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Editorial The digital transformation of our societies are in movement

Dear Colleagues,
Dear Doctorate Students,

The digital transformation of our societies is in movement. We often overlook the pace at which the changes are taking place.

During the 2015 Garcombs in Bali, we collectively decided that we would focus on and pay attention to what is happening in the sphere of digitalization.

We selected the title “Digital transformation of our societies in a volatile environment” that would reflect this intention for the 2016 Garcombs in Caen.

As a result, many papers in Caen were related to Digitization and its applications with regards to solving sustainability issues or even circular economy-related problems.

This special edition journal of Garcombs 2016 is an important landmark with papers from Indonesia, Thailand clearly reflecting the strategic orientation given one year ago in Bali. Selected fields and papers confirmed the strategic importance raised by our message.

The handpicked papers that will be published in this special edition highlight challenges and opportunities created by such disruptive technologies in our societies as they start to leave marks on the overall society spectrum.

The Scholars have captured the scope of applications in alignment with regional and international institutions supporting centres

created by our government, communities and NGO's. This confirm a mutual understanding.

A great number of papers and dissertations in this publication cover different aspects from the digital transformation journey to the crowdfunding that is redirecting investors and entrepreneurs towards other sources of funding that the traditional banking is neglecting.

New era Entrepreneurs are taken in nurseries by private companies, business associations, and NGOs. This allows them to support their ideas, their projects and lead them to a certain level of maturity in their development journey.

In order to capture the wave of innovation around the digitalization of our societies, academics, cities and communities have created structures, policies, open forums and platforms.

Our researchers through their publication on this special edition are expressing the dynamics of the ecosystem evolving around us.

We are suggesting the active reading of the journal along with more action in creating start-ups. In this environment, the opportunities seem endless.

The upcoming 2017 Garcombs event in Thailand will also be focused on the digital transformation and innovation. But the Value chain transformation will not be the only area of focus as we will be turned towards value added services and more deeply looking for the new business model where the only differentiating factor will be the limitation of our own innovation capability.

I am looking forward meeting all of you again in Bangkok in 2017.

Sincerely yours

Paul John
President of Garcombs 2016
IAE University of CAEN - France

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DETERMINANTS OF GROWTH AND PROFITABILITY BY BANK SPECIFIC VARIABLE AND MARKET STUCTURE IN ISLAMIC BANKING IN INDONESIA

Irma Setyawati, Institut Bisnis & Informatika Kosgoro 1957

ABSTRACT

This study aims to assess bank specific variable (finance to deposit ratio, capital adequacy ratio, operating expenses to total assets ratio, non-financing income to total assets ratio, non performing financing and market share to profitability and growth of Islamic banking in Indonesia. This research is explanatory survey with seemingly unrelated regression methods by using data from financial reports from 2011 January until 2013 December.

Overall, this research model can explain that the bank specific variables and market share increase the profitability and total assets growth of Islamic banks significantly. Finance to deposit ratio was not significantly and negative effect both to the return on assets and total assets growth. Capital adequacy ratio was not significantly and negative effect to return on assets but was significantly and negative effect to total assets growth. Operating expenses to total assets ratio was significantly and negative effect both to return on assets and total assets growth. Non-financing income to total assets ratio was not significantly and positive effect to return on assets and significantly and positive effect to total assets growth. Non-performing financing was significantly and negative effect both to return on assets and total assets growth. Market share was significantly and negative effect both to return on assets and total assets growth.

INTRODUCTION

Subprime mortgage crisis ever experienced by the United States is a credit crisis or credit crunch that can be used as an indicator of the financial crisis. The crisis brought a tremendous disaster for the economy of the United States because of a lack of funds and credit is too great in the economy (Farook, 2009). Therefore, the performance of banks is very important both in the national or international economy, as well as the need supervision at all times. The role of banks is very important in the economy, such as stability and economic growth. Bank can play a role through the efficiency of the allocation and utilization of funds and the last resource in the economy (Al-Omar and Al-Mutairi, 2008). After facing many obstacles, reserve growth of Islamic banks experienced a remarkable improvement, as well as an increase in the number of customers (Alam, et al., 2011).

The banking sector is one of the sectors most affected by the impact of the global crisis, affecting 80% of financial instruments. Almost all conventional banks affected by the credit crunch, but the credit crunch has a negative impact on the Islamic bank and almost insignificant when compared with conventional banks, because of the nature of the Islamic bank, where all financial transactions should be based trade and associated assets (Ahmed 2010; Hidayat & Abduh, 2012). While the sectors affected by the financial crisis is the financial sector such as the money market where Islamic banks unlawful conduct their business activities in the money

market. Nevertheless, the Islamic bank could be affected if the crisis affected to the real sector, because the Islamic bank very close to the real sector.

Profitability is very important for the bank and can be measured at the micro and macro levels (Aburime, 2009). In the macro level, profit is an important prerequisite to compete in the banking industry and as a source of cheap funds. The high profits are not entirely good, because indicates the strength of the market, especially for banks with large scale. It inhibits the function of financial intermediation due to the high strength of the market; the bank may offer a low return on savings/deposits but charge a high interest rate loan. If profitability is very low, may give rise to conflicts of agency (the bank's management and shareholders) on the activities of the bank, resulting in the bank failed to attract enough capital to operate and usually occur at banks with low capitalization (Olweny & Shipho, 2011).

Growth is a measurement of the performance of the most important for evaluating the development of the company, as the financial markets and investors tend to reward the stock price for a company that is growing rapidly, so that the manager is under pressure from shareholders and financial analysts to boost the company's growth (Kim & Haleblan, 2011).

However, the performance of Islamic bank strongly linked to welfare aspects. According to Chapra (2000), the benefit of the pillars of business success of Islamic bank, because it must comply with the rules of fiqh muamalah. Muamalah means that the activities of Islamic banks have benefits, so that the resulting performance of the benefit in the form of the aspect of non-financial that Islamic banks as intermediary institutions do fund raising and channeled back into productive real sector as well as social functions to conduct fund raising in the form of zakat, infaq and shadaqoh (ZIS).

The spread of the practice of Islamic banks starting from East to West, from Indonesia and Malaysia to Europe and America. Since the first Islamic bank was established in Egypt in 1963, then developed throughout the world. The number of financial institutions banking around the world at the moment grew more than 300 and in 75 countries with concentrated in the Middle East and Southeast Asia (the largest in Bahrain and Malaysia), began to grow in Europe and the United States (Ahmad & Ahmad, 2011). The interesting phenomenon of the development of Islamic banks in Indonesia, that Indonesia is a country with the largest Muslim population, where a number of Islamic micro-finance unit, formal and semi-formal evolved since 1990, is now recognized as part of the dual banking system. Thus the ability of Islamic banks in Indonesia to earn profits and grow rapidly is one of the requirements to be able to compete with conventional banks

The purpose of this study to assess bank specific variable and market share to profitability and growth of Islamic banking in Indonesia. This research was conducted for the study of Islamic banks and Islamic finance. The phenomenon of Islamic banks and Islamic finance has not been done in the global financial markets and not widely spread because of the limited range.

LITERATURE REVIEW

The Relationship between Liquidity and Profitability

Liquidity shows the bank's ability to meet its obligations on most customers (Ongore & Kusa, 2013). In a study conducted by Athanasoglou (2005), Al-Omar (2008), Ghazali (2008), Kosmidou & Constantin (2008), Shen, et al., (2009), Sufian (2010), Sufian & Majid (2011), Awojobi & Amel (2011), and Hidayat & Abduh (2012) by using empirical data, the effect of

liquidity risk to the profitability of banks is vary. Some studies have a positive effect; while research conducted Shen, et al. (2009), Athanasoglou (2006), Al-Omar (2008), and Kosmidou & Constantin (2008) stated that liquidity have a negative impact on profitability.

Liquidity risk may be low quality of assets that led to low liquidity levels and is the cause of bank failure (Al-Omar, et al., 2008; Awojobi & Amel, 2011). In addition, liquidity risk lowering the bank's profitability (returns on average assets/ROAA and return on average equity/ROAE). Shen, et al., (2009) state bank with a big gap, less stable and low-cost funds, then use the liquid assets or external financing to meet demand for funds, will raise the cost of funds, resulting in lower profitability, thus the high liquidity risk will increase return on average assets (ROAA), return on average equity (ROAE) and net interest margin (NIM).

The Relationship between Capital and Profitability

To help banks reduce losses and avoid the event of bankruptcy in the long term, the necessary reserves are called capital (O'Hara, 1983; Dowd, 1999; Chen, 2003; Toby, 2008; Petersen, 2008; Awojobi & Amel, 2011).

Ahmad et al. (2009) in the Center for Research in Finance (CARF) Working Paper examines the variables that affect the capital ratios of banks in developing countries. Capital ratio (CAR) as the dependent variable is affected by the 9 explanatory variables consisted of 6 accounting based variables, NLP, ZRISK (risk index), NIM (net interest margin), EQTL (ratio of total equity to total liabilities), LACFF (ratio of total liquid assets to total deposits), SIZE (natural log of the total assets of the bank) and 3 dummy variable, REGRWC (1 for law capital banks; 0 otherwise), POST 99 (1 for 1999 - 2002; 0 for 1995-1998), Y96 (1 to 1996; 0 for the other). The study resulted in the conclusion that the non-performing loan (NPL) and risk index has a positive relationship between bank capital and risk-taking, arguing that the bank's capital and risk-related, due to the high capital ratios is the behavior, then the banks are more willing to take risk.

The Relationship between Operational Costs and Profitability

The relationship between operational costs and profitability an estimated negative, because if banks can run their business more productive and efficient, banks will be able to have a low operating costs (Sufian & Habibullah, 2010; Sufian & Majid, 2011).

The empirical test results from several studies suggest that operating costs have a negative relationship, it is shown to improve the profitability of banks, the efficiency of the management cost is a prerequisite (Ghazali, 2008; Sufian & Habibullah, 2010, Sufian & Majid, 2011; Wasiuzzaman & Tarmizi, 2011; Hidayah & Abduh 2012).

The Relationship Between the Non-Financing Income and Profitability

Non-financing income is fee-based income, the income derived from services offered to customers, such as commission, fee amount, and the net profit from the sale of securities or foreign currencies (Sufian & Habibullah, 2010). These variables are estimated to have a positive effect to profitability in the regression analysis (Rahman, et al, 2009; Sufian & Habibullah, 2010).

In the study Sufian and Habibullah (2010), the relationship between income diversification and profitability is a positive and significant, so that the result means that the

proportion of higher bank earnings derived from sources such as non-financing income-based services tend to obtain higher profitability.

The Relationship between the Quality of Assets and Probability

In the study Olweny and Shipo (2011), showed a negative and strong relationship between the asset qualities (credit risk) as measured by non-performing loan (NPL), which is the ratio of total non-performing loans to total loans, with profitability. The meaning that if banks cannot manage credit well will reduce profitability which ultimately lowers the quality of the assets.

The results of empirical tests conducted by Richard & Thomas (1997); Athanasoglou (2005); Shen, et al (2009); Olweny & Shipho (2010); Sufian & Habibullah (2010); Sufian & Majid (2011); Misman (2012); Hidayat & Abduh (2012); Sapuan, et al (2013), as statistics show that credit risk resulted in low profitability of banks in both conventional and Islamic banks. It shows that the management should pay attention on credit risk which in turn can be a problem in the future, because of the failure of the banks most of which come from how the bank can recognize the weakness of these assets and creating a backup for written off this asset (Sufian & Majid, 2011).

The Relationship between the Market Share and Probability

The market share explains the position of competition between companies in the market. Companies that have a large market share will be able to give satisfaction to customers and eventually will enjoy a competitive advantage (Schawalbach, 1991). The market share refers to the customer, especially about the company's product quality (Jacobson, 1988).

Market share is a key determinant of profitability. Market size indicates the strength of banks in controlling the prices and services offered for various bank customers (Haron, 2004). Sharkin study (1988) found that companies with a high level of market share (51%) enjoy above average profit. Research conducted by Markell, et.al (1988) showed in the plastic industry are positive and significant relationship between market share and profitability.

The Relationship between Liquidity and the Company Growth

Research conducted by Oliveira and Fortunato (2005) using the cash flows as a proxy of liquidity, cash flow showed significant positive effect on the company growth.

Research conducted by Broome & Robinson (2009), liquidity proxied by cash flow ratio (fcf_sales and ocash_sales) significantly to growth. While research Notta & Vlachvei (2009) conducted in two criteria for companies, rapid-growth firm and slow-growth firm, in Greece stated that liquidity (measured by the ratio of current ratio to total assets) have a positive effect not significant to the growth (measured by the ratio of the level of sales of the company) for slow-growth firm. For rapid-growth firm liquidity significant negative effect on growth.

The Relationship between Capital and the Company Growth

Ability to pay indicates a healthy company. To calculate the capital ratio or solvency ratio, use formula stockholders' equity divided by total assets. Health companies can be determined by the greater this ratio. Companies that have a solvency ratio indicate that the small shareholder capital is smaller than its debts. Companies with a solvency ratio of small very high

risk to go bankrupt (Loi & Khan, 2012; Benhayoun, et.al, 2014). These results are consistent with studies conducted by Loi & Khan (2012) that the solvency ratio is calculated by dividing total shareholders capital assets have a significant negative effect on the level of $\alpha = 5\%$ to the growth of the company.

The Relationship between Operational Cost and the Company Growth

Research in India, related to the problem of efficiency in banking is based on financial ratios (Sarkar., et.al; 1998; Das, 1999; Sanchez, et.al, 2013). While research Subramanyam (1993) and Reddy (2005) outlines the company's growth due to changes in efficiency and technical change. Market power in the banking sector resulted in a high cost of intermediation. This causes the price to be high, decreasing the amount of savings and investment; resulting in decreased growth of the company (Ningaye, et.al, 2014).

Kumar et.al (2010) empirical test results, which examines the determinants of changes in the growth of the banking sector (total factor productivity) and its components, namely technical and changes, stating that the level of $\alpha = 5\%$, the growth of banks in India during the study period (1995-2006) is almost dominated by technical changes compared with efficiency changes, means that technology and innovation have a greater impact on the growth of bank compared the change in efficiency.

The Relationship between Non-Financing Income and the Company Growth

Research conducted by Pennathura (2009), where the variable non-interest income divided by total assets has significant negative influence on the growth of the company. While Bush & Kick (2009) who conducted a study of three types of banks stated that non-interest income (by using the term fee income) have a negative impact significantly on the growth of the company at the level of $\alpha = 1\%$, both for cooperative banks and saving banks, while for commercial banks, fee income has a significant positive effect on the level of $\alpha = 10\%$.

The Relationship between Quality of Assets and the Company Growth

Logically, the smaller the rate of financing problems, the investment of financing is smaller, so good quality of Islamic banking assets.

The Relationship between Market Share and the Company Growth

Logically, the greater the market shares of Islamic bank, the greater the power of the market, so that Islamic banking will be able to make improvements to its assets.

DATA AND METHODOLOGY

Data were taken from the site Indonesian Bank, in the form of monthly financial reports of eleven Islamic banks in Indonesia period 2010 - 2013. Data were processed with statistical program Stata version 11, using seemingly unrelated regression (SUR) analysis.

Table 1 shows the variables that are used as a proxy for profitability, growth and the variables that affect it. In the table include the notation and the expected effects of each determinant as reflected in the literature.

Table 1			
OVERVIEW VARIABLES USED IN REGRESSION MODEL			
Variable	Sub Variable/Proxi	Overview of Variable	Hypotheses Relationship
Dependent Variable			
Profitability	Return on asset (ROA)	This ratio is used to determine a company's ability to earn a return on the investment made by company	NA
Company growth	Growth of total asset (GTA)	Resources of the company as a result of operational activities	NA
Independent Variable			
Liquidity	Finance to deposit ratio (FDR)	The parameters that determine the success of the distribution of funds of banks (financing) to third parties. Measured by comparing the financing with third party funds	-
Capital	Capital adequacy ratio (CAR)	Parameter that indicates the minimum capital to be provided by the bank. Measured by comparing the capital with risk-weighted assets (RWA)	-
Operational cost	The ratio of operating expenses to total assets (OE/TA)	Parameters that indicate the extent to which the management efficiency. Measured by dividing operating expenses to total assets.	-
Non-financing income	The ratio of non-financing income to total assets (NFI/TA)	Parameters that indicate different types of income earned bank. Measured by dividing non-financing income to total assets	+
Quality asset	Non performing finance (NPF)	Parameters that indicate the extent to which the bank is able to provide sufficient funds and reserves. Measured by comparing the amount of financing problems divided the total financing extended financing provided to bank depositors.	-
Market structure	The market share of banks (MS)	Parameter that indicates the market share of the bank. Calculated by comparing the total assets of Islamic banks with total assets of the banking industry	+

Estimation model to analyze the data of this study variables are as follows:

$$ROA_{it} = \alpha_1 + \beta_1 FDR_{it} + \beta_2 CAR_{it} + \beta_3 OE/TA_{it} + \beta_4 NFI/TA_{it} + \beta_5 NPF_{it} + \beta_6 MS_{it} + \varepsilon_{1it} \quad (1)$$

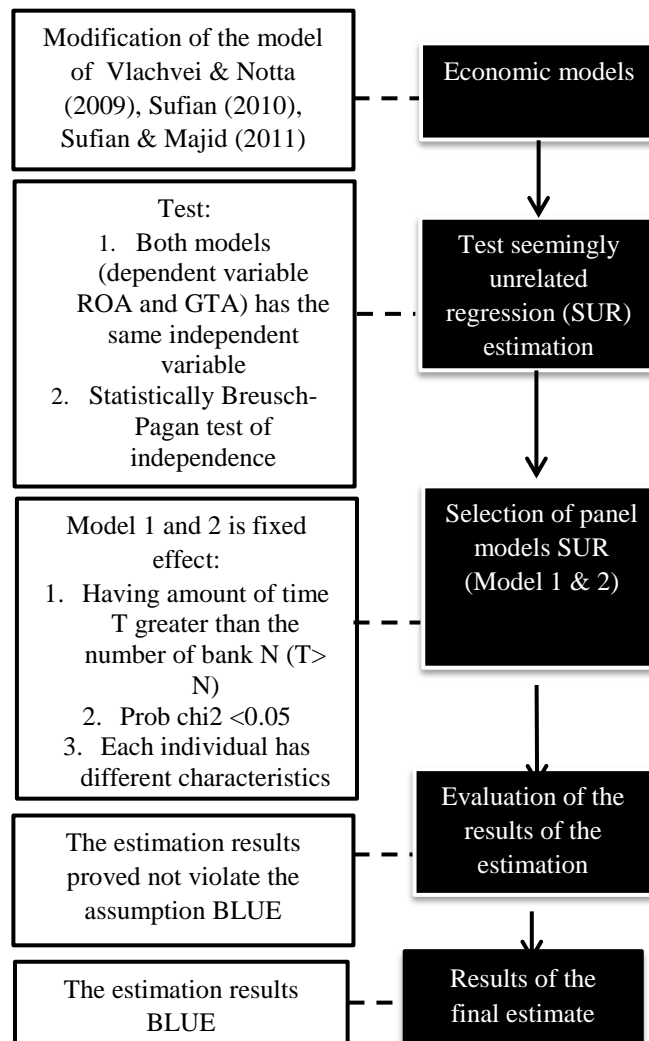
$$GTA_{it} = \alpha_2 + \beta_7 FDR_{it} + \beta_8 CAR_{it} + \beta_9 OE/TA_{it} + \beta_{10} NFI/TA_{it} + \beta_{11} NPF_{it} + \beta_{12} MS_{it} + \varepsilon_{2it} \quad (2)$$

EMPIRICAL FINDINGS

Summary Estimates Research

The results of the estimation process above can be summarized that in the selection panel models, the first model and the second model using a fixed effect model. Summary results of the estimation process is presented in Figure 1.

Figure 1
SUMMARY OF RESEARCH ESTIMATES



RESULTS ESTIMATES

The estimation results of the research model presented in Table 2.

Table 2 RESEARCH MODEL ESTIMATION RESULTS		
Variable	Model 1	Model 2
	Dependent variable ROA (N = 396)	Dependent variable GTA (N = 396)
INTERCEPT	+3,087*** (0,497)	+6,493*** (1,319)
FDR	-0,001 (0,002)	-0,002 (0,003)
CAR	-0,0005 (0,007)	-0,048*** (0,017)
OE/TA	-0,005 (0,009)	-0,027 (0,025)
NFI/TA	+0,001 (0,012)	+0,070 ** (0,031)
NPF	-0,167*** (0,039)	-0,334*** (0,104)
MS	-0,013* (0,012)	-0,027* (0,031)
R ²	0,858	0,669
F (prob)	0.0000	0.0000

*** α = 1%; ** α = 5%; * α = 10%

In first model, test of F stat (global test) stated that this model is significant because the p-value<0.05, so the model is acceptable in describing the dependent variable. With R² of 0.858, or 85.8%, which means that the variation of ROA can be explained by variations of FDR, CAR, OE/TA, NFI/TA, NPF and MS, while the remaining 14.2% is explained by variations in the value of other variables that are not included in this model.

Based on appendix 2, Bank Muamalat Indonesia has a highest constant value because since its presence on 27 Shawwal 1412 Hijri, Bank Muamalat Indonesia has opened to people who want to take advantage of Islamic banks. The presence of Bank Muamalat Indonesia is not only to position itself as the first bank to enforce sharia law, yet equipped with the advantages of real time network on line broadcast in Indonesia and provides services through 312 outlets in 33 provinces, supported by a network of more than 3,800 post office online throughout Indonesia.

In second model, test of F stat (global test) states that this model is significant because the p-value<0.05, so the model is acceptable in describing the independent variables. With the R² of 0.669 means that 66.9% of the variation of GTA can be explained by variations of FDR, CAR, OE/TA, NFI/TA, NPF, and MS, while the remaining 33.1% is explained by variations in the value of other variables that are not included in this model.

Based on appendix 3, Bank Panin Syariah has a highest constant value because Bank Panin Syariah began focusing its financing to the retail sector, consumer and commercial form of projects, construction services and trading. With this strategy, the bank is able to raise the target of financing up to 200% and 300% growth in total assets.

COMPARISON OF THE PERFORMANCE OF ISLAMIC BANKS AND CONVENTIONAL BANKS

During the study period (2010 - 2013), comparison of financial performance related to research variables, between Islamic banks and conventional banks are presented in Table 3 (Irma, et.al, 2015).

Table 3		
COMPARISON OF THE PERFORMANCE OF ISLAMIC BANKS AND CONVENTIONAL BANKS		
Variable		Explanation
ROA		a) Islamic banks have ROA below 1.5%, which the Bank Indonesia regulation No.8/2/ PBI /2006, ROA of banks must be greater than 1.5%, b) Internal and external factors of Islamic banks affect the manager's decision and the impact on ROA.
IB	CB	
1%	3%	
GTA		a) GTA Islamic banks around 5% of its conventional banks, b) Limitations of Islamic banking exposures in tradable sectors and as commodity-based manufacturing sector became one of the obstacles to the growth in assets of Islamic banks.
IB	CB	
3.5%	18%	
FDR		a) FDR Islamic banks in the top 85% (Bank Indonesia Circular Letter No. 6/23 / DPNP, May 31, 2004), b) Good liquidity for banks by 50% - 85%, but there were differences in management between Islamic banks and conventional banks, especially on the nature of its business
IB	CB	
141%	80%	
CAR		a) CAR of Islamic banks above 8% (Bank Indonesia regulation No.15/12/PBI /2013), b) Islamic bank has sufficient capacity to expand the amount of CAR owned.
IB	CB	
17.6%	16%	
OE/TA		a) Islamic banks are more efficient in operating costs compared with conventional banks, b) OE/TA is one way to determine the efficiency of operational costs.
IB	CB	
4.9%	8.6%	
NFI/TA		Revenue from non-financial sector / loans are still below 5%, which means revenues of the banking industry in Indonesia is still dependent on the finance sector / loan, but Islamic banks have started to diversify their products, although not optimal.
IB	CB	
2%	3.5%	
NPF		a) NPF Islamic bank under 5% (Bank Indonesia regulation No.15/2/PBI/2013), b) Management of financing in Islamic banks better than conventional banks, due to differences in the concept of distribution of funds
IB	CB	
0.8%	2.3%	
MS		Market share associated with the approach of market power, small market share makes banks less market power that can degrade its performance.
IB	CB	
9.1%	91.1%	

IB is Islamic banking, CB is conventional banking

CONCLUDING REMARKS AND DIRECTIONS FOR FUTURE RESEARCH

This research found that return on asset Islamic banks in Indonesia affected by the non-performing financing and market share. While the growth of the total assets of Islamic banks in Indonesia is influenced by the capital adequacy ratio, the ratio of non-financing income by total assets, non-performing financing and market share.

It is interesting that the market share has a negative impact both on the profitability and growth of the total assets of Islamic banks. This shows that banks with low levels of market share, it will lack the potential of market forces in the industry, resulting in lower profitability and growth in total assets.

The negative effect between the market share of the return on assets or the growth of total assets can be caused by several things, such (1) as used in calculating the market share of the monthly data by incorporating the entire banking industry in Indonesia; (2) the observation period after the global crisis in 2008, Indonesia's economy is still recovering, so the impact to the performance of Islamic banks and (3) assets of Islamic banks is still very small. If the asset is compared with the entire banking industry in Indonesia, Islamic bank assets accounted for only

5%, means that Islamic banks are still operating below the minimum efficient scale; Islamic banks began operating under optimal level. Although the first Islamic Bank operations in Indonesia already in 1992, but the business cycle of Islamic banks is still at the stage of introduction and maintain sustainability.

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APPENDIX

Correlation matrix of residuals:

	ROA	GTA
ROA	1.0000	
GTA	0.2596	1.0000
Breusch-Pagan test of independence:		
chi2(1)	= 26.694, Pr = 0.0000	

Correlation matrix of between independent and dependent variable

	ROA	GTA	FDR	CAR	OE/TA	NFT/TA	NPF	MS
--	-----	-----	-----	-----	-------	--------	-----	----

ROA	1.0000								
GTA	0.4335	1.0000							
	0.0000								
FDR	-0.2301	-0.0775	1.0000						
	0.0000	0.1239							
CAR	-0.2689	-0.1140	0.1173	1.0000					
	0.0000	0.0233	0.0196						
OE/TA	-0.0348	-0.2329	-0.0682	-0.0237	1.0000				
	0.4902	0.0000	0.1758	0.6379					
NFT/TA	0.1697	0.0767	0.2302	-0.1274	0.1565	1.0000			
	0.0007	0.1276	0.0000	0.0112	0.0018				
NPF	-0.3219	-0.1538	-0.2167	-0.1610	0.0281	-0.0398	1.0000		
	0.0000	0.0021	0.0000	0.0013	0.5771	0.4296			
MS	-0.7569	-0.4565	-0.3699	-0.3615	-0.0715	0.0851	0.4049	1.0000	
	0.0000	0.0000	0.0000	0.0000	0.1553	0.0908	0.0000		

Calculating multi-step estimates...

Iteration 1 : relative difference = .20115857

Iteration 2 : relative difference = 1.996e-07

Seemingly unrelated regression (SUR) in panel data set

One-way random effect estimation:

Number of Group variable:	1	Number of obs	=	396
Panel variable: no		Number of eqn	=	2
Time variable : time		Number of panels	=	1

Random effects $u_i \sim \text{Gaussian}$

$$\text{corr}(u_i, e_{it}) = 0 \text{ (assumed)}$$

Panel type : strongly balanced

	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
ROA						
FDR	-.0012655	.0009836	-1.29	0.198	-.0031934	.0006623
CAR	-.0015495	.0062378	-0.25	0.804	-.0106764	.0137754
OE/TA	-.0036624	.0094214	-0.39	0.697	-.022128	.0148032
NFI/TA	.0010784	.0116824	0.09	0.926	-.0218186	.0239754
NPF	-.1750695	.0393917	-4.44	0.000	.0978631	.2522758
MS	-.0006698	.0103442	-0.06	0.948	-.0196045	.0209441
GTA						
FDR	-.0034881	.0026736	-1.30	0.192	-.0017521	.0087284
CAR	-.0374353	.0168244	-2.23	0.026	-.0704106	-.00446
OE/TA	-.0261206	.0250128	-1.04	0.296	-.0751448	.0229037
NFI/TA	.0710484	.0310063	2.29	0.022	.0102772	.1318196
NPF	-.349959	.10473	-3.34	0.001	.144692	.555226
MS	-.0205629	.0285189	-0.72	0.471	-.0764588	.0353331
sigma_u	see e(sigma_u)					
sigma_e	see e(sigma_e)					

Dependent variables: ROA GTA

Independent variables: FDR CAR OE/TA NFI/TA NPF MS

Seemingly unrelated regression

Equation	Obs	Parms	RMSE	"R-sq"	chi2	P
----------	-----	-------	------	--------	------	---

ROA	396	16	.4142498	0.8583	2398.29	0.0000
GTA	396	16	1.099641	0.6695	802.22	0.0000
<hr/>						
			Coef.	Std. Err.	z	P> z [95% Conf. Interval]
<hr/>						
ROA						
FDR			-.0014729	.0010518	-1.40	0.161 -.0035344 .0005886
CAR			-.0004642	.0065088	-0.07	0.943 -.0122929 .0132213
OE/TA			-.0047918	.0093046	-0.51	0.607 -.0230284 .0134449
NFI/TA			.0014248	.0115258	0.12	0.902 -.0211654 .024015
NPF			-.1670913	.0391125	-4.27	0.000 .0904323 .2437503
MS			-.0130985	.0115498	-1.13	0.057 -.0357358 .0095387
no						
2			-.7152027	.3780455	-1.89	0.059 -1.456158 .0257528
3			-1.939533	.4814436	-4.03	0.000 -2.883145 -.9959208
4			-2.432961	.4116144	-5.91	0.000 -3.239711 -1.626212
5			.217016	.162188	1.34	0.181 -.1008665 .5348986
6			-2.480401	.4572835	-5.42	0.000 -3.37666 -1.584142
7			-2.921601	.4374765	-6.68	0.000 -3.779039 -2.064163
8			-2.43523	.4700106	-5.18	0.000 -3.356433 -1.514026
9			-2.797434	.3562735	-7.85	0.000 -3.495717 -2.09915
10			-2.575167	.4622784	-5.57	0.000 -3.481216 -1.669118
11			-2.705334	.4356595	-6.21	0.000 -3.559211 -1.851457
_cons			3.086695	.4967078	6.21	0.000 2.113165 4.060224
GTA						
FDR			-.001543	.002792	-0.55	0.581 -.0039293 .0070153
CAR			-.0487558	.017278	-2.82	0.005 -.08262 -.0148916
OE/TA			-.0268107	.0246994	-1.09	0.278 -.0752206 .0215991
NFI/TA			.0701397	.0305957	2.29	0.022 .0101732 .1301063
NPF			.3343458	.1038255	3.22	0.001 .1308516 .53784
MS			-.0272949	.0306594	-0.89	0.073 -.0873863 .0327965
no						
2			-2.129532	1.003536	-2.12	0.034 -4.096426 -.1626389
3			-4.146054	1.27801	-3.24	0.001 -6.650907 -1.641201
4			-3.539627	1.092646	-3.24	0.001 -5.681173 -1.398081
5			-.5161643	.4305339	-1.20	0.231 -1.359995 .3276666
6			-3.866157	1.213876	-3.18	0.001 -6.24531 -1.487004
7			-3.620053	1.161297	-3.12	0.002 -5.896154 -1.343952
8			-2.073701	1.247661	-1.66	0.096 -4.519071 .3716687
9			-1.828005	.9457412	-1.93	0.053 -3.681624 .0256133
10			.3746723	1.227135	0.31	0.760 -2.030468 2.779813
11			-4.852752	1.156474	-4.20	0.000 -7.119399 -2.586104
_cons			6.492819	1.318529	4.92	0.000 3.908549 9.077089

hausman fe re

---- Coefficients ----				
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	re	Difference	S.E.
FDR	-.0014729	-.0012655	-.0002074	.0003725
CAR	-.0004642	-.0015495	-.0020137	.0018587
OE/TA	-.0047918	-.0036624	-.0011294	.
NFI/TA	.0014248	.0010784	.0003464	.
NPF	-.1670913	-.1750695	-.3421608	.
MS	-.0130985	-.0006698	-.0137683	.0051377

b = consistent under Ho and Ha; obtained from sureg
B = inconsistent under Ha, efficient under Ho; obtained from xtsur
Test: Ho: difference in coefficients not systematic
$$\chi^2(6) = (b-B)'[(V_b-V_B)^{-1}](b-B)$$
$$= 1689.22$$
$$\text{Prob} > \chi^2 = 0.0000$$

(V_b-V_B is not positive definite)

THE INFLUENCE OF STRATEGIC CONTROL, STRATEGY ORIENTATION, AND BUSINESS ENVIRONMENT ON COMPETITIVE STRATEGY AND ITS EFFECT TO BUSINESS PERFORMANCE

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ABSTRACT

Top managers of firms provide a strategic control as a defence mechanism to anticipate the change from their business environment. And they also should create the best strategy orientation to formulate a suitable competitive strategy, especially in companies who are users of Indonesian space technology. This article used literature review to develop theory and proposition concerning (a) the relation among strategic control, strategy orientation, and business environment; (b) the relation of strategic control, strategy orientation, and business environment on formulating competitive strategy; (c) the relation between competitive strategy and business performance. The result shows that there are relations between its variables to achieve business performance in companies who are users of Indonesian space technology.

Key Words: *Strategic Control, Strategy Orientation, Business Environment, Competitive Strategy and Business Performance.*

INTRODUCTION

The dynamic changes of strategies within the Indonesian space technology development reasons an adaptive strategy action is necessary. This has to be taken account by companies who are users, as with it they will have a precise strategy to compete with. This adaptive strategy action can be a strategic control, such as controlling the premise that function as the company's basic strategic plan that proceeds to commercialize Indonesian space technology. As commonly known, commercialization of Indonesian space technology is still very low. This is caused by the low level of technology absorption (Source: Global Technology Information Report, 2015). The low level of technology absorption causes research and development activities to be low as well therefore its affects in low business performance too (Mizik and Jacobson, 2003). Such opinion is also supported by Xuenan Ju, et al. (2015).

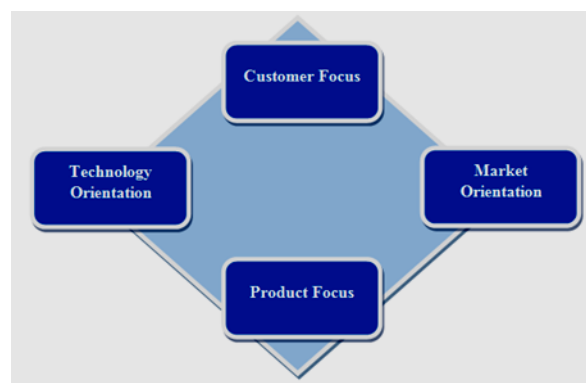
In the effort to support the company's business performance can be measured from the strategic control process (Hoskisson and Hitt, 1982; Geringer and Hebert, 1988; Strempek, 1997; Lazonick and Prencipe, 2005; Ndegwa, 2013; Kisia, et al 2014; Maroa and Muturi, 2015), strategy orientation selection (Tan and Litschert, 1994; Wright, et al, 1995; Avlonitis and Gounaris, 1997; Strempek, 1997; Pelham, 1999; Ge and Ding, 2005; Slater, et al, 2006; Grekoval, 2010; Hemati, et al, 2013, Nakola, et al, 2015), business environment (Chand and

Fraser, 2006; Zeng, et al, 2010; Awino and Kariuki, 2012; Ridwan Ibrahim and Ina Primiana, 2015; and Prajogo, 2016), and the competitive strategy appointed by the company (Tan and Litschert, 1994; Kotha and Paul, 1999; Pelham, 2009; and Awino and Kariuki, 2012).

In its connection with the dynamic changes of the environment, the strategic control has an important role in controlling mechanism that is able to make the company competes. Meanwhile, it also takes a significant role in processing the indecisive environment and increasing performance (Tan and Listchert, 1994; Luo and Peng, 1999; Hitt, et al., 1982; Covin and Slevin, 1989; Ramaswamy, et al., 1994; Desarbo, et al., 2005). In its relation to business environment, the company's main ability to read its environment and able to quickly adapt to changes will be able to generate the right competitive strategy (Courtney and Viguerie, 1997; Slotegraaf and Dickson, 2004; Wijbenga and Witteloostuijn, 2007; and Awino and Kariuki, 2012).

Figure 1

STRATEGIC CONTROL SCHEME (PICTURE WAS TAKEN FROM B. PRATISTHA, "BUILDING A STRATEGIC CONTROL MODEL FOR SPACE TECHNOLOGY PROGRAM IN INDONESIA", 2016)



Evaluating the cause of the low level of business performance from companies who are users of Indonesian space technology requires empirical analysis. To provide a foundation for that analysis, this article develops theory and propositions concerning the relation among strategic control, strategy orientation, and business environment, the relation of strategic control, strategy orientation, and business environment on formulating competitive strategy, and the relation between competitive strategy and business performance. This article also requires synthesizing several literatures; the article begins with an organizing framework and a brief overview to knowing the relation among the variables.

THE RELATION OF STRATEGIC CONTROL, STRATEGY ORIENTATION, AND BUSINESS ENVIRONMENT

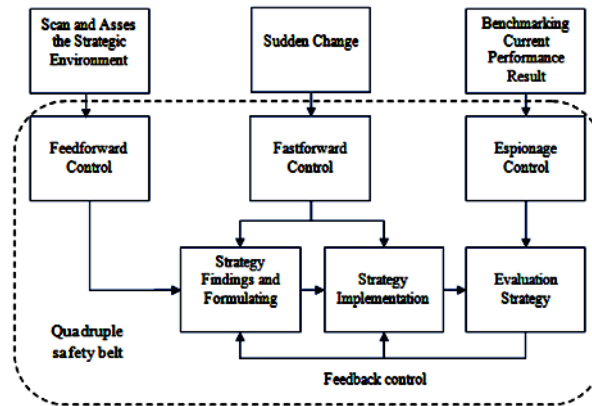
According to Pearce and Robinson (2007), the strategic control is a management effort to detect an undergoing strategy, detect problems or chances under assumptions, and generating

necessary adaptations. The control towards the strategy is a critical concept to a successful management and performance achievement (Geringer and Hebert, 1988).

According to Atkinson (1990) the strategy orientation is very crucial for companies to reach their performance achievement. Slater, et al (2006) explained strategy orientation define the whole strategy, yet also it details the contents and implementations of the strategy in order to reach it fully.

Figure 2

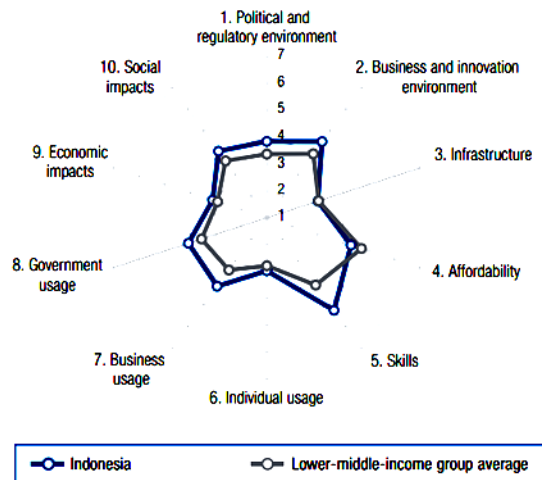
STRATEGY ORIENTATION SCHEME (PICTURE WAS ADAPTED FROM V. ISOHERANEN, ET AL, “STRATEGY ORIENTATION ANALYSIS IN THE MOBILE PHONE CASE BUSINESS”, 2011)



The business environment defines the relevant information route in sets the purpose and decision-making through managerial perception (Selznick, 1948). Consequently, Duncan (1972) explained that the business environment as social and physical factors totality is the terms of a company's consideration in decision making.

Figure 3

THE CONDITION OF BUSINESS ENVIRONMENT IN INDONESIA (SOURCE : THE GLOBAL INFORMATION TECHNOLOGY REPORT, 2015)



Its relation to strategy orientation, its application implicates towards the strategic control (Fiegener, 2011; Callaway and Jagani, 2015). In his research, Fiegener (2011) explains that the strategy orientation has a significant influence towards the strategic control variable.

Tan and Litschert (1994) explain that the environment variable, which has a high influence towards the strategy orientation. Kumar, et al (2011) strengthens this statement as strategy orientation and external environment if combined will result a positive performance for the company.

Sim and Teoh (2011) argued that the business environment has a relation towards the strategic control. Yet, Sim and Teoh (2011) also stated that the combination of strategic control and business environment result a significant relation towards the strategy.

FORMULATING THE COMPETITIVE STRATEGY

Competitive strategy is very important to a company, as with its precise implication then the company will be able to compete in a very tight era. According to Widokarti (2013) the competitive strategy is a choice from an organization to be able to compete. This strategy is much related to the environment and its effect towards the business performance. This is supported by the previous theory by Kim and Lim (1988).

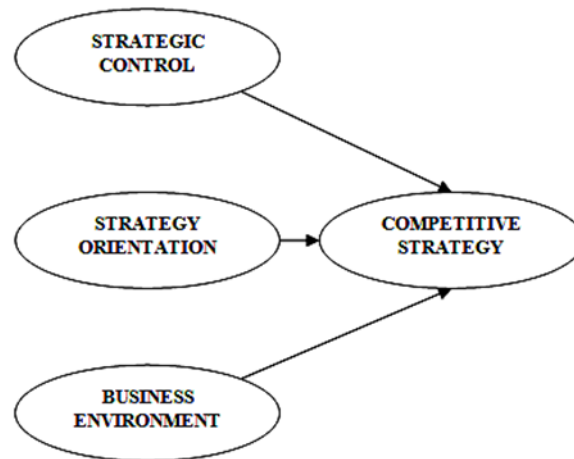
According to Johnson, et al (2002) the choice to compete has to be evaluated with the purpose to choose the right strategy. Johnson, et al (2002) research results are supported by Huu Le and Jorma (2009) research results that stated strategic control has a positive relation with competitive strategy. Meanwhile Govindarajan and Fisher (1990) only argued that there is a connection between strategic control and competitive strategy.

Strategy orientation has a positive and significant connection towards competitive strategy, especially low cost strategy (Menguc, et al, 2007). Similar statements also expressed by Xuenan Ju, et al (2015) and Parviz, et al (2016) that strategy orientation can set competitive strategy. According to Parviz, et al (2016), strategy orientation, such as orientation innovation, has a significant influence towards competitive strategy.

Courtney and Viguerie (1997) theorize a turbulent environment needs to be analyzed to decide on the best strategy. The same train of thoughts also expressed by Slotegraaf and Dickson (2004) that scanning the business environment, internally and externally, are needed to build strategy. Even so, in Awino and Kariuki (2012) research refers a weak connection between business environment and competitive strategy. A different research undertaken by Wijbenga and Witteloostuijn (2007) express that the strategic control, if combined with the environment, will have a significant connection towards performance.

Thus it can be summarized from these literature reviews that strategic control, strategy orientation, and business environment are factors to formulate a company's competitive strategy (see Figure 4.).

Figure 4
THE DETERMINANT FACTORS OF COMPETITIVE STRATEGY



THE RELATION BETWEEN COMPETITIVE STRATEGY AND BUSINESS PERFORMANCE

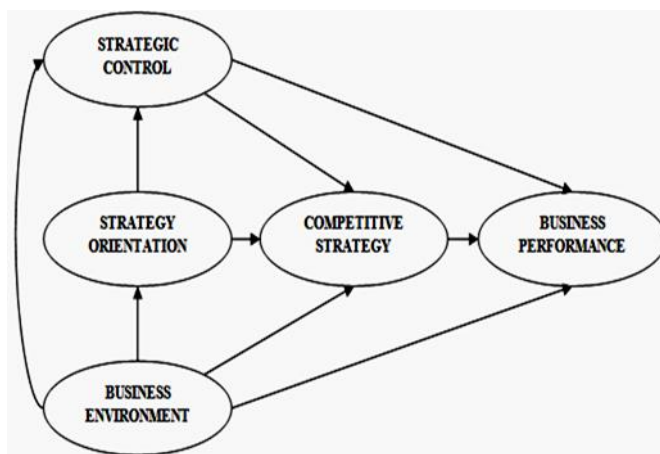
The performance was part of the end result of the company's internal activity, especially in the relation to the utilization of the company strategy resources. In the effort of performance achievement, the company was also influenced by the company's external factor, such as the economy, politic, technology evens the government condition. In its practice, the business performance can be identified financially or operationally. Financially would be such as the market development (Deshpande, et al, 1993; 1998), sales volume (Deng and Dart, 1994), and its level of profit through return on assets (Daft, et al, 1988). Besides from financial factors in the business performance measurement, a measurement on non-financial factors can also be taken account. Such non-financial factors are the customers' reputation (Rajiv, et al, 2000), customers' loyalty and workers reputation (Ittner and Larcker, 2003). Chiesa and Frattini (2007), even research activities and development can also become indicators of measurement towards non-financial performances.

Competitive strategy is an important component that affects the performance (Temtime and Pansiri, 2004 in Ridwan Ibrahim and Ina Primiana, 2015). Dowling and McGee (1994) has also identified there are relation between these two variables, as there is a significant interaction between competitive strategy and performance. Dowling and McGee (1994) argument goes along with Tan and Litschert (1994), Kotha and Paul (1999), Pelham (2009), and Awino and Kariuki (2012). Yet, Ge and Ding (2005) suggested differently, describing that between competitive strategy and performance (financially) there are no significant relation. Ge and Ding (2005) explained competitive strategy as moderating variable thus clarifies strategy orientation and performance relation. Acquaah and Ardekani (2008) research explained that combined competing strategies would result an incremental performance for the company, compared to companies that are only applying only one on their competing strategies.

CONCLUSION

Based on these train of thoughts through theories and previous researches – also empirical studies, the result of the research on companies who are users of Indonesian space technology shows that the business environment influences the company's chosen strategy orientation and strategic control that was being built. Meanwhile, the strategy orientation also has a relation towards the strategic control that the company has developed in facing the dynamic business environment. This research also shows that competitive strategy in companies who use Indonesian space technology was formulated through strategic control, strategy orientation and business environment. Lastly, this research indicates that the chosen competitive strategy can influence the business performance (see Figure 5.) Therefore, it is very clear that the variable that shapes the business performance are strategic control, strategy orientation, business environment, and competitive strategy. It is also indicates that in order to support business performance of companies who are users of Indonesian space technology must try to execute the strategic control to anticipate the changing of business environment, the correct strategy orientation establishment and the competing strategic formulation that is compatible with the company's condition.

Figure 5
THE RELATION OF STRATEGIC CONTROL, STRATEGY ORIENTATION, BUSINESS ENVIRONMENT, COMPETITIVE STRATEGY, AND BUSINESS PERFORMANCE



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SUGGESTION FOR FUTURE RESEARCH

This research is still based on literature review to explain the relation between its variables. It is hoped that the future researches could be undertaken through statistic data to explain these variables interrelation in numbers. This will aid to observe which variable influences the most in a company's development of competitive strategy and its business performance.

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INNOVATION AS A DRIVER FOR ENHANCING TRANSIENT COMPETITIVE ADVANTAGE IN VOLATILE ENVIRONMENT – A LITERATURE REVIEW

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ABSTRACT

In a volatile environment condition, any company is expected to be able to increase their performance. This article intends to analyze essence thought of prominent management leaders in improving business performance. In doing so, this study use literature review by comparing those prominent leaders ideas using Malcolm Baldrige. Seven prominent management leaders are selected through their publication i.e. from their published book, which is selected by purposive judgment criteria that closely related with the selected topic. The results of the comparison showed that prominent management leaders believe that innovation affect business performance. In fact there is a statement that the business organization can change the world by innovation. Innovation classification is divided into two categories, sustaining innovation and disruptive innovation. Sustaining innovation aims to improve efficiency or to improve product quality while disruptive innovation aimed at creating new business opportunities or to be able to disrupt a competitor's business. Because of the importance innovation, they recommend that it should be equipped with the resources and organization.

Key Words: Innovation, Volatile, Transient Competitive Advantage

INTRODUCTION

All businesses have a vision to grow. Most Company including people (employee), management, and stakeholders, want the same thing that their beloved company has to grow bigger. In business activities, all companies want stability, but in reality sometimes companies have to face with volatile environments. In that situation, the companies must be strong, and still grow.

There are many factors affect company to grow and to get bigger. It depends on certain factors such as resources, leadership, capabilities, culture, supply chain, operations strategy, and other factors. However, there is one factor which prominent management leader believes. That factor is a successful key for a company to grow and move forward. This factor can help a company to create an opportunity and to grow either in a stable condition or in a volatile environment. The factor is innovation.

When a company is in a stable condition, an innovation can be directed towards improving efficiency as well as improving quality of products and services of company. On

the contrary when a company is in a state of fluctuation, an innovation can be directed to create new business opportunities, or to create opportunities for disruptive business competitors.

In transient competitive advantage when the business opportunity is very short and a company must have a capability for moving to other business arena, then an innovation is a driver to push a company for growing.

Innovation is an important key factor for a company to grow, but innovation is nothing, if innovation just an idea. Innovation would be beneficial for the enterprise, if innovation can be turned into reality.

LITERATURE REVIEW

Management experts in supply chain management operations especially Melnyk (2011), Heizer (2013) and Schroeder (2013) believe that in the face of business competition, the strength of the supply chain will be a significant thing in winning business competition. According to experts in management operations, supply chain management will be the key when a company implements business strategy with the domain of competitive advantage. However, McGrath (2013) has confidence that business strategy with competitive advantage is no longer effective for volatile environment. It is more effective when using transient competitive advantage. One strategy of transient competitive advantage is building innovation proficiency.

The questions that need to be considered in this research are:

- (1) How is the effect of innovation on business growth?
- (2) Can the innovation be drivers for growing business performance in a volatile environment?

Hopefully, results of this research give some beneficial for business practitioners to improve their business performance.

The Innovator Solution

Christensen (2003) starts with a question “What are the right strategies in crucial for success and works? He suggests that a company will be better if it has two formulation strategies; deliberate strategy and emergent strategy. Source of deliberate strategy is a fact condition; we can analyse data on market growth, segment size, customer needs, competitors’ strength and weakness, and technologies trajectories. On the other hand, emergent strategies is more closely to tactical strategy which cumulative effect of day to day priority and to anticipate of decision maker done by middle manager, engineers, sales people, and financial staff.

The innovation both can be a part of deliberate strategy and emergent strategy. For deliberate strategy, an innovation is a sustaining innovation. This innovation is intended to make a company more efficient or better in quality both of the products. The Innovators make assumptions about future condition and make financial projections. These projections have to be approved by senior executive. Furthermore, there is a team who is responsible for implementation.

For emergent strategy, disruptive innovation has a goal to open up opportunities for new business or to create disrupts business of a competitor. The innovators make the targets and assumptions. All assumptions must be proved by senior manager in order projection and tested whether the assumptions are reasonable.

Chirstensen (2003) has confidence that the innovator's solution has an opportunity to direct a company into a significant and successful company. The innovator's solution is as a promoter management to manage the strategy of development process

Innovator's Dna

Dyer (2009) defines the types of innovators. According to Dyer (2009), individual that considers as an innovator must have certain innovator's characteristics (call innovator's DNA).

Type of Innovators

- (1) Start-up entrepreneurs (those who offer unique value to the market)
- (2) Assign the team entrepreneurs to make innovations
- (3) Create Product innovators
- (4) Create Process Innovators

Model of innovator's DNA with 5 characteristics for generating innovative ideas include:

- (1) **Questioning.** Asking the question to understand how things are really fact. Their questions provoke new insight, connection, possibilities, and directions.
- (2) **Observing.** The ability to identify around the environment includes technology, customers, products, etc. as well as the ability to gain insight and ideas for new ways of doing things from the surrounding environment.
- (3) **Networking.** The ability to establish links with colleagues in order to discover and test ideas. Also the capability to locate and to talk to people who may have different enlightening views to get new ideas.
- (4) **Experimenting.** The ability to create new experiences and to pioneer new ideas.
- (5) **Associating.** Collectively questioning, observing, networking, and experimenting to synthesize into innovative business ideas.

The DNA of Innovative company includes:

- (1) People. Senior executive leads innovation. He can make decision stages of innovation by monitoring and maintaining an adequate proportion of high discovery in every management level and functional area.
- (2) Processes. Process is explicitly able to encourage employees to determine, question, observe, build a network, and experiment.
- (3) Philosophies.
 1. Everyone should be an innovator
 2. Disruption is a part of innovation
 3. A small organized agile team is to be able to spread throughout the organization
 4. Take intelligent risks in creating of innovation.

Dyer (2009) believes that the innovative company has more opportunities to be a significant and a successful company.

The Other Side of Innovation

Govindarajan (2010) has his own thought about innovation. The organization of the future or near the future will much more adopt at simultaneously delivering efficiency and innovation. Efficiency is the object of company while innovation is the way of a company to get an opportunity to grow up the business.

A company can make efficiency through strategy; if a company has a desire to increase efficiency and followed by an innovation that simultaneously happens then a company needs to have an innovation strategy. Innovation strategy is an effective strategy in volatile environment.

Innovation usually comes up into an idea at the beginning. After that a company needs the innovation into realization. Next, the innovation must be followed by the execution. Finally, execution needs the leader.

Govindarajan (2010) has believed that innovation can change the business world.

The Innovator's Dilemma

Christensen (2013) explains about innovator's dilemma. There are facts that some companies, which have more experience and bigger, can fail because of technologies. Technologies are part of innovation. Technologies can be classified as technologies for sustaining innovation and technologies for disruptive innovation. The aims of sustaining innovation are for company efficiency and improving quality of products and services, while disruptive innovation intends to open business opportunity.

A company will face dilemma when a company has a desire to improve quality of product and service with sustaining technologies while the competitor utilizes the disruptive technologies for his business. In the meantime, since disruptive technology offers the customer with simpler, lower price, higher capacity, and user friendlier, then the customer change to use the disruptive technology. At the end, a bigger company can fail because of disruptive technology.

The company must pay attention with disruptive technologies because these technologies might cause great firms to fail.

Christensen (2013) advises for using disruptive technology as follows:

- (1) There is an organization that is responsible for handling disruptive technologies
- (2) Set up small organization separately in order to get an excited early gain and leverage organization scale gradually.
- (3) Set up a plan for facing worst condition. Do not utilize all of the resources to be right at the first rank. Think of the early efforts on commercializing disruptive technology as a learning opportunity.
- (4) Do not count on breakthrough. Search the market to attribute the current technology.

The Discipline of Innovation

Drucker (in press) conveys reviews of source innovation opportunity and discipline of innovation. In discipline of innovation, he makes a description on innovation that better does or better don't do.

There are 7 Sources of innovation opportunity as follows:

- (1) The accidental — success, failure, or the unexpected outside event.
- (2) The mismatch — between actually and reality as it is “to be” or as it “ought to be”
- (3) The need for innovation
- (4) Capitalizing on changes in industry structure and market structure
- (5) Demographic structure changes
- (6) Changing in attention, emotion, and interpretation
- (7) New know-how of engineering, mathematical, economic, social etc.

Principles of innovation are Do'(s) (execute) and Don't(s) (prohibit) of developing into viable business or service.

The Execute includes:

- (1) Do analysis of opportunities
- (2) Innovation is both conceptual and perceptual
- (3) An innovation is to conduct effectiveness, simpleness and focus
- (4) Start the innovation in small area and effective

The Prohibits include:

- (1) Innovation is not the place to show cleverness
- (2) Do not be too wide, do not be flake, and do not do everything at once.
- (3) Do not try innovations dream within a dream

Three conditions for successful innovations are:

- (1) Expand knowledge to facilitate innovation
- (2) Build on strengths to create successful innovation.
- (3) Innovation reflects on the society and economy

Drucker (in press) believes that entrepreneurship is a practice of systematic innovation and innovation is a successful key factor for entrepreneur.

Transient Competitive Advantage

McGrath (2013) argues that all strategies which are related to competitive advantage will not be relevant in volatile condition. McGrath (2013) has designed a new strategy and define a transient competitive advantage for such situation, which a business opportunity has characteristics that advantage coming and going, like wave in a short time.

One of strategies in transient competitive advantage is making innovation in everyday proficiency.

McGrath (2013) also proposes the new logic in transient competitive advantage. The new logic is constructed from the questions; where to compete, how to compete, and how to win. According to McGrath (2013) a company must have a capability to identify the new logic, a company must define business strategy from industry change to arena; the company must realize that opportunity is temporary and is not sustainable or is not competitive advantage; the company must take over the wave of volatile environment

The complete strategies in volatile environment as follow:

- (1) Continuing reconfiguration rather than changing extremely of organization structure; the source must be stable but agile, and flexible in allocation for using talent.
- (2) Healthy disengagement including capability of company to migrate the existing system and their customer to a new system.
- (3) Using resource allocation to promote deftness, key resource under central control, organizing around opportunities.
- (4) Building innovation proficiency. Innovation is on-going and systematic governance process and budgeting for innovation should be separated the business as usual, resource is dedicated to innovation activities.
- (5) Leadership and mind-set of companies facing transient advantages aggressively is focused on external world

McGrath (2013) believes that innovation is one key strategy to enable company creating a new business opportunity.

Accelerate

Accelerate is a proposal written by Kotter (2014). The content of proposal is strategies where opportunities are relatively short challenges and a company is able to respond with agility and creativity. This concept is in line with transient competitive advantage.

Kotter's strategies (2014) propose dual operating strategies. These dual operating strategies are to handle existing operational day-to-day and to handle a new business opportunity. The existing operational handles existing organization with hierarchal structure and a new business opportunity handles other existing organization with network structure.

In this dual operating strategy means and activity of a company simultaneously between sustain technology (or sustaining innovation) and disruptive technology (or disruptive innovation) and to build company with agility for faster-moving. Dual operating strategies consist of five principles and eight accelerators.

Dual operating systems with five principles include:

- (1) The involvement of many people who really participate in the change, not just assigned
- (2) Manage human being to be a "get-to" mindset, not a "must-to" one, and avoid hiring a new crew with great expense.
- (3) Maximize the power of head and the heart, not just the head as a driving force
- (4) Maximize leadership and effective management.
- (5) Do not separate between hierarchy and networks. It is not just the hierarchy that needs to be improved.

Dual operating systems with eight accelerators include:

- (1) Create a sense of importance to a good opportunity
- (2) Create cooperation and mutual involvement
- (3) Be clarity of vision and clarity of the company's strategic initiatives
- (4) Create many volunteers
- (5) Expand opportunities and eliminate barriers to action
- (6) Celebrate when winning the short term
- (7) Sustain acceleration
- (8) Institute change

RESEARCH METHODOLOGY

We have read seven literatures and relate them to innovation. We compare each prominent management leader to find how the effect of innovation on business growth and can the innovation be drivers for growing business performance in a volatile environment.

We use Malcolm Baldrige criteria as a parameter for comparison. These Criteria are quite effective, because from an idea of innovation until realization, an innovation included in all these criteria.

Research Methodology as follows:

- (1) Each of literature is identified whether there is a statement or author's thoughts that is related to the Malcolm Baldrige's criteria:
 - a. Leadership: How is the author's view associated with leadership and make an innovation into reality.
 - b. Strategic Planning: How are the author's views on strategic plans to achieve innovation in a company?
 - c. Customer and Market Focus: How is the author's view of innovation associated with customer and market?
 - d. Measurement, Analysis, and Knowledge Management: How are the authors' views on how to measure, analyse and apply knowledge about innovation?
 - e. Workforce: How is the author's view in realizing innovation-related workforce?
 - f. Process Management: How is the author's view in realizing innovation-related process management
 - g. Result: What are writer conclusions get related with innovation.
- (2) Each author's thoughts are arranged on the tables that match the criteria of the Malcolm Baldrige.
- (3) Each of the Malcolm Baldrige criteria can be compared to every author statement and choose a statement that is related to the theme of innovation as a driver for growing business

FINDING AND DISCUSSION

By Table-1 and Table-2 we can explore all concepts and get more understanding about innovation.

Leadership: A company led by innovators will tend to produce a lot of innovation (Dyer 2009). This statement has a message to us that the head of the company's management, preferably as an innovator

Strategic Planning: Preparing a plan to face the worst conditions (Christensen 2013). An innovation without limitation; therefore, it can be done by anyone in a company;

engineering, lower staff, salespeople, and other management. It makes sense that in the process and implementation some risks may exist. That is why leaders must anticipate if the risk occurs.

Customer and Market Focus: Entrepreneurship is a systematic practice of innovation, (Drucker, in press). Indeed, entrepreneurship requires focusing on customers and markets and an innovation is the way for successful achievement.

Measurement, Analysis, and Knowledge Management: Statement (Drucker, in press) is very clear that systematic innovation begins with analysis of the opportunities.

Workforce Focus: A dedicated resource for innovation activities (McGrath 2013). This statement is based on the belief that transient competitive advantage has a time limit. Therefore, the company should have the ability to move to other business arena. This capability can be identified if companies manage well innovation.

Process Management: Establishing an innovation as the governance processes (McGrath 2013). As mentioned earlier that in a transient competitive advantage has a time limit. Innovation is as a way to get other business opportunities. That is why companies need to process innovation with good governance.

Result: Some statements relate to our theme as follows:

- (1) Business organizations can change the world with innovation (Govindarajan 2010)
- (2) Innovation is a successful key factor for entrepreneur (Drucker, in press).
- (3) Innovation is one of important strategies and enables a company to get an opportunity to improve business performance or survive in volatile environment (McGrath 2013)
- (4) A company must pay attention with disruptive technologies. Disruptive technologies can cause great firms fail. On the other hand, sustaining innovation is efficiency oriented. (Christensen 2013)
- (5) Dual operating system is a solution for handling business challenges with agility and creativity (Kotter 2013)

Table 1
COMPARING THOUGHTS OF INNOVATION IN VOLATILE ENVIRONMENT

No.	Malcolm Baldrige Criteria	Christensen (2003) THE INNOVATOR SOLUTION	Dyer, J. H., et al (2009) INNOVATOR'S DNA	Govindarajan, et. al. (2010) THE OTHER SIDE OF INNOVATION	Christensen (2013) THE INNOVATOR'S DILEMMA
1	Leadership	Not discussed	The company who's led by the innovator, then the company will be more innovative.	Innovation needs a leader who can execute the program	Not discussed
2	Strategic Planning	Innovation is a part of deliberate strategy and emergent strategy	Not discussed	Innovation is uncertain, the leader must think differently about planning.	Set up a plan for facing worst condition
3	Customer and Market Focus	Not discussed	Observing customer is one out of five activities in innovation process	Not discussed	Disruptive innovation is customer oriented while sustaining innovation is efficiency oriented
4	Measurement, Analysis and Knowledge Management	Not discussed	Combine four aspects i.e. Questioning, Networking, Observing, and Experimenting	Not discussed	Not discussed
5	Workforce Focus	Not discussed	The innovative companies are using people as a source of innovation	Each initiative innovation requires a team with a customizable organizational model.	Set up small organization separately in order to get an excited early gain and leverage organization scale gradually.
6	Process Management	Resource allocation process	Innovative company will involve more people.	Innovation is a process from idea to realization.	Not discussed
7	Result	The innovator's solution creates opportunities to enable a company become significant and successful	The innovative company has more opportunities to be significant and successful	Business organizations can change the world with innovation	A company must pay attention with disruptive technologies since they can cause great firms fail. On the other hand, sustaining innovation is efficiency oriented

Table2
COMPARING THOUGHTS OF INNOVATION IN VOLATILE ENVIRONMENT (CONTINUE)

No.	Malcolm Baldrige Criteria	Peter F Drucker (HBR's 10 Must Reads: On Innovation, 2013) THE DICIPLINE OF INNOVATION	McGrath (2013) TRANSIENT COMPETITIVE ADVANTAGE	Kotter (2013) ACCELERATE
1	Leadership	A successful innovation requires leadership	Need alignment between senior management and the commitment of resources	Need more effective leadership, rather than management
2	Strategic Planning	Not discussed	Not discussed	Form a change vision and strategic initiatives
3	Customer and Market Focus	Entrepreneurship is a practice of systematic innovation	Assess the current stage and identification the growth gap	Not discussed
4	Measurement, Analysis and Knowledge Management	Systematic innovation begins with analysis of the opportunities	Not discussed	Not discussed
5	Workforce Focus	Not discussed	Resource dedicated to innovation activities	Involve more people
6	Process Management	Not discussed	Set up an innovation governance process	Do not separate between hierarchy and networks.
7	Result	Innovation is a successful key factor for entrepreneur	Innovation is one of the important strategies. An innovation is a way for companies to improve the performance of the business or the business can survive in volatile environment	Dual operating system is a solution for handling business challenges with agility and creativity

Comparing with other researchers Suroso, E., & Azis, Y. (2015), we get an understanding as follows:

- (1) According to Suroso, E., & Azis, Y. (2015) that mainstreams of innovation typology are radical versus incremental innovation, technological innovation versus marketing innovation, and product versus process innovation. These mainstreams of innovation typology are in line with the results of this research. Radical innovation is almost the same understanding with disruptive innovation, and incremental innovation is almost the same with sustaining innovation.
- (2) According to Suroso, E., & Azis, Y. (2015) that there is an effect of innovation to business growth.
- (3) Technological innovation and marketing innovation is a driver to increase business.

CONCLUSION

The results of this research and also from other researchers Suroso, E., & Azis, Y. (2015) equally come with a conclusion that innovation as a driver to improve business performance.

Innovation classification is divided into two categories; sustaining innovation and disruptive innovation. The aim of sustaining innovation is to improve efficiency or to improve product quality while the aim disruptive innovation is to create new business opportunities or to be able to disrupt a competitor's business.

Innovation without execution is not useful for a company. Moreover, innovation requires leaders to execute.

To accelerate the process of innovation, the enterprise should consider the concept of dual operating systems. Daily operations are handled by the existing hierarchical organizational structure, while the innovation process is handled by the network structure.

Business practitioners can optimize innovation as a driver of business growth.

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ANALYSIS OF MACRO AND MICRO ENVIRONMENT ON THE MARKETING STRATEGY FORMULATION AND THE INFLUENCE TO THE COMPETITIVE ADVANTAGE (CASE STUDY)

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ABSTRACT

The globalization requires a paradigm change in all fields, including the field of marketing. Business competition has demanded that the company has taken action quickly and appropriately in the face of competition. Therefore, every company should formulate appropriate marketing strategies to gain competitive advantage.

The objective of this study is to investigate the role of a macro and micro environment in Marketing Strategy Formulation and its effect on competitive advantage. This research is conducted by using descriptive and explanatory survey methods. The tool of analysis is the structural equation models. The unit of analysis is the enterprises in Len Industri group while the unit of observation is the leaders and managers. The sampling technique is used the stratified random sampling. The characteristics are measured from each respondent of a macro and microenvironment, marketing strategy, and competitive advantage.

The study result shows that the marketing environment concerning the macro environment: economy, local government policy, and technology; as well as the micro environment: vendor, mediator, consumer market, competitors, and consumers affect on the marketing strategy and the competitive advantage.

The analysis of verification invents the following matters: 1) The marketing environment, the macro and micro affect significantly on the marketing strategy; 2) The marketing strategy affect significantly on the competitive advantage.

INTRODUCTION

Every company always compete to perform the innovation and creation in the fields of business, technology, and managerial procedures. They must devise a strategy to achieve the targets and objectives, such as competitiveness and high profitability. To that end, in marketing an effective marketing strategy is needed in accordance with the marketing environment where the company operates.

Len Industri group as one of the state-owned enterprises should be able to compete professionally on a global scale in order to survive and continue to grow. Kotler (2009) warned that the globalization of markets and competition creates a very big change. The right strategy must be applied to achieve success through the utilization of the opportunities that exist in the business environment is fast moving and increasingly competitive.

According to Harper, Arville, and Jean Claude (2000) the successful company is determined by two aspects of matched strategy. First, the marketing strategy should be in accordance with the needs and demands of the environment. Second, the company should be able to implement marketing strategies effectively. The management should formulate a strategy to

bring the company performance achievement. The marketing strategy is one of the important parts to enhance the company's competitiveness.

The marketing strategy is becoming a fundamental tool that can be used to achieve its goals through competitive advantage. The marketing strategy can guide the management in implementing the program and other activities. To formulate and implement of company strategy can be done by combining several strategies simultaneously to obtain optimal performance.

Michael E. Porter (2008) states that there are five sources of competitive forces that must be anticipated and understood by the company, in order to draw up a marketing strategy as to win the competition. The five forces of competition that are the power suppliers, new entrants, buyer power, substitute products, and similar companies. Competition in the business world can be sourced from various parties. Therefore, the marketing management must be able to create a competitive advantage for the company. The study of companies environmental is directed to develop the opportunities of acceptability in the environment. In addition, it also aimed to develop adaptability to face the threats by the company. The recognition and authorization of environment will have a positive impact on the quality of the resulting marketing strategy. The quality of marketing strategies is the key to success achievement of targets and company performance. The performance of a marketing strategy is determined by how good the quality of the input of resources and the quality of analysis of the influenced environmental factors.

The changes in the current environment are rapid and uncertain, making the competition is very high and tight, and so we need the right marketing strategy and effective. This condition requires businesses to think innovative and creatively, so that to maintain the competitiveness of businesses, and not collapse in free competition.

LITERATURE REVIEW

The Interrelationship between the Marketing Environments with the Marketing Strategy

Every businessperson must understand environmental trends and the changes are expected to occur in which the company does business. Attention and a deep knowledge of the behavior and characteristics of the competitors can form strategic-thinking in which indispensable for the long-term development of the company in a healthy manner.

The company environmental condition has a major role in influencing managerial decision making. The monitoring of marketing environment is strategic and necessary. The companies that run business in a rapidly changing market is demanded to conform and follow the changes, adjusting products and services to meet growing market demands satisfactorily.

In environmental conditions that continue to change rapidly, the company's competitive advantage is determined by the ability to serve and satisfy customers that has better than its competitors. Hence, the focus on customers and competitors become a necessary that cannot be avoided.

Kotler and Keller (2009), that the marketing environment affects marketing management's ability to build and maintain successful relationships with targeted customers. Macro and micro environment have significant roles to marketing successful. Therefore, environmental factors should be considered carefully in the process of formulating marketing strategies. It is important for companies to analyze the environment that surrounding the organization (Brooks & Weatherson, 2000).

The complexity and level of change in the company environment will affect the intensity of the marketing strategy planning. Formulation of marketing strategy that considers

environment is very reliable to anticipate the changes and conditions which constantly change and uncertain. According to McCarthy (2006) that each step made in planning and formulating marketing strategy should be oriented in an effort to serve and achieve customer satisfaction. Consumer satisfaction is the main target of marketing concepts and strategies. This means that the process by each company can vary according to the capabilities and characteristics possessed, but the end of goal will lead to the achievement of customer satisfaction. A marketing strategy is a number of the integrated and planned actions to achieve a sustainable competitive advantage (Kotler, 2009).

The Interrelationship between the Marketing Strategy, Competitive Advantage and Marketing Performance

The successful company in the global environment depends on the formulation and implementation of marketing strategy (Knight, 2002). The whole strategic plan will determine the overall mission and goals of the company. The role of marketing activities is shown in the following figure, which summarizes the main activities that involved in managing the customer-driven marketing strategy and marketing mix (Kotler and Armstrong, 2008).

