helps to choose the brand group to be considered seriously.

The level of brand Awareness is as follows: (1) Unaware of brand: in this stage, the customer feels doubtful or unsure whether they have known the brand mentioned or not; (2) Brand recognition: in this stage, the customer is able to identify the brand mentioned; (3) Brand recall: in this stage, the customer is able to remember the brand without being given stimulus; (4) Top of Mind: in this stage, the customer remembers the brand as the first thing that occurs in their mind when they talk about a certain product category.

## **2.3. Brand Image**

There are many different definitions or perceptions on brand image, whereas the different perceptions depend on the area in which the image is constructed in consumer's mind. Some definitions of brand image from a few sources are as follow: (1) Brand image is consumer's set of belief on a certain brand (Kotler and Armstrong, 2001); (2) Brand image is a set of perception on a brand that is related to one another in the human mind (Ouwersoot and Tudorica, 2001); (3) Brand image can be defined as a perception about brand as reflected by the brand association held in consumer memory. This means that the brand image is a perception about a brand that is described by brand association present in the memory (Keller, 1998); (4) Brand association is anything linked in memory to a brand. This definition shows that brand association is something that is related with a brand in consumer's memory (Aaker, 1991).

Both Keller and Aaker stated that there is a close relation between brand association with brand image whereas the association created in a brand can form a brand image. Brand association can help the process of recalling information related with the product, specifically during the purchase

decision-making process. Thus, between brand image and brand association, they have a close interconnectedness that is inseparable with the other.

### **2.3. Perceived Quality**

Perceived quality is information in the form of consumer perception towards quality of products and services. Perceived quality is influenced by the product and service quality given. The quality of product can be seen from the characteristic of product, durability of the product, product performance, trusted products, the ability of product in giving services and physically the product seem qualified. Perceived quality gives much value as follows: (1) Give a reason for a customer to use the product goods or services, the better the customer perception, the higher the potential of customer to use the product; (2) Differentiate product goods or services with the product of competitors; (3) Give a gap to determine a premium price above the product goods or services; (4) Create an attraction of distribution supply to channel the product goods or services because product is perceived as good, so it is easier to distribute to a lot of market.

### **2.4. Brand Loyalty**

Brand Loyalty, according to Aaker's (1996) definition is a measurement of customer's interconnectedness with a brand. This measurement can give an interconnection of customer to switch to another product, especially if the product changes, in the matter of price or other attributes. It is the measurement of customer's loyalty on a brand. Loyalty has many levels as can be seen in the picture below: (1) the basic loyalty level is where the buyer is not loyal or not interested at all on the proposed brand. Thus, the brand plays a little role in purchase decision. Generally, this kind of buyer likes to switch brands or is called as switcher consumer or price buyer (consumer is likely to pay attention to price in conducting a purchase); (2) the second level is where the buyer feels satisfied with the product used, or minimally, the buyer does not feel disappointed. Basically, there is no adequate unsatisfactory dimension to encourage a change, especially if the change to other brand needs an additional cost. This type of buyer is called as a habitual buyer; (3) the third level consists of satisfied people, but bearing the switching cost, whether in the matters of time, money, or risks related with the effort to switch to other brand. This group is usually called as a loyal consumer who feels that there is a sacrifice if they conduct a switch to other brand. This type of buyer is called as satisfied buyer; (4) the fourth level is where the consumer really desires the brand. Consumer choice towards a brand is based on an association, such as symbols, set of

experience in using it, or high quality impression. The buyer in this level is called as brand's best friend because there is an emotional feeling in desiring the brand; (5) the highest level is the loyal customer. Customer has a pride in finding or becoming a user of a certain brand. The brand is so important for the customer whether in function or as an expression of who the customer really is (committed buyers).

### **2.5. Purchase Intention**

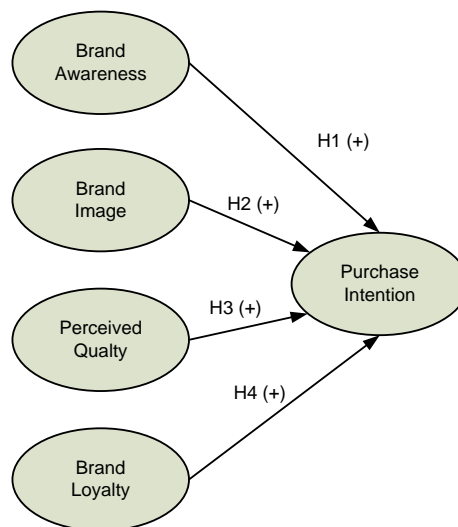
Purchase Intention, according to Assael (1998) is consumer tendency to buy a brand or take actions related with the purchase measured with the possibility level that consumers conducted purchase. Mehta (1994) defined purchase intention as consumer tendency to purchase a brand or take actions related with the purchase measured with the high possibility that the consumer conducted a purchase. The definition of purchase intention according to Howard (1994) is something that is related with consumer's plan to purchase a certain product and how many products needed in a certain period. Purchase intention is the tendency to buy a brand and generally based on the accordance of purchase motive with brand attribute or characteristic that can be considered (Belch, 2004).

Meanwhile, according to Kotler (2000), the definition of purchase intention is consumer behavior occur when consumer stimulated by external factors and come to purchase decision based their personal characteristics and decision making process. The AIDA model is an element of purchase intention as explained by Kotler (2000). The AIDA model consists of: (1) Attention, The interconnectedness of consumers and products, in this case where the company can put attention to consumer by conducting an approach so that the consumer realizes the presence of the product and its quality; (2) Interest, The awareness of consumer towards a product, in this stage consumer's attraction towards the product is grown and created. The company conducts effort so that their product has an appeal in the consumer, so the consumer has a curiosity that can raise its interest towards a certain product; (3) Desire, Consumer's wish to try and own the product, consumer's curiosity towards the product is directed to an intention to buy; (4) Action, Consumer's action to have a decision to purchase.

### **3. Conceptual Framework and Hypothesis Development**

The findings reveal that brand awareness, brand image, perceived quality, and brand loyalty are the dimensions of brand equity. It further proved that there is a casual relationship among the dimensions of brand equity and each dimension has special affect on purchase intention of

Malaysian consumers in fashion industry. Brand loyalty has stronger impact on purchase intention, subsequently followed by perceived quality, brand image and brand awareness (Nasreen et al., 2014). The research of Narseen et al. (2014) found that the elements or dimension of brand equity is brand awareness, brand image, perceived quality, and brand loyalty, each has an impact on consumer's purchase intention. Moreover, it is found that brand loyalty has a stronger impact compared to other dimensions, followed by perceived quality, brand image, and brand awareness.



**Figure 1. The impact of Consumer-Based Brand Equity towards Purchase Intention**

**Source: Nasreen et al., 2014**

Based on the conceptual framework and research result of Nasreen et al (2014) that stated that there is an impact of brand equity dimension towards the formation of purchase intention, it can be concluded that there are a few hypothesis examined in this research: (1) Brand Awareness has a positive impact towards the formation of Purchase Intention of Nike brand consumers; (2) Brand Image has a positive impact towards the formation of Purchase Intention of Nike brand consumers; (3) Perceived quality has a positive impact towards the formation of Purchase Intention of Nike brand consumers; (4) Brand Loyalty has a positive impact towards the formation of Purchase Intention of Nike brand consumers.

## **4. Research Methodology**

### **4.1. Data Collection Procedures**

In this study, data were collected in two ways that are divided into primary data collection and secondary data collection. Primary data obtained from questionnaires (questionnaires) were

distributed to a number of research respondents i.e. to 137 respondents or users who have used Nike products. While secondary data obtained from various sources literature related to issues such as research, books, journals, internet and documents deemed relevant.

#### **4.2. Test Results Instrument Research**

Before doing further testing on regression analysis, there are several tests performed on the research instrument to support the validity of the data, testing include test the validity and reliability of the instrument. For more details, description of the results of testing the validity and reliability of research instrument presented in Table 1 measurement.

**Table I**  
**Measurement**

<b>Variable</b>	<b>KMO</b>	<b>Anti-Image</b>	<b>Cronbach's Alpha</b>
<b>Brand Awareness</b>	0,736		0,796
Nike brand characteristics always come to mind quickly		0,783	
I can recognize the Nike brand faster than any other brand		0,713	
I see the difference in quality of Nike ads in several media such as TV, newspapers, or the internet		0,713	
I feel very close to the Nike brand TV or internet newspaper		0,695	
I can quickly recall the Nike brand logo		0,768	
<b>Brand Image</b>	0,858		0,870
Nike gives results as expected		0,843	



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Nike brand and its image is very interesting for me	0,841	
Nike showed my personality in fashion	0,860	
Nike is a brand with great income	0,881	
Nike increase the degree and respect towards its people	0,863	
Nike can make the user feel comfort	0,873	
<b>Perceived Quality</b>	<b>0,865</b>	<b>0,891</b>
Nike has a good quality	0,849	
Materials used every product Nike very comfortable	0,829	
Nike offers products with attractive colors	0,866	
Nike durable or not quickly broken	0,909	
Nike offers a large selection of products with many models	0,898	
Nike trendy and fashion	0,860	
<b>Brand Loyalty</b>	<b>0,813</b>	<b>0,842</b>
Nike has a fair price	0,847	
Nike price increase will not affect the intention to buy	0,743	
Nike has always been my main choice compared to other brands	0,844	

I am satisfied with Nike	0,779	
I would recommend it to others Nike	0,832	
I'm not going to switch to other brands	0,818	
I always believed in Nike products	0,811	
<b>Purchase Intention</b>	0,594	0,611
I would buy Nike products in the near future	0,567	
I would consider buying Nike products in the future	0,705	
I am interested in buying any products Nike	0,580	

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## 5. Result

Statistical tests were conducted to test the hypothesis by using SPSS. In Table II shows the results, H1 is supported ( $\beta = 0.451$ ,  $p\text{-value} = < 0.05$ ). This shows that the brand awareness of consumers affect the purchase intention. H2 also shows same result, namely ( $\beta = 0.573$ ,  $p\text{-value} = < 0.05$ ) in this case shows that the brand image affect purchase intention. H3 supported ( $\beta = 0.437$ ,  $p\text{-value} = < 0.05$ ) which shows that the perceived quality affect purchase intention. H4 supported ( $\beta = 0.698$ ,  $p\text{-value} = < 0.05$ ) shows that brand loyalty affect purchase intention. For more details, the following hypothesis testing results in Table II.

**Table II**  
**Hypothesis Results**

<b>Hypothesized path</b>	<i>Standardized coefficients</i>	<i>p-value</i>	<b>Decision</b>
H1 : There is a positive impact of brand awareness towards purchase intention	0,451	0,000	H1 Supported

H2 : There is a positive impact of brand image towards purchase intention	0,573	0,000	H2 Supported
H3 : There is a positive impact of perceived quality towards purchase intention	0,437	0,000	H3 Supported
H4 : There is a positive impact of brand loyalty towards purchase intention	0,698	0,000	H4 Supported

## **6. Contributions, Implications and Future Research Directions**

This research is a form of replication study based on previous research conducted by Nasreen et al. (2014). Together with research conducted Nasreen et al. (2014). This study examines the effect of the dimensions of the consumer-based brand equity with purchase intention. But this study has a difference in the product or brand are researched and object of research, which in this study using the case as a subject of the Nike brand and Nike product user students as research objects. So that the difference in these two case are expected to provide theoretical implications in the academic realm. In addition this study has some practical implications, where the results can explain the importance of building a brand. Intentions and strong consumer commitment will strengthen customer conduct future purchase intentions, so the company should give good satisfaction so as to give the impression of quality and build loyalty in self customer. In this case also the brand awareness can influence future purchasing intentions, thus the company should emphasize effective marketing communications and efficient so that the higher public awareness on a brand.

## **7. Limitation**

Researchers know there are still many shortcomings in this research which should be fixed in subsequent studies that discuss the same variables. Among other limitations: First, this study uses only a relatively small sample and using purposive technique so it cannot describe the relatively wider population. Second, this research is only done on one of Nike brand products only, which means it cannot describe the same situation in other apparel manufacturers. Third, assuming only four variables as a variable causes that gives rise to interest in the purchase, from a theoretical point where many other variables that could also affect the purchase intention.

## **8. Research in the Future**

In the study in the future, should the number of respondents must be coupled with a larger number, and the selection of samples are expected to use probability sampling so that the test results on samples conclusions can be drawn into the wider population. Future studies should use not only within a specific sample of students, but rather extends to the characteristics of brand users in other sports besides students. Future studies should use other brands are no less great than Nike, or use brand entirely new and yet get higher equity as well as Nike.

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**E-SERVICE QUALITY IN ONLINE SHOPPING**

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**ABSTRACT**

This paper develops a research model to examine the relationship among e-service quality dimensions and overall service quality, customer satisfaction and purchase intentions. Data was taken from a survey of 132 online consumers and used to test the research model. Confirmatory factor analysis was conducted to examine the reliability and validity of the measurement model, and the structural equation modelling technique was used to test the research model.

This study developed the instrument dimensions of e-service quality by modifying the SERVQUAL model to consider online shopping context.

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**Keywords: Electronic commerce, service quality assurance, customer satisfaction, purchasing, shopping, Structural Equation Model (SEM)**

## **1. Introduction**

With the rapid global growth in electronic commerce (e-commerce), businesses are attempting to gain a competitive advantage by using e-commerce to interact with customers. E-commerce offers speed, convenience, and often cost effectiveness for today's busy shoppers. Businesses with the most experience and success in using e-commerce are beginning to realize that the key determinants of success or failure are not merely web site presence and low price but also include the electronic service quality (e-service quality) (Yang, 2001; Zeithaml, 2002). Santos (2003) defined e-service quality as overall customer assessment and judgment of e-service delivery in the virtual marketplace.

Service quality is an elusive and abstract construct that is difficult to explain and measure (Cronin and Taylor, 1992). The SERVQUAL model, first developed by Parasuraman et al. (1988) has been widely tested as a means of measuring customer perceptions of service quality. The SERVQUAL model contains five dimensions, namely tangibles, reliability, responsiveness, assurance and empathy. Furthermore, during the past decade, SERVQUAL model has been tested for measuring service quality in e-commerce settings (Negash et al., 2003). Previous studies on the measurement of e-service quality focused only on the application of the SERVQUAL model by rewording the original scale items. However, in the service quality field, service researchers need to pay more attention to customer evaluations of e-services, because methods of measuring service quality differ between e-commerce and physical marketplace service (Parasuraman and Grewal, 2000). Additionally, van Riel et al. (2001) proposed that the SERVQUAL scale items would have to be reformulated before they could be used meaningfully in the online shopping context. Thus, this study aims to identify the main influence on online shopping service quality, using a modified version of the SERVQUAL model.

Research is required on the influence of e-services on all customer responses, such as perceived service quality, customer satisfaction and purchase intentions (Jeong et al., 2003). Understanding the determinants of service quality, customer satisfaction and purchase intentions for online shopping is important for both marketing researchers and online stores managers. Moreover, previous studies have revealed that service quality in online environments is an important determinant of the effectiveness of e-commerce (Janda et al., 2002).

However, few studies have examined the relation among different dimensions of e-service quality in predicting overall service quality, customer satisfaction, and purchase intentions for online shopping, especially in Indonesia. This study attempts to derive the instrument

dimensions of e-service quality through modifying the SERVQUAL model to develop a research model to examine how e-service quality dimensions affect overall service quality, customer satisfaction and purchase intentions. To prove the usefulness of the research model, data were collected from 150 online consumers in Jakarta. Confirmatory factor analysis (CFA) was conducted to examine the reliability and validity of the measurement model, and the structural equation modeling (SEM) technique was used to test the research model, which was supported by AMOS software. The test results provide a valuable reference for managers of online stores, as well as for researchers interested in internet marketing and also for the online shopping user to get more knowledge.

## **2. Literature Review**

### **2.1 E-service Quality**

E-service quality can be defined as overall customer evaluations and judgments regarding the excellence and quality of e-service delivery in the virtual marketplace (Santos, 2003). Research has demonstrated that service quality influences consumption decisions, but only recently these findings have been applied to e-commerce (Wolfenbarger and Gilly, 2003). For example, service quality measures have been applied to assess the quality of virtual community web sites (Kuo, 2003), satisfaction with e-commerce channels (Devaraj et al., 2002), and determinants of web site success (Liu and Arnett, 2000).

Online shopping is a complex process that can be divided into various sub-processes such as navigation, searching for information, online transactions, or customer interactions. Customers are unlikely to evaluate each sub-process in detail during a single visit to an online store, but rather will perceive the service as an overall process and outcome (van Riel et al., 2001). Furthermore, for online customers, high standard e-service quality is the means by which the potential benefits of the internet can be realized (Yang, 2001). Because it is much easier to compare product technical features and prices online than through traditional channels, e-service quality becomes a key factor for customers (Santos, 2003). Online customers thus expect equal or higher levels of service quality than traditional channels customers.

Because e-commerce is a recently emerging field, little academic literature in this field has addressed in-depth online systems quality. Online systems quality can be divided into information systems quality and information quality. Information systems quality refers to the quality of software development whereas information quality pertains to the accuracy, timeliness, currency, and reliability of information.

Basically, there are three main characteristics of e-services, such as: 1). The service is accessible via the Internet or other electronic networks; 2). The service is consumed by a person via the Internet or other electronic networks; 3). There might be a fee that the consumer pays the provider for using the e-service, or it may be free as in case of government services.

## **2.2 Service Quality Dimensions**

Parasuraman et al. (1988) conceptualize service quality as the relative perceptual distance between customer expectations and evaluations of service experiences and service quality using a multi-item scale called the SERVQUAL model. The SERVQUAL model includes the five dimensions of tangibles (physical facilities and the appearance of personnel), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (employee knowledge base which induces customer trust and confidence), and empathy (caring and individualized attention provided to customers by the service provider).

The SERVQUAL scale recently has been widely used to measure information system service quality. The SERVQUAL scale also was employed to measure e-commerce system service quality (Kim and Lee, 2002). Related studies on e-service quality have tested the SERVQUAL scale and used it to measure service in various contexts, including web-based service (Kuo, 2003; Negash et al., 2003), internet retail (Kaynama and Black, 2000; Barnes and Vidgen, 2001), and electronic banking (Zhu et al., 2002). Most research on e-service quality measurement has focused on rewording the SERVQUAL scale items. However, challenges in measuring web-based service quality exist due to the differences between web-based and traditional customer service (Li et al., 2002).

Parasuraman and Grewal (2000) suggested that research is needed on whether “the definitions and relative importance of the SERVQUAL dimensions change when customers interact with technology rather than with service personnel”. Moreover, several studies have proposed that the SERVQUAL scale items must be reformulated before they can be meaningfully used in the online shopping context (van Riel et al., 2001; Santos, 2003). Thus, based on the SERVQUAL model with consideration of the characteristics of the online shopping context should be partly reformulated. Additionally, previous studies have suggested that perceived service quality positively influences customer satisfaction and purchase intentions (Martensen et al., 2000). Nevertheless, in the context of online shopping, few studies have examined the usefulness



of relative service quality dimensions in predicting overall service quality, customer satisfaction and purchase intentions.

### **2.3 Customer Satisfaction**

Customer satisfaction is a psychological concept that involves the feeling of well-being and pleasure that results from obtaining what one hopes for and expects from an appealing product and/or service (WTO, 1985). Oliver (1980) stated that customer satisfaction definition is based on the expectation disconfirmation point of view. Before purchasing or using the product or service, customers always have their personal expectation about its performance. After buying or using product or service, if the result is equal or better than expectation, it means the expectation has positive confirmation. In the opposite case, if the result is lower than expectation, we have negative confirmation. Customers are said to be satisfied only if there are positive confirmations of expectation. It is well known that customer satisfaction is an important thing in business.

A review of literature implies that service quality is one of the main antecedents of customer satisfaction. What is more, the relationship is positive, suggesting that higher service quality is likely to increase customer satisfaction.

### **2.4 Purchase Intention**

Online purchase intention can be defined as a situation where a consumer is willing and intends to make online transactions (Pavlou, 2003). This term is used when customers willingness to search, select and purchase products via the Internet. George (2004) and similarly, Khalifa and Limayem (2003) defined internet purchasing behavior as a process of purchasing products, services and information via the Internet, they defined this term based on earlier definition of Azjen and Fishbein (1980) on customer behavior and intention. George (2004) stated that because of customer concerns about personal information and privacy, many consumers do not shop online. The buying behavior of online customers is related to how customers make their decisions on what product or services to purchase online. The Internet affects customer decision-making behavior in all three stages of pre-purchase, purchase and post purchase (Sheth and Mittal, 2004). Therefore, customer online purchase intention in the web-shopping environment will determine the power of a consumer's intention to do a purchasing behavior via the Internet (Salisbury et al., 2001). By virtue of past works, this paper defines online purchase intention as customer's willingness with intention to purchase behavior via the Internet.

## **2.5 Interrelationship Among Service Quality, Customer Satisfaction and Purchase Intentions**

The literature largely addresses the relationship between quality and satisfaction. Therefore, we focused on two most important and relevant studies. First, Cronin and Taylor (1992) tested the causal relationship between service quality and customer satisfaction. In their article, they noted that there is no consensus on the causal order of the quality and satisfaction from the perspective of marketing researchers, and suggested that the true nature of this empirical relationship is required for further justification. The findings confirmed that perceived service quality can have powerful impact on satisfaction. Second, there are quite a number of studies exploring the relationship between service quality and satisfaction, for example, Spreng and Mackoy (1996) tested a model developed by Oliver (1993). Findings from Rust and Williams (1994) found that a high customer satisfaction leads to a high intent of repurchasing. On the other hand, dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase.

## **3. Research Model and Hypotheses**

Because the existing literature remains insufficient to provide a conceptual model of e-service quality, empirical research is required to clarify the detailed determinants of e-service quality and their influence on customer perceptions of online stores (Santos, 2003). This study proposed that e-service quality dimensions include web site design, reliability, responsiveness, trust and personalization, and moreover developed a research model for understanding the perceptions of rational customers regarding online shopping. The model proposed that e-service quality dimensions are casually linked to the two performance measures of overall service quality and customer satisfaction, and in turn influence customer purchase intentions.

### **3.1 E-service Quality Dimensions**

This study used the revised SERVQUAL scale items to establish dimensions of e-service quality through web site design, reliability, responsiveness, trust, and personalization. The relationship among the e-service quality dimensions, overall service quality and customer satisfaction is hypothesized and discussed below.

#### **3.1.1 Web Site Design**

Web site design quality is crucial for online stores (Than and Grandon, 2002). Web site design describes the appeal that user interface design presents to customers (Kim and Lee, 2002). The influence of web site design on e-service performance has been studied extensively. For instance, Cho and Park (2001) conducted an empirical research of a sample of 435 internet users to examine the e-commerce user-consumer satisfaction index (ECUSI) for internet shopping. They found that the customer satisfaction is assessed using the quality of web site design. A recent empirical study found that web site design factors are strong predictors of customer quality judgments, satisfaction, and loyalty for internet retailers (Wolfenbarger and Gilly, 2003). Hence, the following hypotheses are proposed.

H1a. Web site design in an online store positively influences overall service quality.

H1b. Web site design in an online store positively influences customer satisfaction.

### **3.1.2 Reliability**

Reliability represents the ability of the web site to fulfill orders correctly, deliver promptly, and keep personal information secure (and Lee, 2002). The importance of reliability has been emphasized by the information technology-based service. Moreover, Zhu et al. (2002) argued that reliability dimension has a direct positive effect on perceived service quality and customer satisfaction by electronic banking systems. Online stores must provide mistake-free service and secure online transactions to make customers feel comfortable using online shopping. The following hypotheses thus are proposed.

H2a. Reliability in an online store positively influences overall service quality.

H2b. Reliability in an online store positively influences customer satisfaction.

### **3.1.3 Responsiveness**

Customers expect online stores to respond to their inquires promptly (Liao and Cheung, 2002). Responsiveness describes how often an online store voluntarily provides services (e.g. customer inquires, information retrieval and navigation speed) that are important to its customers (Kim and Lee, 2002). Researchers examining the responsiveness of web-based services have highlighted the importance of perceived service quality and customer satisfaction (Zhu et al., 2002). The following hypotheses thus are proposed.

H3a. Responsiveness design in an online store positively influences overall service quality.

H3b. Responsiveness in an online store positively influences customer satisfaction.

### **3.1.4 Trust**

Online shopping context comprises the interaction customers and online stores (Bakos, 1991). Numerous studies have emphasized the importance of online trust between customers and online stores (Krauter and Kaluscha, 2003). Trust is a significant antecedent of participation in commerce generally, and especially in online settings because of the increased ease with which online stores can behave opportunistically (Reichheld and Schefter, 2000). Moreover, trust is defined as customer willingness to accept vulnerability in an online transaction based on their positive expectations regarding future online store behaviours (Kimery and McCard, 2002). That is, trust encourages online customer purchasing activity and affects customer attitudes toward purchasing from an online store (Gefen et al., 2003). Consequently, the following hypotheses are proposed.

- H4a. Trust in an online store positively influences overall service quality.
- H4b. Trust in an online store positively influences customer satisfaction.

### **3.1.5 Personalization**

The lack of real-time interaction tends to prevent potential customers from purchasing through online shopping (Yang and Jun, 2002). Personalization involves individualized attention, personal thank you notes from online stores, and the availability of a message area for customer questions or comments (Yang, 2001). Previous studies have examined the influence of the customer service provided by internet retailers on customer perceptions of service quality and satisfaction (Wolfenbarger and Gilly, 2003). The following hypotheses are proposed.

- H5a. Personalization in an online store positively influences overall service quality.
- H5b. Personalization in an online store positively influences customer satisfaction.

### **3.1.6 Purchase Intentions**

As the internet has spread it has become a popular marketing channel (Cho and Park, 2001). Analyzing customer evaluations of online shopping is particularly interesting to academics and practitioners, especially in the field of e-commerce (Wu, 2003). Previous studies have found that service provider perceptions of customer satisfaction are a function of perceived service quality of technological services (Zhu et al., 2002).

The theory of reasoned action proposes that behaviour can be predicted from intentions that correspond directly (in terms of action, target and context) to that behavior. This study thus postulated that consumer purchase intentions provide an acceptable proxy for actual online purchase behaviour.

Additionally, previous studies have suggested that customer perceptions of service quality and satisfaction positively influence purchasing intentions. For instance, Rustand Zahorik (1993) noted that overall service quality and customer satisfaction significantly influence customer retention, market share, and profitability. More recently, Llusar et al. (2001) considered customer satisfaction as a mediator of the relationship between firm perceived quality and customer purchase intentions. Based on the above literature review, the following hypotheses are proposed.

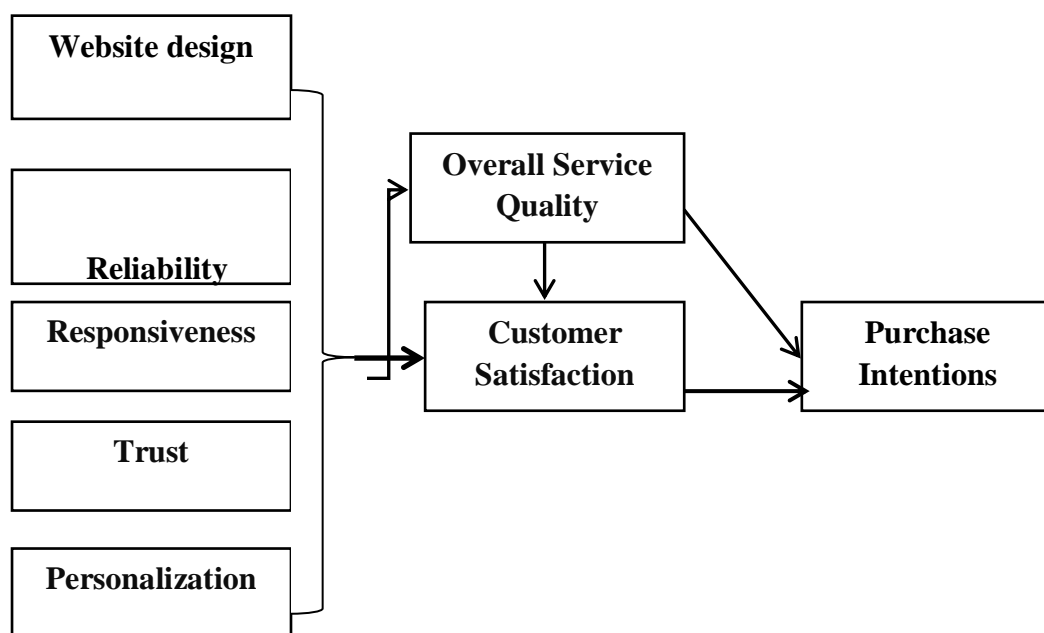
H6. Overall service quality in an online store positively influences customer satisfaction.

H7. Overall service quality in an online store positively influences customer purchase intentions.

H8. Customer satisfaction with an online store positively influences purchase intentions.

The framework for the present study was developed based on the extensive literature review and is shown in Figure 1 below.

**Figure 1. Study Framework Proposed**



#### **4. Result**

#### 4.1 Demographic Profile

Demographic profile of the sample is presented in Table 1 below.

**Table 1 Demographic Profile of the Respondents (n=132)**

Items	Frequency	Percentage
<b>Gender</b>		
Male	40	30%
Female	92	70%
<b>Age</b>		
< 20	15	11%
21 – 30	112	85%
31 – 40	5	4%
<b>Education</b>		
Diploma	38	29%
Bachelor	76	58%
Master	18	14%
<b>Period of Being an Online Customer</b>		
< 5 year	64	48%
6- 10 year	67	51%
11 – 20 year	1	1%

Among the 132 respondents in the sample, 30% are male and 70% are female. Most of the respondents are around 21 until 30 year old. They are about 85%, followed by those who are below 20 year old, for about 11%, and there are 4% of the respondents with the age around 31 until 40 year ol. The education of the respondents that fill the questionnaire are divided in to Diploma, for about 29%, Bachelor, for about 58%, and Master for about 14%. Around 51% respondents have been an online customer for around 6-10 years, while there are around 48% respondents that have been an online customer for less than 5 year. And the rest, there's 1% respondent that has been an online customer for more than 10 year.

#### **4.2 Structural Equation Modeling**

SEM methodology spread fast as a consequence of the development of specific packages, like LISREL and AMOS. The availability of these packages has encouraged several applications in different contexts. This approach allows the modelling of a phenomenon by considering both the unobserved “latent” constructs and the observed indicators that describe the phenomenon. SEMs are made up of two components: the first describes the relationship between endogenous and exogenous latent variables, and permits the evaluation of both direction and strength of the causal effects among these variables (latent variable model); the second component describes the relationship between latent and observed variables (measurement model). The structural equation system is generally estimated by using the maximum likelihood method (ML). In other cases, the structural equation model parameters can be estimated by using other estimation methods, such as unweighted least squares (ULS), weighted least squares (WLS), generalized least squares (GLS), and so on. These estimation methods are described in Bollen (1989) and Washington et al. (2003).

The first step to be done in doing the SEM analysis is testing the validity and reliability for each indicator. Each factor is analyzed using principal component analysis. The purpose was to identify the main dimensions that give impact to the employee’s performance. First, the appropriateness for conducting factor analysis was evaluated. The result shows all the factor loading (KMO value) have value above 0.05. It means that each factor is valid. Validity test is used when we want to know whether each question accurately measures what it purports to measure. After testing about the validity, we continue to do the reliability test. The reliability is tested using the Cronbach Alpha. The number of Cronbach Alpha should be above 0.6 to be said that the question is reliable (Hair et al., 2006). Reliability test is used to measure the consistency of the respondents in answering the question. From all the result we see that each question is reliable, based on the Cronbach Alpha they have is all above 0.6. The non-valid indicator can’t be used in the test. It should be taken out from the reliability test and furthermore. And the non-reliable indicator can’t be continued in the analysis and should not be used in the data processing.

The result of validity and reliability test show that each indicator that is used is valid and also reliable, so that all the indicators are included in the data processing. The results are presented in Table 2 below.

**Table 2. Validity and Reliability Test**

No.	Construct	Mean	Standard Dev.	Factor Loading	Cronbach Alpha
<b>WEBSITE DESIGN</b>					
1.	The online bookstore is visually appealing	5.43	0.56	0.684	0.750
2.	The user interface of the online bookstore has a well-organized appearance	5.22	0.60	0.877	
3.	Tampilan website terorganisir.	5.31	0.52	0.732	
<b>RELIABILITY</b>					
0.613					
1.	The online bookstore shows a sincere interest in solving customer problems	5.11	0.54	0.752	0.762
2.	The online bookstore has adequate security	5.35	0.56	0.643	
3.	Transactions with the online bookstore are error-free	5.20	0.48	0.680	
<b>RESPONSIVENESS</b>					
1.	I think the online bookstore gives prompt service	4.98	0.44	0.592	0.630
2.	I believe the online bookstore is always willing to help customers	5.15	0.56	0.715	
3.	I believe the online bookstore is never too busy to respond to customer requests	5.24	0.47	0.534	
<b>TRUST</b>					
0.695					
1.	When I need something, I can count on this online shop	5.24	0.51	0.715	0.720
2.	I believe the online bookstore is trustworthy	5.50	0.58	0.759	
3.	The online bookstore instills confidence in customers	4.97	0.48	0.620	
<b>PERSONALIZATION</b>					
1.	The online bookstore provides the targeting e-mail to Customers	4.95	0.512	0.645	0.635
2.	The online bookstore provides the recommendation of books by customers' preferences	5.14	0.49	0.631	
3.	The online bookstore provides customers free personal homepage	5.29	0.55	0.601	
<b>CUSTOMER SATISFACTION</b>					
1.	My overall opinion of the services provided by online bookstore is very good.	5.15	0.53	0.550	0.625
2.	I know that it is an appropriate decision to shop in this online shop.	5.10	0.40	0.534	
<b>PURCHASE INTENTION</b>					
1.	If I purchase books in the next 30 days, I will use the online bookstore	5.20	0.45	0.507	0.610
2.	I strongly recommend that others use the online Bookstore	5.45	0.51	0.512	



The measurement model was first assessed the goodness of fit. There are many indexes that we can use to measure the goodness of fit of a model. In this research, we use 5 indicators as the measurement of goodness of fit. There are: Chi Square, significance of probability, RMSEA, NFI, and CFI. The model fit indexes all exceed their respective common acceptance levels, indicating that the displayed fitted the data well. The result of the goodness of fit test is shown in the table below:

**Table 3: Goodness of Fit Result**

Goodness of Fit Index	Criteria (cut-off value)	Result	Conclusion
X <sup>2</sup> - Chi-square	Expected to be low	0.543	Goodness of fit
Significance probability	≥ 0,05	0.462	Goodness of fit
RMSEA	≤ 0,10	0.025	Goodness of fit
NFI	≥ 0,90	0.995	Goodness of fit
CFI	≥ 0,90	0.92	Goodness of fit

Finally, after we make sure that each of the indicator that we use in the model is valid and reliable, and also we know that the model is goodness of fit, to know the relationship between each variable, we use SEM analysis. The result of SEM analysis has been presented in the table 4 below:

**Table 4. SEM Analysis**

Path to	Path from	Hypothesis	Structural Coefficient	T-Value
Overall Service Quality	Website design	H1a	0.390	0.020
	Reliability	H2a	0.300	0.031
	Responsiveness	H3a	0.210	0.002

	Trust	H4a	0.352	0.031
	Personalization	H5a	0.19	0.021
Customer Satisfaction	Website design	H1b	0.255	0.012
	Reliability	H2b	0.400	0.011
	Responsiveness	H3b	0.315	0.022
	Trust	H4b	0.320	0.010
	Personalization	H5b	0.142	0.033
	Overall service quality	H6	0.158	0.015
Purchase Intentions	Overall service quality	H7	0.211	0.028
	Customer Satisfaction	H8	0.177	0.036

First, the analytical results showed that website design is the most strong dimension affected overall service quality. Online stores thus must have a unique and interesting website design to gain interests from the customers during the transaction processes. Also, web site design should be readable, and the user interface should be visually appealing and tidy, allowing customers to use the web site easily. The second dimension that has a significant and also high impact of overall service quality, is trust. That's why online shopping should be able to act well to gain trust from the customer. Because once when trust is broken, it would be really dangerous for the online shop, because the customers can say negative things to others.. We found that reliability also has a strong impact to the overall service quality. Other studies also found reliability is an effective determinant of web-based service quality (Kuo, 2003). Therefore, to enhance customer satisfaction and purchase intentions, online stores should start improving the dimensions of reliability, such as capability of delivering products as promised, providing up-to-date and accurate information, and strengthening the security of online transactions. Although the dimension of responsiveness has the lowest effect among other dimension to the overall service quality, we can't underestimate its impact. However, perhaps most surprising is the dimension of personalization, which is not a significant predictor of overall service quality and customer satisfaction for online stores. This finding might indicate that customers are afraid that the online stores will sell personal information to other organizations

without their knowledge or permission. Notably, increasing numbers of online customers have expressed concern regarding potential misuses of personal information and abuses of privacy (Than and Grandon, 2002). This result is also similar with the result of Lee, 2005. To customer satisfaction, the highest impact is given by reliability, followed by trust, responsiveness, website design and personalization. These show that all the result accordingly to the hypothesis.

Additionally, consistent with previous studies (Baker and Crompton, 2000; Sivadas and Prewitt, 2000; Zhu et al., 2002), this study found a positive relationship among overall service quality, customer satisfaction and purchase intentions in an online store.

## **5. Conclusion and Discussion**

From the assessment of various models of e-service quality dimensions in context with online shopping several future directions exist. E-service quality affects the number of variables such as value, attitude, expectations etc. which in turn may also guide purchasing intentions and behavior. It may be interesting to develop theoretical framework to establish linkages between e-service quality and customer purchase behaviour in online shopping context. This study developed a research model to examine how e-service quality dimensions affect overall service quality, customer satisfaction, and purchase intentions. As online shopping has been increasing recently, every online shop should be able to maintain every aspect to gain customer satisfaction in order to finally increase purchase intention from the customers. This study identified the dimensions web site design, reliability, responsiveness, and trust affect overall service quality and customer purchase intentions. However the personalization dimension only has a small significant impact related to overall service quality and customer satisfaction.

Future research will always be needed, since the growth of the internet and online shopping will continue, and future research can replicate similar studies solely involving online shoppers, measuring actual purchase behaviours instead of intentions. Further the other variables such as price, promotions and loyalty programs on customer purchase behavior should be evaluated.

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**PSYCHOPATH BEHAVIOR INFLUENCE, ACCOUNTING STUDENTS BEHAVIOR AND  
SOCIAL SKILLS TOWARDS UNETHICAL BEHAVIOR**

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**ABSTRACT**

*Psychopath attitude is a personality trait characterized by a deficit of conscience and empathy, leading to the attitude of callous and manipulative behavior. This study aimed to determine the effect of psychopath attitude, accounting student behavior, and social skills against unethical behavior. This has strong implications in cases of fraud and may explain some of the more surprising in the case of financial fraud.*

*This research is towards 150 accounting students as sample using convenience sampling method, and the result indicate that psychopath do not affect the attitude of unethical behavior, while accounting student behavior and social skills affect the unethical behavior.*

***Keywords: psychopath attitude, accounting student behavior, social skills, and unethical behavior.***

**1. INTRODUCTION**

Unethical behavior is a behavior that is not in accordance to the norms of ethical regulations that apply; in other words, it is breaking the ethical regulations. Usually in their surroundings, other individuals nearby those people cannot accept this unethical behavior. Thoyibatun (2009) explained that the ability to identify an ethical and unethical behavior on a certain profession is very important, because the society's faith towards a profession will be ruined if someone is being unethical. Unethical behavior will arise from the beginning of the individual's self-formation, and so does their surroundings. Someone's personal values, morale and social context determine whether their behavior is considered ethical or unethical. Ethics include a complex process of determining what a person should do when they are in a situation attributed based on the combination of their own experiences and learning (Lucinda, 2012).

Wilopo (2006) explained that unethical behavior is a difficult thing to understand, and the answer towards unethical behavior lies on a complex interaction between the situation and the characteristics of the individual. Despite of being difficult to understand in accounting context and its unclear relation to the market, modeling a behavior needs to be considered in order to fix the quality of a decision, to reduce any cost related with the information, and to fix the availability of information provided for the market.

Sometimes those environmental factors are dominant amongst students. An organization or the local environment will closely undertake the students' behavior. This happens because students' maturity can clearly be categorized as good or bad. University is a professional labor producer, which is expected to fulfill the demand of the existing labor market, therefore Universities are demanded to be able to produce professional labor that has the qualifications based on their own expertise, as well as having highly ethical behavior.

Gimpel & Merrel, (1998) in Majorsy, etc. (2013) defined social skills as learned behaviors, which are used by an individual on interpersonal and environmental situations. Social skill is also a complex ability to show a positive behavior, which is judged positively or negatively by the society, and if the behavior is negative then they will be given a punishment by the society. By owning a good social skill, delivering information will also go smoothly and relationships will be established nicely.

Psychopath is a personal behavior that is characterized as lacking in conscience and empathy, which leads to callous and manipulative behaviors. Psychopaths will never admit or feel that they are sick or have disorder, they are overly confident (narcissi) so that they could influence



other people, do not feel guilty or regret on each and every actions they made because they justify their own actions. They might make it as the star and savior of the company, but they will misuse the trust given by their colleagues too fast, manipulate the supervisor, and leave the workplace in a mess. Psychopaths are not willing to be healed, because the behavior that arises on them is an eternal aspect of their true selves. Even though the news about psychopath is often related with terrible actions, the researchers admitted that they have found many psychopaths who are successful in business (Babiak et al 2010). Glenn et al. (2010) found that psychopath facilitates moral disengagement, mechanism in which might be involved in their practical mistakes, while maintaining an image that could be received. Stevens (2012) stated that psychopath attitude has a positive impact on the unethical decision-making. The relation between psychopath attitude and unethical decision-making is mediated by moral disengagement. Lucyanda (2012) did her research and resulted that intellectual intelligence does not influence the ethical behavior of accounting students variable. But, emotional intelligence influences students' ethical behavior.

This research is an expansion of Bailey's previous research which reflects varied results by relating different personality variables, such as psychopath variable, accounting students behavior, and unethical behavior. But in this research there is a difference in the independent variable, which is the Psychopath Attitude, Accounting Students Behavior, and Social Skill that has been predicted on having an impact towards the Unethical Behavior.

Based on the previous researches, thus the formulation of the problem in this research is:

1. Does psychopath attitude influences unethical behavior?
2. Does accounting students behavior influences unethical behavior?
3. Does social skill influences unethical behavior?

## **2. THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

### **2.1. Unethical Behavior**

According to Arifiyani (2012) the definition of "ethics" is a belief of the right and the wrong action, or the good and the bad action, which influences other things. Ethics influences personal behavior in a workplace, social responsibility is a concept that is related, but refers to the whole method of how a business sought its commitments towards a group and an individual in its social environment. The values and morale of an individual and social context determine whether a certain behavior is considered as ethical or unethical. Ethics embody a process of a complex determination

about what should a person do in a situation attributed based on the combinations of their own experiences and learning Lucyanda (2012). Thoyibatun (2009) explained that the ability to identify an ethical and unethical behavior on a certain profession is very important, because the society's faith towards a profession will be ruined if someone is being unethical.

Wilopo (2006) explained that unethical behavior is a difficult thing to understand, its answer depends on the complex interactions between the situation and the individual's personal characteristics. Despite of being difficult in accounting context, and its unclear relation to the market, modeling the behavior needs to be considered in order to fix the decision making quality, to reduce any costs related to the information and to fix the availability of information in the existing market.

Company as an artificial personal has a morale and social responsibility, which on operational level will be formally represented by the management. Wilopo (2006). Fauwzi (2012), explained about deviated or unethical behavior in a company. This research explained about the indicators of unethical behavior in a company, which includes:

1. Behavior which misuses the levels or positions (*abuse position*)

Management often exploits their positions in doing unreasonable things like fraud or errors on the financial statement.

2. Behavior that misuses power (*abuse power*)

Company leader is the most powerful party in a company or agency who has an absolute decision. Company leader might also misuse the power he/she has to obtain personal benefits.

3. Behavior that misuses organizational resources (*abuse resources*)

A party, who has an authority in a company, can harness the resources that the organization has in order to satisfy his/her own personal interest rather than the company's interest. If this goes on, then the company will not survive for long when facing business competitions.