Figure 1
MARKETING STRATEGY DESIGN (ARMSTRONG, KOTLER & DA SILVA, 2006)



Fig. 1 shows the consumer is in the center and the goal is to create customer value and build strong relationships and profitable for the company. The marketing performance is a concept to measure the achievements of companies in the market for a product. Every company interest to know his achievements as a reflection of the successful strategy to win the competition in the market. Kotler and Armstrong (2008) investigate that the quality of marketing strategy is to obtain the value and customer acceptance.

Michael E. Porter (2008) explains that strategy is a very important tool to achieve competitive advantage. Strategy implemented by the management should enable the enterprise to use its core competency in responding the chance of external environment and neutralize the threat. Very important for the enterprise to comprehend the marketing environmental force both in macro perspectives such as economic, local government policy, technological, political and cultural, which currently they have changed fast, and micro perspectives such as the company, vendor, mediator, consumers, and competitors. They have impacts on the capability of the enterprise in its positioning survival at the market.

Refer to Anatan and Ellitan (2009) study, the competitive advantage can be created through the implementation of competitive strategies. Competitive advantage can be achieved by a company to create better customer value than competitors in the same product price, or create the equal customer value with the lower price product (Hansen and Mowen, 2006). A preliminary study by Kotler and Keller (2009), indicates that marketing strategy is an integrated action which aimed to achieve a sustainable competitive advantage.

RESEARCH METHOD

This study is conducted by using descriptive and explanatory survey method. The analysis used is structural equation model (SEM) with the tools of LISREL software. Usage of this model because the researcher wants to measure the influence of the independent variables, namely the macro environment (economic, government policy, technology, social cultural) and the micro environment (competitors, customers, suppliers, public, marketing intermediaries) towards the dependent variable, namely the competitive advantage, through the intervening variable, namely the marketing strategy. Unit of analysis is the enterprises in Len Industri group while the unit of observation is the leaders and managers, with a population of 108. The sampling technique used is stratified random sampling. The objective of this study is to analyze the effect of macro and micro marketing environment on the marketing strategy, and the influence of marketing strategy to the competitive advantage.

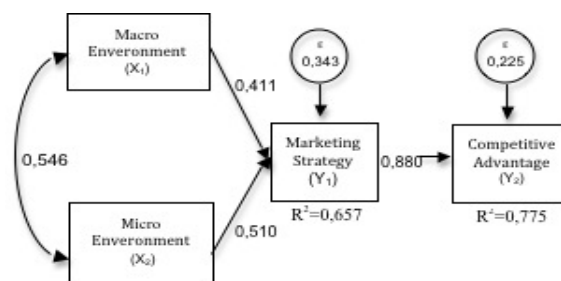
There are two hypothesis in this research:

1. The macro and micro environment affect the determination of the marketing strategy.
2. The marketing strategy affect significantly on the competitive advantage.

RESULT AND DISCUSSION

The results of data analysis that related to variables relationship is shown in Fig. 2.

Figure 2
PATH ANALYSIS



Environmental Effect of Macro and Micro Marketing Against Marketing Strategy

The influence of simultaneous macro and micro environment of the marketing strategy is 65.79% while the remaining is as much as 34.21% are affected by other variables outside the research. This means that the marketing strategy is influenced positively and significantly by the macro and micro environment.

This result is supported by the expert opinion which states that the company's external environmental monitoring is conducted by observing the macro and micro environment. Observations of the external environment according to Kotler and Keller (2009) is the macro environment includes: the economic environment, which refers to nature and economic direction where the a company competes or will compete. Because the relationship among nations due to the global economy, companies have to monitor, predict and assess the health of the economy outside of his own nation, because the health of the national economy will affect the performance of the company or industry.

For that, the company can learn its economic environment to identify changes in trends and implementation of marketing strategies. It means that any uncertainty in the world economy this interdependency will affect companies in all sizes and all types. Conditions of government policy cover how organizations or companies try to influence the competition (Wheelen and Hunger, 2015). Because of that, the company or industry should be cautious and careful in anticipation of a new administration that emerges from the legislation or government policies relating to the industry. Anti-monopoly law, tax laws, deregulation of industry, labor training law, are the areas where the laws or government policies may affect the operations and industry profitability and the company.

Technological environment becomes one of the most dramatic force in establishing the human life. Technology has produced many miracles. Even the level of economic growth of a country is influenced by how many new technologies are discovered. According to Hitt and Hoskisson (2009), technology is required to make and sell goods and services. The technology which used by a company has a very big role in implementing a variety of strategies, such the cost strategy and differentiation strategy.

Besides the observations of the marketing macro environment, the company also must make the observation of micro-marketing environment, which includes suppliers, marketing intermediaries, customers, competitors and Society (Kotler and Armstrong, 2008). In line with the Kotler, Han, Jin K. (2008) states that the environmental conditions (changes in the market and technological change) greatly affects the company's innovations that can improve the performance of the company.

The value of epsilon is equal to 0,343 that show other factors which influence the marketing strategies not yet included in this study. These factors include: regional autonomy policy, political and legal environment (political and legal environment) is the considerable influence in the formulation of marketing strategies, and the company's internal environment variables consisting of a structure, culture, and resources (Wheelen and Hunger, 2015).

The Influence of Marketing Strategy against Competitive Advantage

Based on the data analysis, the influence of marketing strategy to competitive advantage is equal to 77.44% while the remaining is as much as 22.56% are affected by other variables outside the research, some of them are unique resource and market interest. Competitive advantage positively and significantly influenced by marketing strategies. The competitive advantage of a company is very difficult to be built by a single power source without engaging and interacting with other resources. In this case, the synergy interaction throughout the resources can yield the competitive advantage for the company.

The result of this study is supported by the expert opinion which states that a company should direct the marketing strategy to gain a competitive advantage in particular areas of marketing which include cost advantage, differentiation, and focus. Therefore, the company

should formulate appropriate marketing strategies by first make the observation of the corporate environment, the macro and micro marketing environment (Porter, 2008). The marketing strategy refers to the strategy that proposed by McCarthy (2006) that the product market strategy and marketing mix that is still relevant, as a marketing strategy that will be used.

CONCLUSION

The analysis of verification invents the following matters: 1) The marketing environment, the macro and micro affect significantly on the marketing strategy; 2) The marketing strategy affect significantly on the competitive advantage.

The marketing environment, the macro and micro as well as the marketing strategy at the enterprises play an important role on the competitive advantage. The marketing strategy that defined by a company is determined by the extent to which the company considers the state of macro and micro environment. The better the company's marketing strategy is, the higher the competitive advantage that can be achieved.

RECOMMENDATION

The following recommendation is addressed to the leaders and managers of enterprises in Len Industri group:

- a. To analyze macro and micro environment to be more accurate in attention to several aspects:
 - Macro environment: the management should improve the aspect of government policy regarding the company's license, maintain the aspects of technology, and employee's skill in using technology.
 - Microenvironment: the management should increase the attention of competitors and suppliers aspects, maintain the quality of customers product, and the customers who have a tendency to move.
- b. To formulate marketing strategies, the company's management should give more attention to suitability aspect of the quality of products that offered and business strength, and maintain the selection of market attractiveness segments and distribution of products continuously.
- c. To create competitive advantage, the management should increase the level of attention to the aspect of customer loyalty and capability to conduct learning process, maintain the aspect of production linkages with suppliers, and the level of customer fulfillment capabilities.

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THE INFLUENCE OF WORK STRESS AND TRANSFORMATIONAL LEADERSHIP ON WORK MOTIVATION AND IMPLICATION OF EMPLOYEE'S PERFORMANCE (CASE STUDY)

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ABSTRACT

The existence of human resources in the organization plays a very important role, including in the business sector. Transformational leadership is very appropriate to be applied in any organization that demands change. Many studies have noted that the work stress and transformational leadership can influence work motivation and employee's performance.

The objective of the research is to study the influence of the work stress and transformational leadership on the work motivation and their implication on employee's performance. This research is conducted in PT. Len Industri Bandung. The research method used analytic descriptive statistical and inductive, with a tool is path analysis, and the object of research are 500 employees of PT. Len Industri. The measured characteristics from each respondent are work stress, transformational leadership, work motivation and employee's performance.

The analysis of verification invents the following matters: 1) The work stress as well as the transformational leadership affect significantly on the work motivation; 2) The work motivation affect significantly on the employee performance.

Work stress and transformational leadership influence on employee motivation. However, transformational leadership has a more significant effect. Transformational leadership has a role to give more positive encouragement for their subordinates so that they are motivated to do more than expected and its effect on improvement performance. Therefore, to improve performance can be done by increasing the motivation of workers with the right leadership style with the intent to suppress high-stress levels, then the employee performance will increase.

INTRODUCTION

Everyone in an organization can take part as a source of stress for others. Managing self-stress it means controlling ourselves in life. A manager that managing employee stress is more understanding of the causes of stress and take action in order to achieve organization goals. Stress is an imbalance between the desire and ability to fulfill it thus important consequences for himself.

The company must have a performance plan in which employees and managers work together to plan activities that should be undertaken employees, determines the measurement of performance, identify and plan how to overcome obstacles, and achieve a common understanding about the job. An employee's performance would do well to have an advanced expertise, willing to work as paid in accordance with the agreement, have a better future expectation. Salary and hope are the things that motivated employees are willing to work well. A motivated employee will carry substantial efforts in order to achieve work unit objectives. Conversely, an unmotivated employee not only provides the minimum effort in working.

The other hand, business environment changes very rapidly is demanding entities within an industrial sector trying to improve the effectiveness, efficiency, and creativity. Increasing the effectiveness, efficiency, and creativity depends on the willingness of our employees to contribute positively in addressing the changes (Bolger and Somech, 2005).

According to the Organ (2006), organizational citizenship behaviors (OCB) are voluntary behavior that can not be imposed on the boundaries of work and did not formally receive the award, but was able to contribute to the development of productivity and organizational effectiveness. Furthermore, Organ (2006) indicated that organizational citizenship behaviors may contribute to social system increasing the scope of the entire organization.

The organization expert declared the importance of organizational citizenship behaviors for the success of an organization because basically the entire organization can not anticipate the behavior of the organization simply by relying on the job description stated formally only. Thus, the importance of organizational citizenship behaviors in practice is the ability to improve the efficiency, effectiveness, and creativity of the organization through its contribution in the transformation of resources, innovation, and adaptability (Novliadi, 2007).

Several studies in the field of organization found that one of the most important factors in forming organizational citizenship behavior is leadership in the organization (Benjamin and Flynn, 2006). Leadership is the ability to influence people or groups towards the achievement of objectives. Organization needs leaders who capable of creating the vision and mission of the future and inspiring the members of an organization to have a desire to accomplish organization the vision and mission (Appelbaum, 2004). Capability leadership of the organization is a major factor in building a work ethic in the organization (Bersona and Avolio, 2004).

The motivation of one's work in an organization is determined by the created atmosphere and environment. Atmosphere and environment in the organization will determine whether the person carrying out the duties and responsibilities is in accordance with the standard established procedures or not (Bersona and Avolio, 2004). If the climate and environment in an organization are perceived positively and employee needs can be accommodated, he will carry out its work in the organization beyond what was expected (Organ, 2006).

Leaders can influence the behavior of their subordinates through the style that used to manage human resources. During the last two decades, there are two styles of leadership of concern, namely transactional and transformational leadership (Abu, 2007). Transactional leadership is a dynamic transaction between leaders and subordinates, in which the leader set specific targets, monitor progress, and identify the rewards that can be expected by their subordinates if the target can be achieved. While transformational leadership is regarding how to encourage others to develop and produce the performance exceeds the expected standards. Transformational able to inspire others to look at the future with optimism, projecting a vision of the ideal, and can communicate that vision can be achieved.

Transformational leadership is more proactive than transactional leadership in motivating subordinates employee to achieve the better performance. The transformational leader is more sensitive to feel the environment condition, to further establish and disseminate strategic targets. The followers of transformational leader exhibit a high level of commitment to the organization mission, willingness to work hard and high trust to their leader. The impact of transformational leadership is expected to create better conditions for the understanding and dissemination of strategic vision, mission, and goals (Yukl, 2006).

The challenges of globalization and high competition has made the issue of human resources and leadership to be very strategic. Human resource management and development

should be the priority in order to keep employee performance. Similarly, the leadership practices should be able to increase employee motivation to achieve the set targets.

LITERATURE REVIEW

The advancement of science and technology brought rapid changes in all fields of activities of organizations and companies. This advancement is determined by the development of human resources management. Human resources must be managed in order to realize the balance between employees' needs and demands of the organization.

Moses N Kiggundu (in Hartatik, 2014) said that "human resource management is the development and utilization of personnel for effective achievement of individual, organizational, community, national, and international goals and objectives". Human resources management perform the functions of planning, organizing, implementation and control in the areas of production, marketing, finance and personnel. Because of the strategic role of human resources for the successful in the organization, then the existence of human resources in the organization can provide a competitive advantage.

Work Stress

Stress is a reaction of the body to the environment to protect yourself, is a natural defense mechanism that makes one alive. Lower levels of stress make a person think and try to answer the challenges of life, and even make life colorful. But high and prolonged stress will cause interference on the health of body and soul. Luthans (2007) states that stress is a response to the adjustment is affected by individual differences and psychological processes as a consequence of environmental actions, situations that cause too much psychological and physical demands.

Work stress caused by factors work conflict, workload, working time, task characteristics and support groups (Newstrom and Davis, 2002). Work stress more harm employees and companies. On employees, stress can be a decline in morale, anxiety, and frustration. For companies, it could be increased absenteeism and decreased productivity.

Transformational Leadership

The fundamental assumption of transformational leadership is that everyone will follow someone who can provide inspiration, have a clear vision, and a good energy to achieve something big goals. Transformational leaders started everything with a vision, which is the views and expectations of the future which will be achieved by combining together all the forces, the capabilities and the presence of his followers.

Transformational leaders basically have the totality of attention and always tried to help and support the success of his followers. A transformational leader understands the effective new strategies to achieve a goal. Transformational leadership is a process where leaders and followers engage in a mutual process of raising one another to higher levels of morality and motivation (Brahmana and Sofyandi, 2007). The transformational leader can influence their followers due it appears a sense of trust, admiration and embarrassment. Indicators of the success of transformational leadership implementation in the organization, seen through the principles of simplification, motivation, facilitation, innovation, mobility, ready alert, and determination.

Work Motivation

Work motivation is a complex problem in the organization because the needs and desires of each member organization are different from one another. This is because each member organization is unique biologically and psychologically, and develop on different learning processes (Suprihanto, 2003).

Motivation is a condition that drives people towards a specific purpose (Deci and Ryan, 2008). In conjunction with the work environment, work motivation will grow and direct a person's behavior related to a work environment where it is located. McClelland's theory of achievement motivation said that motives in behavior are determined by three requirements, namely the need for power, need for affiliation and need for achievement.

The motive need for power is the need to influence and control others. People who have high power motive used the time to think about how to influence others and very concerned about the position status. The motive need for affiliation is a need to establish and maintain friendly relations familiar with others. Motif need for achievement is a need to do something better. People with high achievement motivation will be a lot more thinking about how to implement a better job or obstacles they may face. For that he will make a plan with the calculation.

Performance

Employee performance is what is done or not done employee. Performance affects how much they contribute to the organization. Improved performance of both individuals and groups will be considered in an effort to improve organizational performance (Robert and Jackson, 2002). Performance is a form of success in carrying out the work. Performance is the "successful role achievement" which obtained a person from his actions. Performance is the achieved result in accordance with a standard rule, during a certain period as compared with the standards and targets set that has agreed.

RESEARCH METHOD

The Research method used is analytic descriptive statistical methods and Inductive of analysis, analysis tool used is the path analysis, with the object of research are employees of PT. Len Industri with a population of 500 employees. Unit of analysis is PT Len Industri while the unit of observation is the leaders, managers and staff. The sampling technique used is stratified cluster random sampling. The objective of this study is to analyze the effect of the work stress and the transformational leadership on the employee's performance.

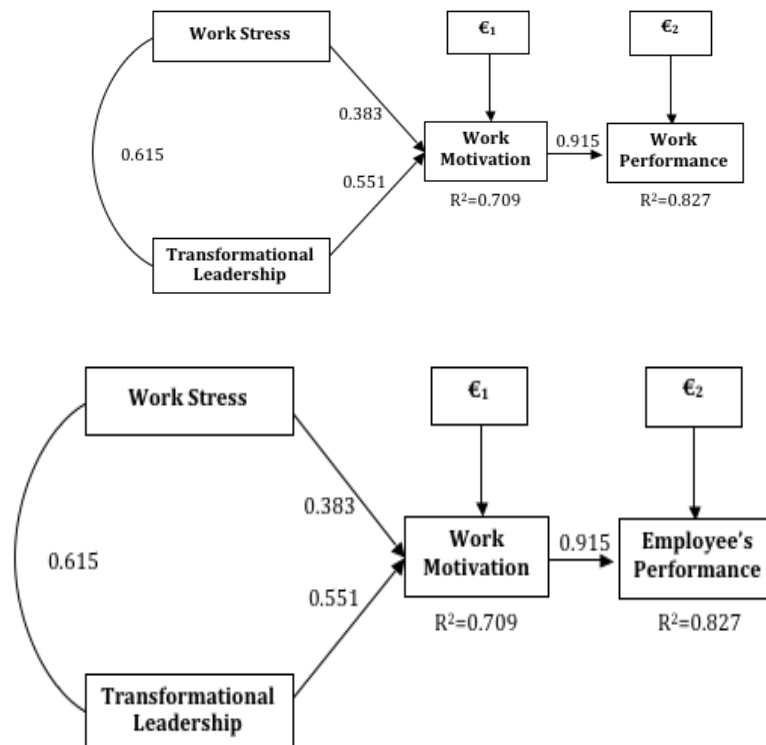
There are three hypothesis in this research:

1. The work stress affect significantly on the work motivation.
2. The transformational leadership affect significantly on the work motivation.
3. The work motivation affect significantly on the employee performance.

RESULT AND DISCUSSION

The results of research data analysis are related to the relationship between the variables as shown in the following figure.

Figure 1
PATH ANALYSIS THE WORK STRESS AND TRANSFORMATIONAL LEADERSHIP TOWARDS THE
WORK MOTIVATION AND ITS IMPACT ON THE EMPLOYEE PERFORMANCE



Effect the Work Stress on the Work Motivation

Refer to data processing that carried out, the resulting effect of work stress on work motivation of 27.65%, indicates that there is significant work stress on work motivation. The reality happens to the employees of PT. Len Industri, the influence is 27.65% due to employees stress management work quite well, so still motivated to improve their work. The results are consistent with the theory by Spector (2008) that the level of workload given to an individual employee will lead to job stress on the employee, in which stress of work will be related to the level employee motivation.

Effect of the Transformational Leadership to the Work Motivation

Based on data processing that has been done, the results obtained that influence of transformational leadership on job motivation is 43.34%, indicating that there is significant transformational leadership on employee motivation. This reality happens to the employees of PT. Len Industries, where the influence of transformational leadership on employee motivation is quite significant. This condition is caused by the influence of leader to his subordinate which could have a significant impact on work activities and leader can give guidance on the duties and work of his subordinates well. The employees are also very supported to their leader's attitude which very communicative in providing information and explanation of work and employment targets to be achieved. This is consistent with the theory of Saydam (2006) which stated that the

activities increased productivity within a company are the responsibility of the leaders (managers). But the increase in productivity is not everything determined by the individual, but also by the overall quality of human resources in the company.

Effect of the Work Stress and Transformational Leadership to the Work Motivation

The result study also indicated that transformational leadership influence on work motivation by 70.99%, this result in both are significant effects. The reality happens to the employees of PT. Len Industri, the influence of work stress variables and transformational leadership on employee motivation quite significantly by 70.99%. This condition can be understood as employee's work stress management is well enough and the leader influence is very good.

Effect of the Work Motivation on the Employee Performance

The other results indicated that the effect of work motivation on employee performance is equal to 83.72%. This result shows that there is an effect of work motivation on employee performance significantly.

This happens to employees of PT. Len Industri that employee motivation in performing duties is high enough, therefore, the employee's performance is also increased. This is caused by the objectives and needs of the employees to improve performance, thus earned income also increased. The employees strive to improve its performance to get more job order therefore, salary and bonuses also increased.

CONCLUSION

The analysis of verification invents the following matters: 1) The work stress as well as the transformational leadership affect significantly on the work motivation; 2) The work motivation affect significantly on the employee performance.

Work stress and transformational leadership influence on employee motivation. However, transformational leadership has a more significant effect. Transformational leadership has a role to give more positive encouragement for their subordinates so that they are motivated to do more than expected and its effect on improvement performance. Therefore, to improve performance can be done by increasing the motivation of workers with the right leadership style with the intent to suppress high-stress levels, then the employee performance will increase.

RECOMMENDATION

In improving the performance of employees, leaders need to give encouraged to employees to work without waiting for orders, but works full of own initiative, encourage employees to assist the work of other areas though out the field work as long as necessary. Meanwhile, to continue to improve the contribution of transformational leadership on employee motivation, leaders to be able to communicate properly about the tasks that performed by the employee in order to avoid misunderstandings.

The other hand, to maintain and improve employee motivation, the management needs to be concerned with the issue of work stress and leadership style. The management should pay attention to the relationship between leaders and their subordinates of the tasks, as well as their

appreciation of the work that has been done, in the form of fair compensation, trust, and greater responsibility.

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IMPACT OF COFFEE PRODUCT LABELING AND PACKAGING ON PURCHASE BEHAVIOR WITH MEDIATING OF BRAND IMAGE AND BRAND TRUST

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ABSTRACT

Packaging is tools to deliver a product that represents the products and services of a product. In the hyper-competition business, packaging becomes one of its customer decisions to buy the product. Packaging and labeling coffee product created brand trust and brand image coffee product. It was much bigger through the packaging and labeling coffee produces will increase brand image and brand trust so the customer will decide to buy the coffee product. The purpose of this research is to know the influence of packaging and labeling to purchase behavior through the brand image and brand trust consumers of coffee bean from and coffee powder across a number of grocery stores, traditional market and modern market channels at Jakarta and surrounding.

Key Words: *Coffee Product Labeling, Coffee Product Packaging, Brand Image, Brand Trust, Purchase Behavior*

INTRODUCTION

Drink coffee when this became a lifestyle modern society. The growth of cafe that sells coffee drinks growing fast in Indonesia, especially in big cities such as Jakarta, Bandung, Semarang, Yogyakarta, Surabaya and Denpasar. Similarly, with retail shops and shopping center began to be filled with the sale of the ground coffee and roasted coffee in packaging. The size of the product packaging coffee from 250 grams per package to 100 grams per package. Some coffee product brand in Indonesia is already known buyers. Coffee products from outside of Indonesia that used to dominate the market coffee in the packaging now began to be replaced by the local coffee brand. Packaging design local coffee started to be made more attractive to be able to compete with the original coffee products abroad. Product display will represent and inform the product to the consumer. Packaging that wrap the products play an important role. The development of the packaging industry in Indonesia has experienced rapid development along with the increase of industrial goods produced in the land. According to the Federation of Indonesian Packaging states targeted national packaging industry can grow 10 percent in 2015, become 77 trillion rupiahs than the year 2014 70 trillion rupiah. (Published by FIP on December 11, 2014)

LITERATURE REVIEW

Coffee Product

Coffee production in Indonesia continues to grow high along the activities of the government push to give attention to the coffee industry in Indonesia. The Ministry of Industry noted the development process of the coffee processing industry in Indonesia is still big chance, because coffee consumption of Indonesian society an average of new reach 1.2 kg per capita per year and is under the coffee importing countries such as the USA 4.3 kg, Japan 3.4 kg, Austria 7.6 kg, Belgium 8 kg, Norway 10.6 kg and Finland 11.4 kg per capita per year. (AEKI, March 2016)

PACKAGING AND LABELING

Packaging is that can customize the package with the function because the packaging is one way to promote products, attracted the interest of consumers to buy a product. Besides the factor of displaying a product in place of the displays in the retail shops or in the shopping center will also affect the purchase. Packaging that attracted the attention of the (*eye-catching*) for consumers will affect the decision to buy. In a very short period of time and limited, packaging must be able to attract potential buyers or visitors a retail store or place shopping mall.

According to Klimchuk and Krasovec (2007) defines that the design of the packaging is creative business associate form,

Structural, material colors, image, typography and design elements with the product information, so that the product can be marketed and apply to the wrapper, protect, send, issued, store and distinguish a product which in the end can communicate personality or product function uniquely consumption.

According to Ampuero and Villas, packaging is direct contact with the product, protecting the product, and prevent from damage, cause he can be identified. (Ampuero and Villas, 2006). Lee and Lye (2003) define the packaging is the science of art and technology that protects the products to oversee the transfer and storage and as a display information. The product packaging coffee really affects the decision to buy from the customer. This can be seen in the store retail sales of coffee products in the packaging. The coffee product manufacturers attempting to display an attractive package to affect the decision to buy the coffee consumer.

Packaging has direct impact to the purchase behavior. The packaging secretly attempting to influence when consumers will take the decision to buy through package design, color display and the other. The packaging into the appliance strategic to differentiate product identity that distinguishes a product with other products (Underwood, Klien and Burke, 2001). On the label of a product is written about the information that explained about the products, for example the content of nutrition. Nutritional content can affect the confidence and consumer expectations. (Kahkonen, Tuorila & Rita 1996, Kozup Creyer and, Burton, 2003, Chandon, 2013).

BRAND IMAGE

In the struggle in the market, marketer attempting to reach the brand image that will affect the customer decided to buy and to purchase repeatedly to be a faithful subscriber. The concept of Brand Image according to the previous researchers measured on the product attribute values and benefits provided product (Reynolds & Gutman, 1984; Faircloth et al. 2001, Hsieh et

al., 2004; Roth, 1995; Bhat & Reddy, 1998); the measurement was conducted to help marketer know clearly brand image products offered and marketer will try to close the weakness of the products and showcase the benefits of the product, for shaping perceptions and customer attitude toward a product.

Labeling has an impact on Brand Image. Labeling and packaging is the window of a product. All of the companies that produce a product from the initial process, namely determination product design to the process of service after sales of the company will be illustrated in the labeling and packaging. Packaging has an impact on the Brand Image; customers very recognize the brand of a product from the form of packaging.

BRAND TRUST

Brand trust will affect purchase customer loyalty. Labeling and packaging a product represents full product and producer of the product. Customer trust toward the product will be studying the customer through the label of the product. The label that provides information with honesty about the product will increase customer confidence toward the brand. (Rundh, 2005)

According to Chanduhuri and Hal Holbrook, (2001) indicators that measure Brand Trust is 1. I trust on this brand. 2. I rely on this brand 3. This is an honest brand 4. This brand meets my expectations 5. This brand is safe. When used to measure Brand Trust coffee products, the authors propose the indicator as follows: 1. I trust in this coffee brand, 2. I rely on this coffee brand, 3. This coffee brand honest writes information about the product, 4. This coffee brand in accordance with my expectations, 5. Coffee products are safe for health.

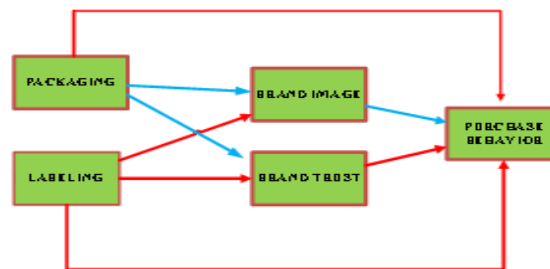
IMPACT OF PACKAGING AND LABELING TO PURCHASE BEHAVIOR MEDIATES BRAND IMAGE AND BRAND TRUST

Purchase decision making for food ingredients triggered by visual stimuli packaging (Clement, Kristensen & Gronhaug, 2013). Brand Image has an impact on the Purchase behavior Eggert, A. &Ulaga, 2002). In making a decision to purchase the product good past experiences of using heading screened product affects the intention of the consumer decision process. Brand trust has an impact on the purchasing behavior, event that loyal customers will continue to buy a product in any circumstances. The process of determining the elect to be purchased will play an important role. (Oliver, 1980; Pritchard et al., 1999; Russell- Bennet et al. 2007, LaBarbera and Mazursky, 1983)

The quality of the product received will affect the brand trust (Corritore et al. 2003). Brand trust is positively related to attitudinal and purchase loyalty, as purchase behavior (Delgado-Ballester and Munuera-Aleman, 2005, Morgan and Hunt, 1994)

CONCEPTUAL MODEL

Based on a study of the previous research, researchers asking research paradigm as follows:

Figure 1

CONCLUSION

1. The Company to design the packaging and the label is unique, special attention, honest in writing information about the products in order to, product brand image will be prominent, consumer confidence will be increased so that they grew decided to buy the coffee product will choose coffee products produced by the company.
2. The manufacturer periodically to design the packaging and product label for avoiding piracy brand.
3. The packaging and the label is the control of the preparation.
4. Suspected of the label and packaging will be shaping perceptions and opinions, product coffee buyers in increasing confidence in the brand in the decision-making purchase products coffee.
5. In the product label coffee there is some additional information that more details about the products, for example, geographic location where coffee farm coffee products produced and processing method of coffee bean also information about organic coffee products.

SUGGESTION FOR THE FUTURE RESEARCH

For further researchers suggested doing research by collecting data and analyzed statistically, because this research is still in the form of research literature, to obtain the results of research through data processing to test the hypothesis that proposed in the research model. The next research builds research model by adding a moderating variable measure coffee products as premium products to measure the importance of the product packaging. Considering the coffee product of late has developed into the premium products.

Further research is expected to show the importance of the design of the packaging and product label to increase branding in the middle of a competitive global market.

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THE INVESTMENT ANALYSIS OF PUBLIC APARTMENT UNDER PUBLIC PRIVATE PARTNERSHIP MODEL TO ATTRACT INVESTORS IN INDONESIA

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ABSTRACT

Indonesia is currently experiencing the rapid economic growth. However the growth caused the low income groups (LIG) cannot afford to buy a house due to expensive price of land. Government has a responsibility to provide affordable housing for LIG despite lack of government's budget. Public private partnership (PPP) can be conducted in which private sector develop mixed used buildings and play cross subsidy between commercial and public apartments under government's guarantees.

To attract private investors, government should calculate the investment analysis resulted in feasible output. This paper uses public apartment project in Bandung as a case study by applying the investment analysis tools namely capital budgeting as well as risk management using risk matrix and scenario analysis especially if portion for public apartment increases over the commercials.

Benchmark from the other countries will also be taken as a reference. As the proportion for LIG increases, feasibility output like NPV and IRR declines, so subsidies and incentives from government could be needed. This paper will recommend subsidy and incentive types for covering the portion of LIG in Public Apartment in order to make the project feasible and attractive for investors. Once this investment model succeeds, it can be used as a reference for further public apartment development under PPP in Indonesia.

Key Words: *Investment Analysis, Public Apartment, Public Private Partnership, Capital Budgeting, Risk Management*

INTRODUCTION

Bandung is one of the largest cities in Indonesia which has a population dense with a high growth rate of 1.88%, with an average density 14,651 inhabitants/km². Population will reach 4 million inhabitants in 2031. One of the implications is the increasing need for facilities and infrastructure services in residential city, including adequate housing for low-income groups (LIG). With increasingly limited urban land, land prices in the city is increasing along with the limitations from Government of Bandung budget in providing residential facilities and infrastructure needed to support the daily activities for the population, then the logical consequence that commonly occur in urban settlements is the emergence of slums area. LIG is not able to reach the mortgage with the selling prices average above IDR 500 million. . The average price of land in Bandung is about IDR 2.7 Million / m² while the house is IDR 6 million / m², it rose again up to 36% into IDR 3.69 million / m² on average in less than a year (Urbanindo, 2014). This increasing price applies to all kinds of other properties, such as apartments and shop houses which rise on average by 20-30% (Urbanindo, 2014). The limited

capacity of the developers is not yet supported by the nature of incentives and subsidies plus the low affordability of LIG. This causes degradation of quality of the housing and creates new slums. It can be seen from the increase in slums from year to year. In 2010, the number of slums in Bandung is 6.11 % and in 2014 increased to 8.5% (Distarcip Bandung City, 2015).

One of the policies from the Government of Bandung in housing and settlements is to develop a vertical housing, in the form of Owned Flats and Housing Rent for LIG. Bandung City Government has given priority to approximately 15 locations for the construction of vertical housing or Housing using government land as a solution for handling slums and fulfillment occupancy becomes feasible and affordable for LIG, which was popularized by the name of People Apartment/Public Apartment or “Apartemen Rakyat”, this concept mixed with commercial apartments, the area of trade and another facilities the so called mixed used building, the commercial area is expected to provide cross-subsidies for public apartments for LIG area. These locations are using government land and some of the city part is the location of the privately owned land in the dense slums which will be acquired by the government. The private sector will have management rights for 60 years with the scheme of Build Operate Transfer (BOT). The problem that arises is the lack of funds from the budget of the city of Bandung to build subsidized public apartments which number is expected to reach 5 trillion, the same amount with total Bandung city budget. Therefore, Public Private Partnership will be the solution to develop people settlement in Bandung

Table 1		
LIST OF PUBLIC APARTMENT LOCATION		
LOCATION	AREA	BUDGET
Paldam	11,336 m ²	377,766,963,400
Nyengseret	15,205 m ²	263,710,425,000
Sadang Serang	10,556 m ²	295,619,355,559
Derwati	32,851 m ²	907,196,035,167
Cingised	7,061 m ²	59,096,568,548
Arjuna	8,203 m ²	68,331,922,877
Bagusrangin	27,808 m ²	1,360,873,130,000
Kiara Condong	28,928 m ²	521,631,1122,500
Simpang Dago	43,808 m ²	TOTAL DEVELOPMENT ALMOST IDR 5,000,000,000,000

Source: Distarcip Bandung, 2015

LITERATURE REVIEW

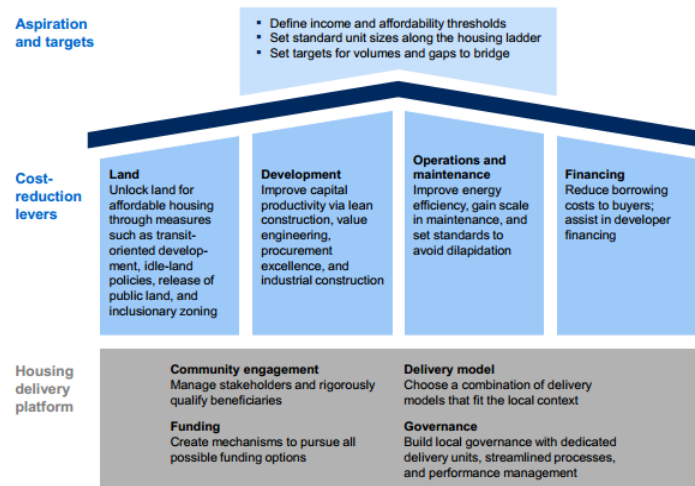
Gilmour et al (2010) explained about public private partnership (PPP) in public housing as a social infrastructure concept which allows the business scheme either “Build Own Operate Transfer” known as BOOT or “Design Build Finance Operate” or DBFO. The case for land owned and acquired by the government like in Bandung, the scheme is BOT so the private sector cannot own the project perpetually. PPP provides the opportunity for the private sector to work on projects that should be the responsibility of government, but since the government has a limited budget, then the private sector can participate to establish, manage and after the investment costs covered and make a profit, this subsidized apartment

will be transferred back to the government. PPP also allows the concept of risk sharing between the government and private companies with a pattern of risk sharing as follows:

Table 2 RESPONSIBILITY ALLOCATION		
Item	Borne by Government	Borne by Private Sector
Land Acquisition	X	
Legal Permit	X	
Site Plan , FS, Development Plan	X	
Source of Fund and Interest		X
Construction Cost		X
Promotion and Marketing		X
Operation and Maintenance		X
Other Operational and Commercial Cost		X

Furthermore Mc Kinsey (2014) has a concept called "affordable house" in housing finance. According to the report, there are four factors to reduce costs by 20% -50% to be an affordable for the lower class. These factors related to land acquisition price; the efficient way of construction; optimal operating systems; and access to property financing.

Figure 1
MC KINSEY'S CONCEPT OF AFFORDABLE HOUSE



Source: McKinsey, 2014

Rationale of Mc Kinsey in housing finance under the corridor of PPP can be composed further into three main factors to assess the investment analysis in public apartment. First, the importance of financing and access to finance as financial structure. It explained by Gultar and Basti, (2014) that elaborate the housing finance system as well as the innovative real estate financing beyond mortgage from commercial banking (Squires et al, 2016). Second, the valuation of investment that covers technical aspects, sales, investment and operational costs, including land and construction costs (Tanaphoom and Bart, 2014 and Rachmawati et al,

2015). Third, risk management and the perception of the behavior of developers, creditors, government and consumers (Schepper, Doods and Haezendonck, 2013). If the capital structure, valuation of investment and risk management from perceptions of stakeholders is calculated, managed and implemented properly then the investment analysis for public apartment will produce results that are feasible

Moko and Olima (2014) conducted a survey in Kenya to 160 professionals in the field of property with the results from the answers of 70 people and found that the method of PPP, government facilities and alternative technologies in building properties can reduce construction costs by main factors which are derived from the price of land, material costs and infrastructure costs. The construction costs of the house consists both physical and financial resources. Geltner and Miller (2001) defines building costs as physical components' direct costs such as land acquisition cost, labor, materials and equipment, developer cost, project management in construction cost and overhead costs plus design, legal and financing cost. In addition, construction costs associated with contractors and associated with the developer. Contractor costs such as the cost of materials, labor and equipment to do the work and cost of finance, management and a wide range of sites and office overhead (Geltner and Miller, 2001). Alaghbari et al. (2012) on the other side define and classify the factors that affect the cost of housing namely: land related factor; construction methods; materials; finishing work and other outside issues that affect the housing cost.

According to Rahardjo, Syriac and Trikariastoto (2014) development of infrastructure in a big city like Jakarta which cost a substantial investment such as highway infrastructure including residential area that relocate and modify slum areas into the settlements are in the need of cooperation with the mechanism of PPP. Nevertheless based on AHP analysis there are some risks to be considered in the legal contract collaboration among the government and the private entities like governance issues have not been good and properly managed yet, different visions of government and the private sector, the benefits are not clear between the government and the private sector, a change of leadership in the government, especially head of the region, the lack of private sector funding, financial constraints, sharing risks balanced between government and the private sector, the inability to change the structure of government and private sector cooperation agreement as well as inaccurate government's promise. This constraint is causing the private sector still hesitate to cooperate with the government (Raharjo, Suryani and Trikariastoto, 2014).

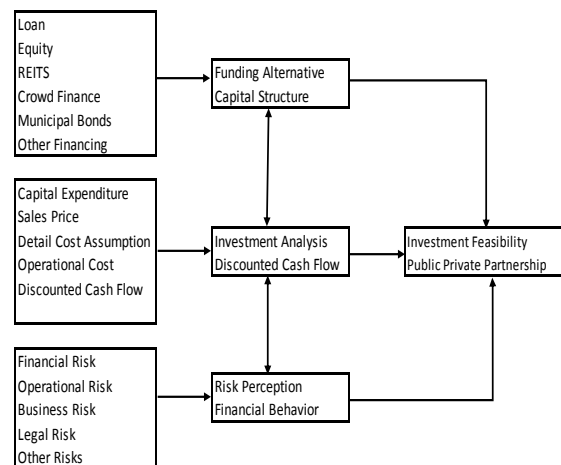
Research by Kane (1999) stated that the subsidy is needed in the housing finance mainly associated with variable leverage, asset risk, interest rate risk, warranties / guarantees and contingencies. Study of the US General Accounting Office in 1996 (Kane, 1999) mentioned state subsidies could reduce tax, it also gave a description of subsidies in the form of credits aid support to developers, Kane (1999) recommended to provide a guaranteed subsidies in order to reduce the cost of funds. While Schaefer (2003) found property for low-income people (LIG) get a lot of subsidized credit, tax breaks including direct subsidies which are the responsibility of the government, especially for groups of seniors and low-income people. In Europe, the concept of subsidy has been widely used and if the government's has lack of capital funding for public apartments, then the public private partnership scheme could be carried out between government and private entities, where government must backing and continue to require subsidization by taking into account asset base, stream of income, factors costs and demand for social housing (ME Whitehead, 2003). Xin Ge (2009) conducted a study to see public housing management in Australia and concluded that there is a provision of

home subsidies in Australia like the facility of cash assistance amounting to 7,000 AUD for first home buyers then there is the facility of advance payments and payment of the mortgage by utilizing pension funds of employees known in Australia as superannuation.

CONCEPTUAL FRAMEWORK

Based on the underlying theory and previous journals, the research framework for calculating FS will generate from three main variables, funding alternative for analyzing capital structure with some financing possibilities like loan, equity, real estate investment trusts, crowd finance, municipal bonds and other financing; investment analysis variables to determine discounted cash flow as a base to calculate NPV, IRR and Payback Period; as well as risk perception as a sign of financial behavior. These three variables will determine the investment feasibility, if the result is feasible, the private sector will involve under public private partnership scheme with the mechanism of Build, Operate and Transfer (BOT) back the facilities to the government. The analysis will take the sample from one slump location in Bandung, Paldam area.

Figure 2
CONCEPTUAL FRAMEWORK



DISCUSSION

Capital Structure

There are many forms of funding sources such as loan, bonds, real estate investment trust, crowd funding, private equity and equity. For this calculation in the first step, it is assumed that the funds are coming from bank loan of 70% portion since the central government has a policy to subsidize loan for public housing especially LIG and internal funds from the developers of 30%. Other sources of fund like municipal bonds is not considered yet since Bandung City still not issue the bonds as waiting the financial report to have a status of unqualified opinion from public accountant by completing legal status of the

assets. Other possibilities like real estate investment trusts (REITS) and crowd finance like Co-assets Singapore also has to cooperate with reputable investment banking and floats in financial center like Singapore, it will takes time since Bandung has to set up the local company for financing vehicle, make all 15 locations into one big portfolio to meet the investment size and go for investor roadshow by choosing the right underwriter/investor. Therefore for the preliminary calculation, it is assumed to use 70% debt and 30 % equity with the Indonesian risk free rate 6.5%, market return from the average Indonesian stock market of 17.46%, unlevered beta from go public property companies which is 0.55 then levered back using hamada's equation resulted in levered beta 1.28. The results of WACC is 12.27%.

Table 3	
WACC Calculation	
Proposed Debt	70%
Proposed Equity	30%
Risk Free Rate	6.50%
Market Return	17.46%
Risk Premium	10.96%
Tax	25%
Beta-Levered	
Beta-Unlevered	0.55
Debt to Equity Portion	233.3%
Beta-Re levered	1.28
WACC Computation	
Equity Cost	20.57%
Debt Cost – Before Tax	11.62%
Debt Cost – After Tax	8.72%
Debt to Capital Portion	6.10%
Equity to Capital Portion	6.17%
WACC	12.27%

Discounted Cash Flow

The calculation will be based on the project's cash flows with the assumptions being used as follows : Time horizon used in the financial model is 3 years; the cost structure of existing capital consists of 30 % equity and 70 % loans; the inflation rate in the range of 4.53 per annum; the discount rate used in the calculation of investment criteria is a WACC of 12.27 %; Revenue entered in the first year of occupancy and retail revenue starting in year 3 when construction is completed; Prices and costs contained on this project FS calculation refers to the prices prevailing in the year of 2014 – 2015. There is a component that is locked, such as a minimum number of apartments' proportion of subsidized rooms and how to pay for that adjustment based on banks' FLPP (Liquidity Facility for Housing Project) as regulated by the government.

The sales price will range from 315 to 350 million rupiah for non-subsidy units (75% rooms) and 262 million for subsidized units (25% rooms) with commercial unit of 545 and price 22.5 million. Forecasted Revenue will be 654 Billion with potential profit of 83 Billion. In this calculation there will be two scenarios, private sector do the project by themselves as regular scenario or using PPP scenario whereby the government will acquire the land and permit, private sector responsible for construction and operational of the building.

Table 4	
COST COMPONENT ASSUMPTIONS	
Parking construction	IDR 3,500,000/m ²
Subsidized Building Cost	IDR 6,845,000/m ²
Non Subsidized	IDR 6,845,000/m ²
Landscape	IDR 1,500,000/m ²
Relocation and Demolition	IDR 176,433/m ²
Marketing	5 % from Sales
Consulting	5 % from Construction Cost
Permit	20% from Land Book Value
Administration	1.5% from Sales
Operational Cost	5 % from Sales
Building Maintenance	3% from Routine Sales
Tax	5% from Commercial Sales
Land Price	IDR 7,500,000/m ²

Table 5			
SALES PRICE AND PROJECTED PROFIT FOR REGULAR SCENARIO			
Type	Unit	Proportion	Sales Price/Bay
Type A Non Subsidy	433 Bay	37.59 %	Starts 350 Mio
Type B Non Subsidy	380 Bay	32.98 %	Starts 315 Mio
Type C Subsidy	339 Bay	29.40 %	Max 262 Mio
Total	1,152 Bay	100%	
Commercial Area	545 Unit		Starts 22,5 Mio

Source: Distarcip Bandung, 2015

For the PPP scheme, the variation of subsidy rooms is larger from type B maximum 262 million; type C and D max 55 million and 144 units which are free for the existing residents in land the proportion of subsidized unit is increasing close to 60%. The total revenue for this scheme is 534 billion rupiah with projected profit 74 billion, result shows that the bottom line profit is declined from 83 to 74 Billion or there is a forgone profit due to develop mixed used building of public apartment for low income groups. This phenomena makes the public apartment is not attractive for private investors/developers.

So there will be differences between two scenarios in this calculation. First is the regular scenario, private sector acquires the land by themselves, sell more commercial (75%) than subsidized units for low income groups (LIG) with the total 1,334 units. The second one is PPP scenario, here the subsidized unit is 50 %, and total units are 1,439.

Table 6 PROJECT FORECAST FOR REGULAR SCENARIO	
Revenue	In Indonesian Rupiah (IDR)
Type A	151,550,000,000
Type B	119,700,000,000
Type C	88,818,000,000
Retail	294,300,000,000
Revenue Total	654,368,000,000
Cost	
Production	348,478,950,000
Operational	90,442,460,000
EPC	83,717,642,500
Total Cost	570,650,357,500
Profit Projection	83,717,642,500

Table 7 PPP SCENARIO			
Type	Unit	Proportion	Sales Price/Bay
Type A Commercial	433 Bay	37.59 %	Starts 350 Mio
Type B Government Program	275 Bay	23.87 %	Starts 262 Mio
Type C Army	60 Bay	5.21 %	Max 55 Mio
Type D Low Cost	240 Bay	20.83 %	Max 55 Mio
Type E Free	144 Bay	12.50 %	Free of Charge
Total	1,152 Bay	100%	
Commercial Area	545 Unit		Starts 22,5 Mio

Table 8 PROJECT FORECAST FOR PPP SCENARIO	
Revenue	In Indonesian Rupiah (IDR)
Type A	151,550,000,000
Type B	72,050,000,000
Type C	3,300,000,000
Type D	13,200,000,000
Retail	294,300,000,000
Revenue Total	534,400,000,000
Cost	
Production	348,478,950,000
Operational	75,803,350,000
EPC	35,372,947,500
Total Cost	459,655,247,500
Profit Projection	74,744,752,500

For the PPP scheme, the government will acquire the land and permit; the rest will be borne by the private sector. The regular scenario possesses higher capital and capex than PPP, but the revenue will be higher because the commercial units' proportion is more than the PPP. As the result, the bottom line profit for the PPP is much lower than the regular scenario as exhibited in the table below:

Table 9		
COMPARISON BETWEEN REGULAR AND PPP SCENARIO		
	Regular Scenario	PPP Scenario
Total Capital	IDR 115,779,947,500	IDR 19,423,947,500
Revenue	IDR 654,368,000,000	IDR 534,400,000,000
Capital Expenditure	IDR 457,824,747,500	IDR 388,851,897,500
Cost	IDR 90,442,460,000	IDR 75,744,752,500
Profit	IDR 106,100,792,500	IDR 74,744,752,500
Interest	IDR 15,615,660,643	IDR 38,131,421,130
Net Profit	IDR 90,485,131,857	IDR 36,613,331,360

The Regular Scenario resulted IRR 23.33%, NPV 28 Billion Rupiah and payback period of 2 years while the PPP scenario makes IRR 16.21%, NPV 12 Billion Rupiah and payback period of close to 3 years as presented in the table below. Hence, the PPP scenario is not attractive for the investors/developers as it has lower IRR, much lower NPV differential and longer payback than regular scenario which it will make developers not interested to involve under PPP scheme. To tackle these problems, it is highly considered if the government can offer incentives or claw back to the private sector in other to make the project more feasible and increase the investment appetite for the private sector in joining PPP in developing public apartment.

Table 10								
CAPITAL BUDGETING RESULT								
Regular Scenario								
Type	C	A	B	Retail	IRR	NPV	Payback	
Bays	339	433	275	287	23.33%	28 Billion	2 Years	
PPP Scenario								
AArmy	FLPP 1	Free	FLPP 2	Commercial	Retail	IRR	PV	Pay BBack
60	240	144	275	433	287	16.21%	2 Bio	3 Year

In PPP model, the mixed used building will have 5 unit types with the retail space for commercial area. Type A, B and Commercial Retail Area will have a positive profit figures as those space is merely sold under commercial scheme. Nonetheless, type C, D and E which is sold to low income groups will generate loss accumulatively reach to 74 Billion Rupiah. Though the combining total profit from all units will generate positive figure, the units for LIG generate cumulative loss. This loss will also sign the number of loss borne by the private sector, subsidize the government due to lack of city budget. Based on this reason, the government should undertake some incentives to private sector to recover the loss from selling units for LIG. In terms of tangible benefit, PPP benefits the government 74 Billion Rupiah from the subsidy borne by private sector in developing unit C, D and E for LIG. Government also can benefit from tax collection, 30% profit sharing from parking and service charge along with the corporate tax potential from operational activities. Benefit for private sector under PPP is the right of 60 years to operate the building. Private sector also benefiting from free permits and license, no need to acquire land which saves almost 85 billion rupiah and get tax incentives for 4,427 billion, it is also having higher commercial space from discretion, 70% profit sharing from parking and service. Therefore, though the government cannot give cash subsidy but the compensation of constructing non-commercial unit for LIG could be substituted with several incentives like:

1. Free Permit and License (government liable to this cost)
2. Free from Land Acquisition (borne by the government)
3. Tax incentives
4. Right to operate and to charge parking fee/retribution and service charge

Aside from financial results, there are many intangible benefits with the development of public apartment using mixed used buildings. Benefit to the government: it is a clear indication that government is pro-poor; have the orientation toward providing affordable settlement for low income groups. Environmentally, this concept will overcome slumps area, utilizing idle assets and reducing housing backlogs. Allowance of 30% down payment that can be obtained from the pension fund (BPJS) for low income groups and guaranteed costumers from the government will be the benefits for the private developers as well as all permits and lands will be the responsibility of the government, Hence, market risk, business risk and legal risk can be shared and private sector/investor can focus in construction and other property management activities. To make the project feasible, here are some policies offered from government to the private sector/developers

Discretion of Building Area

The discretion of area from the existing 11,335 m² with high rise building ratio of 4 under new discretion will increase by 6 times to the area will be 68,016 m² x building coefficient ratio 40% which is 22,672 m². The increasing of development area will enhance the larger potential commercial space sold to the consumers. Discretion can be taken as government policy in order to increase the investor's appetite.

Table 11 BUILDING DISCRETION		
	Existing Regulation	Discretion
Area	11,336 m ²	
Building Coefficient Ratio	40%	40%
High Rise Buidling Ratio	45,344 m ²	
	4.0	6.0
Total Development Area	45,344 m ²	68,016 m ²
		22,672 m ²

Service Charge

Service Charge also will be the managerial right for developers but the government can still have money from the tax. In return, all regular maintenance cost will be borne by the private developers.

Parking

Private sector also has the right to manage parking space to recover investment of developing the public apartment. For 60 years, developers can act as a property management which can charge parking space and commercial property service charge from the tenants as part of incentives from the government to make this project becomes attractive.

Risk Management

Based on literature study, there are some major risks associated with the real estate/public apartment like legal, leverage, financing, and construction cost and inflation risk with the suggested mitigation as presented in table 14. Risk Management should identify the major risks and find the ways the solution to mitigate those risks, in PPP there will more risk sharing method which should be applied

Table 12			
SERVICE CHARGE			
Retail 545 Bays		Tenant 1,152 Bays	
Service Charge per month	IDR 33,333	Service Charge per month	12,000
1 Bay Area	24 m ²	1 Bay Area	24 m ²
SC per Bay/month.	IDR 800,000	SC per Bay/month.	288,000
SC cost/annum	IDR 9,600,000	SC cost/annum	3,456,000
SC Revenue/Annum	IDR 5,232,000,000	SC Revenue/Annum	3,981,312,000
Cost	IDR 1,569,600,000	Cost	1,194,393,600
Profit	IDR 3,662,400,000	Profit	2,786,918,400
Tax	IDR 915,600,000	Tax	696,729,600
Net Profit/Annum	IDR 2,746,800,000	Net Profit/Annum	2,090,188,000

Table 13			
PARKING BUSINESS			
Retail 545 Bays		Tenant 1,152 Bays	
Parking Rate/Hour	IDR 3,000	Subscription	150,000
Car Quantity		Motor	60,000
Motor	1,635 unit	Car	150,000
Car	164 unit	Unit	
Total Unit	1,799	Motor	377
Hours	3,579 Hours	Car	62
Revenue/Day	10,791,000	Revenue/Month	31,912,857
Revenue/Year	3,884,760,000	Revenue/Year	382,954,286
Cost	1,156,428,000	Cost	114,886,286
Profit	2,719,332,000	Profit	268,068,000
Tax	679,833,000	Tax	67,017,000
Net Profit/Year	2,039,499,000	Net Profit/Year	201,051,000

For risk management analysis in the implementation several alternative solutions will be considered like below:

1. Legal risk will be transferred to the government to ensure the permit certainty for private sector (Risk Transfer)
2. Leverage risk will be controlled by the housing regulatory body which will be established by the city government, once the body exists, it will open the registration of public apartment especially for low income groups, the database can be used as a guarantee for ensuring the minimum level of occupancy (Risk Control)
3. Financing Risk will be reduced by the cooperation among Pension Fund (BPJS) for giving the property down payment and the settlement Bank, i.e. Bank BTN and Bank Mandiri (Risk Transfer)
4. Construction Cost Risk will be mitigated by choosing highly reputable national contractor like Wijaya Karya, Adhi Karya and PP, they should place deposit, bank's guarantee and placing other form of collateral/guarantee to ensure the scope, cost and time can run on-time (Risk Transfer)

5. Inflation risk will occur if delay happens. Hence, as time moves further so it affects the price escalation or inflation, in order to minimize the problem, it is critical to keep schedule on the track with risk monitoring by implementing tight and accurate project management and using management project control system which can be evaluated in real time by the government (Risk Control)

Table 14	
RISK MANAGEMENT IN HIGH RISE BUILDING	
Major Risk(s)	The Key Recommendation as Risk Mitigation
Inflation Risk	Inflation should be captured in a detailed cost calculation which accommodates price escalation due to inflation effect
Financing Risk	Partnering with highly reputable financial institution in the long term that support financing on time and with the right amount as required
Construction Cost Risk	Risk Sharing with the competent and credible contractor
Business Risk	Developer must command the market and customer behavior. Location, design and buildings as well as marketing activities should align with the customers' expectations
Legal Risk	The function of land and purpose of the project should be similar. This is the key for getting the design indicator. The design indicator should be checked with the construction department of city before project design
Leverage Risk	The real estate company should understand the demand of housing characteristic of market segment including the customer of project and the financing risk of customer. The company should focus on the maximum profit more than control cost. Project design should meet customers' expectations

Source: Professional Project Management, 2011

CONCLUSION AND RECOMMENDATION

This paper discusses the public apartment for LIG especially in Bandung which is considered not really attractive for developers if the scheme is PPP due to the required space portion for LIG that not too commercial to produce a profit. For making the project feasible and attractive, there must be non-cash subsidies that must be covered in the three main drivers. First, the capital structure with 70 % debt 30 % equity should be backed up with some subsidy incentives like special credit rate from national housing bank (BTN) and state owned bank Bank Mandiri that has subsidized loan for LIG plus support from the national pension fund/BPJS to provide down payment for LIG. These subsidies can reduce WACC for the project. Secondly, the discounted cash flow should include some subsidy incentives like land acquisition and permit cost that are borne by the government so the investment cost will be reduced for private sectors. It also allows private sectors to handle parking, commercial area and service charge to increase the feasibility of the projects. Thirdly, risk management should encompass the risk sharing between government and developers including risk monitoring activities. Risk Sharing concept also means involving reputable national institution like insurance (BPJS), Banks (BTN and Mandiri) and major state-owned developers (Adhi Karya, Wijaya Karya, PP).

If this project including all subsidies and incentives is succeed to implement, it can be copied and pasted into several locations for public apartment across Indonesia. For further research, it is suggested to use more advanced financing structure techniques like Damodaran's optimal capital structure for lowering WACC, discounted cash flow method uses Monte Carlo simulation and real options to include some risks such as delay risk, material price risk, legal permit risk, and risk in construction development phase and so on. In, addition it is also recommended to capture risk behavior to clearly see the real perception of

risk from developers, government, and private sector for accommodating the expectations of investors and stakeholders in the FS calculation.

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COMPETENCY DEVELOPMENT OF CULINARY CREATIVE INDUSTRIES

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ABSTRACT

West Java has become a favorite destination of the national tourism along with Bali and DIY Yogyakarta due to the variety of uniqueness, natural beauty, and creative industries. West Java has a lot of creative industries which become increasingly popular as tourist attractions, such as culinary place, art performance, design and fashion. The development of tourism sector is expected to directly advance the creative industries; and so will the advanced creative industry certainly make West Java become a remarkable tourism destination. Statistical data in 2013 showed that economic contribution of the creative industries is IDR 641.8 trillion or 7% of national GDP. Creative Economy also posted a trade surplus during the period 2010 to 2013 with a surplus of IDR 118 trillion. This reality has led to a realization that the current business world will become industry driven by the development of science and technology (knowledge and technology-based industry), not by the availability of natural resources (resource intensive industry). To face this challenge, the main priority to be the concern of the tourism sector and creative industry actors is how to produce business competitiveness through the proper management of human resources (HR). In facing the changing strategic environment which is very competitive, fostering and development of human resources are must things to do. The ability of creative industries and tourism sectors in conducting HR management activities depends on the management capacity to generate, modify and utilize competency of its human resources to achieve the desired result. The application of competency cannot be separated from someone's ability to use intellectual thought and control emotion. In order that the management can run well, the creative industries need to pay attention to the development of their creative human resources. This is important because the investment in human resources is not small and the results often can only be felt in the long term. This program is also aimed at developing quality and competency of the creative business actors so that they can develop their creative businesses by boosting their productivity and business competitiveness.

Key Words: Competency Development, Creative Industries, Culinary Creative Industries

INTRODUCTION

The development of industry in this century emphasizes the creativity characterized by the rapid development information technology that can be accessed by anyone, anywhere and anytime, and it is supposed to be a key competitive advantage of the organization. The development of creative industries is strongly associated with the development of the tourism industry. Various sectors in the creative industries have become an increasingly popular tourist attractions, such as culinary, art performances, design, and fashion. The positive progress of tourism will directly foster the creative industries; and vice versa; a developed creative industry will make an area become an outstanding tourism destination.

One of the leading tourist potentials of West Java is a culinary tour. West Java culinary richness is extremely diverse. Various types of food and beverage is a mainstream. Our appetite will be spoiled by what this city offers. Various types of food and eating places are scattered in lots of corners of the city accompanied with nice cool air. It starts from a culinary place which is exclusive, luxurious and expensive to place which is unique and traditional. The culinary places to hangout with your young children and the culinary places by the street are all available in West Java.

Bandung culinary, which is one of the cities in West Java, is also an icon for culinary hunters, even those from outside Bandung. Bandung always make a new breakthrough in culinary. The presence of food or snacks which in the beginning may seem strange such as Seblak becomes a trendsetter in Bandung. Seblak is a spicy dish made of wet crackers with hot traditional spice sauce.

Due to the urban development and the increasing competition of the creativity of Bandung citizens, the culinary treasures of Bandung is increasingly varied and rich, not only making the local food and beverage, but starts to spread to Eastern, Western, and even Asia too, such as Sam's Strawberry Area in Dago, Tiramisu at Treehouse Ciwalk, Roppan Toast, Rice Mixed its Korea alias Bibimbap, Tempura Udon in SushiTei, Sushi Roadside in Buah Batu, Green burgers, and many more. Those non-local culinary also become a trendsetter in Bandung.

The competition in the business sector is certainly more increasing. The high level of competition is followed by the culinary business growing market share results in the demand for the culinary business actors to continuously improve the quality of their services. Some of them are aware of the need to keep innovating in order to continue to attract customers. The spearhead of all this is the human resource.

Furthermore, it has led to a realization that the current business world will be industry driven by the development of science and technology (knowledge-and technology-based industry). It does not only depend on the availability of natural resources possession (resource intensive industry). To face this, the main priority for those in the tourism sector and creative industries is how to produce business competitiveness through the appropriate management of human resources (HR).

In facing the changing of the culinary industry environment which is highly competitive, the training and human resource development is a must. The capability of the culinary industry in holding HR management activities depends on the management capacity to generate, modify and utilize the competency of its human resources to achieve the desired results.

It is more realized that the current business world will be driven by the development of science and technology (knowledge and technology based industry) which means that it does not only depend on the availability of its natural resources (resource intensive industry). Thus, the top priority for leaders of organizations today is to produce competitive organizations through the appropriate management of human resources (HR), not only believe that HR is an important asset, but also to translate that belief into the daily practices and procedures of Human Resources Management. The HR management practices show that the today and future workplace have changed. The role of HR in the organization is as important as the work itself so that the interaction between the organization and the human resource becomes the focus of attention of the managers. For that reason, many leaders of organizations try to link the quest for competitive advantage with the use of system competency in the organization by treating its human resources as human capital and not as a mere factor of production.

So do the creative industries. As the belle of the current business, the creative industries through SMEs should be encouraged to play a role in reducing society's economic disparities. It is indeed not an easy work. The creative industries should be able to access the changes quickly.

COMPETENCY OF CREATIVE HR

Creativity is the main capital for creative HR in facing global challenges. In order that the management runs in accordance with expectation, creative industries need to identify competency requirements that must be shared by all creative businesses. By doing this, creative human resources can be developed. This development is conducted to improve quality and competency of creative industries so it boosts productivity and produces competitively creative products. This is important because investment in human resource field is not small, but the results often can only be felt in the long term.

Competency Development is one of the key elements in determining effort to improve the performance of the creative industries which provides sharper and specific perspective to workers and their work. The ability of creative business in conducting HR management activities depends on management capacity to generate, modify and utilize the competency of human resources required to achieve the desired results.

The competency of an individual is something inherent which can be used to predict performance level. Competency of every individual should be able to support the implementation of organization strategy and to support any changes made by management.

Research shows that human resource competency driving the element of creative industries should always be explored, honed and developed so that there will be creative and innovative thoughts in the development. Competencies that must be owned by creative human resources can be acquired through learning and experience. These competencies include technical skill, conceptual skill and human skill which are supported by the competency of business development and managerial, competency of science and technology, competency of network building, competency of program development in creating competition excellence, competency of service optimization, and competency in establishing work ethos. All these competencies, if well-developed, will become major forces in building admirable creative industries.

In a broader concept, the nation's competitiveness no longer relies on natural resources but on innovation (technology) and human creativity in making use of knowledge. In other words, education and training for human resources are the keys to produce competent human resources.

Until now, in the city of Bandung business actors and creative communities often complain about the difficulty to cooperate with government. Collaboration among businesses, communities, academia, and governments are often hampered by the rigid structure of government bureaucracy. Another problem that is often encountered from the government side is about authority and responsibility clashing. As a result, actors of creative industry tend to walk alone without government assistance.

Reflecting on these conditions, it is the right time for creative entrepreneurs to be more professional in conducting their businesses. They need to manage themselves well especially in terms of institutional and human resources so that creative industries can strengthen the competencies. Finally, they can formulate vision and mission, and make change for betterment.

WEST JAVA AS CULINARY PROVINCE

West Java has unique traditional culinary complementing the national culinary available in Bandung. West Java's traditional foods in Bandung are sought by many tourists visiting Bandung, among others are: 1. Bandung traditional foods, namely Mie Kocok, Kupat Sayur, Soto Bandung, Baso Tahu, Siomay, Batagor, Angeun Kacang Beureum, Nasi Timbel, Sayur Asem, Peuyeum Bandung, Peuyeum Ketan, Borondong, Ladu, Ali Agrem, Kolontong, Opak, Rangenang, Kripik Tempe, Kripik Oncom, Awug, Tahu Bandung, Colenak, Batagor, Surabi, Awug Beras, Cimol and so on. 2. Cianjur traditional foods, namely Geco, Tauco, fruit delicacies. 3. Purwakarta traditional foods, namely Satay Maranggi, Simping, Peuyeum Gandul. 4. Bogor traditional foods namely Laksa, Sirop Pala, Kripik Taleus, Asinan Bogor, Lapis Hejo. 5. Cirebon traditional foods, namely Empal Gentong, Tahu Gejrot, Nasi Lengko, Kurupuk Udang, Sirop Campolai, Terasi, Ikan Asin, Emping. 6. Sumedang traditional foods, namely Tofu, Ubi Cilembu. 7. Sukabumi traditional foods, namely Sirop Pala, Kueh Moci, Bika Ambon. 8. Kuningan traditional food namely Peuyeum Ketan. 9. Majalengka traditional food, namely Kecap (soy sauce). 10. Subang traditional foods, namely Dodol Nanas, Sale Nanas. 11. Garut traditional foods, namely Dodol, Sale Kesemek. 12. Tasikmalaya traditional foods, namely Dodol Sirsak, Sale Pisang, Opak, Rangenang. 13. Ciamis traditional foods, namely Minyak Kelapa, Galendo, Kripik Pisang, Sale Pisang. Meanwhile, the traditional beverages of West Java are Lahang, Bandrek, Bajigur, Goyobod, Es Puter, Sakoteng and Es Cingcauw.

CONCEPT OF CULINARY COMPETENCY

To maintain a competitive advantage, creating special and innovative customer value is necessary. Owners have to maintain and develop new competencies to keep being competitive.

Problem Formulation

1. How is the competency description of culinary entrepreneurs in West Java?
2. How is the competency profile design of culinary entrepreneurs in West Java?

Methods

This study was designed using a qualitative approach through in-depth interviews with culinary entrepreneurs. After data collecting, drafting and research designing to obtain object description, the following step is interpreting them. The next stage is developing a descriptive model of culinary entrepreneurs' competency in West Java.

Data were obtained by interviewing the informants who are the representatives of government and culinary business actors.

The unit of analysis of this study is Bandung culinary consisting of: (i) Lotek, (ii) Sundanese cuisine, (iii) Batagor, (iv) meatballs, (v) Snack & cakes like Seblak. Data collection techniques used in this research are questionnaire distribution consisted of written questions and interviews done to obtain information by asking some questions. The questionnaires were distributed to 50 culinary businesses in West Java based on classification, which would then be confirmed to the visitors/domestic tourists who visited Bandung in January 2016. This research uses random sampling technique in selecting culinary businesses.

Results

The potential of entrepreneurship is the ability and strength someone has. According to the analytic result of the interviews and questionnaires, the overview of respondent characteristic from 50 owners of culinary business in West Java was obtained.

Table 1.1
CLASSIFICATION OF CULINARY BUSINESS
IN WEST JAVA

Culinary Type	Number	Percentage
Lotek	13	26%
Sundanese Cuisine	5	10%
Batagor	12	24%
Bakso (Meatballs)	15	30%
Seblak	5	10%
Total	50	100%

Table 1.2
PERIOD OF STARTING CULINARY
BUSINESS
ACTIVITIES IN WEST JAVA

Culinary Type	Number	Percentage
≤2 years	22	44%
3 – 6 years	18	36%
7 – 10 years	6	12%
≥10 years	4	8%
Total	50	100%

Respondents who have daily turnover between IDR 500,000 until IDR 1,000,000 are 12 respondents (24%). Respondents who have turnover under IDR 500,000 per day are quite a lot i.e. 17 respondents (34%). This shows that capacity turnover of most of the small culinary businesses is above IDR 1,000,000 i.e. 42%.

To illustrate each indicator of Bandung culinary businesses competency, it is required to know the average -- the highest and lowest response of the score result in tabulation. The following is the table of competency of the culinary business.

Table 1.3
INDICATORS AND SCORES OF CULINARY BUSINESS COMPETENCY IN WEST JAVA

Indicators	Score	Category
Opportunities Competencies	900	High
Organizing Competencies	830	Fair
Strategic competencies	700	Fair
Commitment Competencies	680	Fair
Conceptual Competencies	660	Fair

Calculation result of the 50 respondents shows that currently, culinary businesses in Bandung city have sufficient competency to manage their business activities. It can be seen from the score obtained from respondent's questionnaires which is between 851 - 1050. This is in category 'fair'. It means that the competencies referring to the attributes required to run the business have been owned by Bandung culinary businesses. These competencies include; ability to see business opportunity, ability to perform the functions of organization and commitment, ability to prepare strategy as well as conceptual abilities.

Furthermore, there are three indicators which fit to the categories. Those indicators are organizing competencies, strategic competencies, and conceptual competencies. Meeting these three indicators means that they have competencies to manage and make strategies as well as concept in doing their culinary businesses.

In organizing competencies, it is demonstrated that small culinary businesses still use simple management concepts and the major issue in organizing competencies lie on the division of work which is not clear yet. This is depicted in the organizational structure.

In strategic competencies, it is demonstrated that the ability of small culinary businesses in determining strategy is in category 'fair'. The problem lies in the ability that is still lacking to expand business network and to understand reward and punishment. In conceptual competencies, it is demonstrated that the ability of small culinary businesses is in category 'fair'. The problem is that they do not show much effort to study operation aspects for developing their business.

CONCLUSION

Based on the analysis, the conclusions of this research can be seen as follows:

1. The West Java culinary businesses have competencies referring to the attributes required to run their businesses. These attributes include; ability to see business opportunity, ability to perform the functions of organization and commitment, ability to develop strategies, and conceptual abilities.
2. In order to manage their business activities well, Bandung culinary businesses should have the following competencies: opportunity competency, organizing competency, strategic competency, commitment competency, conceptual and social competency.

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WORK ETHICS DEVELOPMENT IN TOURISM BUSINESS

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ABSTRACT

West Java has a lot of sectors of creative industry becoming increasingly popular tourist attractions, such as culinary, art performance, design, and fashion. The tourism's positive progress is expected to directly bring positive impact to the creative industries; and conversely the advanced creative industries will certainly make West Java become an outstanding tourism destination. In facing the challenges, the main priority of the actors in the tourism sector and creative industries is how to produce business competitiveness through the proper management of human resources (HR) supported by a high work ethics. Work ethics is the spirit to make an achievement which is not only 'good', but 'excellent'. This spirit is sustainable in which people with high work ethics always try to get success. The work ethics is basically derived from the encouragement within the individual himself (inside-out) although people often assume that a work ethics could result from the encouragement coming from outside himself (outside-in). Environmental and organizational support are essential in building a sustainable work ethics. Therefore, it is necessary for a more in-depth study about the work ethics in the tourism industry and its environment by using Pentahelix perspective.

Key Words: *Tourism Industry, Work Ethics, Work Ethics Development*

INTRODUCTION

The development of tourism industry is strongly associated with the development of creative industry. Creative industry is a strategic sector in supporting the growth and development of national economy and gives important contribution to the national economy like the tourism industry. Both industries should go hand in hand and complement each other. Ooi (2006) explains that creative economy and tourism sector are the two things that affect each other and can be synergized if managed properly. Further Yozcu and (2010) explain that creativity will support tourism destination in creating innovative products which will add value and competitiveness. This tourism destination will finally has higher competitiveness than others.

Various sectors in creative industry have become popular tourist attractions, such as culinary, art performance, design or fashion. The development of creative industry will directly foster tourism industry; and the development of creative industry will make tourism destination excel.

This reality has led to a realization that the current business world will become industry driven by the development of science and technology (knowledge and technology-based industry), not by the availability of natural resources (resource intensive industry). In facing this challenge, the main priority to be the concern of the tourism sector and creative industry actors is how to produce business competitiveness through the proper management of human resources (HR) supported by a high work ethics.

In facing the changing strategic environment which is very competitive, coaching and the development of human resources is a must. The ability of creative industry and tourism sector in holding human resource management activities depends on the management capacity to generate, modify and utilize the competence of its human resources to achieve the desired results.

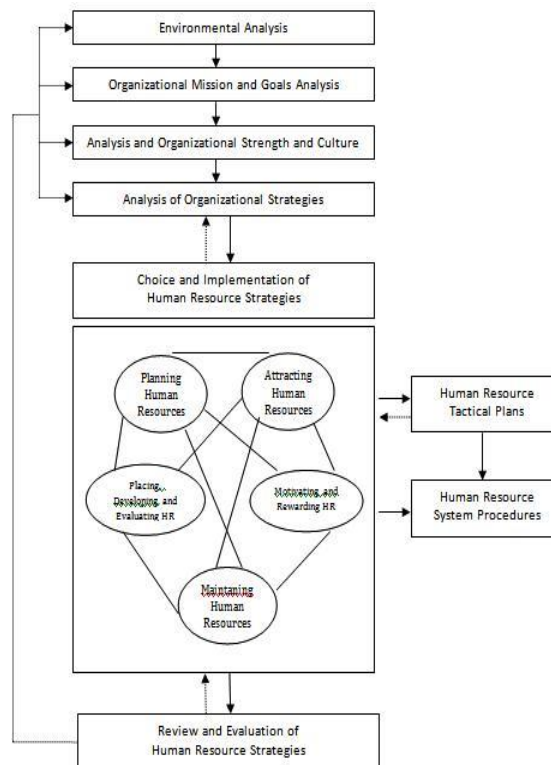
The dynamics of tourism world which could survive amid the storm of strengthening dollars against rupiah to should be faced by improving performance of tourism stakeholders.

HUMAN RESOURCE MANAGEMENT CONCEPT

In human resource management perspective, people who work for a company are source of competitive advantage. Besides, they are also primary and essential key element in order to compete and succeed in achieving firm's goals. Consequently, organization requires human resources (HR) with expertise and unique capabilities which are better than competitors. These qualified human resources are able to respond the demands of business environment changing rapidly.

In the concept of personnel management, known as traditional HRM, employees are simply seen as part of organization's production factor. In the concept of strategic HRM, organization's human resources have been placed as the key element, main asset and strategic partner for organization, by not denying sources outside of them (Syafaruddin: 2001). To be effective, Strategic HRM should be formulated after considering organizational environment, missions and objectives, strategies, and internal strengths and weaknesses, as well as organizational culture. In general, the process of strategy formulation and implementation is explained in the following steps: (Figure 1).

Figure 1
A MODEL OF STRATEGIC HUMAN

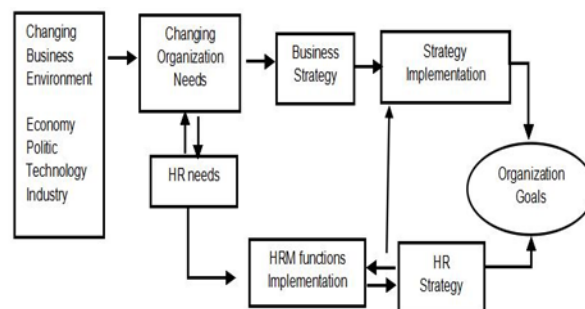


Resource Management

Paradigm shift from HR management has given a different focus for organization's management in carrying out its functions in the organization. There is a tendency to recognize the importance of HR in organization and to focus on the contribution of HR function for the achievement of firm's strategic goals. This can be done by integrating company's decision making strategies with HR functions so the chance for success is larger. As part of the firm's strategic interests, HRM also gives important attention to the aspect of development and how to manage change. It is integrated in three categories of HRM functions, namely the function of searching for qualified human resources in accordance with organization's needs, development function, and function of maintaining human resources in organization (Figure 2).

The establishment of the work ethics is not easy. The awareness to achieve the best results in life takes time. People who are in the family or environment which are caring, teaching them self-reliance, allowing them to be creative, can have more passion or spirit to pursue achievement. This is due to the peculiarities of each region which it usually has in its environment. These particularities are related to what is called culture. Culture is the values, norms, customs, beliefs and habits of a particular human group. Values, norms, customs, beliefs, and habits are ultimately set as view of life and guidelines of certain group of people. So the behavior of a group of people from the same area often have uniformity. Uniformity caused by culture will be one of the determining factors of work ethics. Thus the work ethics of a person is associated with culture existence that affects it.

Figure 2
INTEGRATION OF HRM FUNCTIONS WITHIN ORGANIZATION STRATEGY



In other words, human resources management is currently required to translate corporate strategy and then breakdown into operational functions of HRM. So, the practices of HRM can contribute to the achievement of corporate goals.

Work Ethics

Work ethics is the spirit of human beings to attain achievement which is not only good but "excellent". It is a sustainable spirit so that people who have a high work ethics always try to excel. The growth of the work ethics basically arises from the encouragement coming from within the individual himself (inside-out), although people often assume that work ethics could result from the encouragement coming from outside himself (outside-in). This thinking has led companies to motivate employees in order to achieve high achievement by giving factual reward but this often does not bring significant impact.

Aim of Research

This research is aimed at resulting the study of work ethics development and organizational culture of tourism companies in West Java using Pentahelix perspective.

Research Methods

This study is designed with a qualitative approach through in-depth interviews with people doing culinary business. After data collecting, drafting and research design making aimed at obtaining the description of an object, the next step is to interpret them.

Data in this research were obtained through interviewing informants coming from representative of government and business actors in tourism.

The unit of analysis of this study is classified as: (i) hospitality, (ii) Aviation Company, (iii) Travel Agent, (iv) Ticket Agent, (v) Tour operator. Data collection technique used in this research is the distribution of questionnaires consisted of written questions and interviews to obtain information by asking some questions. The questionnaires were distributed to 50 West Java tourism business actors based on the classification, which would then be confirmed to the visitors/domestic tourists who visit the city of West Java in the period from January August 2015. This research uses random sampling technique.

RESULTS

The potential of tourism business according to the analytic results of the interviews and questionnaire are the overview of the respondent characteristic from 50 respondents of business tourism in West Java

Table 1
CLASSIFICATION OF TOURISM BUSINESS

Type of tourism Business	Total	Percentage
Hospitality	15	30%
Airline Company	5	10%
Travel Agent	13	26%
Ticket Agent	12	24%
Tour Operator	5	10%
Total	50	100%

Table 2
PERIOD OF CONDUCTING TOURISM BUSINESS ACTIVITIES.

Period	Total	Percentage
≤ 2 years	20	40
3-6 years	17	34
7-10 years	8	16
≥ 10 year	5	10
Total	100	50

Most of the respondents answered that the ability they have to run tourism business is gained from experience (58%). The portrayal of work ethics can be seen in the following figure:

Figure 3
OVERVIEW WORK ETHICS IN REGENCY/CITY

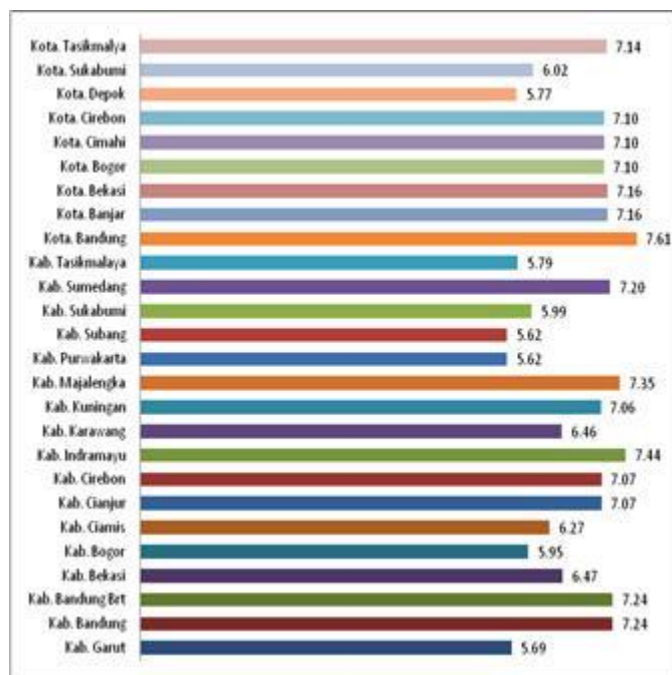


Figure 3 above shows the variation of work ethics in various areas in West Java coming from people in different professions. Bandung citizen have the highest value of 7.6 meaning that people in the city have higher work ethics than in other regions. This makes sense because the city of Bandung is a metropolitan city which is densely populated. So, Bandung people are familiar with competition to attain achievement. With such condition, it is understandable that the people are always eager to achieve accomplishment in certain degree in order to compete among other.

The results are different for some regencies that have lower value of work ethics. Purwakarta regency basically has many industries but the score for work ethics is lower than others, and so does Subang which is famous for agriculture. This condition is probably because they are used to the work they do. So they feel that the work is something that is common, there should be no achievement or there may be other factors influencing work ethics in those regencies.

Based on figure 3, the average score of work ethics in West Java as a whole is 6.68. Next, all the cities/regencies can be made into two groups: the group with work ethics above average and the group with work ethics below the average as shown in table 4.3 below:

Table 3
WORK ETHICS GROUPS

No	Regency / City	Work ethics Score	Group
1	Garut regency	5.69	Below
2	Bandung regency	7:24.	Above
3	Bandung Barat regency	7:24	Above
4	Bekasi regency	6:47	Below
5	Bogor regency	5.95	Below
6	Ciamis regency	6:27	Below
7	Cianjur regency	7:07	Above
8	Cirebon regency	7:07	Above
9	Indramayu regency	7:44	Above
10	Karawang regency	6:46	Below
11	Kuningan regency	7:06	Above
12	Majalengka regency	7:35	Above
13	Purwakarta regency	5.62	Below
14	Subang regency	5.62	Below
15	Sukabumi regency	5.99	Below
16	Sumedang regency	7:20	Above
17	Tasikmalaya regency	5.79	Below
18	Bandung city	7.61	Above
19	Banjar city	7.16	Above
20	Bekasi city	7:16	Above
21	Bogor city	7:10	Above
22	Cimahi city	7:10	Above
23	Cirebon city	7:10	Above
24	Depok city	5.77	Below
25	Sukabumi city	6:02	Below
26	Tasikmalya city	7:14	Above
	Average score of work ethics	6.68	

According to table 4.3 above, there are 15 regencies/cities whose scores of their work ethics are above average and 11 regencies/cities whose scores of work ethics are below average. The regencies/cities with highest work ethics is Bandung (7.61), Indramayu regency (7.44) and Majalengka regency (7.35). While the regencies/cities with the lowest score are Garut regency (5.69), Subang regency (5.62) and Purwakarta regency (5.62).

The contribution of each indicator to the variables forming work ethics can be seen in table 4.2 as follows:

Table 4
WORK ETHICS VARIABLES

No	Indicator	Loading Factor
1	Meaning of Work	0.89
2	Meaning Work for myself	0.92
3	Self-Identity	0.95
4	Role in work	0.98
5	Contributions to the work	0.96
6	Benefits to the organization	0.94
7	The amount of personal contribution	0.94
8	Performance improvement	0.88
9	Feeling on work	0.96
10	Meaning of work for myself	0.97
11	Life's goals	0.84
12	Contributions to the job	0.83

In general, the indicators forming work ethics as shown in table 4.8 describe good score. This means that these indicators have important meaning in work ethics formation of people in West Java.

CONCLUSION

Based on the analysis, the conclusions of the research can be seen as follows:

1. The work ethics of tourism business actors in West Java is still relatively low, in fact the indicators are important because they have high contribution.
2. To improve work ethics, it is necessary to enhance the role of tourism business actors and the role of culture by doing the following: optimizing government's commitment (provincial/regency/city) in West Java to improve the quality and productivity of human resources in West Java managed from management indicators which have low score, and enhancing synergy between some elements of development actors, namely governments, legislators, universities, citizen and private sectors.

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THE IMPACT OF MANAGERIAL COGNITION, HUMAN CAPITAL AND SOCIAL CAPITAL ON STRATEGIC ENTREPRENEURSHIP AND FIRM PERFORMANCE: EVIDENCE FROM INDONESIAN ISLAMIC BANK INDUSTRY

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ABSTRACT

Debates amongst academicians and recent studies have not adequately explained the importance of of strategic entrepreneurial firms that continuously reveal opportunities and exploit their advantages. This paper discusses the dynamic managerial capabilities to clarify the process of creating and developing strategic entrepreneurship which allows firms to continuously find more effective exploration and exploitation. This paper proposes a conceptual framework that explores how managers with strong capabilities on the elements of dynamic managerial capabilities-managerial cognition, managerial human capital and managerial social capital enable firms to encounter opportunities and use their advantages, which in turn enhance firm performance. To develop the conceptual framework, the paper is built on the extant literature review of dynamic capability, dynamic managerial capability and strategic entrepreneurship. The study uses data of Indonesian Islamic banking industry, through which little conceptual model has been previously existed. The article concludes with theoretical implications.

Key Words: *Dynamic Capabilities, Dynamic Managerial Capabilities, Strategic Entrepreneurship, Firm Performance, Islamic Banking*

INTRODUCTION

While Islamic banks presence has played a vital role in the impressive expansion of the Indonesian banking industry over the last decades, its key factors to sustain the banks' performance in today's rapidly changing and competitive environment remains unclear. Being able to develop a superior value proposition may be considered quite difficult for some of the Islamic banks due to nature of the industry as the highly regulated industry. These issues raise the need for Islamic banks' capabilities to be able to develop strategies to make sustaining firm performance and competitiveness more feasible.

Many studies have suggested the potential importance of entrepreneurship for organization in regard with the uncertain environment. Within this perspective, the central role of entrepreneurship is on its ability to recognize and discover new market opportunities occurring within unanticipated environment (Shane and Venkataraman, 2000; Morris, Kuratko and Covin, 2008). However, borrowing the notion of "the age of temporary advantage" developed by D'Aveni, Dagnino and Smith (2010), opportunity discovery (entrepreneurial perspective) alone may not be sufficient to build competitive advantages of firms (e.g., Hitt, Ireland, Camp and

Sexton, 2001). This is because competitions recently become more disruptive, through both exogenous and endogenous changes, which in turn lead to the erosion of advantages even in large and established companies. Moreover, competitive advantage also requires a balanced process of the strategic focus (strategic management perspective). The lack of the strategic focus leads to less capable in managing, leveraging and coordinating the effective use of the resources needed to build competitive advantage of the organization (Sirmon, Hitt, and Ireland, 2007; Kyrgidou and Petrodou, 2011). As a consequence, an approach that proposes balanced capabilities both on discovering opportunities and at the same time emphasizing strategic focus towards the pursuit of the creation of advantage is of pivotal interest for organization (Ireland, Hitt, and Sirmon, 2003).

Strategic entrepreneurship (SE) presumes the proposition to clarify those concerned. SE is explained as the recognition and utilization of opportunities, while simultaneously generating and maintaining a competitive advantage (Kuratko, 2009). The SE concept is initiated as the combination of strategy and entrepreneurship function (Hitt et al, 2001). Through this integration, SE covers both the opportunity pursuing comportment associated with exploration strategies, and the advantage pursuing behavior associated with the exploitation strategies from current organizational capabilities to develop competitive advantages (Ireland and Webb, 2007). Simply, SE encompasses exploration and exploitation strategies.

To date, various frameworks have been employed to develop and refine the concept of SE such as the significance of strategic learning as a determinant in combination with entrepreneurial examination strategies (Siren et al, 2012). They revealed that strategic learning is empirically valid to enable strategic entrepreneurship. With different frameworks, Kyrgidou and Petridou, (2011) draw an argument that internal resources, in particular the competence to explore opportunities and exploit current competitiveness is expected to have an influence on determining strategic entrepreneurial firms. However, research result shows that competence on exploitation and exploration has nothing to do empirically with the process on building strategic entrepreneurship. In addition, other approaches that have been employed are among others job stress and employee retention (Monsen and Boss, 2009), agency theory (Meuleman, Amess, Wright, Scholes, 2009). Scholars also have investigated the relevance of SE in family businesses (Kansikas et al, 2011).

Although scholars have paid significant attention on the importance of SE studies, and done some empirical research on various methods, little empirical attempt has been done to get a clearer understanding on the process of producing strategic entrepreneurial businesses to continuously uncover opportunities and exploit their advantages (e.g., Ireland, Hitt and Sirmon, 2003; Luke and Verreynne, 2006; Upson, Ketchen and Ireland, 2007; Monsen and Boss, 2009) from a dynamic capabilities standpoint and particularly the current approach, dynamic managerial capabilities.

Following Teece, Pisano, and Shuen's (1997) and Adner and Helfat (2003), we argue that, despite the varied aspects of internal and external resources used on aforementioned studies, the basic premise in constructing strategic entrepreneurship is basically defined by firms' capabilities to generate, develop or adapt its resources base, internal and external resources in order to adjust and fulfill the needs of a changing environment (Teece, Pisano, and Shuen, 1997). These capabilities may play a significant role when organizations manage their internal and external resources with effective approach to intensely discover opportunities and simultaneously exploit competitiveness for gaining advantage. The method coping with these capabilities is called the dynamic capabilities viewpoint (Teece et al, 1997). Helfat et al (2007)

define Dynamic capability (DC) as his capability of an organization to decisively produce, expand, or adjust its resource base, and contains a patterned and somewhat practiced activity. Furthermore, these capabilities are naturally built in the management where they may significantly contribute to the entrepreneurial process, which includes inferring opportunities, flourishing and applying feasible business models, developing capabilities, and directing the organization through transformations (Teece, 2016). Thus, Adner and Helfat (2003) proposed an approach that elaborates the importance role of management capabilities in dynamic standpoint, which is known as dynamic managerial capabilities (DMC).

Correspondingly, this paper is aimed at resolving this issue. Relying primarily on dynamic capabilities and framework of dynamic managerial capabilities, this paper aims to propose conceptual framework that explains how managers with strong emphasis on the dynamic managerial capabilities-managerial cognition, managerial human capital and managerial social capital enable firms to powerfully detect opportunities and exploit their advantages, which in turn improve the business performance. Therefore, to develop the conceptual framework, the paper is built on the extant literature review of dynamic capability, dynamic managerial capability and strategic entrepreneurship. Finally, this paper ends up with a number of research propositions.

LITERATURE REVIEW

Strategic Entrepreneurship

Entrepreneurship and strategic management as the basis of SE have been separately acknowledged as a potential means for sponsoring and sustaining firm competitiveness. Entrepreneurship perspective emphasizing on recognition and exploitation opportunities (e.g. Shane and Venkataraman, 2000), and strategic management field, associated with competitive positioning (e.g. Porter, 1980) are sufficient for a firm to enjoy sustained superior performance. Hitt et al, 2001 suggest an incorporation of these separated fields, known as strategic entrepreneurship (SE). SE covers opportunity- pursuing behavior (entrepreneurial) and advantage-pursuing behavior (strategic perspectives) in developing and taking actions for wealth creation (Hitt et al, 2001; Ireland and Webb, 2007). The background of SE construct is consistent with findings that most business are effective in opportunities identification but are less effective in competitive advantages development. In contrast, big, reputable businesses often are relatively more effective in developing competitive advantages but are less capable in recognizing new prospects (Ireland et al, 2003).

Currently, studies on SE becomes substantial and urgent. The potential advantage of the connection of entrepreneurship and strategy is noticeably renowned in the literatures (Burgelman, 1983; Miller, 1983; Venkataraman and Sarasvathy, 2001). Meyer, Neck, and Meeks (2002) advocate that SE proposes a strategic advantage because this intersection refers to as the creation-performance relationship. Focusing on that intersection, Kyrgidou and Hughes (2010) suggest the advantages of SE constructs. They claim that SE can be employed to help a firm develop new approaches, exploit new market potentials and continually refining strategy in a dynamic business environment (Kyrgidou and Hughes, 2010).

Dynamic Capabilities

The primary goal in strategic management is to help firms realize and sustain competitive

advantage. Literature on resource-based view (RBV) has suggested that VRIO model primarily drives the process of achieving and sustaining competitive advantage. The VRIOs are firm's valuable, rare, inimitable, and non-exchangeable resources (Barney, 1991). While RBV proposes to explain those primarily concerned, limited detail explanation of the theory has been provided to clarify how competitive advantages are achieved in the dynamic and disruptive environment (Eisenhardt and Martin, 2000; D'Aveni, Dagnino and Smith, 2010).

The necessity for organization to concurrently involve in exploitation and exploration is significant in this regards. Teece, Pisano and Shuen (1997) then fostered and proposed the dynamic capabilities (DC) concept. They suggest that dynamic capabilities fit to tackle those concerned since the essence of dynamic capabilities perspective is the way firms adjust, integrate and reconfigure its resource and skill base to react to the dynamic competitive environment (Eisenhardt and Martin, 2000; O'Reilly and Tushman, 2008; Teece, Pisano, and Shuen, 1997). The basic premise built on the theory is that capabilities to sensing and seizing new opportunities, which in turn reconfiguring their internal and external resources in line with identified opportunities and changes are the key factors to create and sustain their competitiveness (Teece, 2012, 2009).

The framework of DC has attracted scholars. Some conceptual and empirical studies on the methodology have been done (e.g., Helfat, 1997; Eisenhardt and Martin, 2000; Helfat and Peteraf, 2003; Verona and Ravasi, 2003; Teece, 2007, 2009). For example, Zhou and Li (2009), based on their empirical research conducted in 380 firms in China represented as the emerging economies, indicate that strategic orientation strategic orientations are significant carters of adaptive competence, a key feature of dynamic capabilities. Marcus and Anderson (2006) observed the way dynamic capabilities support firms' capability on social responsibility and the organization's competitive advantage. They found that DCs affect comapny's capability in a business competency, not a social competency.

Dynamic Managerial Capabilities

Dynamic managerial capabilities (DMC) represent the ability of managers to decisively generate, encompass, or modify an organization's resource base (Adner and Helfat 2003; Helfat et al. 2007). The development of DMC approach is envisioned to extend the supporting dynamic capabilities standpoint (Eisenhardt and Martin, 2000; Teece, Pisano, and Shuen, 1997) by highlighting the role of managers, individually and in teams (Augier and Teece, 2009; Harris and Helfat, 2013; Kor and Mesko, 2013; Martin, 2011; Teece, 2012), specially in its emphasis on the capacity of managers, individually and in teams, to influence strategic change" (Helfat and Martin 2014).

Adner and Helfat (2003) suggest that there are three essential elements of DMC that provide the capability to direct strategic change, i.e., managerial cognizance, managerial social assets 1, and managerial human assets. These capabilities come from the previous studies on firm's managerial human capital done by Castanias and Helfat (1991, 2001), on social relationships by Burt (1992), and on managerial cognition by Hambrick and Mason (1984).

The significanc of DMC method for organization is derived from the proposition built in the theory. DMC proposes to deliver a particular attention on managerial impact on strategic change. Moreover, it helps to explain the relationship between the managerial decision eminence, strategic change, and organizational operation. Recent empirical works have concluded accordingly. Martin (2011) discussed Dynamic Managerial Capabilities and the Multibusiness Team using inductive approach and a constant comparison analysis. The study

proves that executive leadership groups played a generous role in detecting and grabbing opportunities and managing threats in a resolute way.

Another work by Sirmon and Hitt (2009) revealed that the DMC deals with how the critical role of managers in managing resources linked to firm performance. Recently, Helfat and Martin (2015) elaborate more. Reviewing and assessing several previous works on the DMC approach, they concluded that managers with strong capabilities emphasis on the managerial perception, social capital, and human capital, firm performance and different outcomes. However, amongst those conceptual and empirical study on the DMC, the approach remains limited (Castanias and Helfat, 2001; Helfat and Martin, 2015), especially on strategic entrepreneurship.

Through amplification on the extensive role of management capabilities in determining the current and future of organization, Adner and Helfat (2003) further proposed a concept of dynamic managerial capabilities (DMC). DMC is defined as the capability of managers to generate, encompass, or adjust the resource base of an organization. In this circumstance, competitive advantage holds when a resource or capability (or set of resources and capabilities) produces relatively more value than do similar resources and aptitudes of opposing organizations (Helfat et al., 2007). DMC is further propositioned with three attributes, i.e., managerial human capital, managerial social capital and managerial cognition (Adner and Helfat, 2003).

Establishing Strategic Entrepreneurship from a Dynamic Managerial Capability Perspective

As discussed previously, the major concern of the strategic entrepreneurship studies is to find a balanced capabilities on how firms' exploitation strategies build and sustain advantages while concurrently uncovering new opportunities (Hitt et al., 2011; Hitt et al., 2001; Ireland et al., 2003). SE literature highlights that firms' capabilities to manage resources deliberately is significant because those process resources positioning allows the simultaneous use of opportunity- and advantage-seeking behaviors (Hitt et al., 2001; Ireland et al., 2003). Moreover, in the hyper-competitive environment, it is clearly seen that acquiring resources is quite difficult, leading to a consequence where a temporary advantage is achieved through efficiently sensing, creating timely required modifications and applying resources management dynamically with regard to reacting to environmental change (D'Aveni et al. (2010).

The view of dynamic managerial capabilities relates to strategic entrepreneurship. As discussed earlier, varied aspects of internal and external resources have been used to allow strategic entrepreneurship. Drawing on the dynamic capabilities and dynamic managerial capabilities (Teece et al, 1997; Adner and Helfat, 2003) may explain strategic entrepreneurship. These capabilities may play a significant role on how organizations manage their resources with effectively to powerfully discover opportunities and simultaneously develop competitiveness for an advantage.

Some previous studies have emphasized on this dynamic capabilities-entrepreneurship relationship, including Newbert et al. (2008), who define entrepreneurship skills as vigorous competences. Arthurs and Busenitz (2006) state that as an entrepreneurial entity advances, the necessity for dynamic capabilities becomes obvious. Branzei and Vertinsky (2006) explained the relationship between entrepreneurial ventures and DCs through innovation. Their main argument is that DC is basically what an entrepreneur does.

Essentially, Teece, Pisano, and Shuen (1997) highlighted two keys ideas, i.e., dynamic and capabilities. First, the so-called dynamic reflects firms' capacity to create new competences,

new organizational and industry configurations so as to match the requirements of unanticipated environments such as technological changes and markets (Schoonhoven and Romanelli, 2001). These abilities reflect firms' aptitude to identify, discover and explore new prospects in which scholars have agreed that opportunity acknowledgment is at the heart of entrepreneurship (Brown and Eisenhardt, 2000; McCline, Bhat and Baj, 2000).

Furthermore, this opportunities assessment is different from the one that only repeat steady and familiar tasks; but it is more wished-for exploration of something not explored before (Schreyogg and Kliesch-Eberl, 2007) or unexploited prospects (Hitt, Ireland, Camp, et al., 2001). In this regard, excellent skills in identifying prospects and grasping opportunities skill is significant for the aim of this opportunity detection and recognition (Teece, 1998).

Second, the term 'capabilities' is associated with the generous function of strategic management in suitably adjusting, mixing, and reconfiguring organizational skills, resources, and competences so as to realize a fit to changing environment (Schoonhoven and Romanelli, 2001). The term also regards with strategic resources management by which it is managers' competence to purposefully produce, encompass, or modify the resource base of the organization" (Helfat et al, 2007) so as to intensely uncover opportunities and simultaneously use current competitiveness for getting advantage.

Management capabilities possess the vital obligation to make decisions from which opportunities are most promising, consistent with vision and strategy, and composing the firm's resources accordingly (Linden and Teece, 2014). Moreover, Teece (2007) recognized managerial capabilities related to opportunity detection and exploitation, i.e., "(1) sensing (recognizing and evaluating opportunities outside the business), (2) seizing (assembling resources to seize significance from those opportunities), and (3) transforming (continuous renewal)". Teece (2016) highlights that dynamic managerial capabilities is entrepreneurial management to create and discover market opportunities and at the same time managing resources strategically through asset orchestration (Teece, 2016). Recently, Beck and Wiersema (2013) develop a model to elucidate the function of dynamic managerial capabilities in controlling an exclusive set of resources for the firm, which in turn lead to dissimilarities in firm strategies and accomplishment results.

Indonesian Islamic Banking Context

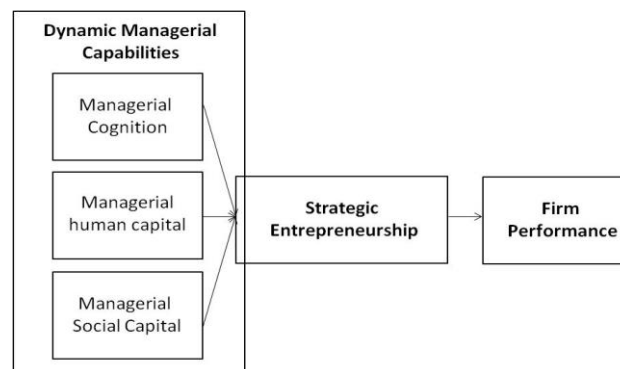
Despite the theoretical arguments built above, this paper takes place at Indonesia Islamic banking industry. Kyrgidou and Hughes (2010) suggest the need for examining empirically the SE in financial institutions. They posit that SE is less applicable for firms that have dilemma or paradox: balancing between regulations compliant requirements (to avoid systemic impact and moral hazard problems) and creative innovation (to build competitive advantage). Meanwhile, Islamic banking industry is even more highly regulated. Not only comply with regulations by the authorities, but also they have to meet all the requirements on Islamic law and ethical compliant. Thus, the current paper exploring on the context of Indonesian Islamic banking industry is quite desirable.

A CONCEPTUAL MODEL

Based on the aforementioned arguments, this paper proposes that strategic entrepreneurship is defined by vigorous managerial capabilities based upon Adner and Helfat's (2003) three attributes, i.e., managerial thought, managerial social assets, and managerial human

asset. The authors suggest that those three support the DMC to influence firms to develop strategic entrepreneurship, which in turn lead to firm performance. A composed model is further extended and aimed at explaining that there are crucial steps in order to realize the main purpose of this paper. First is to examine how the three attributes of DMC influence SE positively. Second is to examine the results of SE conduct on firm performance.

Figure 1
CONCEPTUAL MODEL OF THE RESEARCH



Managerial Cognitive Capability and Strategic Entrepreneurship

Managerial cognizance is associated with managers' abilities to identify what is happening and what will happen as the foundation for decision making (Adner and Helfat, 2003). Cognition refers to the process by which corporeal input is converted, decreased, expounded, stored, recovered, and utilized (Neisser, 1967, p. 4). It involves mental processing, that uses abilities such as perceiving, thinking, reasoning, learning, and understanding, and involves problem solving and decision-making (Walsh, 1995; Elstein and Schwartz, 2002).

Managerial thought is to examine future decisions and consequences (March and Simon, 1958; Cyert and March, 1963). It is also conditional on bounded reasonableness (Simon, 1947, 1955), and is vital in detecting and grasping exploration of new opportunities and exploitation strategies. Gavetti (2012) has claimed excellent mental processes may evade this trick and have greater accomplishment in detecting potential strategic opportunities. Smith and Tushman (2005) have recommended that upper managers should build a contradictory understanding that allows them to practice exploration and exploitation concurrently.

Following Chaston and Smith (2012), the current paper propose managerial cognitive capability is measured by intuitive and rational information processing. While previous works show that rational cognition affect managers to decide effectively (Daft and Lengel, 1986; Dean and Sharfman, 1993; Janis and Mann, 1977), currently managers' intuitive cognition ('gut feel' or 'hunch') is significant for taking decisions and solving problems (Blume and Covin, 2010), particularly in uncertain condition (Khatri and Ng, 2000). This measure was developed by Epstein et al (1996). Accordingly, it is assumed that managers who emphasize on their cognitive capability have a greater possibility to enable strategic entrepreneurship.

Propositions 1: *There is positive correlation between managerial cognition and strategic entrepreneurship in Indonesian Islamic banking industry, highly regulated industry.*

Managerial Human Capital and Strategic Entrepreneurship

The second component of DMC is managerial human capital. Managerial human capital is defined as learned abilities and knowledge from individuals' experience, training, and education (Adner and Helfat, 2003; Helfat and Martin, 2015). According to Ireland et al (2003), human capital is a leading enabler of SE performances as human capital development eases managers to entrepreneurial competences, e.g., nimbleness, inventiveness, and talents to manage resources strategically (Alvarez and Barney, 2002; Ireland et al, 2003).

Managerial human capital concept in this paper is based on Marvel and Lumpkin (2007) in which prior knowledge represents human capital, indicated by four dimensions, i.e., (1) methods to serve markets, (2) customer difficulties, (3) markets, and (4) technology. Two main ideas of human capital exist in knowledge and experience (Becker, 1964). In this sense, prior knowledge is vital in determining opportunity detection and recognition. Venkataraman (1997) posits that entrepreneurs will detect only those opportunities straight connected to their knowledge. It means that prior knowledge generates a passage that allows entrepreneurs to notice and recognize only certain opportunities, but not others (Ronstadt, 1988).

Therefore, an increase managerial human capital leads to the possibility of enabling strategic entrepreneurship associated with two attributes: exploring opportunity strategies and exploitation strategies. Correspondingly, proposition is as follows:

Propositions 2: There is positive correlation between managerial human capital and strategic entrepreneurship in Indonesian Islamic banking industry, highly regulated industry.

Managerial Social Capital and Strategic Entrepreneurship

Managerial social capital refers to Managers' competences in developing and benefiting from high quality social relationships to improve firm performance (Adner and Helfat, 2003). Managerial social capital contains formal and informal relationship that may produce value inside and outside of the organization (Adler and Kwon, 2003). This formal and informal work relation provides managers with conduits for information that may be helpful in sensing new opportunities (Adner and Helfat, 2003).

We represented managerial social capital with network capabilities. The variable is measured in four aspects: activities Coordination, relations skills, partner knowledge, and internal communication (Walter et al, 2006; Diamantopoulos and Winkelhofer, 2001). The construct regards with internal and external relationship as suggested by Ader and helfat (2003). Thus, the proposition is as follows:

Propositions 3: There is positive correlation between managerial social capital and strategic entrepreneurship in Indonesian Islamic banking industry, highly regulated industry.

Strategic Entrepreneurship and Firm Performance

One of the main interests in promoting SE behavior is that it has pivotal relationship on performance. Conceptually, a firm involves in SE when it concurrently seeks for exploration for future business areas and exploitation of existing areas. Excellent performance often comes from

effective SE (Hitt et al, 2011; Ireland and Webb, 2007). Firm is strongly suggested to engage in SE – simultaneously exploring for future business domains while exploiting current domains – in order to consistently produce superior performance (Webb, Ketchen, and Ireland, 2010; Ireland and Webb, 2007; Schendel and Hitt, 2007).

Perhaps, study by Zahra and Covin (1995) is the best proof of a strong positive relationship entrepreneurship-performance. They collected data from three separate samples and a total of 108 firms. With longitudinal study, they examine the impact of entrepreneurship on a financial performance index consisting of both growth and profitability indicators. They recognized a positive and strengthening connection between corporate entrepreneurial behavior and succeeding financial performance. Indeed, Covin and Slevin (1991) propose that the central motive for the growing interest in entrepreneurship comes from the confidence that such activity can improve firm performance. The main significance of a strong entrepreneurial posture highlighted by Covin and Slevin (1991) is that the entrepreneurship construct stimulated positive result.

Despite the significant proofs of positive entrepreneurship-performance relationship, the empirical studies have reported a high variety of performance indicators (cf. reviews by Combs, Crook, and Shook, 2005; Venkatraman and Ramanujam, 1986). As stated by Lumpkin and Dess (1996), performance indicator is a multi-aspect thought and the association between entrepreneurial behavior and performance may rely on the standards employed to evaluate performance. This is due to firm performance is a multilayered construct that cannot be fully reflected by single indicator (Zhao, Seibert, and Lumpkin, 2010; Brush and Wanderwerf, 1992).

In this case, a common difference is between financial and non-financial indicators. Financial performance is a firm's capability to generate new resources from daily operations over a certain period of time (Peterson and Peterson, 1996 in Aktan and Bulut, 2008) such as sales revenue, profit, liquidity, and rentability. Non-financial measures include goals related to operational effectiveness such as internal control, job satisfaction, and so forth. Therefore, the proposition is as follows:

Propositions 4: *There is positive correlation between strategic entrepreneurship and firm financial performance in Indonesian Islamic banking industry, highly regulated industry.*

Propositions 5: *There is positive correlation between strategic entrepreneurship and firm non-financial performance in Indonesian Islamic banking industry, highly regulated industry.*

CONCLUSION

In conclusion, clarifying mechanism process in building strategic entrepreneurship through the construct of dynamic capability (DC) and dynamic managerial capabilities (DMC) is promising. This study demonstrates a conceptual model of a causal relationship of how firm with emphasis on the three underpinning attributes of dynamic managerial capability enable to build strategic entrepreneurial firms to intensely discover opportunities for future business and exploit current competitiveness for gaining advantages. Our model highlights the importance of dynamic capabilities and thus dynamic managerial capabilities as strategic change, in particular strategic entrepreneurship for accelerating firm performance and suggests that managers should focus more on developing capabilities to institutionalize the managerial mental capability, managerial human capital and managerial social capital for strengthening both opportunity-

pursuing and advantage-pursuing strategic actions and firm performance. Finally, we suggest that future research should emphasize on the function and mechanisms of dynamic managerial capabilities (DMC) in various industry contexts.

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THE INFLUENCE OF SUPPLY CHAIN FLEXIBILITY ON COMPANY PERFORMANCE IN INDONESIAN PHARMACEUTICAL INDUSTRY

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ABSTRACT

The purpose of this study is to find resolutions for problems in Indonesian Pharmaceutical Industry when it is associated with Supply Chain Flexibility and Company Performance. The latest study literature about the concept of Supply Chain Flexibility and Company Performance will be discussed. This paper aims to introduce the relationship between Supply Chain Flexibility and Company Performances in Indonesian Pharmaceutical Industry. The literature review reveals that Supply Chain Flexibility has a significant implication on Company Performance. Based on the literature review, this paper generates a research model to investigate the relationship between Supply Chain Flexibility and Company Performances in Indonesian Pharmaceutical Industry.

Key Words: Supply Chain, Supply Chain Flexibility, Company Performance, Pharmaceutical Industry

INTRODUCTION

The pharmaceutical industry is a strategic industry in Indonesia. The slogan "Mensana Incorpore Sano" or "In a healthy body there is a strong spirit" often echoed in the ears of the people of Indonesia. It proves that health becomes a major factor in the lives of the population of Indonesia. Thus, the pharmaceutical industry is needed to support the health of the people of Indonesia.

Indonesia as a country with a population of more than 250 million people which is ranking 4th in the world is the potential market business. A large population by a substantial purchasing power attract companies from various industries to do business in Indonesia. The pharmaceutical industry is one industry that can enjoy the potential of a vast number of people in Indonesia. Moreover, the uneven distribution of the population and geographic conditions in tropical climates that cause potential viruses and bacteria thrive makes potential business opportunities for the pharmaceutical industry to improve the Indonesian pharmaceutical market.

Having a demographic bonus was not automatically put the performance of Indonesian pharmaceutical industry in the top ranking in the global market. Seen from the global pharmaceutical market in 2013, Indonesia is only the fifth-largest pharmaceutical market in Asia after Japan, China, India, and South Korea (Aitken, 2014). However, in Southeast Asia, Indonesia is the largest pharmaceutical market. There are opportunities for the pharmaceutical industry in Indonesia to be able to raise the pharmaceutical market in Indonesia.

The performance of the pharmaceutical industry in Indonesia is relatively small. In 2014, the pharmaceutical market in Indonesia amounted to 69.5 trillion Rupiah. Compared with the food industry, this sales performance number is only as big as one company PT Indofood Sukses Makmur Tbk which has a sales value of 63.5 trillion Rupiah in 2014. In 2014, Indonesia's pharmaceutical sales per capita amounted to 23.2 USD. Compared to pharmaceutical sales per capita in other countries such as the United States amounted to more than 1,000 USD, Japan amounted to more than 700 USD, and Canada amounted to more than 600 USD, Indonesia has a subtle pharmaceutical market.

Furthermore, in a percentage of GDP (Gross Domestic Product), in 2014, Indonesian Pharmaceutical Industry only has figures 0.65% of GDP. The percentage is also actually declined in the last five years. In 2009, Indonesian Pharmaceutical Industry achieved 0.80% of GDP. Besides relatively small, this share of GDP shows that the actual sales performance of the pharmaceutical industry in Indonesia is declining.

A condition on the downstream side of the pharmaceutical market in Indonesia is not necessarily the same as the conditions on the upstream side of the pharmaceutical market in Indonesia. The Indonesian government has set strict implementation of pharmaceutical business in Indonesia. Pharmaceutical Supply Chain from upstream and downstream has been regulated by the Minister of Health of the Republic of Indonesia in Permenkes No:1799/Menkes/Per/XII/2010. This regulation manages the three entities of the business involved in the pharmaceutical supply chain in Indonesia before the drug product reaches the consumer.

Figure 1
PHARMACEUTICAL SUPPLY CHAIN IN INDONESIA (ACCORDING TO PERMENKES NO:1799/MENKES/PER/XII/2010)

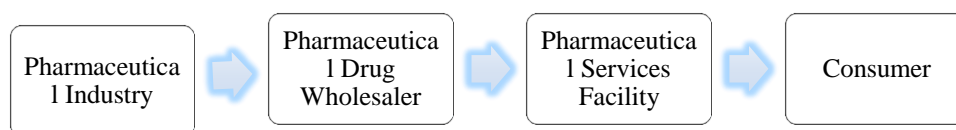


Figure 1 illustrates how the Indonesian government using Permenkes No: 1799/Menkes/Per/XII/2010 to strictly regulate the pharmaceutical supply chain in Indonesia starting from the upstream side to the downstream side of the consumer. Pharmaceutical Industry is the entity who manufactured the drug product or the raw material. The pharmaceutical industry is not allowed to sell the product directly to the consumer. Pharmaceutical Drug Wholesaler is the party who has a licence to distribute the drug product. Pharmaceutical Drug Wholesaler cannot sell the product directly to the consumer. Pharmaceutical Services Facility is the entity who sells the pharmaceutical product to the consumer such as drug store and hospital. Therefore, Supply chain flexibility is not quite flexible in pharmaceutical industry in Indonesia.

The pharmaceutical industry in Indonesia is included in the Negative List Investment. Indonesian Presidential Decree No. 36/2010 said that foreign investors cannot have 100% ownership of shares of pharmaceutical companies in Indonesia. In the upstream side, foreign investors can only have a maximum of 75% shares in the pharmaceutical manufacturing company. This percentage was increased in Presidential Decree No. 39/2014 in the month of April 2014 to 85%. In the downstream side, drug store must be 100% Indonesian ownership, and

the pharmacist must be Indonesian. A pharmaceutical raw material wholesaler must be 100% local ownership. Pharmaceutical drug wholesaler must get special licensed from Ministry of Health. Accordingly, the upstream supply chain can be managed by the foreign company. However, the downstream supply chain is forbidden for a foreign company. Therefore, for foreign pharmaceutical companies in Indonesia, the supply chain flexibility is not reasonably flexible because they need to assimilate their supply chain with the local pharmaceutical company.

Besides, the Minister of Health in Indonesia through Permenkes No. 1010/2008 states that a foreign company who does not have a manufacturing plant in Indonesia is not allowed to distribute their products. Therefore, foreign firms that do not have the significant capital to build its factory should integrate with other pharmaceutical manufacturers that already have manufacturing facilities in Indonesia. The supply chain flexibility in Indonesia Pharmaceutical Industry is not that flexible because the Indonesian government is highly regulating the industry. Accordingly, supply chain integration on the upstream side is an attractive choice to be run by foreign pharmaceutical companies if they want to run a drug business in Indonesia.

The Indonesian government has regulated the pharmaceutical business strictly. Each entity in the pharmaceutical supply chain has their role. The pharmaceutical industry cannot reach the consumer unless via pharmaceutical drug wholesaler and services facility. Therefore, the flexibility of the supply chain is fairly flexible in the pharmaceutical in Indonesia. However, the pharmaceutical company performance is declining. Therefore, the need to study about the impact of supply chain flexibility and pharmaceutical company performance in Indonesia is necessary.

RESEARCH QUESTIONS

In light of the earlier discussion, the following research questions have been generated:

- 1) What is the Supply Chain Flexibility and Company Performance condition in Pharmaceutical Industry in Indonesia?
- 2) Are the flexibility of Supply Chain and the company performance in Pharmaceutical Industry in Indonesia being meaningful?
- 3) By operationalizing Supply Chain Flexibility, does the empirical testing truly advance with Company Performance?

LITERATURE REVIEW

Supply Chain Flexibility

Flexibility is usually seen as part of agility. The concept of flexibility has developed into the notion of supply chain flexibility in which components are speed and flexibility (Prater et al., 2001). Flexibility is defined as the alertness and the degree to which the company can adjust the speed, destination, and volume. In the supply chain, where the material moves sequentially from one trading partner to trading partner next, companies have realized that to be responding to customer demand the end, all trading partners along the chain must be flexible in response to changes. Flexibility was later developed into the supply chain flexibility where flexibility to meet specific customer demand is seen as an important key performance matrix (Gunasekaran et al., 2001).

Supply chain flexibility is the ability of companies to adapt quickly and efficiently to changes in the environment are complex and dynamic (Swafford et al., 2006). Supply chain flexibility expensive to implement and should be considered how much flexibility the company is needed (Pujawan, 2004).

Kumar et al. (2006) defines the flexibility of the supply chain as the ability of supply chain partners to restructure their operations, align them, and share the responsibility to respond quickly to customer requests in each link chain, to produce products in quantity, cost, and quality expected by the customer while maintaining high performance. Qrunfleh et al. (2012) who conducted research on 205 manufacturing companies in the United States also use the definition of the same supply chain flexibility.

According to Angel Martínez and Manuela Pérez (2005), the flexibility of the supply chain is defined as a joint responsibility of two or more functions along the supply chain, both internal (marketing and manufacturing) or externally (suppliers and members of the channel) to include the dimensions of flexibility impact on the company's customers directly.

Supply chain flexibility is the most important instrument to address the increasing uncertainty and competition in the market (Dimkow, 2011). Nagarajan et al. (2013) define the flexibility of the supply chain of a company as a reaction to the uncertainty in the business environment. Sarulienė and Rybakovas (2013) says that the flexibility of the supply chain is described as the company's ability to respond to short-term changes in demand or supply. Thus, flexibility in the level of the supply chain is the company's ability to adapt to changing internal and external environment.

Yuttapong and Amornsawadwatana (2012) in his research on the aircraft maintenance industry in Thailand said that the flexibility of the supply chain is the ability to reconfigure the supply chain and change the supply of products according to customer demand.

Company Performance

Literature that is reviewing company performance showed varying opinions about company performance. Huo (2012) said that there are two approaches to measuring the company performance, namely financial approach and balanced approach. In the financial approach, financial performance should be considered as the main concept of company performance because the main purpose of an organization is to make profits for shareholders (Chen and Paulraj, 2004). The concept of financial performance has been widely used as the main theory of company performance. The concept of financial performance may not adequately describe the performance of the system and will be vague and difficult to use for simple qualitative evaluation. Other approaches to defining company performance are to use a balanced approach. Balanced approach is looking at company performance as the use of a combination of qualitative and quantitative concept to present a clear picture of organization performance, such as financial performance and operational performance (Gunasekaran et al., 2001).

Bryceson and Slaughter (2010) considers that company performance is metric used by shareholders which include some areas including profitability, liquidity, financial stability, cash flow, and the adequacy of cash. This metric is the focus of the shareholders and company managers.

Bulak and Turkyilmaz (2014) said that company performance is the measurement of financial performance and non-financial performance which are important factors for leading the company's progress and control the desired output. Financial performance includes a variety of financial efficiency measurement such as return on investment, return on equity and earnings

measurements such as return on sales and profit margins. Non-financial measurements include customer satisfaction, sales growth and market share.

The Company Performance has a three-dimensional measurement namely Supplier Performance-Oriented, Customer-Oriented Performance and Financial Performance (Huo, 2012). Supplier-oriented performance measures the performance of the supply chain in the upstream and customer-oriented performance measures the supply chain performance in the downstream. A combination of both so-called supply chain performance. Accordingly, supplier performance-oriented and customer-oriented supply chain performance affects the overall performance. Supplier-oriented performance and customer-oriented performance is an operations-oriented measurement therein involves a variety of performance measurements such as delivery, flexibility, and customer service. To measure the company performance is necessary to measure the other performance which is financial performance containing profitability, sales, market share, ROI, and return on sales.

Diab et al. (2015) examined the nutritional industry in Jordan found the performance of the company consists of three dimensions, namely environmental performance, financial performance, and operational performance. Environmental performance concentrating on the reduction of air emissions, reduction of waste water, solid waste reduction, reducing the consumption of hazardous substances that are toxic, pressing the frequency of environment accident, and improving the company's environmental situation. Financial performance concentrating on the positive economic performance, namely the decrease in costs for the purchase of materials, reduction in costs for energy consumption, lower costs for waste treatment, decreasing costs for waste disposal, and at the same time attempting to eliminate the negative economic performance, such as the increase of investment, the rise in operating costs, the increase in training costs, and an increase in the cost of purchase of environmentally friendly materials. The operational performance is reflected in the increasing number of goods delivered on time, lowering inventory levels, decreasing the product damage, promoting product quality, increasing product lines, and increasing capacity utilization.

Li et al. (2006) and Mzoughi et al. (2008) use the same dimension for Corporate Performance variables in their research, namely Market Performance and Financial Performance. Market performance is a performance measurement which is done by looking at the company's sales growth and market share growth. Market Performance has two indicators, namely sales growth and market share growth. Financial performance is a performance measurement based on financial performance. Financial Performance has several indicators that are Total Cost Reduction, Return on Investment (ROI), Return on Assets (ROA), Financial Liquidity and Net Profit.

Kim (2006) adds a further dimension to measure Company Performance that is Customer Satisfaction. Thus, the dimensions used in the variable of Corporate Performance are Market Performance, Financial Performance, and Customer Satisfaction.

Customer Satisfaction has several indicators, namely reduce the response time to changes in product design, suppress the response time to changes in the volume of products, the accuracy of the customer ordering process, pressing the ratio of product returns, the speed of handling orders, and reduce the response time for product return or after sales.

Figure 2
RESEARCH PARADIGM



Figure 2 shows the research paradigm which shows dimensions of each variable.

THEORETICAL DEVELOPMENT AND HYPOTHESIS

Supply Chain Flexibility and Company Performance

Vickery et al. (1999) conducted a study on 65 business units home and office furniture industry in the United States that puts the Supply Chain Flexibility as independent variable and Company performance as the dependent variable. The study concluded that the Supply Chain Flexibility has a significant effect on the Company Performance.

In another study, Merschmann and Thonemann (2011) conducted a study on the 32 business units in the German consumer goods industry using Partial Least Square (PLS) and found that the Supply Chain Flexibility has a significant effect on the Company Performance.

Angel Martínez and Manuela Pérez (2005) conducted a study on 126 business units automotive industry in Spain and put the position of Supply Chain Flexibility as independent variable and Company performance as the dependent variable. Using multivariate analysis studies have concluded that Supply Chain Flexibility has a significant effect on the Company Performance.

Figure 3
THEORETICAL FRAMEWORK



Figure 3 illustrates the summary about theoretical development and the relationship between variables.

Based on literature review and theoretical framework that has been developed, the hypotheses that can be put forward are:

Hypothesis 1 (H_1): Supply Chain Flexibility in Pharmaceutical Industry in Indonesia is already flexible

Hypothesis 2 (H_2): Pharmaceutical Company Performance in Indonesia is performing well.

Hypothesis 3 (H₃): Supply Chain Flexibility will have a positive and significant effect on Company Performance.

Figure 4
CONCEPTUAL MODEL

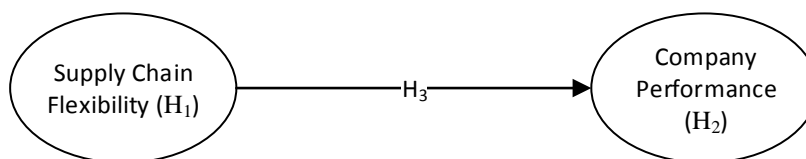


Figure 4 displays the conceptual model used in this study.

CONCLUSIVE REMARKS AND SUGGESTIONS

Indonesian pharmaceutical industry has shown a gap in supply chain flexibility and company performance. The need to study about the impact of supply chain flexibility on company performance in pharmaceutical industry in Indonesia is necessary. The studies that already exist make more emphasized linkages, that there are influence between supply chain flexibility on company performance in other industry. This study generates a research model to do empirical testing on the pharmaceutical industry in Indonesia to find the relationship between supply chain flexibility and company performance.

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ENHANCING DIGITAL BUSINESS VALUE THROUGH IMPLEMENTATION OF STRATEGIC THRESHOLD CANVAS: A MODEL OF VALUE-PERTAINING STRATEGY OF TRANSFORMING TELCO

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ABSTRACT

Today the world has been flourishing by the New Digital Economy. Among the symptoms is the fact that the Voice and Text Services provided by Telcos have been challenged heavily by the emerging of data-driven services that has been absorbed almost instantly by the crowd. This phenomenon amplifies the understanding that the business must run for the low-margin Digital Business and says farewell to high-margin Legacy Portfolios. The stakeholders would be satisfied if business brings profit and can shows some degrees of sustainability. The company is now need to secure their new Portfolio or creates another brand new one with manageable Margins and Values.

Regarding the phenomenon, Telcos is now needed to define a model that could ensure Value-Pertaining-and-Leveraging stances especially in their Digital Portfolios meanwhile maintaining their cashcows. This research aimed to build such a model by exploring the effect of Product, Funding Management and Stakeholders Assurance to Business Valuation both directly or through "Digital Death Valley" by using Quantitative and Creative Problem Solving Method. While Quantitative method calculates the effects of variables and generate the foundation of the solution, the Creative Problem Solving methods explore alternatives that can be built to achieve the objective. Data sample collected from 30 Legal Entities of Telkom Group between 2013 – 2016. That is the period when early Digital transformation took place in Telkom Group.

Quantitative run showed that Product is the most influencing factor to Digital Business Valuation followed by funding Management and Stakeholders Assurance. The Conclusion suggests that Digital Death Valley must be suppressed to the lowest level not only because it's direct impact to the profitability calculation but also affect long term Enterprise Value as Digital Death Valley comprises of Commitments, Concept Alteration and Partnership Strategy as Dimensions. By considering the relationship between variables a model called "Strategic Threshold Canvas" is suggested to oversee New Digital Business Portfolio initiatives that can be run by Business Analyst unit in Telcos. Essentially this model suggest a new Company Policy and Chain of Business Processes Standard that can be enacted to achieve Digital Glory.

Key Words: *Business Valuation, Digital Product, Funding Management, Stakeholder Assurance, "Valley of Death"*

INTRODUCTION

Starting 2013, there was a major shift in Telco business marked by decreasing of growth on its legacy portfolio especially Voice and Text Services and emerging of non-human data products like M2M, Internet of Things and digital services such as Application and Content

(STL, 2014). Operators is now leveraging their portfolios by adopting numbers of new product that can be deployed on their connectivity platforms (PWC, 2015).

A dilemma is then raising since typically Digital Portfolios have less margin compares to traditional Telco services. Common traditional Telco services has EBITDA margin between 16% - 30%, meanwhile some new digital products have lower margin such as payment service (2%), IPTV (15%) and IT Consulting (11%).

Most of digital portfolios are new businesses that might have in its pre-maturity stage. According to Technology Lifecycle Path, the amount of revenue collected in this phase is much lower than cost incurred. Therefore, it leads to negative Profit. The R&D phase of the s-curve believed to be prone to failure.

According to Wasserman (2012) and Awaluddin (2016), around 65% of failure in digital creative company caused by how the innovation-turn-to-product was managed. This conclusion will lead to understanding that entering digital business is a very risky step. Telco would then getting into a condition that a very prudent and tightly supervised strategy must be conducted in order to minimize negative profit and turning digital initiatives into a next cash cows.

There was a study that develop valuation model for Venture Capitalist in valuing Startup that come into conclusion that attractiveness of Industry, quality of Founder and Management team and External Relationship played a positive-and-significant role that determine the Startup Valuation (Ge, 2003). Another study in creative digital business area concluded that Innovation Management is the most determinant factor that influence Business Performance (Yahya, 2014). Likewise, Business Performance could also influenced by Value Creation rather than Competitive Force of digital creative Industry (Awaluddin, 2016). Thus, Value Proposition bring by the innovation and Attractiveness it propose has a major influence that could lead to good Business Performance.

By using Discounted Cash Flow (DCF) Method, one of components in calculating Future Cash Flow (FCF) is Net Operating Profit after Taxes (NOPAT, Bruner et. al., 2013). Thus, to provide better FCF, business must run for better Revenue that could lead to better Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) and NOPAT. For early business initiative especially in digital portfolio, it was believed that DCF method is not very suitable to run to have representative result. As suggested by Savage (2005), valuing early-stage startups using Real Option Framework is more suitable since for example high-tech initiative rely much in Research and Development activities. By Nature Research and Development activities provide series of iteration on product or innovation development by examining interim result and suggest improvements (Savage, 2005).

Nevertheless, even though early high-tech (or digital) initiatives might have to be valued in different way, some opportunity for improvements still can be follow up. By using suggested approach like Business Model Canvas by Osterwalder (2004), Customer Development Model by Blank (2006) and The Lean Startup by Reis (2008), a further model in overseeing best-possible-valuation of new Digital portfolio were developed.

For doing so, this paper examines the influences of Digital Product, Funding Management and Stakeholder Assurance to Business Valuation directly or indirectly through the so-called Valley-of-Death in order to formulate a model strategy that could suggest more factors that can be anticipated when ensuring better result in launching new digital product.

LITERATURE REVIEW

According to Yahya (2014), Innovation Management comprises of three factors namely: Product Design, Business Model and Customer Experience. Thus, these factors can be viewed to something that closely-related to the Product that being develop and proposed to the market. Awaluddin (2016) stated that Value Creation especially in Business Domain as the product playground and Business Partner involved in product development and commercialization, plays significant rules directly to Competitive Strategy and indirectly to Sustainable Business Performance where Company Profit is among the measurement examined in Sustainable Business Performance.

Digital Product

A Digital products can be copied at almost no cost and are subject to non-commercial copying by final consumers (Peitz and Waelbroeck, 2006). Businesses should develop product designing that could satisfy the customers' requirements since this will increase the enterprise's competitiveness and it is an essential criterion to earning higher loyalties and profits (Bae and Kim, 2011).

Customer needs and wants are sensitive and complex. So, if a firm can understand them and make efforts to fulfill customer demands and provide friendly service, then customers will be more supportive and loyal to the enterprise (Bae and Kim, 2011). A loyal customer led to competitive advantages that increase Business Performance and Value.

When examining the impact of Product innovation with the enterprise, a good design of the product will increase customer delight, increase sales, revenues and profitability (Feland, 2005). A Studies conducted by Chandrashekaran, Grewal, and Mehta (2010) prove this conclusion that consumers new to the system appear to be influenced by word of mouth generated by repeaters and will facilitates trial of product. In contrast, consumers who have been in the system for a period of time but not yet tried a specific product offering, appear to be influenced by word of mouth generated by non-repeaters and this inhibits trial. A product trial is essential to digital product since today most of new apps especially those that run on mobile devices can be downloaded free of charge at least for basic version.

Koukova (2008) studies indicate that, although the information product forms seem to be moderate/strong substitutes, bundle purchase probabilities are high enough to make mixed bundling a viable and profitable strategy for retailers of information goods. By creating awareness of different applications, communication strategies play an important role in supporting a mixed bundling strategy.

Funding Management

A capital is something that a firm invested to fulfill business requirement. When investing some amount of money, business must evaluate some factors including rate-of-return, business scheme and model, partner candidate, area of deployment and financing strategy.

A healthy investment is an investment that bring significant effect on the business performance. Since investment can be deployed in short-term or long-term period, the return and sustainability of the market are the issues that need to be considering in investment proposal (Yahya, 2014). Besides having an adequate and healthy capital and sustainability of business, competitive advantage strategy could also impacted the business performance.

Beside corporate capital, there is term Venture Capital that is a financing provided to early stage and emerging firms. This is aimed to close the financial gap created in early stage of business incubation. The term Angel Investor plays a significant role in early startup financing cycle. The uncertainty of the new initiative can lead to failure of initiative.

Typically there are six stages of venture round in Venture Capital (Ross, et.al, 2008) that is: Seed funding, start-up, growth, second-round, expansion and exit. These stages along with typical innovation cycle especially in startup companies. A venture capitalist can also take form of seed accelerator where besides provides a seed capital for the startup, a seed accelerator can also act to provide a management training and office space.

Stakeholder Assurance

Strategic choice of a decision maker built based on cognitive base along with value he or she perceive that will be derived into Vision, Mission and interpretations about the stated problem (Hambrick & Mason, 1984). This can be understood as which point of view a decision maker chooses to stand when a problem arises. One could react differently when dealing with the same problem. Both technical and non-technical problem has their own complexity

Since early initiation of digital business is a risk-prone activity, competence, channel and preferences will be the factors that influence the success or failure of the portfolio.

The preference of stakeholders especially business partner in doing business impacted business result significantly. This preference could be preference of structuring capital investment within the firm, preference of risk that lead to selection of spending area and preference of stay-or-leave in business. Startup incubation initiatives shows that 90% of startups fail to cross the Valley of Death (Zwilling, 2004).

The competence is also a mandatory item that need to be considered when deploying new digital initiative. A technical competence is a most tangible value of Research and Development unit where laboratory processes of formulating product and business started and continuously performed. As new digital business mostly relies on Research and Development, the competence is a capital that needs to be developing within the firm or managed to capture from external.

Business Valuation

As stated above, there are some approaches exist in valuing a business besides common FCF calculation elements when it comes to valuing business that mostly rely on innovation. At least Value Creation, Innovation Management and Stakeholder Preference are among the factors to consider. This can be understood as innovation can be viewed as an Intellectual Capital (IC) since IC can drive to better competitive position in market by delivering innovative high-quality products and services (Nazari, et. al, 2007).

Digital Death Valley

The terminology Valley of Death coined in startup world to describe difficulty of covering negative cash flow in the startups early stages. Research so far have indicated that startups in early stage of development encounter with the financial gap which limits companies' ability both to innovate and to commercialise its products (valley of death) (Hudson & Khazragui, 2013; Savaneviciene, Venckuviene and Girdauskiene, 2015). Well-targeted public

interventions thus must be able to achieved tangible results in bridging this “Valley”, and an explicit focus on public needs analysis would yield additional benefits (Philbrick, 2010).

Frequently called the “Valley of Death,” this early stage of innovation is typified by high risks and scarcity of project resources. The challenge for a firm as it develops an early-stage innovation is securing adequate financial, human, and physical project resources (Schoonmaker, 2013).

The Valley of Death can also be explained as a phase wrought with risks and high mortality rates, meaning the probability of the innovation’s survival to the next phase is low. This is in part due to limited access to all forms of project resources – financial, human, and physical (Malerba & Vonortas, 2009 in Schoonmaker, 2013).

SAMPLE AND METHODOLOGY

This study using 2013 - 2016 data especially incubation activity within Telkom group that includes 30 legal entities. The legal entities enrolled several of digital initiatives either directly or through channel and partnerships. Digital product in this study understood as non-Voice and non-Text portfolio of Telkom Group.

Quantitative measurement examines the impact of Digital Products, Funding Management and Stakeholder Assurance to Business Valuation through Digital Death Valley. To be able to formulate a conclusion Digital Product viewed as dimensions that comprises as: Upgradeability, Competitor Strength, Product Feature, Distributable Channel and Customer Perception. So, this variable will viewed of goods aspects of the thinking. All dimensions here treated as ordinal dimension where its value represent relative level in 1 to 5 scale.

For Funding Management variable, there will be examined a few dimensions namely: Capital Invested, Debt Position, and level of monitoring. Capital Invested and Debt position are nominal variable that converted to which level the nominal fall into. The level is put to distinguish whether investment or cost incurred was very high (5) or very low or none (1). The two other dimensions are ordinal leveling with 1 to 5 scale.

Stakeholder comprises of initiator competence, Incubator's Channel, Initiator Vision, Developer Agility, Initiator Preference and Partner Leadership. All of this dimension will be in ordinal form.

Digital Death Valley will represent mostly current balance position of Profit / Loss of the portfolios. As defined above, Digital Death Valley will represent how “deep” the current condition and how can the portfolio to recover.

Business Valuation will be the ultimate target of measurement where Enterprise Value and company share is in highest level (5) or lowest level (1).

The qualitative section to build a model to in performing digital portfolio will use Creative Problem Solving (CPS) Method. CPS method contain five steps according to Nakagawa (2004): Problem Definition, Problem Analysis, Idea Generation, Solution Construction and Implementation. These five steps will lead to user specific solution where a recommendation then formulated. Some research combine this method with Strategic Management Approach (Wheelen & Hunger, 2012) as performed by Yahya (2014). This study only use CPS as a formulation tool.

Creative problem solving more suitable to run with new volatile digital initiative such as products developed by startups. The approach will be slightly different with the strategy to run existing digital portfolio in Telkom Group which is part of it still rely on its connectivity portfolio.

RESULT AND DISCUSSION

Quantitative Result

Data was collected from 30 Entities of Telkom Group that consist of parent operating company, all direct consolidated subsidiaries and some subsidiaries of the subsidiaries run digital portfolio from 2013 - 2016 period. For the measurement, "legacy" revenue which is mainly Voice and Text based portfolio was skipped. The quantitative equation resulted from statistic run show the influence based on level. Statistical run means to examine will a good Business Valuation level may produce by the given a set of good or bad level of Digital product, Funding Management and Stakeholder Assurance.

Quantitative analysis divide into two equation for measuring impact of Digital Product, Funding Management and Stakeholder Assurance to Death valley and for measuring how simultaneously the four variables influencing Business Value. The first equation showed that the model does fit to the data with alpha less than 0.001. The coefficient of the first model can be shown as:

$$DEATH = 1.667 - 0.541PRODC - 0.462FUND - 0.392STAKEHOLD \quad (1)$$

Both Digital Product and Funding Management show good significance on this model with alpha less than 0.001. Stakeholder Assurance showed less significant influence with only 0.015 of alpha.

Product Feature, Competitor Strength and Customer image were the most significant Dimensions included in Digital Product variable that built 75% of variable proportion. Meanwhile the Capital Invested and Funding Alignment were the most relevant dimension that covers 86% of Funding Management. Although Team Competence, Partner and Company Preference covers more than 65% of Stakeholder Assurance, the influence showed to be less powerful in influencing Digital Death Valley.

This model brought understanding that simultaneously Digital Product - viewed as a whole package when it launched to the market which has Feature and Competition related issues are part of it - should be taken care in balance with how it should be financed. When doing funding of the portfolio, the finance unit is now need to elaborate more on preferences of partners when deal with fund and capital. Some partners in this case have central role in product provision to the market. This will lead to strong dependability that firm must overcome. Since half of digital portfolio examined were not completely out of Digital Death Valley, it would take longer to recover such a portfolio.

First model suggest that Digital Product, Funding Management and Stakeholder Assurance play positive-significant role in decreasing the Valley of Death.

Second Model measures influence of Digital Death Valley to Business Valuation. The equation produced was:

$$BUSVAL = 0.500 - 0.768DEATH \quad (2)$$

The model show significant impact brought by Death Valley to decrease the Business Valuation. Since Death Valley is the condition where a firm have negative cash flow resulting by firm incapability to produce net cash from product commercialization, a profit recorded will be

not in preferable state. This could also tracked by examining the sales amount that gave a picture that the portfolio is not absorbed well by the market.

If the two equations combined, the indirect effect of Digital Product, Funding Management and Stakeholder Assurance to Business Valuation through Digital Death Valley. By using model (1) the indirect impact of variables were 0.415, 0.355 and 0.301 for Digital Product, Funding Management and Stakeholder Assurance respectively.

When all of the variables examined simultaneously, the equation formulated will be:

$$BUSVAL = 0.576 - 0.232PRODC - 0.201FUND - 0.128STAKEHOLD - 0.497DEATH \quad (3)$$

A Death Valley factor that produces as a result from three exogenous variables significantly affects Business Valuation.

When the firm wants to execute a new digital portfolio and would like to have a good Business Valuation, it must suppress the Valley of Death to a minimum level by at least managing Product Feature, Competition related concern, Partner and firm competence and adequate invested capital.

Creative Problem Solving

Problem Identification

Creative Problem Solving method start with Problem Definition that some of Telkom Digital initiative still result of Death Valley. Even though the magnitude of each portfolio may be very different, the cost and effort provided to enroll the portfolio still exist. On Data gathered, 21% of portfolio were in Valley of Death. As suggested by quantitative run that Death Valley must be suppressed until lowest possible level, the problem is what can be done in order to have a preferable level of Valley of Death on any portfolio commercialized by the firm.

Problem Analysis

When a portfolio entered Digital Death Valley, a red alert must then be raised. The analysis of why the Digital Death Valley happened on certain portfolio should be assessed case by case. This is because different portfolio has different characteristic like different portfolio has different effort and cost requirement. On 2013 - 2016 data at least three criterias of why the Valley happened, that is:

1. Limited area of product penetration caused by substitute product from competitor;
2. Better value offered by same-function substitute product both from internal or competitor (e.g in the case of internet TV);
3. Customer perception based on past products provided by the firm.

Idea Generation

There are some ideas arise when doing follow up on these red alerts. The main idea is to balance aspects of profitability. When the firm could not boost its Top Line, then it must strengthen control on its Middle and Bottom line. The idea of profitability control also come by the facts that digital business portfolio bring less margins compares to traditional Telco services.

ATKearney (2015) suggest term Strategic Control that has been implemented on major Telcos nowadays. This means that to anticipate incapacity of Revenue generation, Firm Group must perform comprehensive control on any possible items all the way through Business Units and Entities. The control performed not only on costs, but moreover on investments, financing and operations. This strategy believed to have more lean and efficient processes.