4. Behavior that is unable to do anything (*no action*)

This behavior shows how a leader cannot do anything when he/she knows about the fraud that his/her employee did, or when a manager is unable to do anything towards his/her employee who did unreasonable things.

A behavior can determine the quality of an individual (employee), which is influenced by the factors that are obtained externally and then, became a principal that is lived in a form of behavior. Those factors are:

1) Influence of organizational culture

Organizational culture is a system of a shared meaning that is adopted by the members, which distinguish that organization from other organizations. Therefore, organizational behavior is a value that is felt together by the organization member, which is translated into a form of attitudes towards the organization.

2) Political condition

Political condition is a series of principles, situations, methods or tools that are going to be used to achieve the goals. That achievement is influenced by an individual's or a group's behaviors intended to fulfill their rights and obligations.

3) Global economy

Global economy is a study about managing material resources of individuals, society and country in order to increase the well being of human lives. Global economy is knowledge about human behavior and action for fulfilling their varied lives and develops with the available resources through several options of activities, productions, consumptions and or distributions.

Most of the companies have ethical codes to push the employees to behave ethically. But, ethical code is not enough, thus company's owner and managers have to set a high ethical standard in order to create an effective and efficient controlling environment.

## **2.2. Psychopath Attitude**

Bailey (2014) described psychopath as a predator that uses attraction, manipulation, intimidation, and violence to control someone in order to satisfy their own egoistic needs. Psychopath is lacking in conscience and feelings towards other people, disobeying the social norms and expecting something without having any regret or guilt. Psychopath has a personality disorder that ruins relationships socially, seen from the relationship between individuals that includes behavioral characteristics, egocentric, manipulative, lies, lack of empathy, guilt or regret, as well as the trend of breaking the norms and legal public statements. Psychopath ability in manipulating the victim tends to be very wily and hard to detect.

The psychopaths are hard to predict and their behavior are not easy to be guessed, unlike other psychological disorders like schizophrenia, which the symptoms are clear to see on the sufferers, such as pulling themselves away from the social environment, and hallucinate. Meanwhile, the psychopaths seem nice and normal that they could be accepted well by the society, even in the highest level of the society.

Related with the characteristics of a psychopath, Jacoubs (2009:7) described that psychopaths are very fluent in speaking and they have an attractive appearance. The psychopaths tend to dominate other people and do not have any regrets on any mistakes they made. In general, psychopaths have a grandiose and selfish personality, and they have the ability to manipulate. They are very good at lying, especially having a life like a parasite that is characterized by the lack of concern towards others. Psychopaths are manipulative as well as full of attractiveness. This is supported by their ability to find a weak spot on their target's personality, thus they can manipulate their target to be treated according to their will. The thing that became the psychopaths' power towards their target is exploiting the target's weaknesses, whether it is their confidence, pride, and other weaknesses that the victim has, they use those weaknesses to be able to control the victim physically and mentally, thus the victim unconsciously feels broken and desperate in living life.

Psychopaths show a cold or callous attitude, which can be seen from the limited abilities that they have when it comes to understanding other people's feelings. The cold attitude that a psychopath has is supported by how unstable and shallow a psychopath's emotions are. Other than that, a psychopath also has an impulsive personality. Despite of the news about a psychopath, which is usually related with terrible actions, researchers have admitted that there are many psychopaths who are successful in their business career (Babiak et al, 2010). In general psychopaths are divided into two, which are:

**1) Primary Psychopath**

This psychopath is categorized as a psychopath attitude that tends to lie, have no regret or conscious, and manipulative.

**2) Secondary psychopath**

This psychopath is categorized as a psychopath attitude that is impulsive, no tolerance because of their frustration, and the lack of long-term goals.

As the discussion above, the factor called “primary” psychopath is very conducive to earn “success” in a forbidden way or in other words, not in accordance with what is reasonable. Meanwhile, “secondary” psychopath is leaning towards violence and coercion because of the emergence of a social deviation and embarrassment. The first factor is important in this research because those factors include the characteristics of fraud prediction. The second factor is used to bring a problem to the authority and barrier with the presence of violence and coercion, despite of looking prominent in executive business case (Babiak and Hare, 2006). Primary psychopath “is generally considered as the core of a psychopath’s construct” (Lee and Ashton, 2005).

Psychology literature refers to the “successful psychopath” who tend to be high on the primary psychopath and low on the secondary psychopath. Psychopath can be considered as a less ethical nature of life in the world. Psychopath attitude can occur if someone’s attitude is less in accordance with the norms that apply or according to the reasonable attitude. Criterias that categorized psychopathic characteristics are (Hare, 2003):

**1) Anti-social**

Psychopath and anti-social personality disorder are positively interrelated with one another. This can be seen from the factors that are related to psychopath, which is the emotion of a psychopath that is firm and anti-social lifestyle. A firm emotion that a psychopath has covers the lack of ability to emotionally process information, the lack of ability to understand one another and ignoring other people’s emotion.

**2) Egocentricity and the Lack of Concern Towards One Another (Covering the Lack of Empathy and Behaving Impulsively)**

The attitude of a psychopath can often be seen as arrogant like a liar who knows no embarrassment, confident, stubborn, dominant and imperious. The psychopaths have an interest in controlling other and not wanting others to have a different opinion from theirs. In general psychopaths have an impulsive personality that can be seen from the lack of self-reflection that they show by acting without thinking. Psychopaths in general, act according to his own will, for the reason “they feel like doing it.”

Based on the impulsive personality and ego that the psychopaths have, the psychopaths are often quick in being emotional and doing violent things to other people. The psychopaths’

personality also has a strong relation to the shallow emotion, shown by the lack of empathy and the absence of concern towards the rights, feelings and safety of others.

**3) The Lack of Self-Control (Including Shallow Emotions and No Fear)**

The psychopaths understand emotions, but the emotions that they feel seem very shallow. Other than that, other psychopaths do not understand “fear”. When they are asked what they feel when a gun is pointing at them, they do not feel any sensations on their bodies. Based on that evidence, Hare concluded that psychopaths lack in conscience because they do not fear and have no strong anxiety in their lives.

**4) Great Desire to Monopolize (Great Desire to Own for Personal Satisfaction)**

There are several psychopaths who are able to behave, but the behavior shown by them are not only frightening but also unusual for normal people. Psychopaths tend to see emotions as a form of weakness, and use those feelings to enter other people’s feelings with the goal of exploiting. Psychopaths might be able to treat other people without feelings and also very cruelly. The actions that psychopaths will do in general involve violence. But, the actions they will take are not necessarily criminal actions.

**5) Having Cruel Social Relationship with One Another**

Psychopath attitude based on the characteristics of having cruel social relationship with one another on *psychopathy-checklist* (Larsen & Buss, 2008), is divided into two categories, which are, doing fraud and manipulating other people, and behave cruelly with one another.

a. Do Fraud and Manipulate Other People (Having an Attractive Outer Appearance)

Hare (2003) defined attractive outer appearance as their ability to fluently speak, fluently speak orally, and two-faced which has a certain appeal. In conversations, psychopaths seem very soft, appealing, and entertaining, but accompanied by smart sarcasm and able to convince others by telling something that positively reflects himself. Bailey (2014) stated tht lies that are shown by psychopaths seem so real. The neglective attitude towards a lie done by the psychopaths that are called as liars are very incredible.

b. Behaving Cruelly Towards One Another

Bartol & Bartol (2011) stated that the psychopaths’ personalities are in accordance with the tendency of breaking the rules as well as society’s expectations. The criminals who broke the rules, run the overall from petty theft and fraud towards cold blooded violence. Based on the acts of cruelty that seem to be heartlessly done by the psychopaths, they revealed a zero understanding on

conscience. Bailey (2014), said that psychopath is considered as the hardest personality disorder to be healed. Psychopaths lack in the knowledge of their own disorder, including their disability to form and carry an eternal and meaningful relationships for their partners. Related with the lack of psychopaths' knowledge on their own disorder as well as psychopaths' ego that seem extreme, psychopaths even have their own rules. Hare illustrated that psychopaths see themselves as "the center of the nature" like a superior creature who live in their own rules.

**6) The Presence of Chronical Problems in the Early Period (Having Chronical Personality Problems in the Early Period)**

How a person can have personality disorder or how a person can be a psychopath, does not happen directly to the people who has normal personality. A person changes to be better or to be worse, there are things that trigger the causes of the change they make. There is a presence of bad experience in the past of the psychopaths, one of them is emotional torture done by the family. Based on this statement, there is a strong relation between a child and parents relationship in the development of a child's personality. The importance of early life period in forming the personality of adulthood. During the childhood period, not biological factor, but social factor is the thing that affects the development of someone's personality. There is no universal step in the development or childhood conflict that is inevitable. Childhood is marked by two needs, which is the needs of security and satisfaction. The main thing that determines someone's personality is the need of feeling safe, which protection and free from fear. The presence or the absence of fear will determine the normality level of the next personality development. A child's security depends fully on the behavior they receive from their parents, one of them being the presence of warmth and love received by a child from their parents. A form of an attitude that will decreases the safe feeling done by the parents could be a clear favoritism towards siblings, unfair punishments, uncertain behavior, unkept promises, mockery, insults, and exiling children from other's rejection. Providing the right conditions in their childhood, will lead to children growing and developing in an adulthood personality that is integrated well and put together (Horney, 2008).

**2.3. Accounting Student Behavior**

To learn about the behavior from the future leaders, it can be seen from the behavior of the current students. Students' behavior should be researched to find how far would they behave ethically or not in the future. Ethical problem has become an important issue in the accounting



major in universities, because the education environment has a share in forming the student's behavior to be someone professional. University is a professional labor producer, which is highly expected to fulfill the existing market's demand, thus, universities are expected to produce professional labors that have the qualifications on their own expertise, and also high ethical behavior (Lucyanda, 2012).

#### **2.4. Social Skills**

Social skills are the individual's ability to communicate effectively with other people, verbally or nonverbally according to the situations and conditions on that certain period of time, in which this creativity is a behavior learned. Teenagers with social skills will be able to express their feelings, whether positive or negative, in an interpersonal relationship, without having to hurt other people (Gimple & Merrell 1998 in Majorsy, etc. 2013). Social skills lead teenagers to be more brave in speaking, expressing each and every feelings or problems they are facing as well as finding an adaptive solution, therefore they will not find distractions in things that will harm themselves or other people.

Gimple & Merrell (1998) in Majorsy, etc. (2013) defined social skills as behaviors that are learned, and used by an individual on interpersonal situations in the environment. Social skill is also a complex ability to show good behavior that is judged positively or negatively by the society. Social skills, directly or indirectly do not help teenagers to adjust themselves with the society's standard expectations in the norms that apply in their surroundings.

Mu'tadin (2008) said that one of the development task that has to be fully mastered by teenagers lies in the phase of middle adolescence and late adolescence development are having social skills in order to be able to adjust themselves with their daily life. Those social skills include the ability to communicate, have a relationship with other people, appreciate themselves and others, listen to other people's opinions or complains, give or accept feedback, give or accept criticism, act according to the norms and applied regulations, etc. If teenagers can master social skills on that phase, then they will be able to adjust themselves with their social environment. This means that those teenagers are able to develop psychological aspects maximally. There are aspects that influence social skills in teenage life, those are: 1) Family, 2) Surroundings/Environment, and 3) Ability to adjust.



Social skills are the ability to be brave to speak, express each and every feelings or problems faced as well as finding the adaptive solution, having high responsibility in everything, full of considerations before doing anything, able to reject and state their disagreement towards negative influences from their surroundings.

## 2.5. Previous Research

Some of the previous research related to this research is presented in the following table.

**Table 1. Previous Research**

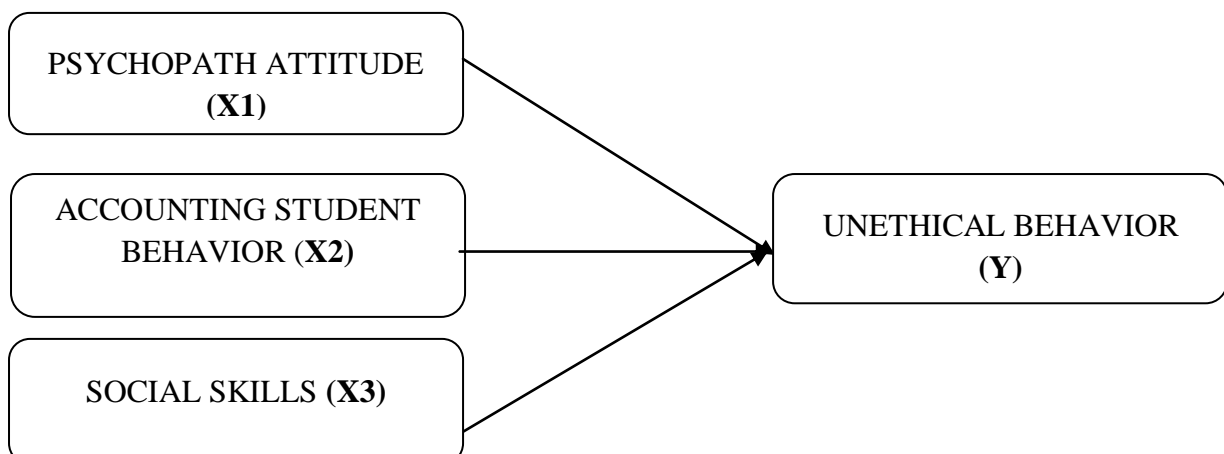
No	Researcher's Name and Year	Research Result
1	Lee, K., & Ashton, M. C. (2005)	This research resulted in honesty and modesty negatively correlated with the <i>Dark Triad</i> . Meanwhile, friendliness positively correlated with <i>Dark Triad</i> .
2	Glenn et al. (2010)	This research resulted in psychopath negatively influences morale identity.
3	Fawzi, M. G., H. (2012)	This research resulted in several hypotheses, which are: the effectiveness of internal control negatively influences unethical behavior. The suitability of compensation negatively influences unethical behavior. Morality management negatively influences unethical behavior. The effectiveness of internal control, negatively influences the tendency of accounting fraud.
4	Stevens, G. W., J. K. Deuling, and A. A. Armenakis. (2012)	This research resulted that psychopath positively influences unethical decision-making. The relationship between

No	Researcher's Name and Year	Research Result
		psychopath influence and unethical decision-making is mediated by morale disengagement.
5	Lucyanda, J. (2012)	The result of that research stated that intellectual intelligence does not influence accounting students' unethical behavior. Spiritual intelligence does not influence ethical behavior of a student. But, emotional intelligence influences the ethical behavior of a student.
6	Bailey, C. D. (2014)	The result of this research showed that psychopath positively influences unethical behavior. Accounting students behavior also positively influences unethical behavior.

## 2.6. Framework

Based on theoretical study, the framework scheme on this research can be seen in the following image:

**Image 1. Framework Scheme**



## **2.7. Hypothesis Development**

### **2.7.1. Psychopath Attitude Influence on Unethical Behavior**

Psychopath Attitude is individual attitude that does not have conscience and empathy towards other people, which will use any kind of ways to satisfy their desire. Therefore, researcher assumed that Psychopath Attitude is suspected to be able to influences the behavior of every individuals. Just like in the previous research Bailey (2014), some of the psychopath attitude structure that could affect an individual including all behaviors including all negative behaviors and forcing as well as dropping other people. In this research, psychopath attitude will be undertaken the influences towards unethical behavior.

**H1: There is a positive influence between Psychopath Attitude and Unethical Behavior.**

### **2.7.2. Accounting Student Behavior influence towards Unethical Behavior**

Accounting student behavior is a factor that has a quite big influence towards unethical behavior, which in the student period will be formed a behavior that is positive or negative. To learn about the behavior of the future leaders, we can see the behavior of the current students Lucyanda (2012). Most students have anti-social attitude. Anti-social is a part of unethical behavior. Like the previous research, Bailey (2014), which resulted in the influence of accounting student behavior towards unethical behavior. In this research, accounting student behavior will be undertaken its influences towards unethical behavior.

**H2: There is a positive influence between Accounting Student Behavior and Unethical Behavior.**

### **2.7.3 Social Skills influence towards Unethical Behavior**

Social skill is an attitude in which every individual communicates well therefore a good atmosphere is created. Vice versa, if the social skill that an individual has is bad, then the communication atmosphere will also be bad, just like the result of a research Lucyanda (2012) did. Researcher suspected that the social skill that emerges in every individual influence the behavior

reflected in that individual. In this research, social skills will be undertaken the influences towards unethical behavior.

**H3: There is a positive influence between Social Skills and Unethical Behavior**

**3. RESEARCH METHODOLOGY**

**3.1. Research Design**

This research is a causality research, which is to examine the influence between the cause and the effect. The data that is used is primary data, which is obtained by distributing questionnaires. The population is Accounting Students all over Jakarta. The sample of this research is bachelor and master degree students, which was obtained by using *convenience method*. Analysis unit in this research is

the accounting students. The distributions of the questionnaires were done since November until December 2014.

**3.2. Variable and Measurement**

Variable and measurement used in this research can be seen in the following table:

**Table 2. Variable and Measurement**

No	Variable	Indicator	Question Item	Measurement Scale
1	Psychopath Behavior	Manipulation, Fraud, and Selfish	17 items	Interval
2	Accounting Student Behavior	Anti-social	4 items	Interval
3	Social Skills	Verbal and non verbal communication	12 items	Interval

No	Variable	Indicator	Question Item	Measurement Scale
4	Unethical Behavior	Economical Crime	4 items	Interval

### **3.3. Operational Variable Definition**

Dependent variable and independent variable that are going to be used in this research can be described as the following:

#### **3.3.1. Dependent Variable**

##### 1. Unethical Behavior

The variable in this research is the Unethical Behavior that is measured by the level of economical crime. Unethical behavior is a factor that is influenced by the surroundings. In researching the indicator of unethical behavior that is used and measured in demographic and questioners by using questions to know the possibilities of an unethical behavior relation applied.

#### **3.3.2. Independent Variable**

##### 1. Psychopath Attitude

Psychopath attitude that is intended in this research is the attitude that does not have conscience in behaving and has a fraud base as well as manipulating personally. In this research, psychopath attitude and its influences towards unethical behavior, the researcher focuses on several indicators, which include, Psychopath Attitude and Unethical Behavior.

##### 2. Accounting Student Behavior

Accounting Student Behavior that is intended in this research is a behavior that bases on a behavior in between accounting students. In researching the accounting student behavior and its

influences towards unethical behavior, the researchers focuses on certain factors, which are: gender, age, and academics grade-level.

### 3. Social Skills

Social Skill that is intended in this research is the procedures among individuals who are communicating with one another that it emerges an atmosphere from that social interaction. Components that will be examined in this research are: verbal and nonverbal communication. Those indicators are measured in questionnaires using demography in each question to know the possibility of having a relation between social skills and unethical behavior.

#### **3.4. Data Collection Technique**

The data about student's perspectives is a primary data obtained from the use of questionnaires given to bachelor of accounting students who are at the end of the level of their studies or who are preparing their thesis, and master of accounting students. The research sample was obtained by using *Convenience* method.

#### **3.5. Data Analysis Method**

This research used double linear regression analysis method with SPSS version 20.0 *for windows*. The data analysis in this research also used descriptive statistical test as well as data quality test, which is in a form of validity and reliability tests. The tests towards the data obtained include the following.

##### **3.5.1. Descriptive Statistics**

Descriptive statistics was used to give information about the characteristics of research variables and the respondent's demographic data. Descriptive statistics explains about the research variable regarding the respondents' answers scores on that variable with mode and frequency measurement.

##### **3.5.2. Data Quality Test**

A questionnaire is considered as valid if the questions of that questionnaire are able to reveal something that are measured by that questionnaire and if so, then that questionnaire is reliable or worth to be distributed to the respondents.

## **1. Validity Test**

Validity test is used to measure the legitimacy or validity of a questionnaire. A questionnaire is considered as valid if the questions on that questionnaire are able to reveal something that will be measured by the questionnaire. Measuring validity can be done by correlating the score of each question with the total construct or variable score. If the significant test is  $< 0,05$  then the data is valid. The other way around applies, if the significant test is  $> 0,05$  then the data is invalid.

## **2. Reliability Test**

Reliability is actually a tool used to measure a questionnaire that acts as an indicator from the variable or construct. A questionnaire is reliable if the person's answer towards a question is consistent or stable from time to time. Reliability Test is used to testify the consistency of the questions related with the behavior of that person. That consistency is used to know how far the questions that are related with that variable are reliable. Reliability is measured with *Cronbach Alpha* (CA). A construct or variable is reliable if the value of Cronbach Alpha is  $> 0,60$ .

### **3.5.3. Hypothesis Test**

#### **1. Goodness of Fit Test**

*Goodness of Fit* Test ( $R^2$ ) is basically used to measure how far is the model's ability to explain the dependent variables. The coefficient of determination value is between zero and one. The small value of ( $R^2$ ) means the dependent is very limited. The value of ( $R^2$ ) close to one means that the independent variables give almost all the information need to predict the dependent variable. In general coefficient of determination for the cross data is relatively low because of the big variation between each observation, meanwhile for the series of data usually have a high coefficient of determination value.

#### **2. F-Test**

The purpose of F statistical test is to know the influence of all independent variables that are entered in a regression model altogether towards the dependent variable that are tested on significant level of 0,05. The decision-making is done with several provisions, such as:

1. If the significant value is  $<$  than 0,05 then reject  $H_0$  or accept  $H_a$ , this means that the variable is independent or have free influence together towards the dependent or bound variable.

2. If the significant value is  $>$  than 0,05 then accept  $H_0$  or reject  $H_a$ , this means that the variable is independent or does not have free influence together towards the dependent or bound variable.

### 3. T-Test

Individual test (T-Test) is used to testify the influence from each of the independent variable towards the dependent variable. This test is used to testify whether each individual independent variable has a significant influence towards the dependent variable.

The basis for decision-making is done with several provisions, such as:

1. If the significance is  $<$  than 0,05 then reject  $H_0$ , this means that the variable is independent or have free individual influence towards the dependent or bound variable.
2. If the significance is  $>$  than 0,05 then failed to reject  $H_0$ , this means that the variable or does not have free individual influence towards the dependent or bound variable.

## 4. RESULT AND DISCUSSION

### 4.1. Respondent Description

Respondent description is used to explain respondent's profile that has participated in this research. The characteristics used were based on gender, age, academics level, and religion chosen. There are also characteristics of gender that consists of male and female, age that varied from 20 to 27, academics level from bachelor to master degree, and religion that consists of Islam, Christian, Hindu and Buddha. Those characteristics are presented in the following table:

**Table 3. Respondents Characteristics Profile**

<b>Respondent Profile</b>	<b>Criteria</b>	<b>Frequency</b>	<b>%</b>
Gender	Male	68	45.3%
	Female	82	54.7%
	<b>Total</b>	<b>150</b>	<b>100%</b>
Age	20-23	118	78.7%
	24-27	32	21.3%



	<b>Total</b>	<b>150</b>	<b>100%</b>
Academicals Level	S1	98	65.3%
	S2	52	34.7%
	<b>Total</b>	<b>150</b>	<b>100%</b>
Religion	Islam	121	80.7%
	Christian	29	19.3%
	Hindu	0	0%
	Buddha	0	0%
	<b>Total</b>	<b>150</b>	<b>100%</b>

Source: data processed

Based on the gender criteria, male respondents are 68 people out of 150 people in total respondents or equal to 45,3% from the total respondents. For the female respondents, there are 82 people or is equal to 54,7% from the overall total respondents. Based on the age criteria, for the age of 20-23 respondents, there are 118 people out of 150 or equal to 78,7% from the total respondents. Meanwhile for the respondents at the age of 24-27 there are 32 people or equal to 21,3% from the total respondents. Based on the academicals level criteria, the bachelor degree respondents are 98 people out of 150, or equal to 65,3% from the total respondents. For the master degree respondents, which are 52 people or equal to 34,7% from the total respondents. Based on religion criteria, Islam respondents are on the first place, which is 121 people out of 150 people or equal to 8,7% from the total respondents. On the second place there is Christian respondents with 29 people or equal to 19,3% from the total respondents. And lastly there is Hindu and Buddha respondents with 0 people which equals to 0% from the total respondents.

#### **4.2. Descriptive Statistics**

In this research there is four researching variables, which are Psychopath Attitude, Accounting Student Behavior, Social Skills and Unethical Behavior. The descriptive analysis that is described as following is in a form of *mode* value from the whole respondents towards the variable

being examined, meanwhile the standard deviation shows the variations from the respondents' answers towards the variable being examined.

**Table 4. Descriptive Statistics**

	N	Min	Max	Mode	Std. Deviation
Psychopath Attitude	150	2,71	4,65	4,00	,34461
Accounting Student Behavior	150	2,25	5,00	4,00	,65614
Social Skills	150	2,33	4,92	4,00	,43781
Unethical Behavior	150	2,00	5,00	4,00	,51603
Valid N (list wise)	150				

Based on the analysis result above, it shows that Psychopath Attitude received an answer with a minimum amount of 2,71 and a maximum amount of 4,65, with a mode value of 4,00 and a standard deviation range of 0,34461. Accounting Student Behavior received an answer with minimum amount of 2,55 and a maximum amount of 5,00, with a 4,00 mode value and a standard deviation range of 0,65614. Social Skills received an answer with a minimum amount of 2,33 and a maximum amount of 4,92, with a 4,00 mode value and a standard deviation range of 0,43781. Lastly Unethical Behavior received an answer with a minimum value of 2,00 and a maximum value of 4,00 and a standard deviation of 0,51603.

### **4.3. Data Quality Test**

#### **4.3.1 Validity Test**

The following table is a validity test for psychopath attitude, accounting student behavior, social skills, and unethical behavior.

**Table 5. Validity Test Result**

Variable	Question Item	Decision
Psychopath Attitude	17 question items	Valid
Accounting Student Behavior	4 question items	Valid
Social Skills	12 question items	Valid
Unethical Behavior	4 question items	Valid

Based on the validity test results above, it is known that each question item used in the research instrument has a *p-value* of  $0,00 < 0,05$ . There is a correlation coefficient ranging from 0,412 to 0,894. This shows that each question item is valid. In other words, the question items can represent or form a construct from the Result of Quality Check.

#### 4.3.2. Reliability Test

The reliability test in this research is by using the *Cronbach Alpha*. The following table shows the reliability test result.

**Table 6. Reliability Test Result**

Variable	Alpha Value	Decision
Psychopath Attitude	0,775	Reliable
Accounting Student Behavior	0,791	Reliable
Social Skills	0,852	Reliable
Unethical Behavior	0,663	Reliable

The result from the test shows that each question item resulted in *cronbach alpha* value that are  $>$  than 0,6. Therefore, the question items on those variables are appropriate to be used as a measurement tool in the statistical test.

#### 4.4. Hypothesis Test

##### 4.4.1. Goodness of Fit (*R Square*) Test

The following table is a table that includes the determination coefficient values from this research.

**Table 7. Goodness of Fit Test Result**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.906 <sup>a</sup>	.820	.817	.22089

a. Predictors: (Constant), keterampilan sosial, perilaku mahasiswa akuntansi, sikap psikopat

a. Predictors: (Constant), social skills, accounting student behavior, Psychopath attitude

Based on the table above it shows that R<sup>2</sup> value adjusted is 81,7% which is a very high influence value. The value of adjusted R square shows 0,817. This indicates that the ability of free variables (Psychopath Attitude, Accounting Student Behavior, and Social Skills) explain/influence Unethical Behavior variable data as much as 81,7%. Meanwhile the rest, which is 18,3% (100% - 82%) shows that there are other variables that also have a big influence towards Unethical Behavior like motivation, confidence, self control and organizational culture. This shows that those free variables analyzed are suspected to have a significant influence towards Unethical Behavior.

#### **4.4.2. Simultaneous Test (F-Test)**

This test is done to know whether independent variable has a significant influence on dependent variable at the same time. The result of F and T test is presented as following.

**Tabel 8. F-Test and T-Test Result**

Variable	Beta	P-Value	Decision
Constant	-0,140	0,493	-
Psychopath Attitude	-0,008	0,926	Fail to reject Ho
Accounting Student Behavior	0,230	0,000	Reject Ho
Social Skills	0,786	0,000	Reject Ho
F		0,000	Reject Ho

Concurrent testing from the measurement regarding this hypothesis shows that it obtained a significance value of  $0,000 < 0,05$ . Therefore, the decisions are 3 independent variables (Psychopath Attitude, Accounting Student Behavior, and Social Skills) simulateneosly have influences on Unethical Behavior.

#### **4.4.3. Partial Test (T-Test)**

##### **1. Psychopath Attitude Positively Influences Unethical Behavior**

Based on table 8 above, it shows that test done partially from the measurement regarding this hypothesis obtained a significance value of  $0,926 > 0,05$ . This means Psychopath Attitude does not influence Unethical Behavior. The result of this research is the exact opposite of the previous research done by Bailey (2014) that stated that Psychopath Attitude positively influences Unethical Behavior. The appearance of this different resulted output can be caused by the samples taken that are very heterogenous.

##### **2. Accounting Student Behavior Positively Influences Unethical Behavior**

Based on table 8 above, it shows that the test done partially from the measurement of this hypothesis proved that the significance value is  $0,000 < 0,05$ . This means that Accounting Student Behavior positively influences Unethical Behavior. This result is consistent with Bailey's (2014) research, which stated that accounting student behavior on a higher level seems to be able to understand a concrete relationship on accepting unethical behavior. As on today's era, where students mostly have anti-social behavior. Those student populations can influence an individual with another. Thus, the behavior that is on that population has the same result. If the behavior owned by that group were bad, then the group near them would automatically have a bad behavior.

##### **3. Social Skills Influence on Unethical Behavior**

Based on table 8 above, it shows that the obtained significance value is  $0,000 < 0,05$ . Therefore, it can be concluded that: Social Skills positively influences Unethical Behavior. This result is consistent with Lucyanda (2012) who stated that emotional intelligence, which consists of social skills positively influence ethical behavior. The result of this hypothesis stated that social skills from every individual would affect unethical behavior. If social skills that an individual has are good enough, then that individual will behave ethically. Vice versa, if the social skills that an individual has are not good enough, then that individual will behave unethically. But in this

research, most of the samples are not creative enough in the contexts of verbal and nonverbal communication. Someone with a not very good social skill will have a hard time to train a good behavior. Of course in this matter, students must be supported by emotional intelligence that is creative enough from every individuals so they can be spared from unethical behavior. This matter is expected to the students to train the education in order to behave ethically once they enter the working environment.

## **5. CONCLUSION, LIMITATION, IMPLICATION, AND SUGGESTION**

### **5.1. Conclusion**

Based on the result of the hypothesis test done, it can be concluded as following:

1. Psychopath Attitude does not influence unethical behavior.
2. Accounting Student Behavior positively influences unethical behavior.
3. Social Skills positively influence unethical behavior.

### **5.2. Research Limitation**

There are several limitations from this research, those are:

1. For this research, there are questionnaires that do not return back and there are questionnaires with unreasonable results because some questions are not filled.
2. This research also does not consider all variables that might influence unethical behavior such as, motivation, self-control and organizational culture, in this research only three variables that have the possibility of potential significant influences on unethical behavior.

### **5.3. Implication of Research Result**

The findings in this result is highly expected to be able to act as a recommendation for the education field, especially in accounting, in order for the accounting field to be able to grow even better and able to produce an even better output, as the demand of the working world, which needs more ethical value that is in accordance with the applied norms.

The findings in this research indicate that accounting student behavior and social skills singergistically influence unethical behavior. If those two factors could be built and developed in

each individual, then there is a very high chance of making an individual with a good ethics in the working world.

#### **5.4. Suggestion**

The result of this research is expected by the writers to at least push and encourage other researches to be done next. By considering the limitations available, the writers expected the next research to carefully consider:

1. The next research is hoped to be able to do the same model testing with an even bigger sample.
2. The next research is hoped to be able to develop the research model by adding another variables such as, motivation, organizational culture, self-control, etc. which might influence unethical behavior

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**DIFFERENT PERCEPTION OF HOTEL ATTRIBUTES BETWEEN SENIOR AND YOUTH TOURISTS**

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**Abstract**

The purpose of this study is to investigate the difference perception of hotel attributes between senior and youth tourist in Indonesia. The data for this study were obtained from a questionnaire administered to 124 hotel customers.

Descriptive statistic used to measure the mean rating of senior and youth tourist of hotel attributes and the t-test was used to identify the difference perception between senior and young tourist of hotel attributes that consists of four dimensions.

The findings from descriptive statistic are senior tourist perceived elevator, strategic location, alarm, competitive price and 24 hours room service as the five importance hotel attributes and youth tourist perceived elevator, strategic location, value of money, alarm and 24 hours room service as the five importance hotel attributes.

The findings from t-test, only one significant differences between senior and young tourist is general amenity dimension.

**Keywords:** hotel attributes, senior tourist, youth tourist

## **Introduction**

Tourism is as one of the biggest contributor for foreign exchange in Indonesia. Tourism accounted for USD 4.4 million of foreign exchange in 2006, and reached USD 10 million in 2013. It is show from the increasing number of tourists since 2006 ranged 4.8 million and up to 8.8 million in 2013. Besides, the domestic tourists is growing rapidly, total expenditures on tourists worth 88.2 trillion in 2006 and had reached 176,3 trillion rupiah by 2013 (Central Bureau of Statistics, 2014).

The tourism development is supported by fast business hotel growth. The number of both star and unclassified hotels, reached 16.685 units of hotels in 2013 (NESPARNAS 2006-2013, Tourism and Culture Department). There is tight competition in the hotel business to achieve 100% occupancy by providing hotel attributes that fit to consumer desires.

The hotel must studied consumer segments by analyzing demographic based on age. Currently senior consumers turned out to be one of the segments of interest (Nielsen, 2013). They are as promising market in the tourism industry (hotels) because they generally retired and have plenty of time to do many activities, such as traveling and visit relatives.

Meanwhile, in the east culture, parents are still as their children responsibility and commonly they wants to pleased them by giving leisure time to do recreation (Noviyanti, 2014). Harper & Leeson (2008) mentioned that elderly population is growing. The increasing health quality has increased life expectancy of Indonesian from 55 (fifty-five) to 67 (sixty sevens) years (Abikusno, 2013). Based on report from Kementrian Koordinator Bidang Kesejahteraan Rakyat, Indonesia is one out of five countries with the highest senior citizens, 18,1 million people or 9,6% of the population (2013) (L6c/Ant/Gs, 2010).

"*Second International Conference on Senior Tourism*" in Brazil, in January 1997, concluded that elderly travelers will be specific market and *mass tourism* in the future. Shoemaker (1989) and Wardrop (1989) said that the United States has experienced structure change of the population, in terms of market size, an estimated 59 million in USA will be aged 55 and over by the year 2000.

Through this scenario, tourism industry, particularly the hotel industry realize the tourist market have both senior and youth tourist, and both of them have different perception of the attributes (service quality and facilities) provided by hotel. The objective of this study is to

determine the difference perception between senior and youth tourist about hotel attributes (service quality and facilities).

### **Theoretical Framework**

#### **Tourist Characteristics**

Based on research conducted by Javalgi, Thomas and Rao (1992); Reece (2004) and Sund & Boksberger (2007), there are some differences between senior and youth tourists. Youth tourists prefer to use a travel package offered by travel agents. On the other hand, senior tourists are generally more sensitive to decide which product (travel package) to purchase.

Anderson and Langmeyer (1982) showed that seniors tourists over 50 years prefer relax journeys as enjoying life purpose and visit relatives and friends. In contrast, youth tourist are enjoys many outdoor activities such as swimming, camping and go to various entertainment such as discos, cafes, and others.

Lewis (1996: 324) found senior tourist are particularly vulnerable about price and discount is as an important attribute to them. In addition, Lewis (1996: 325) also explains that senior traveler needs more hospitality services as they like calm activities rather than young tourist.

In conclusion, from some opinions appears that there is a clear difference between young and senior tourists to decide whether choosing travel package by travel agent or prepare by their own.

#### **Hotel Attributes**

It is very important for companies to understand the attributes of the hotel such as service quality and facilities provide to satisfy hotel guest. Y. Choi and S. Chu (1999) represent 33 (thirty three) hotel attribute categorize on 7 (seven) groups as follows;

"A. Staff service quality: staff are polite and friendly, staff are helpful, staff understand your requests, staff are provide efficient service, check-in/check-out is efficient, staffs have multilingual skills, and staffs have neat appearance.

B. Room quality: Bed/mattress/pillow is comfortable, in-room temperature control is of high quality, room is clean, and room is quiet.

- C. General amenities: valet/laundry service is efficient, room service is efficient, food and beverage facilities are of great variety, wake-up call is reliable, information desk is available, food and beverages are of high quality, mini-bar is available.
- D. Business service: business-related meeting rooms are available, business-related facilities are available, secretarial service is available.
- E. Value: hotel food and beverages are value for money, room is value for money, hotel is part of a reputable chain, hotel provides comfortable ambience.
- F. Security: security personnel are responsible, loud fire alarms are reliable, safe box is available.
- G. IDD Facilities: international direct dial is available"

Annath, De Micco, Moreo dan M. Howey (1992) said 56 hotels attribute categorize on 5 (five) groups:

- A. Services and conveniences: business-related meeting rooms, full service restaurant, 24-hour coffee shop, 24-hour room service, Specialty restaurant, Quiet lounge, and bar, express check out, airport transportation, bell service, laundry service, valet parking and services, tie-in with airline frequent traveler program, car-rental and airline reservation, concierge services, secretarial services, elevators, convenient location of hotel.
- B. Security and Price: security personnel on floors, loud fire alarms, 24-hour video security, well-lit hallways, public areas, restaurants, garages, free parking, central "800" reservation number, free breakfast, complimentary newspapers, price of accommodation, special discounts available.
- C. General amenities: good value for money, all-suite rooms, luxury-size rooms, recreation facilities, health facilities, swimming pool, sauna, in-house library, entertainment in lounge and bar.
- D. Mature-Specific Attributes: grab-bars, supports in bathroom, night light in bathroom, extra blankets, low-pile carpets, easily maneuvered door handles, medical facilities, legible, visible signs in public areas, hallways, restaurants, wider doorways to accommodate wheel chairs and walkers, dietary menus, early dining hours, non-smoking hours, smaller portions of food.
- E. Room: firmness of mattress, large-size beds, in-room temperature controls, bedside controls, remote control for TV, soundproof room, larger than normal bath, bathroom amenities".

### **Consumer Perceptions of hotel attributes**

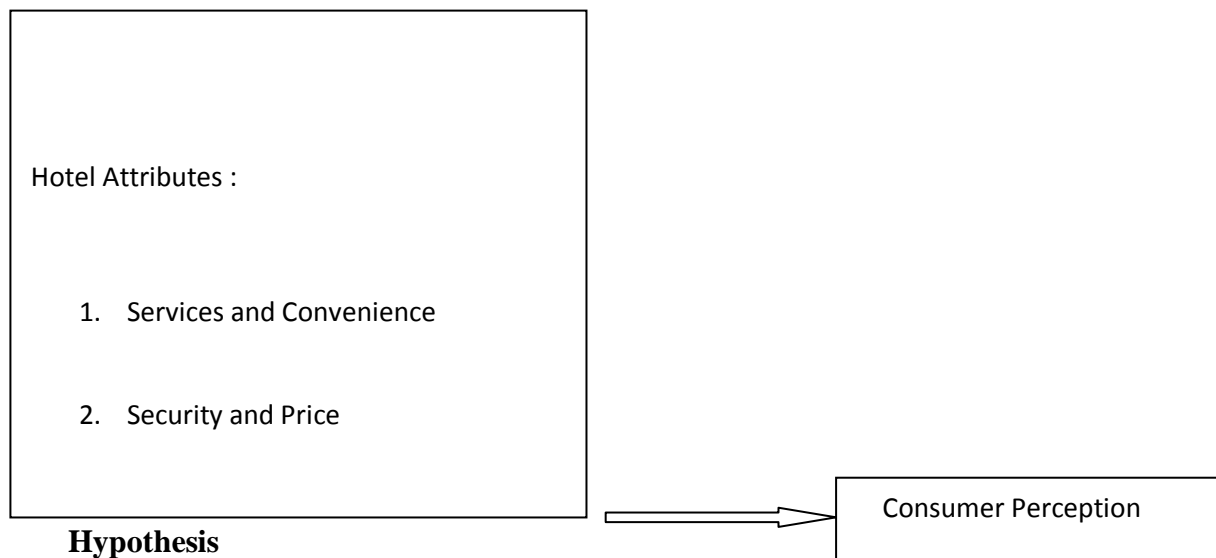
Perception is as consumers assessment of hotel attributes to compare with others before they choose a hotel that offers attributes (facilities and services) in accordance to fulfill their desires need (Schiffman and Kanuk (2007: 152) and Wuest et.al (1996). Hemmasi et all (1994) strongly mentioned that very important for a hotel to offer appropriate attributes to satisfy their customer.

### **Conceptual Framework**

Based on the various theories, the researcher intend to examine hotel attributes, which desired by senior tourists of 56 attributes that have been investigated by Ananth, De Mico, moreo and M. Howey (1992). The hotel attributes consists of four variables, Services and Conveniences; Security and Price; General amenities; Mature-Specific Attributes.

The variables are support to provide the relevant hotel attributes expected to satisfy customers with the services and facilities to make them repurchase. The hotel should know the difference of two kinds of tourists to the attributes (service quality and facilities) existence. Hence, the hotel can provide suitable attributes for the two considerate travelers.

#### Conceptual Framework



The hypothesis formulated as follows:

H1: There are differences in the perception of the service and convenience dimension between senior and young tourist

H2: There are differences in the perception of the security and price dimension between senior and young tourist

H3: There are differences in the perception of the general amenities dimension between senior and young tourist

H4: There are differences in the perception of the Mature specific attributes dimension between senior and young tourist

## **Research Methodology**

### **Research Study**

The method used is hypothesis test to determine differences in the perception of senior and young travelers to the hotel attributes (quality of service and hotel facilities).

### **Variables and measurement**

Operational variables definition in this research is the **Hotel attribute** consists of four dimensions of service and conveniences, security and price, general amenities, and mature-specific attributes.

Services and Conveniences are all facilities used to provide ease and comfort for hotel guests. Security and Price is all the facilities provided safety guarantee of hotel guests and attractive price offered. General Amenities is all the leisure facilities provided for guests relaxing during stay at the hotel. Mature-specific attributes facilities are all available to provide ease and conveniences especially for elderly guests.

### **Sampling Procedures**

Population of this research is Indonesian tourists consists of senior and young tourists whom used the hotel services since January 2013 until December 2013. The sampling method used is a non-probability, while the technique is purposive sampling process to find the appropriate respondents with the above criteria (Cooper and Schindler, 1998: 245).

### **Analysis Method**

The method of analysis is composed of three parts: (1) Frequency distribution to determine the socio-demographic and travel characteristics of respondents. (2) Descriptive statistics to get rating mean from perception to all hotel attributes of the tourist to find out the important hotel attributes considered by senior and young tourist. (3) Independent Sample T-test was performed to test whether the significant differences in perception of hotel attributes to senior with young travelers.

### **Discussion and Result**

#### **Respondents Profile**

<b>No</b>	<b>Description</b>	<b>Amount</b>	<b>Percentage</b>
1	Types of work <ul style="list-style-type: none"> <li>• College Student</li> <li>• Retired</li> <li>• Employee</li> <li>• Government Employer</li> <li>• Entrepreneur</li> <li>• Professional</li> <li>• Etcetera</li> </ul>	50 13 15 11 16 6 13	40,3 10,5 12,1 8,9 12,9 4,8 10,5
2	Gender <ul style="list-style-type: none"> <li>• Male</li> <li>• Female</li> </ul>	56 68	45,2 54,8
3	Age <ul style="list-style-type: none"> <li>• 18 – 24 year</li> <li>• 25 – 34 year</li> <li>• 35 – 44 year</li> <li>• 45 – 54 year</li> <li>• 55 – 64 year</li> <li>• &gt; 65 year</li> </ul>	50 11 8 23 26 6	40,3 8,9 6,5 18,5 21,0 4,8
4	Marital Status <ul style="list-style-type: none"> <li>• Not married</li> <li>• Married</li> <li>• Widow</li> </ul>	53 65 6	42,7 52,4 4,8
5	Hotel stay purpose <ul style="list-style-type: none"> <li>• Vacation</li> <li>• Business Trip</li> </ul>	92 32	74,2 25,8
6	Official used hotel frequency <ul style="list-style-type: none"> <li>• Once a week</li> </ul>	30	24,2



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	<ul style="list-style-type: none"> <li>• 2 – 3 weeks</li> <li>• 1 – 2 months</li> <li>• 3 – 6 months</li> <li>• Once a year</li> <li>• Can be determined</li> </ul>	1 6 7 3 77	0,8 4,8 5,6 2,4 62,1
7	The length of stay <ul style="list-style-type: none"> <li>• 1 – 3 nights</li> <li>• 4 – 7 nights</li> <li>• 8 – 10 nights</li> </ul>	98 25 1	79,0 20,2 0,8
8	Costs insurers <ul style="list-style-type: none"> <li>• Alone</li> <li>• Children/ Family</li> <li>• Office</li> <li>• Others</li> </ul>	49 41 30 4	39,5 33,1 24,2 3,2

**Discussions and Analysis**

**Hotel Attribute for youth tourist**

No	Attribute	Mean	Description
I	Services and Convenience		
1	Elevator	4,7609	Very important
2	Strategic Location	4,7283	Very important
3	24 hours Room Service	4,5543	Very important
4	Restaurant	4,5435	Very important
5	Airport transportation from and to	4,2935	Very important
6	Bell boy	4,2500	Important
7	24 hours Coffee shop	4,2174	Important
8	Quick Check out	4,2065	Important
9	Airline Frequent Traveler Program	4,0109	Important
10	Quite Lounge	4,0000	Important
11	Valet parking	3,9674	Important
12	Airline reservation and car rental	3,9565	Important
13	Laundry	3,9022	Important
14	Meeting room	3,8587	Important
15	Specialty restaurant	3,6848	Important
16	Concierge available	3,6848	Important
17	Secretary service provided	2,8587	Neutral
II	Security and Price		
1	Loud alarm	4,5978	Very important
2	Competitive price	4,5326	Very important
3	Free breakfast	4,5109	Very important
4	Special discount	4,4891	Important
5	Bright light	4,4674	Important
6	Free newspaper	4,2717	Important
7	Free parking	4,2391	Important
8	24 hours security video	4,0435	Important

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9	Centralize reservation	4,0326	Important
10	Provide security guard in each floor	3,8261	Important
III	General amenities		
1	Value of money	4,6413	Very Important
2	Swimming pool	4,4348	Important
3	Recreation facility	4,2609	Important
4	Health facility	4,0543	Important
5	Entertainment facility	3,9565	Important
6	Big room	3,8261	Important
7	Suite room	3,8261	Important
8	Sauna	3,8152	Important
9	Library	3,0543	Neutral
IV	Mature-specific attributes		
1	Definitely clear signs	4,3587	Important
2	Non- smoking room	4,3152	Important
3	Health facility	4,1848	Important
4	Extra blanket	4,0326	Important
5	Easy handheld door to open	4,0326	Important
6	Nightlight at the bathroom	3,9565	Important
7	Wide door for wheelchair	3,8043	Important
8	Thin feathers carpets	3,6739	Important
9	Bathroom aid tool	3,6739	Important
10	Provide healthy menu dietary	3,4457	Important
11	Faster dinner hour	3,2500	Neutral
12	Small portion food	3,0543	Neutral

**Hotel attribute for senior tourist**

No	Attributes	Mean	Description
I	Services and Convenience		
1	Elevator	4,8438	Very important
2	Strategic Location	4,8438	Very important
3	24 hours Room Service	4,6563	Very important
4	Restaurant	4,5313	Very important
5	Airport transportation from and to	4,4063	Important
6	Bell boy	4,1875	Important
7	24 hours Coffee shop	4,1240	Important
8	Quick Check out	4,0313	Important
9	Airline Frequent Traveler Program	3,9375	Important
10	Quite Lounge		Important
11	Valet parking	3,9063	Important
12	Airline reservation and car rental	3,9063	Important

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13	Laundry	3,9063	Important
14	Meeting room	3,8750	Important
15	Specialty restaurant	3,8125	Important
16	Concierge available	3,7188	Important
17	Secretary service provided	3,3125	Neutral
		2,5000	Neutral
II	Security and Price		
1	Loud alarm	4,7188	Very Important
2	Competitive price	4,6563	Very Important
3	Free breakfast	4,5313	Very Important
4	Special discount	4,4375	Important
5	Bright light	4,3438	Important
6	Free newspaper	4,1875	Important
7	Free parking	4,1875	Important
8	24 hours security video	4,0000	Important
9	Centralize reservation	3,9688	Important
10	Provide security guard in each floor	3,7500	Important
III	General amenities		
1	Value of money	4,5938	Very Important
2	Swimming pool	4,2500	Important
3	Recreation facility	3,9375	Important
4	Health facility	3,8125	Important
5	Entertainment facility	3,6250	Important
6	Big room	3,5625	Important
7	Suite room	3,4375	Neutral
8	Sauna	3,2500	Neutral
9	Library	3,2188	Neutral
IV	Mature-specific attributes		
1	Definitely clear signs	4,4063	Important
2	Non- smoking room	4,3750	Important
3	Health facility	4,2500	Important
4	Extra blanket	4,2188	Important
5	Easy handheld door to open	4,0313	Important
6	Nightlight at the bathroom	4,0000	Important
7	Wide door for wheelchair	3,9688	Important
8	Thin feathers carpets	3,9063	Important
9	Bathroom aid tool	3,5938	Important
10	Provide healthy menu dietary	3,4375	Neutral
11	Faster dinner hour	3,3125	Neutral
12	Small portion food	3,1563	Neutral

### Hypotheses Test

<b>Hotel Attributes</b>	<b>Young travelers Mean</b>	<b>Senior travelers Mean</b>	<b>Probability</b>	<b>Significance differences among senior and young</b>
Service and convenience	4,0870	4,0294	0,505	insignificant
Price and Security	4,3011	4,2781	0,783	insignificant
General Amenities	4,0507	3,7431	0,008	Significant
Mature-Specific Attributes	3,8152	3,8880	0,514	insignificant

### Conclusion and Suggestion

#### Conclusion

After studying the differences (1) from the assessment perceptions of young travelers to the hotel attributes, it obtain five (5) highest yield hotel attributes considered very important by young tourists; (i) availability of the elevator in the hotel; (ii) strategic location of the hotel; (iii) Value of money; (iv) Availability of loud alarm and (v) The availability of 24 hours room service.

Next assessment of the senior traveler's perception of the attributes of the hotel, then achieve five (5) highest yield hotel attributes which is considered very important by senior tourists, such (i) The availability of the elevator in the hotel; (ii) The strategic location of the hotel; (iii) Availability of harsh alarm; (iv) competitive price; (v) The availability of 24 hours room service.

There were no differences in the perception of the dimension of service and convenience among young and seniors travelers. Also, there were indifferences in the perception of the security and price dimension between young and senior travelers. Meanwhile, there are differences in the perception of the dimension of general amenities among them. Furthermore, there were no differences in the perception of mature-specific attributes among young and seniors travellers.

#### Managerial implication

General amenities dimension is the only differences between senior and young tourist. Senior tourist will choose hotel with good quality health facility and young tourist will choose hotel with swimming pool and recreation facility. Hotel that choose senior tourist as their main segment

have to consider providing good health facilities. And hotel that choose young tourist have to provide more recreation facilities.

The most important attributes for senior and young tourist are elevator, strategic location, room service and restaurant service. Based on that, hotels have to provide those attributes to meet senior and young tourist needs and wants.

### **Suggestions**

The same instrument can be tested for women and men tourists, to see whether differences gender will influence the distinction in their perceptions of hotel attributes. Moreover, from the four dimensions tested is only obtained one significant dimension. It is probably the the instrument used in this study cannot fully apply to the Indonesian respondents because of characteristics.

Therefore, if the same instruments will be used, better factors analysis should performed appropriate indicators and dimensions for Indonesian.

**THE EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY TO SERVICE QUALITY, CORPORATE IMAGE AND PURCHASE INTENTIONS**

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**ABSTRACT**

The paper aims to present a comprehensive framework for the effects of corporate social responsibility to service quality, corporate image and purchase intentions. The paper also seeks to account explicitly for the differences in corporate social responsibility, service quality, corporate image and purchase intentions found among fast food restaurant customers. Data were obtained from 100 fast food restaurant customers. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into corporate social responsibility should focus on service quality, corporate image and purchase intentions as important consequences. The findings propose that corporate social responsibility has positive effects to service quality, corporate image and purchase intentions. Marketing research should pay more attention to the role of corporate social responsibility in gaining fast food restaurant customers. Because of the positive influence on marketing success, managers should focus on customers that centre on purchase intentions primarily with fast food restaurant customers. However, corporate social responsibility also seems to be a good device to gain fast food restaurant customers from competitors. The contributions of the paper are, firstly, a more complete framework of the effects of corporate social responsibility to service quality, corporate image and purchase intentions analyses simultaneously. Secondly, the study allows a direct comparison of the difference in corporate social responsibility, service quality, corporate image and purchase intentions between fast food restaurant customers.

**Keywords:** corporate social responsibility, service quality, corporate image, purchase intentions.

## **1. Introduction**

In Indonesia, CSR is increasingly popular term used since the 1990s. Since the enactment of the Law Company Limited (UU PT) No. 40 of 2007, especially in efforts to implement Article 74, many parties trying to implement corporate social responsibility (CSR) in the context of the regulation called the Social and Environmental Responsibility. However, some companies actually have been doing CSA (corporate social activity) or social activities of the company. Although not named as CSR, the CSR concept in its implementation approach that represents a form of "contributions" and "caring" company against the social and environmental aspects.

In practice, the company has many ways to the implementation of CSR can be run in accordance with the company's needs and the needs of the community. According to Saidi and Abidin (2004, Suharto in 2006) it is known that the pattern of implementation of CSR, CSR in Indonesia is carried out directly as much as 40.5%, implementation of CSR activities to create a foundation as much as 7.2%, the company partnered with social institutions as much as 51.6 %, and the company doing the consortium as much as 0.7%. At this time, customers are more aware of the responsibility of the company through better education and through the influence of the media. This allows the CSR cannot be ignored by companies. The role of business in society is no longer focused on creating profits, but also focused on acting responsibly towards stakeholders (Harrison and Freeman, 1999).

CSR will enhance the company's image, which in the long time span will increase the company's reputation (Wibisono, 2007; Susanto, 2007). In addition to the corporate image CSR will affect the quality of service. In the study Bang (2010) found that social image, the image of the location, brand image have a relationship and a positive and significant impact on customer loyalty, whereas in the study Chiu (2009) found that the customer perception towards CSR has a positive and significant effect on customer attitudes and customer behavior intention. Second, the results indicate that the perception of CSR has an effect exhibited significantly to the quality of service received by customers.

There have been many studies about how CSR affects the company's financial performance and behavior of employees, but there is still little that explores the effects of CSR on customer behavior. By looking at the condition of today's customers are more aware of corporate responsibility through better education and through the influence of the media. This allows the CSR cannot be ignored by companies. Therefore, the research question is: "Is there any influence of CSR to service quality, company image and purchase intentions?"

## **2. Theoretical Base**

### 2.1. Corporate Social Responsibility (CSR)

A definition of Corporate Social Responsibility at this point is varied. Such as the definition of CSR is raised by the World Bank (2002), that the corporate social responsibility of business commitment in contributing to sustainable economic development in cooperation with employees and involve local communities and society at large to improve the quality of life, which means it's good for business and development. Elkington (1998) pack CSR into three focuses: 3P stands for profit, planet and people, known as the "Triple Bottom Line". Good company not only hunts mere economic profit. But also have concern for the environment (planet) and social welfare (people).

### 2.2. Service Quality

Service quality can be interpreted as an effort to fulfill the needs and desires of customers and delivery accuracy in balancing customer expectations (Tjiptono, 2007). According Mowen (2002), service quality is a dynamic that is changed according to customer demands. The actual service is a reduction score expectation (expected value) and performance score (the value of performance). Level of competition between companies is getting higher, one attempt to win the competition is to improve the service quality and provide services according to the needs of the customer so that will give satisfaction to the customer. According to Kotler and Keller (2014), service quality is the totality of characteristics of the shape of goods or services that show the ability to satisfy the needs of customers both obvious and hidden.

### 2.3. Corporate Image

Corporate image is the public perception of the company or its products (Kotler and Keller, 2014). The image of the company described as the overall impression created in the mind of the public about an organization (Barich and Kotler, 1991, in the Nguyen and Leblanc, 2002). Corporate image associated with the business name, architecture, and variety of products, tradition, ideology and the impression on the quality communicated by each employee who interacts with a client organization (Nguyen and Leblanc, 2002). The corporate image is formed by many things. According to Keller (1993) as quoted by Adreassen that at the enterprise level, the image can be interpreted as the perception of an organization which is reflected in the form of an association in the minds of customers. The image of a company is determined by how the interpretation of corporate identity, which form the overall impression or perception in the mind of the customer (Thomas and Hill, 1999). Further Belanger et al. (2002) states that corporate image is the result of an individual's personal response to an organization. The response appears due to the interaction of



whether planned or not, influenced or not, through an intermediary or interpersonal. Corporate image, often a result of interaction with the community organization members.

## 2.4 Purchase Intention

Purchase intention can be defined as a possibility if the buyer intends to purchase a product (Doods, Monroe, and Grewal, 1991). Another opinion delivered by Kinnear and Taylor (1995), purchase intention is the stage tendency of respondents to act before a buying decision right. There is a difference between the actual purchase and purchase interest. If the actual purchase is a purchase that is actually performed by the customer, then the interest in the purchase is the intention to make purchases at the next opportunity. Although it is a purchase that is not necessarily going to do in the future but measurement of interest in the purchase is generally carried out in order to maximize the prediction against the actual purchase itself.

## 2.5. Conceptual Framework

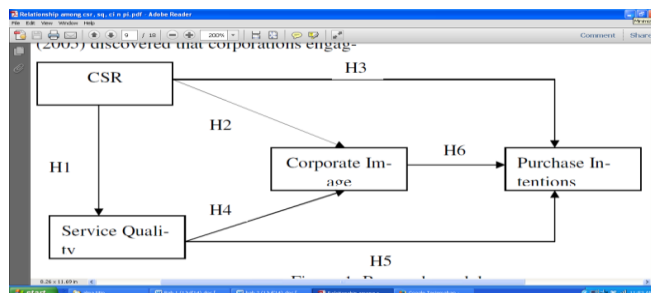


Figure 1. Conceptual Framework

Source: Liu, 2014

## 3. Methodology

### 3.1. Research Method

This study aimed to test the hypothesis the effect of CSR on Service Quality, Corporate Image and Purchase Intention. This is in line with research conducted by Liu (2014). The unit of analysis

is fast food restaurant customers in Jakarta. Meanwhile, the collecting data is using the survey method with cross sectional data, that observed and collecting in a certain period of time.

### 3.2. Instrument Test

Research Instrument is questionnaire. The researchers assessed instrument for each statement to check measurement reliability and validity by using the *software program Statistics Social Science* (SPSS) version 17.0 for Windows.

**Table I**  
**Measurement**

Variable	<i>KMO</i>	<i>Anti-Image</i>	<i>Cronbach's Alpha</i>
<b>CSR</b>			
Responsibilities of Economics and Law	0,709		0,683
Fast-food restaurants can guarantee profits for its partners (organic farmers)		0,752	
Fast-food restaurants can improve the performance of the parent company by conducting Green Action		0,671	
Fast-food restaurants provide information in raising funds for the activities		0,688	
Fast-food restaurants transparent in paying taxes, by stating on every receipt of purchase		0,815	
Responsibility of Philanthropists	0,684		0,848
Fast-food restaurants on the matter by making early childhood education		0,748	

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Fast-food restaurants are sponsoring charity	0,704	
Fast food restaurants stressed and accommodate charities and welfare	0,629	
<b>Responsibility of Ethical</b>	0,716	0,840
Fast-food restaurants provide a quality product	0,695	
Fast-food restaurants provide price according to quality	0,686	
Fast-food restaurants use packaging that can be recycled and recycle waste	0,787	
<b>Service Quality</b>		
<b>Service</b>	0,815	0,832
Fast-food restaurants provide good service	0,812	
Fast-food restaurants can understand the needs of consumers	0,782	
Fast-food restaurants have the support of its parent company to do their jobs well	0,848	
Fast food restaurants provide personalized service through call centers	0,787	
Consumers believe in fast food services	0,838	
There are several fast-food restaurants are open 24 hours to serve customers	0,802	
Fast-food restaurants provide products	0,845	

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according to the wishes of as consumers

**Reliability** 0,642 0,722

Fast-food restaurants provide a commitment to the customer with the best service 0,633

Fast-food restaurants provide timely service as promised 0,603

Service reliable Fast food restaurants 0,735

**Tangibility** 0,784 0,811

Fast-food restaurants have a strategic location 0,811

Fast-food restaurants have the appearance of an attractive facility 0,752

Facilities owned fast-food restaurant has been modernized 0,767

Employee's Fast food restaurants dressed 0,825

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**Corporate Image** 0,776 0,861

I have a good impression of the fast food restaurant 0,763

Fast-food restaurants have good intentions 0,746

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and trustworthy		
Fast-food restaurants have a better reputation than other fast food restaurant	0,813	
I think that the fast-food restaurant has a good image overall	0,792	
<b>Purchase Intention</b>	0,683	0,782
If I want to buy a fast food restaurant, there is a great possibility that I would buy the products in fast food	0,772	
If I want to buy a fast food restaurant, fast-food restaurant would be my first choice	0,649	
I am willing to recommend products released fast food restaurant to others	0,661	

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\*The whole answered is measured by using *likert* scale 5 points: 1 = very disagree to 5 = very agree.

### **3.3. Data Collection**

Collecting data in this study conducted by distributing questionnaires to fast food restaurant in Jakarta. Population is fast food restaurant customers in Indonesia. Samples were taken of 150 respondents, fast food restaurant customers in Jakarta. The sampling method used is *purposive sampling* which is one of *the non-probability sampling techniques*, which the researchers chose members of the sample is based on certain (Malhotra, 2006).

### **3.4. Data Analysis Method**

Data have been collected processed by using *Structural Equation Modeling* (SEM). This method used with the consideration relationships between variables that occur simultaneously. SEM is precisely use to change one dependent to independent variable for the next relations. SEM is a similar method to a combination data processing, using *factor analysis and multiple regression analysis*. Further, SEM reflect together regression analysis impact on significant.

#### 4. Finding and Result

The statistical test used to test the hypothesis of this study is SEM. In table II, the result shows that H1 is supported ( $\beta = 0,671$ ,  $p\text{-value} = < 0.05$ ). The result shows that CSR affect service quality. H2 is not supported ( $\beta = 0,035$ ,  $p\text{-value} = > 0.05$ ) which shows that CSR do not affect corporate image. H3 is not supported ( $\beta = -0,016$ ,  $p\text{-value} = > 0.05$ ) which shows that CSR do not affect purchase intention. H4 is supported as well ( $\beta = 0,605$ ,  $p\text{-value} = < 0.05$ ) which shows that service quality affect corporate image. H5 is not supported ( $\beta = 0,129$ ,  $p\text{-value} = > 0.05$ ) which shows that service quality do not affect purchase intention. The test of H6 is supported ( $\beta = 0,627$ ,  $p\text{-value} = < 0.05$ ) which shows that the hypothesis 6 of corporate image affect purchase intention.

**Table II**  
**Testing Hypothesis**

Hypothesized path	Coefficient ( $\beta$ )	$p\text{-value}$	Decision
H1: There is a positive impact of CSR towards service quality	0,671	0,000	<b>H1 Supported</b>
H2: There is a positive impact of CSR towards corporate image	0,035	0,690	H2 Not Supported
H3: There is a positive impact of CSR towards purchase intention	-0,016	0,838	H3 not Supported
H4: There is a positive impact of service quality towards corporate image	0,605	0,000	<b>H4 Supported</b>
H5: There is a positive impact of service quality towards purchase intention	0,129	0,161	H5 Not Supported
H6: There is a positive impact of corporate image towards purchase intention	0,627	0,000	<b>H6 Supported</b>

### **5. Contribution, Implication, and Direction of future researches**

The results showed that the CSR program carried fast food restaurants will affect the quality of service of the fast food restaurants. Furthermore, the presence of good quality service it will affect the image of the fast food restaurants. Finally with a good corporate image will increase customers' willingness to buy the products offered by fast food restaurants. So that fast food restaurants should continue to pay attention to the activities of its social responsibility to its customers which could affect the willingness of customers to purchase the company's products.

### **6. Limitation**

Just as other researches, this study has its limitations. First, the number of the sample is 150 respondents during the data collection. Second, the research only collect sample from respondents in Universitas Trisakti area. Third, this study conducted on customers of fast food restaurants. Fourth, the study only includes variable such as CSR, service quality, corporate image and purchase intention in which there are still other variables that can be included. Fifth, there is an impact of parents in fast food restaurants choice, caused by the age of respondents which is 18-22 years old.

### **7. Future Research**

In the future research, the number of respondents must increase for over 150 respondents. It is recommended for the research sample to include not only sample from Universitas Trisakti, but expanded to other areas such as West Jakarta. Further research can be done on a traditional restaurant that gives uniqueness. Moreover, future researchers can add a preference variable to strengthen the future purchase intention. The next research can also expand the characteristic of respondents in age, occupational type, which is added because they can already make their own purchase decision for themselves and not anymore affected by parents.

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**THE CAUSAL RELATIONSHIP BETWEEN STOCK RETURNS, TRADING VOLUME,  
AND VOLATILITY**

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**Hartini**  
Trisakti University

**ABSTRACT**

Causality examines relationship between two phenomena, in which one is believed as a cause, and the other one is the effect from the previous phenomenon. The objective of this empirical study is to examine the causal relationship between stock returns, trading volume, and volatility in Indonesia's property and real estate industry. The sampling technique used is the purposive sampling. The sample used in this research is all public companies in the property and real estate industry, as well as listed in Indonesia Stock Exchange (IDX) from January 2004 until December 2013. The data analysis method used in this research is Granger causality. The results of this empirical study shows that there is one directional causality relationship from stock returns to trading volume, and there is one directional causality relationship from volatility to trading volume. Managerial implications of this research is the financial manager should consider the factors that affect stock price (stock returns) in making decisions, because any decision by the finance manager will ultimately have an impact on the company's stock price.

**Keywords** : investment, Granger causality, stock returns, trading volume, volatility

## **1. Introduction**

One of the investment instruments that traded among investors is the stock. The major component of the stock that lures investor to do the investment is the return. Return is the amount of money that investors receive in which is more than they invest. Return in stock will be obtained when the concept of buy low sell high is applicable. On the other side, investment is surrounded by risk, in which defined as the fluctuation of the stock prices, or also known as volatility. The amount of return and risk that investors receive depends on trading volume—the number of shares (in the lot unit) they invest in particular stock. This implies that relationship between stock returns, volatility, and trading volume is important.

The common test conducted regarding the relationship between stock returns, trading volume, and volatility is the contemporaneous relationship. Contemporaneous relationship between the three financial variables is popularized by Karpoff (1987), which became known as two stylized empirical facts. The first fact discovered by Karpoff is that there is a positive correlation between stock prices to the volume of trade, which implies that the rising markets are accompanied by rising volumes, and vice versa the falling markets are accompanied by the falling trading volume. The second fact shows that there is a positive relationship between trading volume and absolute returns, which implies that it takes the trading volume to bring price movements.

Contemporaneous relationship then used as the basis for testing the dynamic relationships (causality) between stock returns, trading volume, and volatility (Chen *et al.*, 2001). There are many previous studies that discuss the causal relationship between stock returns, trading volume, and volatility, but the majority of studies focused on the financial markets in developed countries (Kamath and Wang, 2006). Furthermore, research conducted by Hsieh (2014) in Hong Kong, Japan, Malaysia, Philippines, Singapore, Taiwan, and Thailand in property and real estate industry on the causal relationship between stock returns, trading volume, and volatility, shows that trading volume does not have a causal relationship to stock returns, but the stock returns have a causal relationship to the trading volume. Another result shows that trading volume has one directional causal relationship towards volatility.

The absence of Indonesia in Hsieh's research makes this empirical study is important to be conducted in order to find out about the causal relationship between stock returns, trading volume, and volatility. The industry chosen for this research is the property and real estate industry, since this industry is a booming in Indonesia. According to the research conducted by Global Property Guide, Indonesia takes the second place in terms of gross rental yield as much as 7.05%, under the Philippines which has a 7.53% gross rental yield.

## **2. Literature Review**

Causal relationship between trading volume and stock returns, and trading volume and volatility can be explained by the model SIA (Copeland, 1976). Through SIA models, the relationship between stock prices and trading volume occurs when information is disseminated through to the trader and the dissemination of such information would move sequentially (sequence) to other traders at different times. Thus, it will be creating asymmetry of information between traders in the market. This condition is used by informed traders to carry out trading activities, including adjustment of stock prices and trading volume, which then creates a partial equilibrium. In this partial equilibrium, trading volume adjustment will cause the share price adjustment (return), and vice versa stock price adjustment (return) will cause the trading volume adjustment.

The study conducted by Hiemstra and Jones (1994) found that there is a significant bi-directional causal relationship between stock returns and trading volume. The bi-directional causal relationship shows that stock prices affect trading volume, and vice versa trading volume affect stock prices.

Moosa and al-Loughani (1995) performed study to test the dynamic relationship between stock price (returns) and trading volume of the four Asian stock markets, and found that with the exception of India, there is strong evidence of bi-directional causal relationship in Malaysia, Singapore, and Thailand. Study conducted by Chen et al. (2001) on the relationship between the stock price and trading volume on the capital markets in nine developed countries, such as America, Canada, Japan, England, Italy, Hong Kong, Netherlands, France, and Switzerland, showed that there is a bi-directional Granger causality on the Swiss market, the Netherlands, Canada, and Hong Kong. This shows that the trading volume contributed to returns, and vice versa. Based on the previous explanation, the formulation of hypotheses about the causal relationship between trading volume and stock returns in this empirical study are as follows:

H<sub>1a</sub> : Trading volume has causal relationship to stock returns.

H<sub>1b</sub> : Stock returns has causal relationship to trading volume.

In-depth understanding of the SIA model can explain the causal relationship between trading volume and volatility. Model SIA explained that the information that is known by different traders at different times while making the relationship between trading volume and volatility becomes positive. In this model, the pattern of dissemination of information and the level of interest of traders have information that would affect the level of the relationship between volume and volatility. Model SIA explained when disseminating information is only received by certain traders ("insiders") indicates that the information is important, then the price change by itself would reveal

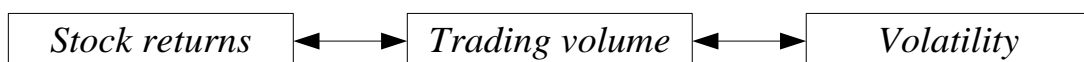
such information. The insiders will take advantage of these conditions to buy the stock as much as possible, then sell before the end of the market equilibrium occurs, ie when all the traders in the market to know that information and stock prices are already too expensive. Model SIA is then reinforced by rational expectation asset pricing model introduced by Karpoff (1987) and Chen *et al.* (2001). This model is based on the asymmetry of information and implies that there is always a positive correlation between trading volume and absolute price changes, and the relationship will be stronger with increasing asymmetry of information itself.

Information asymmetry occurs when not all investors are able to obtain sufficient information about the market. In this case, the trading volume contains information useful in identifying the behavior of the stock (Lo and Wang, 2000), so that investors who do not carefully manage the information will incur a loss. In other words, changes in trading volume (increase or decrease) cause the stock price change (increase or decrease) or volatility.

Research conducted by Bhagat and Bhatia (1996) showed that there is a one directional causal relationship from the absolute value of the change in stock price (returns) to trading volume when analyzing the relationship between trading volume and volatility using causality test. Schwert (1990) and Chan and Fong (2000) found that the trading volume has a positive and significant effect on stock price changes (volatility). Based on the aforementioned explanation, the formulation of hypotheses about the causal relationship between trading volume and volatility in this empirical study are as follow:

- H<sub>2a</sub> : Trading volume has causal relationship to volatility.
- H<sub>2b</sub> : Volatility has causal relationship to trading volume.

**Exhibit 1**  
**Conceptual Framework**



### **3. Methodology**

This study refers to the previous study conducted by Hui-Ching Hsieh (2014) entitled *The causal relationship between stock returns, trading volume, and volatility: Empirical Evidence from the Asian listed real estate companies*. This study aims to investigate whether trading volume has the ability to predict stock returns (and return volatility) or vice versa, stock return (and return

volatility) has the ability to predict the volume of trading in property and real estate industry in Indonesia.

This study is using hypothesis testing method that aims to examine the causal relationship between stock returns, trading volume, and volatility based on the theories that there are available in the finance literature.

The unit of analysis in this study is all public companies in the property and real estate industry in Indonesia. Furthermore, the data in this study were obtained from an index value of the property and real estate industry in Indonesia from January 2004 until December 2013, in which the index components that are used as variables for this research are the closing price index and trading volume. Thus, the data and analysis used in this study are time series.

### **3.1 Variables and Measurements**

#### **1. Stock returns**

Stock returns are monthly measured by calculating the percentage change in the closing price index in period  $t$  of the closing price of the index period  $t-1$  (previous).

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}} \times 100\%$$

Source: Pathirawasam (2011)

Where:

$R_t$  = Returns of the index in period  $t$ .

$P_t$  = closing price index in period  $t$ .

$P_{t-1}$  = closing price index in period  $t-1$  (previous).

#### **2. Trading volume**

Trading volume is monthly measured by calculating the natural logarithm of the quotient of the trading volume in period  $t$  with the trading volume of in period  $t-1$  (previous).

$$\Delta V_t = \ln (V_t/V_{t-1})$$

Source: Darwish (2012)

Where:

$\Delta V_t$  = Difference in change in trading volume index period  $t$ .

$V_t$  = Volume of trade in period  $t$ .

$V_{t-1}$  = Volume of trade in period  $t-1$  (previous).

### 3. Volatility

Measurement of volatility is using standard deviation, which is the amount of the deviance of returns the index from the average index. Due to the volatility measured per month, then to get the volatility in the period (month)  $t$ , standard deviation calculation is using the data of daily transactions in the period  $t$ .

$$\sigma_t = \sqrt{\frac{\sum_{i=1}^n (R_t - \bar{R}_t)^2}{n-1}}$$

Source: Grullon *et al.* (2012)

Where:

$\sigma_t$  = standard deviation (*volatility*) in period  $t$ .

$R_t$  = daily index returns in period  $t$ .

$\bar{R}_t$  = average daily index return in period  $t$ .

$n$  = number of observations.

### 3.2 Stationarity Test

Stationarity means that there are no drastic changes in the data. Fluctuations in the data being around an average constant value, and do not depend on the time and the variation of from those fluctuations. In testing stationarity, this study using the test statistic Augmented Dickey-Fuller (ADF).

The formulations of the hypothesis in testing the unit root (stationary) are as follows:

$H_0$  = There is a unit-root (data is not stationary)

$H_1$  = There is a unit-root (data is stationary)

If the probability value generated ADF smaller than alpha ( $\alpha = 0.05$ ), then  $H_1$  is accepted, which means that the data in the study is stationary. Stationarity of the variables in this study can be seen in the following Table 1 Stationarity Test.

**Table 1**  
**Stationary Test**

<b>Augmented Dickey-Fuller (ADF) test statistic (max lag =12)</b>			
Stationarity (Level)	Variable		
	Stock returns	Trading volume	Volatility
Probability	0,0000	0,0000	0,0000
Result	Stationary	Stationary	Stationary

Source: Data processed with Eviews 8.

### 3.3 Optimal Lag Length Test

Prior to test causality relationship, there should be executed a length lag test. This has to be performed since causality test is very sensitive to the lag length. The determination of the lag can be used by several approaches, namely Likelihood Ratio (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC) dan Schwarz Information Criterion (SC), dan Hannan-Quinn Information Criterion (HQ).

Optimal lag from each approach is marked by an asterisk (\*). Determination of the optimal lag length based on the lag that has the most *order selection* or most asterisks (\*) at a particular lag value. Lag length used for the Granger causality in this study is four. The results of the determination of the optimal lag length can be seen in the following Table 2 Optimal Lag Length Test.

**Table 2**  
**Optimal Lag Length Test**

Lag	LogL	LR	FPE	AIC	SC	HQ
0	429.2148	NA	9.94E-08	-7.610979	- 7.538162*	-7.581435
1	446.9907	34.28207	8.49E-08	-7.767691	-7.476424	- 7.649515*
2	456.4628	17.7602	8.43E-08	-7.776122	-7.266403	-7.569313
3	467.7893	20.6304	8.09E-08	-7.817666	-7.089497	-7.522225
4	479.4705	20.65072*	7.73e-08*	-	-6.918925	-7.481471



				7.865545*		
5	483.8613	7.527086	8.41E-08	-7.783238	-6.618167	-7.310532
6	489.2039	8.872491	9.02E-08	-7.717927	-6.334405	-7.156588
7	492.3006	4.976881	1.01E-07	-7.612511	-6.010539	-6.96254
8	502.506	15.85483	9.93E-08	-7.634036	-5.813613	-6.895433

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\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

---

### 3.4 Granger Causality

Granger causality is a statistical concept that is based on the prediction. Granger causality test is hypothesis testing to determine whether a variable time series can forecast another time series variable. Granger (1969) argued that causality in economics can be reflected through the ability to predict the future value of a time series data using past values of another time series data.

Determining whether a time series variable X Granger-cause time series variable Y can be seen from the probability value. If the probability of the variable time series X is smaller than alpha ( $\alpha = 0.05$ ), then  $H_1$  is accepted, which means that the variable time series X Granger-cause variable time series Y.

## 4. Discussion

Granger causality test is used to investigate the causal relationship between variables of stock returns, trading volume, and volatility study. The results of causal relationship between stock returns and trading volumes can be seen in following Table 3, and the causal relationship between trading volume and volatility in Table 4.

**Table 3**  
**Causality Test between Stock Returns dan Trading Volume**

	<b>Hypothesis</b>	<b>Probability</b>	<b>Result</b>
H <sub>1a</sub> :	Trading volume has causal relationship to stock returns	0,9041	Reject H <sub>1a</sub>
H <sub>1b</sub> :	Stock returns has causal relationship to trading volume	0,0082	Accept H <sub>1b</sub>

Sumber: Data diolah Eviews 8.

From the test results of Table 3 above, with a probability value of trading volume (0.9041) is greater than alpha of 0.05, then H<sub>1a</sub> is rejected, which means that trading volume has no causal relationship to the stock returns. On the other hand, with a probability value of stock returns (0.0082) is smaller than alpha of 0.05, then H<sub>1b</sub> is accepted, which means that stock returns have a causal relationship to the trading volume.

**Table 4**  
**Causality Test between Trading Volume dan Volatility**

	<b>Hypothesis</b>	<b>Probability</b>	<b>Result</b>
H <sub>2a</sub> :	Trading volume has causal relationship to volatility	0,4986	Reject H <sub>1c</sub>
H <sub>2b</sub> :	Volatility has causal relationship to trading volume.	0,0025	Accept H <sub>1d</sub>

Sumber: Data diolah Eviews 8.

Based on the test results of the causality between trading volume and volatility that are shown in Table 4 above, it shows that there is a one-way causality from volatility to the trading volume. However, causality does not happen in reverse, from the trading volume to volatility. This is proved from the probability value of the trading volume of 0.4986 which is greater than alpha of 5%, thus making H<sub>1c</sub> rejected, as well as the volatility of 0.0025 probability value which is smaller than alpha of 5%, thus making H<sub>1d</sub> accepted.

#### **4.1 Analysis of Stock Returns and Trading Volume**

Based on the test results of the causality between stock returns and trading volume, indicating that there is one directional causal relationship from stock returns to trading volume in property and real estate industry in Indonesia, but this relationship does not happen in reverse. This implies that the present value of stock returns has the ability to predict the future value of trading volume. Briefly, stock returns affect the movement of the volume of trading in the Indonesian capital market, particularly in property and real estate industry.

The results are consistent with previous research conducted by Hseih (2014) and supported by empirical evidence found by Hiemstra and Jones (1994); and Chen *et al.* (2001), which states that stock returns have one directional causal relationship to trading volume, but on narrower scope, there is a causal relationship from trading volume to the stock returns. In other words, the empirical evidence in this study and previous research confirms that there are difficulties in proving that the trading volume affects the movement of stock returns. The difficulty of proving causal relationship from trading volume to the stock returns is because these variables are expected move together or contemporaneously with the arrival of new information (Clark, 1973).

With the evidence that stock returns have causal relationship to trading volume, this implies that investors in Indonesia see stock returns as a benchmark of the movement of trading volume in the future. Thus, the response also caused by increasing or decreasing the volume of trade that are tailored to the flow of information received.

#### **4.2 Analysis of Trading Volume and Volatility**

Based on the test results of a causal relationship between trading volume and volatility indicates that there is one directional causal relationship from volatility to trading volume. However, this causality does not happen in reverse, from the trading volume to volatility. In other words, the present value of volatility can predict the movement of the trading volume in the future. These results are different from Hseih's research (2014) which tests the same variable, namely volatility and trading volume. Hseih's results show that there is one directional causal relationship from the trading volume to volatility.

The result of this study indicates that there is one directional causal relationship from volatility to trading volume. The result supports the model of the sequential information arrival (SIA) proposed by Copeland (1976) and rational expectation of asset pricing model introduced by Karpoff (1987) and Chen *et al.* (2001). Both models explain that with the information that is

disseminated in order (sequence), it will lead to information asymmetry in the market. Information asymmetry is then based on the rational expectation models of asset pricing models will create a relationship between volatility and trading volume.

This condition happens because when the information asymmetry in the market occurs, traders who have information about the market (the informed traders) will take advantage of these conditions to carry out trading activities, including adjustment of stock prices and trading volume, which then creates a partial equilibrium. In this partial equilibrium, adjustment or change in the stock price will lead to adjustment of the trading volume. Changes in stock prices in this condition are defined as the share price fluctuations (volatility). In other words, through the SIA and rational expectation models of asset pricing models implicitly indicates that there is a causal relationship of volatility in the trading volume.

## **5. Conclusion**

Based on the results of data analysis has been done before, it can be concluded that there is a one directional causality from stock returns on trading volume, and there is a one directional causality from volatility in the trading volume. Therefore, managerial implications that can be proposed are first, for the company, the financial manager should consider the factors that affect stock price (stock returns) in making decisions, because any decision by the finance manager will ultimately have an impact on the company's stock price. Second, for the investor, by knowing that both of volatility and stock returns has one directional causal relationship to trading volume, this implies that investors can use stock returns and volatility (fluctuation of stock prices) as one of the benchmarks in analyzing the movement of the trading volume in the future, so that investment decision would be effective.

Furthermore, the limitations of the research are the focus of this study on property and real estate industry, as well as the numbers of variables used is only three, namely stock returns, trading volume, and volatility. Therefore, for the future study the suggestions should be considered are using another industry in Indonesia, and adding more variables, for example firm size since the number of the trading volume is influenced by the big or small of the company is (Weigand, 1996).

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**MORAL COMPETENCE AND WHISTLEBLOWING INTENTION  
(EMPIRICAL STUDY ON ACCOUNTING STUDENTS)**

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**ABSTRACT**

This study examined the influence of demographic factors which is age and gender and moral competence to whistleblowing intense. Sample used based on data obtained from 290 respondents from six universities include: Trisakti University, Islamic College of Economics Tazkia, Economics High School of Budhi. The results of this study proved that moral competence respondents were mostly at the level of competence being. Respondents of older women show a higher moral competence than those of men in the same age group. The first and second hypothesis testing to prove that age and gender did not affect whistleblowing intense. When these variables were tested directly against intense whistle blowing, the results were not statistically significant, which means that these two variables (age and gender) did not affect the intense whistleblowing. However, the variables of age and gender became a significant influence whistleblowing intense when the moral competence variables included as a moderating variable. Thus this research provides empirical evidence on the role of moral competence as predictors of whistleblowing intense and as a moderating variable.

**Key words** : Accounting Students, Ages, Gender, Moral Competency, Whistleblowing Intentions.

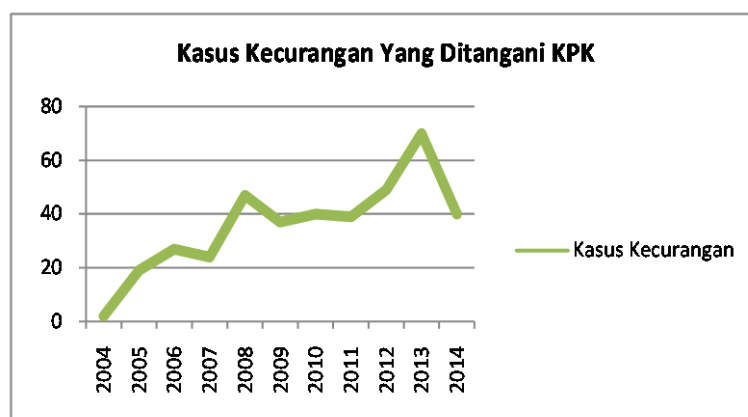
## **Background of the Problem**

Since the revelation of fraud case involving accountants in big companies either in America as well as Indonesia, the credibility of the accountants are decreased in the eye of public. The accountants are facing the new era of regulation. The requirements of accountant to detect fraud on performing their job added the list to the responsibility of the accountant. The accountant and the financial report providers often happens to be the scapegoat to the financial difficulties faced by the company.

This research is inspired by the white-collar crime that has been revealed in the last ten years. Based on the literature of psychology, this condition shows that there are some problems on their moral competence. Moral competence shows the ability to understand the right and wrong, and resolution to think and behave according to the moral norms (Borba, 2001). Moral competence problem becomes relevant and are predicted capable on providing explanations and empirical evidence on dysfunctional behavior by the white-collars. This research is inspired by the research of Lind (2008) which brings out the measurement of moral competence based on two flows: cognitive and affective together in one scale called the C score.

The corruption case handled by KPK shows rising trend since the year of 2004 till August 2014. The year of 2013 shows the highest point (70 corruption cases). The bribery case becomes the highest case in the number of 117 cases, followed by corruption cases on the procurement of goods and services (126 cases) and the misuse of funds cases (40 cases).

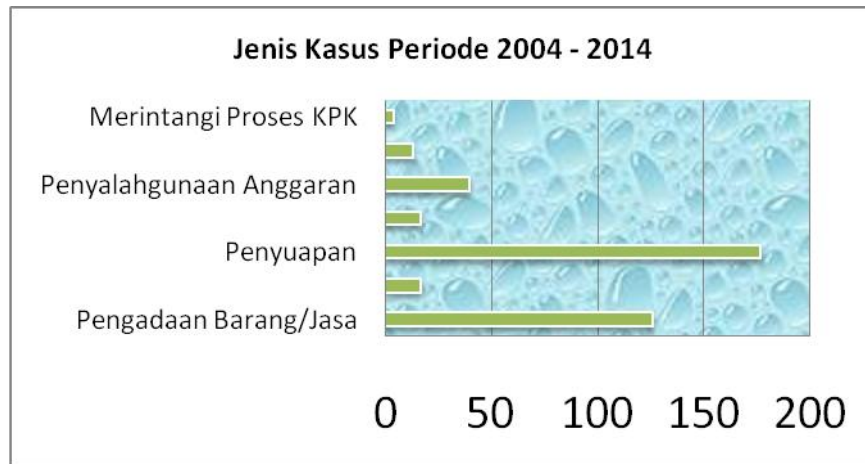
**Graphic 1**



Source: Anti Corruption Clearing House, 2014

These perpetrators of corruption are mostly Echelon (1,2,3). The People's Consultative Assembly members, the member of People's Representative Council and the private parties.

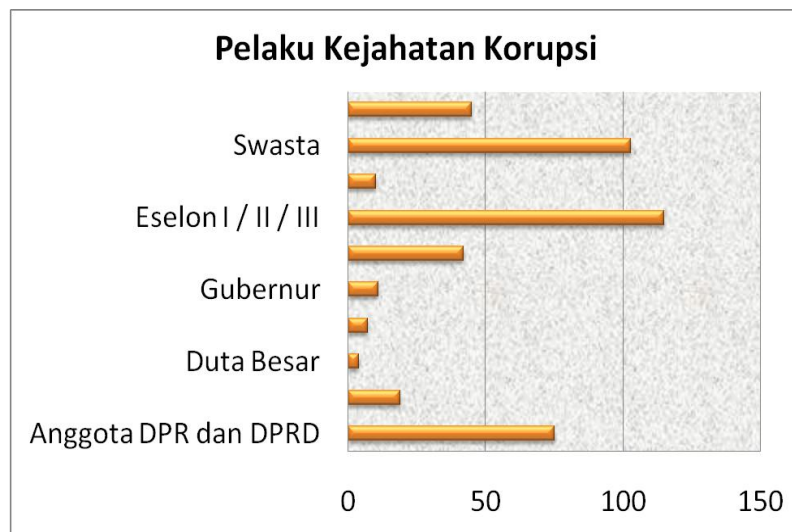
**Graphic 2**



Source: Anti Corruption Clearing House, 2014

Most of these perpetrators are the state officials who are well-educated, having a good career, honorable, reputable and they have high social status.