Solution Construction

By considering qualitative result above that Firm must be aware of product features, upgradeability, channel and competitor-related issues while pertaining competence and relevant preference of stakeholders, the solution must employs those factors in line with general idea of profitability. Doing strategic controls means taking care of healthy investment and cost incurred while ensure adequate deployment of capitals both tangible and intangible. Competence, feature and proper reactions on competitor movement are sort of effect of intellectual capital. When combining all kind of capital into one big picture the constructed idea will be formulate into solutions.

Regarding a research performed by Deloitte (2016) about how Telco Firm implement strategy on provide a better middle and bottom line of Profit and Loss, it is still a room available in Indonesia to maximize Top Line and perform a lean operation to reduce cost and provide better middle line. A wrap up of collaborating strategies then arises that is to leveraging and improvement of all capital owned by firm.

Implementation and Evaluation

In Firms, capitals invested to bring value in return. It is true that a value not merely a gross or net profit generated by commercialization activity of product. Furthermore, it can be viewed as how others valuing the portfolio or firms in different ways (Savage, 2005). The ultimate goal of this study is to have a value-pertaining model in transforming Telcos by shifting its portfolio more into digital business.

To ensure impactful implementation of value-pertaining, a template need to be defined, monitored and controlled. The template need to accommodate any aspects stated as quantitative and qualitative analysis stated above.

Strategic Threshold Canvas

Being in or out of the Valley of Death is about how much or in what level some relevant observances are in. Having good or less value of business is also how much and in what level something relevant stated in certain period. A Digital product said to be in good condition and can be turned around sometime in near future is about how is it now and how it will be. This also applied everywhere in the observances stated above.

Therefore, it is about thresholds that should be monitored, maintained and controlled to ensure everything goes as it planned. Things must be ensured to build best value that Firm can have. This study suggest a template for implementation step in Creative Problem Solving Method by incorporating dimensions relevant to value-pertaining.

Customer Development model by Blank (2006), Business Model Canvas by Osterwalder (2004) and Lean Canvas by Reis (2011), C2C model by Yahya (2014) bring templates that has been used by business to ensure business performance and value. A sub specific template talking

about how Capitals and Costs should be monitored and controlled then will be used along those models.

Figure 1
THRESHOLD CANVAS

<p style="text-align: center;">Product</p> <div style="border: 1px solid black; height: 15px; width: 100px; margin: 0 auto;"></div> <table border="1" style="width: 100%;"> <tr><td>Feature</td><td></td></tr> <tr><td>Upgradeability</td><td></td></tr> <tr><td>Substitution</td><td></td></tr> <tr><td>Competition</td><td></td></tr> </table>	Feature		Upgradeability		Substitution		Competition		<p style="text-align: center;">Funding</p> <div style="border: 1px solid black; height: 15px; width: 100px; margin: 0 auto;"></div> <table border="1" style="width: 100%;"> <tr><td>Investment</td><td></td></tr> <tr><td>Debt</td><td></td></tr> <tr><td>Cash Position</td><td></td></tr> </table>	Investment		Debt		Cash Position		<p style="text-align: center;">Stakeholders</p> <div style="border: 1px solid black; height: 15px; width: 100px; margin: 0 auto;"></div> <table border="1" style="width: 100%;"> <tr><td>Technical</td><td></td></tr> <tr><td>Experience</td><td></td></tr> <tr><td>Preference</td><td></td></tr> <tr><td>Image</td><td></td></tr> <tr><td>Control</td><td></td></tr> <tr><td>Channel</td><td></td></tr> </table>	Technical		Experience		Preference		Image		Control		Channel	
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The canvas comprises of factors that eventually will influence the Business Value of a initiative. So, Product, Funding Management, Stakeholder Assurance, position of Digital Death Valley and Business Value are included. Within each factors there will be dimensions included to measure and monitor how the sub factor threshold should be through a sub range of measurement.

Inline with the goal to achieve maximum value that can be generated by each individual product, this canvas employs the formula generated from quantitative run so it can act as predictors of how the business value will be.

For each element in the template a threshold should be set and enacted via Company Policy for any proposed new business initiative along with common proposal valuation processes. A chain of processes should also fixed in the business process procedure of the Company. In order to fulfill the canvas with desirable value, a sub template contained more operational parameters must be elaborated by the business unit all the way to level that considered as sufficient relevant detail.

The way that policy and business process alignment unit take part on this scenario is to provide guidelines of the two aspects and coined them into company policies.

In the other hand this canvas can be used as a form to enhance communication between finance and business unit in the company. This scenario support modern finance role in the company as a Business Partner not just book keeper or cost controller only. Since company may

have certain committees overseeing several things such as Investment, Subsidiary, Procurement and Performance, this controlling model can also be incorporated within the committees.

A review of the strategy should be provided in regular basis. It can be provided on quarterly, semester or annual. This action provided in order to have a lesson learned and updated profile since improvements should be made to cope with latest condition of market, technology and business trend. An agile canvas should be maintained as agile business also happened.

CONCLUSION

The result of this study showed that the Digital Product has more effect to Digital Death Valley and Business Valuation followed by Funding Management and Stakeholder Assurance. However, Although Funding Management and Stakeholder Assurance have a less significant effect on the Digital Death Valley and Business Valuation, the factors still not be able to put aside.

Regression test shows that everything related with products are crucial in order to pass through Digital Death Valley phase and increase opportunity to make better Business Value. If the company has a product that has a good feature, upgradeable and potentially attractive on the market it will be easier to pass the Valley of Death phase and generate revenue expected by the company. The results of this study inline with Yahya (2014) that stated Innovation Management – that comprises of three factors namely: Product Design, Business Model and Customer Experience – has significant impact on Business Performance. However, this situation needs to be supported by good strategy of Funding Management especially in terms of how-much and when-to-deploy the capital. The next thing that need to be considered is the circumstance surrounding Stakeholders including technical competence and experience especially in the similar product along with how the channel management should be provided and maintained while securing the company image in the market (as a result of existing and past products).

Since there are few things that can limit the capability of the firm to cross the Valley and make the company unable to increase the company's value, it is compulsory to do several things: First, employs a sub specific template / canvas to valuate, approve and monitor New Digital Business Portfolio initiative. This canvas aimed to be used by Business Analyst unit in Telcos by collaboration with business units. This canvas model suggests a new Company Policy and Chain of Business Processes Standard that can be applied to achieve Digital Glory. Secondly, considering that Product is the most influencing factor that determine business value, by sharpening the company's focus on what product that will be marketed and sold, what kind of products that is really needed by consumers and supported by good marketing. Third is the need to evaluate and strict control of all interested stakeholders that the company is able to increase Business Valuation.

This study proves that a good quality of the product and as required by the consumer's needed will give Telcos the subsequent ability to develop a wide range of digital businesses with the most optimal results and will improve the business valuation of a company and also help it to push as low as Digital Death Valley.

The scenario can furthermore be used to extend the role of finance unit to be a Business Partner in the company. By providing collaboration templates that speak both business and financial, alignment between the two groups will then more enhanced.

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DO THE BRAND IMAGE AND CUSTOMER LOYALTY DETERMINE THE COMPETITIVE STRATEGY OF CHAIN HOTELS

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ABSTRACT

This study purposes to examine the influences of brand image and customer loyalty towards the competitive strategy for chain hotel in Bali. Partial Least Square was used with bootstrap model. The respondents involved were 117 respondents. The results suggest that in conducting its operations, brand image and customer loyalty affect the competitive strategy of chain hotels in Bali, therefore it can run properly. Nevertheless, a thorough interpretation of this implementation will be critical for the success of future hotel strategy. This research is a step toward assessing other hotel competitiveness; by suggesting classified groups of brands/hotels type to enhance long-term hotel sustainability. This is one of the few research studies, to assess brand image and customer loyalty through a management representative's point a view. Further, the results suggest that other indicators of strategies could be well developed.

Key Words: Brand Image, Customer Loyalty, Competitive Strategy, Chain Hotel

INTRODUCTION

The concept of brand image is becoming more prominent, both for academics and business practitioners. The theory of the brand has been going on since the 18th century AD in Europe and later evolved as the rapid growth of the advertising industry in the media at that time (Hampf & Repo, 2011). In a way, the new century 20's role and presence of the brand is increasingly becoming a major concern in a business competition (Susanto & Wijanarko, 2004). Post (2008), Kapferer (2008) and Keller (2008) also confirmed the importance of strategic brand for various companies, including hotel. However, branding a hotel is more than just connecting a property with a name and logo. The succesful branding development of chain hotels involves more than simply adding rooms and properties under the chain's name. (Cai, 2004).

As the world is rapidly going global, and also followed by the fast growth of international travel, the global hotel brands become more prevalent internationally. This is also effecting the position of domestic brands to be less competitive. Another fact is, that managing an independent hotel often demands constant involvement, however when it comes to chain hotels, a small issue can quickly get compounded and may go on to affect the chain's brand image – negatively influencing bookings across all units.

While the guest experience is obviously important, the operational strategies establishments are indeed significant for their brand and standardized service levels. Guests have certain expectations that come with the name, and ensuring that they experience the same enriching service at all chains or properties is immutable.

Brand image also gives a positive impact on customer loyalty. Customer loyalty has become one of the major components to create a competitive advantage (Abrudan & Dabija, 2015). In the perspective of behavior, loyalty is indicated as a tendency to re-purchase (repeat purchase) or the next visit to a place to shop (Sullivan & Adcock, 2002; Olsen, 2007; Sainy, 2010). Trust and psychological commitment, the recommendations and the desire to buy back (Russell-Bennett, McColl-Kennedy and Coote, 2007; Ray & Chiagouris, 2009; Wong & Dean, 2009). However, there are still few and limited studies that have been done before in measuring customer loyalty from the management's perspective, including for services sectors such as hotels. (Zentes, Morschettts & Scramm-Klein, 2011).

Branding represents one of the core marketing practices that emphasize the continuity of the company with external environment, including customer. Through branding, companies are able to create, nurture and innovate their market-based asset. By creating market-based asset perceived by customer, companies are able to nurture perceived brand value and consumer brand equity, which in turn create profitability for the companies. Therefore brand represents important determinant of the company to develop its competitive strategy. (Abimbola, 2001)

One of the challenges faced by the current global hotel industry is ensuring good marketing practice in term of developing a clear brand message for hotel. It needs to be a greater attention to study of academics and industry practitioners, otherwise the chains in industry are likely to slide into becoming price-based including for chains hotel in Bali.

This study attempts to identify how far the brand image and customer loyalty effect on competitive strategy to the chain hotels in Bali. This is examined by data collected through questionnaires to 117 respondents of the chain hotels in Bali. Respondents were general managers, marketing managers, from office managers, food and beverage managers. The results of this study shows that in conducting its operations, brand image and customer loyalty affect the competitive strategy of chain hotels in Bali, therefore it can run properly. Therefore, it is important to examine this topic further to assist the chain hotels in Bali facing an aggressive penetration particularly from global chain hotels.

THE RESEARCH CONTEXT: 3, 4 AND 5 STARS OF CHAIN HOTELS IN BALI

As the only God Island in Indonesia, Bali becomes the destination where the largest hotel project growth swiftly compared to other potential destinations in Indonesia.

Table 1
HOTEL PROJECT IN INDONESIA IN 2013

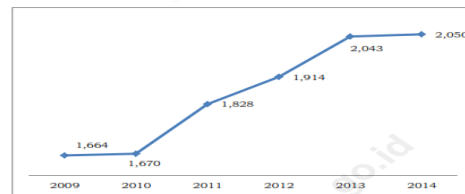
	UNDER CONSTRUCTION	FINAL PLANNING	PLANNING
INDONESIA	150	90	98
BALI	36	22	22
JAKARTA	28	23	19

Source : Howarth HTL, 2013

The above table illustrates the composition of the hotel project in Indonesia. Bali became attractive destinations, where the position of the project is comprised of 36 projects that are still under construction, 22 projects in the planning position and 22 projects in the planning position. In that position, the category showed growth Mid-scale and Midscale Upper class respectively (+28.6%) (+ 31.3%).

Currently the hotel market in Bali leads to a hyper competition. With the high value of traditions and cultural, the hyper competition suspected will disrupt the continuity of the cultural ecosystem. This circumstances strongly growth and followed by the negligence of the balance between real needs and requirements with the current supply (Yasa, 2013). The hyper competition condition can also be seen from the growth in the number of both hotel and non-star in Bali below;

Figure 1
HOTEL GROWTH IN BALI FROM 2009 – 2014



Source: Bali Statistic Bureau (2014)

In 2013 the number of hotels in Bali experienced fairly rapid growth compared to the previous year to 2,050 accommodations or an increase of 0.3% percent over the previous year. In 2014 the number of star hotels reached 277 hotels (increases by 22 hotels) from the previous of 255 hotels. As for her room number is 28 811, 6965 increased from the previous room as much as 21 846 rooms.

The expanding number of hotel rooms is, obviously makes hoteliers concerned at the same time worried. They even asked the provincial government of Bali restrict the supply of new hotels, as occupancy rates continued to show a tendency to decline due to excess supply. The oversupply will have an impact on lowering the level of occupancy, as described in following table.

Table 2
OCCUPANCY GROWTH IN BALI 2015

No	District	Hotel numbers	Occupancy
1.	Jembrana	2	Data is not available
2.	Tabanan	2	(54.84%)
3.	Badung	146	(55.81%)
4.	Gianyar	18	(46,07%)
5.	Klungkung	7	Data is not available
6.	Bangli	0	Data is not available
7.	Karangasem	7	(56,11%)
8.	Buleleng	14	(35,88%)
9.	Denpasar	31	(63,1%)
	Total	277	

Source: Bali Statistic Bureau (2014)

Data from the Central Statistics Agency (BPS) of Bali in 2014 above, it was noted that the room occupancy rate of star hotels in Bali in December 2014 has decreased. TPK in Tabanan, Badung, Gianyar, Karangasem, Buleleng, and Denpasar decreased respectively 54.84 percent, 55.81 percent, 46.07 percent, 56.11 percent, 35.88 percent and 63.1 percent, with an average decrease of 51.95 percent last year until December 2014. Declining pattern in hotel occupancy in Bali until December 2014 is one indication of hotel performance decreasing, including a network of five-star hotels in Bali.

The lack performance of the local chain hotels, shown through the average daily rate, revenue rooms per available (RevPAR) and occupancy rate was allegedly caused by a weakness in the design of competitive strategy, especially with its increasingly competitive environment hospitality industry in Bali. Hotel chain with international brands has been and will continue to erode the market share of national brand hotel chain in the country. Every hotel network of national brand should have a competitive advantage by taking into account the uniqueness and special characteristics that are difficult for hotel imitated other networks, both related to the development of brand image and service that makes guests into loyal and back again the same hotel.

LITERATURE REVIEW

Brand Image

The intense competition makes hotels applying strategies to achieve competitive advantage which brings the impact to increase the guests. Wijaya (2010) states that one way to achieve a competitive advantage in order to maintain the consumer loyalty is to build the brand image in consumers' mind-set. The customer loyalty can be acquired from some facets, such as quality of service and brand image as the ability of the company strengthens its positioning through marketing communications. The research result conducted by Kandampully & Suhartanto (2000) strengthens the above statement that the good image of the hotel will affect the level of customer loyalty.

Hoeffler and Keller (2003) stated that brand image can be measured by a (a) professional impression consist of quality-product and Service, easily recognizable consumer, easy to obtain - strong accessibility, (b) modern impression, which consists of constantly using technology in the activity, having attractive package, following the market trends, (c) all segment services which consists of offer various types of products and services that were mixed offering various consumers, options strategies that vary according to market segment and (d) customer oriented which consists of giving good facilities, attractive promotion program and customer loyalty program.

Brand image represents "the reasoned or emotional perceptions consumers attach to specific brands" (Low and Lamb, 2000) a set of beliefs held by customers about a particular brand, based upon some intrinsic and extrinsic attributes of a market offering resulting to perceived quality, and customer satisfaction (Garcia Rodriguez and Bergantinos, 2001). While customer satisfaction although subject to debate as there are dichotomies to its definition, can be likened to customer feeling of pleasure or disappointment as a result of experience or the act of comparing a product's perceived performance (or outcome) in relation to a customer's expectations (Ogba and Tand, 2009). Corporate image and Brand image also positively affects customer loyalty and customer satisfaction (Andreassen and Lindestad, 1998; Javalgi and Moberg, 1997).

Customer Loyalty

A loyal customer is not measured by how much he bought, but of how often he has done the re-purchase, including giving recommendation to purchase to others. Swastha (2009) emphasized that customer loyalty willing to continue to use the same product from a company. In recent years, customer loyalty has emerged as a major focus of marketing strategy due to its key role in retaining the customers (Boora and Singh, 2011).

In a competitive marketplace where corporations and forms compete for customers; customer satisfaction and customer loyalty are seen as a key differentiator. Businesses who succeed in these cut-throat environments are the ones that make customer satisfaction and loyalty as key element of their business strategy. According to Griffin (2005), loyalty refers to a form of behavior and decision-making units to continuously purchase of goods or services of a company that is selected, which include some of the following indicators: a) Making a purchase on a regular basis, b) Buying outside the line of products or services, c) Recommend the product, d) Indicates immunity of appeal similar products from competitors. Duffy (1998) asserts that building customer loyalty is a business strategy, not just a marketing program and that all businesses should seek to boost loyalty and maximize share of customer.

Competitive Strategy

Barney (2010) states that a company achieve competitive advantage when companies implement value creating strategy that is at the same time not used by other companies. This statement leads to the understanding that the business managers should be creatively taking along their company to attain superior performance as their goal. Cathoth and Olsen (2007) assert that strategy formulation and implementation are the key factors in accomplishing the goal. Recently, many hotel managers develop their competitive strategies that aim to secure a strong market position and achieve high revenue. Enz (2008) argued that a single resource cannot create competitive advantage. It was strengthened by Olsen et al. (2008), that the combination of competitive resources – branding, human resources, information and technology, innovation, computer reservation system, niche marketing and advertising, and pricing tactics – that can increase a hotel's capabilities and improve performance. It means, only hotel with strong capabilities could distinct it from competitors in the global environment.

In this study, the approach of the strategies used are low cost and differentiation. Both approaches have been widely used by companies consistently (Lucyanda and Rahmayanti, 2012). This is also stressed by Agyapong and Boamah (2013) that the price leadership (cost leadership) and the uniqueness or difference (differentiation) are the two factors of competitive advantage that can improve the performance of the hotel.

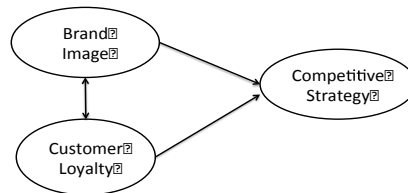
Branding is one of a hotel firm's most valuable assets (Keller and Lehmann, 2003). Competitive branding enables hotels to distinguish themselves from their competitors, to create customer loyalty, to exert greater control and to demand a price premium over their competitors (Holverson and Revaz, 2006). However, it does not describe in many researches yet that the brand and the customer loyalty are directly effect the competitive strategy of the hotel.

Figure 2 presents the conceptual framework for the current study. As can be seen, that brand image and customer loyalty investigated here, all have a direct influence on the hotel's competitive strategy. The conceptual model and hypothesis guiding this study are as follows;

- H1 The brand image influences the competitive strategy of 3,4 and 5 stars chain hotels in Bali

- H2 The customer loyalty influences the competitive strategy of 3,4 and 5 stars chain hotels in Bali.
- H3 The brand image and customer loyalty simultaneously influence the competitive strategy of 3,4 and 5 stars chain hotels in Bali.

Figure 2
THE PROPOSED CONCEPTUAL MODEL



METHODOLOGY

Research Design and Survey Instruments

This study applies causal and descriptive research design to determine the cause-and-effect relationships among brand image, customer loyalty and competitive strategy of 3, 4 and 5 stars of chain hotels in Bali. It is based on the theoretical foundation provided by the studies of Hoeffler and Keller (2003), Griffin (2005) and Agyapong and Boamah (2013). A structural questionnaire was developed to serve as the main data collection tool in study. These questionnaires comprised 32 closed-ended questions. The first section of questionnaires sought relevant demographic information from the respondent hotels such as stars category, length of operation, location of the hotel and job position. This demographic information was necessary as they constitute the main independent variables in the study. In term of the dependent variables, a popular measure was used to capture various aspects of a brand image based on Hoeffler and Keller (2003), customer loyalty based on Griffin (2005) and competitive strategy based on Agyapong and Boamah (2013). These areas were operationalized in the second section of the instrument, using Likert-scale items, with response option ranging from 1 (strongly disagree) to 5 (strongly agree). Higher score on each scale indicated higher importance attached to a particular variable observed.

The analysis used to test hypotheses and determine the relationship between the variables is by using analytical tools PLS (Partial Least Square) using SmartPLS version 2.0 M3. Partial Least Square (PLS) was first developed by Herman Wold (1982).

Sample and Data-Collection Procedures

Given the small size of the sample in Bali, almost all chain hotels from 3, 4 and 5 stars represented in this study. Questionnaires were distributed to capable person understood on the management area; general managers, front office manager, human resources manager, sales and marketing manager, food and beverage manager. All respondents were informed about the nature and purpose of the study. They were also informed that their answered were kept confidential.

Data obtained from 39 of 75 local chain hotels in Bali, indicating around 52 per cent response rate.

RESULTS

Descriptive Statistics and Reliabilities

Validity Test results obtained by means SmartPLS loading factor values above 0.5 to established construct. Furthermore, the results presented in the table outer validity loading as follows;

Table 3
VALIDITY TEST RESULT

	Brand Image	Customer Loyalty	Competitive Strategy
X11	0.717		
X12	0.793		
X13	0.759		
X14	0.723		
X21		0.778	
X22		0.683	
X23		0.671	
X24		0.561	
Z11			0.827
Z12			0.835
Z13			0.743

In the above table it appears that loading factors provide a value above the recommended value that is equal to 0.5. means indicators employed in this study is valid or has met the convergent validity. More reflective indicators also need to be tested discriminant validity by looking at the value of square root of average variance extracted (AVE). With a recommended value is above 0.5.

Table 3
VALIDITY TEST RESULT

	Average Variance Extracted (AVE)
Brand Image	0.560
Customer loyalty	0.591
Competitive strategy	0.644

The above table manunjukkan AVE value above 0.5 for all constructs contained in the research model. It is confirmed that all research indicators valid. As for the reliability test, the results are found to reliably remember all composite reliability values on demonstrated above 0.7. The following data in the table below.

Table 4
REALIBILITY TEST RESULT

	Average Variance Extracted (AVE)
Brand Image	0.836
Customer loyalty	0.770
Competitive strategy	0.844

DISCUSSION

The study pursued to determine whether the brand image influences the competitive startegy of 3, 4 and 5 stars chain hotels in Bali. The model test was required before the hyphotesis tes conducted. Test model of research in Partial Least Square-Structural Equation Modelling can be done through the outer and inner models models.

Outer Measurement Model or Models

This is to test an indicator of latent variables, or in other words an indicator measuring the extent it can explain the latent variables. Indicators in this study are reflective indicators.

Convergent Validity

Convergent validity of this study was measured through the outer loading where the size of individual reflective said to be high if more than 0.70 correlated with the variables to be measured. Values outer loading on all indicators are at above the above criteria. Based on the calculation, the outer loadings of all indicators of research have met the criteria, where all the value is above 0.5. It means that convergent validity has been qualified.

Composite Realibility

Composite realibility is one measure of the discriminant validity, which indicates whether the measured variable has a high reliability if it has composite reliability is above 0.7.

Average variance extracted (AVE)

Average Variance Extracted (AVE) is one measure of discriminant validity. AVE should be greater than 0.5. AVE variable has a value above 0.5 with the highest AVE obtained competitive strategy variables (0.844) and variables owned by the lowest AVE brand image (0.560).

Cronbach Alpha

Cronbach Alpha is used to measure of discriminant validity which suggested having a value above 0.7. As can be seen Cronbach Alpha value calculation results as follows;

Table 5
CRONBACH ALPHA

	Cronbach's Alpha
Brand Image	0.739
Customer loyalty	0.615
Competitive strategy	0.722

Based on the above table it can be shown that each variable has a Cronbach alpha values above 0.7. The highest Cronbach alpha values obtained brand image variable, while the variables obtained the lowest Cronbach alpha was customer loyalty variable. Therefore, it can be concluded that outer model complied with the criteria established.

The following testing is the inner structural model or test the influence / hypothesis by looking at the coefficient of determination R square, T-statistics and coefficient parameters. The coefficient determination test or tests R-square aims to determine how well the inner models (structural model) were formed. According Ghazali (2011), when the R square value of 0.67; 0.33; and 0.19 indicate that the model "Good", "Moderate" and "Weak" for latel endogenous variables in the model inner. The test results from the outer inner weight models indicate that the results of each indicator are significant to the latent variable for t statistic > 1.96.

Table 6
PATH COEFICIENT

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics(O /STDEV)	P Values
Brand Image-> Competitive Strategy	0.366	0.379	0.109	3.353	0.001
Customer Loyalty → competitive strategy	0.491	0.482	0.111	4.408	0.000

In view of the above table between variables test results showed that the relationship between variables by testing the variables are significant. Thus we can conclude all hypotheses can be accepted.

Inner Structural Model Or a Models

This is to test the influence of a latent variable with other latent variables either exogenous or endogenous. It can be said also test the hypothesis of a latent variable with each other. Tests conducted by the percentage of variance explained namely R^2 for the dependent latent variable that is modelled to get the influence of the independent latent variables to use and see the magnitude coefficient of track structure. To see the ability of exogenous variables in explaining endogenous variables we used R-square test results and how well the inner workings of the model established. The following table below describes the test results R square. Then the ability of competitive strategy variables was 63.2% and the rest was explained by other variables.

From the measurement results R-square test can be declared a model structure can be considered good.

Hyphothesis Result

To confirm the results of the study hypothesis test conducted as follow;

Tabel 7
HYPHOTHESIS TEST RESULT (T-TEST)

Variable	T	Sig.
Brand Image	3.35	.000
Customer Loyalty	4.40	.000

Hypothesis 1

H0: $\neq 0$ Brand not significantly affect Competitive Strategy at Star 3, 4 and 5 at Bali.

Ha: $= 0$ Brand image significantly affect Competitive Strategy at Star 3, 4 and 5 at Bali.

Hypothesis 2

H0: $\neq 0$ Customer Loyalty does not significantly affect Competitive Strategy at Star 3, 4 and 5 at Bali.

Ha: $= 0$ Customer Loyalty significantly affect Competitive Strategy at Star 3, 4 and 5 at Bali.

In the first statistical testing using statistical tests partially with the testing criteria of departure if $t \text{ count} > t \text{ table}$ at significance level α with $= 1.96$. Based on the results in table 7 of hypothesis test result, it appears that value of $t \text{ count} > t \text{ table}$. It means that the brand image and customer loyalty partially both with significant influence on competitive strategy. Brand image is reflected in the various attributes of quality products and services, the existence of modern technology, ease of access, luxurious amenities Balinese flavour can influence competitive strategy developed by the hotel. The hotel uses these conditions to improve its competitive strategy through a variety of approaches and channels for the sake of winning the competition. Similarly, the role of customer loyalty are also significantly affect strategic compete, continue to be a guideline for the hotel management to enhance its uniqueness and value in the minds and thoughts of the guests.

The following hypothesis was to examine whether the brand image and customer loyalty are partially or simultaneously influence the competitive strategy, described in hypothesis testing below;

Hypothesis 3

H0: $\neq 0$ Brand image and customer loyalty simultaneously not significantly affect Competitive Strategy at Star 3, 4, & 5 in Bali.

Ha : $= 0$ Brand image and customer loyalty simultaneously significantly influence Competitive Strategy at Star 3, 4, & 5 in Bali.

In the hypothesis test approach used to see the significance of the influence between variables simultaneously, based on the influence of structural equations simultaneously obtained by $R^2 = 0.362$, following the results of the statistical test using the formula;

$$F_{hitung} = \frac{(n - k - 1)R^2(i, j)}{k(1 - R^2(i, j))}$$

The test criteria are H_0 is rejected if $F_{count} > F_{table}$ at α significant level in the degrees of freedom $\nu_1 = k$ and $\nu_2 = n - k - 1$. Processing results which amounted to F_{count} was 8,597 and F_{table} was 2.13 or $F_{count} > F_{table}$ ($8597 > 2.13$). Based on that results it confirms that simultaneously brand image and customer loyalty could influence the competitive strategy.

The study revealed that in conducting its operations, brand image and customer loyalty affect the competitive strategy of chain hotels in Bali, therefore it can run properly. Nevertheless, a thorough interpretation of this implementation will be critical for the success of future hotel strategy. This research is a step toward assessing other hotel competitiveness, by suggesting classified groups of brands/hotels type to enhance long-term hotel sustainability. This is one of the few research studies, to assess brand image and customer loyalty through a management representative's point a view. Further, the results suggest that other indicators of strategies could be well developed.

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CARRYING CAPACITY AND VISITORS' SATISFACTION OF THE ECOTOURISM OBJECT OF CAVE PINDUL TUBING GUNUNG KIDUL, YOGYAKARTA, INDONESIA

Mudji Sabar, Mercu Buana University

ABSTRACT

This study is meant to identify the carrying capacity and the visitors' satisfaction of Cave Pindul Tubing located in the village of Bejiharjo, the regency of Gunung Kidul, the province of Yogyakarta, Indonesia. There were three-step research activities done during the weekend occasions. The first step was conducted on 15-18 October 2015 for a field observation. The second step was executed on 25-27 March 2016 for field observation and interviews. The third step was done on 20-22 May 2016 for questionnaire, field observation, and interviews. This is a case study approach employing descriptive statistics and qualitative analysis. The sample size is 300 respondents, and the accidental sampling technique is applied to collect the primary data from the respondents through the questionnaire. Depth interviews were done with the prominent figures of the local community operators, tour operators, and local tourism officers. The result of this study shows the evidence that Cave Pindul Tubing has over capacity visitors at the weekends, and most visitors were less satisfied with this condition. Therefore, it is recommended that the local government should regulate the number of visitors as well as the trip arrangement at the object by implementing the IT-based reservation system. The Local Tourism Office should initiate effective and meaningful coordination with all local community operators and other parties involved to realise mutual understanding and respect in implementing the basic principles of ecotourism at the site.

Key Words: *Carrying Capacity, Visitors' Satisfaction and Regulation*

INTRODUCTION

Since its official launching on 10 October 2010, Cave Pindul has become a popular ecotourism object in Gunung Kidul, Yogyakarta, Indonesia. Statistical data of Gunung Kidul Tourism Office shows that in 2010, there were 98 tourists visiting Cave Pindul. In 2011, this number increased to 5,421 visitors, and in 2014, there were 64,555 tourists (Dinas Kebudayaan dan Pariwisata Kabupaten Gunung Kidul, 2015). This huge growth was triggered by the advanced marketing efforts through social media aggressively done by local community operators. There are now 11 community operators consisting of 4 licensed operators and 7 non-licensed operators. The licensed operators are Dewa Bejo, Panca Wisata, Wira Wisata, and Tunas Wisata. Dewa Bejo is exactly the abbreviation of Desa Wisata Bejiharjo meaning the Tourism Village of Bejiharjo. The Secretariat of this operator is located in Dusun Gelaran 1 (Dusun is a sub-village, and Gelaran 1 is a name of one of sub-villages of Bejiharjo). The second established operator is Panca Wisata located in Dusun Gelaran 2. The third is Wira Wisata located in Dusun Karangmojo. The fourth is Tunas Wisata located in Dusun Gelaran 2. The 7 non-licensed operators are also located in the Village of Bejiharjo. These operators were formed

by local community organizations mainly Karang Taruna (the Village Youth) and Kelompok Sadar Wisata or Pokdarwis (Local Tourism Community, the local people who are concerned on developing tourism activities in their area).

The ecotourism of Cave Pindul has changed the lives of people in Bejiharjo, Gunung Kidul, Yogyakarta. Statistical data of Village Bejiharjo identifies that 46.55% of the people work as farmers, 16.35% as labours, and almost 20% work at other profession including tour guides (Ningsih, Restika Cahya, 2013). They have more job alternatives created by tourism activities. They still do farming, but many people prefer to work at the tourism-related activities, either as their main job or their additional profession. Most informants from the local community operators confirmed that their average income per month has increased significantly. Statistics Indonesia or Badan Pusat Statistik Indonesia shows that the Gross Domestic Regional Product per Capita or Produk Domestik Bruto Regional (PDRB) at District Karangmojo increased from year to year. In 2008, the PDRB was IDR 3,990,203 increased to IDR 4,268,383 in 2009, and then IDR 4,445,128 in 2010, and in 2011 became IDR 4,625,542 (Ningsih, Restika Cahya, 2013). The tariff of local tourism retribution is IDR 10,000 per person, so the local government income from this tariff is also huge.

In line with the ecotourism development principles, there must be a proportional trade off among economic, social and environmental dimensions. Accordingly, the visitors at the weekends and national holidays (peak season) must be properly managed to guarantee the visitors' satisfaction and to prevent social and environmental problems. Based on the above description, this research is aimed to analyse whether the number of visitors is still compatible with the carrying capacity of Cave Pindul. As well, this research is also aimed to propose such a regulation to provide a proper ecotourism management of Cave Pindul.

LITERATURE REVIEW

Carrying Capacity

Environment Law of the Republic of Indonesia defines environment carrying capacity as the capability of the environment to support the lives of mankind and other species. The environment conservation is defined as the management of renewable and un-renewable resources to guarantee and maintain the sustainability and the quality of their existence as well as their diversity (Undang-Undang No. 23 Tahun 1997). Thus, the proper management of carrying capacity must be promoted to guarantee the balance of ecosystem and to give better quality of lives for people and other species in that area.

In term of tourism industry, Sumarwoto (2004) in Muhamad (2013) describes that carrying capacity is the physical capacity of a tourist object to have a maximum number of tourists without decreasing the quality of that environment (Muhamad, 2013). If the number of tourists is beyond the limit, this will endanger the quality of the environment. Furthermore, Sumarwoto (2004) and Gun (Douglas 1975) in Muhamad (2013) add that tourism carrying capacity also relates to psychological factors of the tourists (Muhamad, 2013). When an object is flooded by a huge number of tourists (over the carrying capacity), this will consequently decrease the satisfactory of the tourists. They will feel less privacy as they have inadequate space or opportunity to fully enjoy the tourist attraction. They will also feel to have less experience than what they really expect. In terms of safety and security, this condition will also make an evacuation effort very difficult if any accident happens in the spot. Therefore, tourism carrying capacity must be well managed to ensure visitors' satisfaction in enjoying the tourist attraction.

Ecotourism

The International Ecotourism Society (TIES) and World Conservation Union (IUCN) define ecotourism as a responsible travel to a natural area promoting environment conservation and benefiting the local people in terms of cultural, social, economic and political aspects (Jaini, Anuar, & Daim, 2012). Thus, ecotourism is a means to promote tourism industry, conserve the environment, and maintain the livelihood and welfare of the local people. Typologically, there are two ideal types of ecotourism, namely hard and soft characteristics of ecotourism. The hard type ecotourism stresses on the environmental commitment very strongly. Thus, there must be specialized visits of small groups of tourists. They need very limited services from the providers, and they are physically involved in the interaction with the nature. They make their own travel arrangement. On the contrary, the soft type ecotourism is characterized by superficial environmental commitment. They have multi-purpose visits of larger groups of people. They need services from the providers to facilitate their physical comfort, and they have shallow interaction with the nature. They rely on the tour operators to manage their own travel (Weaver, David B., 2005)

Slinger-Friedman (2009) mentioned that ecotourism is promoted in order to give positive economic as well as environmental and social impacts for the people. Infrastructure developments, job opportunity, direct employments in tourism industry, improvement of local livelihood are some examples of economic impacts of ecotourism development. The development of national parks to protect rainforests, local people empowerment, and legislation to properly manage the ecotourism are some points of ecotourism impacts. Furthermore, controversial decisions or actions, and inconsistency in tourism policy or planning must not be occurred; otherwise this may cause serious problems in the ecotourism development (Slinger-Friedman, Vanessa, 2009). Accordingly, these following aspects should be taken into account (UNEP, 2001):

1. Visitors are mainly interested in observing and appreciating nature and traditional cultures in natural areas (nature-based).
2. Contribute to biodiversity conservation.
3. Support the well being of local people.
4. Involve responsible action by both tourists and local people to minimize negative environmental and socio-cultural impacts.
5. Requires the lowest possible consumption of non-renewable resources.
6. Stresses local ownership as well as business opportunities for local (especially rural) people.

In line with the above-mentioned principles, the Local Tourism Authority should control the total number of visitors. Regular impact assessment of over capacity visitors must be done and corrective actions must be implemented. The tourism code of conduct must be introduced to facilitate socio-cultural mutual respect between the visitors and the host people. In this context, local community-owned homestays must serve as the main accommodation facilities for the visitors. The tour guides must be recruited from the local people and must be certified by the professional institutions. As well, local community operators, under the supervision of Local Government Agencies, must be responsible for planning, designing, maintaining, redeveloping the object, and also in determining the entrance fee of the object.

Shortly, there are three main principles to consider in relation with the sustainable ecotourism development, namely economic, socio-cultural, and environmental principles. Hence, it is preferably called C3 principle standing for conservation (environment), community (socio-

cultural), and commercialization (economic). These three factors must have a well-balanced treatment by the operators. Otherwise, the ecotourism business will be damaged in the future. One of the most powerful factors that may ruin ecotourism is the social drive or social ambition to gain more economic benefit by permitting mass tourism at the site. This is exactly a misleading thought commonly taken by the local ecotourism operators. They tend to maximize economic benefit by inviting many more visitors to come by applying low cost strategy. They do not apply high-end economic principles, which is more suitable for the ecotourism principles. Small number of visitors with higher expenditure should be targeted because this will yield more socio-economic benefit compared to mass tourism economy. Ministry of Culture and Tourism in cooperation with WWF-Indonesia designed the formula to develop Indonesia Ecotourism Spots involving 6 stakeholders, i.e. Government Agencies, Tour Operators, Community Participants, Protected Area Staff, Specialists / Scientists, and NGOs (Depertemen Kebudayaan dan Pariwisata dan WWF-Indonesia, 2009). These stakeholders have to work hand in hand to build strong commitment and support in order to achieve the great result of ecotourism development in Indonesia.

The Social Governance

Community participation in ecotourism development must be well governed by the Local Government Agency to prevent horizontal conflict among them. Otherwise, they tend to fight to each other in order to gain more economic benefit. Consequently, there will be no good business atmosphere at the location.

Communitarian democracy as a basic village livelihood should be promoted. Common goodness is the basic value of the Communitarian Democracy where people work for their mutual best interest. This is contradictory to the Liberal Democracy where any member has absolute right to do what they like. They may control absolute resources while others control fewer resources. The successful people may become the wealthiest members of the community while the rest remain very poor. The Communitarian Democracy promotes good society where people can work together in harmony for their own common welfare. Togetherness and harmony are more important than individual wealth (Zamroni, Anwar, Yulianto, Rozaki, & Edi, 2015).

RESEARCH METHODOLOGY

The population of this research is the visitors of Cave Pindul. Based on the interview with local community operators of Cave Pindul, the least number of visitors so far is 1,200 people a day. Using Slovin formula with this population and sampling error 5%, the sample size is 300 people (Tejada, Jeffry J., Punzalan, Joice Raymond B., 2012).

The main instrument applied is a list of guided questionnaire addressed to 300 respondents taken at the big four local operator secretariats, 75 respondents for each operator. Accidental sampling technique is used, where any visitor might be chosen as the research respondent as far as he or she meets the qualifications, i.e. having finished his or her Cave Pindul Tubing activity, 18-60 years old of age, and willing to answer the questionnaire voluntarily. In addition, field observations and depth interviews with prominent figures of the local community operators, tour operators, and local tourism officers are also conducted to accompany the questionnaire.

The qualitative analysis is chosen as the analytical methods using case study approach, and the descriptive statistic is applied to identify the data (Sugiyono, 2012). The conclusion is

formulated based on the interpretation of the data in relation with the theories or the principles of ecotourism.

The location of the research is Cave Pindul site located in the village of Bejiharjo, the regency of Gunung Kidul, the province of Yogyakarta, Indonesia. The research is done in three step activities during the weekend occasions. The first step was conducted on 15-18 October 2015 for the pre field observation. The second step was executed on 25-27 March 2016 for the field observation and interviews. The third step was done on 20-22 May 2016 for questionnaire, field observation, and interviews.

RESEARCH FINDINGS

The Visitors' Profile and the Density of Visitors

Most of the visitors (78%) said that their main aim to visit Cave Pindul was recreation or holiday with family members, friends, or office colleagues. They are bachelor graduates (65%) with monthly expenditure of IDR 3-5 Millions (79%).

Table 1		
POFILE OF VISITORS		
Criteria	Description	%
Age	20-25 Years	35%
Education	Bachelor Graduate	65%
Monthly Expenditure	IDR 3-5 Millions	79%
Province of Origin	Mid Java and Jakarta	48%
Vehicle	Tourist Bus	65%
Aim	Recreation / Holiday	78%
Other Objects	Tubing Oyo River	41%
Source of Information	Friends and Tour Operators	77%

The density of visitors to Cave Pindul tourism attraction is huge. Licensed Local Community Operators reported that they handle 2,000 visitors per day on the working days (500 visitors per operator), 6,000 visitors on the weekends (1,500 visitors per operator), and 10,000 on the national holidays (2,500 visitors per operator). If the visitors handled by non-licensed operators are added, the number of visitors might be doubled. This indicates that the number of visitors is beyond the limit.

There are 3 tourist attractions at the location, namely Cave Pindul Tubing, Oyo River Tubing, and Cave Gelatik Tracing. Cave Pindul Tubing is the most popular attraction. The licensed operators calculated that 80% of their guests go to Cave Pindul Tubing, 20% go to Oyo River Tubing, and only 5% go to Cave Gelatik Tracing. This indicates that the visitors are mostly concentrated only at Cave Pindul Tubing attraction.

The Employment and the Income of the Local People

Cave Pindul has created new employment such as guides and other supporting jobs for the Cave Pindul operators, local cafes with local menus, souvenir traders, cloth traders, catering services, parking services, local transportation services, toilet services, local entertainment services, and local homestay services. Formerly, according to the informants of the Local Community Operators, the average income of the people near Cave Pindul site was IDR

1,000,000 per month, and most of them worked as farmers. Now, the income of people who work as non-guide Workers for the operators is at least IDR 2,000,000. The certified guides earn IDR 4,000,000 per month. This income is higher than the Minimum Regional Wage of Gunung Kidul, which is less than IDR 2,000,000 per month. The local government income from tourist retribution is also huge. It is IDR 500,000,000 per month.

Visitors' Experience

Based on the questionnaire responses, the visitors of Cave Pindul are willing to come back again (Mean=3.24). They notice that the accessibility to Cave Pindul is good (Mean=3.92). They agree that it is easy to reach the location, as the routes are equipped with traffic signposts (3.26). Table 2 below shows the details of visitors' experience at Cave Pindul.

Table 2 VISITORS' EXPERIENCE					
No	Questionnaire	SD	D	A	SA
1.	Good Accessibility to Cave Pindul			3.92	
2.	Routes to Cave Pindul are well equipped by signposts.			3.26	
3.	Cave Pindul cleanliness is well maintained.			3.08	
4.	Adequate signposts equip the location of Cave Pindul.		2.94		
5.	I find warning signs at Cave Pindul telling what visitors are not allowed to do at the site.		2.86		
6.	The Visitors are given oral information how to do the Cave Pindul Tubing properly by the Operator.			3.46	
7.	I find written information of what to do and what not to do by the visitors at the Operator's Secretariat.		2.46		
8.	I feel safe along the activity at Cave Pindul Tubing.		2.36		
9.	I feel comfort along the activity at Cave Pindul Tubing.		2.32		
10.	I find the visitors of Cave Pindul are over-crowded.			3.50	
11.	I feel that over-crowded visitors may cause me in danger.			3.38	
12.	I feel that over-crowded visitors reduce my comfort.			3.52	
13.	I think that over-crowded visitors endanger the ecosystem of the cave.			3.60	
14.	I recommend that the number of visitors must be limited or controlled.			3.34	
15.	I assume that conservation programs have been conducted.		2.72		
16.	I assume that greening programs have been introduced at the location.		2.66		
17.	It is necessary to introduce tour packages with greening conservation programs involving visitors of Cave Pindul.			3.28	
18.	I agree to pay more money than the existing entrance fee to promote conservation programs at Cave Pindul.		2.5		
19.	I agree to come back to Cave Pindul again.			3.24	

Notes: SD = Strongly Disagree D = Disagree A = Agree SA = Strongly Agree

The location of Cave Pindul is easily reached, as the infrastructure to Cave Pindul is good (Mean=3.92) and there are adequate signposts directing the routes to Cave Pindul (Mean=3.26). Most visitors agree that the location of Cave Pindul is clean (Mean=3.08), but they notice that there are not adequate signposts (Mean=2.94) as well as warning signs (Mean=2.86) telling what visitors are not allowed to do at the site.

Only a small number of visitors feel safe (Mean=2.36) and comfort (Mean=2.32) along their activity at Cave Pindul though they are equipped with safety jackets and accompanied by

certified guides. Furthermore, they notice that the number of visitors is over-crowded (Mean=3.50). They believe that this condition may cause them in danger (3.38), reduce their comfort (Mean=3.52), and endanger the ecosystem of Cave Pindul (Mean=3.60). They agree that the number of visitors should be properly controlled (Mean=3.34).

In addition, they feel it is quite necessary to initiate tour packages with greening and conservation programs involving visitors of Cave Pindul (Mean=3.28). However, their agreement to pay more money than the existing entrance fee in order to maintain the environment of the object is not adequate (Mean=2.5). They might think that this is the government's duty to do so as they have the legal authority to collect the tourist retribution from the visitors. Therefore, the visitors think, the sustainability of Cave Pindul is under the government responsibility.

Interviews with the licensed operators and travel agents also support the evidence that the number of visitors is beyond the limit and needs to be properly controlled. They recommend that the local government have to regulate this by initiating reservation system. They also agree to manage the flow of visitors at Cave Pindul Tubing attraction.

DISCUSSION

Carrying Capacity and Mass-Tourism

The number of tourists per unit area for river rafting activity is 6 persons per 50 square meters (Romario, Patana, & Harahap, 2015). As Cave Pindul is a cave with river passing through it, we can consider that Cave Pindul Tubing is similar with river rafting. Thus, the formula is 6 people for 50 square meters. Based on the interviews with Cave Pindul Operators, it is known that the area of Cave Pindul is 350 meter length x 4 meter width = 1,400 square meters (sqm). Working hour is 10 hours per day (from 07.00 am – 5.00 pm), and time consumed per trip is 1-2 hours (average 1,5 hours). Based on Yulianda formula, the carrying capacity for Cave Pindul is $6 \text{ visitors} \times 1,400 \text{ sqm} / 50 \text{ sqm} \times 10 \text{ hours} / 1,5 \text{ hours} = 1,120 \text{ people per day}$ or using tolerance adjustment = 1,200 people per day (Yulianda, 2007). This calculation shows that even at the working days, the visitors of Cave Pindul have already been beyond the limit.

It is quite obvious that Cave Pindul has been transforming to be mass-tourism object. The daily number of visitors is so big, they mostly come in larger groups, they come from middle-lower market (the average expenditure is IDR 3-5 Millions per month), the motivation is for recreation or holiday, and mostly they do not stay at the destination. This phenomenon is driven by some factors. First, the fare is so cheap (Cave Pindul Tubing is IDR 35,000; Oyo River Tubing is IDR 40,000; and Cave Gelatik Tracing is IDR 30,000). Visitors are allowed to choose only one of these attractions. Therefore, it is quite affordable for any people to visit this attraction.

Second, the operators apply discount rate for their affiliate travel agents or tour operators. Most of tour leaders said that they always get discount for the entrance fees and also for tourist retribution. They pay IDR 100,000 – IDR 150,000 per bus (more or less 50 passengers) for the retribution, and they get 15% discount for entrance fee for groups of adults and 30% discount for groups of school students. They added that they might get more discount if they cooperate with non-licensed operators. They might get 40% discount for groups of adult and 55% discount for groups of school students. This marketing effort shows that the orientation of both licensed and non-licensed operators is to low-cost business. They might think that to earn more money, they must get more visitors to come to the destination. To attract more people to come, they have to

implement lower price for their marketing partners, i.e. travel agents or tour operators. This situation has consequently driven the existence of price war among operators. They compete to lower the price as much as possible. In this context, travel agents or tour operators own strong bargaining position to the Cave Pindul operators.

Third, the economic impact enjoyed by the local people, especially member of Cave Pindul operators, also contribute to the existence of low-cost business for Cave Pindul. It can be seen from the growth of operators at Cave Pindul destination. From 4 licensed operators grew to be 10 operators, and recently there is 1 newcomer operator. This is very logical as there is no entry barrier to enter the business of tourism operators. Any local group of people may set up business entity to organize tourism at Cave Pindul destination. It seems that there is no regulation to limit the number of operators, or if such regulation exists, the enforcement seems to be weak.

Ecotourism Concept

Ecotourism, on the other side, is quite different from mass-tourism. There are 3 pillars that must be treated equally, i.e. environment, social, and economic. This means that ecotourism must be conservation oriented. In this case, carrying capacity must be used as a parameter to determine the maximum number of visitors per day. This must be well guided by professional or certified tour guides. The research informants mentioned that the over-crowded visitors might disturb the existence of the bio diversity of Cave Pindul. As well, in the long run, this might damage the structure of Cave Pindul, especially the stalactites and the stalagmites caused by the carbon dioxide coming from the density of visitors. The operating hours of the attraction must also be limited. Some best practice ecotourism objects in the world are closed at the peak season to give time to recover or to rebalance its ecosystem.

In addition, ecotourism must be based on the uniqueness of the object. The characteristics of ecotourism market are middle-upper income visitors, non-price sensitive, well-educated, having adequate knowledge of ecotourism, longer length of stay, with the motivation mainly to get new experience, having environmental concern, and respect to local culture (Liau, Lingling. 2001; Weaver, David B. 2005). The business practice at Cave Pindul attraction is contrary to the ecotourism principles.

Visitors' Satisfaction

Based on the visitors' experience, it is noted that the visitors are not satisfied. They do not have adequate opportunity to enjoy the Cave Pindul Tubing attraction. They feel discomfort and unsafe because the huge number of visitors made them unable to move freely and smoothly on their tubes. The field observations emphasized this evidence. The river that flows along the cave was fully covered by the tubes of the visitors. It seems there was no river flowing along the cave anymore, except the flow of tubes. It was a very common view at the weekends.

Regulation

Based on the principles of ecotourism management in practice, it is very urgent that the local government should establish tourism regulation at Cave Pindul. First, the number of visitors must be limited, i.e. up to 1,200 people per day. The trip of Cave Pindul Tubing must also be regulated. There must be maximum 40 people per trip accompanied by 6-8 certified guides (1 guide for 5-8 tourists). There must be a pause time at least for 10 minutes between

trips. One complete trip must be standardized to be 90-minute journey. This is meant to give enough time for the tourists to enjoy and to observe the uniqueness of Cave Pindul as well as to digest the tour guide's explanation along the trip. It is designed to provide visitors new experience and good memory to bring home.

Second, the fare must be significantly topped up and it is advisable to introduce packaged entrance ticket for all 3 attractions altogether, i.e. Cave Pindul Tubing, Oyo River Tubing, and Cave Gelatik Tracing. This is meant to disperse the visitors' concentration and to manage the waiting time. Instead of doing nothing in the waiting time for Cave Pindul Tubing, the visitors might be directed to take another attraction, for example Oyo River Tubing or Cave Gelatik Tracing. Most informants stated that the waiting time at the peak seasons is about 3 to 4 hours.

Third, there must be IT-based reservation system to introduce first come first serve visitor management. The local government have to provide such technology. The maximum number of visitors must be determined in line with the carrying capacity, i.e. 1,200 people per day. This system has already been done by airline reservation system as well as hotel reservation system. The local government might adopt such technology to manage the reservation of Cave Pindul attraction.

Fourth, the entrance gate to Cave Pindul Tubing attraction must be equipped with automatic gate controlled by the system. If the quota of one trip has already been fulfilled, the gate will be automatically closed by the system. The tour guides must also be equipped with professional guide ID cards functioning as passing cards to the attraction. Without these IDs, they are prohibited to enter the object.

Fifth, there must be zoning system. The local government must provide parking centre quite a distance from the object location, i.e. 1 to 2 kilometres away from the site. Tourist buses, cars, and other visitors' motor vehicles must be parked here. Operators of Cave Pindul destination must have representative counters in this parking centre. From the parking centre to the operator's secretariat, the visitors can use local transportation provided by each operator. From the operator's secretariat to the destination, visitors may take a walk, ride bicycles, or ride other environmental friendly vehicles.

Sixth, there must be media information and education centre to provide visitors with the audio-visual information related to the history of Cave Pindul, the uniqueness of Cave Pindul, the variety of local lives and cultures, the procedure to enjoy Cave Pindul Tubing in relation with the safety, security, and also the information of what they are not allowed to do at the site. As well, there must also be a media campaign to socialize people to take care of the environment and to persuade them to join the greening and conservation programs designed by professional NGOs.

Social Engineering

The local government have to initiate an effective communication with stakeholders of Cave Pindul ecotourism object before implementing the regulation, especially with the local community who serve as the operators of Cave Pindul Tubing. Social harmony as the primary principle of life among the villagers must be maintained and enhanced (Zamroni, et al. 2015). In doing so, traditional local leaders and other local prominent figures need to be involved to prevent the horizontal conflict. The local government have also to compensate those who might loose their income. They have to encourage and facilitate the growth of local creative products related to tourism activities. Indeed, the people need technical training, financial aid, and promotion assistance to develop such products. Hence, the participation of academicians and

professional NGO activists are required (Departemen Kebudayaan dan Pariwisata dan WWF-Indonesia, 2009).

CONCLUSION AND RECOMMENDATION

Conclusion

From the description above, it can be concluded that the visitors of Cave Pindul object is beyond the carrying capacity. Second, the visitors' satisfaction in enjoying the attraction is not maximized because of the density of the visitors. The visitors and the licensed operators mostly agree to limit the number of visitors of Cave Pindul object.

Recommendation

It is urgently necessary to regulate the operation of Cave Pindul ecotourism object. The most effective solution proposed by this research is the IT-based system mainly related to the reservation system. The local government should initiate comprehensive and effective coordination among stakeholders to maintain social harmony.

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BANKING STRATEGY AND IMPLEMENTATION OF ASEAN BANKING INTEGRATION FRAMEWORK (ABIF) IN ASEAN ECONOMIC COMMUNITY (AEC)'S ERA 2020

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ABSTRACT

In order to support the ASEAN Banking Integration Framework (ABIF) which will be launched in the ASEAN Economic Community (AEC) on the field of Finance and Banking in 2020, the Banks in ASEAN countries must prepare themselves to be categorized as a qualified ASEAN Banks, that is Bank in ASEAN countries which have strong capital, good performance and professionally managed, including meet prudential requirements in accordance with the exist international standard. To reach the bank with the capital strength, ASEAN countries should have capital of both organic and inorganic. To be accessible by the ASEAN communities, other than capital for Banks in ASEAN countries, asset definitely should be sufficient to optimally give operational services. Banks in some ASEAN countries currently do not have parallel asset, proven by the fact that in Indonesia the bank with the biggest asset was still below the bank asset in Singapore. As well as other Banks in ASEAN countries are facing the same phenomenon.

The purpose of this study is to analyze whether it is capital factor that give impact, what strategy to be prepared. Therefore, to increase their capital asset, Banks should prepare their business strategy that should be executed in facing ASEAN Banking Integrated Framework (ABIF), either through merger or acquisition.

The used method is Seemingly Unrelated Regression (SUR) for Panel Data. The Used Data are listed Bank in ASEAN countries.

The result of the research hopefully can reveal that capital is the main factor to be followed up by Banking Business Strategy in the future while confronting the imposition of ASEAN Banking Integrated Framework. The result of this study is also intended to gain additional research on the field of Banking Business Strategy to improve Bank's performance and maintaining competitiveness among banks in ASEAN.

Key Words: *Banking Strategy, ASEAN Banking Integration Framework, ASEAN Economic Community*

INTRODUCTION

Indonesia will participate and support the integration of ASEAN banking which is the important action for ASEAN's Economic and Financial integration system. ASEAN Banking Integration Framework (ABIF) Guidelines will be established as a guideline for the operational

framework of ASEAN countries in implementing the principles and process of banking integration under the framework of the ASEAN Economic Community (AEC). The issue of uneven capital in the ASEAN banking has become the issue that should be concerned by bankers, the value of ROA was quite good in several ASEAN banking, it become a mainstay of banks in expanding its market share. Nevertheless, according to the research of Yamanaka (2013) and Wu, Ting Lu, Nourani, and Kweh (2016) the issue of efficiency is still a concern, they explain that almost every banks in ASEAN has not reached the optimum level of efficiency, they recommend the banks in ASEAN to reduce carry-over, and also need managerial significant improvements.

ABIF main objective is to prepare market access and the freedom to operate (operational flexibility) in ASEAN member countries for Qualified ASEAN Banks (QAB), which are ASEAN banks that meet certain requirements agreed by ASEAN. Bank requirements to become a candidate of QAB include the ASEAN-owned banks with strong capital base, resilient and well run, and meet the prudential requirements in accordance to applicable international standards. The banks are expected to be the driver of trade and investment in ASEAN.

ABIF positive impact for Indonesia is the opportunity and potential framework for banking and Indonesian business people to expand into the ASEAN market. With emphasis on the principle of reciprocity and the agreement on a mechanism to reduce significant differences in terms of market access and operating flexibility in the integration process of ASEAN banking, it will open greater opportunities for Indonesian banks to gain access to markets and broader business activities in the ASEAN region. However, Indonesian banks also have to anticipate ABIF to strengthen the capital, the quality and efficiency of human resources to be able to compete in regional and global level. Business people will benefit through improved access to sources of larger and safer financing to cross-border trade and investment activities. Yamanaka (2013) and Lee and Fukunaga (2014) have explained that in countering the integration of banking market, it is necessary to strengthen cooperation to overcome the more stringent global challenges, in order to have competitive advantage and lowering new potential risks that exist.

Banks in some ASEAN countries currently do not have parallel asset, proven by the fact that in Indonesia the bank with the biggest asset was still below the bank asset in Singapore. As well as other Banks in ASEAN countries are facing the same phenomenon. Therefore if Indonesian Banks want to expand overseas or survive in their own country, they should have the same requirements as in other ASEAN countries.

In banking industry, capital is the main requirements in the business of banking and it is the ownership of the bank's management. The bank need to covered operational risk, and if such risk should have the available capital amount, then the bank may bankruptcy if difficulties to covered liabilities .The ratio required by a regulator will be that level deemed sufficient to protect the bank's depositors. (Moorad Choudrhy, 2007)". It can be said that the optimum capital is the company's blood to develop itself or expand. This capital is very important for the Bank in order to improve its Business in terms of investment as well as providing qualified credit. Capital in Bank Indonesia included in the BOOK (General Books Business Activities) category. Therefore the capital factor becomes extremely important in developing the bank's business and enlarging the size of banks and markets. Neverthelles, Ahmad, Ariff and Skully (2008) have found something different as the capital factor is not the only factor that determines the profitability of banks but regulations are the ultimate factor related to the size of capital and risk level. Capital will greatly affect the acquisition of the bank's profit for the developed countries and not for developing ones, ASEAN is classified as the group of countries which dominantly

developing countries except Singapore said to be included as a transition into the developed countries. Therefore, the capital become one of the factors described in this study, considering the outcome of their study result is out of date (2008).

Based on the above phenomenon, this study focused on determining what factors determine the bank's financial performance as seen from indicators of ROA and ROE, different from previous studies, this study used two simultaneous equations, therefore the variable that determines the change in ROA and ROE is comprehensive, it is to assert the existence of the financial indicators of banking into exogenous and endogenous as drivers of changes in earnings or indirect influence to bank profits. Next is to determine what suitable strategies to deal with integration banks in ASEAN.

The structure of the article starts from the introduction and continued by a literature review to analyze the comparison of results of previous study. Methodology becomes part (chapter) 3 containing models' simulation with data panel approach and continued with the results of study and discussion. The last stage is making conclusions and recommendations concerning what ASEAN banks should do and the strategy forward.

LITERATURE REVIEW

Confronting ASEAN Banking Integration Framework (ABIF) are both challenges and opportunities for banks in ASEAN, the wider market share need some certain strategies in winning the regional competition. The large amount of banks in a country become one of the strengths in winning the competition, especially in terms of networking, but vast network definitely not the only factor that is prior. In serving business expansion definitely need strong requires strong capital base in order to meet expenditures requires infrastructure including adequate information technology. The consequences of more integrated system caused new risks and it should certainly be anticipated from an early age.

Integration

In a market that integrates both real sector and financial sector policies, the local governments should certainly consider what most appropriate policies to encourage the expansion of banking business. ASEAN Economic Community (AEC) has been in effect since 2015, but not for the financial sector, especially banking sector that will be implemented in 2020, therefore banks in ASEAN countries still have enough time to prepare all the possibilities of what lies ahead. Yamanaka (2014) mentions that integrated financial markets of ASEAN countries requires a good level of efficiency as well, in addition there are several regulations that have to be prepared and performing deregulation because flow of goods and services will take place at the regional cross. Integrated market is a boon for banks with definite strong capital; this issue should be considered by the banking industries in ASEAN.

Level of Competition and Potential

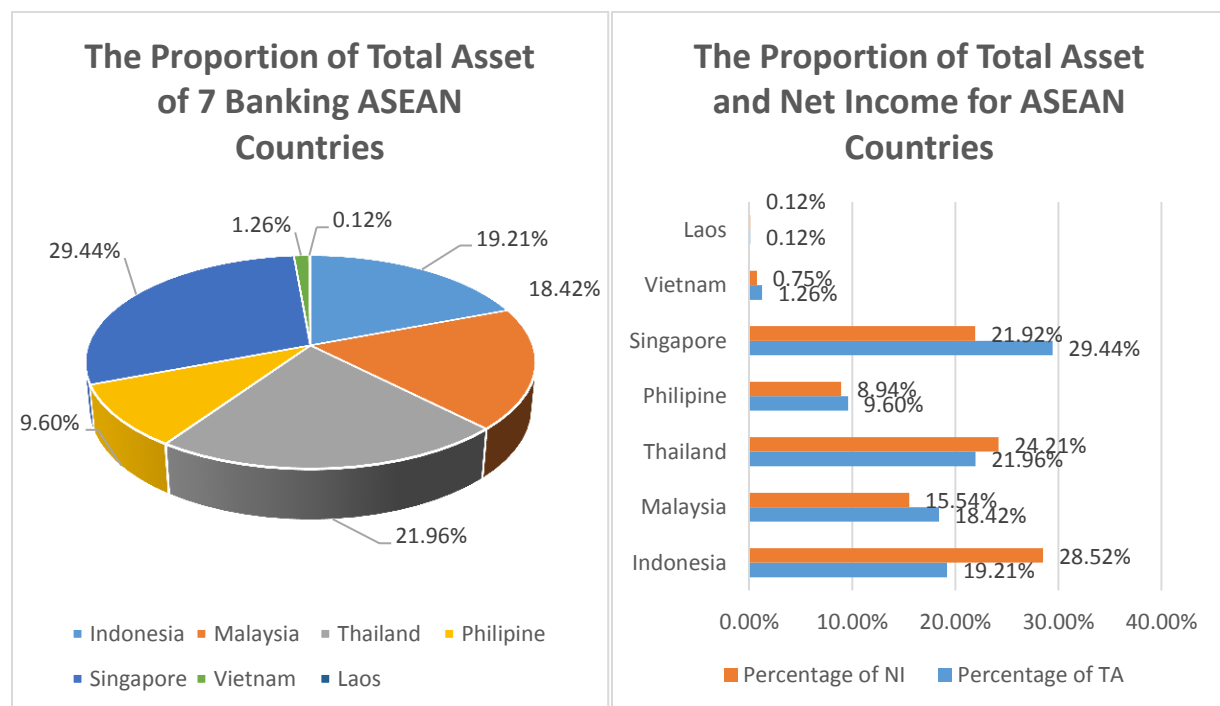
Banking conditions in seven ASEAN countries can be seen in table 1 below includes a number of banks listed on the exchange and the financial indicators of banking.

Table 1
THE AVERAGE VALUE RATIO OF FINANCIAL INDICATORS OF
7 BANKING ASEAN COUNTRIES BY 2015

No	BANK	Bank Total	Return on Average Assets %	Total Capital Ratio %	Net Interest Margin %	Cost to Income Ratio %	Return on Average Equity %
1	Indonesia	36	1.01	18.22	4.85	72.66	7.19
2	Malaysia	3	1.27	15.90	1.84	39.20	15.66
3	Thailand	8	1.34	16.11	3.42	49.10	13.09
4	Philippine	13	1.46	18.36	4.51	59.00	12.04
5	Singapore	2	1.10	16.40	1.62	40.26	12.34
6	Vietnam	3	0.88	13.65	3.31	66.68	10.23
7	Laos	1	1.79	5.68	4.29	55.38	25.03
	Average		1.26	14.90	3.41	54.61	13.65

Source: Proceed

Figure 1



Source: Proceed

From table 1 above can be seen that in this study, Indonesia is a country where the number of banks listed on the stock most is 36 banks. Philippine is a country that has the highest ROA level in ASEAN and Indonesia is the lowest. In terms of ROE, Laos is the highest state of 25.03% outpacing the ratio of other ASEAN countries. On the capital side, Philippine is the highest state of 18.22% which is a little different with Indonesia, other countries in the range of 16% of the countries and the lowest ratio of capital is Laos. By looking to the comparison of the study results by Nguyen, Skully, and Perera (2012) for the period 1998-2008, the capital in

almost every ASEAN countries had increased, meaning that there was significant additional capital. Indonesia used to be in the range of 14.745 and nowadays has reached 18:33%, Malaysia from 13:02% to 15.9%, from 14:52 Philippine % to 18:36%, Thailand from 10:56% to 16:11% and Vietnam from 12:09% to 13.65%. The increase in capital in almost every banks listed on the stock for ASEAN countries has shown the increase in liquidity and the ability of business expansion.

NIM is the level of profits earned by the bank through its intermediary function, as Indonesia, Philippine and Laos are still in the range of 4-5% and followed by Thailand and Vietnam in the range of 3% late. While the countries of Malaysia and Singapore have been much lower in the range of 1% late. The phenomenon of high margin can not be separated from the Tight Money Policy issued by the central bank in their countries in maintaining the stabilization of the financial system including macro-economic indicators. In addition, factors that determined the risk premium and operating costs also contributed to the high banking margins to be obtained. From the table it can be seen also that the cost of bank to most profits level for Indonesia is still high at 72.66%, as well as Vietnam. It is not in spite of the high labor costs as a result of the state policy in implementing as much as employment as possible and decreasing technological factors that is not optimal, this caused inefficiency. For example, technology correlation that is not yet optimal requires a lot of human resources whereas technology that only requires a little labor will have an impact on operating costs directly.

As an illustration on Table 2 , it can be seen that the current total number of ASEAN's largest asset is the total amount of the banking assets in Singapore almost 1/3 of the total assets of all banks in ASEAN, while banks in Indonesia, Malaysia and Thailand ranged between 300 s / d 400 billion USD. This illustrates how big it is the strength owned by Singapore compared to other ASEAN countries. On the contrary, it is the biggest number of Net Income owned by the banks in Indonesia followed by Malaysia and Singapore. Each in a row is 28.52%, 24.21% and 21.92% of the total ASEAN NI.

Table 2
TOTAL ASSETS AND NET INCOME OF 7 BANKING ASEAN COUNTRIES
FOR THE END OF 2015

No	BANK	Total Assets	Net Income	Ratio NI /TA	Percentage of Total Assets	Percentage of Net Income
1	Indonesia	349,560,041	7,225,558	2.07%	19.21%	28.52%
2	Malaysia	335,184,100	3,937,882	1.17%	18.42%	15.54%
3	Thailand	399,652,312	6,133,119	1.53%	21.96%	24.21%
4	Philippines	174,626,138	2,265,473	1.30%	9.60%	8.94%
5	Singapore	535,807,235	5,555,059	1.04%	29.44%	21.92%
6	Vietnam	22,952,933	191,161	0.83%	1.26%	0.75%
7	Laos	2,106,432	29,469	1.40%	0.12%	0.12%
	Average	1,819,889,192	25,337,721	1.33%	100.00%	100.00%

Source: Proceed, TA is total asset, NI is Net Income.

Banking Potential and Future Prospects

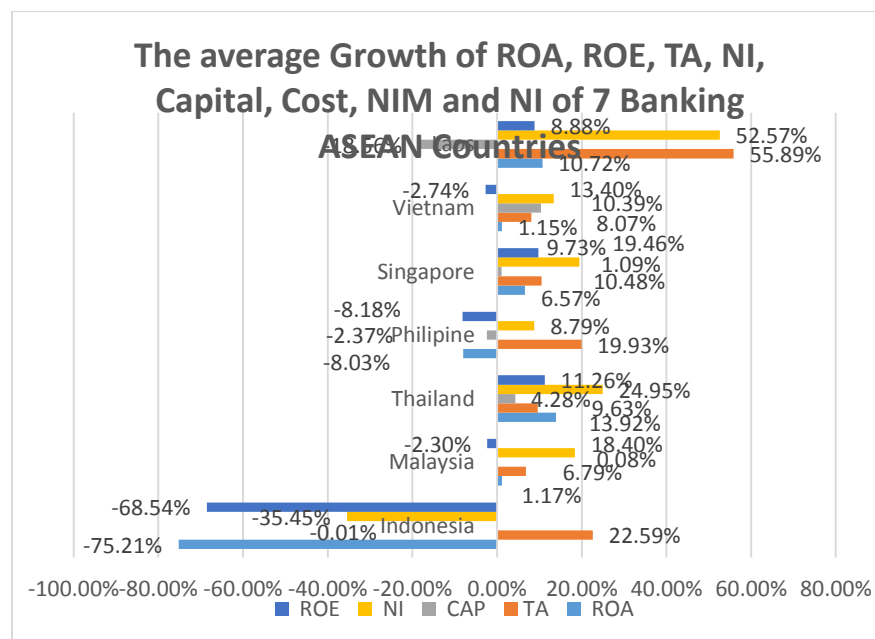
The growth trend is one of the option to measure bank's the performance in the future, banks in Indonesia experienced a slowdown, characterized by a decrease in growth over the last 4 years. The Financial indicators that were decreasing are ROA, ROE, NI, NIM and CAP while in terms of COST experienced a positive growth in table 3 below.