**Graphic 3**



Source: Anti Corruption Clearing House, 2014



The motive of this crime is to protect the personal interest or for the business and to obtain certain positions. The crime is done subtly and in a sophisticated way, not by harming, threatening and forcing physically.

The case of Enron marks an audit failure by the public accounting firm which earlier said to be reliable and is qualified by public. This case becomes a momentum of accounting profession to upgrade the quality of independence and competence. Responding to the case of Enron, American Congress published Sarbanes Oxley 2002 and obligate the public accounting firms to detect fraud during the process of financial report audit. In Indonesia, the Ministry of Finance on Republic of Indonesia reordered the public accountant profession through SK Menkeu No.423/KMK.06/2002 about the public accountant services. This appears as the sign of concerns on the sustainability of public accountant profession as independent, competent and professional parties.

The task of fraud detection is a new task for external auditors. Annual report of ACFE 2012 said that external auditor takes the 7<sup>th</sup> place from 12 list of fraud detection mechanism. This fact concerns Joseph Wells who said that the new CPA are not yet concerned with the fraud issues. Till this last 80 years, untrained accounting graduates are faced with cunning and manipulative fraud perpetrators. Up to billion of dollars has lost, but still not capable on giving resistance (Wells, on Ramamoorti, 2008). This weakness becomes criticism from the beneficiaries of accountant services. The industry declaim the need of external auditor to increase the ability of fraud detection.

There are a lot of pressure faced by the auditor. Pressure on the auditors comes from themselves in the form of personal interest and public interest. The pressure from the public who is hoping that auditor can be the agent of moral, maintaining its honesty, independence and integrity. The pressure from the government as regulator who is very concerned with the performance of auditors and public accounting firms that he represents and the investor society. The pressure from the client who requires the financial report that should suit with the clients as the fee giver for the public accountant firm. Auditor also obtain certain pressures from the public accountant firms as the work giver, who have the interest with the work result of auditor. Other than that, accountant profession organization of IAI/IAPI maintains the regulation on profession and evaluate the performance of accountants and public accountant firms, they publish ethical regulation with subjective interpretation.

Moral competence for auditors is important to maintain public's reliability and to solve ethical dilemma between client service versus financial fairness. Amstrong on Tetteroo (2007) said that

moral competence affects the quality of ethical decision made by the auditors. Ponemon & Gabhart (1993) said that moral competence affects materiality considerations, independence and evaluation of environment control on audit task. Abdolmohammadi, et.al (2003) and Abdolmohammadi & Baker (2009) found that moral reasoning scores of auditors are lower than other profession due to the following reason (1) auditor must be obedient to the standard regulation of their profession, (2) there are recruitment and socialization of the code of ethics profession that creates the same level of moral reasoning on the observed auditor.

Ponemen and Gabhart (1990) proved that moral competence level of auditor affects social responsibility and professional performance. Auditor with high moral competence produces more independent considerations, making the moral and ethics as the basic of professional consideration and solving ethical conflicts, not only to fulfill their profession standard. Profession standard is a minimum limit that should be applied during performing the task.

This research is an interesting to do because moral competence is very important for the professionals in the future. Anticipation must be designed earlier to generate more accountants with high moral standards in the future. Educations which puts noble characters as a priority than those who puts high intellectuals should be made. For the practitioners, moral competence helps to create strong and ethical profession, responsible and keep on maintaining their independency.

### **Research questions**

According to previous explanation, the issues in this research are formulated as follows:

1. Is the age affecting the whistleblowing intention?
2. Is gender affecting the whistleblowing intention?
3. Is moral competence moderate the relationship between age and whistleblowing intention?
4. Is moral competence moderate the relationship between gender and whistleblowing intention?

### **Moral Competence**

This research comes up with the role of moral competence on accounting research. Many of the previous research uses ethical orientation and moral preference but the result is inconsistent with the ethical behavior they adopt. Moral competence variable is important to form an excellent personal characteristic. Ilahi (2014) explained his analysis on widespread of violence happens, the mindset which is still dominated by emotions, destructive behavior, opportunistic, competition, hostility, conflict and social clash, and also the shifting of social status indicators from ‘piety’ to ‘material’. The act of corruption, greedy, selecting on a shortcut and justifying all possible ways to get something has becomes culture and lifestyle of Indonesian society these days. Ilahi said that Indonesian society is currently experiencing the crisis of morals and spiritual. Ilahi (2014;45) claimed the source of the crisis is the morality of the ruler.

Nurcholis Madjid as cited on Ilahi (2014) said that moral crisis has penetrated to all economic lines (conglomeration, corruption and financial scandal), social (riots, pillage and murder), politics (political cruelty and witchcraft caused by political competition), religion (arson, terrorism, acts of violence in the name of religion) and henceforth.

Low morality are formed due to the failure of character education of the lifetime, especially at the early age. A good character is composed of three connected parts that is knowing the good, wanting the good and doing good in the habit of thinking, feeling and behaving. Moral lesson can be taught to others. Moral lesson is the process to form, to grow and to develop individual characters to be a wise and responsible person by the habituation process on the mind, heart and behavior continually.

Moral competence have a role on ethical decision-making and various forms of social deviation in the society. Unbalanced design on education which is only oriented to the achievement on intellectual aspects and cognitive area and by denying the character development aspects are predicted to be the cause of degradation and demoralization in this generation (Damayanti; 2014, ; 22). Sofyan Sauri as cited by Damayanti (2014) explained that the philosophy from the word ‘education’ is as follows:

- a. Alphabet E (enlightenment), education is a process of enlightenment, through the understanding of an individual that will appears self-awareness and wiser mindset and course of actions.
- b. Alphabet D (duty and devotion), education must bring out the task and obligation to the parents, family, environment, grow compassion and the attitude of serving and helping other people.
- c. Alphabet U (understanding), education encourage individual to understand themselves

properly.

- d. Alphabet C (character), education must form a good character to every human beings. Someone who have a good character is someone with strong morality and five value of humanity which is truth, virtue, peace, love and non-violence.
- e. Alphabet A (action), all the things that have been learned must be implemented on the practice of everyday life.
- f. Alphabet T (thanking), education taught individual to be grateful and thankful to Allah, parents, teachers and all the people who had been helping in the learning process. To be grateful for all the things they gain and do it in the form of prayer, mutual respect and mutual love to all human beings.
- g. Alphabet I (integrity), education create people to uphold honesty, commitment and keep the trustworthy in carrying out obligations.
- h. Alphabet O (oneness), education create the sense of unity in diversity, priority to live in harmony, peace and harmony with nature.
- i. Alphabet N (nobility), this noble character appears due to the internalization process of all values explained above that has been successfully embedded and applied in everyday life.

Lickona, on Ilahi (2014; 124) defined character on people as something natural, on responding the situation morally which is manifested in the action of good, honest, responsible, respectful of others and other noble character. They are able to consider of what is good, keep and maintaining these good values, behave according to the good value even when they faced the pressure of any temptation from within.

The research provides empirical evidence on the role of moral competence in the performance of auditors. Accountant, a profession that works based on the stakeholder's trust, requires a competent, integrity, impartiality and loaded with ethical dilemmas in their working process. The low moral competence of an auditor will have a major impact on the economy and the audit performance. Auditor's inability to maintain public trust with opportunistic actions, denying the norms and morality have an impact on the credibility and legality of the accounting profession. Hopefully, this research can strengthened the development of a curriculum that glorified humanity through the development of moral competence. As a sentence said by J. Rousseu : *Education should aim to perfect the individual in all his powers, the education is not to make a soldier, magistrate or pries, but to make a man...* Education should aim to complete all the potential of all individual.

Education is not serve to foster human to be a soldier, judge or priest, but rather to develop someone into a person with dignity and ethics. The purpose of education and teaching is not fulfilling the human brain with a variety of unknown science, but educating character and soul, instilling a sense of virtue (fadhilah), familiarize them with high courtesy, preparing them for entire life of purity with full sincerity, honesty and able to increase the "maturity" as well as the personal integrity of every human perfection.

### **Definition of Moral Competence**

Moral competence demonstrated the ability of individuals to distinguish right and wrong based on a strong sense of ethics and implementing them in action. Borba (2001) explained moral competence as the ability to understand right and wrong and a strong stance to think and behave according to the moral values.

Cognitive theory developed by Piaget focuses on the understanding of moral issues. Piaget describes the three stages of moral development which is the absolute phase, realistic phase and autonomous morality phase. This cognitive theory is then corrected by Kohlberg (1981) to explain the stages of moral development. There are three stages of moral development that is pre conventioning reasoning, Conventioning reasoning dan Post conventioning reasoning phase. The three stages of this development are detailed in 6 stadium including:

1. Pre Conventioning Reasoning phase, is the basic of right or wrong actions are the consequences of those actions that come from outside. This phase includes:

- a) Stadium one: penalties will be accepted if an individual did wrong action or non-adherent. Compliance comes from the punishment by the outside parties.
- b) Stadium two: Obedience and compliance purely upon norms because an individual wants the benefits, reward or advantage for themselves. They will compromise only if they accept the benefits of those attitudes.

2. Conventioning Reasoning phase, where compliance and obedience orientation based on the norms, rules and the applicable law in the community. This stage includes two stadium, which is:

- a) Stadium three: individuals appreciate the truth, awareness and loyalty to others as a basis for moral judgment. Someone will do good only if the action is preferred and expected by

the surrounding community, so it will avoid the reproach.

- b) Stadium four: social system morality. Individuals will assume that the social rules as something that must be maintained. Someone said to be immoral if they fulfill their duties and use the understanding of the social rules in the consideration and decision-making. Individuals will compromise to maintain the system and social rules that exist in a common life.

3. Post-conventioning Reasoning phase, is the final stage of moral development. This stage includes:

- a) Stadium five: The community rights versus individual rights. Individuals understand that rules and controls is an agreement between themselves and the society. Rules are relative and it can have different standards on anyone without reducing the law value of the regulation. The attitude of compromise in this stadium is intended to fulfill the agreements exists in the social rules.
- b) Stadium six: universal ethical principles. Individuals develop moral standards based on universal human rights and when dealing with the conflict between law and conscience, they would follow their conscience even though it will harm them. The attitude of compromise in this stadium comes from confidence of an individual or the conscience who wish to do so, not because of the external commands or norm.

This moral development theory of Kohlberg is then used by Lind (2008) to develop the concept of moral competence that can measure both cognitive and affective aspects. Lind (2008) said that instrument developed by Kohlberg which is Moral Judgement Inventory (MJI) only measures the cognitive aspects so that the validation of the instrument in various studies for many years are not able to reach the highest stage of moral development (stadium 6) (Lind; 2013). Kohlberg said most people do not reach the level of post-conventional reasoning or delayed achievement of moral competence due to cultural factors. According to his research, 10% of American teens reach this level of post-conventional reasoning at the age of 16 years.

Lind (1980) used dual aspect theory as the basis for the development of an instrument of moral competence. This theory elaborates some postulates from cognitive development theory used by Kohlberg and Piaget. This theory also improve and modify the previous theory so that it will be coherent and consistent with the empirical data. Those postulates are:

1. Inseparability: cognitive and affective are inseparable although they differs from each other. Affective side of the moral (values, ideal) is specified in immoral behavior in a variety of ways depending on the structure and its moral competence. So that kind of research is needed to measure these two aspects accurately. Moral competence can not be defined and measured without moral reasoning and moral perception of the individual. Detailed measurements must be able to measure both aspects of moral judgment as different aspects of the same pattern of behavior (Lind; 2008, 2013).
2. Moral task, instrument must contain morality cases requiring moral competence to find a solution of the problem. Individuals faced with a moral dilemma and were asked to assess contradictory suggestions/solutions and suggestions/solutions with a positive opinion (Lind 1985).
3. Nonfakeability, to maintain a reliable measurement of moral competence, the individual can not increase / decrease the moral competence scores.
4. Sensitivity to change, even though the competence scores can not be manipulated, but they have remain sensitive to real changes due to the passage of time either the increase or decrease in scores due to moral learning, intervention or the erosion on morality. This postulate is different from Kohlberg who did not accommodate the change in moral competence measurement scores.
5. Internal moral principle, moral competence score is purely derived from the moral principles that are embedded within the individual, there is no external pressure or expectations of the researchers (Lind; 2008).
6. Pararellism, cognitive and affective aspects of moral behavior is different and has a separate score, both aspects should be parallel, and has a real correlation between the two (Lind; 2008).
7. Equivalence of pro and con-arguments, pros and cons arguments must be equal in order to measure the moral competence precisely.

This instrument has been validated by 40,000 subjects from 1975 to 1977 with a variety of research settings and a variety of research respondents in various countries. An interesting thing from the approach of this theory is that moral competence of an individual may be decreased or even disappear due to two things. The first is when the competence has not grown to a critical point. The second is because a person does not have the opportunity to apply the moral competence.



Auditor perform duties as a moral agent who receives the trust of the public and government agencies to carry out the fairness inspection on tasks of financial statements. As moral agents, auditors should have a high level of moral competence.

### **The Role of Moral Competence for Auditors**

Professional organizations provide only general ethical rules, as stated in clause 25 point (f) where CPAs are required to behave good, honest, responsible, and has high integrity. The interpretation of ethical rules is a subjective considerations which are certainly influenced by morality of the CPA. It is important for each person to develop morality on themselves because the basic human nature is selfish, intolerant, self-justification and self-deception. He can not eliminate this character, but he learned to control and develop ethical and moral behavior. This ethics rules do not guarantee that the accountant will adhere to these rules in practice, as described in the findings of Brugman and Weisfelt in Tetteroo (2007).

Ponemon (1992) provide empirical evidence that the auditor has a moral judgment scores (measured with instruments Defining Issues Test (DIT)) is lower than other professions. Ponemon explained that the auditors are at the conventional level in Kohlberg's levels of moral development. This auditors comply with the code of ethics of his profession. Ponemon explained that the auditors are at the conventional level in Kohlberg's levels of moral development. This auditors comply with the code of ethics of his profession. The level of moral development is equivalent to high school students. The level of moral judgment is empirically proven to be capable of affecting the performance of auditors, as determined by Sweeney and Robert (1997). Both researchers proved that auditors with higher moral competence is more able to withstand the pressure of a third party, and not easily influenced by the norms, rules of group. These results are consistent with the findings of Brandon (2003). Brandon reported empirical findings that auditors with higher moral development is able to produce a higher quality of moral decisions and act more moral than the other auditors. Armstrong in Tetteroo (2007) proved that the auditor with the level of competence at the level of post-conventional moral based decisions on a sense of responsibility to stakeholders. Meanwhile, the auditor with a conventional level of moral competence based his decision on normative rules and code of professional conduct. Armstrong also prove that the auditors who became the subject of his research is the conventional moral competence, not the level of a conventional post.



Auditor moral development should be at the level to 5 or 6 which is Post Conventional. At this stage, the auditor understand precisely the essence of the code of professional conduct and act ethically and morally, based on considerations of conscience, the public goods and the good of the people. Brabeck (1984) provide empirical evidence that individuals with higher moral competence is more sensitive to the issue of ethical integrity of the profession. When he faced the conflict on information, the individual chose to become a whistleblower fraud (whistle blower) compared to other individuals. Bernardi & Arnold (1997) studied 494 senior managers and auditors of the five public accountant firms on big six and proved the difference in a moral competence based on the origin of the firm, by gender and by level of hierarchy.

Moral competence of female audit manager proved higher level than the male. This level of moral competence of male audit manager proved to be equivalent to the moral competence of high school students and college students. Researchers argue that the lack of moral competence in men is due to the job motivation, where they are more oriented towards meeting the needs of the material (money). Female audit manager shows the orientation work that puts aspects of creativity and autonomy in work and the work environment as priority so it may enable the development of better moral competence. Bernardi (1994) proved that moral competence affect fraud detection performance. Auditors with high moral competence (audit manager) is able to recognize the indicators of fraud and detect fraud more than the other auditors.

Emmanuel in Tetteroo (2007) described the auditor's stages of moral development based on Kohlberg's theory of cognitive moral development . The first stage is not presented because according Emmanuel, it is not relevant to the auditor.

**Table 1.**

**Kohlberg's Stages of Moral Development Awareness**

Stage 2	The auditor shall comply and obey the standards and code of professional conduct only if they perceived benefits of being obedient more than if they break the rules. Otherwise, more benefits will be gained if they break the rules and the violation may be difficult to detect and they will choose to disobey.
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Stage 3	The auditor will be obedient to the rules made by colleagues, by their office or from the neighborhood even though those rules violate the rules of formal/legal of professional organizations and public accountant firms. Auditors find it important to be recognized and accepted by colleagues/their group.
Stage 4	Auditor choose to obey on the standard of public accountants firm, professional organizations and other legal rules, and able to withstand the pressure of colleagues and other social groups. However, the auditor may falter if it should consider the interests of others.
Stage 5 and 6	Auditors consider all interests and the consequences of decisions based on confidence in the fairness and use the confidence in applying the rules and regulations.

Various research shows the auditor's moral development is placed at the fourth stage (Abdolmohammadi & Baker; 2006, Ponemon; 1992). Ponemon find a correlation between the hierarchical levels of moral development on auditors. Higher moral development are at the level of associate and senior associate, then decreased at the level of managers and partners. This phenomenon is an evidence to the socialization process in public accountant firms. Moral development decreases and becomes homogeneous when it rises to a higher position. The management of public accountants firm selects and promotes individuals who are considered to have the same value of moral development and confidence. Implicitly, the results Abdolmohammadi and Baker (2006) and the Ponemon (1992) shown that the ethical and moral culture developed at the highest level in public accountants firm is an ethical and moral culture which are lower than in the middle and the lowest level. The different results presented by Bernardi and Arnold (2004) that the level of moral development on the auditor of the Big Six public accountant firm average increase during the promotion. Researchers used an auditor at six public accountan firm, while Ponemon only use one large public accountant firm. Bernardi and Arnold considers the findings of Ponemon bias so that it should be interpreted with caution.

### **Whistleblowing Intention**

KNKG (2008) defines whistleblowing as a disclosure of violations or disclosure of tort, unethical act or immoral, or other actions that could harm the organization and stakeholders committed by employees or organizational leadership to the leadership of the organization or other institution that can take action on the violation. This disclosure is generally done in secret.

Keraf (1998; 172) defines whistleblowing as an action taken by one or several employees to divulge fraud committed by the leadership and to other parties that are considered capable of taking remedial action. Complainant may come from the internal or external. Whistleblowing can also be described as a process that involves social organizational factors. Whistleblowing generally involves certain fraud that adverse both the company itself and others, and if fraud is uncovered it will be a negative impact on the company, damaging its reputation (Keraf; 1998). Whistleblowing is the disclosure violations or disclosure of unlawful acts, unethical deeds or immoral or other action that could harm the organization and stakeholders, which is performed by the employee or the head of the organization to those who are considered able to act on the offense (KNKG; 2008) .

Near and Miceli in Elias (2008) defines whistleblowing as the disclosures made by members of organizations either if it has become former or still a member of organization on the illegal, immoral, or no legitimacy practice under the control of the leadership to individuals or organizations that can give effect of corrective action.

To do whistleblowing is not easy. It requires big intention to do so, given the risks that must be borne on the action. The whistleblowing offender often receive unpleasant treatment either from the organization, colleagues, and others who feel threatened. Counter-attack, terror, slander, ostracized, difficulty obtaining new jobs after becoming whistleblower is a reward to be received. Whistleblowing is considered as a disloyal act because the offender opens the disgrace of the organization to the public.

Regardless of the negative and positive impacts of action whistleblowing, NCG expressed the need for the implementation of whistleblowing systems. This system is believed to provide the following benefits:

Availability of important and critical media information delivery for companies to parties must be handled safely.

Bring up the reluctance to commit offenses because the reporting system is effective and

reliable.

Available early detection mechanism (early warning system) on the possibility of problems due to a violation.

Providing an opportunity to address the issue of violations internally first, before expanding it to public.

Reduce the risks faced by the organization, as a result of the offense in terms of finance, operations, legal, safety and reputation.

Reduce costs in handling a result of violation.

Rising costs in handling the consequences of the violation.

Improving the company's reputation in the eyes of stakeholders, regulators and the general public.

Advised the organization to see the critical areas more further and work processes that have internal control weaknesses and to design the necessary corrective actions.

Auditor is a moral agent. Ethical dilemmas become routine problems faced in every audit process. All things described above can happen to the auditor. If they have a high moral competence, then they can talk to their heart. However, if they have low moral competence, then the offense will be something that is routine and familiar to him.

### **Hypothesis Development**

Kohlberg's theory of moral development assume that everyone will experience the same stages and therefore the level of moral rationalization will be equal between men and women. Gilligan in Donenberg and Hoffman (1988) states that Kohlberg's theory of moral development of gender is bias. Some researchers say that the study respondents who becomes the object of Rest is a man, and a lot of empirical findings reveal that scores DIT (Defining Issues Test) on women are always lower than men become the evidence of gender bias in the instrument as well as the theory. Gilligan develop developmental differences in morality, especially in the early stages of development of human age, ie morality of care and the morality of justice. Gilligan explained that women from an early age are introduced the moral values in the form of a duty of care, compassion, and by not hurting others. While men are introduced to moral values of respecting the rights of every individual, maintain the right to life and to satisfy themselves (self-fulfillment). Women are taught to be concerned with the welfare of others. Stages of development of morality in women is the

development of understanding the relationship between herself and others, and the ethical dilemma faced is the conflict between selfish and responsible attitude (selfish versus responsibility). Morality arises as a result of a conflict between the interests of herself with responsibilities as a woman. The attitude of this responsibility means by not using violence and cruelty as well as harmony, harmony according to Kohlberg on this responsibility means fairness and reciprocity. Two different theoretical approaches between Kohlberg and Gilligan was tested again by Lyons (1983) in Donenberg and Hoffman (1988). Lyons explained there are two moral considerations in decision making i.e morality of justice and morality of care. Morality of justice has orientation to obey the rules and legal and moral reason for the conflict due to different perceptions of right and wrong. In contrast, the morality of care has value orientation on human's relationship, human involvement, feelings and responsibility to create and maintain harmonious relationships between people and their lives. Both of these moral considerations becomes the basic distinction between the morality of male and female.

Human moral development is affected by age. Through dual aspect theory underlying the development instrument of moral competence by Lind (2003), explains that human moral development moves along between cognitive and affective intelligence to follow the stages of human life. Cognitive moral development uses the approach of Kohlberg's theory, where moral intelligence divides into three phases, named pre-conventional, conventional and post-conventional as described in moral competence section.

For women, the harmony of human relations, mutual care and respect becomes the basis of ethical considerations in decision making. These consideration may prevent of becoming a whistleblower. He will choose to discuss it personally with those suspected of committing fraud, before the decision to reveal the fraud. While considerations of right and wrong and unfair justice becomes the basis for man to overcome ethical conflict. He will be the revealer of the fraud because fraudulent behavior is wrong, break the rules and harm others. Based on the above explanation, the first and second research hypothesis is formulated as follows:

**H<sub>a1</sub>** : Age affects the whistleblowing intention

**H<sub>a2</sub>** : Gender affects the whistleblowing intention

Accountant is a profession that works on the basis of public trust, management and professional organizations. Accountants perform a social contract with stakeholders to generate independent opinion and the audited financial statements based on qualified professional judgment. This social contract is the motivation for the accountant to act ethically and morally. Professional judgment also involves mental activity, ranging from the formation of perceptual, cognitive reasoning process to finally make a decision. Professional judgment has two effects, named considerations that affects the welfare of the general public and generate a positive appreciation. Second, consideration of harm impact or degrade the welfare of the general public and led to criticism. In order to be able to produce professional ethical considerations, one must develop moral competence to the highest stage. They must be able to resist selfish, intolerant, self-justification and self-deception.

**H<sub>a3</sub>**: Moral competence moderates the relationship between gender and whistleblowing intention

**H<sub>a4</sub>**: Moral competence moderates the relationship between age and whistleblowing intention

### **Conceptual Framework**

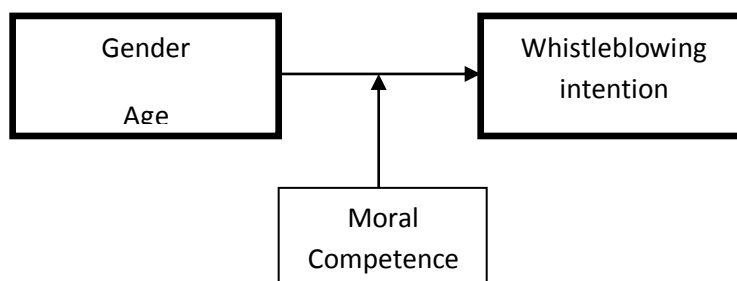
Moral, is a state of mind, feelings, words, human behavior related to the values of good and bad. Moral provides guidance to socialize with other humans positively. Moral is a product of culture and religion. Every culture have different moral standard according to the prevailing value system and has been established since long time ago. Immoral behavior shaped by many factors, particularly family background, education, religion, belief, level of education and the influence of teachers, colleagues, friends also profession.

Idiab, et al (2012) explained that an auditor must have the moral character of patience, endurance and encourage. An auditor must be able to hold back and not lose control, maintaining of words in vain, never give up, complaining and grumbling. The auditor must be able to endure that gives him the ability to endure suffering, mental challenges, psychological and social challenges brought during the audit and training process. Patience is an important part of any work related to others. The ability to be patient and endure in a variety of situations should be followed with courage to defend the truth without fear nothing but to God. Courage must be displayed during the audit, one must be firm on the principles of honesty, both in action and in words. Truth must be accepted and appreciated for what it is. Difficulties and barriers that exist during the audit is not

regarded as a barrier to prove the truth. Auditors must show patience but also firm when on duty. He should be able to fight hypocrisy, praise, flattery, dependency, fear and reluctance in situations that require courage. As a professional who works on the basis of trust, the auditor should have a higher morality than management (user-party services). Auditor with high moral character carry out their duties with responsibility, put the interests of the public in any professional judgment and actions chosen, objective, honest, has high integrity and be trustworthy. The application of accountant code of ethics energetically may increase "fraud awareness" on the auditors themselves and be able to eliminate the confusion faced by auditors when meeting with clients as well as the chaotic situation, confusing and full of fraud indication. Ethics rule are minimum standards that must be fulfilled by the auditor with full awareness and this rule is absolute, not on the gray area. Graphically, the relationship between variables is presented in Graphic 4 below:

**Graphic 4**

**Theoretical Framework**



**Research Design**

This research is a study that tested the hypothesis, using primary data. Primary data were collected through questionnaires to survey respondents which is the last year accounting students from Trisakti University. The student has to follow professional ethics class so they have the ability to identify ethical issues based on his personal judgment.

### **Measurements of Variables Operational Definition and Scales**

The variables used in this research consists of one independent variable (X) which is the moral competence and the dependent variable (Y) which is the intention of the whistleblowing (Y). The operational definition of each of these variables are as follows:

Moral competence: Georg Lind (1976), a professor of psychology at the University of Konstanz developed moral judgment competence assessment instrument based on the theory of dual aspect theory of moral behaviors and development. This theory explains moral behavior and moral development influenced by two different aspects, named moral orientation (affective aspects) and moral judgment competence. This instrument is the first instrument to measure judgment moral competence and moral orientation. Lind used six stages of moral orientation developed by Kohlberg to measure affective aspects.

Moral Judgment Test (MJT) is an experimental instrument that consists of two scenarios of ethical dilemmas, moral quality of the argument, and the third element is the agreed opinion (disagree) to answer the ethical dilemma. Based on the answer of 24 argument in the instrument, it can measure the degree of a person's moral considerations affecting its behavior. The degree of moral consideration is represented by an index of moral competence called C-score. The range number is 1-100. The higher the index of the C-score, shows moral considerations are at the stage of "mature" and parallel with stage 5 or 6 to Kohlberg's concept of moral orientation.

Gender: This variable is measured by giving a code 1 for men and number 2 for women.  
Age: This variable is measured based on the answers of the respondents in the demographic field. Age in this research were classified into 3, group 1 age 19 to 20 years, group 2 above age 20 to 21 years, and group 3, age above 21 years. Whistleblower intention: the measurement of whistleblowing in this research used three case scenarios which is also used by Schultz et al related to accounting. The first case tells the story of an accountant who discovered deliberate fraud committed by management. The second case of indecision on accountant to make adjustments to the financial statement data, because the accountants know the bad consequences for the company if the adjustment of financial statement data is still being done. The third case of an accountant who is required by managers to commit fraud by record unfair sales.



In every case scenario, the assessment will be conducted to respondents on their perceptions on the seriousness of the case, the level of responsibility in reporting cases of violation, and the impact of personal risk would be acceptable if the whistleblower reported the fraud case. Assessment is done by using a seven-point Likert scale, which starts from point 1 which is "low" to point 5 which is "high". In addition, in each scenario assessment will also be made to the respondent on the respondents' level of interest in reporting these offenses. Assessment also performed using a five-point Likert scale, which starts from point 1 is "Low" to point 5 is "High".

The following variables measurement in this study are summarized in Table 3 below:

**Table 3.**

**Variable and Measurements**

<b>No</b>	<b>Variable</b>	<b>Questions</b>	<b>Measurement scale</b>
1.	Age	1	Nominal
2.	Gender	1	Nominal
3.	Moral Competence	2 scenario	Nominal
4.	Whistleblowing intention	3 scenario	Nominal

**Data Collection Methods**

The population in this research were undergraduate students of accounting Faculty of Economics in Jakarta and surrounding areas with the criteria has taken the course of auditing and professional ethics and intermediate financial accounting. These criteria are important to ensure that respondents understands the accounting material contained in whistleblowing intentions scenarios and understand the ethical dilemma.

Students selected for respondents of this research is that they are prospective professional accountant who will be the accountant in all areas of accounting. As a professional, it is important to have a high morality to maintain the quality of its performance.

## **Research Result**

### **Description of the Research Object**

This section explains briefly about the population and the sample used based on data obtained from 290 respondents from six universities include: Trisakti University, Islamic College of Economics Tazkia, Economics High School of Budhi. The research object is the moral competence (X) and the dependent variable whistleblowing intentions. (Y).

**Table 4.**

#### **Questionnaire Distribution of the Research**

<b>No.</b>	<b>Respondents</b>	<b>Amount of Questionnaire Sent</b>	<b>Amount of Questionnaire Returns</b>	<b>Percentage</b>
<b>1</b>	Accounting students of Trisakti University	150	120	80
<b>2</b>	Accounting students of Tazkia	150	120	80
<b>3</b>	Accounting students of Budi	80	50	62,5
	<b>Total</b>	<b>380</b>	<b>290</b>	<b>76,31</b>

Based on data obtained from 290 respondents, the following description of the profile of respondents consisting of gender and age. It is intended to explain the background of a sample of respondents in this research. The composition of respondents by gender is as follows:

**Table 5**

**Respondents Characteristics**

No	Variabl e	Item	Frequen cy	%	Mean	Modu s	Min	Max	Std dev
1.	Gender	1. Men	132	45,5	-	2	1	2	0,489
		2. Women	158	54,5					
2.	Age	19 – 20	274	94,5		1			0,303
		>20 - 21	12	4,1					
		>21	4	1,4					
3.	Universi ties	1. Trisakti	120	41,4	-	1	1	3	0,727
		2. Tazkia	120	41,4					
		3. Budi	50	17,2					
4.	C-Score	1. Low	106	36,6		2			0,655
		2. Medium	146	50,3					
		3. High	38	13,1					

From the table above it can be identified that the number of male respondents was 132 respondents, or 45.5%, while the number of female respondents was 158 respondents or 54.5%. The composition shows that the respondents in this research is dominated by women. From the above

table it can be seen that the highest is 21-22 years of age with 117 respondents, and the least 19-20 of 83 respondents.

Table 5 shows that the gender variable has a recurring with figure 1 which is male and the most sample on the variable of age is the respondents with the age of 21 years old. Ethical perception has an average value of 2.1950 (see appendix 2). And so that kind of negative questions was 2 (disagree). The minimum value of the respondents is 1 (strongly disagree) and the maximum value is 4 (strongly agree). Meanwhile, the value of the standard deviation of 0.49884 indicates that the data is distributed around the average. This figure shows the variation of the data concerning the ethical perception of relatively equal. Love of money has an average value of 2.8118 . The minimum value of the respondents is 2 (disagree) and the maximum value is 4 (strongly agree).

**Data Validity**

Validity test is done to determine whether the questions are valid or not valid. This test of validity uses Pearson Correlation approach. Pearson Correlation has the characteristic of two variables where both correlation will be searched is a quantitative data, whether it is interval or ratio. If one of the variable has a nominal or ordinal type of data, Pearson Correlation cannot be used.

Validity test conducted for the research variables of whistleblower Intention valid and does not vary with the test results as follows:

**Table 6.**  
**Result of Data Quality Test Whistleblowing Intention**  
**(KMO & Bartlett’s Test)**

No	Dimension	KMO sampling Adequacy	Bartlett’s Test of Sphericity Approx. Chi Sq	df	Sign	Conclut ion

<b>1.</b>	Seriousness	.771	276.801	3	.000	Valid
<b>2</b>	Responsibility	.697	238.317	3	.000	Valid
<b>3</b>	Risk impact	.677	165.272	3	.000	Valid
<b>4</b>	Whistleblowing intention	.702	249.748	3	.000	Valid

**Source: a processed primary data**

### **Reliability Test**

Test reliability is a tool to measure a questionnaire which is an indicator of the variable. Reliability testing results are shown in the following table:

**Tabel 7**  
**Reliability Test on Whistleblowing Intention Variable**

<b>Dimension</b>	<b>Amount of Question</b>	<b>Nilai Cronbach's Alpha</b>	<b>Conclusion</b>
Seriousness	3	.804	Reliable
Responsibilities	3	.778	Reliable
Risk Impact	3	.716	Reliable
Whistleblowing Intention	3	.784	Reliable

**Source: a processed primary data**

In Table 7 shows that all variables have a Cronbach alpha value greater than 0.6 so that we can conclude the questionnaire in this study is accurate and reliable.

**Results of C-Score Calculation**

The hypothesis was tested using two-way anova. Test results include moral competence of respondents based on age and by gender, then test the hypothesis.

**Table 8**

**Moral Competence Respondents**

Gender	Usia	C-Score			Total	%
		0-9 Rendah	10-29 Sedang	>30 Tinggi		
Pria	19	50	59	13	122	43
	21	3	5	1	9	3
	>21	0	0	1	1	0.3
<b>Total</b>		<b>53</b>	<b>64</b>	<b>15</b>	<b>132</b>	
Within Total (%)		40%	48%	12%	100%	
Between Total (%)		18%	<b>22%</b>	5%	46%	
Wanita	19	49	80	23	152	<b>53</b>
	21	1	2	-	3	1
	>21	3	-	-	3	1
<b>Total</b>		<b>53</b>	<b>82</b>	<b>23</b>	<b>158</b>	
Within Total (%)		34%	52%	14%	100%	100
Between Total (%)		18%	<b>28%</b>	8%	54%	
<b>Total</b>		<b>106</b>	<b>146</b>	<b>38</b>	<b>290</b>	
<b>% of total</b>		<b>36%</b>	<b>50%</b>	<b>14%</b>	<b>100%</b>	

**Source: a processed primary data**

Based on table 4.5 above, respondents is dominated by male aged 19 years (43% of total respondents) and the highest level of moral competence is in the group (C - score: 10-29) with 22% of the total respondents. Female respondents, also dominated by the age of 19 years (53% of total respondents) and the level of moral competence in the group were (28%).

Low moral competence (C-score 0-9) and high (C-score> 30) is dominated by the respondents age 19 and mostly from female respondents.

**Table 9**

**Moral Competence based on Age**

Age	Moral Competence			Total	%
	0-9 low	10-29 medium	>30 high		
19 years old	99	139	36	274	94
21 years old	4	7	1	12	4
Above 21	3	-	1	4	2
Total	106	146	38	290	100
%	37	50	13	100	

**Source: a processed primary data**

The composition of respondents by age is not proportional, so the interpretation of the results of this moral competency must be done carefully.

**Table 10**

**Moral Competence based on Gender**

Gender	Moral Competence			Total	%
	0-9 low	10-29 medium	>30 high		
Men	53	64	15	132	46
Women	53	82	23	158	54
Total	106	146	38	290	100
%	37	50	13	100	

**Source: a processed primary data**

Women respondents are more than the men. As with men, women respondents moral competence at the level of moderate (50% total). More high moral ompetence comes from woman, but a significant difference untested.

**Research Hypothesis Testing**

Results of homogeneity variance test showed significant results (0:37 significance less than 0.05), means that the data variants compared are not homogeneous. Further testing using two-way anova. Two-way anova test is used to test for a single dependent variable and two or more independent variables. Independent variables in this two-way Anova is nominal type of data or data with minimal group of three or more. Two Way ANOVA test results are presented in the following table:



**Tabel 10**

**Tests of Between-Subjects Effects**

**Dependent Variable: TWB**

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	20,193(a)	12	1,683	2,660	,002
Intercept	614,699	1	614,699	971,573	,000
<b><i>GENDER</i></b>	<b>,278</b>	<b>1</b>	<b>,278</b>	<b>,439</b>	<b>,508</b>
<b><i>UMUR</i></b>	<b>2,104</b>	<b>2</b>	<b>1,052</b>	<b>1,663</b>	<b>,191</b>
<b><i>CSCORE</i></b>	<b>4,598</b>	<b>2</b>	<b>2,299</b>	<b>3,634</b>	<b>,028</b>
GENDER * AGE	,109	1	,109	,172	,678
<b><i>GENDER * CSCORE</i></b>	<b>6,206</b>	<b>2</b>	<b>3,103</b>	<b>4,905</b>	<b>,008</b>
<b><i>UMUR * CSCORE</i></b>	<b>4,227</b>	<b>2</b>	<b>2,113</b>	<b>3,340</b>	<b>,037</b>
GENDER * AGE * CSCORE	1,186	1	1,186	1,874	,172
Error	175,254	277	,633		
Total	7982,974	290			
Corrected Total	195,447	289			

a R Squared = ,103 (Adjusted R Squared = ,064)

**Source: a processed primary data**

**H<sub>01</sub> and H<sub>02</sub> Test**

The test results in Table 10 above shows that the variable Gender and Age is not the main factor affecting the whistleblowing intentions, proved by significant value greater than 5% or insignificant. In other words, age and gender did not affect whistleblowing intense, H<sub>01</sub> and H<sub>02</sub> received.

In contrast, the C-score shows the number of significance 0.028 < than 0.05, then the C-score showed a significant main effect of the intense whistle blowing. This result confirms that the intense moral competence affect whistleblowing, or moral competence affect whistleblowing intentions.

### **H<sub>03</sub> and H<sub>04</sub> Test**

Furthermore, there is a significant interaction between gender \* C-score (0.08) and Age \* C-score (0.037) shows the interaction between the C-score gender affect whistleblowing intense. This interaction shows moral competence is moderating variable relationship between age and gender with whistleblowing intentions. Thus H<sub>03</sub> and H<sub>04</sub> is not acceptable, and receive H<sub>A3</sub> and H<sub>A4</sub> that moral competence affect the relationship between age and gender with whistleblower intense. These results confirm the dual aspects theory underlying the moral competence development that evolved in line with affective cognition. That age affects the development of moral competence to obtain reinforcement of this study.

### **Conclusion**

This study examined the influence of demographic factors which is age and gender and moral competence to whistleblowing intense. The results of this study proved that moral competence respondents were mostly at the level of competence being. Respondents of older women show a higher moral competence than those of men in the same age group. The first and second hypothesis testing to prove that age and gender did not affect whistleblowing intense. When these variables were tested directly against intense whistle blowing, the results were not statistically significant, which means that these two variables (age and gender) did not affect the intense whistleblowing. However, the variables of age and gender became a significant influence whistleblowing intense when the moral competence variables included as a moderating variable. Thus this research provides empirical evidence on the role of moral competence as predictors of whistleblowing intense and as a moderating variable.

### **Limitation**

This research uses 290 respondents on accounting students of the three universities interpret the results which should be done with caution. These results can not be generalized and can not describe the attitude of accounting students in Jakarta and Indonesia. The second limit is the instrument of moral competence is complex and takes time to understand it.

### **Recommendation**

In order to map out the moral competence of accounting students in Jakarta, and Indonesia, then further researcher are recommend of using more samples, more comprehensive and representative. Use of religiosity variables, educational background and using a quasi-experimental research design to improve the validity of research results.

### **Implication**

1. For academics: provide empirical evidence about the moral competence level of accounting students and empirical evidence on the influence of moral competence against whistleblowing intentions. Results also become one of the development reference on the character education in college.
2. For practitioners of Human Resource Department: provide empirical evidence of the role of moral competence as one predictor of potential employees to apply moral and ethical and considering that the decision of recruitment, promotion and dismissal (layoffs).

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**THE RELATIONSHIP BETWEEN ECO-FRIENDLY ATTITUDE WITH INTENTION TO VISIT AND PAY MORE AT A GREEN HOTEL**

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**ABSTRACT**

In recent years, there are several global environmental issues that are taking attention to all global community: government, companies, international institutions and other organizations that are attempting to solve the problems. In lodging industry, many hotels have been trying to implement eco-friendly practices to cope with pressure from the industry itself. Since green hotel concept is quite new, it is important to gain a better understanding whether customers are willing to stay at a green hotel and pay more to get the service. This research discusses if there is a relationship between customers' eco-friendly attitude with intention to visit and pay more at a green hotel. Data obtained by distributing questionnaires to 160 respondents who had ever stayed at any hotel at least two times a year. The data was analyzed by multiple regression method. The results of hypothesis testing show positive relationship between eco-friendly attitude and intention to visit and pay more at a green hotel. This means that Indonesian hotel customers are aware of the importance of environmental issues and they are willing to stay at a green hotel during their visit to other city/country. Also the findings of this research can help Indonesian hotel marketers to develop marketing strategies to introduce a green hotel concept.

**Keywords:** eco-friendly attitude, intention to visit, intention to pay more

## **Introduction**

In terms of business, sustainability management is about incorporating social, economic and environmental factors into business decisions. As a term, sustainability has come into a widespread use as a result of increased environmental awareness. The concept of business sustainability has received considerable attention from both practitioners and academicians and concerns regarding environmental protection have brought about changes in consumer demand and behaviors (Mendleson and Polonsky, 1995; Ottman, 1992). A large number of customers show increased environmental awareness and a preference for green firm and their products, revealing their willingness to purchase and pay more for environmentally friendly products/services (Manaktol and Jauhari, 2007; Mandleson and Polonsky, 1995; Vandermerwe and Oliff, 1990). To fulfill emerging green needs, business leaders in various fields have made every effort to change their corporate structures/cultures to be more environmentally responsible and to modify their existing products/services to be more environmental friendly (Dief and Font, 2010 2010; D'Souza and taghian, 2005; Ottman, 1992).

One of the industries that could effect the nature is lodging industry. According to report by UNWTO, UNEP, and WMO (2007), the hotel industry is responsible for about 21% of all CO<sub>2</sub> emissions related tourism (UNWTO, UNEP and WMO). In Indonesia, from 2012, the total PMA and PMDN of hotel and restaurant reached \$ 869,8 million USD, or an increased of 210 % compared to the year 2011. The high interest to build hotel needs to be accompanied with the management of the hotel to be more environmentally. The concept of the application of green hotel is based on an effort to optimizing resources such as energy, water and building material and the management of the hotel that satisfies the quality of comfort and health care for the human that are in it ( tourism, employees, and visitors ).

The Ministry of Tourism and Creative Economy ( Kemenparekraf ) has conducted yearly event called The Green Hotel Award since 2011. There are 10 criteria's in assessing a green hotel which are land management, the use of energy, water conservation, materials environmentally friendly, the quality of the air; governance building ( waste management ), green purchasing, management hotel, food management and corporate social responsibility ( [www.parekraf.go.id](http://www.parekraf.go.id)). Hopefully, this event will increase Indonesian hotel industries competitiveness, especially to participate in the upcoming Asean Economic Community in 2015.

It is a critical challenge for Indonesian hotel marketers to gain better understanding of

current/potential customers who prefer to stay at a green hotel. Since this type of hotel is quite new for Indonesian lodging industry, it is imperative to examine possible relationship between consumers' eco-friendly attitudes in their daily lives with their intention to stay at a green hotel and pay more. By improving hotel marketers' understanding of eco-friendly potential customers, they will be able to design advantageous strategies aiming those customers.

## **Literature Review**

### **Eco-friendly attitude**

In recent years, individuals attitudes towards the environment have been considered as additional variables which are positively related to environmental friendly actions (Mitchell and Carson, 1989; Bateman and Turner, 1993; Hanley and Spash, 1993). In conceptualizing the perceived importance of the environment as the primary indicator of attitudes toward environmentally compatible behavior, Laroche et al (2001) determined the levels of these attitudes by whether individuals considered eco-friendly behaviors to be essential to themselves or the entire society. This attitude toward green behaviors mainly involves the perceived importance or inconvenience of environmental consciousness, the severity of environmental problems, and the level responsibility of corporation (Laroche et al., 2001; McCarty and Shrum, 1994; Roberts, 1996). In other words, individuals attitude toward green behavior can be established by the level of their awareness of these dimensions of attitude toward green behavior and for society as a whole. Researchers agree that eco-friendly attitudes contain several dimension, such as (1) perceived severity of environmental problems, (2) inconvenience of being environmentally friendly, (3) importance of being environmentally friendly, and (4) perceived level of corporate responsibility to be eco-friendly, with the last indicating individuals beliefs that business firms should be concerned about our environment and, thus, try to be ecologically responsible (Laroche et al., 2001; McCarty and Shrum, 1994; Roberts, 1996).

### **Intention to Visit**

Relationship between attitude of customers and their behavioral intention was analyzed by Lee, Han and Wilson (2011) , where the evidence shows that customers expected outcomes of staying at a green hotel had a positive influence on behavioral intention, which demonstrated the role of expected outcomes as direct antecedent of behavioral Intention and as an immediate reason for choosing a green hotel over a non-conventional hotel. Additional analysis indicated that healthy



guestrooms, eco-friendly practices, and reduce expenses were positively associated with visit intention, while healthy guestroom, reduced expenses, organic food.

In the context of hospitality industry, numerous empirical studies have supported the influence of eco-friendly green hotels on customers; intention to stay (Han et al., 2011; Lee & Moscardo, 2005; Han & Kim, 2010). Han et al. (2011) in their study found that initiatives of the hoteliers to perform green management influence customers stay longer, to recommend it and pay more. Similarly, Han and Kim (2010) discovered that hotel's environmental protection continually attracts public attention. In the same vein, among the backpacker hotel guests, Firft and Hing (1999) found that environmental practices implemented by the hotel influenced the respondents' holiday behaviour. Study conducted in the US by Millar and Baloglu (2013) discovered that business and leisure travellers wanted a room that incorporated a refillable shampoo dispenser, energy efficient light bulbs, and towel and linen re-use policies as well as key card to control power use.

### **Intention to Pay More**

The individual's willingness to pay for environment- which means to pay more for environmental friendly products- has been studied as a measure of propensity to act, in this context, Laroche et al. (2001) found that individuals who are likely to pay more for eco-friendly products are female, married, and with at least one child living at home. Witzky and Urfei (2001) applied a two-step procedure for estimating an indicator of regional willingness to pay, which could be useful for planning an efficient environmental policy in Germany.

Some researchers pointed out that only a small portion of environmentally conscious customers actually purchases eco-friendly products in the marketplace because of high monetary and non-monetary costs and inconvenience (Maibach, E., 1993; Robert, J.A., 1996). However, numerous findings indicated that more environmental concern tends to result in more environmentally friendly buying behaviors (e.g., Kalafatis et al., 1999; Laroche et al., 2001; Manaktola and Jauhari, 2007). For instance, Laroche et al, (2001) found that ecologically conscious customers who have a positive attitude toward green behaviors intend to spend more to consider ecological issues. In exploring consumer attitudes and behaviors toward green practices in the lodging industry, Manaktola and Jauhari (2007) verified that customers with ecological concerns prefer to make eco-friendly purchases. Many individuals with a positive attitude toward green behavior believe themselves to be environmentalists and expressing their willingness to make a special effort to buy a products or services from companies that care about environmental practice.

These ecologically conscious customers, who are willing to change their buying behaviors for the environment, build more favorable images of the hotel that try to protect the environment.

Customers environmentally friendly attitudes are strongly associated with positive intention to pay more for a green product (Han, H., L. Hsu and J. Lee. 2009; Laroche, M., J. Bergeron, and G. Barbaro-Ferleo. 2001). Moreover, social identity theory suggest that an individuals perception about the severity of ecological problems or their perceptions of the importance of being environmentally friendly might influence people willingness to pay more.

### **Hypotheses**

H1: There is a positive relationship between eco-friendly attitude with intention to visit

H2: There is a positive relationship between eco-friendly attitude with intention to pay more

### **Research Methodology**

This research refers to the previous research conducted by Heesup Han et al (2011). The research used quantitative data method that was collected through questionnaires, which focus on testing a hypothesis by using Multiple Regression Analysis.

The sampling method used in this study was a non probability sample with purposive or judgmental sampling is the sampling technique . The criteria used is hotel visitors who had ever stayed at a hotel at least two times a year. The sample consist of 160 respondents. The respondent comes from urban people who live in Jakarta, Depok, Bogor, and Tangerang. The sample of this study was aged between 18 to  $\geq 30$  years old.

**Table 1**

#### **Validity and Reliability Test**

<b>Variables</b>	<b><i><math>\rho</math> value</i></b>	<b><i>Cronbach's Alpha</i></b>
<b>Eco-friendly attitude</b> (Han 2011)		0.636

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In our country, we have enough electricity, water, and trees that we do not have to worry about conservation	0.000	
The earth is a closed system where everything eventually return to normal, so I see no need to worry about its present state	0.000	
Recycling is too much trouble	0.000	
Keeping separate piles of garbage for recycling is too much trouble	0.000	
Recycling will reduce pollution	0.000	
Recycling is important to save natural resources	0.000	
<b>Intention to Visit (Han, 2011)</b>		0.884
I will stay at a green hotel when travelling	0.000	
I will make an effort to stay at a green hotel when travelling	0.000	
I am willing to stay at a green hotel when travelling	0.000	
<b>Intintion to Pay More (Han, 2011)</b>		0.709
I will spend extra in order to stay at an environmentally friendly hotel	0.000	
It is acceptable to pay more for a hotel that engages in green practices	0.000	
I am willing to pay more for a green hotel	0.000	

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Table 1 shows results of Validity test using Pearson Product Moment and Reliability test with Cronbach Alpha Coefficient. All the instruments used are valid, as well as all the variables that are reliable.

**Results**

Data was analyzed using Multiple Regression and the result is shown in Table 2

**Table 2**  
**Hypothesis Testing Results**

<b>Hypothesis</b>	<b><math>\rho</math>-value</b>	<b>Decision</b>
H1: Eco-friendly Attitude → Intention to Visit	0.000	H1 Supported
H2: Eco-friendly Attitude → Intention to Pay More	0.000	H2 Supported

Source: Data were processed using SPSS

## **Discussion**

This hypothesis test reported that customers who have eco-friendly attitude are more willing to stay or visit to a green hotel. Customers who are eco-friendly actually worry about conservation, worry about earth condition now . They also think that recycling & keeping separate piles of garbage for recycling is not something trouble for them so it can be assumed that they do not mind practicing it. This type of customers believe recycling will reduce pollution and also important to save natural resources. The more positive customers attitude toward environmental issues, the more likely they are willing to visit and syat at ag green hotel when travelling. This research supported previous research by Han et al. (2011) that hotel customer's eco-friendly attitudes positively affect their intention to visit.

Second hypothesis proved that customers who have eco-friendly attitude do not mind to pay more at a green hotel. The result of this study supported previous study by Han et al (2011), in which individuals' environmental concern and environmentally friendly attitudes are positively related to their intention to pay more. The results shows that customers will spend extra money to stay at an environmentally friendly hotel, for them it is acceptable to pay more for a hotel that engages in green practices. This type of behavior can can only occur when an individual knows the benefits of green practices fot the whole society and natural environment.

All the findings support previous research that in general, customers' eco-friendly attitudes positively related to their expressed intention to a green hotel (Kalafatis et.al, 1999; Laroche et.al, 2001; Manaktola and Jauhari, 2007).

### **Managerial Implications, limitations and future research recommendations**

Results of this study help green hotel marketers understand the target consumers and design marketing strategy to influence them. Hotels must be more pro active in campaigning green hotel concept, since many consumers although they have eco-friendly attitude are lacking information of green hotel/lodging. Advertising in social media, newspaper, magazine or television can communicate the green hotel facilities and practices and drive potential consumers to visit the hotel.

Also for hotels that have already implemented green concept, they have to communicate it by putting announcements inside the hotel room, such as card that tells customers that the hotel will not wash the bed linen and towel everyday. It should be a clear information that by not changing the bed linen and towel everyday, the hotel and customers participate in minimizing the use of water and detergent. Besides, hotel management should convey to the customers that they have to separate piles of garbage by putting them in different trashes. There should be announcements or signs where consumers can find trashes to put garbage separately to be recycled. The use of energy-efficient equipment, such as sensor in tap water, energy-efficient lamp and solar energy must also be communicated to the hotel visitors so they are more aware of the importance of being more eco-friendly.

There are some limitations in this study that reveal opportunities for future research. First, this research did not separate customers that have already experienced staying in a green hotel with those who have not visited a green hotel. Future study can classify those types of customers and see the differences/similarities among them, so hotel marketers can apply different types of communication strategies. Second, this study only examined consumers' intention to stay at a green hotel, and intention may or may not lead to actual/behavior. Thus, future study should examine consumers' actual behavior so it can be found whether consumers' decision actually influenced by eco-friendly attitudes.

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**THE IMPACT OF CURRENT RATIO AND DEBT RATIO TO FINANCIAL DISTRESS USING ALTMAN Z-SCORE AT INDONESIAN STOCK EXCHANGE**

**Anggita Wikhan N**

**Farah Margaretha**

**ABSTRACT**

*The situation when a company can not pay off its financial obligations to the creditors it called as financial distress. Therefore, it is important for company to identify the factors that can lead to financial distress. So the company can take steps to anticipate and appropriate action to fix it. Current ratio and debt ratio used in this study as a variable affecting financial distress using the Altman Z-score. Altman Z-score's model is a model that used to measure the financial health of the company consists of five independent variables where each variable represents financial ratios. This study discusses the measurement of financial distress using the Altman Z-score on 116 companies listed in Indonesia Stock Exchange period 2009 to 2013. The method used in this research is the method of discriminant analysis, hypothesis testing two different proportions and regression. The results showed that the current ratio significantly negative and the debt ratio significantly positive influence on financial distress using the Altman Z-score. Current ratio  $<1,1$  and debt ratio of  $>1$ , then the company is included in the financial distress. The company should have a high current ratio and a low debt ratio so the company not included in financial distress. Conversely, if the company has a low current ratio and the debt ratio is high, then the company including financial distress. Investors also should analyze financial distress to assess the financial condition of the company regarding any investment decision.*

**Keywords:** *Current ratio, Debt ratio, Financial Distress, Z-score.*

## **1. INTRODUCTION**

Indonesia's economy is growing and developing rapidly, marked by technological progress and innovation are emerging. Thus, companies in Indonesia vying to be able to maintain his company in order to avoid bankruptcy. Khaliq et al. (2014) found in a company's financial situation is a factor that can affect investment, capital flows and the performance of the company. Therefore, it is important for companies to identify the factors that may affect financial condition becomes unhealthy and can take an anticipation action. A situation when the company can't meet or face difficulties to pay off its financial obligations to the creditors is called financial distress. When the company's fixed costs are high, assets are illiquid, or revenues that are too sensitive to the economic recession, it can cause financial distress. A company which is in financial distress can experience costs linked to the situation, such as more exclusive financing, opportunity cost and less dynamic employees. The cost of borrowing additional capital of the company will generally increase, increasing the much desired funds to make it extra challenging and costly. To fulfill short-term obligations, management might run the longer-term profitable project. The employees of a financial distress company usually have lower confidence and higher stress because of increasing the chance bankruptcy, for which they will lose their jobs. Under such a burden, the workers can be less productive. To identify the manufacturing companies experiencing financial distress, this study used a model Altman Z-score. Altman Z-score models take into account and consider the five independent variables, which each represents financial ratios. This model is a multivariate formula that is used to measure the financial health of the company where the company can be grouped into two, namely the companies included financial distress and non-financial distress (Altman, 1968).

Financial analysts and investors use financial ratios to identify financial distress. Financial ratios can describe the past, present and future performance of the company's financial position and is a very useful indicator. Most financial ratios can be calculated from the financial statements which are owned by the company. The liquidity ratio is the ratio used to determine the company's ability to meet short-term obligations. Current ratio is a financial ratio used to measure a company's ability to meet its short-term obligations are defined by the current ratio is equal to current assets in the current liabilities (Gitman and Zutter, 2012). Research of Khaliq et al. (2014) describes that a company is said to financial distress, if the current ratio  $< 1.1$ . While companies are said to be non-financial distress, if the current ratio  $\geq 1.1$ . Debt ratio is defined as the ratio of total debt to total assets which also can be interpreted as the company's assets proportions are financed by debt. The higher ratio, simply means that the company highly leveraged and have a high financial risk. If the

debt ratio  $> 1$ , it can be said that company facing financial distress. While if debt ratio  $< 1$ , that company can be categorized as non financial distress.

The manufacturing company is a company that includes processing raw materials into finished goods eligible to be marketed and consumed by the public. This study uses the company manufacturing base and chemical industry, goods industry, and various other industries listed in Indonesia Stock Exchange in the period 2009 to 2013. The manufacturing company is targeted in this study to see if there is financial distress using the Altman Z score is affected by the liquidity ratio. Based on the background problem above, the purpose of this study was to analyze the influence of the current ratio and the debt ratio to financial distress using the Altman Z-score.

## **2. LITERATURE REVIEW**

Khaliq et al. (2014) studied in Malaysia Stock Exchange, indicates that the current ratio significantly influence financial distress. Consistent with research conducted by Sulaiman et al. (2001) in which the current ratio is expected to have a positive relationship with financial distress. It is because the company's ability to pay short-term debt obligations are high and vice versa. A similar study conducted by Abusalah and Ng Kim-Soon (2012) on the Malaysian Stock Exchange shows that the current ratio significantly influence financial distress. Shahzad et al. (2013) studied at the Karachi Stock Exchange, which shows the current ratio is also influenced financial distress significantly. From the statement described above can be formulated hypotheses as follows:

**H<sub>1</sub>: There is influence between the current ratio and financial distress using the Altman Z-score.**

Khaliq et al. (2014) who studied in Bursa Malaysia, the results of the research show that the debt ratio significantly influence financial distress. The larger or ratio's value, the financial health of the company will be weak. Rizwan (2013) determines the financial distress of the companies listed on the Karachi Stock Exchange from 2003 to 2010 using the model of the Altman Z-score and the results indicates the debt ratio has a negative correlation to financial distress. Ohlson (1980) examined the financial distress in a company located in the USA, stated that the results of the

variable total liabilities to total assets significantly influence financial distress. From the statement described above can be formulated hypotheses as follows:

**H<sub>2</sub>: There is influence between debt ratio and financial distress using the Altman Z-score.**

### **3. RESEARCH METHODS**

The sampling technique used in this research is purposive sampling, which is in a non-random sample selection and in accordance with predetermined criteria. The criteria used in selecting the sample are as follows:

1. The company is listed on the Indonesia Stock Exchange 2009-2013 period.
2. Manufacturing companies that have data working capital, total assets, retained earnings, earnings before interest and tax, market value of equity, book value of total liabilities, sales, current ratio and debt ratio in the annual financial statements.

The independent variable in this study is the current ratio and the debt ratio. The dependent variable used in this study is the financial distress is measured by Altman Z-score with the following explanation:

$$Z = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

Specification:

X1 = Working Capital/Total Assets

X2 = Retained Earnings/Total Assets

X3 = Earnings Before Interest and Taxes/Total Assets

X4 = Market Value of Equity/Book Value of Total Liabilities

X5 = Sales/Total Assets

Z = Overall Index

Altman Z-score indicates the number that can be used to categorize companies into financial distress and non-financial distress (Altman et al., 2013). Description of the category will be formed with the discriminant function when the data using discriminant analysis.

### **Method of Data Analysis**

Data analysis methods used in this study is the Altman Z-score with the following formula:

$$Z = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$$

Specification:

X1 = Working Capital/Total Assets

X2 = Retained Earnings/Total Assets

X3 = Earnings Before Interest and Taxes/Total Assets

X4 = Market Value of Equity/Book Value of Total Liabilities

X5 = Sales/Total Assets

Z = Overall Index

Regression models to examine the relationship of financial distress with current assets and debt ratio are defined as follows:

$$Z_i = \beta_0 + \beta_1CR_i + \beta_2DR_i + \epsilon_t$$

Specification:

$Z_i$  = Financial distressed cost as measured by Altman Z-score

$CR_i$  = Current ratio

$DR_i$  = Debt ratio

$\epsilon_t$  = Error term

#### **4. RESEARCH FINDING**

Description of the data is brief overview of company's data are used as objects in this study. The research object which is used in this study is a manufacturing company in the year 2009 up to 2013. The companies were used as a sample of this research should be listed in the Indonesia Stock Exchange. The research data was obtained from the financial statements of each entity. With the number of initial sample some 118 companies, then after doing purposive sampling, samples that meet the criteria in this study a total of 116 companies.

The data which used in this study for each variable amounted as 116 of 116 companies multiplied by the period of observation (5 years). The following are the results of the descriptive statistics of the data used in this study:

**Table 1**

#### **Descriptive Statistics**

Variable	Mini	Max	Mean	Std. Deviation
<i>Working Capital/Total Assets</i>	-2,39609	0,77359	0,1350916	0,40069566
<i>Retained Earnings/Total assets</i>	-5,99463	1,04534	-0,0417342	0,88401222
<i>Earnings Before Interest and Taxes/Total Assets</i>	-0,25418	0,62604	0,1016773	0,12679441
<i>Market Value of Equity/Book Value of Total Liabilities</i>	0,00001	0,04431	0,0039257	0,00676449
<i>Sales/Total Assets</i>	0,05170	4,68626	1,1789912	0,66893966

**Table 2**

#### **Function of Discriminant based Current Ratio**

Variable	Function
<i>Working Capital/Total Assets</i>	3,153
(Constant)	-0,426

In equation form:

$$Z = -0,426 + 3,153(\textit{Working Capital/Total Assets})$$

**Table 3**

**Function at Group Centroid based Current Ratio**

Group	Function
Financial Distress	-1,228
Non Financial Distress	0,488

Based on the results of SPSS output in Table 4 above, if the value of the Z score is  $\leq -1.228$ , so this company includes in the financial distress group. While a company in the group of non-financial distress if the value of the Z score is  $\geq 0.488$ .

**Table 4**

**Summary Table based Current Ratio**

Result	Financial Distress	Percentage	Non Financial Distress	Percentage
Actual	28	84,8%	82	98,8%



Prediction	33		83	
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Based on the results of SPSS output in table 4 above that predicted companies included in financial distress as many as 33 companies in which the actual results, only 28 companies included in financial distress with a percentage of 84.8%. While predictions of companies included in the non-financial distress as much as 83 companies in which the actual yield was 82 companies that include non financial distress with a percentage of 98.8%. Results percentage for all group companies (financial distress and non-financial distress) the average is 91.8%. This means that 91.8% is the level of accuracy of the Altman Z-score models in predicting financial distress, which if the percentage of close to 100%, the better the accuracy of the model in predicting financial distress.

**Table 5**

**Test of Equality of Group Means based Debt Ratio**

Variable	Wilks' Lambda	F	Sig
<i>Working Capital/Total Assets</i>	0,577	83,504	0,000
<i>Retained Earnings/Total assets</i>	0,543	95,827	0,000
<i>Earnings Before Interest and Taxes/Total Assets</i>	0,991	1,066	0,304
<i>Market Value of Equity/Book Value of Total Liabilities</i>	0,989	1,236	0,269
<i>Sales/Total Assets</i>	1,000	0,042	0,839

Test of equality of group means were performed with the aim of testing the difference between two average for each variable if  $H_0: \mu_1 = \mu_2$ , which means there is no difference in the average for a group of financial distress and non-financial distress,  $H_a: \mu_1 \neq \mu_2$  are means that there are differences in the average for the group financial distress and non-financial distress. The result in variable working capital / total assets showed sig of  $F = 0.000 < 0.05$  so that  $H_0$  is rejected,  $H_a$

accepted. Thus, it can be concluded that there are differences in average working capital / total assets for the group financial distress and non-financial distress where financial distress group was lower, ie -0.8886 compared with non financial distress at 0.2008. Variables retained earnings / total assets showed sig of  $F = 0.000 < 0.05$  so that  $H_0$  is rejected,  $H_a$  accepted. Thus, it can be concluded that there is a difference in the average retained earnings / total assets for the group financial distress and non-financial distress in which the group of financial distress lower value, ie -2.389 compared with non financial distress at 0.1090. Variable earnings before interest and taxes / total assets showed sig of  $F = 0.304 > 0.05$  so that  $H_0$  is rejected,  $H_a$  accepted. Thus, it can be concluded that there are differences in average earnings before interest and taxes / total assets for the group financial distress and non-financial distress where financial distress group was lower, ie 0.0537 compared with 0.1048 for non-financial distress. Variable market value of equity / book value of total liabilities showed sig of  $F = 0.269 > 0.05$  so that  $H_0$  is rejected,  $H_a$  received can be concluded that there is a difference in the average market value of equity / book value of total liabilities to group financial distress and non-financial distress where financial distress group was lower, ie 0.0012 compared with 0.0041 for non-financial distress. Variable sales / total assets showed sig of  $F = 0.839 > 0.05$  so that  $H_0$  is rejected,  $H_a$  is received it can be concluded that there are differences in average sales / total assets for the group financial distress and non-financial distress in which a group of financial distress lower value, ie 1.1288 compared with 1.1822 for non-financial distress.

**Table 6**

**Function of Discriminant based Debt Ratio**

Variable	Function
<i>Working Capital/Total Assets</i>	1,504
<i>Retained Earnings/Total assets</i>	0,975
(Constant)	-0,163

In equation form:

$$Z = -0,163 + 0,975 (\textit{Retained Earnings/Total assets}) + 1,504 (\textit{Working Capital/Total Assets})$$

**Table 7**

**Function at Group Centroid based Debt Ratio**

Group	Function
Financial Distress	-3,828
Non Financial Distress	0,246

Based on the results of SPSS output in Table 10 above, it is a company in the group of financial distress if the value of the Z score is  $\leq -3.828$ . While a company in the group of non-financial distress if the value of the Z score is  $\geq 0.246$ .

**Tabel 8**

**Summary Table based Debt Ratio**

Result	Financial Distress	Percentage	Non Financial Distress	Percentage
Actual	5	71,4%	106	97,2%
Prediction	7		109	

Based on the results of SPSS output in Table 8 above that the companies included in the prediction of financial distress by 7 companies in which the actual yield only five companies included in financial distress with a percentage of 71.4%. While predictions of companies included in the non-financial distress as much as 109 companies in which actual results are 106 companies that include non financial distress with a percentage of 97.2%. Results percentage for all group companies (financial distress and non-financial distress) the average is 84.3%. This means that

84.3% is the level of accuracy of the Altman Z-score models in predicting financial distress, which if the percentage of close to 100%, the better accuracy of the model in predicting financial distress.

**Table 9**

**Financial Condition of Manufacturing Firms based Current Ratio**

Group	Actual (Atman Z-score – Current Ratio)	Prediction (Current Ratio)
Financial Distress	28	33
Non Financial Distress	82	83
Total	110	116

**Tabel 10**

**Financial Condition of Manufacturing Firms based Debt Ratio**

Group	Actual (Atman Z-score – Debt Ratio)	Prediction (Debt Ratio)
Financial Distress	5	7
Non Financial Distress	106	109
Total	111	116

Based on the results of Table 9 and Table 10 above, it able to examine the effect of the current ratio and the debt ratio to financial distress using the Altman Z-score test hypotheses using two

different proportions, if  $H_0: P_1 = P_2$ , which means there is the influence of the independent variables on the dependent variable,  $H_a: P_1 \neq P_2$ , which means there is no influence of the independent variables on the dependent variable. The results of the study shows that current ratio and debt ratio are significant to the financial distress using the Altman Z-score.

**Tabel 11**

**Result of T-Test**

No.	Variable	Coefficients ( $\beta$ )	Sig	Summary
1.	<i>Constant</i>	0,945		
2.	<i>Current Ratio</i>	-0,001	0,063*	Significant
3.	<i>Debt Ratio</i>	0,468	0,000***	Significant

\* $\alpha = 10\%$

\*\*\* $\alpha = 1\%$

Based on the results if the data above, the form of the equation:

$$Z_i = 0,945 + (-0,001)CR_i + 0,0468 DR_i$$

So that the company can predict financial distress, as many as 112 companies.

### **Discussion of Results**

**$H_1$ : There is influence between the current ratio and financial distress using the Altman Z-score.**

Based on hypothesis testing two different proportions indicate that there are significant to the financial distress current ratio using the Altman Z-score. The results of the regression, the current ratio has a significant negative effect, whereby if the current ratio is high, then the possibility of the company including financial distress will be low. These results together with research Khaliq et al. (2014) studied in Malaysia, indicates that the current ratio significantly influence financial distress.

Consistent with research conducted by Sulaiman et al., (2001) in which the current ratio is expected to have a positive relationship with financial distress. This is because the company's ability to pay short-term debt obligations are high and vice versa. A similar study conducted by Abusalah and Ng Kim-Soon (2012) on the Malaysian Stock Exchange shows that the current ratio influence financial distress significantly. Shahzad et al. (2013) studied at the Karachi Stock Exchange, which shows that the current ratio is also significantly influence financial distress. Therefore, if the current ratio at a high enterprise, which shows  $> 1.1$ , the company's non-financial distress, in which a company can meet its short-term debt at maturity. In the opposite, if a company's current ratio at low, which shows  $< 1.1$ , the company's financial distress, in which a company cannot meet its short-term debt.

**H<sub>2</sub>: There is influence between debt ratio and financial distress using the Altman Z-score.**

Based on hypothesis testing two different proportions indicate that there are significant financial distress debt ratio to use the Altman Z-score. The results of the regression, the debt ratio has a significant positive effect, whereby if a high debt ratio, then it is likely the company including financial distress will be high as well. These results are consistent research Khaliq et al. (2014) who studied in Malaysia, the results of the research show that the debt ratio influences financial distress significantly. The larger ratio's value, the financial health of the company will be weak. The results were similar to the research conducted by Rizwan (2013) which determines the financial distress in companies listed on the Karachi Stock Exchange from 2003 to 2010 using the model of the Altman Z-score which indicates that the debt ratio has a negative correlation to financial distress. Ohlson (1980) examined the financial distress in a company located in the USA, stated that the results of the variable total liabilities to total assets significantly influence financial distress. Therefore, if the debt ratio at a high level, which showed  $> 1$ , then the company's financial distress, which a company relies on debt, a large financial risk and impairment of assets. In the opposite, if the debt ratio at a company is low, which showed  $< 1$ , then the company is non-financial distress, in which a company does not rely on debt, financial risk is small and able to maintain the company's debt at a low level. So the company can stop the decline in the value of the company's assets and prevent the increase in the debt ratio.

## 5. CONCLUSION

The results showed that the current ratio and the debt ratio to a variable that has a significant effect on the financial distress. The results are expected to be input for companies and investors.

### 1. For Company

The company should pay attention to the current ratio and debt ratio. Because if the current ratio contained in the financial statements of the company  $\geq 1.1$ , the company's non-financial distress, which means the company can meet the short-term debt. On the contrary, if the current ratio contained in the financial statements of the company  $< 1.1$ , the company's financial distress, which means the company cannot meet short-term debt. Whereas if the debt ratio contained in the financial statements of the company  $< 1$ , then the company is non-financial distress, which means the company does not rely on debt, financial risk is small and is able to maintain the company's debt at a low level. So the company can stop the decline in the value of the company's assets and prevent the increase in the debt ratio. On the contrary, if the debt ratio contained in the financial statements of the company  $> 1$ , then the company's financial distress, which means the company relies on debt, a large financial risk and a decrease in the value of assets.

### 2. For Investors

The results of this study are expected to provide information and taken into consideration in the analysis of financial distress which can then be used to assess the financial condition of the company in connection with their investment decisions where should investors choose to invest their shares in the company with a current ratio  $> 1.1$  and a debt ratio of  $< 1$ .

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**THE ROLE OF GREEN KNOWLEDGE MANAGEMENT IN DEVELOPING THE  
QUALITY OF HUMAN RESOURCES : LESSON LEARNED FORM MOUNT MERAPI  
ERUPTION**

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**ABSTRACT**

The purpose of this study is to synergize excellent research at universities with national policies and programs on disaster and build a network of cooperation among researchers in the field of science and common interests, namely with local universities in the research area. This study was analyzed to find the Critical Success Factor (CSF) in order to find appropriate solutions to problems. Model systems were designed and then made the appropriate technology in the form of Knowledge Management Systems as a medium of learning in terms of regulations, procedures, training and activity guides the steps that must be followed by all personnel BNPB nor BPBDs in the affected areas.

The results have been obtained in the first year this is in the form of Focus Group Discussion interview in Yogyakarta.

**Keywords:** *Quality of human resources, knowledge management systems*

## **INTRODUCTION**

National Disaster Management Agency (BNPB) acknowledges the constraints on human resources for tackling natural disasters streak in the country. Limited human resources capacity at the level of the Regional Disaster Management Agency (BPBD) into its own obstacles in prevention activities as a whole. While in the area of disaster management is handled by BPBDs (Regional Disaster Management Agency) which is structurally under the Local Government (Local Government) and the BNPB coordinative. Based on the National Disaster Management Plan 2010-2014 stated in his report there are still problems that the lack of a comprehensive disaster management planning. Every disaster, who do not clear. All wanted to help, but sometimes you do not know what to do. Moreover, at the time before the disaster, what to do sometimes still confused. In some activities instead carried out by several agencies, resulting in overlapping different information with one another that even confusing users (government / institution / community). Things like this should be made a disaster plan involving various actors of disaster management. Currently, many organizations took the initiative to empower knowledge management, but not all of them optimally in empowering knowledge. BNPB as one of the main pillars in the face of disaster mitigation is highly demanded to have a level of service that is very reliable. Indonesia's geographical conditions in disaster-prone areas make BNPB must always be ready to prevent, anticipate and recovering the problems caused by the disaster. It is necessary for policy tools, frameworks, procedures and work instructions are inadequate both in terms of scope and depth of information.

## **PURPOSE RESEARCH**

1. Make appropriate technology in the form of Knowledge Management System in disaster mitigation learning.
2. BNPB help agencies and BPBDs to improve the quality of human resources in order to be more responsive in disaster mitigation.

## **LITERATURE REVIEW**

Knowledge is an intangible resource, and it combines with other firm resources (e.g. financial and physical) to create capabilities (Massingham, 2014). Indeed Massingham (2014) defines knowledge resources are often classified as either tacit (implicit) or codified (explicit) which the former is the knowledge in an individual's head whereas, codified knowledge is knowledge that is transferable in formal, systematic language, e.g. via reports and databases. The most useful definition of KM for the purposes of managing knowledge resources is the product versus process view. The product view implies that knowledge is a thing that can be located and manipulated as an independent object. This is based on managing structural capital – document management systems, data bases and lessons learned. It is about sharing best practices, standard operating procedures and about storage and retrieval (i.e. structuring repositories). This view of KM tries to separate the knowledge from the knower (Mentzaset al.,2003,p.4). On the other hand, the process view places emphasis on ways to promote, motivate,encourage, nurture or guide the process of knowing, and abolishes the idea of trying to capture and distribute knowledge (Mentzaset al., 2003, p. 4). It views KM as a socialcommunication process, facilitated by collaboration and cooperation support activities. Knowledge is closely tied to the person who created it and is shared through person-to-person contact. This view of KM does not try to separate the knowledge from the knower.

Gao, et al (2002) say that business knowledge and knowledge management finally will be mastered and utilized by users in economic organizations. To make knowledge efficiently translated into value or profit for a company and strategically used by varieties of users, relevant knowledge management is self-explanatory. What is the substance of knowledge management, or to what kind of level do managers become involved in knowledge activities? The prime work is to separate the knowledge management of knowledge processes from knowledge management of knowledge workers. Knowledge managers' work is to "manage" the favorable environment for knowledge workers to be engaged in knowledge processes and "manage" these knowledge workers. To make it clear, we first classify knowledge management into two dimensions: one dimension is to manage existing knowledge, which includes developing of knowledge repositories, knowledge compilation, arrangement and categorization; another is to manage knowledge-specific activities, that is knowledge acquisition, creation, distribution communication, sharing and application. For sustaining these processes, both "hard" conditions and "soft" environments have to be created and nurtured. Hard side means technological platforms including facilities and necessary devices. Soft side consists in trust, team spirit and learning climate for improving contributors' productivity. At

organizational level, distinctive organizational visions and strategies are formulated to guide and regulate knowledge management; relevant evaluation and reward institutions are to be created to define responsibility and liability of individual and organization. For knowledge activities in economic organizations, we treat knowledge as both an object and a process. The view of knowledge as an object comes from the fact that knowledge, as an impersonal being, exists by itself over time; it forms a complex knowledge system in hierarchy of data, fact, information, experience, learning, patent and copyright, as well as expertise. From this point of view knowledge can be communicated, exchanged, and shared, such as those things we learnt from school. For the knowledge in form of data, information or expertise, they have already existed in some special disciplines that cope with them like database, data warehouse, statistics, data mining, information systems, information science, information theory, management information systems, expert systems, decision support system, and knowledge discovery in database.

Indeed, Gao *et al* (2002) also argue that the knowledge is used as the concrete element and tools during humans' theoretical and practical work. Knowledge managers have to possess basic understanding and foresight but unnecessarily own the ability to be engrossed in detailed knowledge processes that are the very work of specialized knowledge workers, unless they are among them. For an organization as an economic entity to create and accumulate business knowledge, it is not its true end; knowledge for it is only served as a useful or important means to fulfill organizational objectives. Nonaka and Leonard look at social processes of knowledge creation and innovation within and between groups of people, rather than at individual creativity or the manipulation of knowledge objects (Cohen, 1998 cited in Gao *et al*, 2002). The one and only aim of knowledge management for an organization is to utilize fully available knowledge and embody knowledge into products and service to enhance its core competences and competitive advantages. As for this functional meaning, knowledge management is also viewed as a process, which closely relates to practice. The latter point is of significance in knowledge management. To realize this instrumental function, a series of purposeful activities needs to be initiated. In the above knowledge theories, most of the researchers seem to favor knowledge acquisition, transfer, and creation in organizations as process or activity among people. Actually, the detail work is knowledge workers' task rather than chief knowledge officers or knowledge managers' job. That manifests that knowledge management's potential task is on how to mobilize all the positive factors in this process by knowledge managers.

According to Yahya and Go (2002) defining the concept of KM is difficult, as different perspectives or schools of KM can yield different dimensions and meaning. For examples, Malhotra, 1998 cited in Yahya and Go (2002) holds that KM "embodies organisational processes that seek synergistic combination of data and information processing capacity of information technologies, and the creative and innovative capacity of human beings". Coombs and Hull (1998) classified KM activities under three major headings: knowledge processing, knowledge domains and knowledge formality. For Bukowitz and Williams (1999 cited in Yahya and Go, 2002), KM is "the process by which the organisation generates wealth from its intellectual or knowledge-based assets". Empirical survey by Chong et al, (2000) has identified it as "a process of leveraging and articulating skills and expertise of employees, supported by information technology". Bhatt (2001 cited in Yahya and Go, 2002) sees knowledge management as "a process of knowledge creation, validation, presentation, distribution and application". Although the above definitions vary in their description of KM, there seems to be a consensus of treating KM as a process of leveraging of knowledge as the means of achieving innovation in process and products/services, effective decision making and organizational adaptation to the market to ensure human resources can apply KM in the organizations.

Kuo (2011) suggests that effectively HRM is the key to amplifying the effect of knowledge management. In fact, HRM strategies can influence employees' beliefs on how to improve organizational performance and values, which consequently affect organizational culture (Marshall et al., 1996 cited in Kuo, 2011). It is concluded that HRM has significant influence on organizational knowledge repository and management. Thus, HRM policies in selection, training, performance appraisal, etc, must be aligned with knowledge management strategies to enhance organizational functioning (Kuo, 2011).

## **RESEARCH METHODS**

### **Study Design**

The unit of analysis is the central government employees (BNPB) and BPBDs-Region Test a hypothesis about the quality of human resources through increased understanding of knowledge management for disaster response.

Collecting data and samples

1. Collecting data through interviews conducted in BPBDs (Yogyakarta) by using the Focus group discussions through interviews / discussions with 11 employees SAR.
2. The collection of data through questionnaire distributed to the target respondents in East Java BPBD the 90 employees in its entirety with the target 45 respondents related to disaster mitigation. This study focuses on Knowledge, Information Technology and Organizations.

## **RESEARCH RESULT**

### **5.2. Data or Information Group Discussion:**

Table 1. FGD

No. Data or Information

FGD members were a total of 11 people volunteered to join the team under the auspices of BPBDs (Yogyakarta) wherein each - each member describes the tasks and role of each - each of the units of the Search and Rescue (SAR) and Quick

- 1 Response Team (TRC). Results from the initial meeting, a team of researchers looking for information related to the purpose - research objectives, goals and objectives of the research and explain the plan - the work plan as a visit to the disaster area in volcanoes

After the dialogue, and also berdiskusi about the functions, duties and responsibilities of each - each member, then elaborated on the function - the function of HRM and focus on the process of recruiting members dominated by individuals -

- 2 individuals who have a love of nature. The results of this discussion can be seen that each - each member is formed by itself from the experience for a member organization of nature lovers. The starting point of the discussion is increasingly seen that "knowledge management" every member of the highly

proven marked with the planning process when mitigation needs to be done and it is supported also by training - training is often done at least one month to hone skills possessed.

3 Yogja public success in the face of disaster volcano presumably can be an important lesson for the people of Indonesia and the agency is authorized to review and revitalize local cultural wisdoms (local wisdom). Therefore, it required an effort to preserve the local cultural wisdom continuously and simultaneously. Without the conservation efforts, can certainly possessed local knowledge society will gradually forgotten and lost. Likewise, the local knowledge they have in preserving knowledge about natural disasters through nafi-nafi. Indeed, one thing that is regrettable is the knowledge about the symptoms of disaster mitigation, without socialized to people outside Yogyakarta it. If all the people who live volcano region have knowledge of it could be possible victims of fallen humans can be minimized.

Disaster education

4 After visiting the disaster area and the dialogue with the local community disaster education then it could be incorporated into the proposed extra-curricular in schools of basic education.

## CONCLUSIONS

There are several obstacles faced by the National Disaster Management Agency (BNPB), founded in 2008, among others, lack of human resources (HR) specialized knowledge and skills in the field of disaster management and human resources when a disaster occurs is a loss as to what to do. Volunteers did arrive from various parts but not all of them equipped with adequate knowledge about disaster management. This was conveyed when a team of researchers conducted a survey early in April 2013 in Jakarta BNPB. Openness with universities to conduct research and



community service has just started in 2014 so expect the future to be fulfilled what the needs BNPB and society. The availability of human resources (HR) quality is largely determined by how an institution manages its human resources management. Starting from the process of recruitment, training, placement, career, reward system punishment to rotation, transfer and retirement has become a common thing in human resource management. Required touches advancement of information technology in today's era to be able to optimize the expected results.

Equipping the employees and managers with organizational change related skills and even combining them with imaginative minds and innovative ideas are not sufficient in forming a knowledge organization. The people must also be skillful in delivering their assigned responsibility and task. Thus, training related with skill-improvement such as systematic documentation skills, operating of problem solving techniques and tools, ways of managing performance should be carried out.

This research indicates that the green knowledge management requires a different management approach compared to the non-knowledge organization. In terms of increasing the quality of human resource, the focus is placed on developing people who are capable of tapping internal and external information and turning it into useful organizational knowledge

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**FINANCIAL, INTERNAL & ENVIRONMENTAL ANALYSIS OF FOOD INDUSTRY**

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**Abstract**

Food industry in United Kingdom has intense competitive market. Every company is competing to have a strongest competitive advantage for becoming a market leader. This project examines the key success of three companies from food industry. The company chosen with same size and listed in London Stock Exchange. The companies chosen are Unilever, Tate & Lyle and Premier Foods. Those three companies will be analyzing using three tools, which are PESTLE, SWOT and Ratio analysis. At the end of the project, companies will be rank based on the financial performance, internal and external factors. The goal of this project is to review the performance of those three companies and get knowledge about the internal and external factors of food industry.

## 1. Introduction

Food is primary needs for every household, and hence the economic cycle does not apply as large an impact on this sector as other segment of consumer expenditure for example furniture or electronic products (Manley, 2010). Food industry has an important role in economic development of a country, not exception for United Kingdom. In United Kingdom, food industry represent 15% of total manufacturing sector and generate gross value added for £21.8 billions (Leech, 2009). Food industry is attractive investment for investors. The rise of food prices provides appealing opportunity for investors; the increase of food price would not have much changes of turnover as along with growth of populations (Wall, 2013).

The three companies chosen are Unilever, Tate & Lyle and Premier Foods. Those three companies are comparable besides they operate in same industry; those companies are the biggest companies producer and supplier listed in London Stock Exchange with the highest turnover in United Kingdom (Manley, 2010).

	<b>Unilever</b>	<b>Tate &amp; Lyle</b>	<b>Premier Food</b>
<b>Assets (mil)</b>	45,513	2,527	2,059.90
<b>Sales (mil)</b>	49,797	3,147	856.2
<b>Market Value</b>	55,462.80	2,710.90	263.6
<b>Net Income (mil)</b>	4,108.90	273	-245.9
<b>Asset turnover</b>	1.09 times	1.18 times	0.39 times
<b>Inventory turnover</b>	6.99 times	4.71 times	6.01 times

This project will be review by three chosen company through external environment analyzing, internal and external factors analysis, financial performance and overall ranking. The external environment analyze will use PESTLE (Politics, Economy, Social, Technology, Legal and Environmental) and SWOT (Strength, Weaknesses, Opportunities and Threat) use for analyze internal and external factors as well as it will be rank which company is best and worst. The financial performance will be examined by over the five years performance of three companies and also rank on each ratio by average ranking method. For the last, develop an overall ranking for SWOT analysis and financial performance and it will explain best and worst companies performance in recent position.

***1.1 Research Question:***

What are the factors that make three chosen companies success and analyze what external environment that can impact operations of companies? And which company is the best and the worst based on internal and external analysis and financial performance over the five years?

***1.2 Aim:***

To evaluate the performance of three chosen companies and analyzes the key success factors of companies.

***1.3 Objective:***

- Analyze external environment of Industry using PEST analysis.
- Analyze internal and external factors of companies using SWOT analysis and rank them.
- Evaluate Financial and Non-Financial performance of companies over the five years and rank them.

- Overall rank the companies based on SWOT analysis and Financial and Non-financial performance.

## **2. PESTLE**

PESTLE is analyzing influences from external environment that can affect a business (Riley, PEST Analysis, 2012). The abbreviation stands for Political, Economic, Social, Technological, Legal and Environmental. Political factor consider from government and political stability issue that affect company's profitability (Arline, 2014). Economic factor look at the outward of economic issues that play a positions in success of company (Arline, 2014). Social factor examines the company's market issue include demographic and cultural aspects (Arline, 2014). Technological factor analyze the affect of technology issues for company operation activity (Arline, 2014). Legal factor consider a changes of regulations or existing regulations that can effect upon the business although the business originate from another countries than that in which the business is based (Cadle, Paul, & Turner, 2010). Environmental factors arise from natural environment issue around the business (Cadle, Paul, & Turner, 2010).

In this project, PESTLE analysis will be used for identifying external factors that influence the industry.