Table 3
THE AVERAGE LEVEL OF GROWTH IN FINANCIAL INDICATORS 7 BANKING ASEAN COUNTRIES OVER 2012-2015

No	Countries	ROA	TA	CAP	NIM	COST	NI	ROE
1	Indonesia	-75.21%	22.59%	-0.01%	-1.49%	3.00%	-35.45%	-68.54%
2	Malaysia	1.17%	6.79%	0.08%	-7.68%	-0.67%	18.40%	-2.30%
3	Thailand	13.92%	9.63%	4.28%	-0.35%	-1.39%	24.95%	11.26%
4	Philippine	-8.03%	19.93%	-2.37%	1.53%	1.37%	8.79%	-8.18%
5	Singapore	6.57%	10.48%	1.09%	-2.34%	-2.17%	19.46%	9.73%
6	Vietnam	1.15%	8.07%	10.39%	-3.49%	16.19%	13.40%	-2.74%
7	Laos	10.72%	55.89%	-18.56%	53.79%	23.96%	52.57%	8.88%
	Average	-7.10%	19.05%	-0.73%	5.71%	5.75%	14.59%	-7.41%

Source: Proceed, ROA is return on asset, TA is total asset, Cap is total capital ratio, NIM is net interest margin, COST is cost to income ratio, NI is net income and ROE is return on equity.

Figure 2



Source: Proceed

COST growth tended to be inefficient. NIM improvement was characterized by a decrease in negative growth. On the contrary, banking in Malaysia as experienced the improvement of efficiency levels characterized by COST negative growth, while ROA, TA, CAP and NI showed positive growth. The NI growth experienced significant increase of 18.4%, but ROE experienced a slowdown or negative sign. Banking of Thailand experienced a positive growth in almost every financial indicators and increased efficiency, characterized by a negative growth rate of COST. Total assets (TA) in the Philippine banking increased significant growth followed by a positive NI growth but ROA and ROE growth are negative. The other side of the Philippine banking indicator was the growth of NIM and COST that is increased, indicated the decrease of banks' efficiency level.

Banking conditions in Singapore was similar to Thailand where ROA, ROE, TA and CAP experienced positive growth while the NIM and COST increased level of bank's efficiency characterized by negative growth. Vietnam Banking almost similar to Thailand where ROA, TA, CAP and NI indicated positive growth but not for NIM experienced negative growth and value COST was precisely the addition of significant growth of 16:19%. Meanwhile, Laos banking that experienced a positive growth both TA and NI but not for ROA, ROE and CAP that tend to be negative, on the other hand there were positive growth for COST and NIM which definitely a better negative sign. In other words, the addition of NIM and COST variables indicated that there was a tendency of banks becoming inefficient.

DATA AND METHODOLOGY

The following is the explanation of data stages and methodology used in this study.

Data

The data used in this study are financial indicators of banking around 7 countries in ASEAN includes Indonesia, Malaysia, Thailand, Philippine, Singapore, Vietnam, and Laos. There are sampled from 66 already listed on the stock exchange. Financial indicators used in this study include ROA, ROE, total capital ratio, net interest margin, cost to income ratio and net income. Source of data derived from the annual data bank scope published during the time period 2012-2015.

Methodology

There are three stages in the model used to examine the data in this study, include; the first is to conduct regular panel data regression analysis to see the significant level of coefficient and the consistency level of variable. Second, is to analyze the simultaneous similarities to anticipate the effects of two interrelated variables and their two-way directions. Third, we test two models that have the power of two dependent variables, using Instrumental variable method, the estimation model aims to provide an explanation of variable exogenous and endogenous in influencing the dependent variable directly or indirectly obtaining a clear picture of which variable of the financial indicators of banking in 7 ASEAN countries that provide strong influence on the change of ROA and ROE.

In combining the time series data using cross sectional panel data model consisting of two, fixed effects models and random effects models. Fixed effect model: $Y_{it} = [\alpha + \beta]_1 X_{it} + v_{it}$ where α_i ($i = 1 \dots n$) is the intercept, YIT is dependent variable (where I = entity and

$t = \text{time}$), X_{it} is the independent variable, β_1 is the coefficient for the independent variable and v_{it} is the error term, the assumptions used are unobserved variables does not change over time. Random effects models is: $Y_{it} = a + \beta_1 X_{it} + v_{it} + \varepsilon_{it}$

Random effects models assume that the error term is not correlated with the predictor. The Hausman test is used to determine the best model in doing estimation. In explaining the changes of several independent variables to two dependent variables that correlated one another need simultaneous model that include:

$$C = a + bY + e \text{ and } Y = C + I + G + V + E.$$

This equation is two equation simultaneous equation system, between C and Y are interdependent where ΔC in equation 1 but $\Delta C \neq \Delta Y$ in equation 2 and $\Delta Y \neq \Delta C$ to equation 1, therefore the changes of C will cause changes in Y . Simultaneous equations can be solved by ordinary least squares (OLS) formula :

$b = \text{cov}(x, y) / \text{var}(x) = \text{cov}(y, c) / \text{var}(y) = b + \text{cov}(y, e) / \text{var}(y)$ where $e(b) \neq b$, $\text{cov}(x, u) \neq 0$ (endogenous), $\text{cov}(x, u)$ is exogeneous so $b_{IV} = \text{cov}(Z, y) / \text{cov}(Z, X)$,

While the two Stage least squares formula is (2SLS) is $b_{2sls} = \text{cov}(x, y) / \text{cov}(X, X)$.

In addition to determine which variables are endogenous and exogenous, need Instrumental Variable models. Instrumental variables (IV) is used to address the existence of endogen variables derived from two simultaneous equations, endogen variable is an event where the independent variable is correlated with the value of residual (error term) because of omitted variable bias, measurement error and simultaneity. Estimator of Instrumental variable is (Greene, 2010):

$$y_{it} = Y_{it} X_{it} \gamma + \beta + \mu_i + v_{it} = Z_{it} \delta + \mu_i + v_{it}$$

Where Y_{it} is the dependent variable; Y_{it} is $1 \times g_2$ vector of observations on g_2 endogenous variables included as covariates, and all variables correlated with the v_{it} ; X_{it} is $1 \times k_1$ vector of observations on the exogenous variables included as covariates; $Z_{it} = [Y_{it} X_{it}]$; τ is $g_2 \times 1$ vector coefficient, β is $k_1 \times 1$ vector of coefficients and δ is $K \times 1$ vector of coefficients, $K = g_2 + k_1$.

RESULTS AND DISCUSSION

Results

Panel data used in this study (see Table 4) amounted to 264 consist of data time series and cross sectional from 66 bank around seven ASEAN countries. The variable ROA, CAP, NIM, COST and ROE in percentage, while the TA and NI in mutla figures (Millions of USD). The average value of ROA for 7 banking ASEAN countries was 1.42 with a standard deviation of 1.17, while the CAP has an average of 18.83 with the risk of volatility of 10.41 percent over the period 2012-2015. NIM of banks in ASEAN is on the average of 4.55 percent, while the average Cost Ratio amounted to 59.91 percent. The total value of assets ranging from the average of 24.7 millions of USD and net income of 352 thousands of USD or income to total assets ratio of 1:43% for all banks listed in the ASEAN. In general, it can be seen that the ability of ASEAN banks to generate profits is in very wide range of distance with a minimum income of

minus 93 thousands of USD to a maximum of 3 millions of million USD. This indicates that the net incomes of banks in ASEAN are very varied and has a very wide range of distances.

Table 4
DESCRIPTIVE STATISTICS OF FINANCIAL INDICATORS 7 BANKING ASEAN

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	264	1.42	1.17	-7.62	4.86
TA	264	2.47e+07	4.75e+07	27.728.14	3.04e+08
CAP	264	18.83	10.41	5.68	87.49
NIM	264	4.55	2.17	0.60	17.08
COST	264	59.91	26.66	27.85	368.96
NI	264	352.026.9	607.185.5	-93.198.79	3.484.185
ROE	264	12.32	11.09	-86.75	34.89

Source: Proceed, ROA is return on asset, TA is total asset, Cap is total capital ratio, NIM is net interest margin, COST is cost to income ratio, NI is net income and ROE is return on equity

Panel Regression

At the first stage, we tried to use the panel regression, the results showed that the variable NIM and the cost to income ratio (COST) gave consistent significant effect on the change in ROA and ROE. Simulations using a panel regression with several estimation techniques from start random effect (RA) until the fixed effect (FE), as dependent variable also used the alternatives between ROA and ROE. Hausman test results recommended using the model of fixed-effects panel regression with Chi-square probability value in significantly smaller than the level of the small interval confidence of 0.05. Meanwhile, the value of R-sq is between 33.2% up to 37,1%, with three consistent significant variables across all models such as NIM, COST and CAP, which are significant on random effects and not on fixed-effects. TA variables were not significant in all models of the test (see Table 5.7). The Selection of NI variable compare to TA that put into the next test model was because the large amount of correlation coefficient on those two models that was 0,92, therefore only NI variable was added into the equation. This method was also a one way solution to filter the number of variables that will be used in subsequent regression model.

From the results of panel regression on table 5, 6 and 7 can be concluded that the variable NIM, COST and CAP are the factors that influence the change in ROA and ROE, when we obtained three variables significantly influence two different dependent variables, so it is necessary to do other test on other models to determine which one is endogenous and exogenous variable.

From the test results seen in Table 6 and 7, it is concluded that NIM, COST and CAP variables were adequate to be the basis for Instrumental variables (IV) model selection on the next regression or known as seemingly unrelated regression (SUR) of panel data.

Table 5
CORRELATION MATRIX OF FINANCIAL INDICATORS OF 7 BANKING ASEAN COUNTRIES

	ROA	TA	CAP	NIM	COST	NI	ROE
ROA	1						
TA1	0.05	1					
CAP	-0.03	-0.13	1				
NIM	0.26	-0.33	0.06	1			
COST	-0.71	-0.28	0.13	0.03	1		
NI	0.21	0.92	-0.15	-0.21	-0.33	1	
ROE	0.91	0.15	-0.18	0.11	-0.74	0.28	1

Source: Proceed, ROA is return on asset, TA is total asset, Cap is total capital ratio, NIM is net interest margin, COST is cost to income ratio, NI is net income and ROE is return on equity

Table 6
PANEL REGRESSION OF FINANCIAL INDICATORS OF 7 BANKING ASEAN COUNTRIES

	ROA	ROA	ROA	ROE	ROE	ROE
ROA	-	-	-	-	-	-
ROE	-	-	-	-	-	-
NIM	0.153***	0.153***	0.181***	0.796***	0.789***	1.753***
COST	-0.028***	-0.027***	-0.022***	-0.290***	-0.291***	-0.235***
CAP	0.006	0.006	0.010	-0.090*	-0.090*	-0.089
NI	1.58E-07	1.63E-07	0.000*	1.39E-06	1.36E-06	5.66E-06
TA	-	-	-	-	-	-
Constant	2.206***	2.189***	1.487***	27.291***	27.391	
R-sq	0.360***	-	0.371***	0.332***	-	0.348***
Log Likelihood	-	-284.962***	-	-	-894.462***	
	Random-effects GLS Regression	Random-effects ML regression	Fixed-effects (within) regression	Random-effects GLS Regression	Random-effects ML regression	Fixed-effects (within) regression

$$ROA_{it} = a_i + b_{1i}NIM + b_{2i}COST + b_{3i}CAP + b_{4i}NI + e$$

$$ROE_{it} = a_i + b_{1i}NIM + b_{2i}COST + b_{3i}CAP + b_{4i}NI + e$$

Source: Proceed, Standard errors in parentheses, ROA is return on asset, TA is total asset, Cap is total capital ratio, NIM is net interest margin, COST is cost to income ratio, NI is net income and ROE is return on equity

Table 7
PANEL REGRESSION OF FINANCIAL INDICATORS OF 7 BANKING ASEAN COUNTRIES

	ROA	ROA	ROA	ROE	ROE	ROE
ROA	-	-	-	-	-	-
ROE	-	-	-	-	-	-
NIM	0.138***	0.138***	0.179***	0.684***	0.677***	1.735***
COST	-0.030***	-0.029***	-0.022***	-0.302***	-0.303***	-0.238***
CAP	0.005	0.005	0.010	-0.099**	-0.099**	-0.086
NI	-	-	-	-	-	-
TA	-1.08E-09	-1.03E-09	1.22E-11	-5.05E-09	-5.31E-09	7.45E-09
Constant	2.462***	2.439***	1.723***	29.286***	29.379***	20.152***
R-sq	0.352***	-	0.360***	0.326***	-	0.340***
Log Likelihood	-	-285.811***	-	-	-895.580***	
	Random-effects GLS Regression	Random-effects ML regression	Fixed-effects (within) regression	Random-effects GLS Regression	Random-effects ML regression	Fixed-effects (within) regression

$$ROA_{it} = a_i + b_{1i}NIM + b_{2i}COST + b_{3i}CAP + b_{5i}TA + e$$

$$ROE_{it} = a_i + b_{1i}NIM + b_{2i}COST + b_{3i}CAP + b_{5i}TA + e$$

Seemingly Unrelated Regressions (SUR) of Panel Data

Hausman test results for subsequent regression panel models has recommended to use random-effects due to the Chi-square probability greater than 5% significance level (0.05), that is equal to 0.9371. In table 8 it can be seen that by using both endogenous variables of ROE or ROA, the CAP variable was a factor which significantly and consistently affected at a rate of 1%. This indicates that the CAP was the only variable that need attention in the banking industry in facing ASEAN financial markets integration, while NIM, COST, and NI variables were the instrumental variables that affect ROE changes. The ability to explain the change in ROA ranged from 88.6% to 91.8%, in other words, the change in ROA value was caused by the change of ROE and ROA, ROE and CAP itself, affected directly by the changes of NIM, COST, and NI. CAP value changes will significantly influence the ROE changes that ultimately affect the ROA changes.

Table 8
INSTRUMENTAL VARIABLE (IV) OF PANEL DATA REGRESSION OF FINANCIAL INDICATORS OF
7 BANKING ASEAN COUNTRIES

	Fixed-effects (within) IV regression		G2SLS random-effects IV regression	
	ROA	ROE	ROA	ROE
ROA	-	9.455***	-	9.627***
		(2.133)		(1.913)
ROE	0.106***	-	0.101***	-
	(0.024)	-	(0.021)	-
NIM	-0.004	0.041	0.020	-0.042
	(0.047)	(0.434)	(0.034)	(0.376)
COST	0.003	-0.031	0.002	-0.027
	(0.006)	(0.048)	(0.005)	(0.043)
CAP	0.019***	-0.184***	0.018***	-0.184***
	(0.004)	(0.039)	(0.003)	(0.033)
TA	-	-	-	-
	-	-	-	-
Constant	-0.431	4.070	-0.380	3.967
	(0.509)	(3.944)	(0.491)	(3.836)
R-sq	0.886***	0.914***	0.916***	0.918***
Instrumented	ROE	ROA	ROE	ROA
Instruments	NIM	NIM	NIM	NIM
	COST	COST	COST	COST
	CAP	CAP	CAP	CAP
	NI	NI	NI	NI

ini adalah 2 equation simultaneous equation system

Two equation for first Model

$$ROA_{it} = a_t + b_{1t}ROE + b_{1t}NIM + b_{2t}COST + b_{3t}CAP + e; ROE_{it} = a_t + b_{1t}ROA + b_{1t}NI + b_{2t}NIM + b_{3t}COST + b_{4t}CAP + e$$

Two equation for second Model

$$ROE_{it} = a_t + b_{1t}ROA + b_{2t}NIM + b_{3t}COST + b_{4t}CAP + e; ROA_{it} = a_t + b_{1t}ROE + b_{1t}NI + b_{2t}NIM + b_{3t}COST + b_{4t}CAP + e$$

Source: Proceed, Standard errors in parentheses, ROA is return on asset, TA is total asset, Cap is total capital ratio, NIM is net interest margin, COST is cost to income ratio, NI is net income and ROE is return on equity

DISCUSSION

Integrated financial markets could encourage banks to focus on strategies that will be run, the preparation of banking strategy that is running to enter year of 2010 must be done from the moment on. Positive growth and changes of profitability ratio, especially ROA ratio is

influenced by the changes of ROE but not vice versa. Beside that ROA was influenced by the total capital ratio that consistently significant across all models of panel regression. Then generated ROE is affected by the net interest margin, cost to income ratio, total capital ratio and net income.

Learning from the results Ahmad, Ariff, and Skully (2008) who found that the capital ratio is influenced by the ratio of equity to total liabilities, it means that if you want to add a profit it will really depend on the ratio and the structure of capital and debt, ie, the greater the capital, it will encourage positive change of the level of bank profitability. Meanwhile, to give positive impact to the increase of ROE, we need to focus on the addition of profits from credit operations, reducing costs in terms of obtaining optimal levels of efficiency and excellence overall net income from loans and fee base income.

CONCLUSION

Based on this research, we can conclude that the most important thing to enter integrated financial Banking market in ASEAN is the capital factor. The greater the capital is owned has proven to increase the ratio of profitability (ROE) in banking industry. As we see that capital in the ASEAN banking are not evenly distributed, Indonesia, Philippine, Singapore, Thailand and Malaysia are countries that have high capital ratio, but not including Vietnam and Laos, but if we see it from the capital growth potential, then Vietnam has become the country that has a very high capital growth in banking industry compared to other ASEAN countries. Therefore, Vietnam has the potential to grow faster than other ASEAN countries. From the views of market shares based on population and number of banks listed on the stock exchange, then Indonesia becomes superior. Singapore doesn't have many linkages but has the strong power in the amount of asset and capital, so does Malaysia.

RECOMMENDATION

With all the limitation and superiority of each ASEAN banking, they will need strategic effort, as seen from the result of the study that the strong principal that becomes the only dominant factor in deciding profitability is capital. Therefore, countries such as Singapore and Malaysia which are strong in capital source must expand their businesses with other countries that is superior in the amount of banks and linkages. One of the strategic businesses needs to be done is by doing merger or acquisition to optimally grow their each banking.

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IMPACT OF COFFEE PRODUCT PACKAGING AND LABELING ON PURCHASE INTENTIONS WITH MEDIATING OF BRAND IMAGE

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ABSTRACT

Packaging and labelling has a powerful effect on event at stores. Packaging and labeling coffee products created brand image coffee products and push purchase intentions. Packaging and labeling also stimulate and helps the customer to decide the products from various products at point of sale. Brand image and its advertisement include packaging and labeling has strong positive influence on customer buying decisions. Consumers will have higher purchase intentions with a familiar brand. A well known the product coffee brand will have a higher purchase intention. This study examines the mediating role of brand image to better explain the effects of packaging and labeling on purchase intentions. The result of the study indicates that coffee product Packaging and Labeling have impact to purchase intentions mediates Brand Image.

Key Words: *Coffee Labeling, Coffee Packaging, Brand Image, Purchase Intentions*

INTRODUCTION

The coffee industry and now Indonesia is experiencing a rapid growth. The superiority of the geography of Indonesia that is located at the equator is competitive advantages. The results of the special coffee plantation require a marketing vehicle to convey to customers and potential customers about the benefits of coffee products produced.

Along with the rapid growth of the Indonesian development that encourages domestic industry, food industry and beverage products to participate flourished. If the production of a product increases, then the product packaging will rise again. The packaging industry targeting a turnover of around 77 trillion rupiahs. (Berita Satu, 29 November 2015) In the process of the production of a product, generally the manufacturer is already thinking and designing the right product packaging for consumers. The packaging an advertiser pay attention to some of the things that are the knowledge of consumers on products that will be bought and comfort that will be felt by consumers while enjoying the product. The knowledge and technology of much help to the process of the creation of various new products in accordance with the needs and wishes of consumers. Product display, namely the packaging can only affect and draws the attention of consumers to buy goods and can only customers will cancel plans to buy a display goods packaging less interesting.

According to Klimchuk and Krasovec (2007) defines that the design of the packaging is creative business associate form, structure, material colors, image, typography and design elements with the product information, so that the product can be marketed and apply to the wrapper, protect, send, issued, store and distinguish a product which in the end can communicate personality or product function uniquely consumption.

LITERATURE REVIEW

Packaging

According to Klimchuk and Krasovec (2007) defines that the design of the packaging is creative business associate form, structure, material colors, image, typography and design elements with the product information, so that the product can be marketed and apply to the wrapper, protect, send, issued, store and distinguish a product which in the end can communicate personality or product function uniquely consumption

According to Brody (2000), a package is the item, users or entity that is used to encase goods where packaging or generating packages by integrating physical elements or concepts through the availability of technology.

In order for the packaging can perform this function with good, then the model of the VIEW put forward by Terence A. Shimp (2010) very help consumers in purchasing decisions a product. VIEW here includes the variables Visibility, Information, Emotional Appeal and Workability. Visibility, related to the ability of a package to attract attention on the point of the point of purchase. Purpose to have packaging that stands out from the other on top of the rack, so that he can help the image of the brand.

Usually the packaging influenced by the designs and colors. The packaging consists of levels according to Kotler & Garry Armstrong took (1996), namely: Primary Packaging: jewelry containers that directly touches the related product, for example bottle containing aftershave lotion. Secondary packaging: Ingredients that protect the primary packaging and is thrown if the product is used, provides additional protection and promotion opportunities. For example, boxes containing the bottle after shave lotion. The packaging Delivery: refers to the packaging that is required for storage, identification, or transportation. For example, a box containing is 6 dozen box after shave lotion. A good example of proprietary packaging (a package design that is patent to report any other brand by using heading it) is a package of glass bottle coca cola.

Labeling

Labeling on the coffee products is all that is written on the packaging in various forms with various considerations in terms of art design, as a communication tool or as a medium to attract buyers. The label in the coffee products contains other information that is not written on the label of food products or other drinks are geographically origin coffee beans, processing method and how to brew coffee. A label only brand name product and information about other ingredients and how to use the product (Kotler, 2001). The label must provide the customer correct and useful descriptions of the characteristics of the products (Noussair, et al, 2001). The label helps consumers differentiate a product (Morris J, 1997).

IMPACT PACKAGING AND LABELING ON BRAND IMAGE

Many studies about brand image, namely Zhang, 2014; Park, et al, 1986; Herzog shapes, 1963; Newman, 1985; Dicher, 1985; Noth, 1988; Sommers, 1964; Levy, 1973). Packaging and labeling has a significant influence on brand image (Damn, et al, 2011). The many research focus has included the impact of package shape (e.g. Clement, Kristensen & Gronhaug, 2013; Garber Jr., Hyatt & Boya, 2009; Westerman et al., 2012), colour (e.g.

Kauppinen-Raisanen & Luomala, 2010; Labrecque & Milne, 2012; Gordon, Finlay & Watts, 1994)

IMPACT PACKAGING AND LABELING ON PURCHASE INTENTION MEDIATES BRAND IMAGE

Research on consumer's purchase intention is consumers' attitudes (Chaniotakis et al, 2010). Brand image has a significant impact on customer satisfaction on consumers in bank industry and supermarkets, mobile phone, and other services industry (Martensen&Kristensen, 2000). Packaging and labeling plays an important role in the retail sales. Customers who make purchases repeatedly will identify products that will be purchased through the packaging and labeling a product. Product manufacturers roasted coffee and ground coffee should prepare the information honest, attractive, and transparent. Packaging is one of customer's factors is influences consumer's purchase decision (Rizwan T Ahmed, et al, 2014).

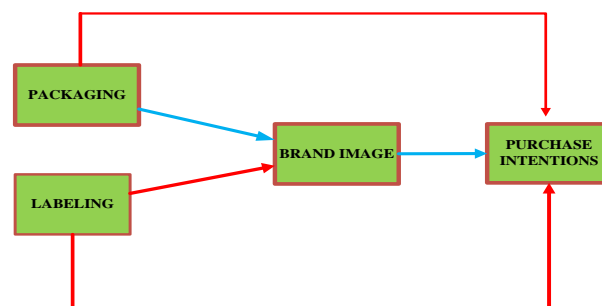
At the time of the visitors shopping center around the shopping area, visitors will see many variations of packaging that wrap the product. Marketer hope from the display packaging and labeling the product will affect the customers to buy their products (Silayoi & Speece, 2005; Underwood, 2003)

Consumer behavior includes patterns, decision, and activities in is a customer/consumer, making the decision of buying (Blackwell et al., 2006)

CONCEPTUAL MODEL

Based on the literature review and observation in the field, the authors propose the formulation of packaging, labeling affect brand image and packaging, labeling affect purchase intention through the brand image.

Figure 1



The author of the suspect for customers who purchase coffee products buy repeatedly, not affected on the packaging that is displayed. Because the coffee product buyers repeatedly already recall the usual products consumed. Labeling will affect the coffee product buyers repeatedly if there is a new explanation about a product of coffee.

CONCLUSION

Based on the literature study and observations of the phenomenon in the community in Indonesia related to the determination of the attitude to the purchase of the product customer repeatedly ground coffee and coffee stir-fry shows:

- a. The customer will do repetitive purchases to identify the packaging and labeling are already purchased.
- b. When there is a change in view of the packaging and labeling, customers will consider carefully product that will be purchased.
- c. Brand image convinces the customer if there is a change in the form of packaging and labeling design.

SUGGESTION FOR THE FUTURE RESEARCH

This is a new research based on the literature study and the authors propose the formulation of the author thought, it is expected that the next researcher will continue this research to collect data and perform analysis of the data using the statistical analysis. Suggestions for the next researcher to perform data processing that will test the hypothesis that proposed in this research model. And it is expected that further research can explain the elements of the packaging and the label on the product will improve brand image that encourage consumers to purchase repeatedly because the coffee products are categorized as the products purchased regularly and often.

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CREATIVE ECONOMY BASED ON OPPORTUNITY AND UNIQUE COMPETENCY ON BUSINESS STRATEGY OF TOURISM BUSINESS IN WEST JAVA

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ABSTRACT

The role of regional creative industries is an integral part of nationwide creative economic development. Creative economy plays a strategic central role and a significant contribution to creating added value for the national and regional economy. However, products of creative industries have been not prime attractiveness of West Java. Hence, the region requires some uniqueness as identity of the attractiveness of tourism in order to be competitive to other regions. In this sense, West Java needs a business strategy to leverage its competitive advantage.

The purpose of this study is to investigate the influence of the developing and exploiting an opportunity and competency, and the business strategy of the tourism sector in West Java. This research is a literature review for building literature background for the next phase of the research, which will be an empirical research. The empirical research will be conducted in 27 regencies and cities in West Java. The expected outputs of this research are some hypotheses about the influence of creative economy, which consist of developing and exploiting opportunity and unique competency on business strategy of tourism sector in West Java.

Key Words: *Business Strategy, Creative Economy, Opportunity, Tourism, Unique Competency*

INTRODUCTION

Indonesia is a country that has many potential scattered throughout the archipelago. Creativity and innovation in national development are required to optimize these potentials, including natural resources, cultural diversity, and human resources. In line with the trend of the world today, the Indonesian government has initiated the concept of the creative economy to support local, national, and global economic development.

The terms of 'creative' and 'economy' are relatively not new. Howkins (2014) asserted that the newness is the nature of the relationship between them. In this sense, the creative economy is an evolving concept (Wijngaarde, 2015) from the cultural to creative industries (Garnham, 2005; Cunningham, 2002), based on creative assets potentially generating socio-economic growth (Santos-Duisenberg, 2015). As emphasized by DeNatale & Wassall (2007), creative economy is represented by the 'cultural core' that includes occupations and industries that focus on the production and distribution of cultural goods, services and intellectual property.

Santos-Duisenberg (2015) highlighted that creative economy is a new source of economic growth that needed to promote. At the heart of the creative economy is the creative industry. The creative industries are among the most dynamic sectors in the global economy. They embrace

economic, cultural and social aspects interacting with technology, information, and tourism sectors.

Tourism in Indonesia, along with creative economy and creative industries, is a potential renewable sector to be developed. In this regard, the tourism sector, from year to year, has increased significantly. The tourism sector in general can be a trigger for economic growth and social welfare. The tourism sector is able to provide a positive impact on the socioeconomic conditions of society.

In Indonesia, in recent years, the tourism industry ranks 4th or 5th as foremost income for the country. Meanwhile, other business sectors such as oil and gas, coal, rubber, and textiles, which rank 1st to 4th, tend to decrease in accordance with their character as “non-renewable” products. It is believed that those sectors will be exceeded by the tourism sector in 2019, with a target of 275 million tourist arrivals (foreign and domestic). Therefore, the government sets tourism as one of the five leading sectors and provides significant budgets to the achievement of the main targets of tourism development (Ministry of Tourism of Indonesia, 2016).

The issuance of Presidential Decree no. 92/2011 formally initiate creative economic activity in Indonesia, because it has strategic value for Indonesia: providing significant economic contributions, creating a positive business climate, raising the image and identity of the nation, using renewable resources, encouraging the creation of innovation, and providing positive social impact. Aside from creating value-added, creative economy also employs many workers. Creative economy is also creating high foreign exchange. In relation to tourism, creative economy is able to improve the quality of tourism as an attraction in the tourism destinations as well as a media campaign for tourism.

National creative economic development cannot be separated from the role of the regional creative economy. Development of the creative economy in regional areas is characterized by several conditions. These conditions are the commitment of regional leaders to develop the creative economy in the region, where public areas are utilized by people to develop into a creative, sustainable infrastructure to support the creative process, the presence and activity of the creative community, events as media appreciation of the creative industries, support from local government, the existence of formal education institutions that support creative industries, and the creative industry development planning document. Public areas that can be developed are cultural park, square, youth centers, malls or plazas, sports arenas, museums, galleries, or other places that can be used as gathering places for the perpetrators creative in a city or county, or even at the district level.

West Java is one of the provinces in Indonesia which has a great tourism potential. West Java has a natural condition with a complex geological structure. West Java has beaches, mountains, forests, rivers, waterfalls, agro, lakes, caves, springs, islands, national parks, wildlife sanctuaries and nature reserves. The biggest attractions of West Java are the natural sector, as many as 335 attractions, then the cultural sector with only 121 attractions and special interest sectors with 158 attractions. It shows that the culture, which is part of the creative economy product, is still not the main attraction in West Java. Based on data from the Department of Tourism in West Java in 2012, it is known that the highest number of visits, both foreign tourists and domestic tourists are to the object natural attractions, namely to Ciater (Subang Regency), Tangkuban Perahu (District Subang), Pondok Bali (Subang Regency), and Taman Safari Indonesia (Bogor Regency).

West Java has a lot of natural tourism potential, but when compared with other regions, such as Bali, West Java is not a priority tourist destination. In a study of committee drafting team

of creative economic development in five areas of West Java in 2011, it is known that the bureaucrats in the area are facing difficulty to implement Presidential Instruction No. 6/2009, which became the basis of creative economic development policy. The team also found that the economic potential of creative-based arts and culture is the basic capital that needs to be developed systematically. The main issues facing the region are the problem of financial capital, infrastructure, promotion, marketing, and the minimal knowledge capital.

As a consequence, West Java requires a specific characteristic or uniqueness as the identity of the tourism attraction of the object to be competitive in the other provinces. To improve competitiveness, it needs a business strategy in supporting competitive advantage, which is the company's ability to display one or more ways in which competitors are not able to match it. Competitive advantage is built and maintained by adding value for the customer (Dirisu et al., 2013). Competitive advantage is a collection of strategies to determine the benefits of a company from the competition between other companies. Measuring competitive advantage, according to Bharadwaj et al. (2008), is the uniqueness of the product, rare, not easily replaced that does not have a similar replacement.

Business strategy in the tourism sector is influenced by external and internal factors. External factors associated with developing and exploiting opportunities, while internal factors associated with developing and exploiting the unique competence. If the competitive advantage is not optimal, then the performance of businesses in the tourism sector will be hampered. It is due to the lack of business strategy implementation based on opportunity and unique competency.

This article explores the implementation of business strategy in tourism sector based on opportunity and unique competency in a creative economy framework. It is a preliminary study to further analyze the competitive advantage and business performance in tourism in West Java.

LITERATURE REVIEW

Strategic Management and Business Strategy

Strategic management is a set of managerial decisions and actions of long-term decision making in the company. This includes the analysis of environmental (external and internal), strategy formulation, strategy implementation, and evaluation and control (Wheelen and Hunger, 2012). It is something that made the manager to set the company's strategy to achieve the goal of the company (Robbins, 2012). It is also an art and knowledge in formulating, implementing, and evaluating decisions of a cross-functional organization to achieve its objectives (David, 2013). It can be concluded that strategic management is an art and knowledge in formulating and evaluating decisions in order to achieve the objectives of an organization, as well as strategic management is used to refer to the formulation, implementation, and evaluation of strategies.

The purpose of strategic management is to exploit and create a variety of new and different opportunities for long-term planning. The strategic plan is a tactic for a company and strategic planning is also widely believed as the answer to all problems. Strategic management is a set of decisions and actions that are used to formulate and implement strategies that are highly competitive and appropriate for the company and its environment to achieve organizational goals. Strategic management tried to organize qualitative and quantitative information in a way that permits the adoption of effective decisions under conditions of uncertainty that surrounded him. In essence, strategic management is about how to obtain and sustain a competitive advantage, and a strategic plan is a tactical game of a company.

The company's strategy can be seen as a theory of managers about how to obtain and sustain a competitive advantage. A company can achieve a competitive advantage by improving internal resources, capabilities, and relationships to the opportunities in the external environment. Strategy as a theory about how to compete gives managers a map that is used as guide directions in the area of competition. The more accurate the map, the more strategic is the decision making of managers. In a competitive world, managers test their theory in the market. The relative performance of a company in a competitive market to provide feedback required managers to assess how well the strategy is to achieve a competitive advantage. Thus, the strategic management process is a never-ending cycle of analysis, formulation, implementation, and feedback of business strategy.

This paper utilizes the concept of business strategy from Porter (2008). It is the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives and then allocating resources to implement the policies, and plans, projects and programs. Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. The dimensions of business strategy are the entry of competitors, the bargaining power of buyers, the threat of substitutes, the rivalry among the existing players, and the bargaining power of suppliers.

It is inevitable that tourism is an alternative form of economic development (Wilkinson, 1989). The involvement of government and related industries in tourism may create possible business strategies to develop tourism. It is important to formulate an integrated business strategy in tourism, especially in developing human resources through integrated strategy for education and training in tourism sector (Pollock and Ritchie, 1990). In this information era, the information technology (IT) is a central part of tourism business strategy (Mutch, 1993), including information and communication technology, telemarketing, and media. In many countries, business strategy in tourism has been embraced to reduce poverty and enhance economic development (Croes & Kubickova, 2013).

A strategy to enhance the competitiveness of company should be oriented towards creativity and innovation. In this sense, the creative economy is indispensable to the tourism business.

Creative Economy and Creative Tourism

Economic orientation evolved; experienced a shift from the era of agricultural economy, industrial economy, until now the creative economy. Developed countries began to realize that this time they cannot rely on the rule in the industry again, but must rely more on human resources creativity, so that in the 1990s it began a new economic era that intensifies information and creativity has been popularly called creative economy (Ministry of Trade of Republic of Indonesia, 2009).

Development in the tourism sector has a very important meaning in terms of various aspects. Tourism has contributed to foreign exchange earnings, employment creation, expanding business opportunities in the formal and informal sectors, increasing revenues to the central government and the regions through various taxes and levies, increasing people's income, and

the distribution of development which is reflected in the Gross Domestic Product (GDP) each year.

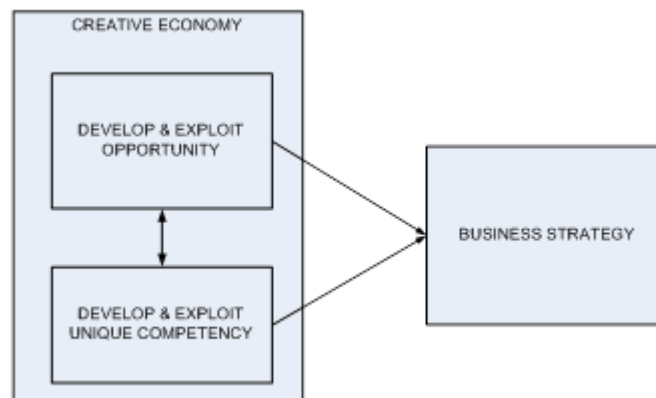
Creative tourism is considered to be a new generation of tourism that supports the creative economy. The first generation was “beach tourism,” in which people come to a place for relaxation and leisure; the second was “cultural tourism,” oriented toward museums and cultural tours. “Creative Tourism” involves more interaction, in which the visitor has an educational, emotional, social, and participative interaction with the place, its living culture, and the people who live there. They feel like a citizen. This third generation requires that managers also evolve, recognizing the creativity within their city as a resource, and providing new opportunities to meet the evolving interests of tourists. While creative tourism must be linked to culture, the particular cultural expressions will be unique to each place.

Creative economy within the scope of business in the tourism sector requires a particular business strategy, bearing in mind the strategic environmental analysis. In connection with that, the environmental analysis at least pays attention to external and internal factors. External factors associated with developing and exploiting opportunities (DEO), while internal factors associated with developing and exploiting the unique competence (DEC). This paper seeks to analyze the relationship of DEO and DEC as internal and external factors of creative economy with business strategy in tourism sector.

Conceptual Framework

The proposed framework integrates the develop & exploit opportunity (DEO) and the develop & exploit unique competency (DEC) as external and internal aspects of creative economy that influence the business strategy in tourism sector. This framework can be summarized as follows:

Figure 1
CONCEPTUAL FRAMEWORK



The hypotheses of this study are as follows:

- H1 The development and exploitation opportunity (DEO) and the development and exploitation of competence (DEC) have a significant influence on business strategy.*
- H2 The development and exploitation opportunity (DEO) has a significant influence on business strategy.*

- H3 The development and exploitation competency (DEC) has a significant influence on business strategy.*

DISCUSSION

This paper is descriptive and verification. Descriptive research is usually designed to present some aspects of the temporary from an environment when a hypothesis is said to be tentative and speculative in a coverage or discussion. Verification research will basically test the truth of a hypothesis which is implemented through data collection in the field. This study is a pilot study, which will test the effect of the development and exploitation opportunities (DEO) and the development and exploitation of competence (DEC) on the business strategy (BS) in tourism sector in West Java.

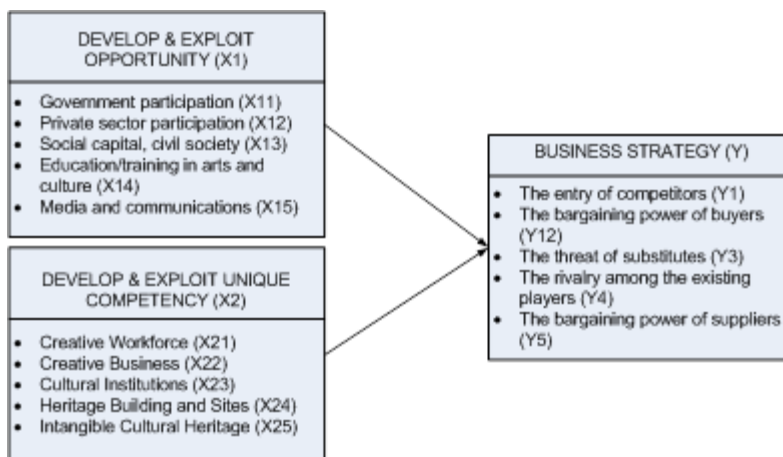
The study of literature and field study will be developed in this research. The technique of collecting data is questionnaires. Locations of the research are on various tourist destinations in the District/City throughout West Java. The descriptive analysis will be used using SPSS and structural equation modeling (SEM) to test the hypotheses.

The variables refer to the all variables and sub-variables in main hypotheses, supporting hypotheses, and sub-hypotheses. Decision to exploit an opportunity represents a commitment to market entry. To gain a greater understanding of this decision we refer to the entry strategy literature in which the success of a pioneer has been explained primarily in terms of its first mover advantages. Develop & Exploit Opportunity (DEO) is the first independent variable (X1) that explores five dimensions: (1) Government participation (X11), (2) Private sector participation (X12), (3) Social capital, civil society (X13), (4) Education/training in arts and culture (X14), and (5) Media and communications (X15) (Carpenter & Nakamoto, 1989; Lieberman & Montgomery, 1988; UNDP, 2013).

Distinctive to exploit competency is a set of unique capabilities that certain firms possess allowing them to make inroads into desired markets and to gain advantage over the competition; generally, it is an activity that a firm performs better than its competition. To define a firm's distinctive competence, management must complete an assessment of both internal and external corporate environments. When management finds an internal strength that both meets market needs and gives the firm a comparative advantage in the marketplace, that strength is the firm's distinctive competence. Taking advantage of an existing distinctive competence is essential to business strategy development. Develop & Exploit Competency (DEO) is the second independent variable (X2) that explores five dimensions: (1) Creative Workforce (X21), (2) Creative Business (X22), (3) Cultural Institutions (X23), (4) Heritage Building and Sites (X24), and (5) Intangible Cultural Heritage (X25) (Snow et al, 1984; UNDP, 2013).

Business strategy (BS), as dependent variabel, explores five dimensions: (1) The entry of competitors (Y1), (2) The bargaining power of buyers (Y12), (3) The threat of substitutes (Y3), (4) The rivalry among the existing players (Y4), and (5) The bargaining power of suppliers (Y5) (Porter, 2008). The relationship of variables and dimensions can be illustrated as follows:

Figure 2
RELATIONSHIP OF VARIABLES



Data was collected through questionnaires. Enclosed questionnaire contains questions about the characteristics of the respondent, the respondent experience, the respondents' assessment, and response to the variables studied. Validity and reliability of the instrument will be used to determine the extent of the measuring instrument.

In this study, two types of analysis are used (1) descriptive analysis to measure the performance of each variable and (2) analysis of verification of testing the hypothesis by using statistical tests.

The descriptive and verification will analyze the objective of the research: to examine the influence of the development and exploitation opportunity (DEO) and the development and exploitation of competence (DEC) on business strategy of tourism business in West Java. Using SEM, each dimension of a variable will be explained. The simultaneous and partial effect of DEO and DEC on business strategy will be analyzed, including the direct and indirect effects.

In DEO, it can be seen how the dimensions of government and private sector participation can reflect the external factors that must be anticipated, as well as the social capital, civil society, education/training in arts and culture, and media and communication. Tourism sector as a part of creative industry may promote the creative economy as a new source of growth. The government and private sectors will cooperate in some initiative for integrated public policies and institution-building in the area of the creative economy and industries. Liaising with governments, artists, creators, academia and civil society will strengthen the creative economy in developing countries, such as Indonesia.

In DEC, it can be seen how the dimensions of creative workforce, creative business, cultural institution, heritage building and sites, and intangible cultural heritage can reflect the internal factors that must be strengthened. In this sense, tourism sector as a part of creative industry can foster income generation, job creation and export earnings, as well as social inclusion, cultural diversity and human development. It embraces economic, cultural and social aspects interacting with technology and tourism objectives. The DEC may produce tangible products and intangible services able to generate revenues through trade and intellectual property rights.

In business strategy (BS), it can be seen how the dimensions of the entry of competitors, the bargaining power of buyers, the threat of substitutes, the rivalry among the existing players, and the bargaining power of suppliers can reflect the formulation and implementation of business

strategy in tourism sector. The right business strategy of tourism business may facilitate understanding of the key issues underlying the emerging creative economy and its development dimension. It may further identify target investment, business opportunities and competitive advantages to strengthen creative industries.

The relationship between DEO and DEC is expected to be relatively high, as both variables affect each other. It is also expected that DEO and DEC have significant influence on BS, which indicate the DEO and DEC a significant impact on business strategy of the tourist business in West Java. This is consistent with theories that are used to build hypotheses and framework of thinking, that the DEO and DEC have a positive and significant impact on business strategy.

Each dimension may have reflected the dominant effect on the latent variables. To that end, the business entities in tourism sector in West Java should focus on the prevailing aspects of the dimensions studied. Simultaneously, if the tourism business in West Java wants to be successful in achieving competitive advantage, the business strategy must pay attention to the influential independent variables (DEO and DEC).

It is interesting to note that the role of media and communication in effective way may strengthen the positioning of a tourism agency to gain a specific competitive advantage. Creative application made by tourist agency of tourism destination can facilitate the tourist to book hotels or restaurants, or to visit attractive tourist destinations. In sum, it creates a new kind of creative rivalry to promote the tourism.

CONCLUSION AND RECOMMENDATION

It is expected that the independent variables of creative economy will have a significant influence on business strategy of tourism business in West Java. The main hypothesis substantiates that the development and exploitation opportunity (DEO) and the development and exploitation of competence (DEC) have a significant influence on business strategy. The sub-hypotheses also substantiate that the development and exploitation opportunity (DEO) has a significant influence on business strategy, and that the development and exploitation competency (DEC) has a significant influence on business strategy.

Thus, this paper presumes that by developing and exploiting opportunity, the tourism business can respond to external environmental factors and to strengthen internal environmental factors so that any tourism business in West Java can formulate and implement business strategies to achieve competitive advantage and improve business performance. Future research may also adopt a more dynamic approach to examine the influence of DEO and DEC on business strategy, competitive advantage, and business performance of tourism business in West Java. By involving other dependent variables, it is expected to have an integrated model as a dynamic process to optimize business performance in tourism business in general.

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THE EFFECTS OF RFID APPLIED IN GROUND HANDLING SYSTEM ON AIRCRAFT TURNAROUND TIME: A SIMULATION BASED ANALYSIS

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Benjamaporn Isaradech, Dhurakij Pundit University

ABSTRACT

Digital transformation is of interest for airports, across the globe, to overcome the challenges and improve their service offerings. As one of key airports in Thailand, Don Mueang International Airport at present has several plans in order to improve its service performance for serving almost 30 million passengers annually, increasing by 15 percent every year. One of those qualified plans includes the adoption of Radio Frequency Identification (RFID) devices in ground handling system in the airport. This new identification technology is believed that may improve the aircraft turnaround efficiency and increase the passenger satisfaction. This research paper aims to present a simulation model for the assessment of the effects of RFID applied in ground handling operations in aspect of turn-around time. Based on numerical data collected from the airport, the discrete-event simulation results show that the adoption of RFID can significantly enhance the efficiencies in passenger boarding process. In addition, the baggage handling procedure is improved in terms of shorter operating time and higher system reliability.

INTRODUCTION

In the aviation industry, major airports have been investigated the opportunities based on digital transformation to improve their operational efficiency and to increase passenger satisfaction. Among those digital schemes, Radio Frequency Identification (RFID) technology is one of the most promising technologies which many airports are interested. Many pilot tests have been done at numerous European, Asia and U.S. airports. For example, Heathrow Airports in London spent 150,000 pounds trialing RFID in baggage tracking process during six months to compare the number of misread bags between RFID and bar code systems (IATA, 2016). Hong Kong Airport is now using RFID tags for 100 percent of the 40,000 bags that leave the airport every day. The implementation results show the overall read-rate accuracy of the airport's baggage-handling system has increased from an average of 80 percent for bar-code-only tags to 97 percent for the integrated RFID tags (Neely, 2016).

Donmueang International Airport, located in Bangkok city of Thailand, is interested in the RFID for baggage-handling system. Today, it operates for primarily low cost, chartered, and non-connected flights. It serves almost 100,000 passengers daily with 680 flights per day. In 2015, it is considered the world's busiest low-cost-carrier (LCC) airport in terms of passenger traffic. As the number of flight increases rapidly, the operational performance decreases significantly. Although there are 101 aprons for 2 terminals, the average delay for each flight is 8.46 minutes. From data collected, maximum delay for a flight can be up to 3 hours. The decrease in operational performance and passenger satisfaction led demand for digital initiatives to improve working efficiency.

The adaptation of RFID devices of trials over the past few years proves the increase in read-rate accuracy in ground handling system to nearly 100% (Mishra, 2010). It significantly

improves visibility of the entire baggage movement process on the conveyor. The RFID readers allow the airport officer can process the amount of baggage at any one time, helping them to move bags to their destinations faster and reduce the risk of baggage bottlenecks or misallocations. As the number of bags being processed by automation increased, the average time required to process each piece of luggage has decreased, which is particularly important in easing baggage loads during peak hours (Jacinto et al. 2009). In addition, the improved speed of processing means that fewer bags have to be stored whilst they are awaiting redirection, freeing up valuable storage space within the airport (Norin, 2008).

Although many researchers present the efficiency improvement of RFID in the ground handling processes, there are very few evaluating the effects of RFID on the turnaround time. This is due to the turnaround process is complex and multidisciplinary (Kolukisa, 2010). It consists of many activities including 1) de-boarding passenger, 2) unloading baggage/cargo, 3) cleaning, 4) catering, 5) refueling, 6) performing preventive maintenance, 7) loading baggage/cargo and 8) boarding passenger. Therefore, it is necessary to investigate the effects of RFID on each activity and evaluate effects on turnaround time.

This paper aims to present the effects of RFID on ground handling processes on aircraft turnaround time. It is based on data collected from Donmueang International Airport. The discrete-event simulation tool is used for analysis. The organization of the paper consists 5 main sections including 1) introduction, 2) RFID and ground handling system, 3) research methodology, 4) application, and 5) conclusion. In the following section, the background of RFID and ground handling system will be provided. Then simulation model development is presented in the methodology section. Next, the application section shows the results of the model simulation. Finally, the conclusion section summarises the content and provides a future work.

Figure 1
GROUND HANDLING SYSTEM AT DONMUAENG AIRPORT



RFID AND GROUND HANDLING SYSTEM

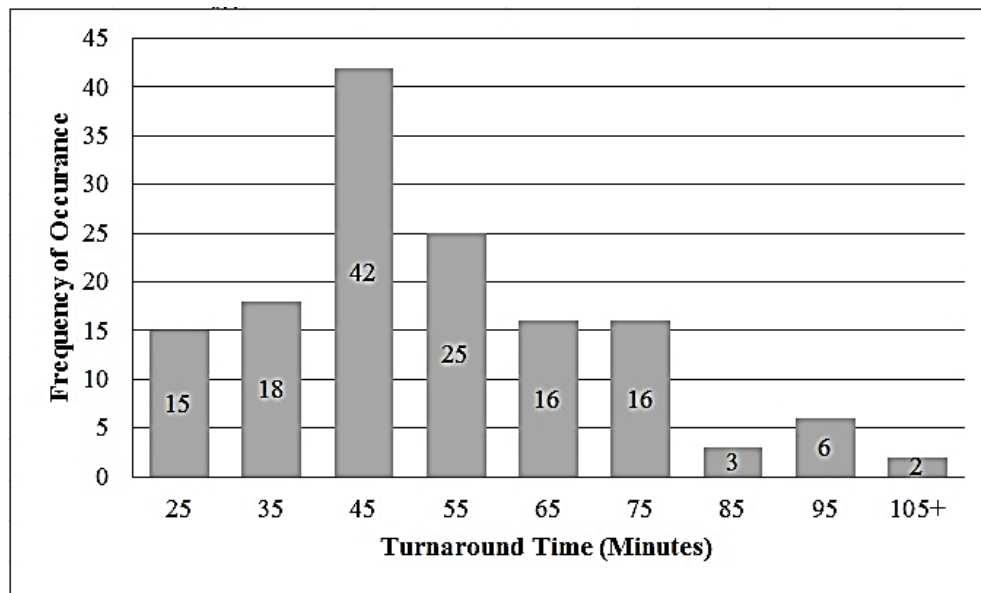
This section provides the background of RFID and ground handling system. It is divided into three subsections. At first, the ground handling system at Donmueang Airport is provided. Secondly, RFID for handling system is investigated. Lastly, simulations for ground handling system are reviewed from literatures.

GROUND HANDLING SYSTEM AT DONMUEANG AIRPORT

Like other airports, the ground handling system at Donmueang Airport comprises ground handling activities that need to be performed at an aircraft when parked at an apron. These activities need to be performed between when the aircraft arrives at the stand, and when the aircraft leaves the stand (Rajabi *et al.* 2012). Example ground handling services are: baggage and cargo (un-)loading, the (de-)boarding of passengers and crew, cleaning, catering, fuelling, and aircraft technical services. Figure 1 presents the Ground handling system at Donmuaeng Airport.

Donmueang Airport serves four main low-cost airlines including Thai Air Asia, Nok Air, Thai Lion Air and Thai Smile. These airlines operate medium sized aircrafts as following details. Thai Air Asia airline has 64 A320 aircrafts in the fleet. Nok Air runs 21 aircrafts of Boeing 737-800. Thai Lion operate 21 Boeing737 aircrafts. And Thai Smile's fleet consists of 14 Airbus A320-200 aircrafts. Based on IATA standard, the medium sized aircrafts such as A320, B737, and B733 required turnaround time of 45 minutes (Schultz *et al.* 2013). However, in current situation, average turnaround time at Donmueang Airport is 52.34 minutes. Figure 2 shows the frequency of occurrence for turnaround times. In addition, based on data collected, the delay of each flight is about 8 minutes.

Figure 2
FREQUENCY OF OCCURRENCE ON TURNAROUND TIMES AT DONMUEANG AIRPORT



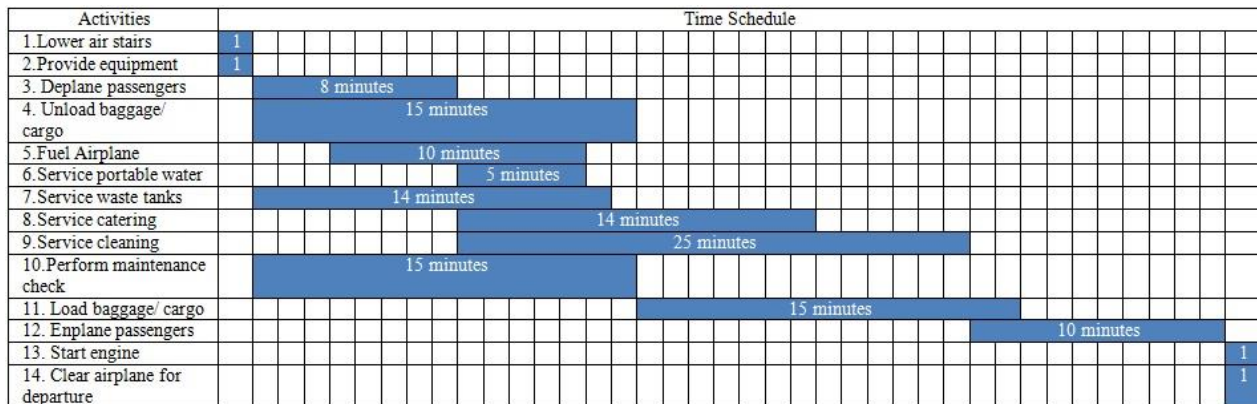
RFID IN GROUND HANDLING SYSTEM

The Ground Handling System is complex and collaborative arrangement. Figure 3 presents the ground handling activities in this system. The main activities include 1) de-boarding passenger, 2) unloading baggage/cargo, 3) cleaning, 4) catering, 5) refueling, 6) performing preventive maintenance, 7) loading baggage/cargo and 8) boarding passenger. Based on data collected from Donmueang Airport, figure 3 also shows operating time for each activity. It can be observed that the cleaning service for cabin take the longest time of 25 minutes in the system, following by (un)loading baggage and performing maintenance of 15 minutes.

Recently, RFID has received the increasing attention from airports to improve the efficiency of ground handling system (Ouyang et al. 2008). It is proposed to improve the performance of the loading baggage activities. In the application, transponder (tag) is attached with luggage during the passenger check-in process. The information of baggage owner such as name, flight, and destinations are recorded in this tag. As the baggage move in the airport, the reader tracks the movement of a large amount of luggage through radio frequency communication. In the system, The RFID-enabled system provides baggage handlers and airport operators with real-time and historical track-and-trace data, giving an instant overview of the position of bags in dollies, conveyors, and unit load devices.

In many trials of RFID application in baggage handling system, researchers claim it can improve the accuracy of read rate with 98-100%. However, there are very few evaluating the effects of RFID on the turnaround time. Literatures reviewed indicate that RFID can improve the operating time on two possible activities including 1) baggage handling and 2) passenger boarding.

Figure 3
GANTT CHART OF ACTIVITIES DURING THE AIRCRAFT TURNAROUND PROCESS



The effects of RFID application of two main activities on operating time are shown in following subsections.

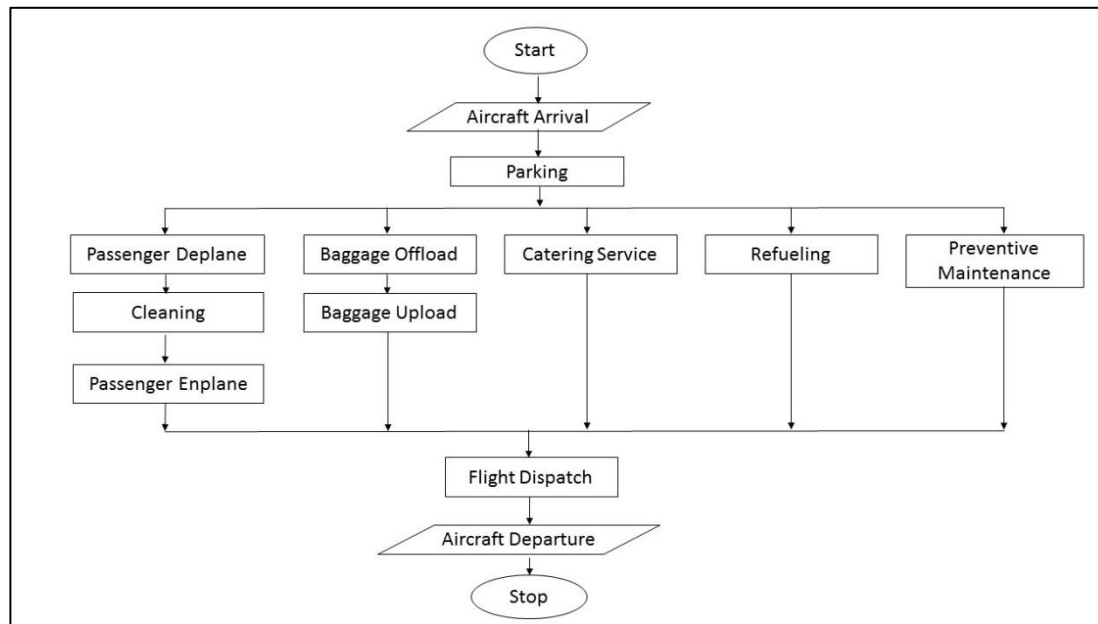
Effects of RFID on Baggage Handling Time

At Donmueang airport, the baggage handling process takes about 15 minutes for loading baggage onto the aircraft. However, the delay in this process usually results from the late coming of baggage. Based on current situation, the baggage after check-in is moved though the conveyor and is read by the barcode reader one by one. The barcode system for baggage transport is an old

and traditional method with high error percentage. The average of the reading precision of this method has been estimated to be between 75% and 90% in the best manner (Tavassoli et al. 2012). Thus, in the best scenario of barcode system, 90% of all baggage is automatically delivered to the destination. However, 10% of baggage which are not read will be sent to the other area and airport staff will collect them manually. This additional manual process delays the baggage handling procedure about 10 minutes.

The application of RFID on baggage handling system can improve the read rate up to 100% (Jacinto et al. 2009). It implies that probability of occurrence of the additional manual process has been reduced. The delay in the baggage handling process tends to decrease to be at almost 0 minutes. Therefore, the RFID application enables the baggage handling process to consume operating time of 15 minutes without any delay. In addition, RFID can improve the luggage traceability. A monitor at the sorting station tells the handlers which bags are going where (i.e., the baggage-handling system always knows exactly where each bag is going). At the sorting station, baggage handlers load the bags onto carts or into special containers that go right into the airplane.

Figure 4
FLOW CHART OF THE AIRCRAFT TURNAROUND PROCESS



Effects of RFID on Passenger Boarding Time

At Donmueang airport, the passenger boarding time for a flight is an average of 10 minutes. However, the delay in this process usually comes from the late coming of passenger. Currently, late passenger boarding at Donmueang airport is 8 minutes. Therefore, an airline must control the passenger arriving at the gate on time. Not only does a missing passenger affect the other passengers, but also to the airlines themselves. A plane cannot legally take off with a customer's luggage without the customer on the plane. A delayed 747 can cost around USD\$1000 per minute (costs ramp up due to knock on effects), and it normally takes around 30-45min to unload the Universal Load Devices (ULD), locate the baggage and remove it and reload the ULDs (Wu et al.2004).

The Copenhagen Airport project was the first airports which combined RFID and Bluetooth mobile phone technologies to track passengers' locations within the terminal (Neely 2016). The system sends the notice to customers via mobile phone and informs the passenger with three color codes including red, yellow, and green. Based upon the distance from the gate, if it detects passenger to be far from the gate as their flight begins boarding; the red code alert passenger at his or her mobile phone. In addition, passengers who are away from gate for some distance, but can make the flight, so the system calls or sends a message to warn them about the approaching takeoff. In the case of passengers are too far away to reach the gate in time, if necessary; airline personnel may bring the customers' luggage back from the airplane and start rebooking them. The airport aims to reduce the flight delay caused by late passenger at the boarding gate. Currently, it is approximately 4 percent of all flight delays. (Katalin 2010)

Simulation for Ground Handling System

Early researches in ground handling system are primarily based on mathematical modeling. However, this method usually requires a large number of simplifying assumptions. A more effective tool for large and complex problems that may not be very suitable for mathematical modeling is discrete event simulation (Adeleye and Chung 2006). Main advantage of simulation for ground handling system is that it allows researchers to examine with different scenarios and operating policy alternatives without disturbing the actual system. This advantage arouses simulation tool to be used in a various kind of applications in the air transportation industry.

Simulation approach is utilized by many researchers in order to experiment the ground handling systems in various aspects. Landeghem and Beuselinck (2002) examined turnaround delays associated with passenger boarding. Norin, A., (2008) used the ARENA simulation package to simulate and optimize the de-icing schedule at Stockholm Arlanda airport. Result shows that proper de-icing arrangement enables the reduction of delays and waiting times. Rajabi et al. (2012) proposed the RFID application for cargo and passenger automation and control. The results of simulation showed that 99% of the tags are readable and the remaining 1% has the chance to repeat the process. However, previous simulation models are limited to RFID applications on baggage/cargo flow and passenger/crew flow. They do not investigate the effects of RFID on aircraft turnaround time.

RESEARCH METHODOLOGY

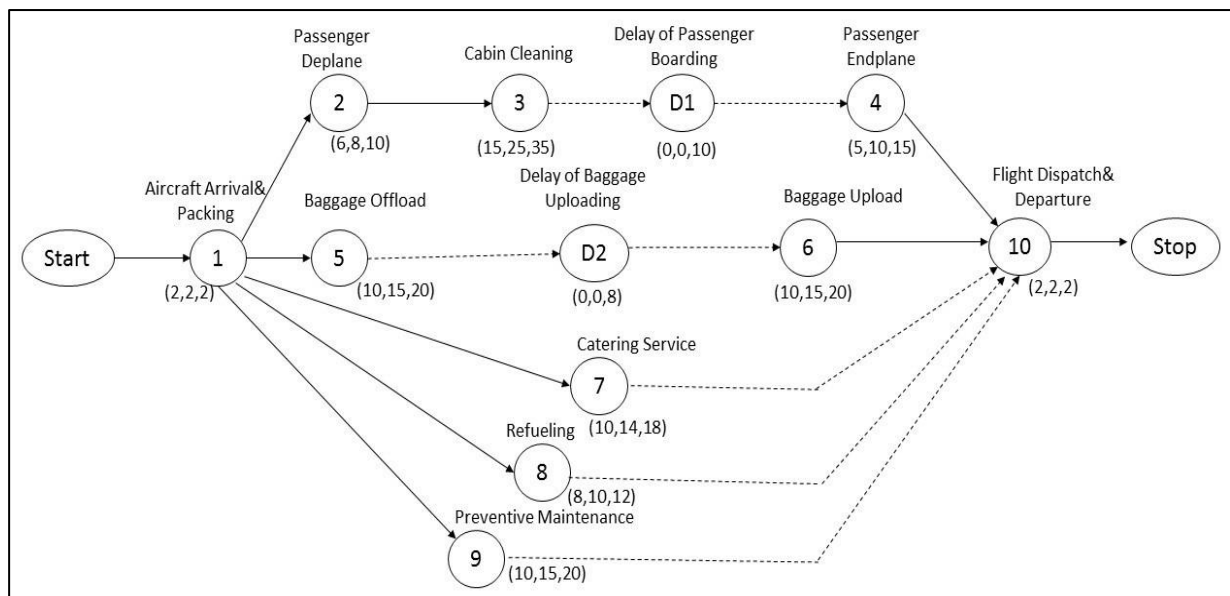
This section describes the research methodology that was employed to analyze the aircraft turnaround operation. The research methodology section includes system definition, data collection, and model verification and validation. The research methodology section is followed by research results and discussion sections.

System Definition

To study the turnaround time, the ground handling system at Donmueang airport is defined. It focuses on low cost carrier (LCC) which is the medium range transporter including A320, B733, and B737. The model starts with touch down and taxiing into the stand, continues with the turn-around process and ends with taxiing out to the runway and taking off. As previously discussed, these activities performed during aircraft standing include deplaning passenger, offloading baggage, catering, refueling, maintenance operations, cleaning, enplaning passenger,

and uploading baggage. When the turnaround operation is completed, the aircraft is dispatched and ready for departure. The average turnaround time for a short flight is about 45 minutes. As shown in Figure 5, some of these activities are not necessarily sequential. It was found that the critical path is disembarking/embarking passenger process. The study emphasizes on two delay activities which are 1) delay of passenger boarding and 2) delay of baggage uploading. These two delays are proposed to be reduced by RFID application.

Figure 5
NETWORK OF ACTIVITIES IN THE AIRCRAFT TURNAROUND PROCESS AND OPERATING TIME IN MINUTES FOR EACH ACTIVITY. (ADAPTED FROM ADELEYE AND CHUNG, 2006)



Data Collection

A collection of 143 turnaround operations at Donmueang airport was used to determine statistically turnaround process characteristics and to study interdependencies between the turnaround and schedule adherence. Airport has 2 terminals which operates 10 piers. At present, it serves low cost airlines such as Thai AirAsia, Nok Air, Thai Lion Air, Thai Smile and Orient Thai. The data of 143 flights for the medium range transporter including A320, B733, and B737 were collected. The turnaround activities of those carriers and time for each activity during turnaround process were investigated. Table 1 presents the minimum time, average time, and maximum time for turnaround activities. Between two flights, 30 minutes is provided as a buffer time to avoid the time collision. Based on data collected, 43% of all airplane flights at Donmueang Airport were more than 20 minutes late.

Radio Frequency Identification (RFID) technology is one of the most promising technologies which Donmueang airports are interested. As the number of flight increases rapidly, the operational performance decreases significantly. The increase in the number of flight using the airport is necessary. Today, it serves almost 680 flights per day. However, it is estimated that in a couple years, this number will increase to 900 flights per day. Therefore, the reduction in turnaround time for each aircraft is essential. The RFID technology for ground handling process is considered a one of the most interesting technology.

Model Development

In this study, ARENA, which is a generic simulation package, is used. A reason for choosing ARENA is the possibility to integrate pre-generated schedules for various types of resources, particularly those within the turn-around services, into the model. The model is developed based on the network of activities in the aircraft turnaround process as shown in Figure 5 and the operating time presented in Table 1.

Table 1
MINIMUM TIME, AVERAGE TIME, AND MAXIMUM TIME FOR TURNAROUND ACTIVITIES

Activities	Min	Mean	Max
1. Aircraft arrival & Parking	2	2	2
2. Deplane passengers	6	8	10
3. Service cleaning	15	25	35
4. Enplane passengers	5	10	15
5. Unload baggage/ cargo	10	15	20
6. Load baggage/ cargo	10	15	20
7. Service catering	10	14	18
8. Fuel Airplane	8	10	12
9. Perform maintenance check	10	15	20
10. Flight Dispatch & Departure	2	2	2
D1.Delay of passenger boarding	0	0	8
D2. Delay of baggage upload	0	0	10

Based on input analyzer, it is shown that time for activities in Table 1 fit the Normal distribution. The data of flight arrival is tested to be normal distribution with average of 7.34 lag the schedule and standard deviation of 26.40. It is emphasized that the model includes the delay of passenger boarding and delay of baggage upload into the consideration. The application of RFID in ground handling system aims at decreasing the delay time of both activities to be zero. The objective of this research is to evaluate the total turnaround time influenced by RFID application. In the next section, the validation of model based on current situation is conducted.

Validation of the Model

Validation is the process of ensuring that the model represents reality. To validate the proposed model, the turnaround time which collected from actual situation is compared with those from simulation model. Figure 7 shows the comparison of turnaround time between actual situation and simulation model. In the actual situation, the average, the minimum and maximum values of turnaround time are 52.34, 20, and 150 minutes respectively. They are compared with those calculated by simulation model of 53.56, 20.85, and 152.57 minutes. It can be clearly seen that the results of simulation are close to those of actual situation with the difference of 2.33%, 4.24%, and 1.71% consequently. Therefore, the proposed model can be used as system representative to evaluate the effect of RFID application on the turnaround time.

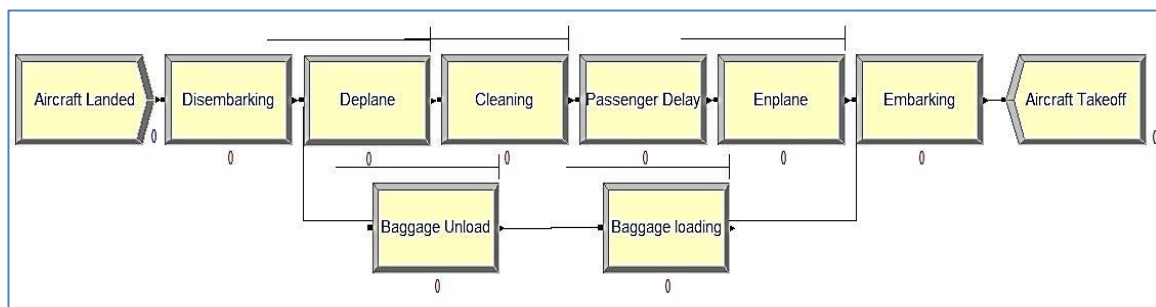
RESEARCH RESULTS AND DISCUSSIONS

In this section, the research results of the RFID based simulation model proposed are presented. As explained in the section 2, the RFID devices can be utilized in two processes which

are the baggage handling and the passenger boarding processes. At Donmueang airport, the delay time of baggage handling process is up to 10 minutes and the delay time of passenger boarding activities is about 8 minutes. In this research, the assumption is that the applications of RFID in these two processes can decrease both delay times to be zero. The simulation model is used to simulate four scenarios including

- 1) the current system which is based on the bar code application,
- 2) the proposed system which is based on the RFID on only baggage handling process,
- 3) the proposed system which is based on the RFID on only passenger boarding process, and
- 4) the proposed system which is based on the RFID on both baggage handling and passenger boarding processes

Figure 6
BRIEF REPRESENTATION OF THE ACTIVITIES OF AN AIRCRAFT TURNAROUND SYSTEM IN ARENA SIMULATION MODELING SOFTWARE



The turnaround time results of simulation model based on these four scenarios are shown in Figure 8. It can be seen that the RFID can improve the aircraft turnaround time in every scenarios. In the first and second scenario, the turnaround time decrease from 53.56 to 52.14 minutes (reduction of 6.65%) when RFID is applied in only baggage loading process. The large reduction in turnaround time is when the RFID is applied on only passenger boarding process; which decreases operating time from 53.56 to 45.39 minutes (reduction of 15.25%). The largest amount of reduction in total turnaround time is when the RFID is applied to both processes. It is only 44.15 minutes or accounting to 17.57% decrease.