Table 1.1

<p>Political:</p> <ul style="list-style-type: none"> <li>- Political instability</li> <li>- Price controls</li> <li>- Food safety and standards</li> </ul>	<p>Economical:</p> <ul style="list-style-type: none"> <li>- Exchange rate</li> <li>- Economic growth</li> <li>- Economic downturn</li> </ul>
<p>Social:</p> <ul style="list-style-type: none"> <li>- Lifestyle</li> <li>- Age</li> <li>- Consumer tastes</li> </ul>	<p>Technological:</p> <ul style="list-style-type: none"> <li>- Research and development activity</li> <li>- Advanced machine</li> <li>- IT efficiencies</li> </ul>
<p>Legal:</p> <ul style="list-style-type: none"> <li>- Corporate governance</li> <li>- Hygiene legislation</li> <li>- Health &amp; Safety regulations</li> </ul>	<p>Environmental:</p> <ul style="list-style-type: none"> <li>- Pollution control</li> <li>- Waste management</li> <li>- Environmental-friendly material</li> </ul>

### **2.1 Political**

Political instability hamper economic growth, particularly that political instability increases uncertain regulation condition, which gives negative effects on productive decision of economic (Asteriou & Price, 2000). Political instability may effect to financial condition of company. The unstable political system may reduce private investment and hence decrease financial development (Asteriou & Price, 2000). Company needs investment for develops its business to generate high revenue and return. Investment is important for production and financial purposes of company (Piana, 2001).

Price control set by government to assist farmer to get fair income and keep the price of product stable or below equilibrium so that government can reduce poverty level (Rittenberg & Tregarthen, 2014). Serious issue appear when government sets prices lower the equilibrium, this causes buyers will be buy more the product than company have available (Morton, 2001).

Every process of making food products is governed by regulations. The main purpose is to build the food standards, give it capacities and powers and to transfers certain capacities in relation to food safety and standard (Food Standard Agency, 1999). The changing of regulations to set up the process could affect company to spend more money to adjust the activity with new regulations.

## ***2.2 Economical***

The food industry is sensitive for some economic condition that may affect companies, which are exchange rate, economic growth and economic downturn. Any one of those economic conditions could affect to production, profitability, distribution and demand (Arline, 2014).

The exchange rate has an important role for company who doing export and import activity (Pettinger, 2013). For company who export their product, they will get benefit when currency rate of home country appreciation even though it might decrease the demand of product (Pettinger, 2013). The weaker currency rate affect company who purchase raw materials from another country which get more expensive price and affect to less competitive position in the market, it causes the economic growth of country declining and affect to operation activity of company in that country (Pettinger, 2013).

Usually the buying behavior takes many forms of consumer's choices that can vary depending on a broad set of factors such as: earnings, demographics, social and cultural factors (Jalal, 2011). Declining of economic in business throughout economic downturn has affected in customer power to consume. Consumer will purchase the cheaper product rather than what they usually used or they start buy less quantities so the consumer behavior for spending money will change (Bowmer, 2011). The impact of changing on consumer behavior could affect profitability because it will need adjustment on price to meet among consumer buying power and sales.



### **2.3 Social**

There are many social factors changing in UK and it affected to food industry. The factors are lifestyle, age and consumer tastes.

Lifestyle factors have serious impact to describe how consumers make decisions to choose food (Elanie, 1999). The movement of lifestyle could harm food industry with reduce number of sales of company, the food industry must adjust their product with trends in community or introduce new product for filling what consumer needs and their lifestyle (Peachey, 2010).

The age range of population is changing every year so are the population's patterns because the age range of consumer group will represent the biggest fragment of the aggregate population, they will need order the consideration of the business world (Hilton, 2009). Age range will affect consumer tastes, every age level have different taste of food. Company need to keep innovate their product to adjust with age range and tastes in market so they can get maximum sales and profit (Hilton, 2009).

### **2.4 Technology**

Technology is vital role for food industry. There are some technology factors that important for food industry to have sustainable growths, which are research and development activities, advanced machinery and IT efficiencies. Research and development (R&D) is important for food industry to develop new product or improve quality of existing product to preserve current market share and be more efficient of operating and also innovation can develop competitive advantages (Parham, 2007). The trends and consumer needs are always changing every year, moreover health issue around the world rising every year so consumer will more selective to choose what they want to consume. Based on that issue, food industry needs to put high concern to have innovation during changing of consumer behavior to makes consumer still believe that the product always improve to

be better along health issue spread and it will keeps profitability increase (Parham, 2007). The high innovation of company must be followed with advanced machinery in produce the product. Advanced machinery helps company to be more effective in production activity (Jee, 2014). Besides company needs to concern about advanced technology, efficiencies of IT is important as well. IT efficiencies provide company to be more efficient on production cost whereas it can help company reduce expenses (Jee, 2014).

### ***2.5 Legal***

The operations of company are affected by the individual state regulation upheld by government. There are important regulations for food industry, which are corporate governance, hygiene legislation and health & safety regulations.

This regulations effected the work activity by prevent death, illness and injury. This makes employee feel comfortable and work effectively. This is not only gives benefit for employees; safety for employees is directly related to the productivity and profitability of organizations (Goetzel, 1999). Health and safety regulation has helped make Britain one of the safest places in the world to work, saving thousand lives, preventing many more injuries at work and reducing the economic and social costs of health and safety failures (HSWA 40 and beyond). Food hygiene also important for food companies to applied. Hygiene legislation covers process, employee, transport and product; it will rank by government ad it called food hygiene rating scheme (Food Standard Agency, 1999). Hygiene legislation may increase the reputation of company where company focus on quality product in market and it generate more sales (Egan, et al., 2006).

Corporate governance is necessary for company to apply. Corporate governance set up a system that controlling and directing board of directors so top management level will do their job correctly

without doing any fraud (Financial Reporting Council, 2012). In other words, corporate governance can improve productivity of company and enhance profitability of company (Abubakar, 2010).

### **2.6 Environmental**

Company need to responsible against environment where they are operate. Company need to act to what happens in the environment because if environment damage, indirectly impact to internal activity of company, which is cannot operate well (Riley, 2012). Company can act to responsible against environment by pollution control to reduce CO<sub>2</sub>, waste management to reduce manufacture waste and use environmental friendly or eco-friendly materials.

Company who applied pollution control in its production activity can get benefit on reputation and effectiveness expenses. Company who doing pollution control and waste management well will get good image in customers view where company responsible to keep environment survive while they operate around because nowadays people in Britain more concern about environmental condition which there are many issues around them, and also it can reducing expenses where company will more economical in terms of operating expenses (Lanoie & Rochon-Fabien, 2011). Eco-friendly materials for packaging can add real value and generate more profit for company (Hill, 2000).

### **3. FINANCIAL**

Financial ratio analysis is a process of justifying and interpreting connections between the account of financial statements to provide an understanding of the execution and financial position of a company (Babalola & Abiola, 2013). In this project will justify ten ratios from four group financial ratio. In every ratio will be rank using averages method because it will compare every year on each objectives and rank independently. The average ranking method determine highly effective to provide sufficient selection pressure (Li, Zheng, Li, Yuan, & Shen, 2010).

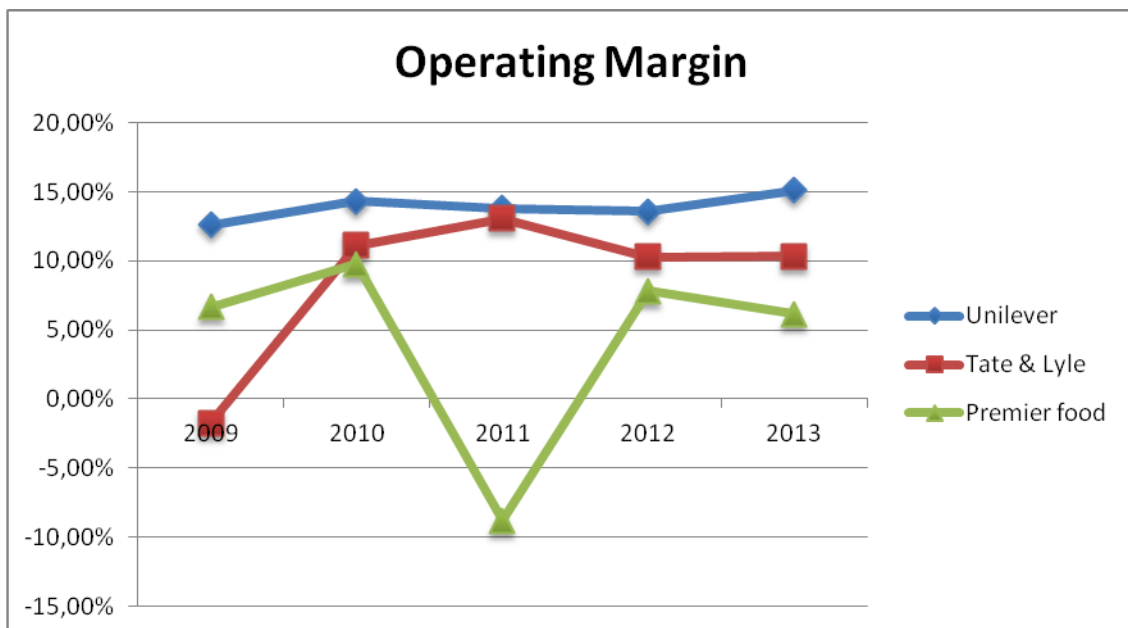
### 3.1 Profitability ratio

Profitability ratio measures the ability of company to generate a satisfactory profit and return on investment (Lesakova, 2007). Profitability ratio is important for food industry to give an indicator to shareholders about financial health and how company manages its assets (Lesakova, 2007).

#### 3.1.1 OPERATING MARGIN

Operating margin is measurement of how many revenue left after paying variable cost of production and the good operating margin is able to cover company's fixed costs (Atrill & Mclaney, 2013).

Graph 2.1



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>13.88%</b>	<b>8.61%</b>	<b>4.32%</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

Based on annual report of Unilever, cost of goods is tend to decrease over the five years coincide with increase the revenue, as a result the operating profit is increase. Unilever promised investors to provide cheaper product and more cost cuts would help to grow profits (Reuters, 2014).

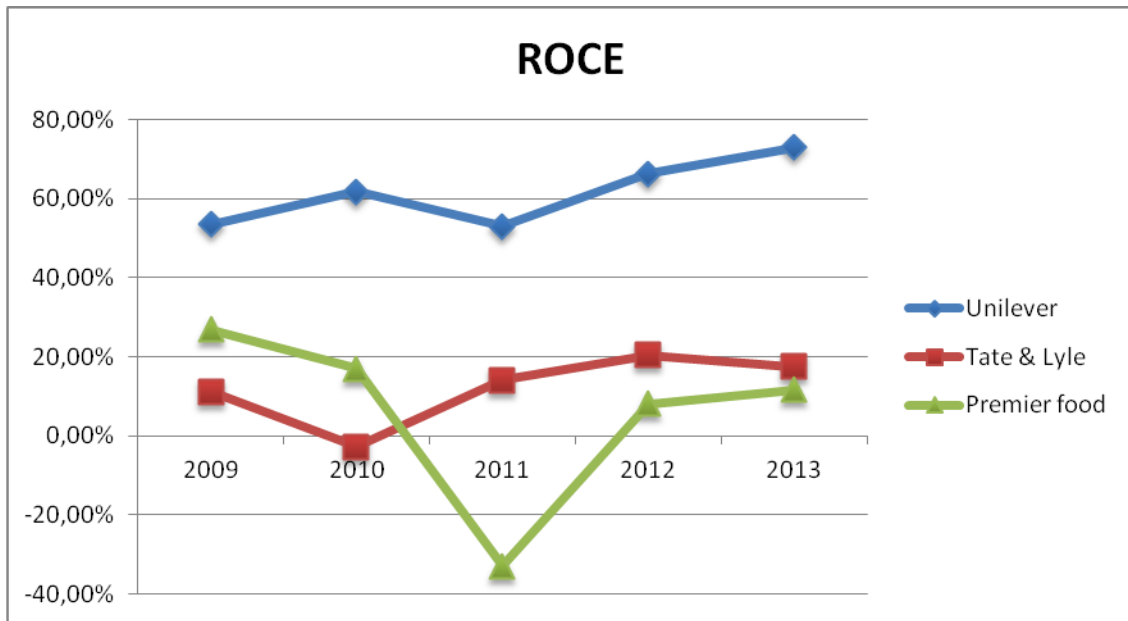
For Tate & Lyle, even the revenue is increase but the operating expense is increase either, causes by Tate & Lyle has spread R&D facilities across the world and some country has fluctuation of currency rate so it impact to R&D expenses because company need to adjust the expenditure with the changes of currency rate (Tate & Lyle, 2013).

For Premier Foods, the revenue is decreasing dramatically on 2011 because Premier Foods had hit by sweetener price war whereas the strategy that they put high concern into ingredients business received a setback when sucralose has oversupply in China (Daneshkhu, 2014).

### 3.1.2 ROCE

ROCE gives a picture for investors about how effective company performing their assets while taking consideration of long-term financing (Atrill & Mclaney, 2013).

Graph 2.2



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>61.53%</b>	<b>12.11%</b>	<b>6.13%</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

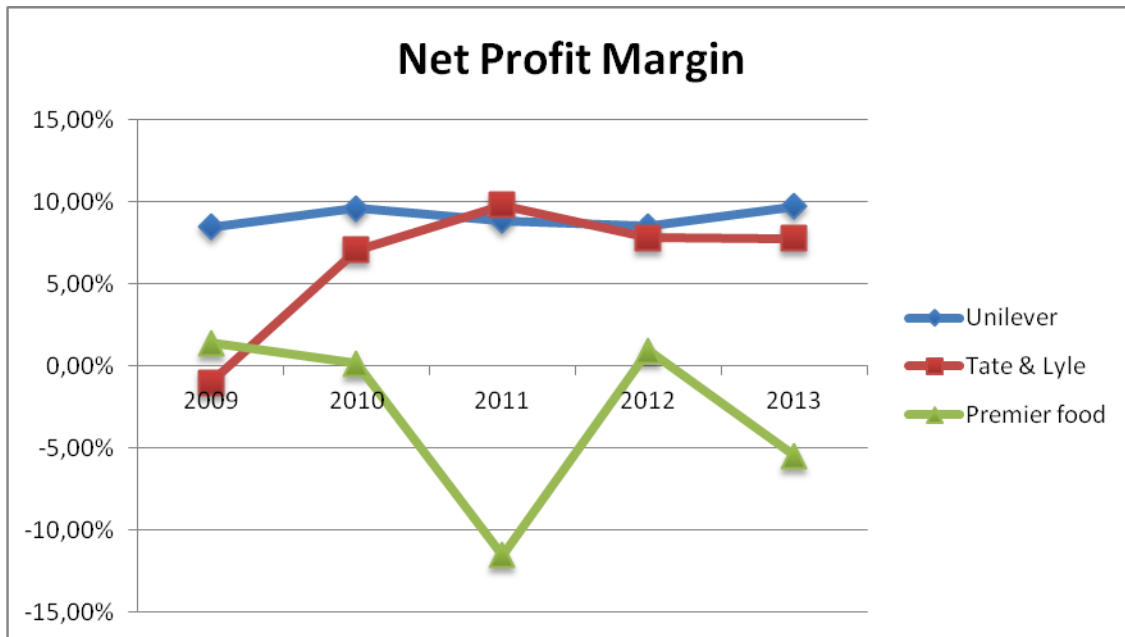
Based on annual report of Unilever, Unilever has earned high profit and always increase over 5 years. Emerging markets lead profitability increase of Unilever. Unilever's profit rise in full year profits by increase sales in developing markets up 8.4% constant rates (BBC, 2014), and the cut cost strategy of Unilever has impact to increase the profit margin (Reuters, 2014)..

In 2010, Tate & Lyle had negative ROCE, it causes by company quit from sugar business whereas the demand was decreasing (Fletcher, Tate & Lyle considers cutting out sugar as it refines core business, 2010). It made raw material of Tate & Lyle was not use to produce sugar and it was wasted raw materials and Tate & Lyle got a huge loss. For Premier foods, in 2011 Premier food profit drops significantly after a disappointing trading update and company had agreed to refinance (Fletcher, 2012).

3.1.3 NET PROFIT MARGIN

Net profit margin shows how much percentage of revenue left after deduct from expenses (Harvey, Mclaney, & Atrill, 2001).

Graph 2.3



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	9.03%	6.30%	-2.90%
<b>Ranking</b>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>

The sales revenue of Unilever is increasing led by houses brands and affected to net profit was up (Bold, 2014). In 2011, Unilever has slightly decrease of revenue because wages and union problems at some factory in developing country where impact to net profit margin of company in that year (Smedley, 2013).

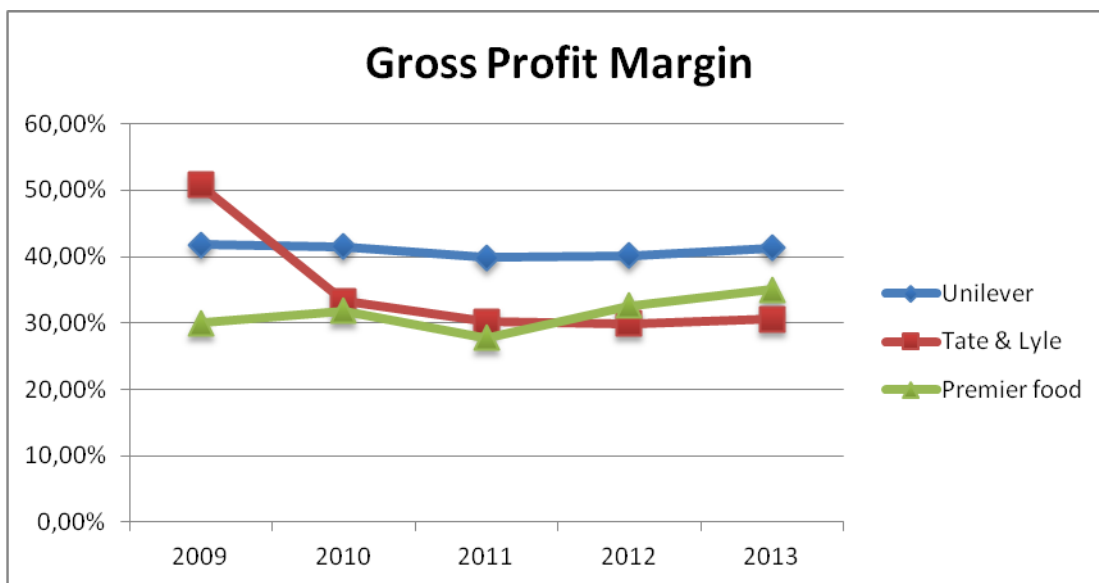
Meanwhile, Tate & Lyle has decrease in net profit because some of raw material such as corn price increased steadily, driven by rising demand (Watson, 2012). But Tate & Lyle have improvement

between 2009-2011 even the average of ratio still below from Unilever. Premier Foods has decrease its sales in 2011 because habit of customers changing. Premier foods acquiring brands to generate nostalgia but it is lack for modern customers (Hughes, 2011).

### 3.1.4 GROSS PROFIT MARGIN

Gross profit margin is to measure efficiency of company in using its fixed assets to generate profits (Atrill & McLaney, 2013)

Graph 2.4



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	41%	35%	31.45%
<b>Ranking</b>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>

Unilever has aggressively advertised its brands to boost profit. Unilever has increase advertising cost for ice cream (Rainey, 2011). For the results, the gross profit margin of Unilever increase on



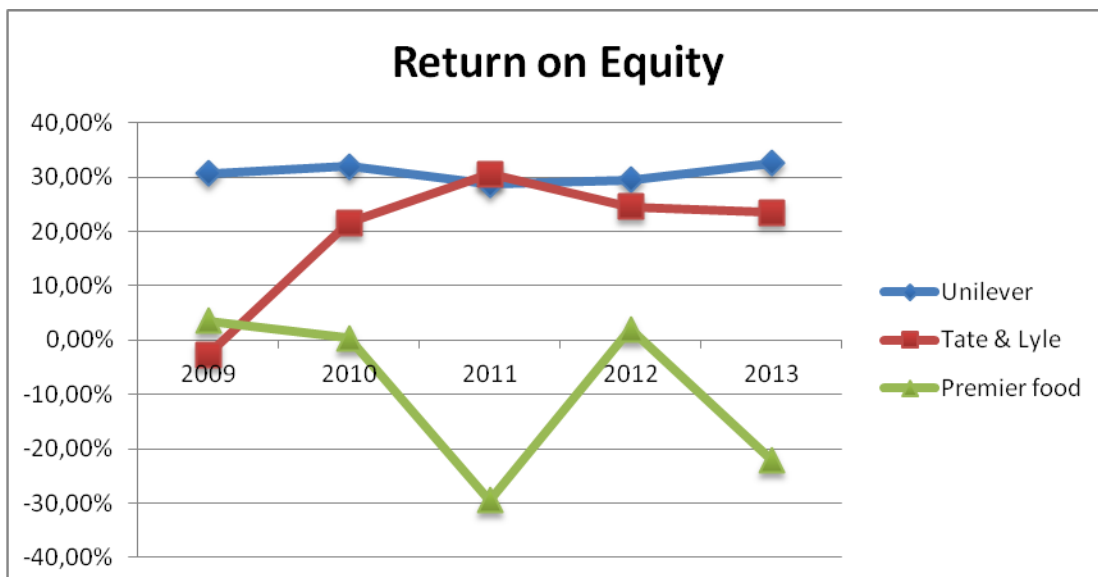
2012-2013. Another factors are Unilever cut cost strategy (Reuters, 2014), and emerging market raises the profitability of Unilever (BBC, 2014).

Based on annual report of Tate & Lyle, company has lower gross profit margin because marking their product down. It is because of Tate & Lyle supply its product with the fixed prices contract to the retailer and it purposes to have competitive advantages but it causes to its revenue. Premier Foods has fluctuated over the five years, it is because consumer habit changing that affected to revenue of Premier foods decrease where Premier Food concept is nostalgia, and it is not fill with modern consumers (Hughes, 2011).

### 3.1.5 RETURN ON EQUITY

Return on Equity is measure the ability of company to earn profits from shareholders investment in the company (Atrill & McLaney, 2013).

Graph 2.5



	Unilever	Tate & Lyle	Premier Foods
Average	30.64%	19.50%	-9.12%
Ranking	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>

On 2011, the return on equity of Unilever had slightly decreased; it was because the currency retranslation of group companies increased whereas causes to income of company decreased (Unilever , 2011). Unilever have debt from a number of currency rate, every operation activity in every country holds debt in each currency so when one of country had stronger currency rate that makes Unilever do retranslation for the gap, it shows with US dollar rate had stronger in the last 6 months on 2011 (Unilever , 2011).

The good return on equity that consider by investment is in the range of 15-20% (Arditti, 2012). Based on Graph above, Tate & Lyle have good percentage of return on equity. The income of Tate & Lyle had improved significantly on 2011 because company achieved operating profit, which in the previous years company got operating loss. Tate & Lyle operating profit increased, driven by sales volume increased, improve product mix, operational leverage, lower Sucralose manufacturing costs and effect from exchange translation increased adjusted operating profit (Tate & Lyle, 2011).

The revenue of Premier Foods was decreased dramatically in 2011 that impact to decreased net income of company. The reason was because of the disposal of the canned grocery operations business in July and diminished branded sales causes from market decrease and customer disputes (Tate & Lyle, 2011).

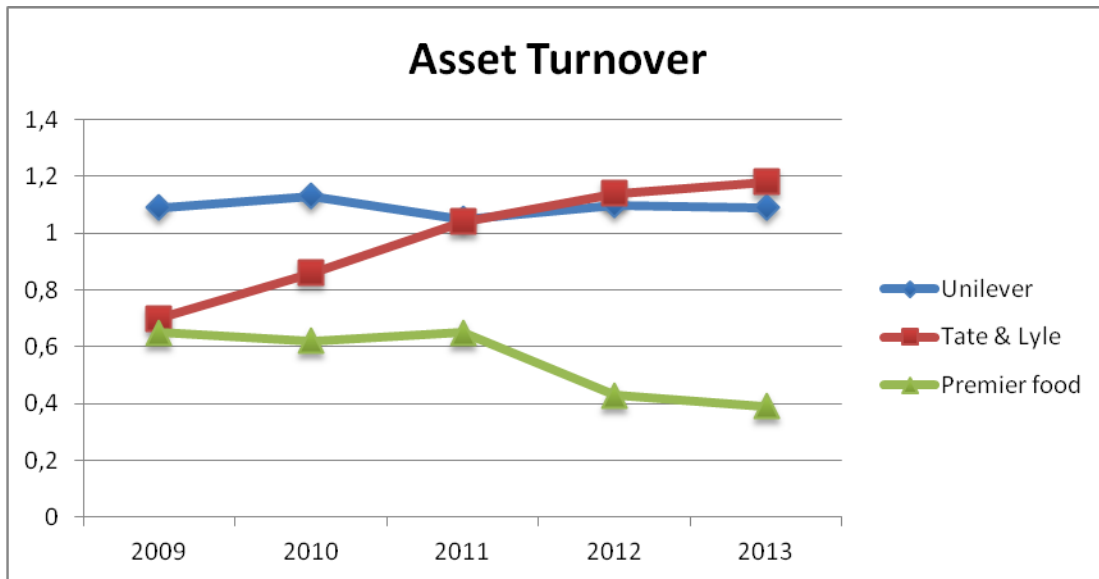
### **3.2 Efficiency ratio**

Efficiency ratios are assessing how successful company managed its resources (Atrill & McLaney, 2013). Efficiency ratio is important for food industry because this ratio will show how effective company to manage its assets and generate profit (Collins & Mckeith, 2010).

3.2.1 ASSET TURNOVER

Asset turnover is measurement of company's ability to use their assets to bring out revenue (Harvey, Mclaney, & Atrill, 2001).

Graph 2.6



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>1.09 times</b>	<b>0.98 times</b>	<b>0.55 times</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

In 2010, the revenue of Unilever had increased. The increased of revenue because Unilever extended its brand into new markets and launch more than 100 new products in 2010 and it was along with innovation turnover increased (Unilever, 2010).

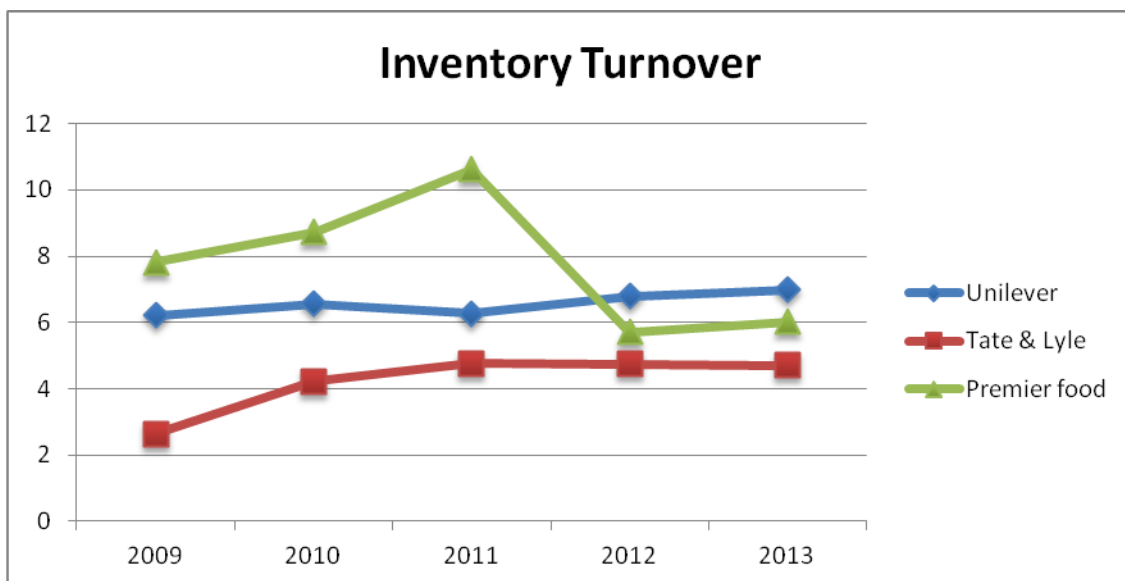
Based on annual report of Tate & Lyle, the sales is increasing affect to the asset turnover ratio is increasing every year which means Tate & Lyle had improvement to uses their assets efficiently. Tate & Lyle had remained increase every year because company increase its sales volumes for increase its revenue (Tate & Lyle, 2011).

Premier Foods has not no improvement to uses their assets efficiently to generate more sales, it shows in annual report of Premier Foods where the capital employed increase but sales decrease every year. According to graph above, the significant decreased was in 2012, it is because ascribed to the disposals of the canned grocery operations, Irish brands, vinegar and sour pickles incompletely counterbalance by power brands sales growth (Premier Food Plc, 2012).

### 3.2.2 INVENTORY TURNOVER

Inventory turnover shows how quickly company is turning its inventory into cash (Collins & Mckeith, 2010).

Graph 2.7



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>6.56 times</b>	<b>4.21 times</b>	<b>7.8 times</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

Based on annual report of Unilever, Unilever apply cut cost of goods every year to increase its profit coincide with decrease number of inventory because its inventory sold quickly. In 2013, the values of inventories were conveyed at net realizable value, this condition being lower than costs (Unilever, 2013).

Tate & Lyle has the lowest number but it is not indicates they have bad performance on turns their inventory into sales, proven in annual report of Tate & Lyle, the cost of good is increase but the sales is fluctuated remain increased.

Otherwise, the highest ratio of Premier Foods indicates decreasing of the sales or revenue. Based on annual report of Premier foods, company had high cost of goods and high inventory quantity especially in 2012 where the ratio decreases dramatically. Company increase its inventory quantity to boost its sales, but in 2012 company got decreased on turns inventory into sales because debt of company were secured by assets including inventory (Premier Food Plc, 2012).

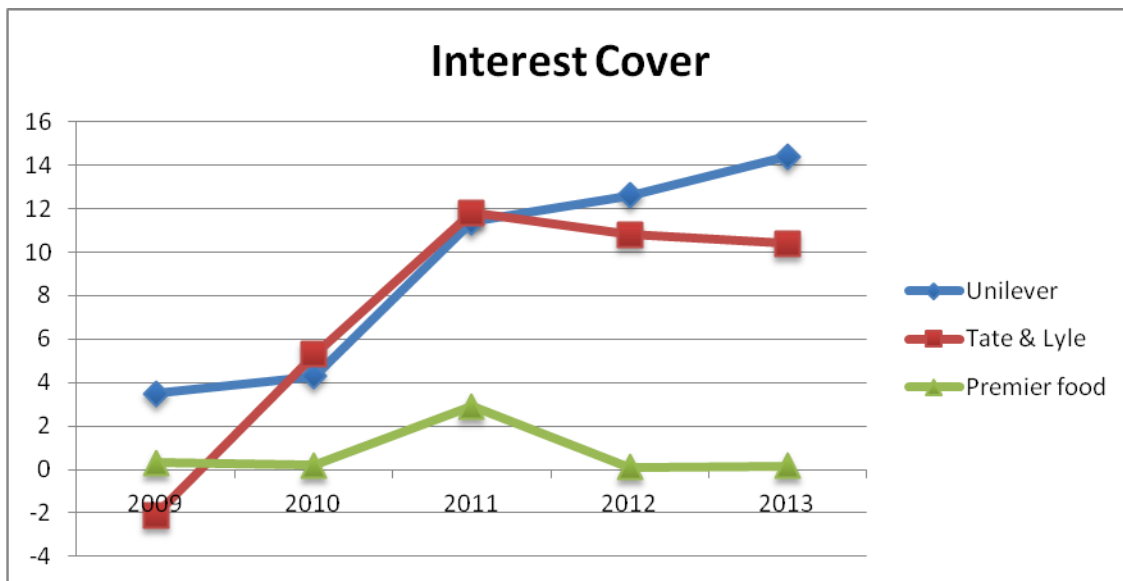
### **3.3 Solvency ratio**

Solvency ratio is used to analyze long-term liability of company and the ability of company to pay as well as its financing structure (Collins & Mckeith, 2010).

#### **3.3.1 INTEREST COVER**

Interest cover ratio used to measure the ability of company to pay interest on outstanding debt (Atrill & Mclaney, 2013).

Graph 2.8



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>9.24:1</b>	<b>7.24:1</b>	<b>0.82:1</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

Based on annual report of Unilever, the operating profit is always increase every year along with increase interest payable but the operating profit always higher than interest payable so it is not a problem for Unilever because company still have profit to cover its debts. Unilever have division to manage its interest, the responsibility is to reach a maximum balance that company possible to get between fixed and floating rate interest exposures net debt expectation and Unilever manage its requirement of liquidity by maintain access to global debt markets by short-term and long-term systems (Unilever , 2011).

Based on annual report of Tate & Lyle, since 2010 company had increased the operating profit with increase the sales and the trade payables had fluctuated tend to decrease. The transfers of EU sugars, Molasses and Fort Dodge, resulting in a net cash flow, drove the improvement of net debt, which

expands upon the significant diminishment achieved in the earlier year, and the underlying cash generated by the business (Tate & Lyle, 2011).

Based on annual report of Premier Foods, the revenue is always decreasing which impact to decrease of operating profit and Earning Before Tax and Interest even though the trade payable also decrease every year but reduction of Earning Before Tax and Interest is more significant rather than trade payable. Premier foods has interest rate swap contract for reduce net debt (Premier Food Plc, 2013).

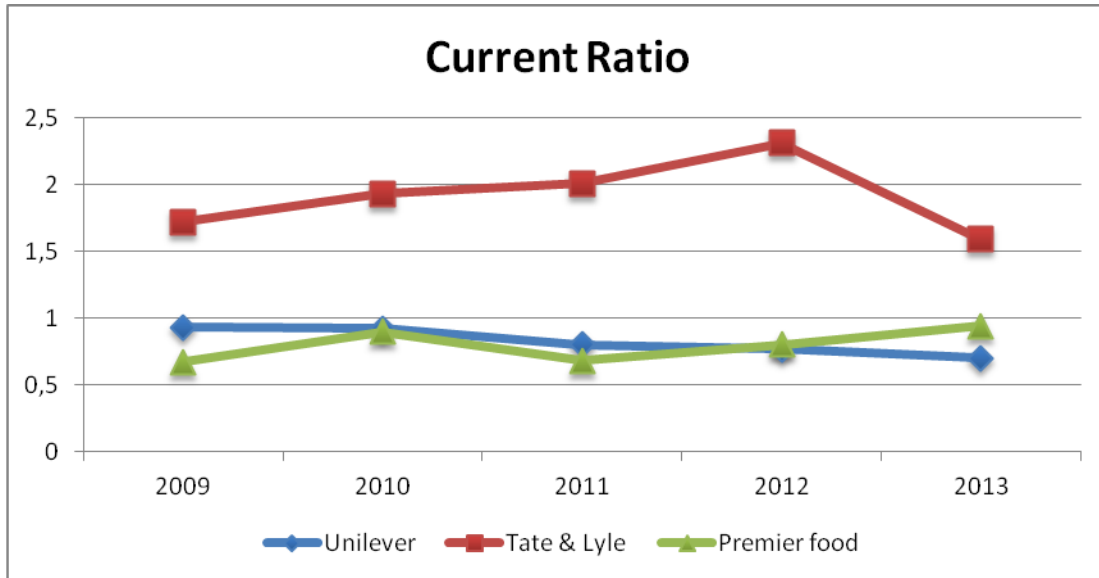
### ***3.4 Liquidity Ratio***

Liquidity ratios are to measure the ability of company to cover its short-term obligations (Atrill & Mclaney, 2013). Liquidity ratio are important for food industry to shows to creditors and shareholders because it measure how well liquid assets position of company (Costea, 2009).

#### **3.4.1 CURRENT RATIO**

Current ratios give a picture for investors about the company capability to cover their short-term liabilities using current assets (Atrill & Mclaney, 2013).

Graph 2.9



	Unilever	Tate & Lyle	Premier Food
<b>Average</b>	<b>0.82</b>	<b>1.91</b>	<b>0.8</b>
<b>Ranking</b>	<b>2<sup>nd</sup></b>	<b>1<sup>st</sup></b>	<b>3<sup>rd</sup></b>

Based on the annual report over the last five years, Tate & Lyle highest current assets is account receivable. This shows Tate & Lyle had not get any liquidity problems over the five years. In addition, the average current ratio of Tate & Lyle is encouraging because it suggests that company has enough cash to cover its debts but not a lot of finance tied up in current assets, which could be reinvested or distributed to shareholders (Riley, 2011).

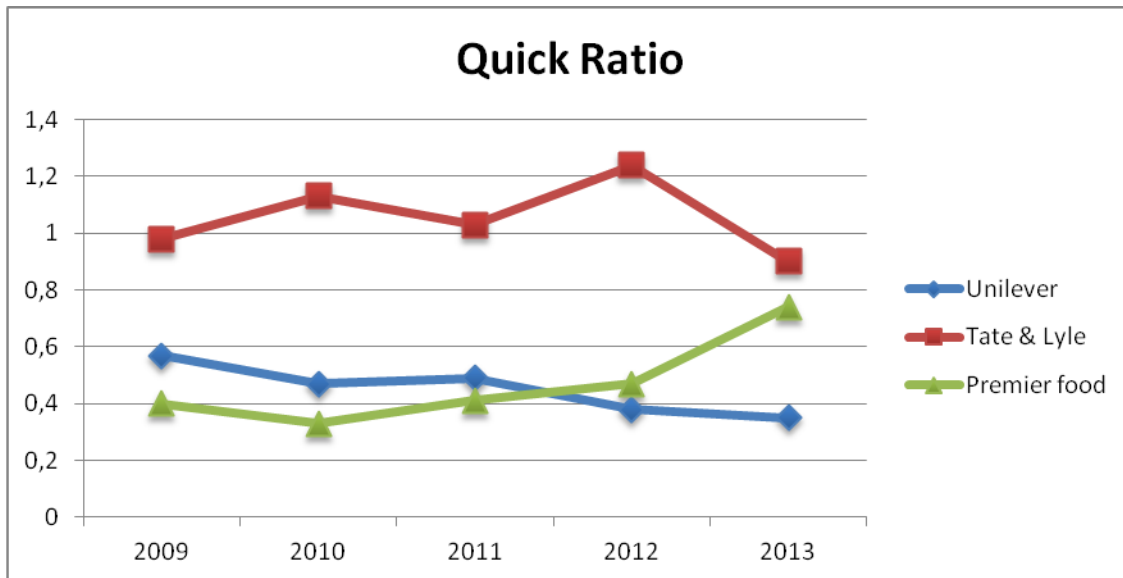
In the annual report of Unilever shows they have high number of current liabilities even though the current asset is the highest rather than two other companies but the current liabilities of Unilever is higher than the current assets. Similar condition with Premier food that is the current liabilities is higher than current assets.



3.4.2 QUICK RATIO

Quick ratio is to measure the amount of liquid assets available for each liability (Atrill & McLaney, 2013).

Graph 2.10



	Unilever	Tate & Lyle	Premier Foods
<b>Average</b>	<b>0.45</b>	<b>0.85</b>	<b>0.47</b>
<b>Ranking</b>	<b>3<sup>rd</sup></b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>

Based on annual report of Tate & Lyle, the inventory of Tate & Lyle is high number and likely increase over 5 years, which is also one of influence in high current ratio of Tate & Lyle. Quick ratio is exclude inventory so in this ratio Tate & Lyle has amount below 1. The value of quick ratio is satisfactory between 0.65 and 1 (Costea, 2009). Compare to two other companies, Tate & Lyle is most satisfactory than Unilever and Premier Foods.

Based on annual report of Unilever, the current assets are less than current liabilities, plus in this ratio exclude inventory so the ratio is more less than current ratio. On annual report of Premier Foods shows similar condition with Unilever whereas the current assets are less and plus the

allowance is increase over 5 years, it affected to deduction of current assets. The value of Unilever and Premier foods are less than 0.65 which means these two companies liquidity condition are unsatisfactory.

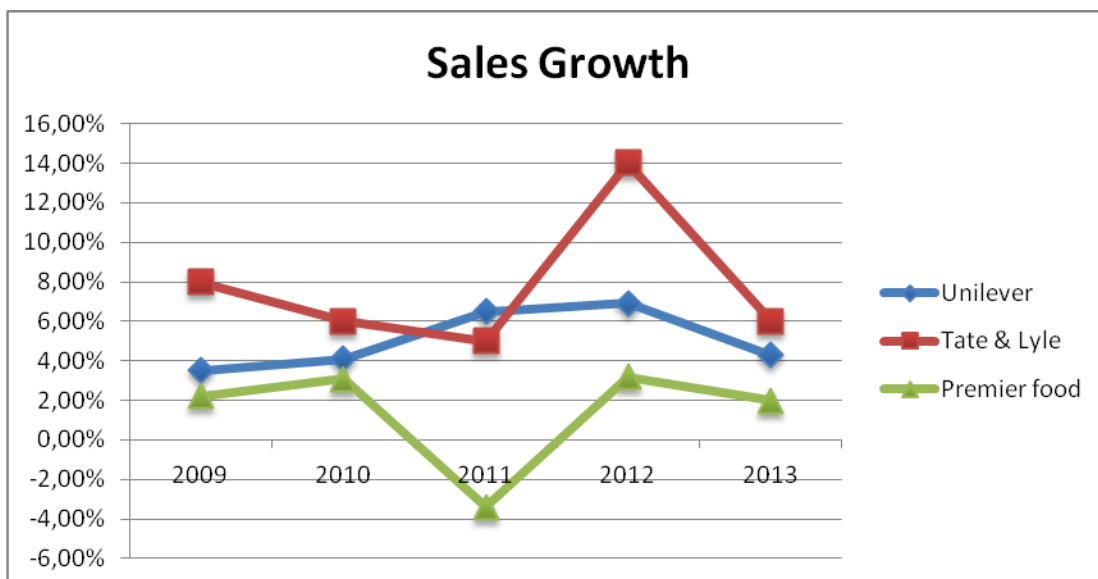
#### **4. NON-FINANCIAL**

Non-financial ratio forms or ought to structure an increasingly essential part of investor decision making, moderately little research has been carried out to examine the nonfinancial data presently accessible or to decide how investors value specific types of non financial data (Hoff & Wood, 2008).

##### **4.1 SALES GROWTH**

Sales growth shows how many percentages movement that company earns for selling their products (Harvey, Mclaney, & Atrill, 2001)

Graph 2.11



	Unilever	Tate & Lyle	Premier Food
Average	5.06%	7.80%	1.42%
Ranking	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>

The production capacity of Tate & Lyle is increasing and it comes along with the sales is increase as well. On 2012, Tate & Lyle increase the capacity because they develop new customers with upgrade delivery issue and quality of product and also Tate & Lyle very concern with Research and Development to increase their quality so they keeping up with changing of customers needs (Tate & Lyle, 2012).

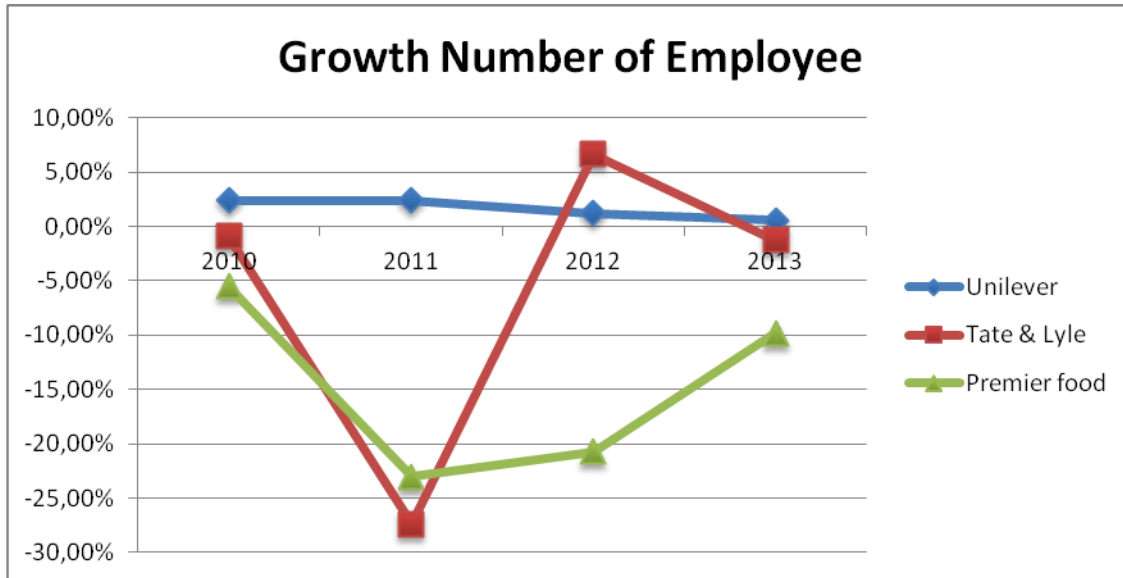
Unilever revenue is always increase over the five years because Unilever is a big brand company and also has much of customer's loyalty across the world (Unilever , 2011). On 2013, Unilever had decreased in sales because the weaker currencies rate that impact to decreased of core operating margin of Unilever (Unilever, 2013).