The above results can be discussed in aspect of the effects of RFID applications on each ground handling activity. It can be seen that baggage handling and passenger boarding process effect differently on turnaround time. The delay time of baggage handling process is 10 minutes and the reduction in turnaround time when RFID applied is 6.65%. Whereas, the delay time of passenger boarding procedure is 8 minutes, but the decrease in turnaround time is 15.25%. These results present the RFID applied on passenger boarding process has more influence on this for baggage handling process. The reason for this is that the passenger boarding activity is an activity in the critical path of turnaround time. The reduction in passenger boarding time effects directly on the aircraft turnaround time. However, the activity of baggage handling process is not in the critical path, resulting in lower effect on the aircraft turnaround time.

Although the RFID based baggage handling process has lower effects than passenger boarding process on turnaround time, it can improve the passenger satisfaction and system reliability. This is due to RFID can provide visibility along different stages. The RFID tags can

enhance the ability for baggage tracking, dispatching and conveyance so as to improve the management efficiency and the users' satisfaction.

Figure 7
THE COMPARISON OF TURNAROUND TIME BETWEEN ACTUAL SITUATION AND SIMULATION MODEL

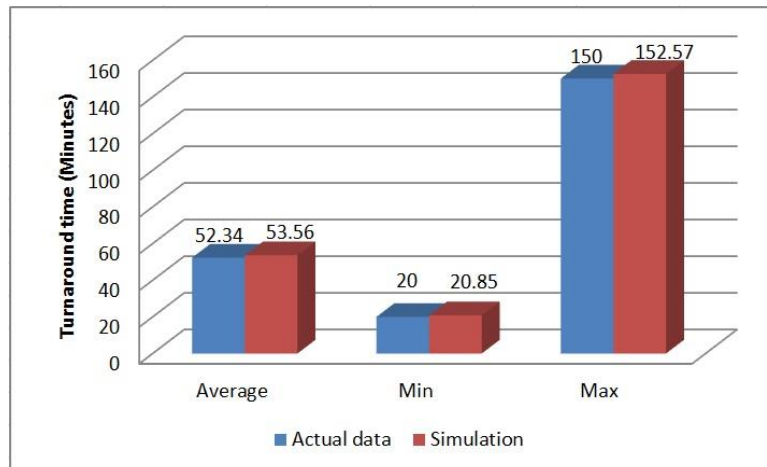
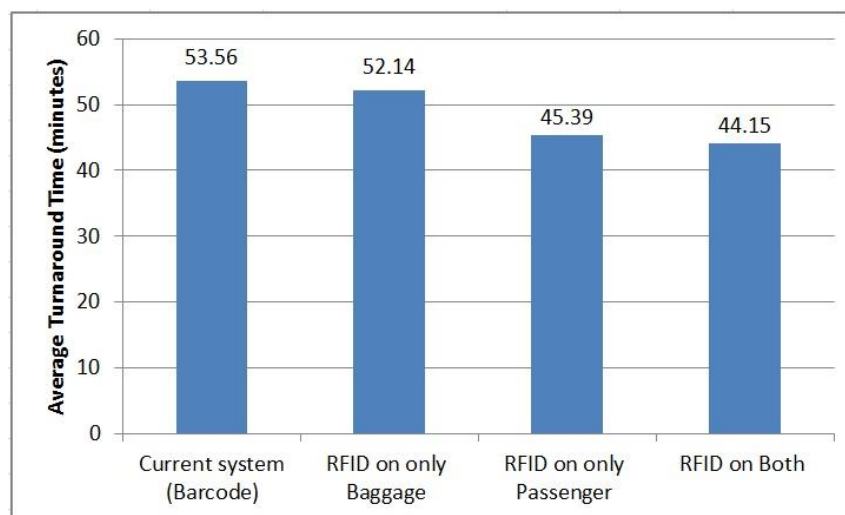


Figure 8
THE COMPARISON OF TURNAROUND TIME AMONG 4 SCENARIOS



CONCLUSION

At Donmueang International Airport, the number of flights per year increases rapidly, and resulting in the need to increase the utilization of airport's facility is greater than ever. RFID in ground handling system is considered a promising digital tool which can reduce the aircraft turnaround time and increase the airport's utilization. This paper proposed the simulation model to evaluate the effects of RFID based ground handling process on aircraft turnaround time. It emphasized the RFID application on the two main processes including baggage handling process

and passenger boarding process. The RFID is considered as a tool to reduce the delay time of these two activities.

Using the proposed simulation model, it can be found that the RFID applied in ground handling system can reduce the turnaround time of barcode based system about 44.15 minutes or 17.57% reduction. The adoption of RFID on only passenger boarding process can significantly reduce about 45.39 minutes or 15.25%. Although, RFID on baggage handling system has less effect on turnaround time, it can improve the baggage procedure in terms of shorter operating time and higher system reliability, which can improve the passenger satisfaction.

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ANALYSIS OF FINANCIAL PERFORMANCE DIFFERENCES BANK IN INDONESIA BASED ON BUKU

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ABSTRACT

ASEAN financial sector integration plan from 2020 which will open free opportunities for banks in the ASEAN region that qualify as Qualified ASEAN Banks (QAB) conduct operational activities should a local bank in the ASEAN countries. Multilicence policy issued by Bank Indonesia in 2012 is expected to increase bank capital strengthening to anticipate the risks posed by the complexity of the business activities and the need for opening of bank branch network and be able to improve banking intermediation function optimally. Multilicence terms of business activities implemented by categorizing the business activities of commercial banks into four BUKU based on the number of its core capital. This study aims to determine whether there differences performance of banks in Indonesia based BUKU. The population in this study is a conventional bank listed in the FSA report period December 2014 to March 2016. The sample used was 112 conventional banks. This study uses secondary data collection and analysis techniques used are Multivariate Manova. Analisis carried out showed that there are significant differences for each financial ratios for the Bank BUKU 1, BUKU 2, BUKU 3 and BUKU 4. Capital Adequacy Ratio (CAR) Buku 2 better than the other BUKU. LDR for Buku 3 better than the other BUKU and BUKU 4 better for BOPO, NIM and ROA compared with other BUKU.

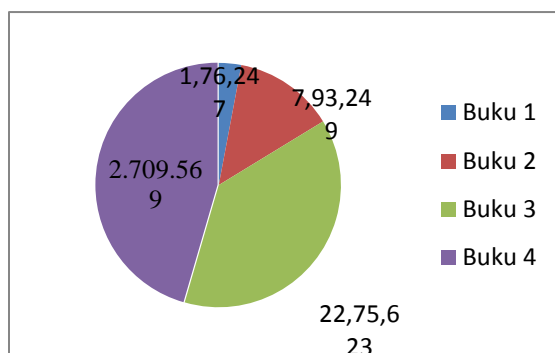
Key Words: Commercial Bank Business Group (BUKU), Financial Performance

INTRODUCTION

In order to improve the resilience and competitiveness of the national banking system, in December 2012, Bank Indonesia issued Bank Indonesia Regulation No. 14/26 / PBI / 2012 regarding business activities and office networks based on the bank's core capital, or so-called policy Multilicence. Bank Indonesia Regulation (PBI) operations and office network is based on the bank's core capital set the scope of business activities and the opening of an office network in accordance with the bank's core capital, with these provisions, the bank can only conduct business and office network in accordance with the core capital owned and valid for Conventional Commercial Bank (BUK), Islamic banks (BUS), Sharia (UUS) of conventional commercial banks and branches of banks domiciled abroad (Foreign Bank branch office). Under these provisions, banks classified into 4 groups Enterprises (Public Bank Group undertakings, BUKU) provided BUKU 1, with the Bank's core capital of less than 1 Trillion, BUKU 2, with the Bank's core capital of Rp. 1 trillion to 5 trillion, BUKU 3, with the Bank's core capital of Rp. 5 Trillion up with less than Rp. 30 Trillion, BUKU 4, with the Bank's core capital above Rp. 30 Trillion.

Based on data from the Indonesian Banking Statistics, as of March 2016 recorded total assets of the entire Bank in Indonesia Rp. 5.954.688 Billion with the distribution of assets of banks based BUKU as follows:

Figure 1
DISTRIBUTION OF ASSETS OF BANK BASED ON BUKU



Based on the figure shows that the assets of the Bank in Indonesia amounted to 45,50% owned by BUKU 4, 38.22% owned by BUKU 3, 13.32% owned by BUKU 2 and 2.96% owned by BUKU 1, so it can be concluded that asset bank in Indonesia is dominated by BUKU 4. Financial Services Authority reported a profit for the banking industry or the public until March 2016 throughout the first quarter amounted to Rp28,9 trillion, down 2.4% compared to the same period in 2015 which amounted to Rp29,63 trillion. Based on Indonesian banking statistics, bank profits decrease because of the high operating non interest expenses up in March 2016 to 37.3 % to Rp127,1 trillion of Rp 92,5 trillion in operating expenses non interest 2015. Increase growth was much higher than the growth in net interest income general banking by 13.7% to Rp82,05 trillion of Rp72,1 trillion. Based banks, Commercial Bank Business Activities (BUKU) 1 posted a profit until the end of March 2016 amounted to Rp. 600 billion, then BUKU 2 of Rp3,01 trillion, BUKU 3 Rp. 7,29 trillion and Rp17.6 trillion BUKU 4. Meanwhile, banking intermediation recorded a growth, although still in the single digit range. Until the end of March, commercial banks' credit portfolio grew 8.48% to Rp4.029 trillion from Rp3.714 trillion in the same period last year. Commercial bank lending operations (BUKU) 4 recorded at Rp1.757 trillion. Bank group BUKU 3 and BUKU 2 respectively lending and Rp506,02 Rp1.504 trillion trillion, while bank loans reached Rp107,95 BUKU 1 trillion.

Multilicense policy is a policy that is long term because it will establish a new structure of national banking. This policy is expected to strengthen the resilience of banks, because banks will operate in conjunction with existing capabilities. Additionally these policies in the long term will also improve the efficiency and economies of scale banks for the expansion of branch network and expansion of business activities can only be done if the bank has the capacity to support capital. Resilience and competitiveness of banking will become the capital to be able to compete with the banks of the ASEAN region because according to plan the integration of the financial sector of ASEAN from 2020 which would enable free for banks in the ASEAN region that qualify as Qualified ASEAN Banks (QAB) conduct operational activities should a local bank in the ASEAN countries.

The soundness of banks can be assessed from various indicators. One of the main sources of indicators as the basis of assessment is the bank's financial statements. Based on these financial statements can be calculated a number of ratios that can be used as a basis in determining the health of banks. To measure the soundness of banks in general use CAMELS ratio and RGEC. CAMELS analysis consists of two factors of financial and non-financial factors. To measure the financial factors using financial ratios contained in the financial

statements.

Nowdays, the bank performance has many used to many stakeholders, such as customers, investors and the general public (Jha & Hui, 2012). Financial performance helps us to measure the results of a firm's policies and operations in monetary terms (Almazari , 2011). Rayhan et all (2011) tells that evaluation of banks financial performance is important for all parties like depositors, bank manager, stockholders, creditors, regulators and educationalist. CAMEL model is a simple and appropriate model for managerial and financial assessment of organizations (Kouser & Saba, 2012). Based on the above background, the authors wanted to do research on the analysis of differences in the performance of banks in Indonesia based BUKU.

LITERATURE REVIEW

Multilicense Policy

Bank Indonesia has issued the Indonesian Banking Architecture (API) in 2004. API became the main basis for determining the direction of Indonesian banks. In 2012, Bank Indonesia issued Bank Indonesia Regulation No. 14/26 / PBI / 2012 regarding Multilicense as one of the pillars of 1 API with the hope to encourage resilience and competitiveness of the banking system.

In general multilicense policy is make the adjustment to business and office network is based on the core capital. This policy is expected to be able to increase bank capital strengthening to anticipate the risks posed by the complexity of the business activities and the need for opening of bank office network. In addition, this policy is also expected to improve banking intermediation function optimally, especially in the field of productive businesses.

Banks operating in accordance with its capacity expected to have better resistance because of the risks encountered can be absorbed by capital owned and banks become more efficient because the activities are focused on products and activities that become excellent.

Multilicense directs banks to operate on economies of scale. To be able to carry out comprehensive banking operations, the bank will achieve economies of scale if it had core capital of at least Rp. 1 trillion. Total core capital of a commercial bank, in principle, will determine whether the bank should be in the BUKU 1, BUKU 2, BUKU 3 or BUKU 4. Grouping based bank can be seen in Table 1 below.

Table 1
GROUPING BANK IN INDONESIA BASED ON BUKU

No	BUKU	Core Capital	Business activities
1	BUKU 1	Rp. 100 Billion sd Rp. 1 Trillion	Basic business activities
2	BUKU 2	Rp. 1 Billion sd Rp. 5 Trillion	Broader business activities and private equity
3	BUKU 3	Rp. 5 Billion sd Rp. 30 Trillion	Broader business activities and private equity
4	BUKU 4	Min. Rp. 30 Trillion	Business Activity and Participation Full broader

Source : Bank Indonesia

In multilicense there are two main requirements in the expansion of branch network, which are the level of health and the allocation of core capital.

Bank's Performance

Bank Indonesia issued regulation 6/10/PBI/2004 CAMELS (Capital, Asset, Management, Earning, Liquidity and Sensitivity to Market Risk) as a tools to asses soundnes of Bank and then Bank Indonesia issued a regulation concerning the soundness of the bank in accordance with PBI No. 13/1 / PBI / 2011 which RGEC (Risk Profile, Good Corporate Governance, Earnings and Capital). Complete calculation guidelines stipulated in Circular Letter (SE) Bank Indonesia No. 13/24 / DPNP dated October 25, 2011.

In a study of comparative financial performance of banks between BUKU, the author uses methods of assessment soundness of bank RGEC.

Risk Profile but that can be proxied by financial ratios namely by using Loan to Deposit Ratio (LDR). In August 1, 2015, Bank Indonesia issued that maximum LFR is 94%. LDR is used to demonstrate the ability of banks to meet the possibility of withdrawal of deposits by depositors or meet people's needs in form of credit (Taswan, 2010). Liquidity risk analysis is intended to measure the ability of the bank is able to pay off debts and reimburse depositors and can meet the demand for credit application without a delay (Merkusiwati, 2007). GCG factor assessment is an assessment of the quality Bank management on the implementation of Corporate Governance Principles guided by the provision of Bank Indonesia. According Lesmana (2008) quality assessment the management of a bank can be done by calculating the ratios business efficiency. Through business efficiency ratios, the level of efficiency which has been achieved by the management of the bank concerned can measured quantitatively. On this indicator is measured by the ratio of Operating Expenses to Operating Income (OEIO) according to some studies that have been done before that OEIO has significant influence on GCG (Pratiwi 2013).

Profitability principle used to determine the ability of banks can generate revenue. In this indicator measured by Return On Asset (ROA) and Net Interest Margin (NIM). ROA is used to measure the ability of company generate profits by using total asset. The higher ROA, the better, because to obtain the necessary large ROA their productive assets quality and management . NIM derived from interest received from loans minus interest expense of funding sources that are collected. Indicator NIM that categorized healthy if bank has NIM above 2%.

Capital Adequacy Ratio (CAR) relating to the provision of their own capital needed to cover the risk of loss that may arise from investment of funds in productive assets that contain risks, as well as to finance the planting of the fixed assets and investation. The greater this ratio, the health of banks will increasingly improved because it means capital owned bank is able to cover the risk of losses arising from the investment of funds in productive assets that contain risk.

Several studies related to the bank's performance has been done by some researchers that Manurung Y. (2012) where his research found no difference in QR, ATLR, LDR, DAR, DER, CAR, ROA, ROE, NPM between the State Bank and Commercial Bank National private. Research conducted by Totok Endhiarto (2015) states that there are significant differences in the LDR, ROA CAR, BOPO and there is no significant difference in ROE and NPL. Ni Ketut (2014) states that there is no difference between the financial performance of government banks and private banks. Research conducted by Parvesh and Naresh (2012) regarding the assessment of financial performance of private bank in India it states that there are differences in terms of

management efficiency, asset quality and earnings , Results of research Juan Mesut Dogan (2013) states that it is determined that asset quality, return on equity, total asset and management effectiveness of domestic banks are higher than foreign banks and on the other hand, domestic banks are determined to have a lesser capital adequacy ratio than foreign banks. Based on research by Morteza (2013) stated that there is a significant difference between private and public bank in terms of liquidity and earning performance and management quality.

RESEARCH METHODOLOGY

This research is comparison of banking sector within the sectors by categorized the bank on the basis of Comercial Bank Business Unit (BUKU). For this purpose banking industry is categorized in BUKU 1, BUKU 2, BUKU 3 and BUKU 4. The financial ratios were used to analysis and compare performance financial difference of each category during the sample period from December 2014 untuk March 2016. The population in this study is a bank in Indonesia as many as 118 banks, comprising 106 conventional banks and 12 Islamic banks. The samples used were as many as 106 conventional banks with bank details BUKU 1 a total of 36 banks, BUKU 2 by 43 banks, bank BUKU 3 as many as 23 banks and bank BUKU 4 by 4 banks. This research using secondary data is that have already been gathered by researcher, data published in Statistical Banking in Indonesia and other journal and used MANOVA Multivariate as a data analysis method.

ANALYSIS AND FINDINGS

Assesing the financial performance of the banking company used Risk Profile, Good Corporate Governance, Earning and Capital. These RGEC aspects are assessed using financial ratio that useful in assessing soundness of banking.

The number of conventional banks in Indonesia based on data from the Financial Services Authority until March 2016 is a total of 106 banks with details:

Table 1
NUMBER OF CONVENTIONAL BANKS BASED BUKU

Bank	The number of Banks	Offices
BUKU 1	36	1.455
BUKU 2	43	3.624
BUKU 3	23	10.688
BUKU 4	4	15.234

The development of Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Operating Expenses, Operating Income (OEI), Net Interest Margin (NIM) and Return On Assets (ROA) of the bank based on the book is as follows:

Figure 2
DEVELOPMENT LDR PERIOD DECEMBER 2014 - MARCH 2016

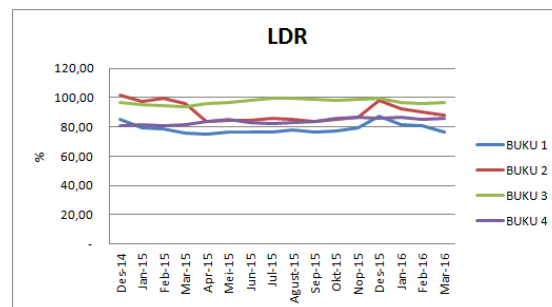


Figure 3
DEVELOPMENT ROA BASED ON BUKU PERIOD DECEMBER 2014 - MARCH 2016

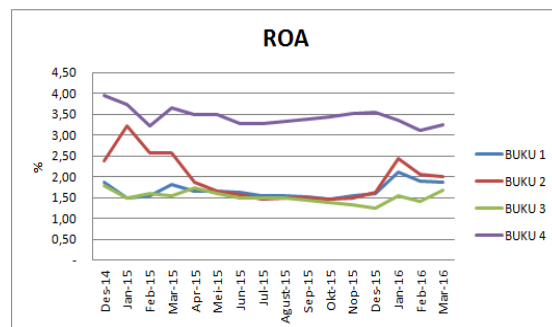


Figure 4
DEVELOPMENT NIM BASED ON BUKU PERIOD DECEMBER 2014 - MARCH 2016

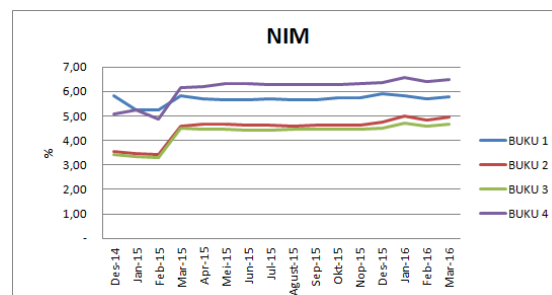


Figure 5
DEVELOPMENT CAR BASED ON BUKU PERIOD DECEMBER 2014 - MARCH 2016

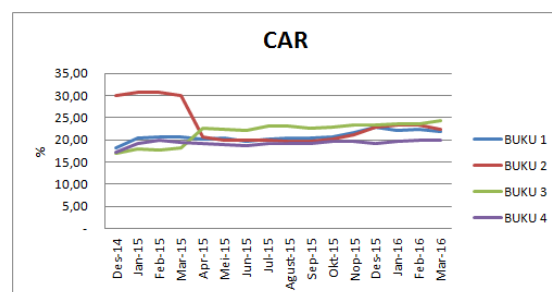
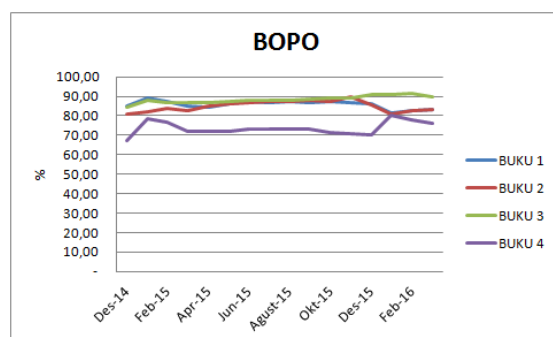


Figure 6
DEVELOPMENT OEOI BASED BUKU PERIOD DECEMBER 2014- MARCH 2016



Tabel 2 DESCRIPTIVE STATISTICS				
	buku	Mean	Std. Deviation	N
car	buku 1	20.8331	1.17656	16
	buku 2	23.4231	4.32124	16
	buku 3	21.7600	2.45066	16
	buku 4	19.2794	.68487	16
	Total	21.3239	2.93384	64
ldr	buku 1	78.7406	3.43226	16
	buku 2	90.1363	6.32996	16
	buku 3	97.1456	1.73732	16
	buku 4	83.7531	2.05683	16
	Total	87.4439	7.90652	64
oeoi	buku 1	85.8181	2.00294	16
	buku 2	84.9425	2.70843	16
	buku 3	88.4081	1.79390	16
	buku 4	73.5456	3.44818	16
	Total	83.1786	6.27461	64
nim	buku 1	5.6781	.18666	16
	buku 2	4.4713	.50935	16
	buku 3	4.2888	.46696	16
	buku 4	6.0919	.51737	16
	Total	5.1325	.88709	64
roa	buku 1	1.6694	.18873	16
	buku 2	1.9575	.53202	16
	buku 3	1.5181	.13939	16
	buku 4	3.4338	.21276	16
	Total	2.1447	.82418	64

According to the table above, the average CAR of the highest achieved by the bank BUKU 2 that is equal to 23.42% and the average achieved by the lowest CAR achieved by the bank BUKU 4 in the amount of 19.27%, which means that the higher the better the CAR of the

bank's ability to risk of credit risk or risky assets, CAR high value means that the bank is able to fund operations and provide a substantial contribution to the profitability of the implementation of bank intermediation function. The bank's performance based BUKU, BUKU 1 through 4 are in a position above the provisions of Bank Indonesia at 8%.

For the average LDR highest achieved by the bank BUKU 3 is equal to 97.14% and the average lowest LDR obtained by BUKU 1 that is equal to 78.74%. Bank BUKU 3 has been able to implement banking intermediation function through fund raising and lending of 97,14%. The higher the LDR means that the bank's profit has increased with the assumption that the bank is able to extend credit effectively so that the amount of the loan is small, but LDR based BUKU 1 to 4 in accordance with the provisions of Bank Indonesia (PBI No. 17/11 / PBI / 2015) which limits lowest 75% and the highest was 97%. LDR is high it can be concluded that the bank can perform the intermediation function properly and on the other hand also increase the risk of bank liquidity.

OEOI highest average achieved by BUKU 3 is equal to 88.40% and the average achieved by the lowest OEOI BUKU 4 amounted to 73.54%. Based on the table above shows that the bank BUKU 4 managed to optimize operating costs spent to obtain a better operating income. Bank Indonesia set a good ROA ratio when below 90%. If the ROA ratio exceeds 90% or close to 100% then the bank can be categorized as a bank that is not efficient. Financial Services Authority also provides policies to banks that managed to reduce OEOI to a certain level that is getting easing requirements for establishing branches reached 40% -50%. Core capital requirement will be reduced in accordance with a decrease OEOI successfully carried out by the bank, besides incentives are also given in the form of convenience for the bank to issue new products. This incentive package to encourage banking to be more efficient.

The average lowest NIM is achieved by the bank BUKU 3 is equal to 4.28% and the average achieved by the highest NIM of banks Bank BUKU 4 is at 6.09%. NIM indicates the amount of income received by banks from the interest paid to banks on savings interest given to the bank's depositors. NIM all banks based BUKU is in conformity with the standards of the Bank Indonesia is above 2% The smaller the NIM is achieved by a bank will lower interest income on earning assets managed by the bank concerned Based on data from Infobank news.com, ROA and NIM in Indonesia is still very high when compared with other countries in ASEAN. With the decrease in ROA and NIM, the FSA and the central bank wants banks in Indonesia is more efficient so that in the end the banks can have enough profit margin and can no longer apply high lending in level two digits.

The average lowest ROA achieved by banks BUKU 3 is equal to 1.51% and the average ROA achieved the highest average by a bank BUKU 4 that is equal to 3.43%. ROA BUKU 4 is able to optimize its total assets to obtain profits than banks BUKU 1, 2 and 3. Under the rules of the FSA (POJK) no 1 / POJK / 07/2013 ROA of at least the bank is 1.5%. The average ROA Bank BUKU 3 is at its minimum. Interest ROA is a measure management success in generating profits. The smaller this ratio, it can be seen the lack of management ability of banks to manage assets to increase revenue and or pressing cost .It can be interpreted if the performance the higher the ROA, the bank is able to manage the assets management in obtaining or suppress the use of income and expense.

Based on calculations using MANOVA in the table below looks there are significant differences in the performance of the bank based on the book and the method of performance appraisal. $F(15; 174) = 26.156$; $\text{sig} > 0.05$; Wilk's $\Lambda = 0.005$; partial $\eta^2 = 0.835$.

Table 3
MULTIVARIATE TESTS³

Multivariate Tests^a

Effect		Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power ^d
Intercept	Pillai's Trace	1.000	52441.642 ^b	5.000	56.000	.000	1.000	262208.211	1.000
	Wilks' Lambda	.000	52441.642 ^b	5.000	56.000	.000	1.000	262208.211	1.000
	Hotelling's Trace	4682.289	52441.642 ^b	5.000	56.000	.000	1.000	262208.211	1.000
	Roy's Largest Root	4682.289	52441.642 ^b	5.000	56.000	.000	1.000	262208.211	1.000
VAR00001	Pillai's Trace	2.078	26.156	15.000	174.000	.000	.693	392.335	1.000
	Wilks' Lambda	.005	62.798	15.000	154.993	.000	.835	783.341	1.000
	Hotelling's Trace	30.030	109.441	15.000	164.000	.000	.909	1641.615	1.000
	Roy's Largest Root	24.289	281.756 ^c	5.000	58.000	.000	.960	1408.779	1.000

a. Design: Intercept + VAR00001

b. Exact statistic

c. The statistic is an upper bound on F that yields a lower bound on the significance level.

d. Computed using alpha = .05

Table 4
TEST OF BETWEEN-SUBJECT EFFECTS

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter	Observed Power ^f
Corrected Model	car	144.286 ^a	3	48.095	7.251	.000	.266	21.753	.977
	ldr	3051.857 ^b	3	1017.286	68.855	.000	.775	206.564	1.000
	bopo	2083.529 ^c	3	694.510	105.009	.000	.840	315.026	1.000
	nim	37.876 ^d	3	12.625	64.746	.000	.764	194.237	1.000
	roa	37.044 ^e	3	12.348	128.838	.000	.866	386.514	1.000
Intercept	car	29101.375	1	29101.375	4387.334	.000	.987	4387.334	1.000
	ldr	489371.951	1	489371.951	33122.973	.000	.998	33122.973	1.000
	bopo	442795.421	1	442795.421	66949.894	.000	.999	66949.894	1.000
	nim	1685.924	1	1685.924	8645.734	.000	.993	8645.734	1.000
	roa	294.380	1	294.380	3071.569	.000	.981	3071.569	1.000
VAR00001	car	144.286	3	48.095	7.251	.000	.266	21.753	.977
	ldr	3051.857	3	1017.286	68.855	.000	.775	206.564	1.000
	bopo	2083.529	3	694.510	105.009	.000	.840	315.026	1.000
	nim	37.876	3	12.625	64.746	.000	.764	194.237	1.000
	roa	37.044	3	12.348	128.838	.000	.866	386.514	1.000
Error	car	397.983	60	6.633					
	ldr	886.464	60	14.774					
	bopo	396.830	60	6.614					
	nim	11.700	60	.195					
	roa	5.750	60	.096					
Total	car	29643.643	64						
	ldr	493310.272	64						
	bopo	445275.781	64						
	nim	1735.500	64						
	roa	337.174	64						
Corrected Total	car	542.269	63						
	ldr	3938.320	63						
	bopo	2480.359	63						
	nim	49.576	63						
	roa	42.794	63						

a. R Squared = .266 (Adjusted R Squared = .229)

b. R Squared = .775 (Adjusted R Squared = .764)

c. R Squared = .840 (Adjusted R Squared = .832)

d. R Squared = .764 (Adjusted R Squared = .752)

e. R Squared = .866 (Adjusted R Squared = .859)

f. Computed using alpha = .05

Seen in the table above, that books have a significant effect on all performance appraisal method of the bank into the sample. For CAR ($F(2, 57) = 7,251$; $p < .0005$; partial $\eta^2 = 0.266$); LDR ($F(2, 57) = 68.885$; $p < .0005$; partial $\eta^2 = 0.775$); BOPO ($F(2, 57) = 105.009$; $p < .0005$; partial $\eta^2 = 0.840$); NIM ($F(2, 57) = 64.746$; $p < .0005$; partial $\eta^2 = 0.764$); ROA ($F(2, 57) = 128.838$; $p < .0005$; partial $\eta^2 = 0.866$).

Table 5
MULTIPLE COMPARISONS

Multiple Comparisons

Tukey HSD

Dependent Variable	(I) buku	(J) buku	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
car	buku 1	buku 2	-2.5900 [*]	.91057	.030	-4.9962	-.1838
		buku 3	-.9269	.91057	.740	-3.3331	1.4793
		buku 4	1.5537	.91057	.329	-.8524	3.9599
	buku 2	buku 1	2.5900 [*]	.91057	.030	.1838	4.9962
		buku 3	1.6631	.91057	.271	-.7431	4.0693
		buku 4	4.1438 [*]	.91057	.000	1.7376	6.5499
	buku 3	buku 1	.9269	.91057	.740	-1.4793	3.3331
		buku 2	-1.6631	.91057	.271	-4.0693	.7431
		buku 4	2.4806 [*]	.91057	.041	.0744	4.8868
	buku 4	buku 1	-1.5537	.91057	.329	-3.9599	.8524
		buku 2	-4.1438 [*]	.91057	.000	-6.5499	-1.7376
		buku 3	-2.4806 [*]	.91057	.041	-4.8868	-.0744
ldr	buku 1	buku 2	-11.3956 [*]	1.35897	.000	-14.9867	-7.8045
		buku 3	-18.4050 [*]	1.35897	.000	-21.9961	-14.8139
		buku 4	-5.0125 [*]	1.35897	.003	-8.6036	-1.4214
	buku 2	buku 1	11.3956 [*]	1.35897	.000	7.8045	14.9867
		buku 3	-7.0094 [*]	1.35897	.000	-10.6005	-3.4183
		buku 4	6.3831 [*]	1.35897	.000	2.7920	9.9742
	buku 3	buku 1	18.4050 [*]	1.35897	.000	14.8139	21.9961
		buku 2	7.0094 [*]	1.35897	.000	3.4183	10.6005
		buku 4	13.3925 [*]	1.35897	.000	9.8014	16.9836
	buku 4	buku 1	5.0125 [*]	1.35897	.003	1.4214	8.6036
		buku 2	-6.3831 [*]	1.35897	.000	-9.9742	-2.7920
		buku 3	-13.3925 [*]	1.35897	.000	-16.9836	-9.8014
bopo	buku 1	buku 2	.8756	.90925	.771	-1.5271	3.2783
		buku 3	-2.5900 [*]	.90925	.030	-4.9927	-.1873
		buku 4	12.2725 [*]	.90925	.000	9.8698	14.6752
	buku 2	buku 1	-.8756	.90925	.771	-3.2783	1.5271
		buku 3	-3.4656 [*]	.90925	.002	-5.8683	-1.0629
		buku 4	11.3969 [*]	.90925	.000	8.9942	13.7996
	buku 3	buku 1	2.5900 [*]	.90925	.030	.1873	4.9927
		buku 2	3.4656 [*]	.90925	.002	1.0629	5.8683
		buku 4	14.8625 [*]	.90925	.000	12.4598	17.2652
	buku 4	buku 1	-12.2725 [*]	.90925	.000	-14.6752	-9.8698
		buku 2	-11.3969 [*]	.90925	.000	-13.7996	-8.9942
		buku 3	-14.8625 [*]	.90925	.000	-17.2652	-12.4598
nim	buku 1	buku 2	1.2069 [*]	.15613	.000	.7943	1.6194
		buku 3	1.3894 [*]	.15613	.000	.9768	1.8019
		buku 4	-.4138 [*]	.15613	.049	-.8263	-.0012
	buku 2	buku 1	-1.2069 [*]	.15613	.000	-1.6194	-.7943
		buku 3	.1825	.15613	.649	-.2301	.5951
		buku 4	-1.6206 [*]	.15613	.000	-2.0332	-1.2081
	buku 3	buku 1	-1.3894 [*]	.15613	.000	-1.8019	-.9768
		buku 2	-.1825	.15613	.649	-.5951	.2301
		buku 4	-1.8031 [*]	.15613	.000	-2.2157	-1.3906
	buku 4	buku 1	.4138 [*]	.15613	.049	.0012	.8263
		buku 2	1.6206 [*]	.15613	.000	1.2081	2.0332
		buku 3	1.8031 [*]	.15613	.000	1.3906	2.2157
roa	buku 1	buku 2	-.2881	.10945	.051	-.5774	.0011
		buku 3	.1512	.10945	.516	-.1380	.4405
		buku 4	-1.7644 [*]	.10945	.000	-2.0536	-1.4751
	buku 2	buku 1	.2881	.10945	.051	-.0011	.5774
		buku 3	.4394 [*]	.10945	.001	.1501	.7286
		buku 4	-1.4763 [*]	.10945	.000	-1.7655	-1.1870
	buku 3	buku 1	-.1512	.10945	.516	-.4405	.1380
		buku 2	-.4394 [*]	.10945	.001	-.7286	-.1501
		buku 4	-1.9156 [*]	.10945	.000	-2.2049	-1.6264
	buku 4	buku 1	1.7644 [*]	.10945	.000	1.4751	2.0536
		buku 2	1.4763 [*]	.10945	.000	1.1870	1.7655
		buku 3	1.9156 [*]	.10945	.000	1.6264	2.2049

Based on observed means.

The error term is Mean Square(Error) = .096.

*. The mean difference is significant at the .05 level.

The above table shows that the average value of the performance CAR difference is between the book 1 and book 2, book 2 and 4 books, book 3 and book 4 ($p < 0.05$), while for the performance of LDR difference shown between all of the books, for the value of the performance OEOI indicated differences between BUKU 1 and BUKU 3, BUKU 1 and BUKU 4, BUKU 2 and BUKU 3, BUKU 2 and BUKU 4 and BUKU 3 and 4. As for NIM difference occurs in the BUKU 1 to BUKU 2, BUKU 1 to BUKU 3, BUKU 1 to BUKU 4, BUKU 2 with BUKU 4, and BUKU 3 with BUKU 4. to ROA, the difference is shown by the BUKU 1 to BUKU 4, BUKU 2 and BUKU 4 and BUKU 3 with a BUKU 4.

CONCLUSION

The results of the discussion of the average CAR of banks based BUKU meets the standards of the Bank Indonesia is at least 8%. The average CAR, BUKU 2 higher than most others, it demonstrates the ability of bank capital BUKU, BUKU 2 is better than the other. The average LDR bank's financial performance based BUKU meets the standards of health FSA is maximal level of 100%. The average LDR, BUKU 3 higher than the other, it demonstrates the ability of banks BOOK 3 to repay depositors withdrawal of funds belonging better than others. The average OEOI of bank BUKU 4 lowest compared with the other that is equal to 73.54%. This shows the bank's financial performance BUKU 4 in streamline costs to earn better than average the other banks. The average Bank BUKU 4 highest compared with other BUKU, are at 6.09%. This shows bank BUKU 4 succeeded in lowering the cost of funds. The average ROA of banks based BUKU meet the standard of health FSA. Average ROA The bank achieved by BUKU 4, namely by 3.4%. It shows the performance of finance bank BUKU 4 in optimizing the assets to obtain better profit than other banks BUKU. Statistical test results can be concluded that when viewed from the CAR, LDR, ROA, NIM and ROA there are significant differences between banks BUKU 1, BUKU 2 BUKU 3 and 4. The CAR's Buku 2 better than the other. LDR for Buku 3 better than the other and for the ratio of OEOI, NIM and ROA better BUKU 4 compared with other BUKU. For The Conclusion, there are significant differences for each financial ratios for the Bank BUKU 1, BUKU 2, BUKU 3 and BUKU 4. Capital Adequacy Ratio (CAR) Buku 2 better than the other BUKU. LDR for Buku 3 better than the other BUKU and BUKU 4 better for OEOI, NIM and ROA compared with other BUKU.

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COMPARATIVE ANALYSIS OF CONSUMER BEHAVIOR ACROSS CULTURES

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ABSTRACT

As the biggest archipelago country, Indonesia have a lot of ethnicity with different culture, language and others. This uniqueness can give many thing to be explored.

Cultural issues illustrate the development of the cultural differences in consumer behavior and the importance of understanding the cultural context of consumer behavior to increase market. Diversity of culture in Indonesia, create each other's behavior, lead to characteristic differences that make this study interesting. Hofstede (1980) defines culture as "interactive aggregate of common characteristics that influence a group's response to its environment", by identifying five criteria from different cultures, namely power distance, individualism versus collectivism, uncertainty avoidance, masculinity versus feminists, and long- term orientation. (Mooij, 2004). By using five criteria of the culture above, the researchers tried to show the difference between customer across culture in everyday life and in terms of shopping.

Key Words: *Culture, Consumer, Accross Culture*

INTRODUCTION

In some countries in South East Asia, the economic development in Indonesia evolved into personal consumption. This is due to the development of 'consumer culture' that changes the way a person shopper. Shopping is not only to meet the needs of goods but also be activities to fill the time relaxing and is part of the lifestyle.

Consumer behavior also changes dramatically with the era of globalization and technology. Consumers are demanding products that are good quality, prompt delivery, and competitive price. In the midst of a fairly intense competition companies compete to win the hearts of consumers.

Consumption patterns in Indonesia also experienced growth. Internet users increased from 4.5 million in 2002 to 3.3 million in 2006. Consumers shop for food, automobiles, electronic products, soft drinks, cigarettes, cosmetics. Not infrequently consumers spend money to buy the desired products, as well as to demonstrate their social status. This can happen especially in urban areas. As can be seen in the picture below which shows total consumer spending in 2013 and 2014 experienced a very significant increase. Consumer spends about 1 million or more to make a purchase either food or non-food categories. It is similarly to expenditure data in 2014.

Figure 1

Rata-Rata Pengeluaran per Kapita Sebulan di Daerah Perkotaan dan Perdesaan Menurut Kelompok Barang dan Golongan Pengeluaran per Kapita Sebulan, 2013-2014

Kelompok Barang	2013									2014								
	Golongan Pengeluaran per Kapita Sebulan (rupiah)								Rata-Rata per Kapita	Golongan Pengeluaran per Kapita Sebulan (rupiah)								Rata-Rata per Kapita
	Kurang dari 100 000	100 000- 149 999	150 000- 199 999	200 000- 299 999	300 000- 499 999	500 000- 749 999	750 000- 999 999	1 000 000 dan lebih		Kurang dari 100 000	100 000- 149 999	150 000- 199 999	200 000- 299 999	300 000- 499 999	500 000- 749 999	750 000- 999 999	1 000 000 dan lebih	
Makanan																		
Padi-padian	35292	42480	46280	49719	53801	62179	66653	66014	57956	-	45 236	45 320	44 464	45 796	52 973	58 766	62 666	54 117
Umbi-umbian	2531	2770	3024	2363	2735	3161	3792	4349	3151	-	600	1 081	974	1 491	2 282	2 705	4 058	2 566
Ikan	5158	7204	8779	12770	20281	30037	41008	53178	28356	-	7 210	5 900	10 430	18 397	28 098	36 280	55 048	33 385
Daging	-	193	1027	2308	5783	12339	20951	36985	13252	-	1 572	1 021	3 017	6 422	12 969	20 514	38 920	19 361
Telur dan susu	189	1476	3270	6231	11353	20062	31432	55247	21540	-	2 631	4 545	7 428	12 862	22 818	32 252	59 877	31 508
Sayur-sayuran	5239	10129	13514	18523	25827	33634	40907	48353	31158	-	6 799	12 259	15 266	20 759	28 874	34 347	41 529	30 177
Kacang-kacangan	935	3049	4045	6116	8123	10235	11635	14014	9444	-	2 390	6 083	7 575	8 569	11 085	12 675	14 175	11 271
Buah-buahan	1385	2059	2974	4756	8600	15363	23193	42235	16379	-	2 564	2 467	4 549	8 681	15 099	22 503	46 426	23 106
Minyak dan lemak	2339	4216	5441	7506	10120	12432	14592	16532	11545	-	3 382	5 727	6 869	9 702	11 765	13 457	16 280	12 412
Bahan minuman	1258	4803	6416	8207	11004	14601	17240	20603	13385	-	3 832	5 766	6 855	8 660	11 879	14 471	18 534	12 986
Bumbu-bumbuan	1174	2131	2701	4026	5653	7250	8707	10719	6783	-	2 043	3 175	3 919	5 263	7 119	8 391	10 422	7 538
Konsumsi lainnya	94	1488	2338	3790	5438	7914	9996	12911	7302	-	3 050	4 031	4 045	5 451	7 805	9 697	12 248	8 484
Makanan dan minuman jadi	4260	6470	13374	24850	48754	82797	118650	251456	92254	-	7 612	15 688	32 329	59 895	95 517	139 236	278 865	142 784
Tembakau dan sirih	4506	7020	10787	19045	32215	50450	64297	77029	43930	-	6 006	9 999	17 519	29 919	47 481	60 168	73 918	50 075
Jumlah Makanan	64360	95488	123970	170210	249687	362454	473053	709625	356435	-	94 927	123 062	165 239	241 867	355 764	465 462	732 966	439 770
Bukan Makanan																		
Perumahan, bahan bakar, penerangan, air	12568	21540	29778	43589	69642	116870	179168	405411	142088	-	22 990	30 629	50 133	77 927	129 703	191 876	486 919	227 152
Aneka barang dan jasa	4491	8047	12462	20296	35534	61157	91265	241006	78219	-	7 474	12 541	24 380	40 249	69 393	102 248	294 494	131 317
Biaya pendidikan	3128	5752	7047	9978	13874	21637	31653	81107	27875	-	10 669	8 988	10 957	14 456	22 432	33 908	100 661	44 896
Biaya kesehatan	343	1723	2709	4062	7434	14298	24594	91180	24169	-	853	2 391	4 561	6 960	13 394	23 524	80 475	32 880
Pakaian, alas kaki, dan tutup kepala	358	1336	1990	2985	5245	10721	17876	48360	14527	-	910	931	2 293	4 529	8 934	15 282	45 326	19 221
Barang yang tahan lama	165	358	686	1546	3649	11029	23251	185956	37863	-	461	264	1 115	3 325	7 468	15 232	137 870	46 915
Pajak pemakaian dan premi asuransi	401	589	1117	1959	3670	7113	11825	44210	11758	-	814	803	2 363	3 963	7 680	12 219	53 463	20 903
Keperluan pesta dan upacara	-	454	406	591	1489	3730	8552	49159	10627	-	66	298	277	947	2 271	7 275	45 404	15 664
Jumlah Bukan Makanan	21454	39799	56196	85006	140538	246555	388184	1146389	347126	-	44 237	56 845	96 079	152 356	261 275	401 564	1 244 612	538 948
Jumlah	85814	135287	180166	255216	390225	609009	861237	1856014	703561	-	139 164	179 907	261 318	394 223	617 039	867 026	1 977 578	978 718

Diolah dari Hasil Survei Sosial Ekonomi Nasional (Susenas) Triwulan I-2013, BPS

Sumber: Publikasi Statistik Indonesia

Special issue of the Journal of Consumer Psychology related to cultural issues illustrate the development of cultural differences in consumer behavior and the importance of understanding the cultural context of consumer behavior to improve the market. With the diversity of cultures that exist, forming each other's behavior, which lead to different characters interesting to study.

Hofstede (1980) defines culture "interactive aggregate of common characteristics that influence a group's response to its environment." Hofstede identified five criteria from different cultures, namely power distance, individualism versus collectivism, uncertainty avoidance, masculinity versus feminists, and long-term orientation. (Mooij, 2004).

The issue of individualism-collectivism has especially garnered much interest (Kim et al. 1994), and has been tried and tested in various situations Among people across cultures (eg Yamaguchi 1994; Triandis et al. 1986; Matsumoto, Kudoh and Takeuchi 1996) , There is reason to believe that Hofstede's models can be used in assessing differences Among consumption behaviors. This is Because different cultural values, customs, as well as religious beliefs can be adequately captured by the dimensions named in Hofstede's models. (Ah Keng you & Kwon Jung, 2004)

Culture in Indonesia is a unique culture. It is a country that has many islands, the diversity of ethnicity, customs, language, dance, clothing, food, and much more a

multifaceted in this beloved country. As Indonesian society our duty is to preserve and maintain the heritage of the ancestors. Because of this uniqueness are many things that can be explored and deepened the uniqueness of this nation.

By using five criteria from earlier cultures, the researchers tried to show a comparison of the pattern of consumer behavior across cultures. This study uses two cultures of Batak and Sunda, both in everyday life and in terms of shopping.

RESEARCH QUESTION

1. Overview of cross-cultural consumer behavior in buying patterns
2. To illustrate the cross-cultural consumer comparison
3. Formula "Hofstede" used to see consumer behavior across cultures.

LITERATURE REVIEW

Culture, the accumulation of shared meanings, ritual, norms and traditions among members of an organization or society, is the collective programming of the mind which distinguished members of one group or society from those of another (Solomon, 1996; Litvin, Crotts, Hefner, 2004).

Culture has been defined in different ways Depending on the theoretical perspective of the researcher (Smircich, 1983). Rather than define culture, we instead state the commonly accepted view of the components of culture roomates include values, symbols / artifacts, actions, and cognitions , emotions and meanings (Ashkanasy, Wilderom and Peterson, 2000). According to Geertz's cultural symbol as anthropologists view culture is defined as a system of distribution of symbols and meanings that affect the behavior (including behavior in the shop). (Ah Keng You and Kwon Jung, 2004).

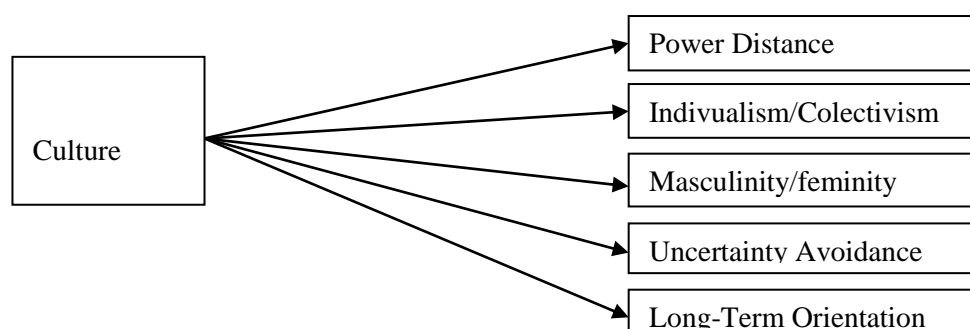
A culture in all regions and countries in the world have rules, beliefs and values vary that characterize each country. When the norms, rules, trust in one culture is applied not necessarily be accepted by other cultures. This is what makes the behavior of individuals in each culture is different, both in everyday life as well as in patterns of consumption.

Cultural values have been shown to influence consumer behavior (Laroche et al., 2005; Malai, 2007; Murali et al., 2005; Teimourpour & Hanzee; (2011)

Cultural Dimensions

(Mooij, 2004) Geert Hofstede developed the model of five dimensions of national culture can help to understand the basic difference in value. This model distinguishes culture based on five dimensions: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long term orientation.

Figure 2
HOFSTEDE: 5 DIMENSIONS OF CULTURE



RESEARCH METHODOLOGY

5 (five) cultural dimensions of Hofstede calculated using 20 items of questions. Each item in question has a score with a 1-2-3-4-5 scale. The average score of the index derived from an average score of questions posed to the respondents. This index uses Hofstede formula accordance with the instructions obtained in VSM 94. This formula is used to calculate the index of five cultures:

1. Power Distance Index (PDI) = $-35m(03) + 35m(06) + 25m(14) - 20m(17) - 20m(03)$ "M(03) is the average score of question number 3, the coefficients can be changed from 20-35, and remain at 20. The coefficient of each question changed, but approximately equal to the prediction of any indication (answers to some questions are likely to change between each culture). No provision item scores between a 0-100 point" (Hofstede et al. 2007). It is similar to other index using the formula respectively.
2. Individualism Index (IDV) = $-50m(01) + 30m(02) + 20m(04) - 25m(08) + 130$
3. Masculinity Index (MAS) = $+60m(05) - 20m(07) + 20m(15) - 70m(20) + 100$
4. Uncertainty Avoidance Index (UAI) = $+25m(13) + 20m(16) - 50m(18) - 15m(19) + 120$
5. Long-term Orientation Index (LTO) = $+45m(09) - 30m(10) - 35m(11) + 15m(12) + 67$

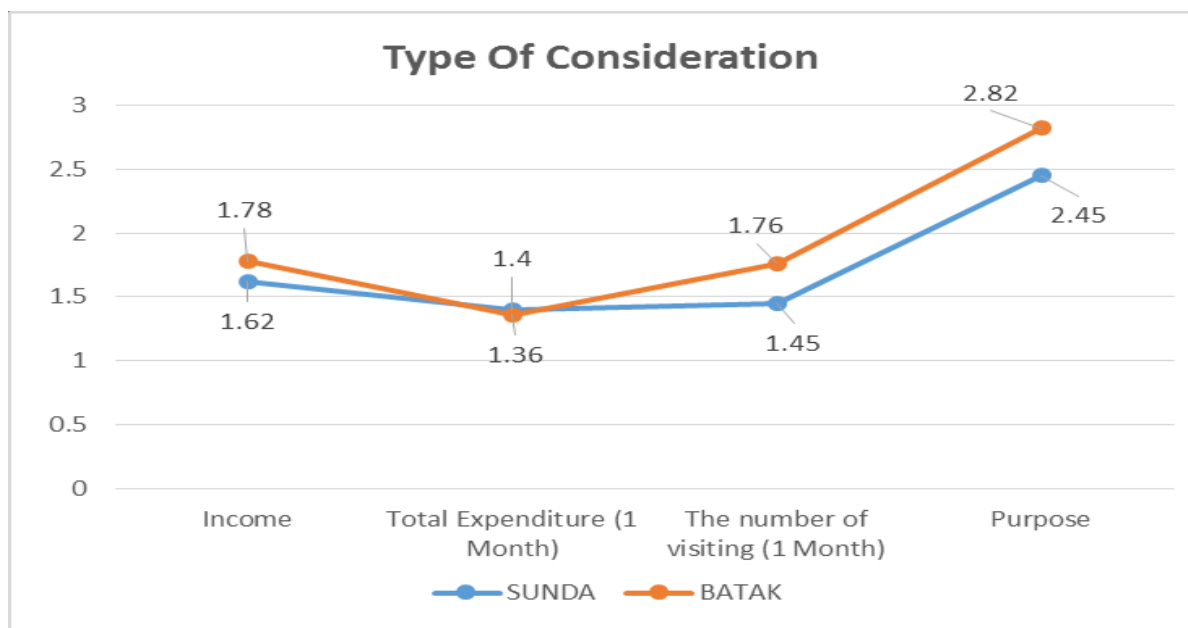
Analysis of the data in this study is a quantitative analysis, the underlying differences in the two is the type of data obtained. If the researcher wants to perform measurements using the number it used quantitative analysis (Sugiyono and Susanto, 2015:1), so this study is categorized as quantitative research.

This research stage begins with the study of the theory and then prepared a questionnaire for respondents Batak tribe and the tribe Sunda. "According to Hofstede, the minimum number of respondents per country or region required is 20 to do comparisons with this instrument; he Gives 50 as the ideal number. As a result, when of participants responding from a particular country of origin numbered fewer than 20, they were excluded from the final analysis. Respondent country groups of less than 50 were identified as such in the final analysis the data. Country groups of 50+ respondents offer the most robust of data for analysis (Kathryn H. King-Metters, 2007)". So the researchers determined the number of respondents 55 people on each tribe.

After the distribution of the questionnaire, the next research step is data analysis. The analysis conducted in this study using SPSS software and different test conducted using Levene test.

RESULT & DISCUSSION

In this research before entering the core of research using a Hofstede formula, researchers analyzed several considerations related to shopping. The results of the considerations that researchers have analyzed are as follows:

Figure 3

Source: Data Processed, 2016

The graph shows the difference in terms of revenue, spending one month, the number of visits and purpose to come to the mall. From the results of questionnaires on the types of income and the number of visits to the mall is dominated by the Batak tribe, as well as for the purpose of coming to the mall, except with the expenditure by one month turned out to be not so far alias adjacent.

Here is the result of differences in cultural values in the Sunda and Batak cultural dimensions consisting of power distance, uncertainty avoidance, individualism, masculinity, and long term orientation.

Table 1
CULTURAL DIFFERENCES OF SUNDANESE AND BATAK OVERALL

	BATAK	SUNDA
PD	9	5
UA	69	60
IND	122	111
MAS	44	40
LTO	38	43

Source: Data Processed, 2016

Table 2 CULTURAL DIFFERENCES OF BATAK AND SUNDANESE BY MALE GENDER			Table 3 CULTURAL DIFFERENCES BATAK AND SUNDANESE BY FEMALE GENDER		
	BATAK	SUNDA		BATAK	SUNDA
PD	10	-3	PD	7	16
UA	56	52	UA	87	73
IND	115	106	IND	132	117
MAS	43	51	MAS	45	24
LTO	39	37	LTO	37	51

Source: Data Processed, 2016

Power Distance (PD)

1. Power distance Batak people is higher compared to the Sundanese. Batak people more able to influence others. More dominant and can make other people do what he says. For the Sundanese low power its distance more closely follow the wishes of others, rarely taking a decision, always follow the most votes, more comfortable when under others.
2. Power distance according to the male gender dominates likewise Batak, unlike when a comparison by gender of women, Power distance Sundanese people look higher. In other words Sundanese women can influence others.

Uncertainty Avoidance (UA)

1. For uncertainty avoidance scores high is still for Batak people, they have an interest and high aggressive and well in maintaining emotional stability. Batak people avoid conflict and competition because it is a threat. As for the low scores in this case the Sundanese more result-oriented than process. But the opposite if the Sundanese regards the conflict and competition is not a threat.
2. Uncertainty avoidance by gender have the same meaning to the overall calculation that has a high interest and aggressive and well in maintaining emotional stability.

Individualism (IND)

1. Batak People for high scores on individualism, tends to self-interest. They always want to be different from the others. In contrast to the Sundanese who has low scores on individualism, high socialization. They feel comfortable when hanging out with friends, family and relatives. They are more happy for traveling together than alone.
2. Individualism according to gender as well as the same as the overall calculation.

Masculinity (MAS)

1. Higher scores owned by Batak in masculine side means that this group enjoys to achieving the main goal for success. Shows the status of who she was to be the pride of this group. Whereas for the Sundanese people who has lower score on masculinity is a group that primarily serves oriented to the service, for the people, and appreciate where small is beautiful. Status is not used as the main thing and not too important for success.
2. There are differences in the male gender showed that Sundanese more pleasure to achievement of the main goal for success. But for Batak women are more dominant.

Long Term Orientation (LTO)

1. For Long Term Orientation highest scores obtained by the Sundanese. Sundanese quite clever in arranging finances, although there is wasteful but can regulate the dispensing well. In contrast to the Batak to this score obtain a lower score, meaning that the Batak in terms of financial arrangements is still not good. The level of spending is big.

2. In the table according to the Batak male gender quite clever in arranging finances, although there is wasteful but can regulate the dispensing well. And the more dominant LTO Sundanese female.

For the following analysis is a different test, namely the T-test using SPSS software, the following are the test results:

Table 4
GROUP STATISTICS

	Tribe	N	Mean	Std. Deviation	Std. Error Mean
PD	Batak	55	2,2318	,63438	,08554
	Sunda	55	2,3409	,44712	,06029
UA	Batak	55	2,7227	,66086	,08911
	Sunda	55	2,8000	,51685	,06969
IND	Batak	55	2,0727	,61740	,08325
	Sunda	55	2,0227	,63149	,08515
MAS	Batak	55	2,2682	,60257	,08125
	Sunda	55	2,3727	,53332	,07191
LTO	Batak	55	2,2636	,71915	,09697
	Sunda	55	2,2636	,71915	,09697

Source: Data Processed, 2016

In the table Group statistics show the difference of each tribe with an adjustment statement or question using the dimensions of Hofstede. There are some differences in the final results by the true method of Hofstede because the test T-test only mean just other words without formula Hofstede, but there are some that have score in common, namely in the IND and the LTO, the IND Hobo who dominates and LTO Sundanese dominates.

Table 5
INDEPENDENT TEST

		Levene's Test for		t-test for Equality of Means						
		F	Sig.	t	df	tailed)	Difference	Difference	Confidenc	
									Lower	Upper
PD	Equal variances assumed	3,968	,049	-1,042	108	,300	-,10909	,10465	-,31653	,09835
	Equal variances not assumed			-1,042	97,0 31	,300	-,10909	,10465	-,31679	,09861
UA	Equal variances assumed	3,847	,052	-,683	108	,496	-,07727	,11313	-,30151	,14696
	Equal variances not assumed			-,683	102, 073	,496	-,07727	,11313	-,30166	,14711
IND	Equal variances assumed	,139	,710	,420	108	,675	,05000	,11908	-,18605	,28605
	Equal variances not assumed			,420	107, 945	,675	,05000	,11908	-,18605	,28605
MAS	Equal variances assumed	,012	,912	-,964	108	,337	-,10455	,10850	-,31962	,11053
	Equal variances not assumed			-,964	106, 429	,337	-,10455	,10850	-,31965	,11056
LTO	Equal variances assumed	,125	,725	-1,509	108	,134	-,21818	,14456	-,50472	,06836
	Equal variances not assumed			-1,509	106, 930	,134	-,21818	,14456	-,50475	,06839

Levene's test table shows the significance of differences between groups in PD sig. 0,49 and 0,012 MAS if sig <0.05, there were significant differences, then for the UA, IND, MAS and LTO no differences were so significant because its value > 0.05.

CONCLUSION

Revenue and number of visits to the mall is dominated by the Batak tribe, as well as for the purpose of coming to the mall, except with the expenditure by one month turned out to be not so far alias adjacent.

In the overall Hofstede table of the first power distance that Batak is higher compared to the Sundanese but gender-based power distance Sundanese female look higher. For uncertainty avoidance high scores goes to Batak as well as by male and female gender are the same result. Batak has high scores on individualism, self-interest. Higher scores owned by Batak in masculine side means that this group enjoys to achieving the main goal for success and there are differences when it is compared to Gender that Sundanese male more dominant. For Long Term Orientation the highest scores obtained by Sundanese and according to Batak male gender is intelligent enough to arrange its finances although there is wasteful but can regulate the dispensing well. And the LTO Sundanese female is more dominant.

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INTEGRATED MARKETING COMMUNICATION : BRAND CONTACT AND CONSUMER INSIGHT (EMPIRICAL STUDY ON TRADITIONAL SNACK FOOD IN BANDUNG)

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Mutia Tri Satya, STIE Ekuitas
Herry Achmad Buchory, STIE Ekuitas**

ABSTRACT

Marketers need to make planning and get messages through the form of evaluation of brand contact with customers and to understand the customer in order to make the product more precise and effective. The purpose of this study was to determine the quality of the customer experience when there is brand contact and consumer insight to the product.

The method in this study are the analysis of brand contact, quadrant analysis with descriptive method and depth interviews to determine customer insight.

The results of the analysis will be presented in the table inventory brand contact, Brand contact priority grid and customer insight illustration.

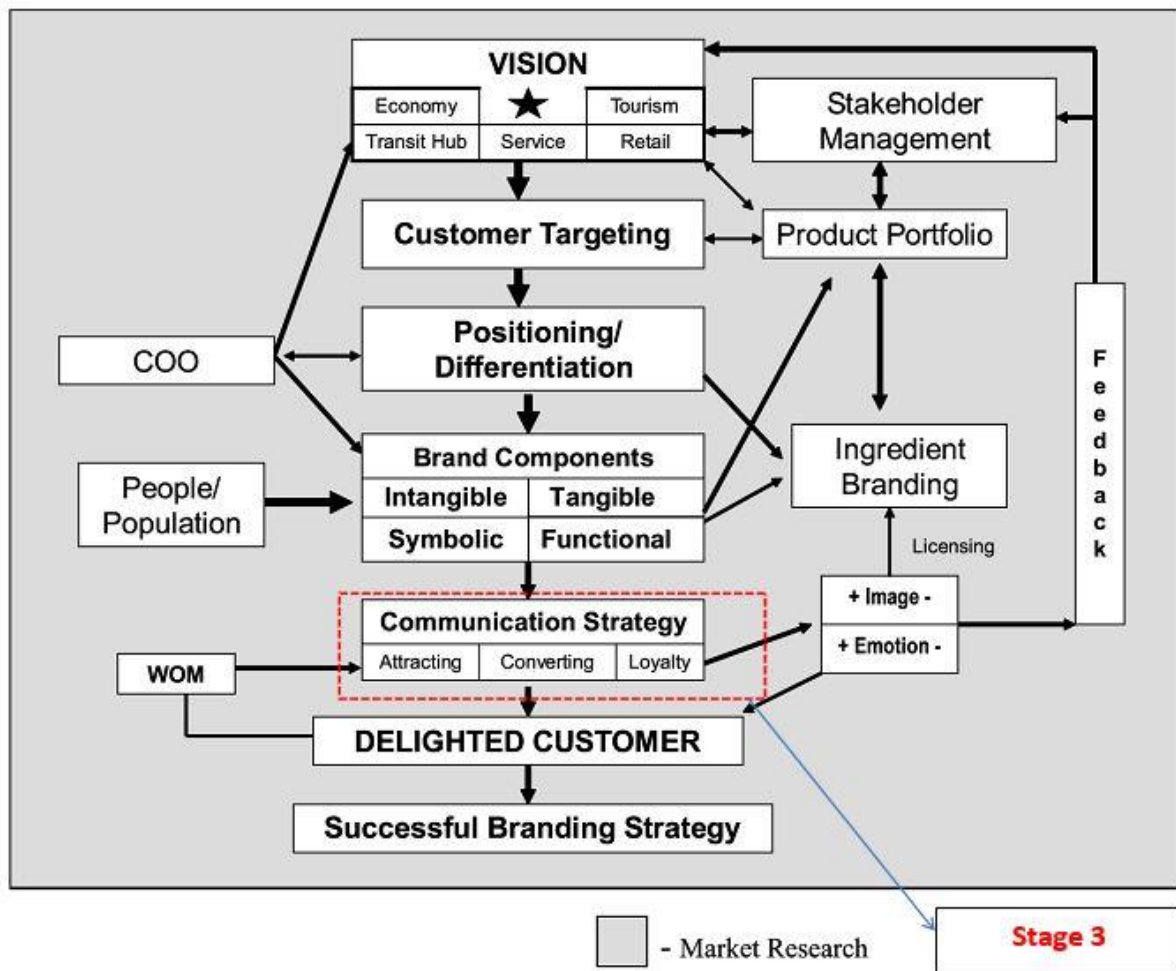
Key Words: *Brand Contact, Consumer Insight, Customer Experience*

INTRODUCTION

Broadly speaking, the next stage of research appropriate road map is called the stage of the communication strategy design from the brand strategy implementation that has been established for each brand with the Brand Contact approach.

Designing a communication strategy refers to the model of a conceptual framework developed by Balakrisnan (2009) as shown below:

Figure 1
BRANDING STRATEGY FOR A DESTINATION



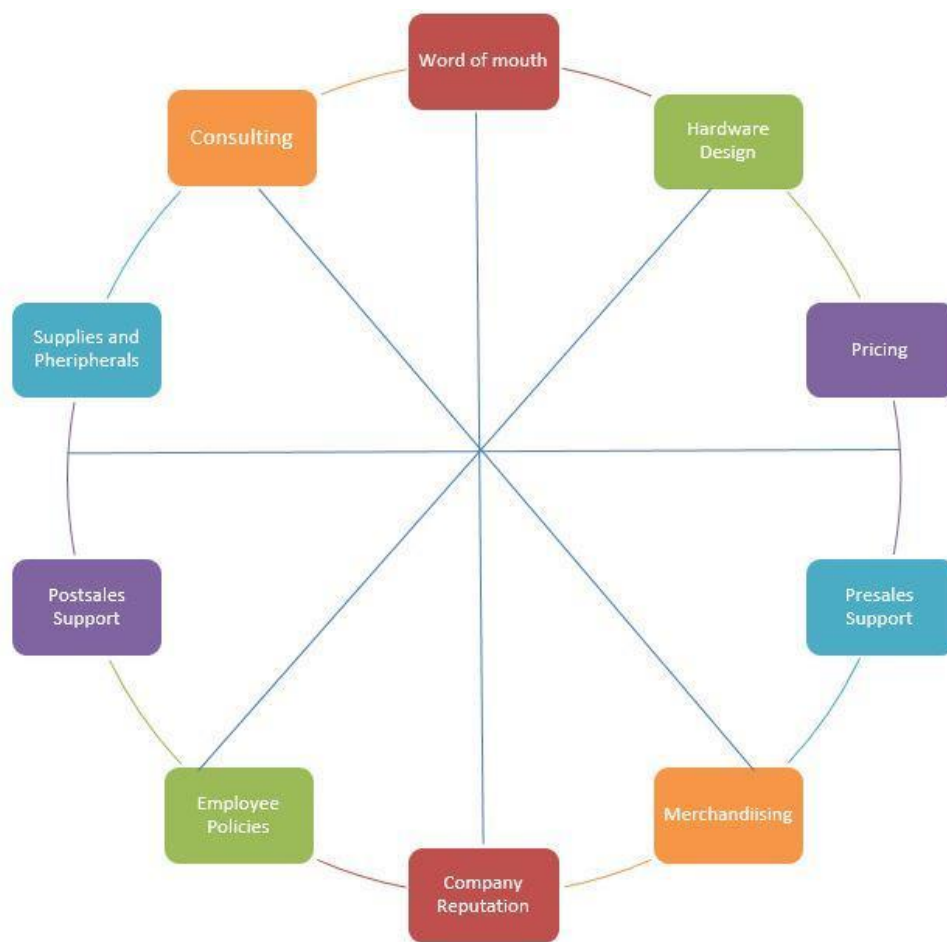
Referring to the above model stage 1 that has been passed is 1) audit the brand based on the company's vision, target market, product portfolio, region of origin brands (country of origin/ COO), 2) brand identity based on brand association, product differentiation, 3) the strength of the brand is based on the relevance and differentiation as well as the appreciation of brands and customer relationships with the brand,

In stage 2 that has been passed in the form of development strategy by segmenting the re - profile of the segment customers of borondong and re positioning of the 6 companies of borondong is right for the 6 brand based on the brand's core identity of borondong namely:

- a) Borondong reflect the traditional lifestyle
- b) Borondong reflect the souvenir food
- c) Snack Food
- d) Suitable for all social classes
- e) The original of Majalaya or Ibun Bandung regency.

The next thing to do is a form of brand establishment in the form of symbols and signs for the entire brand homelands Ibun subdistrict, Bandung regency which is supported by the parent brand and trademark applications for six employers of Borondong namely Madurasa. ARS, Sarimanis, Az-Zahra, Bu Cicih and Rindu Rasa adapted to the differentiation and positioning of each brand. This application is a Brand Contact between each brand with customers. Contact Brand approach developed by Schultz (2003) defines as a whole customer experience with the product or service associated with the brand. This is an element of the company that touches the consumer when the communication strategy executed. Integrated Marketing Communication Model: The Next Generation developed by Schultz et al (2003) as follows:

Figure 2
BRAND CONTACT, IMC: THE NEXT GENERATION



Source : Schultz,Don dan Schultz,Heidi (2003)

Research Question

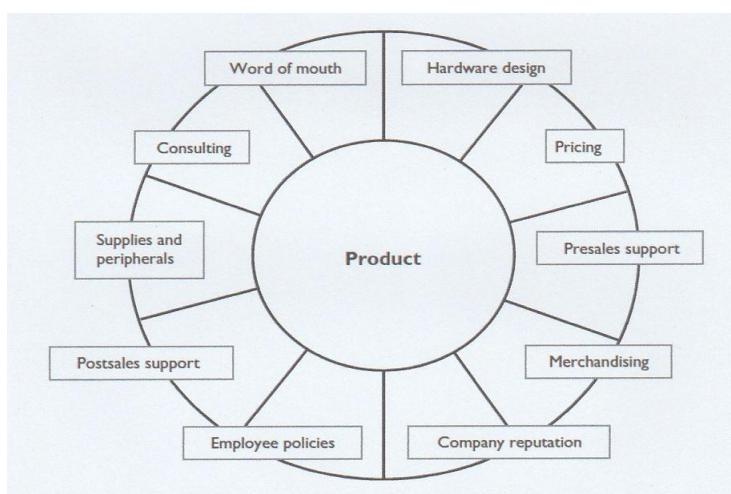
1. How is the priority interests of Borondong products brand contact?
2. How is customer insight on borondong product?

LITERATURE REVIEW

Marketers need to create a message that is creative and sweeteners for products communication to the target, but before that the manager must understand how consumers when in contact with brands and how they have the perception of the brand. Conventionally communication process begins with making communication goals, creative messages and incentive plans for sales promotion further define appropriate media as a conductor of communication and effective budgeting. But recently happens virtual explosion driven by lifestyle and behavior of people make a lot of new possibilities that arise as an alternative medium of communication conductor, Schultz (2004). As a result of the creativity of the message becomes less important when it is not followed by how and where it should be delivered. The first step to do business is where consumers hear, see, learn about products and services and use these touch-points as an opportunity to make more relevant offers, easily accepted and responded to by the consumer.

Understanding consumers through consumer touch-point with the company can be used with brand contact auditing methods that help identify how consumers actually met the company. To know the elements of brand contact, Schultz (2004) described in the form of consumers experience through with products or services offered by the company which includes prior to purchase, when used, and the experience after consuming the product.