Otherwise according to graph above, the significant decreased of Premier Food shows in 2011. The decreased of sales because Premier foods faced a challenge condition of consumer environment and the effect of prior customer disputes, this situation put pressure on its bank agreement (Premier Food Plc, 2011).

#### 4.2 GROWTH NUMBER OF EMPLOYEE

Growth number of employee is measure the condition of company and how well the relationship between company and stakeholders (Atrill & McLaney, 2013).

Graph 2.12



	Unilever	Tate & Lyle	Premier Food
<b>Average</b>	<b>1.65%</b>	<b>-5.75%</b>	<b>-14.75%</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

Every year the employee number of Unilever is always increasing which means that the company operation activity run very well whilst company always needs more human resources every years and it also indicates that the popularity of Unilever is high because a lot of people want to join Unilever operation business, which means the relationship between Unilever and stakeholders has been stranded well (Unilever, 2013).

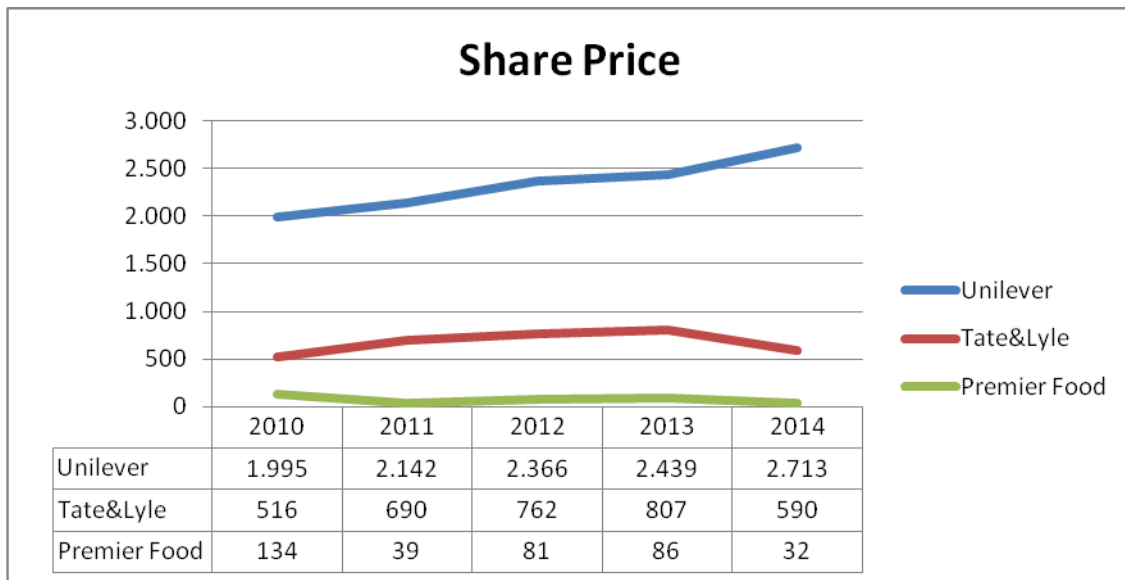
The employee growth of Tate & Lyle is fluctuated. Over the five years, only in 2012 the employee growth was increasing and the rest was decreasing. It happens because Tate & Lyle want to reduce the staff costs to generate more operating profit (Tate & Lyle, 2013).

The employee growth of Premier Foods is always decreasing; as a result the average is also negative. It causes by company want to reduce wages expenses because the revenue of company decrease over the five years (Premier Food Plc, 2011).

### 4.3 SHARE PRICE

Share price shows the company reputation and financial condition (Atrill & Mclaney, 2013).

Graph 2.13



	Unilever	Tate & Lyle	Premier Food
<b>Average</b>	<b>2,331</b>	<b>673</b>	<b>74</b>
<b>Ranking</b>	<b>1<sup>st</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>

In the first place is Unilever with 2,518p. This indicates that Unilever has high demand on shares which is many people want to buy the share. Otherwise, Tate & Lyle and Premier Foods are below Unilever prices, which means less demand than Unilever.

## **5. SWOT**

SWOT analysis is an examination of a company's internal strength and weaknesses, its opportunities for development and improvement, and the threats of external environment presents to its survival (Harrison, 2010).

### **5.1 Unilever**

Unilever is one of the market leader suppliers of consumer goods movement (Unilever, 2014). In the food section, Unilever has become leadership through acquisition and innovations. Unilever had acquisition of Bestfoods in 2000 whereas made Unilever become leadership in culinary with Knorr is its biggest brand (Unilever, 2014). Innovations is one of key for Unilever to strength its brand in markets. Unilever launch healthy foods that can help reduce cholesterol and launch olive oil brand with appealing customer's tastes (Unilever, 2014). Unilever put high concern on advertising and promotion. Unilever invest in those activity for achieve long-term success, for the result, Unilever had grow its market ahead and expand its margin (Unilever, 2013). Unilever produce a lot of food product and there are a lot of substitute products in local market that can easily replace it whereas the price is cheaper than company prices (Unilever, 2013). In 2014, Unilever faced a problem regarding recalls its product, the product had been package into the wrong boxes (Whitworth, 2014). The product recall could decrease the trust of customer that might effect to customers turn to another competitors.

The changing of consumer behavior is opportunity for Unilever to enhance its revenue because Unilever keeping up with innovations (Unilever, 2013). Unilever have research and development facilities across the world wherein company can keep innovate its product (Unilever, 2013). The demand of healthy food is increase every year that can be opportunity for Unilever to increase its production of healthy food or even launch new product to fill consumer needs. Increase production

of product must follow with increase production volume and company can increase their availability in the market so Unilever can possible to get high demands because customers can easily find the product (Unilever, 2013). Competition of food industry in United Kingdom is remains intense, Unilever faced some kind of challenge regarding with competitive aspects such as price based, innovation and market share that can interfere company sales and profitability (Unilever, 2013).

## ***5.2 Tate & Lyle***

Tate & Lyle have a position as the leading global manufacturer and supplier Sucralose, Sucralose sweetener has high demand in United Kingdom market because people concern about health, this position makes company have trust and loyalty from customers on this segments whereas help company to expand its global network by supply product across the world (Tate & Lyle, 2013). Tate & Lyle have innovate the convenience food product that makes demand of product increased, this segment help company to expand its market and enhance sales as well (Tate & Lyle, 2013). Tate & Lyle are not keeping up with technology movement which can makes company left behind from another competitors that have made technological step change. For example the significantly enhancing the productivity of a production process and decreasing costs or introduce a new product with better quality and functionality, which can lead decrease of sales and profitability (Tate & Lyle, 2013).

Tate & Lyle have an opportunity to expand its market into emerging market and embracing all level of customers through innovates and launches new products. Company are looking for long-term growth to build its business and capabilities by serve small and medium enterprise and private label customers, in emerging markets company can enhance its research and development in several country to add global network and to strengthened company sales (Tate & Lyle, 2013). To keep and increase production activity and capacity needs to provide enough raw materials. Margins may be

influenced by fluctuations in product costs for instance weather conditions and harvest yields, sometimes due to the basis for valuing in sales contracts, or because competitive markets, company cannot be able to pass on to customers the full amount of raw material cost increases (Tate & Lyle, 2013).

### **5.3 Premier Foods**

The strength and broadness of Premier foods brand portfolio, together with manufacturing and supply chain abilities, provides company a big advantage in serving today's multi-configuration retail environment whereas majority of company sales remain with supermarkets and partnership with customers by developing joint business plans (Premier Food Plc, 2013). Premier foods are leading in five core categories and power brands as well as support brands that make company keep growing. Products of Premier foods include in top ten favorite meals in UK and claim every households must be have one of its product in their kitchen shelf (Premier Food Plc, 2013). Company has de-complexity program including reduce number of suppliers (Premier Food Plc, 2013). Reduce number of suppliers will effect company are very depending on several number of suppliers that make company cannot control price of materials (Premier Food Plc, 2012).

Nowadays, consumer are prefer to consume more meals at home and bring lunchboxes for daily activity, this phenomena gives company opportunity to enter savory meal making and sweet foods moreover company have good reputation which can help company to enhance more customers through trusted brand image (Premier Food Plc, 2013). Premier food can expand more its market channels through online. Although, the main shop are supermarket but company can use online channel for promotional strategy because people are garnish up with excursion to discounters and convenience outlets (Premier Food Plc, 2013). Premier foods is very depending on core IT systems which are outsourced to a third party provider (Premier Food Plc, 2013). The possibility of systems



failure is still high even though company has high level of resilience built in three operation district environments but bread division of company still does not have same levels of resilience that could give rise to systems failure (Premier Food Plc, 2013). Raw materials prices can hamper revenue of company because company has only several numbers of suppliers (Premier Food Plc, 2012).

## **6. OVERALL RANKING**

<b>Ratio</b>	<b>Unilever</b>	<b>Tate &amp; Lyle</b>	<b>Premier Food</b>
<b>FINANCIAL</b>			
Operating Margin	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
ROCE	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Net Profit Margin	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Gross Profit Margin	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Assets Turnover	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Inventory Turnover	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Interest Cover	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
ROE	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Current Ratio	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>
Quick Ratio	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
<b>NON-FINANCIAL</b>			
Sales Growth	2 <sup>nd</sup>	1 <sup>st</sup>	3 <sup>rd</sup>
Growth number of employee	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
Share Price	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>

	Strength	Weaknesses	Opportunities	Threats
Unilever	<ul style="list-style-type: none"> <li>- Market Leader</li> <li>- Global research &amp; development network</li> <li>- Strong Advertising and promotion activity</li> </ul>	<ul style="list-style-type: none"> <li>- Substitutes product</li> <li>- Product Recalls</li> </ul>	<ul style="list-style-type: none"> <li>- Health concern product demand</li> <li>- Increase production volume</li> </ul>	<ul style="list-style-type: none"> <li>- Highly competitive market</li> </ul>
	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	1 <sup>st</sup>
Tate & Lyle	<ul style="list-style-type: none"> <li>- Leading global manufacturer and supplier Sucralose</li> <li>- Convenience food</li> </ul>	<ul style="list-style-type: none"> <li>- Left behind of advance technology</li> </ul>	<ul style="list-style-type: none"> <li>- New customer segment</li> <li>- Emerging market</li> </ul>	<ul style="list-style-type: none"> <li>- Fluctuation of raw materials price</li> </ul>
	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
Premier Foods	<ul style="list-style-type: none"> <li>- Broad product and brand portfolio</li> <li>- Leading market position</li> </ul>	<ul style="list-style-type: none"> <li>- Low number of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>- Positive outlook for sweet food and savory market</li> <li>- Online channel</li> </ul>	<ul style="list-style-type: none"> <li>- Systems failure</li> <li>- Bargain power to suppliers</li> </ul>
	2 <sup>nd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>

	Unilever	Tate & Lyle	Premier Foods
Overall Ranking	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>

In this section, rank is based on the performance of company over the five years. The best company financial and non-financial performance indicates with 1<sup>st</sup> place followed by middle performance and worst performance with 2<sup>nd</sup> and 3<sup>rd</sup> place. SWOT rank separately between strength, weaknesses, opportunities and threats whereas company with the strongest power and the best opportunity that might effect business activity positively will indicate with 1<sup>st</sup> place otherwise the weaker power and enervate opportunity that gives negative impact to company operation activity will indicate with 3<sup>rd</sup> place as well as the worst weaknesses and severe threat.

Unilever is the best performing. The significant achievement of company shows from company concern to cut the cost of operations to boost its profit and dividend share (Unilever, 2013). For the result, sales and profitability of Unilever improve every year and ability of company to cover interest and dividend also high compare with two others companies. Profitability is very important besides every company concerned with profitability, Profitability ratio is use by internal firm and external firm wherein company can measures how effective and efficient its operations and profitability attract investors to invest because its measure how profitable a company and how efficient of company in generate returns for investors (Lesakova, 2007). Regarding with high profitability, Unilever has been made significant investment for long-term purposes such as R&D, brand support and people development for the result, portfolio of brands is more competitive and company get benefit from sharper focus on performance and delivery (Unilever, 2013). The liquidity of Unilever is low; it is because company has high current liabilities otherwise low current assets. High current liabilities impact from company spend high cash outflow to increase company group's interest in Hindustan (Unilever, 2013). Sales growth, growth number of employee and share

price of Unilever are high, it shows that company has good reputation, earn loyal customers and produce convenience product that can help company increase its sales and profit. The reputation of a business is important to survive; the trust of customers can have an immediate and significant impact on company's primary concern (Bracey, 2015).

Unilever has strength position wherein become market leader and produce strong advertisement that can strengthen reputation. As a market leader, company has a reputation for being distinctive brand in markets as well as impact to advertising and distribution as long as company keep produce high quality product, company will continue generate more customers and increase its reputation and for distribution, most of retailers and distributors prefer to have cooperation with market leader (Taylor & Nichols, 2012). High demand of healthy food gives Unilever opportunity to increase its healthy product production through increase production volume, which can enhance sales. The issue from product recalls can damage the reputation of company because it shows company does not have good quality control of production. Product of Unilever are able to substitute with another brands, because expensive price or poor quality. Food industry are very intense competition, it is a threat for company because Unilever needs to one step ahead from another competitors to maintain its position as a market leader (McCorriston, 2012).

The second place is Tate & Lyle. According to tables above, the financial ratio shows good performance. Company focus on long-term growth whereas company keep invest on R&D facilities (Tate & Lyle, 2011). The liquidity of company also in good condition whereas company has safe position to cover its short-term liabilities. The non-financial performance shows company has good sales growth, which remain increase and the reputation in market also high proven by growth of number of employee and share prices remain increase.

Tate & Lyle produce convenience product that earn loyalty of customers and attract more customers to consume its product (Solomon, 2013). Become a leader manufacturer of Sucralose made company hold primarily market of sugar segment, which earn more customers and retailers to increase its sales. The opportunities of Tate & Lyle are very helpful to increase its sales and profitability. Expand to the emerging markets is help company to increase its revenue while help company to develop R&D facilities. Technology is important for food industry to enhance production activity to be more effective, increase supply more further and escalate health of global populations (Nelson, 2007). The uncertainty price of raw materials can gives a significant impact for Tate & Lyle, company can get loss when the price is increase or increase its price where it might loss customer satisfaction (Leybovich, 2012).

Premier food is the worst performing compare with two other companies. The financial performance shows company has less improvement every year, which affect by external factors such as customers habit changing and competitive market. The changing of consumer behavior put high pressure for company, which can effect significantly to sales of company that can makes company struggling to survive (Sheth, Sisodia, & Sharma, 2001). The sales growth of Premier foods was remain stable; only in 2011 had decreased dramatically because company were not keeping up with innovation based on customer behavior changes.

Premier foods strength as a market leader and good product portfolio is helping company to enhance sales because reputation important for set up good product to customers mind (Bracey, 2015). The opportunity to enter savory and sweet food market are good for company to expand its market but another competitors already enter this market earlier so it is counted late for company. That opportunity still gives positive impact for company to increase its sales and generate more revenue assisted with good reputation of company. Premier foods cut its supplier to reduce its expenses but it is a huge threat for company because few suppliers makes company does not have

power to decide price of materials. Bargain power of supplier can effect to raising raw materials prices and decrease the material quality because supplier have power to decide the price and quality while company just keep follow the decision of supplier because they cannot change to another suppliers (Marc, 2014).

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**THE RELATIONSHIP OF CORPORATE GOVERNANCE AND FIRM FINANCIAL  
PERFORMANCE TOWARDS ENVIRONMENTAL DISCLOSURES: INDONESIAN  
STUDY**

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**ABSTRACT**

*This study examined the influence of Corporate Governance Characteristics and Company Financial Performance towards the Company Environmental Disclosures. The Corporate Governance Characteristics consist of Board of Commissioners, Board of Directors, Institutional Ownerships and Board Meetings. The Company Financial Performance consist of Profitability and Company Size. The samples consist of 20 companies that published sustainability report and annual report years 2011 and 2012.*

*The purpose of this research are (1) to analyze the company performance in applying their environmental disclosure, (2) to analyze corporate governance in applying their applying their environmental disclosure, (3) to analyze the environmental disclosure from sensitive company in period 2011-2012.*

*From the result of this research, it is acknowledged that Board of Directors and Company Size had significantly influence companies environmental disclosures, while the other variables (Board of Commissioners, Institutional Investors, Board Meetings and Profitability) failed influencing the companies environmental disclosures.*

***Keywords : Corporate Governance, Board of Commissioners, Board of Directors, Institutional Investors, Board Meetings, Financial Performance, Profitability, Company Size, Environmental Reporting, Environmental Disclosure, GRI***

## **INTRODUCTION**

### **BACKGROUND**

Nowadays there are increasing environmental issues, caused by firm's activity towards the economic growth. Rising of this environmental issue could impacts over the environment reveals global, regional, and local dimension. Various steps have been taken toward the protection of the environment from pollution and the conservation of natural resources, as a result of the consideration given to the social responsibility on one hand and as an application to, and compliance with, laws and regulations on the other hand.

Elkington (1997) in says that there are a changing paradigm in the business world, which has been derived from profit-oriented only, then be oriented on three things that are often referred to as Triple-P Bottom Line. Nowadays companies are required to not only contribute to economic growth, but also can help in solving problems related to the risks and threats to sustainability (sustainability) in the sphere of social relations, environment, and economy (GRI, 2006).

Currently in increased productivity and efficiency of companies often resulting in a decline of environment quality, in the form of air pollution, water, and the reduction of the function of the ground. This effort was done company to provide maximum result for stockholder. Next, while this company are required to prioritize all parties related not only the owner and management course. This is because the existence of the company can be separated from the interests of from various parties, like employees, consumers, people and the environment.

Therefore the current movement of the firms towards the green company being prioritized, not only from the limited sewage treatment but the start of the production process to use is sought to avoid any negative impact on the environment.

Disclosure Sustainability Report (SR) in most countries, including Indonesia is still voluntary, meaning that companies voluntarily publish and there is no rule requiring as it does on the issuance of financial reporting. Although disclosure of SR is not obliged to the company, but the demand for the company to provide information that is transparent, accountable, as well as corporate governance practices, the better (GCG) requires companies to make voluntary disclosures, such as disclosures regarding social and environmental activities (Utama, 2007). Corporate disclosure such as Environmental disclosures can be regarding as a way to measures the

effectiveness of Corporate Governance. Effective Corporate Governance should provide better transparency and accountability in their disclosures.

The main objective of this current study is to empirically examine the relationship between corporate governance, company financial performance and corporate environmental disclosures in Indonesia. There still only a few studies that investigated the relationship between corporate governance, company financial performance and environmental disclosure, and even fewer specifically research in Indonesia.

Corporate governance characteristics that used in this study are Board of Commissioners, Board of Directors, Institutional Ownership and Board of Meetings. BOC is company organ charged with the general supervision and / or in accordance with the budget and advising the Board of Directors. Board of Commissioners oversee and provide strategic advice (supervising and advising), they are appointed by the shareholders of both majority and minorities. Board of Directors acts as the shareholders' agent in charge of running the company. The board in a large corporation is not involved in running the day-to-day operations of the company. Instead, the board handles major decisions and delegates responsibility for everything else to corporate officers. Institutional ownership is one form of concentrated ownership and is measured by the percentage of shares held by large and/or institutional shareholders. Board meetings is the frequency of meeting that organized by the members of the board.

Besides the factor of corporate governance, widespread environmental disclosure is also influenced by the company financial performance such as the size of the company and return on equity. The size of the company is one of the characteristics of companies that contribute to determine the confidence of investors. Large companies are entities that much highlighted by the public so that companies need to provide a contribution to the growth of social and environment (Dian, 2014). Return on equity (ROE), which is an indicator of the ability of business units in managing capital available to get net income. The higher of ratio shows the better performance of a company or the efficiency, the value of equity companies will increase with an increase in this ratio.

Based on the background that has been stated above, formulated the following research questions:

1. How does the relationship between Corporate Governance characteristics of the firms to their Environment disclosures?
2. How does the impact of corporate governance variables on environmental disclosure ?

3. Is there any relationship between company financial performance and environmental disclosure?
4. How does company financial performance impact the environmental disclosure?

#### **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Corporate environmental disclosure is defined by the current study as the process of disseminating information on the impact corporate economic activities have on the natural environment for use by diverse stakeholders. Corporate environmental disclosure extends the accountability of companies beyond the traditional role of providing financial disclosure assuming that companies have wider environmental responsibilities (Gray *et al.*, 1987).

For assessing how environmental performance or environmental information is reported in 2011-2012 by the Indonesian companies we constructed a Disclosure Index (DI) based on GRI environment indicators. There are 30 indicators of the environment in GRI 3.1 (EN 1- EN 30) . If the company reports the indicators can bring the value “1” and “0” if the company doesn’t report the indicators informations.

#### **Board of Commissioners and environmental reporting**

Effectiveness of controls in the company's activities may be affected by how the board of commissioners was formed and organized. Good performance of the board will be able to realize good corporate governance for the company. The information disclosed by the company in fact, not only about the information about the financial performance but also about environmental and social activities that have been carried out. This information is discussed in more detail through the disclosure of sustainability report which became one of the business managers in realizing the GCG. Accountability is a part of GCG principles that should be achieved by the company. To realize the accountability of companies, the board of commissioners provides a strong influence in the press management to disclose information broader social, so the company has a larger board size tend to be more revealing of social information (Waryanto, 2010). Therefore, the hypothesis that can be drawn:

**H1. There is a positive relationship between Board of Commissioners size and the amount of environmental reporting.**



### **Board Size and Environmental Disclosures**

Based on the *code of corporate governance* issued by the KNKG 2006 states that the company management functions performed board includes five functions: management, risk management, internal control, communications and social responsibility. There are studies that said that smaller sized boards are more effective in doing the management's actions (de Villiers et al., 2009). Other studies argue that larger boards are more effective as they can bring more experience and knowledge and offer better advice. However there are disadvantage identified with larger boards, including a lack of communication, slow decision making, and a lack of unanimity that ultimately affects board effectiveness and efficiency. Therefore it is hypothesized that the relationship between board size and environmental disclosure will be negative (Rao et al, 2012):

**H2. There is a negative relationship between board director size and environmental disclosures.**

### **Institutional ownership (ownership concentration) and environmental disclosures**

There are some relationship between institutional ownership and board independence, they have a negative relationship. If the company having a majority of institutional ownership it will decrease the board independence, because investors that have large number of shares tend to have a great influence to the company and will affect the company decisions. Therefore it is hypothesized that there will be less environmental reporting by less independent organizations, or firms with concentrated ownership (Rao et al, 2012):

**H3. There is a negative relationship between ownership concentration and environmental disclosures.**

### **Board Meetings and Environmental Disclosures**

The number of meetings is one of the measurements for the board effectiveness. Board meeting frequency is an element of strong corporate governance. From a stakeholder perspective, frequent board meetings would enhance board effectiveness (Conger *et al.*, 1998). Meeting frequency reflects the diligence and vigilance of the board in carrying their duties. Frequent board meetings would make the communication and also the information sharing between the directors' better, and this can result in more effective board decisions and increased transparency. So the conclusion is boards that meet more frequently are more likely to provide enhanced environmental disclosure (Aburaya et al, 2012).



**H4 : There is a positive relationship between board meetings frequency and environmental Disclosures.**

#### **Company size to the Environmental Disclosure**

A number of previous study already test the effect of company size toward the environmental disclosure. Most of the studies revealed that the company size and environmental disclosure have the positive effect in developing and also developed countries. Firstly the cost for implementing the environmental disclosure is different between big and small company. The small company have a greater cost to implemented in than the larger one. Small companies may not be able to afford such costs from their resource base (Owusu-Ansah, 1998). The larger companies is more have enough resources to afford the disclosures cost. Secondly, the large companies tend to disclose more information than the smaller one in the annual report (Galani et al, 2011). Usually the size of the company determined by total assets, market capitalization, number of employee and etc. In this research total assets used as company size measurement.

**H5 :Company size has positive relationship with the level of environmental disclosure.**

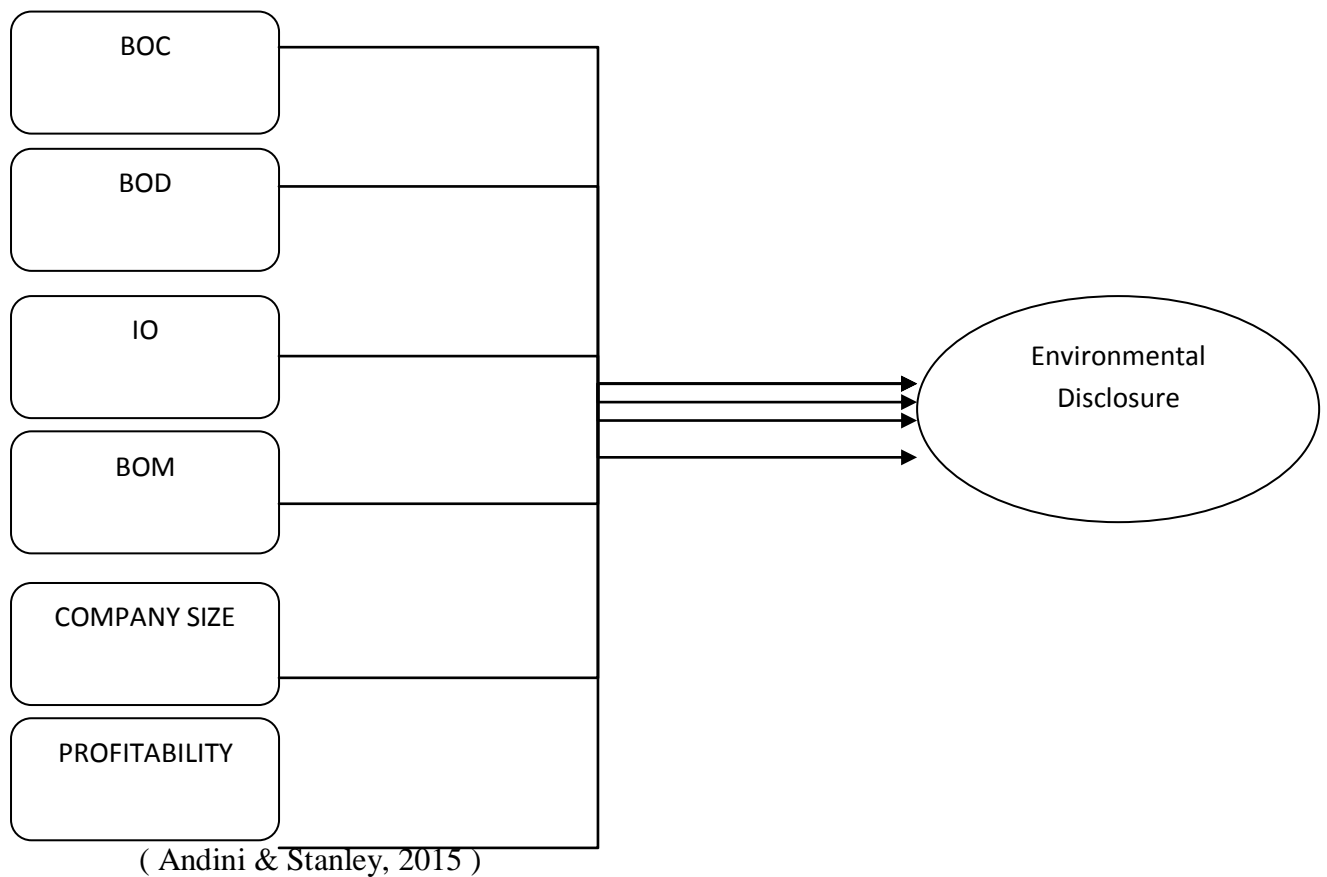
#### **Profitability (ROE) to the Environmental Disclosure**

There are so many result provided by some researcher about the relationship between profitability to the environmental disclosure, and the result is also varies. Li Y and McConomy(1999), Warsame et.al. (1998) indicate that profitability is significant and positively associated with environmental disclosure. Meanwhile Hackston and Milne 1996; Choi 1999; Stanny and Ely 2008 indicate that there is no relationship between profitability and environment accounting disclosure. When the company achieve high profitability the companies are motivated to disclose more information in order to showing off their good achievement to the public, meanwhile if the company is in the opposite condition it tends to disclose less information because they try to cover the reasons for the company to have such losses (Jaggi and Freedman, 1992). Profitability can be measured by many indicators. In this study profitability is measured by using return on equity.

**H6 : Profitability has positive relationship with environmental disclosure level.**

To better explain the relationship between the independent variable on the dependent variable used in this study, the following described research model used.

**Figure 1**



The theoretical model above shows the relationship of Corporate governance characteristics which is, number of board commissioners, number of board directors, institutional ownership and number of meeting and also company financial performance which are company size and ROE to the Environmental disclosure that measured toward disclosures index based on sustainability report that used GRI . This research focused only to the environmental indicators in GRI. There are 30 environment indicators. The corporate governance characteristics and company financial performance are the independent variables and environmental disclosure is the dependent variable.

## **RESEARCH METHOD**

### **Population and Sample**

This data used in this research is secondary data because the data were collected from the company website, IDX website ([www.idx.co.id](http://www.idx.co.id)) and also from Indonesia Sustainability Reporting

Awards website ( [isra.ncsr-id.org](http://isra.ncsr-id.org)). The data used in this research are annual report and sustainability report. The criteria of sample design in this research using purposive sampling as follows:

1. Environmentally sensitive company that publish sustainability report between 2011-2012
2. Environmentally sensitive companies that publish annual reports year 2011-2012 that contained environmental disclosures, can be accessed through the IDX website ([www.idx.co.id](http://www.idx.co.id))
3. Companies that listed all the variables needed for this research (environmental disclosure, profitability and company size).

Based on criteria only 20 company that fulfill the criteria. In Indonesia there are 55 companies that listed in Indonesia Sustainability Reporting Award that have sustainability reporting in Indonesia. The rest of 35 companies cannot fulfill the criteria because of incompleteness in reporting.

Table 1

	n	%
Population listing in Indonesia Sustainability Award (ISA)	55	100
Published Sustainability Report	20	36.36

( Andini & Stanley, 2015 )

### **The Type of Data and Data Sources**

The type of data in this research is data documentary form of annual financial statements of the company, and sustainability report for the period 2011-2012. Source of data is secondary data obtained from the company's website and the website of the Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) and ISRA (Indonesian Sustainability Reporting Awards).

### **Data Collection Technique**

The data of dependent variables in this research used content analysis of annual reports and other company reports. Content analysis is a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in

order to derive quantitative scales of varying levels of complexity. Data collected using content analysis are considered quantitative in nature due to the requirement that systematic counting procedures be followed, which deems the method more objective.

Documentation method is used in this research as data collection method. It is done by collecting the 2011-2012 annual reports, sustainability reports, the company websites, journals, books, articles, websites and other related data that required for this research.

### **Data Analysis Model**

Analysis model for corporate governance (Board of Director Size, Board of Commissioners Size, Institutional Ownership & Board Meetings) and Company Financial Performance ( Company Size and ROE ) influence the environmental reporting could be describe as the following:

$$\text{EnvRepDI} = \beta_0 + \beta_1\text{BOC} + \beta_2\text{BOD} + \beta_3\text{IO} + \beta_4\text{BM} + \beta_5\text{ROE} + \beta_6\text{totass} + e$$

Where :

EnvRepDI = Environmental reporting

$\beta_0$  = Constant

BOC = Number of Board of Commissioner

BOD = Number of Board of Directors

IO = Percentage of ownership

BM = Total number of meeting

ROE = Return on Equity

Totass = Total Assets

e = error

**Classical Assumption Test**  
 Testing classical assumptions used in this study include the normality test, multicollinearity, autocorrelation test and test heterocedastisity.

**RESULTS AND DISCUSSION**

Table 2

Descriptive Statistics

**Descriptive Statistics**

	N	Minimu m	Maximu m	Mean	Std. Deviation
ROE	40	-1.8000	1.3270	.195005	.4289469
Institutional Ownership	40	.3530	1.0000	.701525	.2006400
Environmental Disclosure	40	.1333	1.0000	.784235	.2596753
Board of Director	40	2	10	6.20	1.884
Board of Commissioners	40	4	12	6.37	1.720
Board of Meetings	40	2	26	11.98	4.769
Total Assets	40	1.0000	540.7100	70.707250	134.5319048
Valid N (listwise)	40				

Environmental disclosures index has minimum value of 0.13 which is consist of one sample that is Nestle for the year of 2011 and 2012. Maximum value of environment disclosure index is 1 which is consisting of sixsamples; one of them is PT Bukit Asam (2011 and 2012). The mean of this variable is 0.7842 and the standard deviation is 0.259.

Institutional ownership has minimum value of 0.35 which is consist of one sample that is Nestle (2011 and 2012). Maximum value for this variable is 1 which is consist of two samples, one of them is PT PLN (2011 and 2012). The mean of this variable is 0.7015 and standard deviation is 0.2.

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Board of director has minimum value of 2 which is consist of one sample that is PT Badak NGL (2011 and 2012). Maximum value for this variable is 10 which is consist of one sample that is PT PLN (2011 and 2012). The mean of this variable is 6.2 and standard deviation is 1.88.

Board of meetings has minimum value of 2 which is consisting of three samples; one of them is Semen Gresik (2011 and 2012). Maximum value for this variable is 26 which is consist of one sample, that is Perusahaan Gas Negara (2011 and 2012). The mean value for this variable is 11.98 and the standard deviation is 4.76.

Board of commissioners has minimum value of 4 which is consisting of 8 samples; one of them is Telkom (2011 and 2012). Maximum value for this variable is 12 which is consist of one sample that is Vale. The mean value is 6.37 and the standard deviation is 1.72.

Total assets has minimum value of 1 (in trillion) consist of one sample which is PT Express in year 2011. Maximum value of this variable is 540.7100 (in trillion) which is consist of one sample that is PT PLN in year 2011. The mean of this variable is 70.70750 (in trillion) and standard deviation is 134.5319.

Return on equity has minimum value of -179.9000 consist of one sample which is PT Kaltim Prima Coal in year 2012. Maximum value of this variable is 132.7000 which is consist of one company that is Unilever in year 2011. The mean of this variable is 19.50300 and standard deviation is 42.88277.

### **DISCUSSION OF THE RESULT**

Table 3

The result of Multiple Linear Regression

Variable	Unstandardized Coefficients (B)	Sig.
BOD	-.068	-2.888
BOC	-.036	.285

IO	.439	.033
BOM	-.007	.382
ROE	-0.023	0.4015
Tot Ass	0.102	0.0348

**H1 : There is positive relationship between BOC and environmental reporting**

BOC coefficient = -0.036, which means if the variable BOC increased by 1 unit, the ENV will decrease by 0.036 units. The test results show signs of different coefficients with the hypothesis proposed in this study in which BOC has a positive influence on the ENV. Therefore, the test statistic is not resumed and accept the null hypothesis,. Concluded there were no statistically significant effects on the ENV BOC. Therefore the result is incompetent with the hypothesis by Sembiring (2005). The result is similar with Waryanto (2010)

**H2 : There is negative relationship between BOD and environmental reporting**

BOD coefficient = -0.068 that pales BOD up 1 unit of the ENV will decrease by 0.068 units. The test results showed statistically sig value of  $0.007 < 0.05$  (5% alpha), the null hypothesis is rejected and concluded statistically at 95 percent confidence level there is a negative effect between BOD and environmental reporting. Therefore the result is similar with Rao et al (2012).

**H3 : There is negative relationship between IO and environmental reporting**

IO coefficient = 0.439 which means that if the variable IO increased by 1 unit, the ENV will increase by 0.439 units. The test results show signs of different coefficients with the hypothesis proposed in this study where the IO has a negative influence on the ENV. Therefore, the test statistic is not resumed and accept the null hypothesis,. Concluded there were no statistically significant effect between IO and environmental reporting. Therefore the result is incompetent with the hypothesis by Rao et al (2012). The result of this research is similar with Indah (2009).

**H4 : There is positive relationship between BOM and environmental reporting**

BOM coefficient = -0.007, which means if the variable BOM increased by 1 unit, the ENV will decrease by 0.007 units. The test results show signs of different coefficients with the hypothesis proposed in this study where the BOM has a positive influence on the ENV.

Therefore, the test statistic is not resumed and accept the null hypothesis. Concluded there were no statistically significant effect on the ENV BOM. Therefore the result is incompetent with the hypothesis by Aburaya et al (2012) .The result is similar with Waryanto (2010).

**H5 : Profitability has positive relationship with environmental disclosure level.**

ROE negatively affect EnvRep as indicated by the regression coefficient value of - 0.023136%. The test results demonstrate the value of t-statistical probability of t at 0.4015 < 0.05 which means there is no significant relationship between the profitability of the environmental disclosure. This result of this research is similar with Galani et al (2011) but incompetent with Jaggi and Freedman (1992).

**H6 : Company size has positive relationship with the level of environmental disclosure.**

TA positive effect on EnvRep as indicated by the value of regression coefficient of 0.102301. the test results demonstrate the value of t-statistical probability of t at 0.0348 < 0.05 which means there is significant relationship between the size of the environmental disclosure. This result of this research is similar with Galani et al (2011). So, the result at 5% significant level that H1 is accepted. It means that the size of company has a relationship to environmental disclosure, so the bigger company is stronger to disclose environmental than a smaller company.

## **CONCLUSION AND LIMITATION**

### ***Conclusion***

This research objective is to find relationship between corporate governance characteristics (BOD, BOC, IO and Board Meetings) and company financial performance towards environmental disclosures. From four hypothesis of this study, here are the conclusions that can be drawn from this study:

1. This research expected that institutional ownership (IO) have a negative relationship with environmental disclosure. The result of this research found that IO is not significantly affecting the environmental disclosures.
2. This research expected that Board of Directors have negative relationship with environmental disclosure. The result is consistent with the expected hypothesis.



3. This research expected that Boards Meetings have positive relationship with environmental disclosure. The result is board meeting is not significantly affecting the environmental disclosures.
4. This research expected that board of commissioners have positive relationship with environmental disclosure. The result is BOC is not significantly affecting the environmental disclosure
5. This research expected that profitability have positive relationship with environmental disclosure. The result of this research found that profitability is not significantly affecting the environmental disclosure. Profitability ratios show how effective the overall management of the company.
6. This research expected that company size have positive relationship with environmental disclosure. The result shows that there is positive significant relationship between company size and environmental disclosure.

### ***Limitations***

In this study there are a few limitations that might affect the result of this study :

1. This research only used 20 samples from Indonesian company's annual reports and sustainability reports that might be not represented the population of Indonesian company.
2. In this research the researcher only used four independent variable of corporate governance characteristics that are Board Of Directors , Board Of Commissioners, Institutional Ownerships and Board meetings that might be not represented the corporate governance characteristics.
3. In this research the researcher only used two independent variables of company financial performance that are Profitability (ROE) and Company Size (Total Assets) that might not represented the corporate characteristics.

**THE SCIENTIFIC BASIS OF WORKING OUT SYSTEM OF COTTON IRRIGATION IN THE SOUTHERN PART OF THE ARAL SEA**

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**ABSTRACT**

It is shown fundamentally new methods of duty zoning. It was investigated conditions of cotton irrigation in farmers land. It was established effective number of sprinkling, watering and irrigation norms for new growth of cotton.

**Keywords :** duty zoning, growth, cotton, water safe, productivity

The scientific based working out regimes of cotton irrigation carried out in several stages. Till recently pat cotton irrigation regime had been carried out on large regions, afterwards on the regions of regions of Uzbekistan: each of them chosen natural-economic zones and under zone. This materials played a positive part in introduction of achievements of science and advanced practice in agricultural production but at present collective farms an state farms had been abolished/ that why farmer irrigation system ha common in general. Concrete attached to the land farming can be a good guide action for the practice of students.

**Purposes**

The main purpose of research I that perfection of theoretic principle of cotton irrigation in farming of the Republic Karakalpakstan and the working out of scientific based recommendation, secure high harvests, protection of environment, in a high effectiveness of water and land and other resources of farming.

**Methods**

Field and industry practice spent for 2009-2014 year on the basis of farming agriculture of Shimbay region «Kuat». Methodical basis for salving the main purpose: the method of field practice, method of account and also the method worker out by N.F.Bespalov field practice on the saline lands.

Field practice with different growth of cotton made main task to establish optimum regimes of the moisture of soil before irrigation and different calculated layers of moistening for crop capacity of cotton/ the practice had been spent on irrigation by furrow an the usage of mobile shoat-50.

**Results**

The mot accurate, but more lab our-consuming ways of determining lower limit of optimum soil moisture before irrigation I a field practice to grow cotton in different moistening of soil/ to

determine it on the saline lands southern Aral Sea had been spent a number of special field practice by us. The results of some of the experience are given below.

On the automorphic virgin-oasis oil of farming «Kuat» cotton growth «Chimbay-5018», «Dustlik-2» supported irrigation on the moistening of 70-75-60 percent norm of moisture, high harvest of raw cotton on the level of 3 tonn per hectare. When increasing the regime of moistening begotten irrigation to 80-80-60 % norm of moisture (nm)-harvest of raw cotton made by growth «Chimbay-5018»-2.8 tonn hectare and on growth «Dustlik-2»-2.8 /hectare or according to 0.17-0.26 tonn/hectare lower than optimum regime of moisture before irrigation.

To maintain 70-75-60 % (percent) nm of beforehand moistening required to lay on water on the diagram 1-4-0 watering norm 850-975 cubic meters/hectare and irrigational norm 3845-4130 m<sup>3</sup>/hectare (table-1).

**Table-1**

**Watering regime and crop capacity of different growth of cotton on avtomorphic soils average, 2012-2014.**

№. Var	Growth of cotton	Soil moisture beforehand watering, % NB	Diagram of watering	Irrigation norms, m <sup>3</sup> /hectare	Harvest of the product in its raw state, tonn/ga			Average tonn/ga	Expenses of water on 100 kg of the raw cotton, m <sup>3</sup> /ga
					2012	2013.	2014.		
1	Chimbay-5018	70-70-60	1-2-0	2800	2.46	2.61	2.53	2.53	90,3
2	Dustlik-2	70-70-60	1-2-0	2947	2.51	2.68	2.65	2.61	88,5
3	Chimbay-5018	70-75-60	1-4-0	3975	2.97	3.04	2.90	2.97	74,7
4	Dustlik-2	70-75-60	1-4-0	3845	3.01	3.23	3.16	3.13	81,4

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5	Chimbay-5018	80-80-60	1-5-0	4035	2.86	2.80	2.76	2.80	69,6
6	Dustlik-2	80-80-60	1-5-0	4130	2.91	2.89	2.8,3	2.87	69,4

On the optimization of water-regime of oil jar receiving high harvest of raw cotton supported on the regime of irrigation with monitoring soil moisture beforehand watering on the level 80-80-60 % on the norms of mineral fertilization N 200, P 140, K 100 kg/hectare secure farming harvest on the growth «Chimbay-5018»-2.96 t/hectare and on growth «Dustlik-2»-3.15 t/hectare.

To monitoring on the same level soil moisture of beforehand watering should water on the diagram 1-3-0 watering norm 750-860 m<sup>3</sup>/hectare and irrigational 2690-2805 m<sup>3</sup>/hectare, (table.2).

**Table.2**

**Harvest of cotton depending on the regime of irrigation and norm of mineral fertilization on semihydromorphic soils. Average in 2012-2014 .**

№. Var	Growth of cotton	Soil moisture beforehand watering, % NB	Diagram of watering	Irrigation norms, m <sup>3</sup> /hectare	Harvest of the pat product in its raw state, t/ga			Average t/ga	Expenses of water on 100 kg of the raw cotton, m <sup>3</sup> /ga
					2012	2013	2014.		
1	Chimbay-5018	70-70-60	1-1-0	2700	2.37	2.51	2.68	2.52	93,3
2	Dustlik-2	70-70-60	1-1-0	2460	2.59	2.84	2.64	2.69	109,3
3	Chimbay-5018	80-80-60	1-3-0	2470	2.64	2.75	2.80	2.73	110,5
4	Dustlik-2	80-80-60	1-3-0	2690	2.81	3.06	3.00	2.96	110,0
5	Chimbay-5018	70-70-60	1-1-0	2880	2.60	2.65	2.68	2.61	90,6
6	Dustlik-2	70-70-60	1-1-0	2825	2.85	2.87	2.65	2.79	98,7
7	Chimbay-5018	80-80-60	1-3-0	2820	2.76	2.91	2.73	2.80	99,2

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8	Dustlik-2	80-80-60	1-3-0	2805	3.24	3.14	3.07	3.15	112,2
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A=0.071 t/hectare, D=2,01 %; A=0.093 t/hectare, D=1,97 %; A=0.11,t/hectare,=1,71%:

**Comment:** Equal level of roister of beforehand watering differ from norm of mineral fertilization N150, P100, K75 è N200, P140, K100 kg/ hectare.