Figure 3
THE WHOLE BRAND CONTACT

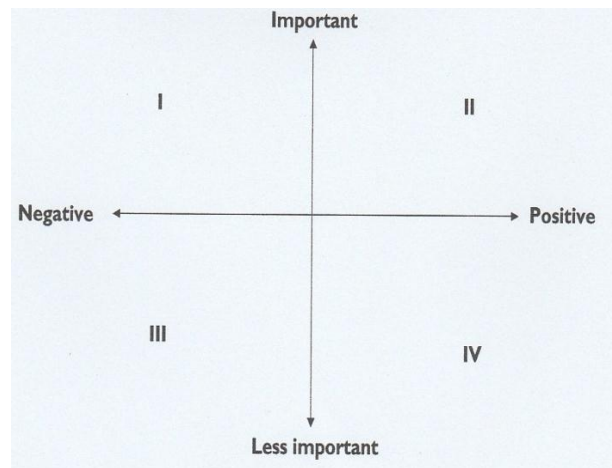


Source : Schultz (2004)

Brand Contact Priority Grid

The Information gleaned from the brand grid is presented in the table whole brand contact inventory for the following 3 categories 1) brand contact, 2) evaluation of interest and 3) evaluation of impression in the plot on the brand of contact priority grid, this method aims to find brand contact which is the most important and must be managed well in advance. So if you see a brand contact the grid priority, so area I and II should be a top priority noted by the manager of the company and area III also IV is the next priority.

Figure 4
BRAND CONTACT PRIORITY GRID



Source – Schultz (2004)

Customer Insight

Once we understand how customers interact when in contact with the brand, the next step seeks to use the concept of them to build brand creation and towing. The process of understanding the brand contact and brand network to develop a marketing communications program termed create customer insight, Fortini-Campbell (1999).

There are three main elements in customer insight, Fortini and Campbell (1999)

1. Includes the identification of the strongest motivating force in the minds of the customer or prospect
2. Identify psychological opportunity that offers the best opportunities for marketers and consumers to find slices and connections.
3. It is the perfect connection between marketers and consumers within the framework, what is desired by marketers to deliver value and what your customers or prospects for obtaining what they want.

Finding Customer insight it is easier for marketers to develop a framework for the overall relevant brand to each brand contact. Brands that successful manage to find customer insight will make consumers feel that companies understand them, respect them and be able to anticipate their needs. Forms of understanding arising from appreciation, empathy, a comprehensive understanding of the company to the consumer is aware that the company can resolve the issue.

Customer insight is basically aimed at bridging the objectives of the company with customers' in-depth understanding. Important information about customers among others, Schultz (2004); Kertajaya (2010).

1. The needs, wants and expectations of customers
2. The history and background of customers
3. Customers Ambition
4. Other factors, current and future.

RESEARCH METHOD

This research is aimed to help make decisions in determining evaluate and select the best alternative in the form of conclusions which are used in solving a problem. The design used is descriptive research with quantitative analysis is a research to determine the value of an independent variable, either one independent variable or more without making comparisons or linking to other variables.

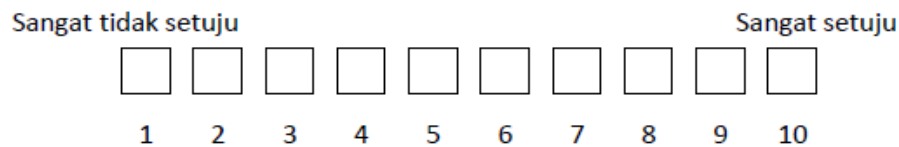
In this descriptive research the phenomena seen are Brand Contact variables used measure of dimension 1) brand contact interest for certain indicators in the rating of high important to the less important 2) dimensional impression as measured from the positive impression to thenegative impression of Customer Insight.

Based on the type of research that is descriptive research conducted through data collection in the field, so it is used in this study are:

Survey using a questionnaire to obtain quantitative data that is the survey method is a method of research conducted in populations large and small but the data studied are data from a sample taken from the population, so it is found relative events, distribution, and relationships between variables.

The use of closed questionnaire as data collection techniques will facilitate researchers in analyzing the data. Questions in the questionnaire were made in the form of statements and questions, and each alternative rated using a questionnaire that question questionnaire given to selected respondents. The list of questions are made from a structured and systematic data collection. Operationalization of variables derived from the interval scale data. Answer given ratings of 1 to 10.

Figure 5
INTERVAL SCALE



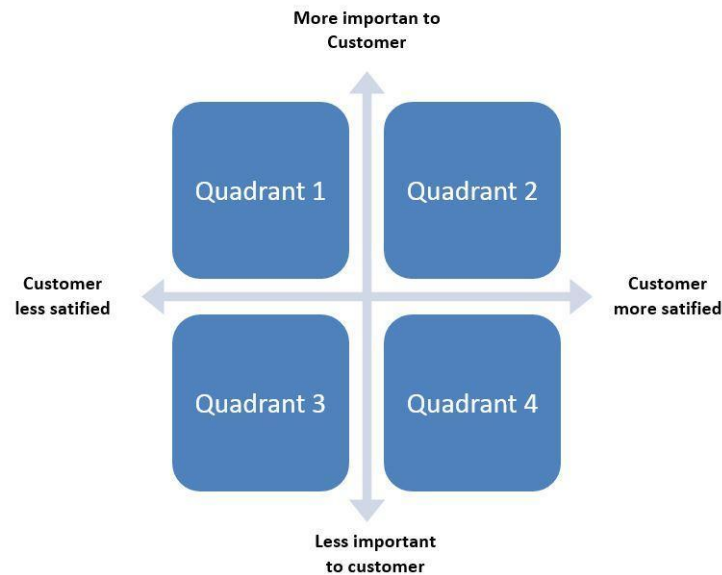
Source : Augusty Ferdinand (2006 : 251)

Brand Contact Priority Grid Analysis

Step of brand contact audit:

1. Identify all brand contact that occurs from the perspective of the customer or prospecting, whether it is controlled or uncontrolled companies.
2. Make the organization and priorities of each brand contact with the customer from the customer's view. This section identifies which brands contacts that strengthen the company's brand and where is that negatively impact the company's brand
3. All the information obtained is inserted into table 3.2 below and specifically in column 1. 2 and 3 are used to map brand contact priority grid, so it can be obtained brand contact in quadrant 1 and 2 were carried out priorities and brand contact 3 and 4 for The next priority to be repaired as needed.
4. The last four columns used to understand deeper and detailed of customer experience when it comes in contact brand. Like what customers expect when this happens, the level of customer satisfaction when it comes in contact? what image is in the consumer's minds.

Figure 6
BRAND CONTACT PRIORITY GRID



Consumer Insight Scoring Analysis

Analysis of consumer insight in this research is using the scoring method of the overall results of the questionnaire. Here is the determination of the scoring categories:

Figure 7
SCORING CATEGORY



If the scores between 30 to 120 it could be categorized as "less/bad" then when > 120 up to 210 then categorized as "fair" and > 210 to 300 are categorized as "good".

RESULT & DISCUSSION

Analysis of Brand Contact Priority Grid

The initial stage of this research is to find brand contact grid priority. There are several considerations that used one of them is a nameplate which is one content generated in previous research. One of the nameplate content was tested using questionnaires to various groups of consumers of borondong. Here is the result of data processing nameplate:

Table 1
TEST RESULTS NAMEPLATE CONTENT

NAMEPLATE	LABEL		PACKAGING		GIMMICK			
Brand	Imp	Sat	Imp	Sat	Imp	Sat	Imp	Sat
Madu Rasa	8,3	8,4	8,03	8,2	8,42	8,4	8,73	8,77
ARS	8,1	8,25	7,8	7,9	7,98	8,13	8,3	8,77
Sari Manis	7,8	7,97	7,5	7,55	7,78	7,78	8,53	8,63
Az-Zahra	8,04	8,1	7,95	8,03	8,35	8,22	8,4	8,57
Bu Cicih	8,2	8,39	8,13	8,22	8,45	8,6	8,73	8,83
Rindu Rasa	8,3	8,5	7,82	7,9	8,08	8,05	8,73	8,77
Ket: Imp = Important & Sat = Satisfied								

Source: Data Processed, 2016

The table shows the results of tests on how consumer opinion on the nameplate from design, content positioning, tagline and attached Ibun Majalaya as the parent brand. Having collected the data and then determining the point of the following quadrants:

Figure 8
QUADRANT POSITION OF EACH BRAND ON NAMEPLATE

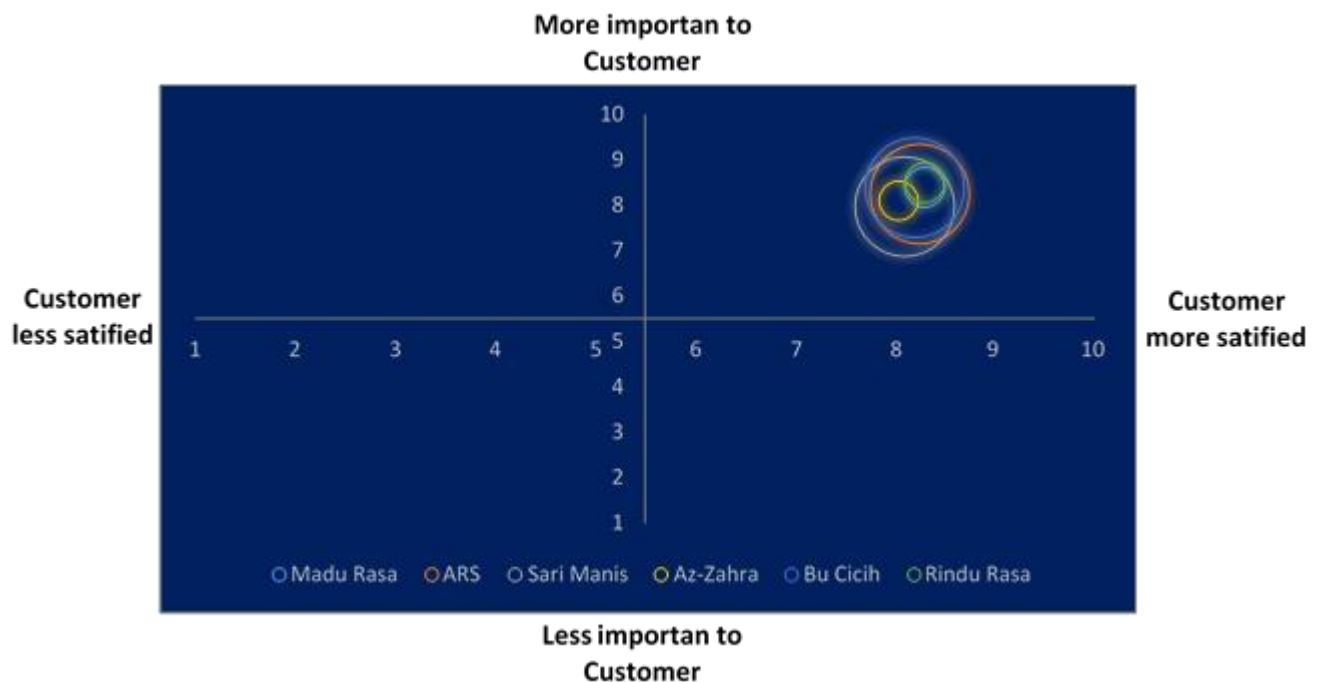


Figure 9
QUADRANT POSITION OF EACH BRANDS ON LABEL

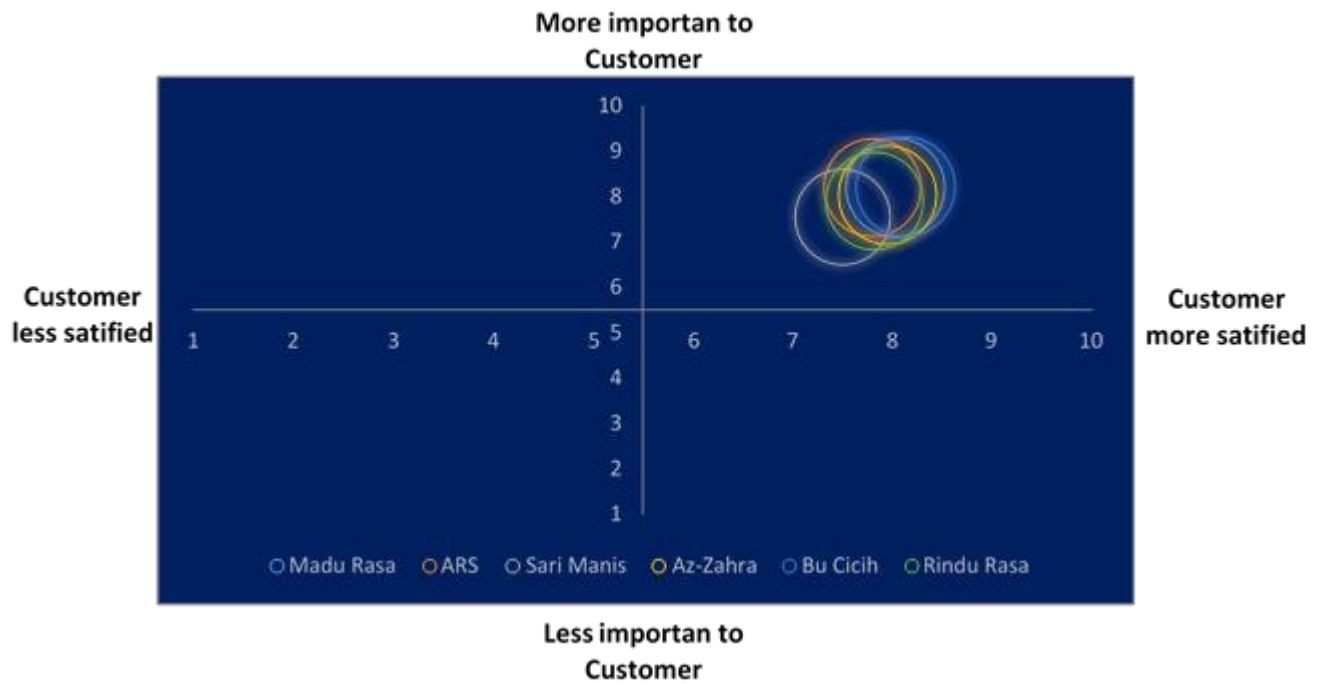


Figure 10
QUADRANT POSITION OF EACH BRANDS ON PACKAGING

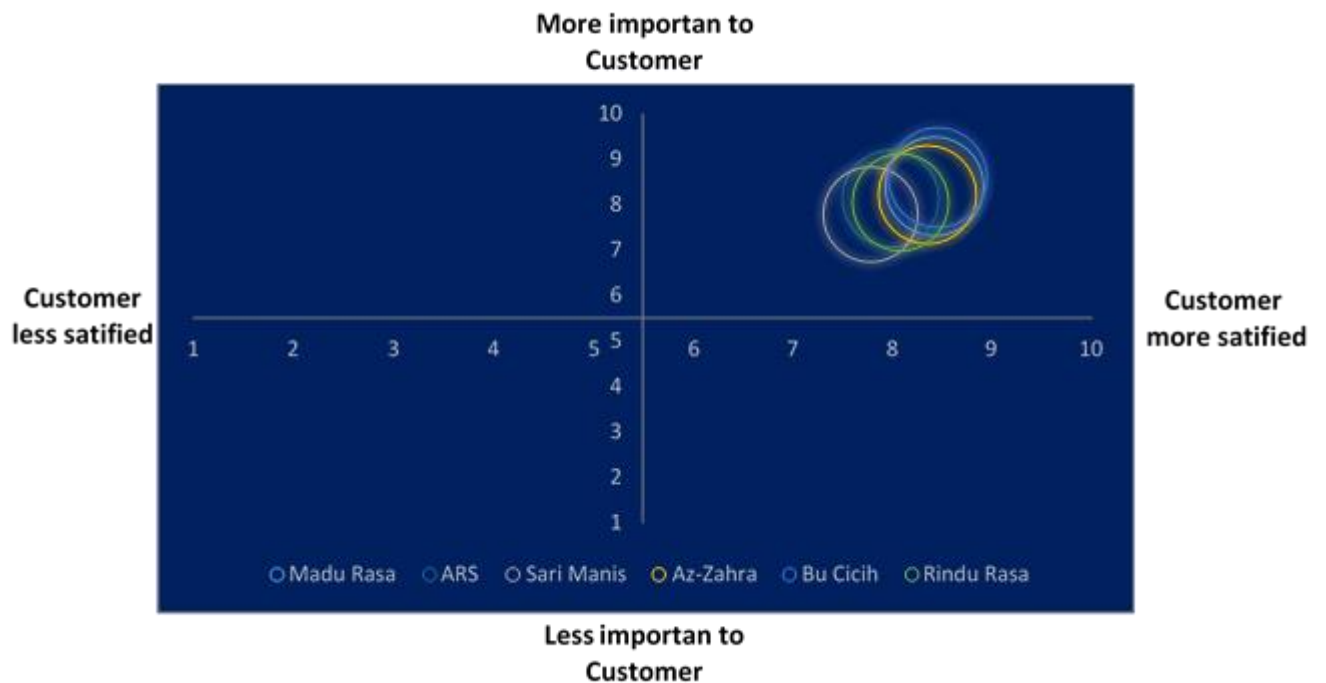
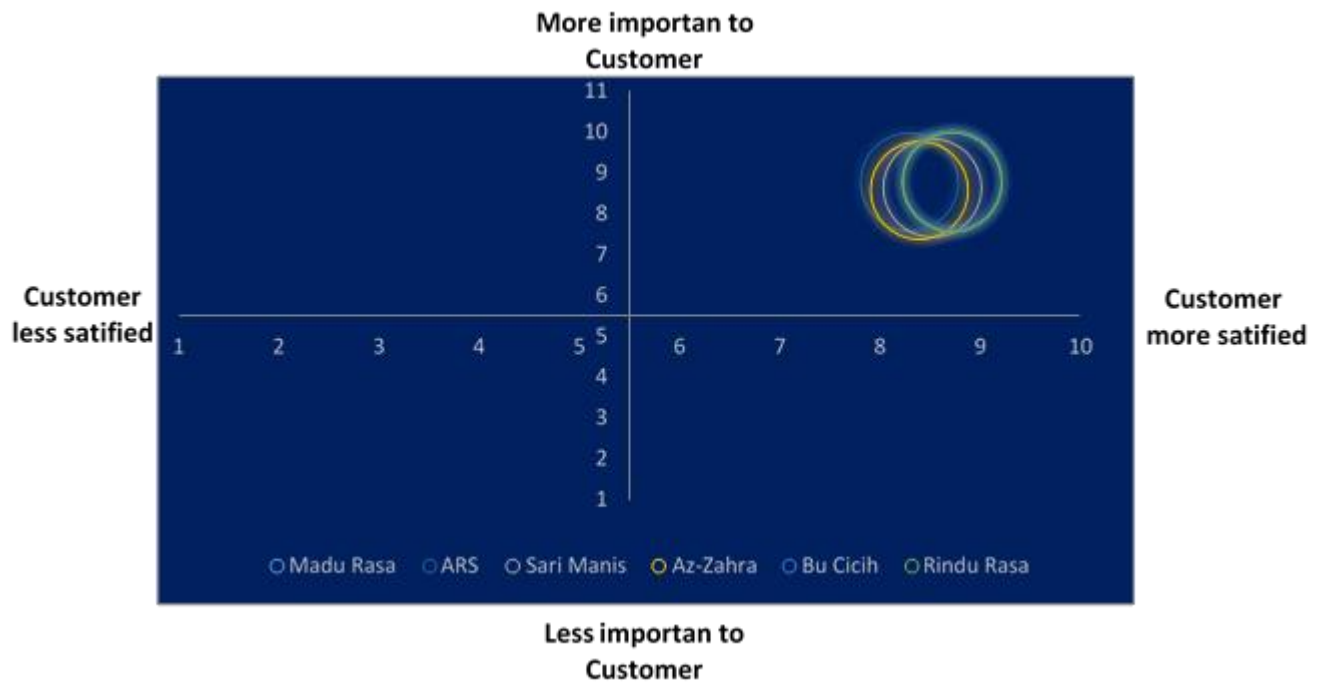


Figure 11
QUADRANT POSITION OF EACH BRANDS AT GIMMICK

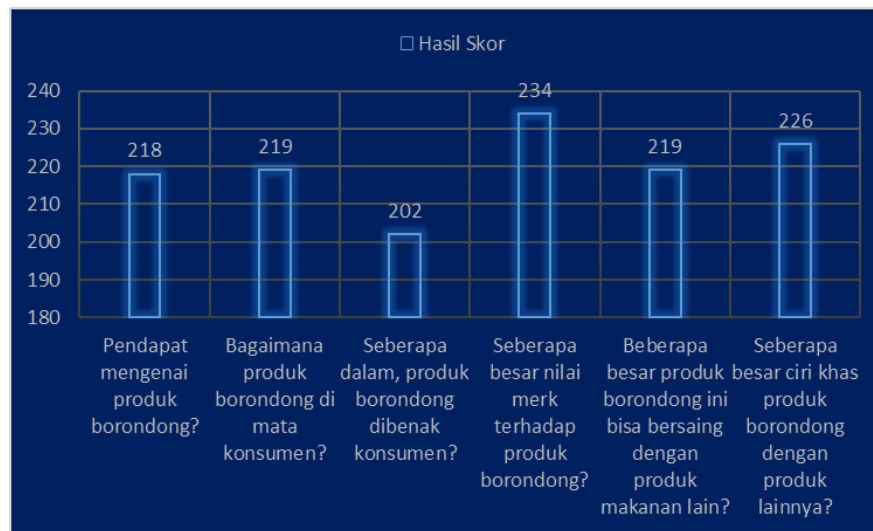


The figures show the coordinates of each brand with the kinds of brand comparison to the existing brand contact in this study such as nameplate, labels, packaging, and Gimmick accordance with the table of test results. Visible point of the overall brand by brand contact not far apart, and according to the figure it can be concluded that the overall brand was entered into the coordinate points quadrant 2, meaning that the average consumer feels important to what is produced and is satisfied with what is produced, although the dots different.

Consumer Insight Scoring Analysis

Further research is the assessment of the consumer insight, which is the result of the distribution of questionnaires previous packaging of borondong product comparison with the results of the latest design. Is there a difference or stay the same? And included in what category? The following is the result of research:

Figure 12
THE RESULTS OF CONSUMER INSIGHT SCORING



From the figure results consumer insight can be known scoring big scores from each question/ statement and then included in which category. Once learned it can be explained that the question "How much value for the brand of the product borondong?" Get a score maximum of 234 included in the category of "good" because a score of more than 210, meaning that consumers (respondents) are satisfied on the value of the brand of borondong itself. Similarly to the other questions included in the category of "good" because a score of more than 210, except for consumer questions which discusses how the consumer's mind of borondong product value is less than 210 and more than 120 and included in the category of "fair".

CONCLUSION

According to the research of brand contact type is considered as nameplate, labels, packaging and gimmick brings coordinate points of the satisfaction and the benefit obtained that the overall brand madu rasa, ARS, sari manis, az-zahra, bu Cicih and rindu rasa was entered into the coordinate points quadrant 2 brand contact priority grid, meaning that the average consumer feels important to what is produced and satisfied with is produced and can be executed.

According to the research for scoring consumer insight can be known a great score of each question/statement that most of the questions/statements that are in the category of "Good" and there is only one question/statement are included in the category of "fair" is about how the product of borondong exist in the minds of consumers. Thus the things that belong in the category of "fair" in order to further sharpened not only with the establishment of the brand alone.

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THE INFLUENCE OF RELATIONAL MARKETING AND BRAND IMAGE ON CUSTOMER TRUST OF THE MOBILE TELECOMMUNICATIONS SERVICES OPERATORS IN INDONESIA

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ABSTRACT

Mobile telecommunication business is currently at the level of increasingly fierce competition, especially in a variety of mobile telecommunications products and services that are increasingly diverse. Mobile operators are not only relying on the product and price alone, but also to create positive value which can be enjoyed by customers in accordance with customer wants and needs. Each mobile operator seeks to create creations and innovations of the new features. The number of subscribers of mobile telecommunications services operator continues to experience growth. But the customers trust on mobile operators still not reached the high trust category. The situation allegedly due to some problems in relational marketing and brand image.

Based on this background, this study aims to examine the influence of relational marketing and brand image on customer trust of mobile telecommunications operator services in Indonesia. This research uses explanatory survey method. The unit of analysis in this study is mobile providers in Indonesia with the unit of observation is subscribers of postpaid service in Indonesia. This study is based on a cross sectional coverage in 2015. The data is analyzed by descriptive and verification. In analyzing the relationship between variables, indicators, research variables, and its error used SEM (Structural Equation Modeling) approach.

The study reveals that Relational Marketing and brand image are influential on customer trust. Meanwhile, Relational Marketing has a greater contribution than brand image in influencing customer trust

Key Words: Relational Marketing, Brand Image, Customer Trust

INTRODUCTION

The industry of mobile telecommunications services in Indonesia, recorded strong growth supported by the development of communications technology industry and the market share of mobile phone services. The market conditions on mobile telecommunications services increasingly shifted towards market competition, with an indication of the increasing number of companies and cellular phone service subscribers continues to increase.

The number of growth in telecommunication subscribers in Indonesia has increased rapidly. In the last eleven years the number of mobile subscriptions increased by 410% between 2005 and 2015. The number of telecom subscribers in Indonesia continues to increase significantly. In 2005 subscribers reached 60.39 million, while in 2014 increased to 339,22 million, and increased again in 2015. From that amount, the most are subscriber of Telkomsel, Excelcomindo Axiata, and Indosat.

The prospects for the mobile communications business continues to increase have a huge influence for corporate telecommunications services in Indonesia. The presence of the top ten mobile operators lead to increasingly fierce competition in the mobile telecommunications industry, particularly in a variety of mobile telecommunications products and services are increasingly diverse. Mobile operators are not only relying on product and price alone, but also to create added value which can be enjoyed by customers in accordance with customer wants and needs. Each mobile operator seeks to create creations and innovations of the new features that customers remain loyal. The problems that face mobile operator is always faced with the threat of the products or similar commodities from other companies, which will easily enter the market by providing products or services to customers better and faster.

Operator's ability to exist in a very tight competitive environment that requires the company to win the competition and strive constantly to understand the needs or desires of customers, increasing the number of customers, providing satisfaction to customers, and capture the business opportunities that exist. Business competition in the telecommunications sector resulted in companies that innovate slowly decreased the number of subscribers is large enough. Up and down the number of customers becomes often affects the mobile telecommunication industry. For example PT. Indosat, the second largest mobile operator in Indonesia has recorded a decrease in the number of customers in the first quarter of 2013 by 4.4% compared to the last quarter of 2012. PT. Indosat in the first quarter of 2013 recorded a subscriber base of 55.9 million, down 4.4% compared to the fourth quarter of 2012, which recorded 58.5 million subscribers.

Marketing in the telecommunications business today is very complex, thus, a new approach to manage customer care or customer retention becomes very important in order for the consumer can be loyal to the products and company services. In order to maintain customer achievement and continue increasing the number of customers it takes great confidence of customers for telecommunication service providers. Customer trust is very important role in the relationship, particularly in service businesses that are full of uncertainties, risks and a lack of information among the parties that are interconnected. This is because in a service business, the company promises on the purchase of products that could not be seen (invisibility product), which consumers are required to pay before the benefit.

According to Jasfar (2005), trust can serve as a means of adhesives and tolerance between the company and its customers. Trust as an adhesive that allows the company to trust others to organize and use resources effectively in creating added value and the like to the party's concerned (stakeholders). Trust built up, including trusting others will cause a high trust and ability and his desire to fulfill the promise of explicit and implicit. There is a change in the tendency of marketing and the importance of building relationships with customers, besides marketing relationship as a driver of marketing approach until now urgently needed (Gronroos, 2004). Some situations and indicators of trust (Probability, Equity, and Reliability) proposed by Egan (2001), relating to: Probability, Focus on trust and sincerity, integrity and reputation; Equity: In connection with the Fair-mindedness, benevolence "characteristics of a person to pay attention and care about the fate and condition of another person"; Reliability: regards to reliability and accuracy, and consistency of the products or services that are expected in some way related to the guarantee issued by the company. Still not high confidence of the customers on a card from a mobile service provider one of which is shown by the tendency to change the card, especially in prepaid service cards, especially with the current conditions in which the card price is very cheap and affordable for all.

Brand image provides a vital role in increasing customer trust in the products or services offered by the company. Brand image is a 'totality' of a brand formed in consumer perception (Craven & Piercy, 2009). The image of the brand reflect the image from a consumer perspective and see the brand promise made to consumers. Brand image consists of consumer associations on the advantages and characteristics of personalized products seen by consumers on the brand.

To communicate the brand image to customers, the relational marketing has an important role. This forms the basis for the concept of relational marketing to be developed to face competition among mobile telecommunications services business in Indonesia. Parvatiyar & Sheth (2002) mentions programs realized in the form of Continuity CRM Marketing, One-to-One Marketing, and Partnering / Co-Marketing. Marketing continuity program contains programs loyalty and membership cards where customers are often rewarded on the basis of loyalty and membership relationship with the company. The form of awards or prizes such as special services, reward points, discounts including discounts other products. The One-to-One Marketing is intended to be able to meet and satisfy each customer's individual needs and unique. While partnering program is a partnership between the customer and the company in order to fulfill the needs of end users.

In building a relational marketing should note two key factors, which are: trust and commitment from all parties involved in the activity. In order for relationship marketing implemented by the company, then it is important to understand relationship marketing from the perspective of the customer with higher education. For the customer, to be able to engage in relationship marketing is also needed trust and commitment. Therefore, understanding the relationship marketing of mobile telecommunications services business from the customer's perspective is the emergence of trust and commitment. However, in order to relationship marketing can be implemented; the customer must be motivated to initiate a relationship. Therefore, it should be known in advance factors that cause (antecedent) customer involved in a relationship with the company. This is in line with the results of the study Schoenbachler and Gordon (2002), which provides some support for the role of trust in building relationships, and identify factors that are important in building that trust.

Based on the background described, this study aims to investigate the influence of relational marketing and brand image for Customer Trust of Postpaid Service of Mobile Provider in Indonesia.

LITERATURE STUDY

According to Jagdish (2009) relationship marketing attempts to involve and integrate customers, suppliers and other infrastructural partners into a firm's developmental and marketing activities. Relationship marketing is an effort to involve and integrate customers, suppliers and other infrastructure in developing and marketing activities of the institution.

Similar to the above definition, Morgan & Hunt (2004) describes the difference between the transaction exchanges and relational exchanges. Morgan & Hunt (2004) gives the definition of:

Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining relational successful exchange. That is marketing leads to overall marketing activities directed through the formation, development and successfully maintaining exchange relations.

According to Kotler & Armstrong (2009) relationship marketing contains three benefits are:

1. Economic benefits. The first approach is to build a relationship with the customer value, which is to add the benefits of financial or economic benefits that can be cost savings incurred by the customer, such as special pieces.
2. Social benefits. Although the approach by adding economic benefits as above can build consumer preference, but this can be easily imitated by competitors one business entity to another. So that in this approach, enterprises should try to improve their social relationships is by paying attention to its customers by studying the needs and wants of the customer individually.
3. Structural bonding. The third approach is to build a strong relationship with customers is to add structural bonding. It means that a business entity - a business entity providing a structured approach or program that can attract consumers to get involved become a member of a membership card, for example, become a member of the privileged members.

Sweeney & Webb (2007) revealed that the dimension of Customer Relationship Management is Social Benefits, Psychological Benefits, and Functional Benefits.

According to Parvatiyar & Sheth (2002), programs realized in the form of Continuity CRM Marketing, One-to-One Marketing, and Partnering / Co-Marketing. Marketing continuity program contains programs loyalty and membership cards where customers are often rewarded on the basis of loyalty and membership relationship with the company. The form of awards or prizes such as special services, reward points, discounts including discounts other products. The One-to-One Marketing is intended to be able to meet and satisfy each customer's individual needs and unique. While partnering program is a partnership between the customer and the company in order to serve the needs of end users.

Rahaman et al (2011) examined the CRM based on the dimensions thankful, responsiveness and relationship, appropriateness, caring, and keep in touch.

Kotler & Armstrong (2012) defines brand image as a set of brand associations formed in the minds of consumers. Brand image can be measured by asking what attributes of consumer preferred brands in a product category that distinguishes it from other brands, why is it important attributes and the reason why it is important for consumers (Kotler & Keller, 2012).

Bhat & Reddy (2008), assumed that brand image is an association of all the available information about products, services and companies from a brand. This information is obtained from two ways; the first through direct consumer experience, ie functional and emotional satisfaction.

Thus it can be said that brand image is a 'totality' to a brand that is established in the consumer's perception (Cravens & the promises made by a brand on consumers. Brand image consists of consumer associations in superiority of a product and personal characteristics are seen by consumers on the brand.

Kotler & Keller (2009) defines brand image as perceptions about a brand as reflected by the brand associations present in the minds of consumers. Brand image is composed of dimensions:

- a. Attributes, a descriptive definition of the features that are present in a product or service.
- b. Benefits, personal values associated by consumers in attributes of the product or service.
 - 1) Functional benefits, related to the fulfillment of basic needs such as physical and security needs or solving problems.

- 2) Experimental benefits, associated with feelings that arise with the use of a product or service. This benefits satisfying experiment as sensory satisfaction, search variations, and cognitive stimulation.
- 3) Symbolic benefits, associated with the need for social approval or personal expression and self-esteem. Consumers will appreciate the values of prestige, exclusivity and fashion styles of the brand because these things are related to their self-concept.
- c. Brand Attitude, ie the overall evaluation on a brand, what is believed by consumers regarding certain brands, the extent to which consumers believe that the product or service has a specific attribute or benefit, and evaluative judgments against these beliefs.

Based on the description of the concept, brand image in this study is composed of dimensions of: attributes, customer benefits, and the personality of the brand.

Sirdeshmukh (2002, p.17) defines consumer trust as:

The expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises". Moorman (2003, p.82) defines trust as: "Trust is defined as a willingness to Rely on an exchange partner in Whom one has confidence"

The trust to the company is defined by Morgan and Hunt (2004, p.23) as

We conceptualize trust as existing when one party has confidence in an exchange partner's reliability and integrity

The same thing also expressed by McKnight, Kacmar, & Choudry (in Bachmann & Zaheer, 2006), states that the trust built before certain parties get to know each other through interaction or transaction. Trust online refers to trust in a virtual environment.

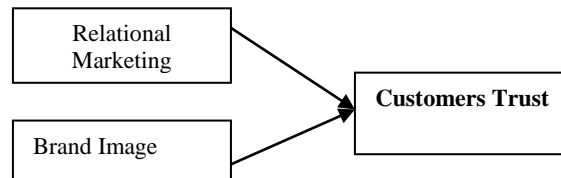
Some situations and indicators of trust (Probility, Equity, and Reability) proposed by Egan (2001, p.102), as follows:

1. Probility: focus on trust and sincerity, integrity and reputation.
2. Equity: with regard to fair-mindedness, benevolence "characteristics of a person to pay attention and care about the fate and condition of another person".
3. Realibility: associated with the reliability and accuracy and consistency of the products or services that are expected in some way related to the guarantee issued by the company.

Schoenbachler and Gordon (2002) provide some support for the role of trust in building relationships, and identify factors that are important in building that trust. Hsu, Liu & Lee (2010) showed that customer satisfaction has a positive influence on commitment, confidence, sense of community and behavioral intentions. Corporate image effect on commitment and trust. Corporate image effect on behavioral intentions through commitment and trust. Coulter & Coulter (2002) found that the impact of the service characteristics of services to a greater confidence if there is a relational longer. Alhaddad (2015) discussed the importance of the relationship between the brand image, brand trust and brand loyalty. It was found that brand image has a positive effect on the brand trust. In addition, brand image and brand trust has a positive effect on brand loyalty. Ali, Leifu, Yasir Rafiq, & Hassan (2015) found that the perceived value of customer expectations and corporate image significantly improve customer satisfaction.

Based on the exposure draft, and then proposed the conceptual model of this study as follows:

Figure 1
CONCEPTUAL MODEL



Based on the research model, and then proposed hypotheses:

H1 Relational Marketing and Brand Image influential on Customer Trust either simultaneously or partial

METHODOLOGY

This study is verification. The unit of observation is postpaid subscribers of mobile operator company in Indonesia. The selected sample is postpaid mobile operator company in Indonesia. The sample size is determined by observing the analytical techniques used in the hypothesis testing using Structural Equation Modeling.

Hair (1998, p.604) stated :

minimum sample size must ne at least greater than the number of covariance or correlations in the input data matrix. Minimum ratio of at least five respondent for each estimated parameter with ratio of 10 responden per parameter considered most appropriate.

Meanwhile, according to Bentler & Chou (1987) sample size for estimation Maximum Likelihood must be at least 5 times the number of the parameters in the model, including error-free. Based on the explanation, by calculating the number of parameters to be estimated is at 153, then the minimum sample size is of $153 \times 5 = 765$.

DISCUSSION

Here are the results of the study, by first testing the suitability of the model presented:

Goodness of Fit

This section will discuss the results of hypothesis testing using Structural Equation Modeling (SEM). Before the discussion is done, then the hypothesis will be analyzed for suitability test results model. Based on calculations by LISREL complete results obtained as follows.

Table 1 GOODNESS OF FIT			
Degrees size Suitability	Value	Acceptable level match	Description
Chi Square	94.23	P -value>0,05	Close Fit
Normed Chi Square (x2/df)	P -value =1.00		
Goodness of Fit Index (GFI)	0,98	>0,8	Close fit
Root Mean Square Error of Approximation (RMSEA)	0,00	RMSEA≤ 0,08 (good fit) RMSEA< 0,05 (close-fit)	Close fit

Source: Output LISREL 8.7

From the above table it is known that p value > 0.05 so that it can be concluded that the research model is fit. In addition the same results obtained from the Goodness of Fit Indices (GFI) and Adjusted Goodness of Fit Index (AGFI) > 0.90, and the Root Mean Square Error of Approximation (RMSEA) and RMR value of less than 0.05, so that it can be concluded that the model of the study are in accordance with the empirical condition.

Following figure shows the results of the full path diagram:

Figure 2
COMPLETE LINE DIAGRAM MODEL RESEARCH

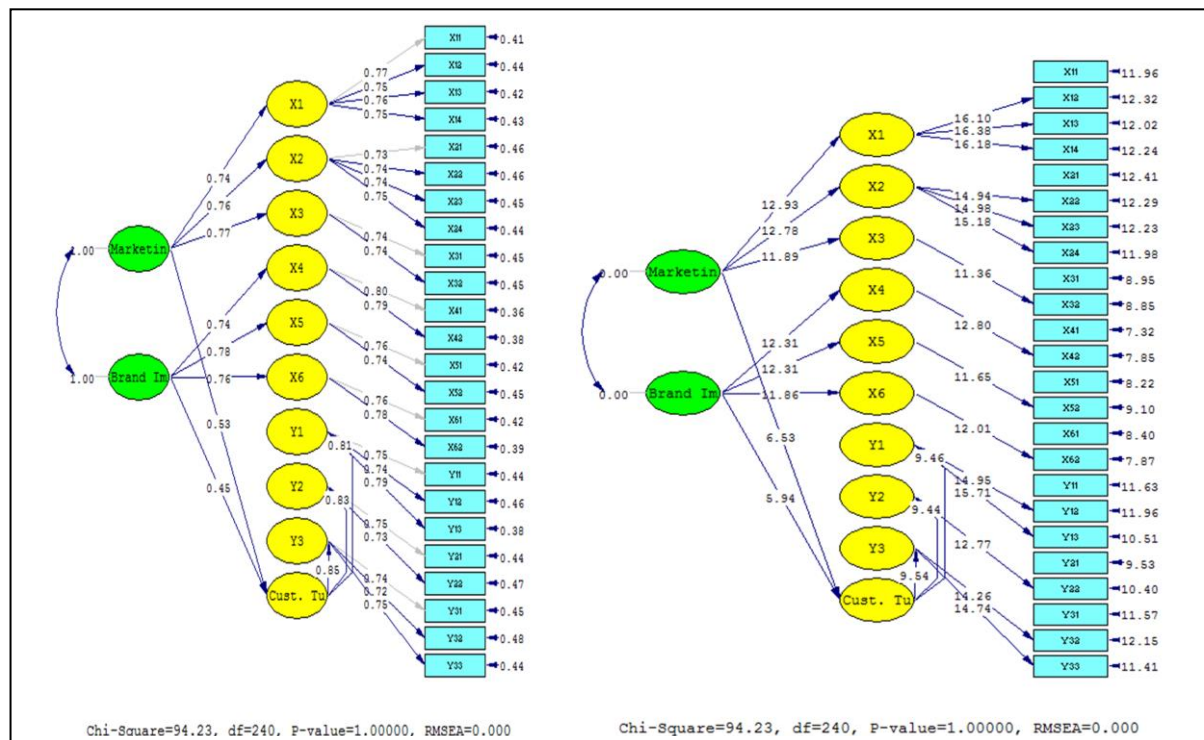


Table 2
MEASUREMENT MODEL OF SUB VARIABLE-INDICATOR

Variable	Sub Variable	Standardize loading (λ)	Indicator	Standardize loading (λ)	t
Relational Marketing	Granting facilities	0.74	X11	0.77	-
			X12	0.75	16.10
			X13	0.76	16.38
			X14	0.75	16.18
	Reward	0.76	X21	0.73	-
			X22	0.74	14.94
			X23	0.74	14.98
			X24	0.75	15.18
	Customer gathering	0.77	X31	0.74	-
			X32	0.74	11.36
Brand Image	Attribute	0.74	X41	0.80	-
			X42	0.79	12.80
	Customer benefit	0.78	X51	0.76	-
			X52	0.74	11.65
	Brand personality	0.76	X61	0.76	-
			X62	0.78	12.01
Customer Trust	Probility	0.81	Y11	0.75	-
			Y12	0.74	14.95
			Y13	0.79	15.71
	Equity	0.83	Y21	0.75	-
			Y22	0.73	12.77
	Reliability	0.85	Y31	0.74	-
			Y32	0.72	14.26
			Y33	0.75	14.74

Convergent validity can be seen from the loading factor. The prerequisite is loading factor to be significant where $t_{count} > t_{table}$, or loading factor > 0.5 and more ideal if > 0.7 .

Hypotheses Testing

The hypotheses examines the influence of relational marketing and brand image on customer trust either simultaneously and partially.

Simultaneous Hypotheses Testing

Table 3 SIMULTANEOUS HYPOTHESES TESTING				
Hypotheses	R ²	F count	Conclusion	
Relational Marketing and Brand Image → Customer Trust	0.71	101.67*	Hypotheses accepted	

*significant at $\alpha=0.05$ (F table = 3.01)

Based on the table above it is known that at $\alpha=0.05$ or 95% confidence level, concluded that simultaneously there is an influence of Relational Marketing and Brand Image on Customer Trust, which the influence of the two variables is equal to 71% while the rest of 29% influenced by other factors not studied.

Partial Hypotheses Testing

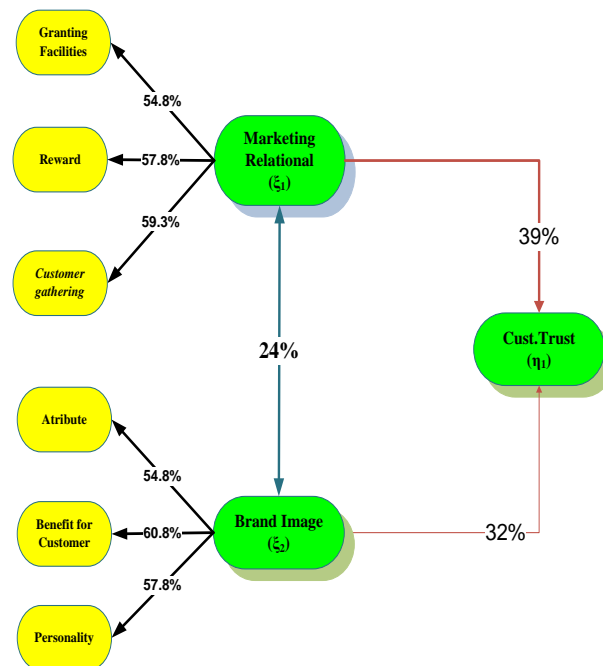
Table 4 PARTIAL HYPOTHESES TESTING				
Hypotheses	γ	R ²	T	Conclusion
Relational Marketing → Customer Trust	0.53	0.39	6.53*	Hypotheses accepted
Brand Image → Customer Trust	0.45	0.32	5.94*	Hypotheses accepted

* significant at $\alpha=0.05$ (t table = 1,96)

The testing shows that partially the two variables are significant which is Relational Marketing has a greater influence (39%) than brand image on customer trust.

Based on the hypothesis testing results obtained findings of the research model as illustrated below:

Figure 3
RESEARCH FINDING



Based on the research findings, it was revealed that Relational Marketing has a greater influence than brand image on customer trust. Therefore, to improve customer trust, the mobile operators should prioritize the development of relational marketing and supported by the development of brand image. It was due to the simultaneous influence significantly from these two variables on customer trust. So that needed the development of these two aspects together in order to generate higher customer trust, with emphasis on the development of relational marketing.

The highest aspect reflects the relational marketing is customer gathering, followed by rewards, and granting facilities. While highest aspect represents the brand image is the benefit for the customer, followed by personality, and attribute. As for the aspects of brand image, customer benefit is contributing the most in shaping customer trust. Operators also need to improve consumer perceptions about its brand fame and internationalization products through publications more often by showing examples from another operator effort. Operators also need to improve the customers' perception of non-product related attributes, by creating a brand image of a product through socialization and examples established to customers.

CONCLUSION AND RECOMMENDATIONS

The results of this study indicate there is influence from relational marketing and brand image to customer trust of postpaid subscribers of mobile operator company in Indonesia, that relational marketing contribute more than brand image in influencing customer trust.

The management of mobile operators is advised to prioritize the improvement of relational marketing in terms of:

1. Customer Gathering program, by increasing the frequency of execution and the attractiveness, making customer community based on classification, improve the delivery of communication means of the programs to the customer based on customer class.
2. Rewards, which is associated with an increased chance to get prizes, the frequency of giving gifts from the operator, giving gifts to customers at any special moment (eg holidays or birthdays) as well as the information appropriate to the class of customers, increase the value of gifts to loyal customers, improve the delivery of information about giving gifts directly to customers, and improve the way in giving the gift directly to the customer.
3. Granting facilities, in terms of the ease of obtaining information from any services offered to customers, to gain access charges from mobile operators, to activate the service offered to customers, and to gain access charges from mobile operators, and improve the information and socialization for postpaid customers regarding the information in the provision of facilities.

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LOCAL TV GOES TO GLOBAL MARKET THROUGH DIGITAL TRANSFORMATION

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ABSTRACT

Indonesia television industry is unique; free-to-air and advertising has better opportunities than pay TV. Dozens of national private TV companies dominate advertising revenue until more than 95%, while more than 300 local TVs get 2,5%. Local TV is an important media that represent the culture and local wisdom. Indonesian migrants always hope can watch their region TVs. Unfortunately, they cannot reach their audience outside the region because of limitation broadcasting coverage by law. The limitation also makes the market hampered and difficult to grow.

The study is to find out the solution of limited broadcasting coverage problem through digital transformation and define new business models of local TV in the future digital television industry.

The research methodology is a descriptive survey. The data survey was collected through in-depth interviews and focus group discussion. Respondents are the audience, local TV companies, and local TV associations. The case of study is useetv.com as a streaming aggregator in Indonesia.

Digital streaming is the way of digital transformation to provide a solution to break the limitation of conventional radio broadcasting coverage problems and all at once expand to global market. In today's digital business model, TV company must focus on creating content. Distribution content to the audience will be performed efficiently by streaming aggregator.

RESEARCH BACKGROUND

Indonesia television industry is unique; it is different from global where free-to-air or free TV has better opportunities than pay TV. Advertising is the primary revenue that still growth until today. Nielsen (2016) revealed that advertising spending in 2015 reached IDR 118 trillion, growth 7% from 2014. In the first quarter 2016, advertising spending reached IDR 24.2 trillion, up 33% from the first quarter of 2015 which is only IDR 18.1 Trillion.

According to the National Press Data Collection formed by Press Council, there were 394 television stations operate in Indonesia until 2014, consists of more than 300 locals, dozens of nationals, thirties publics, and the others are communities. Unfortunately, as the largest number, local TV only get share 2,6% and 2,5% of revenue in 2009 and 2010 (Nielsen on Rinowati, 2011). This condition makes it hard to produce engaging program content. The primary reason is the limitation of broadcast coverage; therefore, some local TVs expand their broadcasting through satellite and streaming.

Digitizing occurs in almost all modern industries, include television. Analog TV step-by-step transform to digital. In Indonesia free-to-air is the primary target is to change to digital TV. In the digital TV system, programs were created, distributed, and played digitally hence it could be wide distributed, national and global. Digital content also could be consumed flexibly using

many device types with the quality of video adaptive to the viewer terminal, from low to high and ultra-high resolution. Today, IPTV and Internet TV are the most popular digital television. Availability of IP bandwidth and internet allow programs to be broadcast globally with content quality adaptive to the viewer needs.

This research is conducted to assist local TV in increasing their economic value through digital transformation. More focus the objectives of this study are as follows:

1. Identify the demand of local TV viewers in this digital era.
2. Formulate solutions for local TV to fulfill the needs of their viewer and to increase the economic value through digital transformation.
3. Define a new business model for local TV to survive in the digital television ecosystem today and future.

LITERATURE REVIEW

Local Television

Local television, or local TV, according to Indonesia Broadcasting Law number 32 of 2002, is a television broadcasting company that established in a region of Indonesia territory with the broadcast coverage area is limited to their origin regions. The limitation is based on the radio channel as a limited resource to transmit program. All Indonesian local TV use free-to-air, or FTA as broadcasting based.

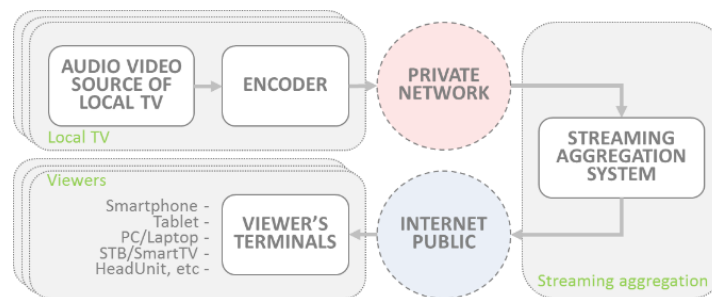
Local TV established to bring a local mission and cultural, and supported by local government. Local TV plays an important role to promote the progress and development of regional and national. Indonesia with the vast area has more than 740 ethnic groups, grow the number of TV stations distributed throughout the territory of Indonesia.

Association of Indonesia Local TV, or Asosiasi Televisi Lokal Indonesia (ATVLI) is the representation of local TV community in Indonesia. The vision is to realize the spirit of regional autonomy dignified in Indonesia shared media local television. The mission is to make media local television as a support in the service of cultural values, education, social, religious, economic, technological, and democratization in all areas, to disseminate of development in Indonesia. Vision and mission reflect the strategic role of local TV as a medium in the development and deployment of Indonesian culture.

The Internet Local TV

The Internet Local TV is a streaming aggregation of local TV to disseminate their contents nationally and globally, so viewers could enjoy local content from everywhere. In this study, useetv.com is an example of streaming aggregation provided by Telkom Indonesia. Configuration of useetv.com for Internet local TV is as follows:

Figure 1
THE CONFIGURATION OF INTERNET LOCAL TV ON USEETV.COM



Each Local TV creates digital content through the encode of video for broadcasting programs in digital format. The content is delivered to streaming server through a dedicated private network to make sure that content could be provided with sufficient resolution and quality. UseeTV streams broadcast content through useetv.com. Streaming can be accessed either from home, office, hotel, car/vehicle, etc., using Android and iOS terminals. The content can also be broadcasted through IPTV so that viewer can watch with their family in IndiHome.

Digital Transformation

Referring to the i-SCOOP (2016) that the digital transformation is a profound change and accelerate business activities, processes, competencies and models to fully exploit the changes and opportunities in digital technology and its impact on society in a strategic way and prioritized. Some prefer to use the term digital business transformation, which is more in line with the business aspect. Digital business transformation on local TV may include the context of business activities, processes, models, ecosystems, assets, etc.

Digitalization is not just a trend; it has become a necessity to anticipate technological developments and lifestyle. Digital television allows TV programs created, distributed, and used by the viewer digitally. System digital television broadcast proved to expand coverage, improve the quality of video, enabling a lot of content, and can be used flexibly by the user.

Business Model

Wheelen & Hunger (2015) define that business model is a company's method for making money in the current business environment. It includes the key structural and operational characteristics of a firm – how it earns revenue and makes a profit. A business model typically consists of five elements here is that it serves, what it provides, how to create money, how to distinguish and sustain competitive advantage, and how to provide products or services. The simplest business model is to provide a good or service that can be sold such that revenues exceed costs and all expenses.

Al-Debei et al, (2008) mention that the main reason for this confusion is the shift that the business world experienced from the traditional way of doing business to the new way of the digital ecosystem, which is engulfed with a high level of complexity and rapid change. This new world of digital business has created a gap between the business strategy and business processes. Translating business strategy into the business process has become much more challenge.

The business model that can be used to develop a digital transformation in the local TV industry, for example, is a business model canvas.

RESEARCH METHOD

To achieve the purpose of the research performed a series of activities as a basis for conducting further analysis. Activities began on secondary data collection and observation to identify and determine the needs of data related to local TV and their environment in Indonesia.

This study was designed with a descriptive analysis, which is a way of collecting, preparing, and designing research that aims to obtain a description of an object, which is then interpreted. According to Malhotra (2004:78), a type of conclusive research that has as its responsible for providing objective the description of something – usually market characteristics or functions. Thus a descriptive design requires a clear specification of the who, what, when, where, why, and the way (the six Ws) of the research.

Studies using two approaches, desk study and survey (interviews and focus group discussion). Desk study method to identify issues of technology, economics and regulatory impact related to the local TV system that will be developed. This method is done by the mastery of related fields basic science and previous research. Survey method as an approach to identify the needs of the viewers towards local TV content and the need for local TV to expand broadcasting. This method is used as an approach to measuring the increase in user perception and measurement of the economic value generated. This method is conducted using direct interviews and focus group discussion.

Respondents in this survey are collected from 100 viewers, seven local TV companies, and an association. From viewers, we collect information about the demand in the digital era. From local TV companies, we collect information about the problem faced by companies to solve from market limitation and build new economic value. And from association we collect information about the way to grow as an industry.

Viewer respondent was categorized as regular, migrant, and overseas. Regular viewers watch local TV in their region through free-to-air. Migrant viewers are domestic migrants that can watch local TV from outside of their region in Indonesia through internet TV. And overseas are migrants that can watch local TV from overseas through internet TV, especially via useetv.com.

Research also make an in-depth interview with UseeTV as an online streaming aggregator to get information about the technical support possibility, value chain, and business model. Desk study about broadcasting regulation also needed to support industry development to the future.

FINDING AND DISCUSSION

Demand for Local TV in the Digital Era

The first objective of this study is to identify the viewers of local TV in this digital era. The finding from the survey of three types viewers is as the following table.

Table 1
VIEWER FINDING MATRIX

No	Viewers	Pro	Con
1.	Regular viewer (view on FTA)	- Viewers expect to enjoy their local content of the region (68%).	- Local TV programs are not attractive due monotonous, lack creativity, not up to date, etc. Viewers would rather watch national TV (74%). - The video quality is not sufficient (60%).
2.	Migrant viewer (view on useetv.com)	- Local TV is entertaining because of providing information about the region (66.7%). - Local TV is entertaining as it provides local cultural content for viewers (73.3%).	- Local TV video is not smooth (63.3%). - Not all of local TV provide online broadcasting via streaming (76.7%)
3.	Overseas viewer (view on useetv.com)	- Local TV is entertaining because of providing information about their country and more specifically about their region (80%). - Local TV is entertaining because of providing the culture of the viewer's region (80%).	- The viewer does not know if there is a local TV that can be watched from abroad (45%). - Access to Local TV requires sufficient internet data connection (75%).

From the above information, it shows that local TV still has loyal demand, mainly migrant viewers both domestic and overseas. Unfortunately, these demand is not fully fulfilled due to many constraints such as (1) the free-to-air local TV only has a license limited to certain areas and cannot reach the outside of their broadcasting coverage license, and (2) not all of local TV have online streaming penetrate a wider market and channel.

To fulfill the outside demand, currently many local TVs expand their broadcasting coverage through satellite and the Internet. Expansion of the Internet is considered more appropriate because the Internet is already adequate feasibility, and supported by the almost all of viewer devices.

Data from the Central Statistics Agency (BPS - Biro Pusat Statistik, 2015) shows that the average of new migrants in Indonesia in the last twenty years (1995-2015) amounted to 4.8 million. The total number of migrants in twenty years is about 96 million people or more than a third of the current population (255 million). These migration rates indicate that the potential customer of local TV is large. Local TV customer is still seen as a niche market where the amount per unit is small, but with a large number of local TV stations, it can be expected that the demand accumulation will be potential.

It is important to know by local TV company that their demand is still potential and located outside the region. To fulfill demand, the company must expand their broadcast coverage, national and global.

Local TV Need to Expand to Global Market

The second objective is to formulate solutions for local TV to fulfill the needs of their viewers and to increase the economic value through digital transformation. The finding from the survey of local TV company, community, and regulation three types viewers are as the following table.

Table 2
LOCAL TV COMPANY FINDING MATRIX

No	Company / Organization	Pro	Con
1.	Local TV Company (to Internet Local TV)	<ul style="list-style-type: none"> - Expect to expand their broadcasting coverage are to national and global (71%). - Increase the number of the viewer through new market channels Internet and IPTV (86%). 	<ul style="list-style-type: none"> - To expand digitally, TV Local company must provide a new platform (71%). - The company does not have competencies for the developing and maintenance of Internet-based streaming (57%).
2.	Local TV Community (Indonesia Local TV Association - ATVLI) (to Internet Local TV)	<ul style="list-style-type: none"> - Hope digital transformation could help to increase the economic growth of local TV industry. - Digital transformation of local TV could simplify the broadcast management. 	<ul style="list-style-type: none"> - Suppose that Internet local TV is provided by a neutral party to support the sustainability of industry business processes.
3.	Regulation review	<ul style="list-style-type: none"> - Limiting the broadcasting coverage only applies to the radio broadcasting service, not on Internet distribution. Limitation of Internet distribution depends on content owners. - Regulator prepares ICT convergence law to conduct the synergy among broadcast, broadband, and the Internet. 	<ul style="list-style-type: none"> - The regulation of ICT convergence is still in construction.

The finding from focus group discussions with several local TV companies identified that there are several key problems faced today, such as the limited broadcast coverage, less innovative content, and financial factors that are less conducive to produce competitive programs in national and global television market.

Some efforts to expand the broadcast coverage are through satellite and Internet streaming. Satellite solution is suitable for national television but too expensive for local TV companies. While with Internet streaming solution, there is needed new dedicated competency that takes time to be performed by himself. From technical and ecosystem review found out that streaming aggregator is suitable for all of local TV in Indonesia. The price is affordable, and also the performance is sufficient for global expansion. There are also have a rich feature to make the value of television program is increased, for example, that television program can be played shift time until up to seven days behind.

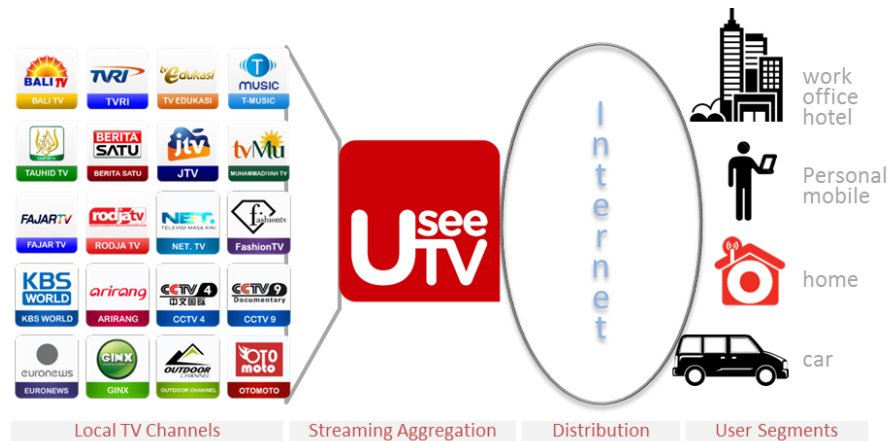
The finding from an in-depth interview with Indonesian Local TV Association (ATVLI) is that digitalization is needed by local TV to increase economic value and simplify the broadcast management. ATVLI also suppose that Internet local TV provided by a neutral party to support the sustainability of business processes.

Findings from discussion with regulatory are that broadcasting limitation regulation only applies to the radio (FTA). Distribution through the internet could apply globally; the limitation is the right of content owners. The regulator is still making convergence laws to synergize broadcast, broadband, and the Internet in a digital ecosystem that mutually utilizes. It is mean expansion broadcasting coverage is legal through the Internet.

From above findings, we design the Internet local TV service system, a channel aggregation to provide an expansion capability for local TV. Service system established based on UseeTV with customization for local TV. Local TV provides video source to feed to streaming

machine. UseeTV broadcast to the Internet. Hence viewer can access from around the world through many devices in the home, mobile, car, office, and so on. The furthermore system also enable to innovate content received and managed into new product content to meet the needs of today's viewer lifestyle. The configuration of the system element is shown in Figure 3.

Figure 3
THE CONFIGURATION OF INTERNET LOCAL TV ON USEETV.COM



We are using UseeTV as a case study because of UseeTV the biggest streaming aggregator in Indonesia and supported by Telkom that provide network across Indonesia area. Hence all local TVs could connect and stream their content.

Business Model Development for Digital Local TV

The third objective is to define a new business model for local TV to survive in the digital era. This scope of this is performed to frame the economic values of the needs of viewers, local TV company, and other stakeholders in the ecosystem of Internet local TV. By highlighting the product innovation is expected to establish a service that has business excellence, capable of sustained growth, and beneficial for all parties. The business model canvas is shown in Figure 4.

Figure 4
BUSINESS MODEL CANVAS OF INTERNET LOCAL TV

Key Partnership	Key Activities	Value Proposition	Customer Relationship	Customer Segments
<ul style="list-style-type: none"> Local TV industrial players. Streaming aggregators Local TV Association Regulator: Indonesian Broadcasting Commission 	<ul style="list-style-type: none"> Identify viewer needs. Identify TV Local company needs. Create business model. System development. 	<ul style="list-style-type: none"> Expand broadcast coverage to global with lowest cost Flexible to access TV content through many devices and networks Penetrate to many new user segments (car, commercial, etc) 	<ul style="list-style-type: none"> Online: web portal. Offline: Sales account managers. Community: local TV association 	<ul style="list-style-type: none"> Upstream: Local TV company. Downstream: TV viewers.
		Key Resources	Channels	
		<ul style="list-style-type: none"> Large amount of local TV (more than 300 channels). Internet bandwidth availability. 	<ul style="list-style-type: none"> Migration number more than 1/3 population. 	<ul style="list-style-type: none"> Web portal Mobile application IndiHome
Cost Structure			Revenue Stream	
<ul style="list-style-type: none"> Streaming installation and aggregation. Data network for content source feeding. Data Internet usage for viewer. 			<ul style="list-style-type: none"> Local TV: increase advertising. Operator: Data network usage 	

The business model of this Internet local TV is to help Indonesia local TV to exit from the limitation of broadcasting coverage on the conventional television. Targeted customer segments are downstream and upstream customers.

Downstream customers are all viewer that access to local TV, especially potential audience. Local TVs come from free-to-air habit so that here is free content for the viewer. Upstream customers are the local TVs company that need to expand their broadcasting program through the Internet. The upstream customer is responsible for providing video source to streaming platform. Local TV company provides a data link to connect from video source (encoder) to streaming system. For standard service, there is no payment. UseeTV focuses on streaming and local TV focus on feed the content. For an advance feature, payment could be applied.

CONCLUSION AND RECOMMENDATION

Conclusion

1. Indonesia local TV demand commonly comes from migrants, both domestics and overseas. With the migration rate, more than third of the population, it is feasible for local TV company to fulfill their loyal demand in outside of the region.
2. Internet local TV is the digital transformation solution for local TV company to expand their broadcast coverage out of the area, national and global, to increase viewer, market, and other economic value with efficient and effective manner.
3. Internet local TV business model is a synergy between local TV stations and streaming aggregator system operators and network providers to create economic value for local TV content.

Recommendation

1. Need to do a deeper study to identify the needs of the community towards local TV content so that the local TV industry can evolve to play an integral role in the growth of local content.
2. It should be developed in cooperation between Internet local TV providers and all local TV companies in Indonesia, not only in expanding the reach of the broadcast but rather also on product innovation so that local content is more acceptable to viewers.
3. It should be discussed jointly by the Internet local TV providers, local TV stations, and other stakeholders to formulate the right business model so that Internet local TV are built together to run in a sustainable and profitable for all parties.
4. As a whole, the Internet local TV concept must be advanced to the digital local TV as a next digital television concept.
5. Suggestion for UseeTV to accelerate the license of broadcasting company hence Internet local TV could be implemented faster and completely legal.

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THE COMPARISON OF EXPLANATORY POWER OF VOLATILITY INDEX (VIX) AND GARCH MODEL IN PREDICTING FUTURE VOLATILITY (EMPIRICAL STUDIES ON THE INDONESIAN STOCK MARKET)

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ABSTRACT

Based on the report of Bank Indonesia, Indonesia's economic growth amid the global economic crisis in 2009 reached 4.5 %, which is the third highest after China and India. Nevertheless, the capital market in Indonesia should bear the negative effects of the crisis, which can be seen from the fall of the Composite Stock Price Index (IHSG) to expel most foreign investment funds of the Indonesia Stock Exchange (BEI) to be converted into cash as attempt to reduce exposure to risky assets and anticipate the tendency of the tight global liquidity. The magnitude of the risk exposure faced during the global financial crisis also shows the volatility that can be said as the "fear gauge" or the size of investor's fear because the volatility shows the risks faced by investors in certain circumstances. Therefore, we need a model that can accurately measure the level of volatility to be able to anticipate the risks faced by investors in uncertain market conditions.

This study is aimed at comparing the explanatory power of the two models, namely Volatility Index (VIX) and GARCH model (time series volatility). We used data from LQ45 Futures contracts which are used as underlying assets of LQ45 index in the Indonesia Stock Exchange range period 2010-2014.

The results of statistical test show that the volatility index (VIX) has a significant influence on volatility forecasting LQ45 Futures contracts in the future period from January 2010 to December 2014, with the value of regression coefficient of 1.206, the coefficient of determination of 86.%, and Sig. 0.000 ($\alpha = 5\%$). Nevertheless, the volatility of GARCH model has a significant influence on volatility forecasting LQ45 Futures contracts in the future period from January 2010 to December 2014, with the value of regression coefficient of 1.245, the coefficient of determination of 82.5 %, and Sig.0.000 ($\alpha = 5\%$). Thus, from the comparison test between two models found that the Volatility Index is more accurate than the GARCH volatility in predicting volatility LQ45 Futures contracts in the period from January 2010 to December 2014. From those results we can conclude that the Volatility Index Model (VIX) is best used when the market is bullish, while the GARCH Model is best used when the market condition is bearish.

Key Words: Volatility, VIX Model, GARCH Model, Explanatory Power

INTRODUCTION

Indonesia's economic growth in 2009 reached 4.5 %, the third highest after China and India as reported by Bank Indonesia in 2010. Countries like Indonesia, China and India become the motor of economic growth in developing countries by generating positive economic growth

amid global economic crisis in 2009. International Monetary Fund estimated that world economic growth in 2009 contracted in April, July, and October.

Despite economic growth amid the global crisis in 2009, the Indonesian Capital Market should bear the negative effects of the crisis. It could be seen from the fall of the Composite Stock Price Index (IHSG) which slid out of the ordinary, which reached a Rp1,520.4 in mid-October 2008 from Rp 2,731.5 in early 2008. The Indonesian Central Securities Depository (KSEI) stated that foreign ownership in the Stock Exchange as of August 2008 amounted to 63.2 % or equivalent to Rp.667.7 trillion. Most foreign investment funds transferred out of the Indonesia Stock Market and partially converted into cash as an attempt to reduce exposure to risky assets and the anticipated tendency of tight global liquidity (Bank Indonesia report in 2010). So, even though there was a rapid action on the Stock Exchange and BAPEPAM authority to suspend while trading, impairment to stock index couldn't be stopped.

Risk can be measured by volatility of the capital markets, which is a statistical measure of returns dispersion for a given security or market index. Volatility can also be said as the "fear gauge" or the size of investor fear because the volatility shows the risks faced by investors in certain circumstances. Thus, the accurate calculation model is needed to avoid the risks faced by investors in the face of uncertain market conditions.

The calculation of volatility is divided into three i.e. historical volatility, implied volatility, and time series volatility. Yang, et al (2012) concluded that the calculation of implied volatility is much better than the VIX calculation of historical volatility and GARCH volatility calculation. Meanwhile, Hansen, et al (2003) concluded that the model VGARCH is the best volatility than 50 other volatility models. However, the study did not include VIX Hansen as a comparison with other volatility models.

The purpose of this research is to determine how fit are the two models of volatility, VIX, and GARCH model in predicting future volatility. By using the level of risk, returns, and volatility of the futures contract, we tested two models of volatility to get the best volatility model. First, we calculated the return and actual volatility of the LQ45 Futures, Volatility using VIX and GARCH Model. Second, we examined the goodness of fit between two models. Third, we conducted statistical analysis to determine Explanatory Power of both models.

LITERATURE REVIEW

Previously, the majority of researchers used historical volatility, implied volatility, and time series volatility to perform various types of research in predicting volatility. But most of them failed in predicting volatility since the fact states that the volatility of the market is always unpredictable.

Poon and Granger (2003, 2005), who discussed 93 studies on predictive calculation of volatility in financial markets, concluded that the implied volatility (VIX model) is the best volatility calculation in predicting the volatility of the stock index, followed by calculation GARCH volatility, historical volatility and stochastic volatility models.

The Chicago Board Options Exchange (CBOE) launched VIX model based on the calculation of stock index S & P 100 in 1993. The VIX model provides more comprehensive information for investors in observing changes in volatility who will enter the capital market. Thus, in 2003, the CBOE adjusted the volatility index by analyzing put and call option contracts S & P 500 and managed it to provide more accurate figures. After launching the latest version of the volatility index, CBOE changed the name into VXO and the VIX name was the latest version

in 2003. The VIX model uses the implied volatility to calculate and generate future volatility on option contracts futures in the stock market.

One model using time series volatility is the GARCH Model. Generalize Autoregressive Conditional Heteroscedasticity (GARCH) is the model introduced by Engle (1982) and developed by Bollerslev (1986). The GARCH is the model that generalizes the ARCH model to form the autoregressive time series model and ignoring heteroscedasticity problem (conditional variance).

The LQ45 Futures are contracts issued by the Indonesia Stock Exchange using LQ45 Stocks Index as underlying assets. LQ45 Future is one of the Index Futures Exchange (KBIE) issued by the Indonesia Stock Exchange. Stocks in LQ45 Index used as underlying assets for LQ45 Futures are known as benchmark stocks on the Indonesia Stock Exchange and are effective in tracking the stock market in Indonesia.