The investigation ha showed that to form high harvest of cotton lower threshold moistening active layer of soil on the hydromorphik soil during the vegetative season must be in 80-80-60 % nm level. In the version, where watering ha been spent by furrow the harvest of raw-cotton was less than the usage of mobile shoot.

Watering with maintenance the regime of moistening on hydromorphik soils on the level 80-80-60 % in combination with mobile shoot-50 secure high harvest of cotton in the average for 3 years on the growth «Chimbay-5018»-3.09 t/hectare and on the growth « Dustlik-2»-3.18 t/hectare. To maintain the moistening of water beforehand watering on the level 80-80-60 required to carry out watering on the diagram 1-2-0, watering norms 550-600 m<sup>3</sup>/hectare an irrigating norms 2230-2218 m<sup>3</sup>/hectare (tàble.3).

**Table.3**

**Optimum factors of farming cotton harvest on the hydromorpik soil (UGV 1-2) Average 2009-2011 y**

№. Var	Growth of cotton	Methods of watering	Soil moisture beforehand watering, % NB	Diagram of watering	Irrigational norms, m <sup>3</sup> /hectare	Harvest of the pat product in its raw state, t/ga			Average t/ga	Expenses of water on 1 centner of the raw cotton, m <sup>3</sup> /ga
						2012	2013	2014		

1	Chimbay 5018	Furrow	70-70-60	0-2-0	1800	2.46	2.5,7	2.5,3	2.52	140,0
2	Dustlik-2		80-80-60	1-2-0	2880	2.73	2.85	2.61	2.73	94,7
3	Chimbay 5018	PPL-50	70-70-60	0-2-0	1751	2.65	2.79	2.63	2.69	153,6
4	Dustlik-2		80-80-60	1-2-0	2966	3.04	3.17	2.80	3.00	101,1
5	Chimbay 5018	Furrow	70-70-60	0-2-0	1526	2.83	2.95	2.69	2.82	184,7
6	Dustlik-2		80-80-60	1-2-0	2230	3.16	3.23	2.85	3.09	134,9
7	Chimbay 5018	PPL-50	70-70-60	0-2-0	1475	3.01	3.12	2.80	2.97	201,3
8	Dustlik-2		80-80-60	1-2-0	2218	3.34	3.30	2.90	3.18	143,3

A=0.075 t/hectare, D=1,82 %; A=0.13 t/hectare, D=1,13 %; A=0.091 t/hectare, D=1,61%:

Side by side with ascertainment of lower limit of optimum moistening of soil an important meaning w,m have question in what layer of soil moisture of soil beforehand watering may go down till the lower limit of optimum size.

Numerous observation on the dynamic of soil moisture let to determine that on the avtomorphik soil with the dup (<3 m.) deposit of level, rated layer of soil for subsoil water determination the time of water and watering norms of cotton make 0-70 sm period till flowering and ripening, 0-100 sm. period flowering fruiting.

On the semihydromorphik soil with the level of subsoil water according to 2-3 m. 0-50 and 0-70 sm on the hydromorphik soil with level of subsoil water 1-2 m also according 0-50 and 0-70 sm.

The received materials had been discussed on the council of farming and on council of water usage «Suvchi» of Chimbay district, making plans of water usage on the areas requiring irrigation of the district farming, which underlined on the hydro-meliorative network.

### **Results**

Experimental data shows that optimum soil moisture beforehand watering quality of watering their distribution on the period of vegetation and also degree of watering and irrigational norm is depend on the oil meliorative conditions of the same farming. Making a scientific based system for each farming, is a new stage of principle in introduction of science success in production

**Antecedent and Consequences of Corporate Social Responsibility:  
Perspective Service Organizations and Customers**

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**ABSTRACT**

The paper aims to present a comprehensive framework for antecedent and consequences of corporate social responsibility. The paper also seeks to account explicitly for the differences in recovery satisfaction, corporate social responsibility, trust and loyalty found among banking customers. Data were obtained from 100 banking customers. Structural equation modeling was used in order to test the proposed hypotheses. In order to generalize the findings, the model needs to be tested with other samples and research objects. Marketing research into recovery satisfaction should focus on corporate social responsibility, trust and loyalty as important consequences. The findings propose that recovery satisfaction has positive effects on corporate social responsibility, trust and loyalty. Marketing research should pay more attention to the role of recovery satisfaction in gaining banking customers. Because of the positive influence on marketing success, managers should focus on customers that centre on recovery satisfaction primarily with banking customers. However, recovery satisfaction also seems to be a good device to gain banking customers from competitors. The contributions of the paper are, firstly, a more complete framework of antecedent and consequences of corporate social responsibility analyses simultaneously. Secondly, the study allows a direct comparison of the difference in recovery satisfaction, corporate social responsibility, trust and loyalty between banking customers.

**Keywords:** recovery satisfaction, corporate social responsibility, trust, loyalty.

**7. Introduction**

The times push consumer behavior towards good. Show concern for environmental protection could become a major issue, a progressive increase in consumer environmental awareness has emerged (Kalafatis et al., 1999; Chen, 2010), which forced the company to pay attention to that concern for the environment can facilitate innovation and leads to a competitive advantage (Pattie and Charter, 1999). The company then began to respond to the new developments of consumers who are aware of environmental sustainability and then implemented for the activities of companies in order to care for the environment.

Four steps Pyramid CSR (Carroll, 1979, 1991) see CSR policy as the focus of one or more of the relationship connecting factor in the economic, legal, ethical and philanthropic obligations that are considered business which has operations around the community. The original conception Carroll, said



businesses prioritize their profits (economic obligations) and their responsibility to conduct business within the law (legal obligation) (Carroll, 1979). Investigations can end in this research consists of studies that are used to measure the behavior of stakeholders towards CSR platform, CSR initiatives and CSR marketing strategy.

The definition and scope of bank operations may vary from one country to another (Veithzal, 1997). Bank is part of the financial institutions that have the intermediary function which brings the excess funds to those in need of funds and the bank's role as a financial intermediary is still very large and potentially crucial role to transform the economic development become more green and responsible. Elements of green banking compliance and improve risk management banking on environmental issues, and Beyond compliance with the bank's portfolio increased in green financing e.g. renewable energy, energy efficiency, organic farming, green building, eco-tourism, eco-labeled product.

In addition to having a role in the economy and carry out its main functions, the bank also played a role in managing the levels of carbon emissions that will affect the quality of nature and the environment in Indonesia. In this study later in the can formulation of the problem: "Is there an impact of recovery service on CSR, customer trust and customer loyalty?"

## **8. Theoretical Base**

### **8.1 Corporate Social Responsibility (CSR)**

CSR concept was first proposed by the Howard R. Bowen in 1953 and since then until now has been the development of the concept. When initially activity is based on the CSR activities of a philanthropic, it has now changed as one of the company's strategy to improve the image of the company that also affects the performance of the company. This CSR orientation changes have given rise to a new concept which is now known as corporate citizenship (Abeng, 2009).

The implementation of CSR in companies becomes increasingly important with the emergence of the concept of sustainable development of the World Commission on Environment and Development. Along with that, the CSR concept was adjusted and developed into sustainable development. This is reflected in the CSR definition given by The Organization for Economic Cooperation and Development (OECD), the business contributes to sustainable development and that the behavior of the company not only have to ensure the return to share borders, wages to employees, and products and services to customers, but they must respond to the community and environment concerns and values.

By doing CSR consistently in the long term, it will foster a sense of community acceptance of the company's presence. This conditions, which in turn can provide economic and business benefits to the company concerned. CSR view the company as a moral agent. With or without the law, a company must uphold morality. The success of a company in the viewpoint of CSR is to promote the moral and ethical principles, namely, to achieve the best results, without prejudice to other community groups (Yustikasari, 2011).

## **8.2 Recovery Satisfaction**

In the current era of competition facing the company will get better opportunities to implement the marketing philosophy of holistic, successful marketers are marketers who are totally satisfying customers with profitable (Kotler, 2009). Strong relationships with customers are done by informing, engaging and perhaps even encourage their process of achieving such satisfaction. Although it is unclear whether CSR affects market value of the company but customer satisfaction is the mediator (partially mediates) in the relationship between CSR and market value of the company (Luo and Bhattacharya, 2006). In order for CSR persuasive advertising can influence the outcome of an internal and external outcomes that consumer satisfaction is an appropriate intermediary mediator to explain the relationship between CSR and internal results and outcomes (Hsu, 2011) to the service provider should pay attention to what is given and how in order to meet expectations consumer perceptions.

According to Zeithaml and Bitner (2003) there are several factors that affect customer satisfaction; which features products and services, customer emotions, attributions for success or failure of services, perceptions of fairness and justice (equity and fairness) as well as the influence of other people (other customers, family and co-workers)

## **8.3 Customer Trust**

Trust is the aspect most widely tested and confirmed as part of the construct in the relational marketing research (Doney and Cannon, 1997; Morgan and Hunt, 1994). In line with all different definitions about the conceptualization of trust there is one thing in common, namely that trust includes belief (faith), the attitude or expectations of each party in order to conduct a relationship of partnership will be beneficial to the emergence of trust in each party (Morgan and Hunt, 1994). Many experts whose have defined a sense of confidence. In the context of business-to-business marketing Anderson and Weitz (1992) states that the trust is believed to be the actions of a company that will produce positive business for the company. In line with that rose by Garbarino and Johnson (1999) that the trust is the behavior of the conviction to have a relationship with the other party to do collaborations with other parties. Further explained also that trust observed indirectly as support in shaping behaviors (Garbarino and Johnson, 1999; Morgan and Hunt, 1994; Ganesan, 1994). Thus trust can be established with the indirect customers based on the experience felt.

Meanwhile, Ganesan (1994) suggests the definition of a trust that is not much different from the above definition and explain the statements between the two parties involved in a relationship. One party regarded role as controlling assets (have resources, and knowledge) while others assess that share the use of these resources in a bond will provide benefits. The belief that one party against the other party will lead interactive behavior that will strengthen the relationship and help sustain the relationship. Such behavior will increase the length of the relationship with the strengthening of commitment in a relationship. Subsequently,

the trust will be a valuable component for creating a successful relationship. The trust also reduces the risk in partnering and building long-term relationships and increase commitment in touch (Ganesan, 1994).

#### **8.4 Customer Loyalty**

Behavior after the purchase of a product is determined by the satisfaction or dissatisfaction of a product as the end of the sales process. The concept of customer loyalty is more associated with the behavior rather than attitudes. One of the positive attitude shown by consumers can be loyal to the company's products and recommend products to customers other, while the negative attitude shown by negative words (word of mouth) to other consumers and switch to another company. Loyalty is something that arises in the absence of coercion but arise by itself (Sichtmann, 2007).

#### **2.5. Conceptual Framework**

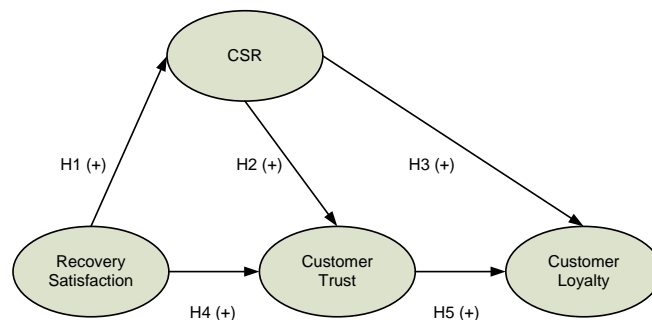


Figure 1. Antecedents and Consequences of CSR  
Source: Choi and La (2013)

### **3. Methodology**

#### **3.1. Research Method**

This study aimed to test the hypothesis the effect of recovery service on CSR, customer trust and customer loyalty. This is in line with research conducted by Choi and La (2013). The unit of analysis is banking customers in Jakarta. Meanwhile, the collecting data is using the survey method with cross sectional data, that observed and collecting in a certain period of time.

#### **3.2. Instrument Test**

Research Instrument is questionnaire. The researchers assessed instrument for each statement to check measurement reliability by using the *software program Statistics Social Science (SPSS)* version 17.0 for Windows. The measurement is also processed with AMOS 6 to confirm the factor and validity model of all theoretical construct in this study.

**Table I  
Measurement**

Variable	<i>Standardized factor loading</i>	<i>Cronbach's Alpha</i>
<b>Recovery Satisfaction</b>		0,894
Overall I am satisfied with the bank that handled my complaint	0,863	
In general I am satisfied with the results I have received from the Bank	0,868	
I am pleased with the whole process in dealing with my complaint	0,852	
<b>CSR</b>		0,819
The banks comply with the norms prescribed by the law when running the business processes	0,717	
The Bank behaves ethically and honestly to customers	0,851	
The Bank has the ethical principles in relations with customers	0,761	
<b>Customer Trust</b>		0,896
I believe with the Bank	0,878	
Overall the Bank is reliable	0,924	
I feel safe as a customer of the Bank	0,796	
<b>Customer Loyalty</b>		0,821
I still choose the bank that I use as much choice other Bank	0,842	
I use the bank for a long time	0,694	
I will continue to use the Bank, when there are many options other Bank	0,806	

\*The whole answered is measured by using *likert* scale 5 points: 1 = very disagree to 5 = very agree.

### **3.3. Data Collection**

Collecting data in this study conducted by distributing questionnaires to banking customers in Jakarta. Population is banking customers in Indonesia. Samples were taken of 100 respondents, banking customers in Jakarta. The sampling method used is *purposive sampling* which is one of the *non-probability sampling techniques*, which the researchers chose members of the sample is based on certain (Malhotra, 2006).

### 3.4. Data Analysis Method

Data have been collected processed by using *Structural Equation Modeling* (SEM). This method used with the consideration relationships between variables that occur simultaneously. SEM is precisely use to change one dependent to independent variable for the next relations. SEM is a similar method to a combination data processing, using *factor analysis and multiple regression analysis*. Further, SEM reflect together regression analysis impact on significant.

### 3.5 Estimation and Fit

*Goodness of fit indices: Chi-square = 66.3, p = 0.000, goodness of fit index (GFI) = 0.889, The Root Mean Square Error Of Approximation (RSMEA) = 0.060, Normed fit Index (NFI) = 0.918, Turker – Lewis Index (TLI) = 0.969, Comparative Fit Index (CFI) = 0.977, CMIN / DF = 1.352.* The average result still fulfills the criteria and can still be used for next examination. Therefore, the measurement model is in accordance with a good data.

## 4. Finding and Result

The statistical test used to test the hypothesis of this study is SEM. In table II, the result shows that H1 is supported ( $\beta = 0,345, p\text{-value} = < 0.05$ ). The result shows that recovery satisfaction affects CSR. H2 is supported as well ( $\beta = 0,507, p\text{-value} = < 0.05$ ) which shows that CSR affect customer trust. H3 is supported as well ( $\beta = 0,545, p\text{-value} = < 0.05$ ) which shows that CSR affect customer loyalty. H4 is supported as well ( $\beta = 0,360, p\text{-value} = < 0.05$ ) which shows that recovery satisfaction affect customer trust. The test of H5 is supported ( $\beta = 0,429, p\text{-value} = < 0.05$ ) which shows that the hypothesis 5 of customer trust affect customer loyalty.

**Table II**  
**Testing Hypothesis**

Hypothesized path	Estimate ( $\beta$ )	p-value	Decision
H1: There is a positive impact of recovery satisfaction towards CSR	0,345	0,000	H1 Supported
H2: There is a positive impact of CSR towards customer trust	0,507	0,004	H2 Supported
H3: There is a positive impact of CSR towards customer loyalty	0,545	0,008	H3 Supported
H4: There is a positive impact of recovery satisfaction towards customer trust	0,360	0,000	H4 Supported

H5: There is a positive impact of customer trust towards customer loyalty	0,429	0,002	H5 Supported
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### **5. Contribution, Implication, and Direction of future researches**

The results showed that the entire research hypothesis has a positive and significant influence. Satisfaction in handling customer complaints has positive impact on the CSR activities of the company. Furthermore the CSR activities of the company a positive impact on customer trust and customer loyalty. Customers are served well all complaints positively impact customer confidence and will ultimately have a positive impact on customer loyalty. Implications for banks in Indonesia, that all complaints of bank customers with the services provided by the bank must be able to be resolved properly. This will have a positive influence on customer loyalty bank to continue using the bank in financial activities. The CSR activities undertaken by the bank turns out also to be a positive influence on the bank customer confidence that ultimately led to the bank customer loyalty.

### **6. Limitation**

Just as other researches, this study has its limitations. First, the number of the sample is 100 respondents during the data collection. Second, the research only collect sample from respondents in Universitas Trisakti area. Third, this study conducted on customers of banking. Fourth, the study only includes variable such as recovery satisfaction, CSR, customer trust and customer loyalty in which there are still other variables that can be included. Fifth, there is an impact of parents in banking choice, caused by the age of respondents which is 18-22 years old.

### **7. Future Research**

In the future research, the number of respondents must increase for over 100 respondents. It is recommended for the research sample to include not only sample from Universitas Trisakti, but expanded to other areas such as West Jakarta. Further research can be done on another service industry that gives uniqueness. Moreover, future researchers can add a preference variable to strengthen the customer loyalty. The next research can also expand the characteristic of respondents in age, occupational type, which is added because they can already make their own decision making for themselves and not anymore affected by parents.

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**APPAREL RETAIL INDUSTRY GROWTH IN LAST  
5 YEARS**

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**ABSTRACT**

This study has completed the financial performance of evaluation the UK retail company, with emphasis on the business operations of some the UK apparel industry for customers. The industry was chosen for this study among many others industries in the UK economy in perspective of the positive and negative effects it has on worldwide. To accomplish the purpose of the study therefore, business data of three major companies who's operational in the area UK were generated. The criteria for selecting these apparel industry are substantial operate in UK and being listed in London Stock Exchange.

The major device of assessment of the evaluation of the generated data is the PESTLE factors, SWOT analysis, and ratio. In order to determine best and worst company.

Keywords: Retail Industry

## **1. INTRODUCTION**

According Rhodes (2014) 16% of economic output and 16% employment in UK 2012 raised by retail and wholesale industry. Retail industry is highly competitive, be evidenced by stores with the highest customers traffic and rehash business are the destined to be successes. Moreover, retail stores must offer items their customer's needs at costs they can manage. "The United Kingdom (UK) retail sector is an important part of the economy and has a profound impact in the whole of our society", (Jackson, 2013). Therefore an increasing amount in retail industry will impact toward economic growth in which country and raises new job and market opportunities.

This project will consider tool of evaluation of the generated data, which is PESTLE (Political, Economics, Social, Technological, Legal, and Environmental) analysis. PESTLE analysis is the important role to scanning the key macro-economic that influences the processing of most business. To complete the PESTLE factors, analyzing the financial performance of three chosen companies for 5years period in order to establish an accurate idea of where the companies stand in relation to their competitors and the industry as a whole. Consideration will also be given to the internal and external factors by SWOT analysis of each chosen companies. This will empower which company is the stronger and which company is the weaker after detailed analysis. The data will be evaluated using both financial and non-financial ratios to decide their financial and operational performance.

### ***1.1. Research Question***

How fast the retail industry growth over the last 5 years?

### ***1.2. AIM***

To overview the retail industry was chosen for this study amongst many other industries needs in the UK economy in view of the positive and negative impacts with in their business.

### ***1.3. Objective***

- To evaluate the key macro-economic factors that influences the operations of the retail industry.
- To analyse how companies chosen run the business with PESTLE.
- To analyse the companies performance by financial and non-financial ratios.
- To analyse companies competitive advantages with SWOT theory.

***1.4. Rationale for chosen Industry***

Retail industry has important role in UK economic success it proof based on (Robertson, 2011) retail sales totaled £303 billion in 2011, equivalent to around 20% of UK GDP. Retail industries continue to growth as a result of development of various fields. The primary sector those influences that affect of market retail development is demographic sector because; the population is growing caused of all goods and services increased The UK economy has improving dramatically by the competition has led to more choice, better quality, lower costs and more transparency in evaluating, sourcing and labeling with retail sales consistently representing for around a third of total consumer spending, the sector as remains as focal to British life. Retail industry believes to be the sector that could lead other sectors in an economy toward progress(Krisztina & Zsolt, 2011).

***1.5. Rationale for chosen Companies***

These companies are working in the same industry, apparel retailers and the companies selling similar products. Each company also has its subsidiaries business. The there companies are popular within the industry in UK. The companies measure in diverse part of sector of apparel industry, therefore by choosing these companies, can compare and outline which type on industry is stronger think about than others inside an industry.

Table 1.1: Profile of selected companies

	Next Plc	French Connection Plc	(n) Brown group Plc
Annual Sales GBP (mill)	3,740.0	189.4	834.9
Net Income GBP (mill)	553.2	(6.1)	75.9
Total Assets GBP (mill)	2,144.6	102.2	875.5
Number of Employee	28,568	2,258	3,432
Market Value GBP (mill)	9,936.8	48.5	921.4
GDP \$ (mill)	10,409	10,409	10,409
CSR Donation GBP (000)	2,187	14.051	48.92

<sup>2</sup> Source: (OneSource Global Business Browser, 2014)

**Next Plc**



NEXT Retail, a chain of more than 500 stores in the United Kingdom and Eire; NEXT Directory, a home shopping catalogue with over three million active customers and Websites serving around 60 countries, and NEXT International, with almost 200 mainly franchised stores globally. (Global Data, 2014).

**French Connection UK Plc**

French Connection Group Plc **fcuk**<sup>®</sup> (French Connection Group) is a fashion apparel wholesaling and retailing company. It conducts the design, manufacture and supply of branded fashion apparels for men and women. The company through its wholesale and retail

operations offers products in more than 30 countries worldwide with offices located in London, Hong Kong, New York and Toronto. (Global Data, 2014).

### **N Brown Group Plc**

The logo for N Brown Group plc, consisting of the text "N Brown Group plc" in orange font inside a black rectangular border.

N Brown Group plc (N Brown Group) is an online home shopping company based in the UK. The company provides direct home shopping and offers financial services. The product portfolio of the company includes women's wear, men's wear, footwear, household, and electrical goods, which serve younger, midlife, and older age customers. (Global Data, 2014).

## **2. ENVIRONMENTAL SCAN / PEST**

### *2.1. PESTLE Analysis*

PESTLE is acronym for Political, Economic, Social, Technology, Legal and Environmental. This analysis is a common approach to examine a business as it encompasses the key factors that influence the operations of most businesses (Sloman & Sutcliffe, 2004). In order to analyze the factors, which affect general retail industry, PESTLE analysis is helpful for company for analyzing and understanding the environment of the business, this is one of ways to avoid company from fails in industry and can operate properly.

Table 2.1: PESTLE analysis industry

<p><b>Political Factors:</b></p> <ul style="list-style-type: none"> <li>· Current regulations and protection</li> <li>· Political instability</li> <li>· Government organization / attitude</li> </ul>	<p><b>Economic Factors:</b></p> <ul style="list-style-type: none"> <li>· Economic growth and trends</li> <li>· Interest, exchange rates and monetary policies</li> <li>· Inflation rates</li> </ul>
<p><b>Social Factors:</b></p> <ul style="list-style-type: none"> <li>· Demographic, population growth rate and age distribution</li> <li>· Lifestyle and Fashion change</li> <li>· Advertising and brand image</li> </ul>	<p><b>Technological Factors:</b></p> <ul style="list-style-type: none"> <li>· New inventions and developments</li> <li>· Life cycle and speed of technological obsolescence</li> <li>· Change in technological rate</li> </ul>
<p><b>Legal Factors:</b></p> <ul style="list-style-type: none"> <li>· Tax policies</li> <li>· Customers law</li> <li>· Minimum wage legislation</li> </ul>	<p><b>Environmental Factors:</b></p> <ul style="list-style-type: none"> <li>· Increase of population</li> <li>· Environmental regulations &amp; protection</li> </ul>

□

### *2.1.1. Political Factors*

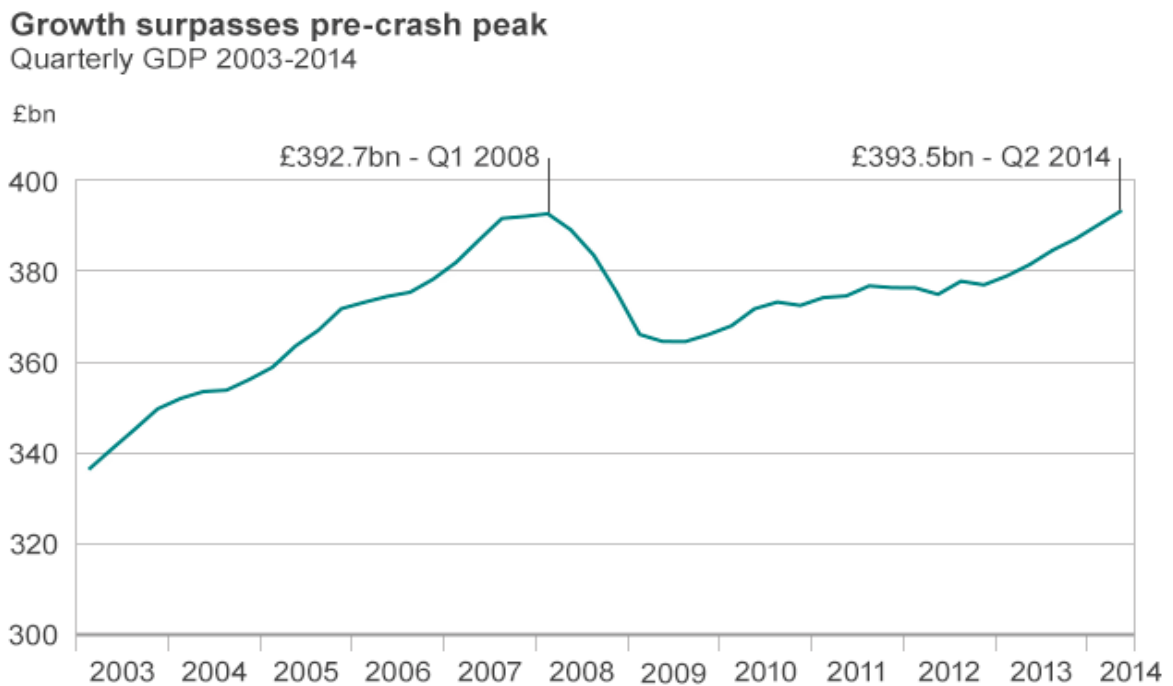
Political factors relate to the degree of government intervention in the economy. The general change in the domestic political atmosphere, government change, as well as change in regulation and legislation are might be embrace of political changes (Gupta, 2013, p. 35). Omar (1999) explain that the political circumstance is a critical determinant of retail population. Two contemplations appointment on the political circumstance are small business assistance, and the general sentiment toward business. For instance, the sex discrimination acts in 1974 and 1986 was cause of inaugurated on employment act 1989. In that period the women were punished could not work in environment of men because of gender in employment and education, through the employment regulations was involved in (MLA, 2014).

Another factor is political instability that will interconnect toward the retail apparel industry. Political instability is asserted as the tendency of a government change. According (Swagel & Roubini, 1996), political instability can impact some factors core of business, for instance, decision-

making procedure and the key of financial choices and instability of supply chain, sales, and distribution. Which, sales is major constituted for retail industry. Shoppers are increasingly to find out the best price before buy, in the same time others willing to upgrade level of brand that offer premium quality (Dept. for business, 22).

### 2.1.2. Economic Factors

Table 2.2: Exchange rate UK economic



Sources: (BBC UK, 2014)

A critical factor, which may have an impact upon Retail in the UK, is the current state of the economic environment. As a business which makes use of a premium based differentiated strategy, as opposed to being a cost leader, it may be seen that swing within the economic environment have ability to impact the fortunes of the company to a greater degree than those operating in the necessity and budget sector of the market (Johnson, 2014). As shopping habits change, town and downtown area retailing needs to adjust competition from different channels and areas. These difficulties are partitioned from, however amplified by, the current economic downturn.

### 2.1.3. Social Factors

Many social factors influence markets that retail businesses serve. Economic and political change, for instance, can overlap and fundamentally change how a society thinks. While retail business owner cannot hope to predict every possible change, paying attention to the major social factors that drive change can help prepare them to adapt (Mack, 2014). Consumer speculating about the social effect of the money spend is improving. For example, by buying products with recycle material is one example of changing trend in social individual lifestyle. More over, the ethical and social repercussions must be considered by retail industry activities, and additionally as the suppliers' actions. A maker's negative publicity for instance, could harm sales in every retail store it supplies. According to (Redwood, 2013) the number aged 65 or older is projected to achieve 15.5m, growing 43% on its level in 2012, contrasted with an expansion of only 13% in the population in general. The increasing of this group could see by large share of elderly household budget they favor for spend, whereas retailers should benefit from this change.

#### *2.1.4. Technological Factors*

Technology has been an area of exceptional focus in retail industries as an approach to finish the goals. Enhancements have been made in area such as, inventory management, loss prevention, customer's experience, and supply chain management(Kjell, 1998). Furthermore, retail industry changed along with changing in technology, improvement in technology will raise companies' margin in retail industry. According Business Innovation and Skills Government (2013, p. 7) the innovation advance have significant lowered barriers to market entry, making it far less demanding for new online businesses to be built. In the same time change in technology execute business in industry to create better relationship toward consumers and convey in more effective way (Chen & Lughofer, 2013). Take for example, e-commerce progress not only cross-border exchanging much easier for retail industry but also for UK companies to enter overseas markets, and for abroad retailers to do equal in the UK.

#### *2.1.5. Legal Factors*

Legal change happens occasionally and many can influence the business environment. For example, change in regulation would set up the roles for the industry; moreover the law would affect all the industries and business that dispute in that economy. In additionally business analyze the legal advancements happening in business surroundings (UK Taxation , 2010).



Minimum wage legislation is legislation in the UK, which influences companies with high number of low paid employee. For instance the UK legislation appealed that employee minimum pay over 21 years old is £6.19 per hour (GOV.UK, 2014). Another factor is consumer law that intended to protect customers against unreasonable practice, for example deluding descriptions of the product.

*2.1.6. Environmental Factors*

When the quantities of people in geographical region increase or decrease it will induce change in population. This can happen by two reasons. Firstly, because of natural populace change, because more births and fewer deaths. Secondly, because of migration would change the population. Usually, every year number of individuals moves out of region and others move in (Tokatli & Boyaci, 1998). On the off chance that number of immigrate more higher than emigrate, the population of the area will increase. Moreover when the population increase will also effects on employees and effects on customers in the industry (Friedberg & Hunt, 1995). This situation will influence to the rising number of customers toward apparel industry because companies have more opportunities to expand the markets.

### 3. DISCUSSION OF FINDINGS AND RECOMMENDATIONS

#### 3.1. Overall Ranking

1<sup>st</sup> = Best performance

3<sup>rd</sup> = Worst performance

	NEXTEPIC	FCUK Group	NBrown Group Plc
<b>Financial Ratio</b>			
Profitability Ratios			
· Net Profit Margin	1	3	2
· ROCE	1	3	2
· Operating Profit	1	3	2
Efficiency Ratios			
· Assets Turnover	1	2	3
· Inventory Turnover	3	2	1
Liquidity Ratios			
· Current Ratio	2	1	3
· Quick Ratio	2	1	3
Solvency Ratios			
· Gearing Ratio	2	3	1
Investment Ratios			
· Dividend Yield Ratio	2	3	1
· Price Earning Ratio	3	1	2
<b>Non-Financial Ratios</b>			
Share Price	1	3	2
Number of Employee	1	3	2
Employee Salary & Wages	1	3	2
<b>Total</b>	<b>21</b>	<b>31</b>	<b>26</b>
<b>Ranking</b>	<b>1st</b>	<b>3rd</b>	<b>2nd</b>

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3.1.1. SWOT ranking

	Strength	Weaknesses	Opportunities	Threats
<b>NEXT plc</b>	Strong financial performance  Multi-channel selling strategy  Broad product & services offering	Revenue concentration the UK  Seasonality of the business  Limited financial leverage	Expanding retail market in Asia-Pacific  Business expansion activities  Private labels gaining momentum	Rise in Labor costs in the UK  Increase in counterfeit products  Expansion by competitor
	Best Performing, 1 <sup>st</sup>	Best Performing, 1 <sup>st</sup>	Middle Performing 2 <sup>nd</sup>	Best Performing, 1 <sup>st</sup>
<b>French Connection UK (FCUK) Group</b>	Reduce labor costs  Skilled workforce  High growth rate  Domestic market  Monetary assistance provided	Tax structure  Costs  Competitive market  Investments in research and development	New markets  Growing economy  Growing demand	Growing competition and lower profitability  Rising cost of raw materials  External business risks  Increase in labor costs  Financial capacity
	Middle Performing 2 <sup>nd</sup>	Worse performing 3 <sup>rd</sup>	Worse performing 3 <sup>rd</sup>	Worse performing 3 <sup>rd</sup>
<b>N Brown Group plc</b>	Barriers of market entry	Costs  Investments in research and development	Global markets  Growing economy  Growing demand  New products and services  Income level is at a constant increase	Financial capacity  Increase in labor costs  Unexpected problems
	Worse performing 3 <sup>rd</sup>	Middle Performing 2 <sup>nd</sup>	Best Performing, 1 <sup>st</sup>	Middle Performing 2 <sup>nd</sup>

2

In order to determine overall ranking within three chosen companies, an evaluation of the industry must be conducted. Furthermore, financial and non-financial analysis related examination to focus

the best and worse company. After 2012, as the UK economy has recouped, the financial health of chosen companies were gradually show an improvement. This analysis apply average method ranking to show companies position. In accordance (Li, Zheng, Li, Yuan, & Shen, 2010) statements the average ranking methods is purpose to pick out well assemble individuals and prevent individuals. The UK crises achieve numerous problems. One of these is a decreasing in consumer confidence. Monaghan (2009) expresses that the consumer confidence list was -1.5% in January 2012. This has implied that consumer spending has diminishing.

Ratio analysis is the most favorite analysis tools because ratio interprets a mathematical connection between two items (Bajkowski, 1999). Looking at the ratio analysis, it obviously seen that NEXT is performing most beneficially with N Brown being second position and third position occupied by French Connection UK. It can be seen that NEXT is superior at profitability ratios because company capable to generate the income, profit, and cash flow cohesive to the money invested. But FCUK was performing badly in profitability during last 5 years. The factors because company decreasing in inventory and slow of return receivable (French Connection UK, 2014).

Considering the efficiency ratios, which are assets turnover and inventory turnovers. NEXT shows best performance in asset turnover cause by company utilize the assets more efficient but also indicate low profit margin. In contrast N Brown Group who show worse position in assets turnover indicate high profit of margin (Marriot & Simon, 1990). Moreover N Brown shows the best performance in inventory turnover because company indicates better liquidity than NEXT.

When looking at the liquidity ratios, FCUK is excelling in current and quick ratio. By looking at other company NEXT show lowest in terms of liquidity of assets. However N Brown generating the worst performance because company have to high level of current ratio which indicate problems in working capital (Bajkowski, 1999).

The solvency of chosen companies, can be seen FCUK is the most risky position because the company generate minus gearing, it shows company has struggle with financial condition throughout last five years (French Connection UK, 2014). In contrast, N Brown is the lowest gearing throughout last five years, and being most effective. Otherwise NEXT generate too high gearing number can be unattractive to potential shareholders.

When looking at investment ratios, N Brown has best performance for dividend yield ratio followed with NEXT in second position and FCUK in third position. Dividend yield ratio shows how much

cash flow that company earn for each pound invested. FCUK is most profitable for allocating each outstanding share. Otherwise NEXT is overpriced may inflated price to the collapse soon.

Further analysis is by using SWOT analysis to considering internal and external factors. SWOT analysis is an arranging method, which is executed when consideration is needed about business venture (Rizzo, 2005). The apparel retail industry is global with the recession turning into an international crisis there are various strength those companies in the industry own. NEXT have excellent result in performing SWOT, the company have significant strength to cover the weaknesses also NEXT know how to control threat by using big opportunities that company can achieve. For example, NEXT is the most multi-channel selling strategy compares two other companies; with this strategy NEXT touch the opportunity to expand markets in Asia-Pacific. NEXT has an opportunity become private gaining brand with aim to fulfill the change of lifestyle and fashion.

The weaknesses of the companies help to ensure the issue, which are being faced, particularly considering the current economic climate. The main issue faced by investment in R&D by FCUK and N Brown, where NEXT is able to provide advance technology and research. FCUK and N Brown unable to increase the budget for doing advance R&D because both company have struggle with the costs limit as well. In otherwise, NEXT faced some weaknesses like seasonality of business and limited financial leverage. Seasonality of business has negative impact to deal with less in sales and as result decrease in income for companies (Ivanova, 2012).

Moreover, considering the opportunities, which are accessible to the companies, the three companies have the same opportunities to growing the demand and entrance global markets. N Brown and FCUK additionally have various chances to develop in growing economy country, by looking the new potential market and potential demand. While NEXT has opportunities to take private labels gaining and enters Asia-Pacific market. N Brown preform better to reach the opportunities rather than other companies.

Looking the external threats, three companies are facing a same threat that is increasing in labor costs. This is substantially increasing companies costs if not dealt with efficiency. The high costs that companies used to produce a product the higher price as well that customer needs to pay (Hamermesh, 2014). This is threat for the company because will be increasing counterfeit products by competitors.

When considering the SWOT analysis of three chosen companies, is can be show that the company best performing is NEXT. NEXT has the strong financial position and the most opportunities in the market to develop and gain further industry. Combining financial ratio and SWOT analysis, N

Brown is the next after NEXT. N Brown has a strong profitability and gearing ratio. This shows that N Brown has low risk of profitability to operate the company. N Brown also has good opportunities in developing global market and creates new product and services.

FCUK has the lowest rank in financial and SWOT appraisal. The company has high financial problem which, impact to company's financial performance. As shown in SWOT analysis the company has lower profitability and rising cost of raw material, the company must solved it. After detailed evaluation, a conclusion can be made as to focus and distinguish which company is best and worst. Based on analysis NEXT is the best company inside the industry while, FCUK struggled with financial leverage make the company is the worst company among chosen companies.

### *3.1.2. Recommendation*

1. Company needs to keeping update with the power of customers spending because economic growth might be changes in every single conditions of country and it impact to income of customers changes so company need to adjust their products based on buying power market in certain area. Company can keep innovate with their brands to keep the quality nicely and use advanced machinery to reduce the expenses of production.
2. Company ought to have long-term plan for helping company survive even stronger in facing competitive market. Company can invest in research and development inside and outside headquarters besides to develops the quality of product and follow the tastes of customer's movement, company can expand their market in emerging markets that help company increase their sales and revenue.
3. Company should increase their profitability to cover short-term debt and dividend as possible to attract more investors. Company can start with maintain their expenses properly through pollution control such as reducing CO2 emissions and waste management, which can help company to reduce operating expenses. The other ways is provide advanced machinery for production activity. Advanced machinery can help company to be more effective on produce the product and efficient on using raw materials.

### *3.2. Conclusion*

In conclusion the chosen companies which have been evaluated, have numerous factors, both internal and external to decide the progress of financial health of the company. A financial and non-financial analysis also did to focus the best and worst company. After 2012, as the UK economy has

recovered, the financial health of chosen companies were gradually improvement. NEXT is UK larger apparel retailers with the various items and has demonstrated the downturn of gearing ratio during the economic subsidence and its low current ratio. However, NEXT stays as predominant market position in apparel industry. It is indicate in the share price figure that NEXT shows a high number of share price. Regardless the company faces the downturn of sales revenue, company still has capacity to create profitability during the recession. This mean, NEXT able to keep up the cash for dividends payment. Therefore, the company shows stable development of share price.

After examination of chosen companies financial, non-financial performance and SWOT of companies, FCUK and N Brown both analysis in niche market rather than NEXT and have proved enough successful. The both company have able to compete with the large apparel retail industry. In some cases, FCUK has better performance rather two orders company such as current ratio, quick ratio and price earning ratio. Even though, the company is the poor performance within three chosen companies.

**APPENDIX**

Nextplc					
Financial Ratio	2014	2013	2012	2011	2010
<b>Profitability Ratios</b>					
Net Profit Margin	14.79%	14.34%	12.62%	11.93%	10.69%
Return on Capital Employed	68.36%	75.41%	63.25%	69.08%	78.45%
Operating Profit Margin	19.33%	19.59%	17.67%	17.19%	15.55%
<b>Liquidity Ratios</b>					
Current Ratio (1)	1.76	1.48	1.54	1.28	1.37
Quick Ratio (1)	1.18	0.97	0.91	0.72	0.85
<b>Solvency Ratios</b>					
Gearing Ratio	185.32%	183.44%	312.17%	235.60%	314.07%
<b>Efficiency Ratios</b>					
Assets Turnover Ratio	1.85	1.89	1.89	1.89	1.97
Inventory Turnover Ratio	6.97	6.91	6.47	6.89	7.68
<b>Investment Ratios</b>					
Dividend Yield Ratio	1.75%	2.30%	3.05%	3.61%	2.85%
Price Earning Ratio (times)	17.15	13.63	10.33	9.16	10.43
<b>Non-financial Ratio</b>					
Share Price	6500	5375	3720	2737	2047
Number of Employee	27883	27883	-	-	-
Employee Salary & Wages	531.9	510.1	-	-	-

2



**French Connection UK Group**

Financial Ratio	2014	2013	2012	2011	2010
<b>Profitability Ratios</b>					
Net Profit Margin	-3.22%	-5.22%	2.09%	4.12%	-4.33%
Return On Capital Employed	-10.78%	-16.41%	6.79%	12.66%	-12.73%
Operating Profit Margin	-3.54%	-5.52%	1.95%	3.46%	-4.42%
<b>Liquidity Ratios</b>					
Current Ratio (1:1)	1.98	2.19	2.19	2.19	1.93
Quick Ratio (1:1)	0.95	1.03	1.03	1.08	0.91
<b>Solvency Ratios</b>					
Gearing Ratio	-50.72%	-45.45%	-46.15%	-48.23%	-50.21%
<b>Efficiency Ratios</b>					
Assets Turnover Ratio	1.81	1.70	1.77	1.72	1.47
Inventory Turnover Ratio	2.48	2.32	2.56	2.55	2.00
<b>Investment Ratios</b>					
Dividend Yield Ratio	0.00%	3.70%	3.23%	1.46%	0.00%
Price Earning Ratio (times)	-7.93	-3.70	11.51	9.13	78.00
<b>Non-financial Ratio</b>					
Share Price	51.13	36.5	29.25	44	76.5
Number of Employee	2578	2260	-	-	-
Employee Salary & Wages	41.1	38.9	-	-	-

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**(N) Brown Group Plc**

<b>Financial Ratio</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Profitability Ratios</b>					
Net Profit Margin	9.09%	10.12%	10.75%	9.98%	9.06%
Return On Capital Employed	15.25%	16.19%	17.89%	18.04%	16.96%
Operating Profit Margin	12.82%	13.02%	13.54%	14.27%	14.14%
<b>Liquidity Ratios</b>					
Current Ratio (1:1)	5.76	5.42	5.11	3.35	4.52
Quick Ratio (1:1)	5.06	4.74	4.47	2.92	4.02
<b>Solvency Ratios</b>					
Gearing Ratio	44.03%	42.31%	47.85%	50.10%	53.32%
<b>Efficiency Ratios</b>					
Assets Turnover Ratio	0.98	0.96	0.98	1.00	0.99
Inventory Turnover Ratio	4.48	4.36	4.41	4.72	4.96
<b>Investment Ratios</b>					
Dividend Yield Ratio	2.36%	3.32%	5.30%	4.17%	5.00%
Price Earning Ratio (times)	21.16	14.10	8.26	10.17	8.70
<b>Non-financial Ratio</b>					
Share Price	329.2	519.5	371.7	235.4	296.4
Number of Employee	3254	3432	-	-	-
Employee Salary and Wages	66.8	69.8	-	-	-

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