Yu, et al (2010) in a study tested the efficiency of the calculation model of volatility in explaining the information contained in OTC and Exchange in Japan Stock Exchange and Hong Kong Stock Exchange. Their results indicate that the calculations and predictions of Implied Volatility model are more accurate than other volatility models such as GARCH and Historical Volatility.

Meanwhile, research conducted by Yang and Liu (2012) examining the efficiency calculation of Volatility Index (VIX) in predicting and calculating volatility in the Taiwan Stock Exchange resulted in the finding that the Volatility Index model has calculations and predictions which are more accurate than other volatility models such as GARCH and Historical Volatilities.

While Hansen, et al (2003) in a study testing the Model Confidence Set (MCS) in calculating and selecting the best volatility models of 55 models of volatility for calculating the volatility futures indicated that the model VGARCH (Vector GARCH) owns calculation and prediction which are better than 54 other volatility models in calculating future volatility. Unfortunately, the study did not include the model of Hansen Volatility Index (VIX) to be compared.

HYPOTHESES

- H1 Volatility Index (VIX) Model can be used to predict the LQ45 Futures volatility in the future.*
- H2 GARCH Model can be used to predict the LQ45 Futures volatility in the future.*
- H3 VIX is a better model to predict the volatility of LQ45 Futures compared to GARCH model.*

METHODS

The methods used in this research are a quantitative study using secondary data. The object of this study is the volatility of LQ45 Futures Contract. Once the data were obtained, they were collected and then analyzed. The measures undertaken in the design of the analysis are as follows.

1. Collecting data from the period January 2010 to December 2014, the closing price of Index LQ45, closing price of LQ45 Futures, and the risk free interest rate.
2. Determining the daily data used. To avoid overlapping data, we used the data which are not overlapping.
3. Processing LQ45 stock price data into data Return Stock Index LQ45 and LQ45 Futures Exercise Price.
4. Calculating actual volatility of LQ45 Futures using LQ45 stock index.
5. Calculating volatility of LQ45 Futures using VIX model.

$$\sigma^2 = \frac{2}{T} \sum_i \frac{\Delta K_i}{K_i^2} e^{RT} Q(K_i) - \frac{1}{T} \left[\frac{F}{K_0} - 1 \right]^2$$

Information:

- σ = Volatility using VIX
 T = Term of contract
 F = Futures index from option price index.
 K_0 = First strike price below Futures index
 K_i = Strike price i when option out-of-money
 ΔK_i = Half of strike price differences on K_i
 R = Risk-free interest rate
 $Q(K_i)$ = Mid-point of bid-ask spread for option with Strike price K_i

To minimize the anomaly price when the contract matures, T is calculated by the scale of minutes rather than days so the use of current price is close to the contract maturity date.

$$T = \frac{\{M_{\text{current day}} + M_{\text{settlement day}} + M_{\text{other day}}\}}{\text{Minutes in a year}}$$

Information:

- $M_{\text{current day}}$ = Minutes left till midnight on the current day.
 $M_{\text{settlement day}}$ = Minutes from midnight to 8.30 a.m on the settlement day LQ45 Futures.
 $M_{\text{other day}}$ = Sum of minutes from current day until maturity day.

Calculating the volatility of LQ45 Futures with GARCH method. GARCH model uses conditional mean and conditional variance in stock returns.

$$R_t = \alpha_0 + \alpha_1 R_{t-1} + \varepsilon_t$$

R_t = Average of daily conditional returns

$$h_t = \beta_0 + \beta_1 \varepsilon_{t-1}^2 + \beta_2 h_{t-1}$$

h_t = Conditional variance

$$\hat{h}_{t+i} = \hat{\beta}_0 \sum_{j=0}^{i-2} (\hat{\beta}_1 - \hat{\beta}_2)^j + (\hat{\beta}_1 + \hat{\beta}_2)^{i-1} \hat{h}_{t-1}$$

\hat{h}_{t+i} = Variance of GARCH model

Variance of GARCH model

$$GFV_t = \sqrt{\hat{h}_t} \times 250$$

Calculating the volatility of LQ45 Futures with GARCH method. GARCH model uses conditional mean and conditional variance in stock returns.

$$Y = \alpha + \beta_{1,2} X_{1,2} + \varepsilon_t$$

Doing statistical test to see the explanatory power of both models (VIX and GARCH Model).

Analyzing the result and drawing a conclusion.

RESULTS AND DISCUSSIONS

The calculation result of the volatility of LQ45 Futures using model GARCH Model and VIX can be seen in Table 2 and 3, while the actual volatility of LQ45 Futures can be seen in Table1 below.

Table 1 REALIZED VOLATILITY OF LQ45 FUTURES					
Month	Year				
	2010	2011	2012	2013	2014
January	17.26%	33.31%	15.42%	14.77%	25.75%
February	20.19%	18.28%	19.28%	10.28%	14.33%
March	19.42%	16.24%	11.01%	16.37%	23.00%
April	18.64%	11.09%	13.46%	12.35%	21.37%
May	48.41%	14.76%	17.76%	20.50%	18.93%
June	22.96%	13.51%	25.98%	43.95%	11.80%
July	11.59%	15.21%	17.44%	28.33%	15.64%
August	17.16%	35.42%	12.95%	38.83%	11.89%
September	22.21%	49.56%	14.09%	41.42%	12.14%
October	13.04%	39.86%	8.37%	16.06%	19.19%
November	19.78%	25.79%	11.29%	20.95%	10.88%
December	21.73%	15.47%	15.10%	20.04%	12.64%
Average Volatility	21.03%	24.04%	15.18%	23.65%	16.46%

Table 2
VOLATILITY OF LQ45 FUTURES USING VIX MODEL

Month	Year									
	2010		2011		2012		2013		2014	
	RF	VIX	RF	VIX	RF	VIX	RF	VIX	RF	VIX
January	.50%	1.49%	.50%	4.79%	.00%	.16%	.75%	.86%	.75%	3.77%
February	.50%	3.02%	.75%	1.03%	.75%	1.31%	.75%	0.66%	.75%	2.69%
March	.50%	4.61%	.75%	0.78%	.75%	.96%	.75%	.80%	.75%	3.08%
April	.50%	2.24%	.75%	.57%	.75%	0.06%	.75%	.85%	.75%	0.68%
May	.50%	3.86%	.75%	.66%	.75%	3.35%	.75%	.89%	.75%	1.67%
June	.50%	4.87%	.75%	.07%	.75%	4.15%	.00%	3.50%	.00%	.72%
July	.50%	1.48%	.75%	1.59%	.75%	.50%	.50%	8.54%	.50%	3.06%
August	.50%	.49%	.75%	6.15%	.75%	0.89%	.50%	6.12%	.50%	.04%
September	.50%	8.07%	.75%	7.58%	.75%	0.71%	.00%	0.17%	.00%	.24%
October	.50%	.14%	.50%	8.32%	.75%	.38%	.25%	5.05%	.25%	.86%
November	.50%	.82%	.00%	5.03%	.75%	.76%	.25%	4.53%	.25%	.37%
December	.50%	1.81%	.00%	0.46%	.75%	.13%	.50%	.73%	.50%	.99%
Average Volatility	.50%	4.16%	.58%	6.50%	.77%	.45%	.40%	5.97%	.40%	0.01%

Table 3
VOLATILITY OF LQ45 FUTURES USING GARCH MODEL

Month	Year				
	2010	2011	2012	2013	2014
January	17.24%	29.26%	16.53%	16.25%	23.25%
February	20.64%	24.29%	18.00%	13.09%	18.72%
March	19.81%	19.20%	17.62%	17.37%	21.52%
April	19.47%	16.25%	15.76%	16.39%	22.33%
May	32.65%	16.47%	16.42%	17.99%	16.92%
June	32.43%	15.44%	25.60%	34.16%	17.39%
July	15.96%	18.12%	19.37%	33.36%	17.32%
August	18.00%	30.84%	16.54%	30.76%	14.40%
September	22.64%	38.20%	17.34%	38.79%	14.72%
October	16.99%	43.79%	14.15%	24.02%	18.92%
November	16.27%	27.51%	13.18%	21.19%	15.55%
December	24.03%	19.35%	14.28%	21.33%	14.41%
Average Volatility	21.34%	24.89%	17.07%	23.73%	17.95%
	$\beta_0 = 0.00000658$ $\beta_1 = 0.13242022$ $\beta_2 = 0.83937572$				

Table 4 SUMMARY OF STATISTICAL TEST OF VIX AND GARCH MODEL					
Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
1 (constant)	-.04	.009		4.324	.000
VIX X	1.206	.061	.932	19.612	.000
1 (constant)	-.06	.017		-3.628	.001
GARCH	1.245	.061	.879	16.511	.000

Table 5 SUMMARY OF COEFFICIENT DETERMINATION OF VIX AND GARCH MODEL				
Model	R	R Square	Adjusted R Square	Std. Error Estimate
VIX	.932 ^a	.869	.867	.03526
GARCH	.908 ^a	.825	.822	.04080

Table 6 PAIRED SAMPLES t-TEST					
	Paired Differences				
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper
Pair1 VIX X-GARCH	.03550	.04420	.00571	.02408	.04692

t = 6,221 df = 59 Sig. (2-tailed) = 0.000

Regression Analysis of VIX Model

Based on the regression analysis using data volatility of VIX model, we obtain the following equation:

$$Y = -0.04 + 1.206 X_1$$

Statistical analysis showed that t-count > t table (19.612 > 1.761). So based on the 95% confidence level, we can conclude that the Volatility using Index Volatility can predict the volatility of LQ45 Futures.

Based on Table 5, we can see the effect of the Volatility Index on Volatility LQ45 that is 0.869. So, the changes of actual Volatility of LQ45 Futures can be explained by the Volatility Index by 86.9%, while the remaining 13.1% is explained by other causes not examined in this study, for example, political atmosphere, culture, social, an attitude of investors, and capital market positions.

Regression Analysis of GARCH Model

Based on the Table 4 above, we obtain the equation:

$$Y = -0.06 + 1.245 X_2$$

Statistical analysis showed that $t\text{-count} > t\text{ table}$ ($16.511 > 1.761$). So, based on the 95% confidence level, we can conclude that volatility of GARCH model can predict the actual volatility of LQ45 Futures.

From the Table 5, we can see that the effect of the volatility of GARCH Model on actual volatility of Futures LQ45 is 0.825. So the changes of LQ45 Futures Volatility can be explained by the volatility using GARCH Model by 82.5%, while the remaining 27.5 % is explained by other causes not examined in this study, for example political atmosphere, culture, social, attitude of investors and capital market positions which may affect the volatility of LQ45 Futures.

CONCLUSIONS

The conclusions of this study are as follows:

1. Volatility Index (VIX) has a significant influence on volatility forecasting LQ45 Futures contracts in the future period from January 2010 to December 2014, with the value of regression coefficient of 1.206, the coefficient of determination of 86.9 %, and Sig. 0.000 ($\alpha = 5 \%$).
2. Volatility GARCH model has a significant influence on volatility forecasting LQ45 Futures contracts in the future period from January 2010 to December 2014, with the value of regression coefficient of 1.245, the coefficient of determination of 82.5 %, and Sig.0.000 ($\alpha = 5 \%$).
3. Volatility Index is more accurate than the GARCH volatility in predicting volatility LQ45 Futures contracts in the period from January 2010 to December 2014.

SUGGESTION

We conclude that each volatility model is comparable and can be used in calculating the volatility of LQ45 Futures in Indonesia in accordance with the ongoing market conditions. The Volatility Index (VIX) is very good and appropriate to be used if market conditions are rising (bullish), while the GARCH model is used when the market is down or lethargic (bearish). In the end, investors should have more careful attention to the condition and movements of the market to maximize profits and minimize risk (loss).

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THE INFLUENCE OF COMPETITIVE STRATEGY ON BUSINESS PERFORMANCE OF THE FASHION CREATIVE INDUSTRY IN WEST JAVA

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ABSTRACT

The fashion industry has a contribution to the economy and become a locomotive in the development of creative industries nationwide. However, the national development of fashion creative industry is experiencing less favorable growth, which in a period of more than 5 years tend to fluctuate. This indicates that business performance of the fashion industry tend not optimal. This condition related to some problems in developing competitive strategy.

The objectives of this study are to uncover competitive strategy and the influence on business performance of the fashion creative industry in West Java. The nature of this study are descriptive and causality. The unit of analysis is the company's management of fashion industry, which is located in West Java, with a total sample of 200 respondents through stratified random sampling method. Time horizon in this study is cross sectional, meaning the study is conducted at a single period of time simultaneously. Primary data is collected by a questionnaire and interviews with the company's management of the fashion industry according to the Ministry of industry and trade in the area of West Java, as well as interviews with trade ministry official particularly the ILMATEL (Industrial Metals, Telematics and Textile) as well as several agencies and parties related, such as the Chamber of Commerce and Bureau of statistics center. Causality analysis is done by using the model of Structural Equation Modeling (SEM).

INTRODUCTION

There is supporting policy from West Java Provincial Government in encouraging the growth of Creative Industries through creative industry center. However, it is not yet fully supported by breakthroughs in order to these centers can be survive and anticipate the economic conditions and changes in an increasingly dynamic environment. Creative industry center of fashion in West Priangan concentrated in Bandung City (44%), followed by Bandung (30%), Sumedang (17%) and Cimahi (19%). While in the East Priangan, it concentrated in Garut (28%), Tasikmalaya (26%), Ciamis (23%), Tasikmalaya (17%) and the City of Banjar (6%). Of the existing population is only about less than 50% were classified as still the mainstay, while the rest is still relatively difficult to develop. The sector of creative industries include field of: fashion, textiles and textile products (TPT), accessories, and footwear that includes socks and shoes. ILMATEL (Metals, Telematics and Textiles Industrial, Indag Jabar: 2013).

The weak business performance of fashion creative industry allegedly caused by competitive strategy that undertaken by the fashion industry is still weak in the eyes of stakeholders. This is indicated by the lack of price competitiveness in comparison with products from abroad. Foreign fashion product is still the top choice of consumers, especially Chinese products that commonly known less price with the quality tends to be better. In addition, there are also weaknesses in terms of the ability to offset the acceleration of the company's internal movements and changes of the business environment to meet the tastes and demands of the

market. According to Wheelen & Hunger (2012), the indications of having competitive strategy if the company is able to create a product that is relatively more superior than its competitors.

Based on the above statements, it is important to investigate competitive strategy and its influence on business performance of the business units of fashion creative industry in West Java.

LITERATURE REVIEW

According to Pearce and Robinson (2011), competitive strategy is an effort to create sustainable competitive advantage through the uniqueness of the product and cost leadership. Meanwhile Wheelen and Hunger (2012) stated that competitive strategy focus on the development of the competitive position of business units engaged in goods and services. In other word, a long-term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. (Pearce Robinson, 2013:195).

The measurement of business performance from Ainin et al (2007) was Business net profit. Wheelen and Hunger (2012: 332) stated that business performance can be measured by sales, market share and profitability. This study is aimed at explaining the influence of competitive strategy on business performance of fashion creative industry in West Java.

RESEARCH METHODS

This research are descriptive, and causality that measure the impact of competitive strategy on business performance. The unit of analysis and observation are the management of companies belonging to the fashion industry, which is located in West Java. Observations using the coverage time (time horizon) which is cross section / one shoot, meaning that information or data is collected directly and empirically at a particular time.

The population in this study is all the fashion industries that are located in West Java. The sample size is determined by taking into account the analytical techniques used in the hypothesis testing using structural equation modeling. The sample size for structural equation modeling (SEM) at least 200 observations (Kelloway, 1998).

Hypothesis testing is using Structural Equation Modeling (SEM), according to Malhotra (2010: 723)

”SEM is a procedure for estimating a series of dependence relationship among a set of concepts or constructs represented by multiple measured variables and incorporate.

RESULTS & DISCUSSION

At first, descriptive hypothesis testing described as follows:

Hypothesis 1 that “competitive strategy is appropriate, and business performance of fashion creative industry in West Java is good”.

$H_1: \mu_1 > 4$

1. Competitive Strategy of fashion creative industry in West Java is appropriate
2. Business Performance of fashion creative industry in West Java is good

To test the above hypothesis is used the statistical median of the Z test statistic with the following results:

To test the hypothesis 1 is used test as follow:

$$H_0: \mu_1 \leq 4$$

1. Competitive Strategy of fashion creative industry in West Java has not been appropriate
2. Business Performance of fashion creative industry in West Java has not been good

Table 1
THE RESULT OF DESCRIPTIVE HYPOTHESIS TESTING

Variable	Median Statistics	Z-count
Competitive Strategy	3,5	-8.959

sources: Data processed with STATA 12.0

*significant at $\alpha=0,05$

The above table presents a summary of the descriptive statistical hypothesis testing. The median is the value of the data that is right in the middle after the data is sorted. To test the above hypothesis is used Median test by statistical Wilcoxon Signed Ranks Test in which the assuming median of each variable is $M_0 = 4$. The median value is the median value score for each variable. The greatest Media owned by each variable is 4. To test this hypothesis testing done by a normal statistical Z Test by one party testing.

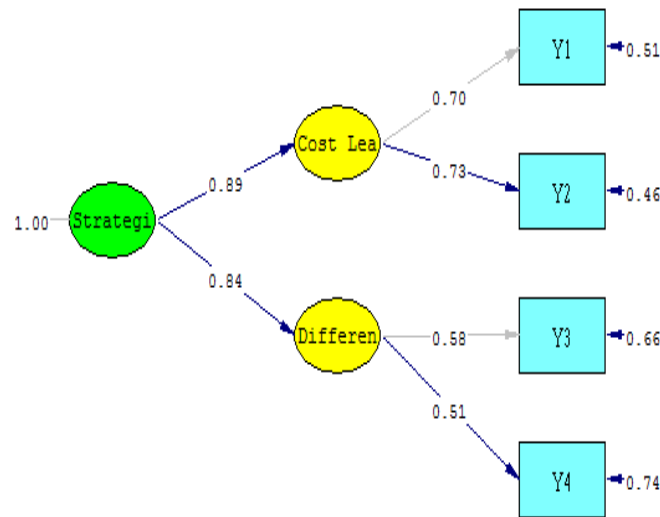
The test results showed statistical value Z is negative, meaning that the number of observations that have a value of more than 4 less than otherwise, so that statistical Z-count Test is smaller than the value of the Z table on $\alpha = 0:05$ (1645) . So that it can be concluded that the null hypothesis is accepted meaning that generally the variables are below the median, or competitive strategy has not been appropriate and business performance of fashion creative industry in West Java has not been good.

Before testing the second hypothesis, below is described the results of measurement analysis model for each variable involved in the research.

THE ANALYSIS OF MEASUREMENT MODEL

The first analysis is a test of the quality of the items and the dimensions used to measure the variables of a study. Analysis Confirmatory Factor Analysis (CFA) is a measurement model analysis Second order. Competitive Strategy variable is measured by two-dimensional and four indicators. Calculation results with LISREL measurement model are presented.

Figure 1
MEASUREMENT MODEL OF COMPETITIVE STRATEGY VARIABLE



FIT MODEL

Statistics	Value	Remarks
Chi-Square	281.54	Closed Fit
p.value	0.19297	
Norm-Chisquare	3.29	Closed Fit
RMSEA	0,062	Closed Fit
GOF	0.99	Closed Fit

Measurement Model Analysis of Competitive Strategy

The analysis of measurement model of competitive strategy shows that all the indicators are valid with a sufficient loading factor value (loading factor > 0.5) and has a fairly high reliability with a value of 0.50. Composite reliability can be seen as a representation of how much an indicator can be a measuring tool of constructs (dimensions). High reliability values show the dimensions of the measurement results based on the indicators are consistent.

The analysis of cost leadership dimension indicates that “more competitive product prices compared to its competitors” as the most considered aspect of the management of the creative industry. While based on the analysis of the dimensions of product differentiation shows that “the increase in the creation of unique products” become the most important aspect of the management of creative industries.

Table 2
DIMENSION MEASUREMENT MODEL ON INDICATOR OF COMPETITIVE STRATEGY

Dimensions	Indicators	Loading Factor	Indicator Reliability	Variance Error	Composite Reliability
Cost Leadership	Efficient operational cost	0,70	0,49	0,51	0,68
	Product prices more competitive in comparison with competitors	0,73	0,53	0,47	
Product Differentiation	Efforts to increase the creation of unique products compared to competitors	0,58	0,34	0,66	0,50
	Efforts in increasing the creation of a better variety and diverse of products compared to competitors	0,51	0,26	0,74	

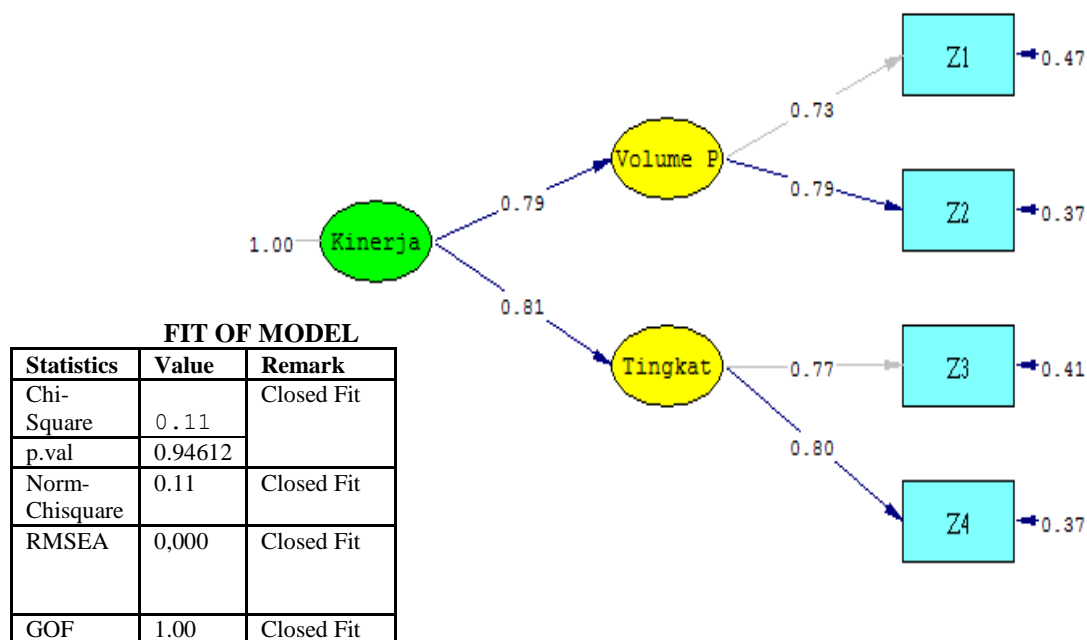
The measurement model analysis of competitive strategy shows all dimensions are valid with a sufficient loading factor value (loading factor > 0.5) and has a fairly high reliability with a value greater than 0.86. Composite reliability above shows how the dimensions can be a measuring tool for of constructs (variables). This means that high reliability demonstrated that the dimensions of competitive strategy are consistent measuring tool.

The analysis of the competitive strategy variable shows that cost leadership is the most considered aspects of the management of the creative industry.

Analysis of Business Performance Measurement Model

Business performance variable is measured by two dimensions and four indicators. Calculation results with LISREL measurement model is presented on Figure 2.

Figure 2
MEASUREMENT MODEL OF BUSINESS PERFORMANCE VARIABLE



The above analysis presents a LISREL output with a model that has a sufficient loading value (loading factor > 0.5) in order to obtain the measurement model for business performance that fits the data.

Chi-Square value and p-value states the size of the model fit. Based on the above results, the model declared as fit in which p.value > 0.05. RMSEA value or Root Mean Square approximation is smaller than 0:08. and Goodness of Fit indices 0.99 (> 0.90). The analysis shows that the model is generally expressed well enough so it does not need to modify the models by eliminating indicators that assessed interfere models.

The measurement model analysis of business performance variable shows that all the indicators had been valid with a sufficient loading factor value (loading factor > 0.5) and has a fairly high reliability with a value greater than 0.5. High reliability composite value shows the measurement results of each dimension is based on the consistent indicators.

The analysis result of the dimensions of Sales Volume shows that “sales growth in a certain period of time” is being the most noted aspects of the management of the creative industry. While the analysis of the dimensions of profitability shows that “Profit growth Rate” is being the most important aspect of the management of creative industry.

Table 3
DIMENSIONS MEASUREMENT MODEL ON INDICATORS OF BUSINESS PERFORMANCE

Dimension	Indicators	Loading Factor	Indicator Reliability	Variance Error	Composite Reliability
Sales Volume	The volume of sales of the product within a certain time	0,72	0,52	0,48	0,73
	Sales growth within a certain time	0,79	0,62	0,38	
Profitability	Profit per year	0,76	0,58	0,42	0,76
	Profit growth Rate	0,80	0,64	0,36	

Table 4
DIMENSIONS MEASUREMENT MODEL ON BUSINESS PERFORMANCE VARIABLE

Dimension	Loading Factor	Indicator Reliability	Variance Error	Composite Reliability
Sales Volume	0,79	0,62	0,38	0,78
Profitability	0,81	0,66	0,34	

The measurement model analysis of business performance shows that all dimensions are valid with a sufficient loading factor value (loading factor > 0.5) and has a fairly high reliability with a value greater than 0.86. Composite reliability above shows how the dimensions can be a measuring tool for constructs (variables). This means that high reliability demonstrated that the dimensions of business performance are consistent measuring tool.

Based on the analysis of business performance shows that “sales volume” is being a most considered aspect of the management of creative industry.

Structural Model Analysis

Subsequent analysis after Confirmatory Factor Analysis is the process of structural modeling that involving CFA models that are fit to data and only involve indicators that are valid and reliable.

After modeling noted that all indicators and dimensions have a loading factor greater than 0.50 which show that in this structural model, all of dimensions and indicators that have been selected in CFA models remain valid and also reliable. Validity and reliability of the items in measuring dimensions guarantees the validity of the conclusions of the study.

Based on calculations by LISREL 8.7, obtained structural model and measurement model as follows:

Table 5
STRUCTURAL MODAL FIT TEST

No.	Degree of Fit	Result	Accepted Degree of Fit	Remark
1	Chi Square	540,13 P -value = 0,13532	P -value >0,05	Fit
2	Goodness of Fit Indices (GFI)	0,86	>0,8	Close fit
3	Adjusted Goodness of Fit Indices (AGFI)	0,83	>0,8	Close fit
4	Root Mean Square Error of Approximation (RMSEA)	0,019	RMSEA ≤ 0,08 (good fit) RMSEA < 0,05 (close-fit)	Close fit

Source: Processed data

From the table above it is known that the p value for the Chi-Square > 0.05 and Goodness of Fit Indices (GFI) > 0.8 which indicates that the model is fit, it is reinforced by the value of RMSEA < 0.05, so it can be concluded that the research model in accordance with the empirical condition. The research model is better able to describe the causality phenomenon translated into influence coefficient.

After analyzing the measurement and structural models, further testing the hypothesis that “Competitive Strategy influences business performance” that is done as follows:

- H_0 : $\beta_{21} \leq 0$,
Competitive strategy does not influence business performance in the fashion creative industries, which is located in West Java
- H_1 : $\beta_{21} > 0$
Competitive strategies influences business performance in the fashion creative industries, which is located in West Java

Table 6
HYPOTHESIS TESTING “THE INFLUENCE OF COMPETITIVE STRATEGY ON BUSINESS PERFORMANCE”

Hypothesis	β_{21}	t count	Remark
There is the influence of Competitive Strategy on Business Performance	0,59	3,72*	Tolak H0

*significant at $\alpha=0,05$

The above table shows that competitive strategy significantly influences business performance ($t > 1.97$).

The test results showed that the increase in competitive strategy will have an impact on business performance. In other words, to improve business performance, the producers of the fashion industry must improve the implementation of its competitive strategy. Competitive strategy embodied in the form of cost leadership strategy: the efficiency of operating cost and more competitive prices compared to its competitors; as well as product differentiation strategy in the form of creation of unique products and a better variety of products than competitors.

Based on the results of testing known that producers of fashion creative industry in West Java states have been able to create efficiencies in operating costs, able to create a competitive

product prices than its competitors, and can improve the creation of a better variety of products than its competitors. That is contributing to the increased volume of sales and profit levels. However, the producers are still less able to increase the creation of a unique product compared to its competitors, where it can be a constraint of sales growth in a wider scale.

The test results shows the influence of competitive strategy on business performance is in line with the study of Hsu (2012) which stated that the use of a differentiation strategy led to higher organizational performance in the market. Similarly Oyedijo (2012) show a very significant impact of strategy on business performance

CONCLUSION

Competitive strategy has not been appropriate and business performance of creative fashion industry in West Java has not been good. The results show that all activities associated with the business activity has not been run as expected.

Competitive strategy influences business performance. The ability of producers to create operating cost efficiencies, creating a more competitive price compared to its competitors, creating unique products than its competitors, and creating a better product variations and diverse than competitors may be driving better business performance. Cost leadership shows a greater influence than product differentiation in influencing business performance. Therefore, the manufacturers should prioritize aspects of the creation of cost-efficiency and price competitive products through appropriate methods and pay more attention to the strengths and weaknesses of competitors.

RECOMMENDATION

The findings of this paper, is expected to be a reference for academics to conduct any research related to the development of the fashion industry, by making these findings as part of the premise in developing the framework.

In the future is expected among academics who are interested in doing research on companies engaged in the fashion and textile industry with different viewpoints with this research by reviewing the specificity in the field of marketing management or human resource management.

Competitive strategy has an influence in improving business performance of fashion creative industry in West Java. It is suggested for management to prioritize the improvement in terms of Cost leadership, through increase the abilities of management to create efficient operating cost and more competitive prices when compared to competitors.

Product differentiation, through increase the abilities of management to create a unique product compared to their competitors and create a better variety and diverse of products than their competitors

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PENTAHHELIX MODEL TO INCREASE TOURIST VISIT TO BANDUNG AND ITS SURROUNDING AREAS THROUGH HUMAN RESOURCE DEVELOPMENT

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ABSTRACT

In 2019, Indonesia has a target to bring 20 million foreign tourists, and the city of Bandung is expected to pick up to 7.5 percent of the 20 million tourists who visit Indonesia. In other words, Bandung should have 1.5 million foreign visitors in 2019. The target achievement is certainly not an easy thing. It needs an integrated preparation as well as continuous provision and improvement of all parties involved. So far it just involves the local government, represented by the Department of Culture and Tourism, and the entrepreneurs engaged in the field of tourism. For the betterment, five parties should be involved: (i) the local government; (ii) the entrepreneurs; (iii) the academicians; (iv) the community itself and; (v) the media. The five parties should sit together to manage the various potentials and available resources. Because tourism is a service sector, the human resource plays an important role in supporting the achievement of the target above. Therefore, a model which integrates the various parties involved in supporting the achievement of tourists visit both foreign and domestic is essentially needed.

Key Words: *Tourism, Government, Entrepreneurs, Academicians, Pentahelix*

INTRODUCTION

Bandung, geographically located in the middle of West Java Province with area which is about 16,767 hectares, is the capital city of West Java province. With the height of ± 768 m above sea level and surrounded by mountains, Bandung is a beautiful and cool city. The arts with full of high cultural values make Bandung ideal for having rest and being tourism destination, ranging from natural attraction tourism, arts and culture to culinary places and shopping.

In 2019, Indonesia has a target to attract 20 million visitors and Bandung is targeted to get 7.5 percent of that number, meaning that Bandung will have 1,5 million foreign tourists in 2019. Some of the problems inhibiting the entry of foreign tourists are as follows: (i) the overlapping programs made by various parties or institutions intended to increase tourist visit; (ii) the absence of good coordination among parties or the relevant governmental agencies intended to increase foreign tourist visit; (iii) not integrated tourism facilities and infrastructures built by parties involved; (iv) not socialized or applied policies and rules supporting the creation of the conducive tourism business; (v) the lack of awareness of the community to play a direct role in creating a comfortable, peaceful, clean, friendly, and beautiful tourism area.

To synergize various policies and rules (the academia, government, business/corporate, public and media) related to the development of HR competencies which can support the achievement of tourist visit to Bandung and its surrounding area.

To synergize development programs of HR competencies of various institutions, either those which have been implemented or will be carried out by various institutions related to development of human resources in supporting the achievement of tourist visit to Bandung and its surrounding areas.

THEORY AND HYPOTHESES

Pentahelix Model began to flourish in 2015 as a reference in developing synergy among relevant agencies in supporting the optimization to achieve the objectives. In the environment of tourism ministry itself, this model was introduced by Tourism Minister Arief Yahya in order to support the achievement of tourist visit to Indonesia. In Pentahelix model, there are five parties which are interrelated and each contributes among others. With this model, each party is expected to contribute optimally without any overlapping duties, powers and obligations.

METHODOLOGY

In essence, this study is aimed at seeing the synergy among parties involved to increase tourist visit to Bandung and its surrounding areas. The method used is FGD (Focus group discussion) with various institutions having role to develop tourism activities. The analytic method used is descriptive analysis.

RESULTS

Potential of Human Resources in Bandung

Bandung is a creative city with the highest potential of creative Human Resources (HR). Table 1 below shows the population growth rate of Bandung from 2008 to 2013.

Table 1
BANDUNG POPULATION GROWTH RATE 2008-2013

Year	2008	2009	2010	2011	2012	2013
Population	3,374,198	2,417,288	2,394,873	2,424,957	2,455,517	2,483,977
Growth Rate	1.90%	1.81%	1.09%	1.26%	1.27%	1.16%

Source: BPS 2015 (data processed)

In terms of quantity, it is shown that Bandung has a very large potential of human resources, unfortunately it is not balanced by quality side as shown in the following table. Table 2 below shows the development of human resource potential in terms of education which is an indicator of the human resource quality.

Table 2
NUMBER AND COMPOSITION OF BANDUNG POPULATION IN 2011-2012

No	Description	2011	2012	Increase/ decrease
1	Total population	2,424,957	3,455,517	1.26
2	Growth rate	1.26%	1.26%	
3	Density average	14,494	14,676	
4	Composition of population according to sex:			
	Men	1,230,615	1,246,122	1.26%
	Women	1,194,342	1,209,395	1.26%
5	Education Age > 10 years and the highest certificate:			
6	Not/ have never attended school / did not / have not completed SD (primary school)	174,292	192,141	10.24
7	SD/MI/ equivalent (primary level)	502,426	482,763	-3.91
8	SMP/MTs/ equivalent (junior primary school)	393,689	409,741	4.08
9	SLTA/MA/ equivalent (senior high school)	655,857	661,857	0.91
10	College/university, consisting of:		292,142	
	- D1 / D2		25,004	
	- D3 / SM		81,592	
	- D4 / S1		172,649	
	- S2 / S3		12,897	
		282,591		3.38

Source: BPS 2015 (data processed)

From the table above, it is shown that the human resources who are ready for entering job market are high school above i.e. 953,969 people, or 39.01 percent and this is sufficient to support the development of Bandung. Nevertheless, when seeing the number of labor force or potential human resources engaged in supporting tourism, the number is still very small, especially who are engaged in arts and culture such as Sundanese culture. Based on the data taken from https://id.wikipedia.org/wiki/Daftar_perguruan_tinggi_di_Bandung- August 11, 2015, at 07:21, it is shown that the number of higher education (public and private), high school and elementary school is as follows table 3.

Table 3
NUMBER OF SCHOOLS AND UNIVERSITIES IN BANDUNG

Total of state-owned and private universities	High school and equivalent	Junior and equivalent	Elementary and equivalent
10 State-owned universities	27 state-owned senior high schools	52 state-owned junior high schools	247 private and state-owned elementary schools
21 private universities	26 private senior high schools	62 private junior high school	6 Madrasah Ibtidaiyah (Islamic elementary schools)
4 private Institutes	2 Madrasah Aliyah Negeri (Islamic state-owned senior high schools)	38 Private MTs (Islamic junior high schools)	
20 private Polytechnics	17 private and state-owned vocational high schools	2 MTs	
70 private higher education institution			
30 private Academies			

Source: https://id.wikipedia.org/wiki/Daftar_perguruan_tinggi SLTA (high schools), SLTP (junior high schools) and SD (primary schools) in_Bandung (data processed)

From a quite large number of schools and colleges in Bandung, only a few of education institutions which directly relates to tourism programs. Based on data from BPS Bandung, the education development programs which are well prepared and developed by the government of Bandung have a significant impact in increasing public welfare. From the table below we can see that some macro indicators of Bandung in 2008-2012 show an increase and significant growth. It indicates that the improving education will result in higher rate of economic growth and ultimately will improve the welfare of society.

Tourism Potential in Bandung

Since 1999 with the enactment of Law No. 22 of 1999 on regional autonomy, the authority in organizing and managing tourism policies has been at the level of the local governmental. Thus, all the policies related to tourism are organized and managed by their respective regions, including the city of Bandung. The management of tourism is organizationally and technically done by the Bandung Department of Culture and Tourism.

Cultural mandatory programs include: (a) Program of Cultural Values Development, (b) Program of Cultural Richness Management, (c) Program of Cultural Diversity Management; (d) Program of Partnership Development of Cultural Richness Management; (e) Program of Tourism Selection; (f) Program of Tourism Marketing Development; (g) Program of Tourism Destination Development; (h) Program of Partnership Development.

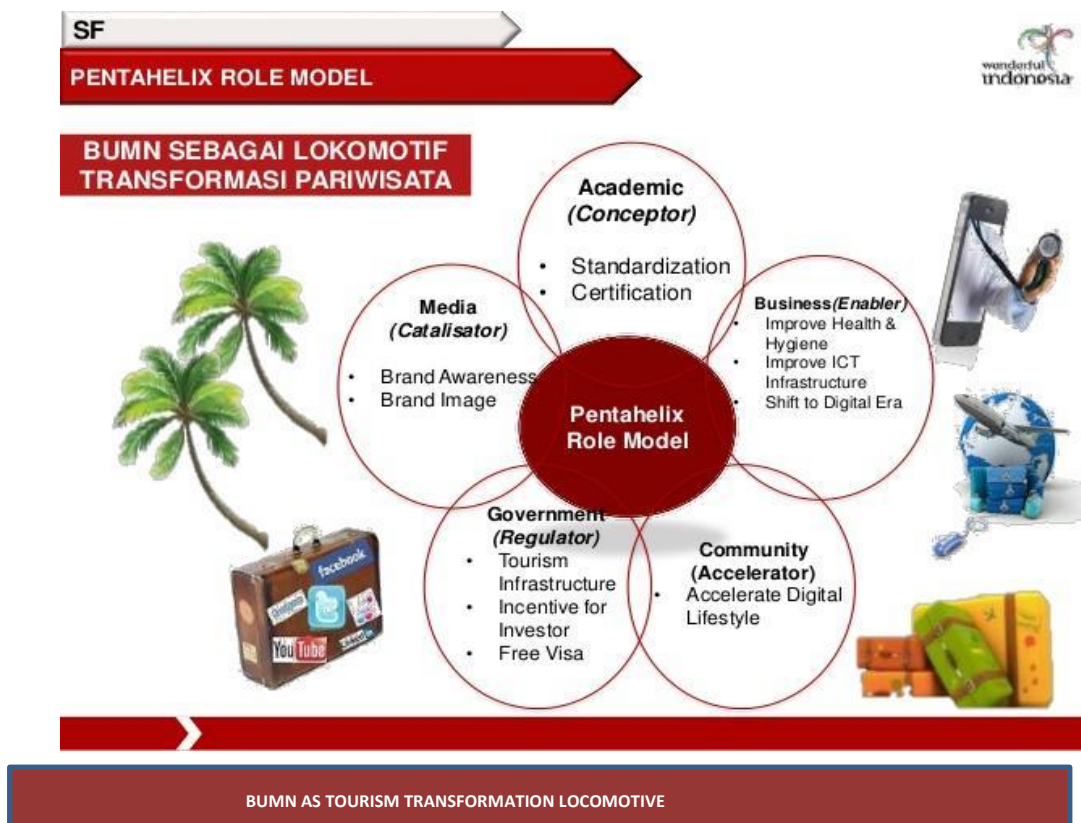
Different types of tourism destinations are grouped into seven types of tourism potentials as seen on the table below. (table 4)

Table 4
QUANTITATIVE POTENTIALS OF TOURISM ATTRACTION IN BANDUNG

No.	Tourism Type	Tourism Group	Number
1	Nature	City park tourism and the zoo	11
		Parks (environmental scale)	38
2	Cultural Tourism	Performance Hall	7
		Art and culture	342
3	Tour history	Museum	7
		Historical building	13
4	Shopping	Factory outlet, Mall, Distro, Trade center	
5	Culinary	Restaurants, Department stores, Restaurants with special products	
6	Religious Tourism	Spiritual tourism: Pesantren Daarut Tauhid, Mesjid Agung Bandung	
7	Special interest Tourism	Knowledge Tourism: PT DI., PT Pindad, Products processing (milk, vaccines, fruits, medicine, textiles), and home industries: dolls, bags, hats, knitwear, shoes etc)	

Source: Culture and Tourism Department.

Figure 1
BUMN AS TOURISM TRANSFORMATION LOCOMOTIVE



Number of Travelers and Development

Based on information from the Tourism Office of Bandung, the number of domestic and foreign tourists visiting each year shows a significant increase. Below is the data showing tourist visit to Bandung since 2010. The description of the tourists visiting Bandung, starting from the reasons to visit and some other information can be seen on the table below. This description was taken from 50 travelers as the research sample located in some tourism areas, namely: (i) shopping areas Jl. Ir H Juanda; (ii) shopping areas around Jl. RE Martadinata and Jl. Banda; (iii) the area of cultural heritage tourism around Jl. Braga and Jl. Asia Afrika; (iv) tourism area Saung Angklung Udjo and (v) natural tourism area Tangkuban Perahu. Some information is as follows table 5.

Table 5
THE NUMBER OF TOURIST VISITING BANDUNG 2010-2014

No	2010		2011		2012		2013		2014	
	Country	Number	Country	Number	Country	Number	Country	Number	Country	Number
1	Malaysia	90,407	Malaysia	98,014	Malaysia	108,830	Malaysia	113,786	Malaysia	117,091
2	Singapore	7,263	Singapore	11,014	Singapore	25,877	Singapore	35,626	Singapore	46,852
3	Australia	521	Brunei	694	Australia	978	Japan	1,401	Japan	1,584
4	USA & UK	430	Thailand	692	USA	878	Australia	1,226	India	1,509
5	Netherland	367	Australia	663	Japan	826	India	1,209	Australia	1,488
6	Thailand	341	USA	500	India	861	USA	1,190	USA	1,463
7	India	268	Philippine	470	Brunei	717	RRC	998	RRC	1,349
8	Korea	239	India	486	Thailand	627	Korea	884	Korea	928
9	Japan	226	Netherland	409	British	621	Thailand	875	Thailand	927
10	Germany	208	Japan	363	Netherland	564	British	713	Brunei	900

Source: Bandung Immigration Office

Table 6
TOURIST DESCRIPTION

No	Description	Domestic / Local	Foreign (Overseas)
1	The number of sample	34	16
2	Five main origins (city or country)	Jakarta, Medan, Yogyakarta, Bandung Regency and Makassar.	Malaysia, Singapore, Australia, China and Japan
2	Five main reasons to visit Bandung	Culinary, weather, beauty, variety of tourism alternatives and easy access	Variety of tourism alternatives particularly shopping tourism, beauty, hospitality, souvenir, and culinary
3	Five most visited tourism destinations	- natural tourism (thermal baths and around Dago and Zoo) -culinary places -shopping tourism in Pasar Baru area, THR Juanda street and RE Martadinata street, -historical sites around Gedung Sate and around Asia Afrika street -Religious Tourism	-shopping tourism and culinary area at Pasar Baru, THR Juanda street and RE Martadinata street, -historical sites around Gedung Sate and Asia Africa street -natural tourism Tangkuban Perahu - Saung Angklung Udjo,

4	Five most favorite performances	-Sundanese Play, -angklung, -dance, -reog, -cianjuran.	Angklung, dances (Jaipong and Peacock dance), harp flute, Rampak Kendang, Calung.
5	Five most hunted foods	Various cake of Kartikasari, Primarasa and Amanda, Batagor, snacks at Kosambi market	-Gado-gado, - Fish Soup, -Mie Kocok, -Rendang, and -Lontong Curry.
6	Five most complained things	-Cleanliness -Security -Transportation -Lack of information -Comfort	-Transportation access -Cleanliness -Comfort, -Lack of information, -Security
7	Visit duration	2 days 1 night (average)	3 days 2 nights (average)

Source: Primary Data 2015

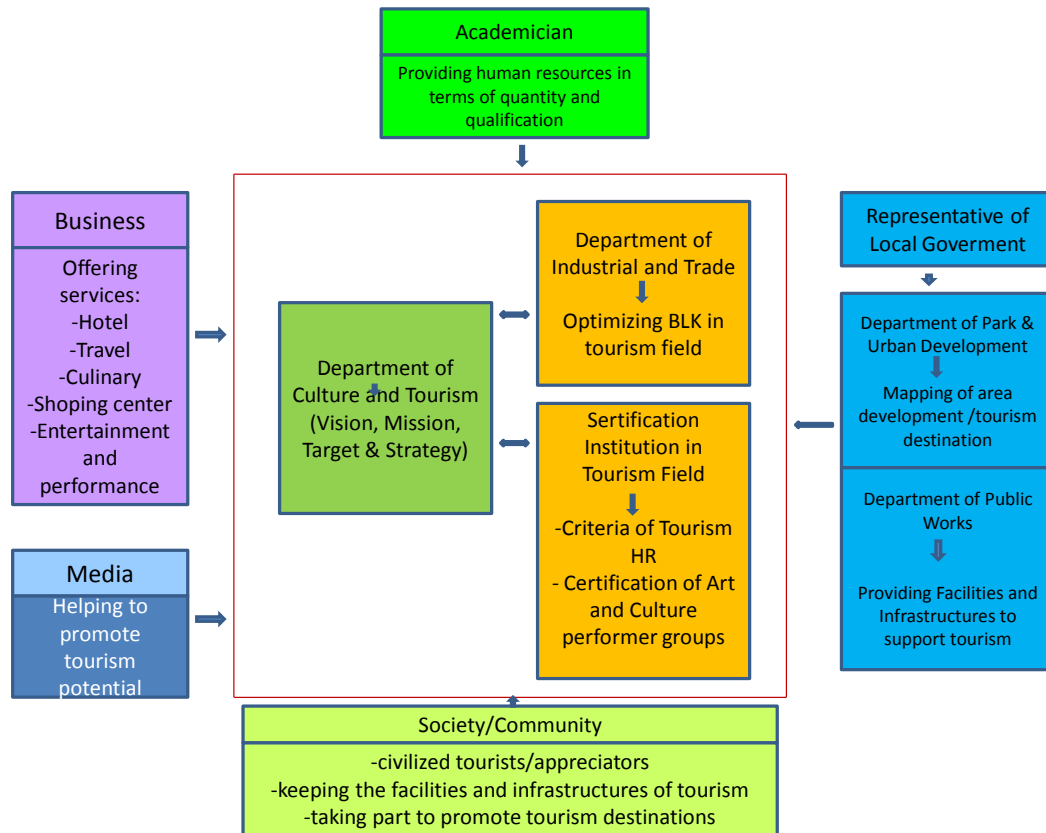
From the data above, it can be seen that there are significant differences between domestic travelers and foreign tourists ranging from the reason for the visit to the culinary wanted to enjoy.

The Design of Cooperation Patterns in Tourism Management in Bandung

Basically, there are five parties involved directly in tourism activities:

1. The local government, represented by the Office of Culture and Tourism Bandung, which manages the tourism activities both strategically and technically.
2. The tourism business actors, starting from businessmen of travel services, hotel, restaurant and culinary, amusement parks, trade area, art shows, culture and others.
3. The academician, who organizes various education and training, both formal and informal in the field of tourism, as well as prepares the potential human resource who will enter the service business of tourism.
4. The media, which helps all parties in promoting the tourism potentials, various tourism programs and sharing the tourism destinations that can be visited and disseminate information related to potential tourism found and able to be developed.
5. The community itself, both as service users of tourism or as business actors who contribute to the implementation and development of tourism in the city of Bandung in particular.

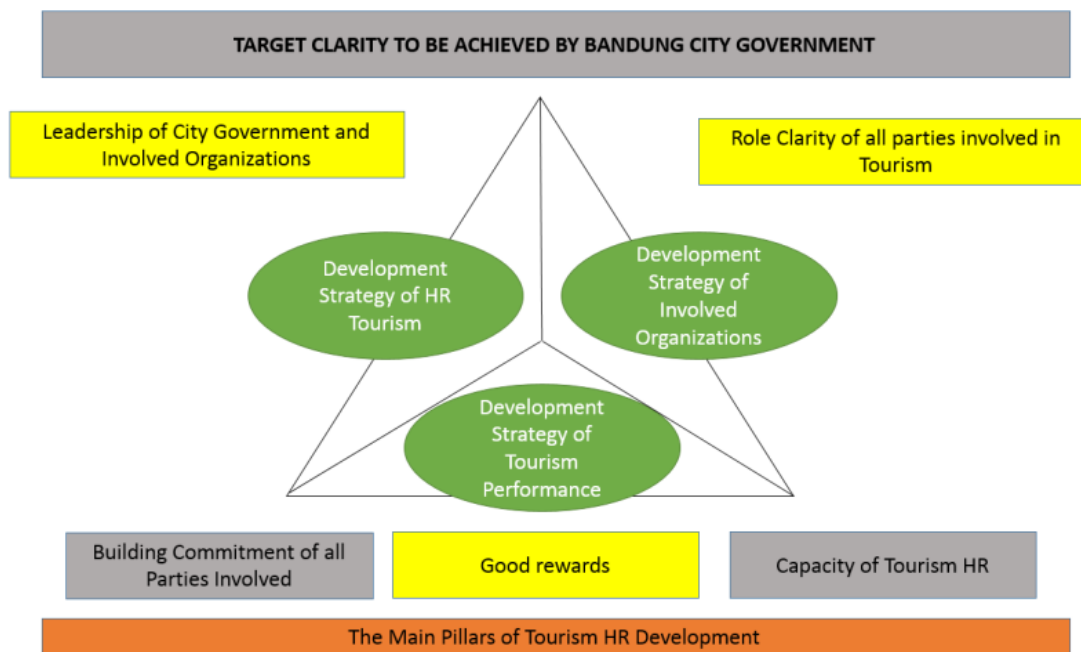
Figure 2
PATTERNS OF COOPERATION BETWEEN THE PARTIES INVOLVED IN TOURISM ACTIVITIES IN THE CITY OF BANDUNG



Model of Human Resource Development based on Art and Local Culture in Bandung

The first foundation to be set is that the city government should set a clear goal. The next step to be built as the second foundation is commitment of all parties involved. When the capability is already built, the third step is to make it balance with appropriate rewards, in any form.

Figure 3
MAIN PILLAR OF HUMAN RESOURCE DEVELOPMENT IN TOURISM



The Strategy of HR Competency Development Based on Art and Local Culture

To produce the program of HR competency development that is integrated, sustainable and compatible with the objectives to be achieved, there will be certainly many parties involved. Some literatures suggest there are three parties involved in the implementation of human resources development program as shown in figure 4 below.

Figure 4
COMPETENCY-BASED STRATEGIES OF HUMAN RESOURCES DEVELOPMENT



From the figure above, it can be seen that the first focus of the human resource development is the industry itself, in this case is the tourism industry. This means that the need of the parties involved in tourism activities (businesses, organizations or individuals engaged in tourism business) should be taken as consideration. By doing so, the industry as the user must have clear qualifications about the competence of human resources needed. The clear criteria will help other parties related to fostering the development of its human resources fulfill these specifications.

Others parties involved in the fulfillment of required qualification who are also needed are the institutions/agencies/organizations providing education and training program either formally or informally. Ideally, the institutions/agencies and organizations should move on the needs of the industry itself so that the graduates can be absorbed according to the needs of the users. And the third party who becomes pillar of the development of human resources competence is the certification institution who can assess and validate the competence produced by institutions/agencies or organizations responsible for conducting education and training programs.

In its growth, in addition to the above three elements, there are some other parties that should be involved in the development of HR competencies. They are academicians and the media. Both sides must be realized as parties who participate and contribute to defining, developing and communicating the success of various issues related to human resources development and tourism performance especially in Bandung. Thus, there are actually five parties becoming the pillars, namely: (i) the industry in which there are entrepreneurs who are members of the tourism industry; (ii) the government in which various institutions or agencies are associated with the promotion and development of human resources competencies and institutions to verify the competence in the form of certification; (iii) the academicians as the providers of education and training, both formally and informally, either managed by private sector or government; (iv) the parties who participate in the media to communicate and transfer the information from the various parties to the users and; (v) the people themselves who act as entrepreneurs and as users of a variety of HR competency development programs.

DISCUSSION, LIMITATIONS, AND CONCLUSION

The pattern of the tourism sector development is still partial. Although there has been an integration, it is not yet complete among all parties concerned. There are still some related institutions with the development of culture and tourism who run their own business using own ego. Besides, unclear roles of the parties involved because overlapping duties, powers and responsibilities related to the development of tourism. Another thing is the disconnectedness between various programs and other agencies so that the agencies cannot support the existence of synergy among relevant parties in achieving the target of tourist arrivals, both foreign and domestic.

There is a big potential workforce to support the tourism program in the city of Bandung. Nevertheless, the support of the quality of its human resources is necessary by adding a variety of educational programs related to tourism which is still limited to the programs such as hospitality, travel, the Sundanese arts and culture, and culinary. It should be realized that the concern of human resource development in the tourism sector is still not balanced when

compared to the construction and development in other areas which are more economic, for example the development of tourism facilities.

Since the pattern of development of the tourism sector is still partial (no integration among all parties involved), sitting together to coordinate and develop the continuous and integrated programs among agencies, institutions, associations, businessmen, academicians, media and society itself becomes imperative. At least, those five parties should sit together with: (i) the government, represented by the Department of Culture and Tourism, Department of Park and Urban Development (ii) the associations that embodies the entrepreneurs engaged in tourism services; (iii) the academicians who facilitate, prepare and provide human resources who have good competence in the field of local arts and culture; (iv) the media who help to promote and share information of activities related to the development of local arts and culture; (v) the people themselves as the art and local culture actors who will utilize all existing facilities and continuously organize various local arts and culture.

There should be the role of government in designing and planning educational programs for delivering education engaged in the local arts and culture, both formal and informal. The government also should provide convenience and assistance or specific incentives for those who want to move on specializing in local art and culture-based education. Finally, the government should take concern with the provision of the budget allocation for this development.

It is essential to generate interest and motivation of the community, especially the next generation who want to learn Sundanese art and culture since their early age. The government can work together with the schools, ranging from pre-school, elementary, junior, and senior to make art and culture lessons became compulsory to take. Students must take one of the traditional arts because it becomes part of the curriculum.

Government should provide proper appreciation to the art performers or art teachers and give the assurance that the people engaged in the arts also deserve proper living such as those with other professional jobs.

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THE IMPACT OF NEW SERVICE INNOVATION ON PUBLIC SATISFACTION

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ABSTRACT

Departing from passion to improve the service quality to the public, the department of police force in one of the cities in Indonesia innovates its services by developing a Panic Button on Hand (PBOH) application. The key tasks of the city police are to maintain security and public order, enforce the law and provide protection and services to the community. With this application citizens who need the polices' help simply press the Help button through their smartphones and the immediate help from the police will be arrived in a few minutes at the informed location.

The purpose of the present study is to investigate the effect of new service innovation on public satisfaction as regards to the application of PBOH. A survey approach is used to measure the constructs in the proposed model. The total of 261 users of PBOH had been randomly selected from 7600 user database. The respondents were invited to fill in the online survey. To examine the factor structure of the constructs, exploratory and confirmatory factor analysis was applied. Then, Structural Equation Modeling is used by LISREL for data analysis.

The major findings of the study show that public satisfaction is influenced by the five factors of new service innovation, namely: new service concept, new client interface, new service delivery, new technology and new value system. The management of the police offices should therefore pay attention in maintaining new service innovation when pursuing public satisfaction. As the extent to which public perceived service innovation is related to the development of public satisfaction.

The study contributes to the literature by using the five dimensions of new service innovation of PBOH application. The study focused on one type of services – police services department. Therefore, future research may undertake respondents from different cities in one country from various police department that applied PBOH application. In term of originality, this research is one of the first to investigate simultaneously the modified dimension of the service innovation.

INTRODUCTION

Unwilling to fulfill the standard, public service in Indonesia is assessed disappointing by most of the citizen (Hamudy, 2010: 52; Mutiarin, 2014:92; Harwani and Maheswari, 2015: 258). Buehler (2011: 66) indicates that the disappointment is generated from the inefficient and ineffective process of service. Supporting the statement, Sunaryo and Suyono (2013: 385) also discover the failure of public service in satisfying the user is caused by the long duration process to complete the service. Helmiatin *et al* (2016: 329) refers to the complicated bureaucracy process as a factor that underlies inefficiency and ineffectiveness in public service. Moreover, the inadequate capability of public service provider becomes the highlight of the failure in public service: undisciplined, unfriendly (Girindrawardhana, 2011), discrimination of service (Harwani and Maheswari, 2015: 258), and, briefly, poor behavior (Sunaryo and Suyono, 2013: 385). In

national scale, the problem found in public service is in the process of equalization, which generates uneven service delivery in Indonesia (Osterhaus and Wimhofer, 2009). The entire problems found in public service create negative image in the society, as those create distrust towards the government (Harwani and Maheswari, 2015: 258; Buehler, 2011: 66).

Referring to the report of Top 99 Indonesia Public Service Innovation 2016 (2016: V), Indonesia government represented by Ministry of Administrative and Bureaucratic Reform Republic of Indonesia takes a leap of action by initiating Bureaucratic Reform through public service innovation award to resolve Indonesia's public service issues and to provide high quality public service. Based on Grand Design of Bureaucratic Reform 2010-2015 (2010:2), the purpose of bureaucratic reform is to "create clean government and good governance in order to give the best quality service for Indonesia citizen".

Malang City Police Department (MCPD) is one of the institutions, which establishes service innovation based on the ultimate goal of bureaucratic reform and also involved in Top 99 Public Service Innovation 2016 (Ministry of Administration and Bureaucratic Reform Republic of Indonesia, 2016). The report of Top 99 Indonesia Public Service Innovation 2016 (2016: 29) states that the purpose of MCPD designing the application is to give a better performance of serving the citizen of Malang, that is Panic Button on Hand (PBOH) which enable to be freely downloaded by Google Play Store. Assessing from the product itself, the innovation used by MCPD utilizes technology development. Basically, it is considered as a common phenomenon in which technology encourages innovation (Hogan *et al.*, 2010: 5; Li, 2012: 75; Changkaew *et al.*, 2012: 807). Prem (2015:1) states that the development of digital technology encourages the innovation.

However, there is limited study discussing the role of service innovation in public service institution. This study aims to examine and analyze the implementation of service innovation through Panic Button on Hand (PBOH) mobile application by MCPD and its impact towards public satisfaction in the city of Malang. This study proposed new service innovation model by modifying the service innovation's theory developed by den Hartog & Bilderbeek's (1999). It involves five dimensions, namely: new service concept, new client interface, new delivery process, new technology and new value system.

This study is organized as follows: firstly, it reviews previous literature and empirical research on service innovation and public satisfaction; it subsequently sets out the research questions; then it explains the research methodology adopted for the present study; next, it provides the study findings. Lastly, several conclusions are derived from this study, as well as implications for further study.

LITERATURE REVIEW

New Service Innovation

Many researchers have described the concept of service innovation. To demonstrate, several scholars as follows have defined the terminology of service innovation. Service innovation is defined as changes affecting the characteristic in service sector (Gallowj and Weinstein, 1997: 15). Service innovation as improvement in entirely or partially service concept (Rubalcaba *et al.* 2012: 697). Service innovation refers to all innovation behaviors and activities related with service or for service (Li, 2012). Service innovation is actually part of product innovation with respect to its characteristics (Giannopolou *et al.* 2013: 25). Service innovation is innovation in service product through service activities and innovation in service process (Liang

et al 2013: 4).

Based on the aforementioned scholars' definition of service innovation, even though, it is all about the service, it does not mean the innovation happened merely in service firm, but the acknowledgment of innovation in service is also occurred in manufacturing sector (Liang et al, 2013: 4). Innovation can be defined accordingly as the changes affecting one or more elements of one or more vectors of characteristics (both technical and service) or of competences (Gallouj & Savona, 2015:23). A service innovation is a process that requires interacting within a dynamic environment (Kim et al 2015). That definition show that service innovation is not merely about a service company, but it encompasses comprehensive coverage of diverse industry.

den Hertog et al (2010: 494) show deeper interest of the newness concept by defining service innovation as

“new service experiences or service solution that consist of one or several of the following dimensions: new service concept, new customer interaction, new value system/ business partners, new revenue model, new organizational service delivery system and new technological service delivery system”.

The concept of newness is also recognized by Weng et al (2012: 101) by apprehending it as “new concept of service...to make improvements in terms of their interactions with customers, service transmission systems or technology”. Entire definitions of service innovation emphasize on the concept of novelty, improvement and development of the concept of service itself.

With respect to the definitions, the goal of service innovation is explained comprehensively by many studies. Generally, the purpose of innovation in service is to create value (Tang *et al*, 2015: 99). Furseth et al (2012: 8) discover that there are three kinds of value emerged from service innovation: economic value, environmental value and social value. Most of the studies believe that the creation of innovation in service sector is to generate a solution for the problems encountered (den Hertog et al, 2010: 494). Moreover, the goal of service innovation is to establish ‘better’ and ‘new service experience’ for the customer or user (den Hertog et al, 2010: 494; Liang et al, 2013: 16; Sangiorgi, 2014: 336).

Thus, for the purpose of this study, the construct is developed and the new terminology is used, namely, new service innovation. The term of new service innovation is more appropriate than service innovation itself as a new service innovation is defined as the combination of latest or new service concept, new client interface, new service delivery, new technological option and new value system. Although the four-component of new service innovation similar to the four-component of service innovation of den Hertog et al (2010: 494), namely, new service concept, new client interface, new service delivery and new technology; this study adopted the term of the new value system rather than the term of business partners as the fifth component of the new service innovation.

In order to provide additional value to the target market, such as public as customer of Police Department, the additional dimension of value system as part of new service innovation plays an important role in enhancing the existing service innovation dimension. Value system is defined as

“a system of interdependent actors who raise the total value of the system by interactive value-generating processes and compete with other value systems in the ‘competition system’ of which they are apart” (Juttner and Wehrli, 1994: 63).

Service concept relates to the characteristics of the service offered to the target market (Ponsignon *et al.* 2011: 327). New client interface refers to the design of the interface between the service provider and its client (Han and Yang, 2013: 4). A Service delivery system addresses the question of “how” the service concept is delivered to target customer (Posignon *et al.* 2011: 327). New technological option is defined as varied technology applied by organization to enhance the delivery of the services to its target market.

PUBLIC SATISFACTION

The concept of satisfaction is reflected in the statement that satisfaction is obtained “with the service quality and values meet expectation” (Seesaiprai, 2016: 303). Weng *et al.* (2012: 103) also provides the similar comprehension by defining customer satisfaction is a result of “comparison between pre-consumption expectation and post-consumption perception”.

In the government service context, the concept satisfaction is recognized as public satisfaction and considered as ‘performance evaluation’ (Hu, 2012: 1959). Referring to Cardozo (1965), Fan and Yang (2015: 699) discover that public satisfaction underlies on the similar fundamental with customer satisfaction, as it still refer on “consumer perception” and “expectation”: the differences is on the terms of target consumer/ user addressed.

Quality of the public service is considered as one imperative factor affecting public satisfaction (Hu, 2012: 121; Helmiatin *et al.* 2016: 332). The quality of service is measured through the process of service delivery by the provider (Sajid and Baig, 2007: 547). While Kawtrakul *et al.* (2012: 267) shows that the positive result of public satisfaction is not merely constructed by effectiveness and efficiency: the employment of technology and resource’s capability to interpret needs also play roles on creating positive response in satisfaction. Martenson (2007: 549) states that the performance of the service provider determines the level of satisfaction.

Narteh (2015: 371) develops its own model by designing the measurement through numerous indicators, such as “responsiveness, ease to use, reliability, convenience, fulfillment, security and privacy”. The emergence of diverse satisfaction measurement is considered as the effect of subjectivity possess by satisfaction (Adang and Borm, 2007: 279). Thus, this study defines public satisfaction as the satisfaction of the public on the performance of the organization in providing immediate response by fulfilling public needs in getting their services. Based on the proposed construct of the public satisfaction, this study applies direct measurement for measuring public satisfaction. The measurement used for public satisfaction is developed through various literature theories.

HYPOTHESES

There are limited studies proved that there are positive relationship between innovation and satisfaction. Therefore, there are few evidences, which show the direct relationship between new service innovation and public satisfaction. Study proposed by Song *et al.* (2013) is one of study that discusses the effect of innovation towards satisfaction in mobile application. Song *et al.* (2013:3) categorizes innovation as part of improvement in which enable to affect user satisfaction towards the service.

The relationship of innovation and satisfaction is also investigated by Peng and Lai (2014: 41) which shows that empirically, satisfaction is an output of innovation. The results of the study above is also strengthen by Ambroz and Praprotnik (2008: 163) that innovation affects

satisfaction of the user directly through “service delivery and consumption”. Given that the term public satisfaction is associated to the user of the services, innovation is created to meet customer’s needs or user’s needs. By implementing renewal in one aspect or entire systems, there is a tendency that company or organizations enables to fulfill what customer or user needs that leads to satisfaction (Simon and Yaya, 2012: 1029; Seesaiprai, 2016: 299).

Based on the aforementioned explanation, this study proposes the following hypothesis:

H1 The impact of new service innovation on public satisfaction is significant.

METHODOLOGY

This study adopted exploratory and descriptive research (Malhotra, 2010) and used active users of Panic Button on Hand application as respondents. The sample of 261 respondents was provided by MCPD from 7600 users and gave the researchers an opportunity to obtain direct contact with the respondents. The survey provides incentives to all respondents in the form of giving phone credit into their mobile phone after the respondent completed the online questionnaire. The corresponding survey generated 100% response rate and were subsequently analyzed utilizing the software packages SPSS and LISREL.

The descriptive research used in this study to describe the characteristics of phenomena (Malhotra, 2010), such as, the frequency of the occurrence of the activities of the active users of PBOH in evaluating the service innovation done by MCPD and their satisfaction toward MCPD in applying PBOH for providing services to its public.

This study modified den Hartog & Bilderbeek’s (1999) four dimensions of service innovation, which consists of new service concept, new client interface, new service delivery system and technological option, and integrate one new dimension for the concept of service innovation.

RESULTS AND DISCUSSION

Descriptive Statistics

The background information of the surveyed respondents is described in this section. The male respondents outnumbered the female respondents (77.01% and 22.99%). The proportion of the respondents aged based on aged classification are varied (age of 17-22: 22.99%; 23-27: 29.89%; 28-32: 14.56%; 33-37: 11.49%; 38-42: 6.13%, and ≥ 42 : 14.94%). The largest occupation of the respondents were private employees (37,16%), college/ university students (27.97%), entrepreneurs (18,01%), and not working (2.30%), and more than 85.44% of the respondents have been used the services from MCPD. This study has investigated the mean, standard deviation, variance and skewness of the kurtosis at the acceptable value.

The data also shows that nearly 91.57% of the respondents had been living in the current location for the last three years. The study identified that the respondents were largely the residents of Malang City (91.57%), Malang Regency (2.68%) and others were come from nearby small town in East Java in Indonesia (5.75%). More than 88.89% of the respondents had been using the application of Panic Button on Hand. Interestingly, nearly 91.95% of the respondents are the active users of the Facebook).

The respondents were asked to give their answers about service innovation on a five-point Likert scale (ranging from 1 indicating strongly disagree agree to 5 indicating strongly

agree) and for public satisfaction (ranging from 1 indicating very dissatisfied to 5 indicating strongly satisfied).

SCALE DEVELOPMENT

The present study is a part of larger study that investigated the influence of service innovation and overall public satisfaction toward Malang City Police Department. The study conducted exploratory research to develop a new multi-dimensional service innovation. The steps of scale development created for the study modify scale development that was performed based on the suggestions of Churchill (1979) and has been adopted by Rufaidah (in press) such as specifying the domain of construct, generating the sample of items, scaling and developing the questionnaire, collecting the data, and assessing the reliability and validity.

The scale of service innovation and public satisfaction was purified through a subsequent phase by using exploratory factor analysis (EFA). The principal component analysis was used as the extraction method and the factors were rotated using the varimax rotation method with Kaiser normalization. Kaiser-Meyer-Olkin (KMO) Test is a measure of sampling adequacy for each variable in the model (service innovation and public satisfaction) and for the complete model (the impact of service innovation on public satisfaction). The acceptable values should be greater than 0.5 (Field 2000). KMO returns values between 0 and 1; and with 0.6 as a minimum value for a good factor analysis. The overall results of the KMO test were above 0.855. The study also used Bartlett's test of sphericity to determine if the correlation matrix is an identity matrix. If there is an identity matrix, factor analysis is meaningless (Field 2000). The Bartlett's test should be $p < 0.05$ to be significant. The overall results of the Bartlett's test of sphericity were high at 576.580 ($p = 0.000$). So both tests suggest the adequacy of the variables for factor analysis.

Prior to that, a reliability test was performed and only items with an index greater than 0.4 were considered for factor analysis. In the initial stage, there were three indicators from three dimensions are not reliable where the value of the reliability are lower than 0.30. So, the study drops these three items: NSC3, NCI-5 and NSD-4. Most of these items are negative items.

The following section explains the score of communalities, which indicates the variance in each item explained by the extracted factors. High communalities ($> .5$) show that the factors extracted explain most of the variance in the variables being analyzed. Whilst low communalities ($< .5$) mean there is considerable variance unexplained by the factors extracted. As the factors consist of many complex items, and add new dimension on the service innovation variable so the cut off score for communalities is considered below < 0.5 . Two items in the factor 'new client interface' (NCI-1 and NCI-8) are above ideal score. However, all factor loadings (that represent how much a factor explains a variable in factor analysis) are range between .613 to .901. Loading can range from -1 to 1. Loading close to -1 or 1 indicate that the factor strongly affects the variable. Loadings close to zero indicate that the factor has a weak effect on the variable.

The results of factor analysis for the variable of new service innovation (Table 1a) showed that the final 28 items loaded into five factors accounted for 73.892 per cent of total variance explained (TVE), each containing the average of the items loading at 0.660 or above. Whilst for the variable of public satisfaction (Table 1b) showed that the ten items loaded into one factor accounted the total variance explained of 80.370.

Table 1a RESULT OF EFA: NEW SERVICE INNOVATION							
No.Item	CODE	Communalities	Component				
			New Service Concept	New Client Interface	New Service Delivery	New Technology	New Value System
1.	NSC-1	.598	.773				
2.	NSC-2	.607	.779				
3.	NSC-4	.625	.790				
4.	NSC-5	.736	.858				
5.	NSC-6	.756	.870				
6.	NCI-1	.435		.660			
7.	NCI-2	.692		.832			
8.	NCI-3	.541		.736			
9.	NCI-4	.753		.868			
10.	NCI-6	.594		.770			
11.	NCI-7	.737		.858			
12.	NCI-8	.376		.613			
13.	NSD-1	.757			.870		
14.	NSD-2	.744			.863		
15.	NSD-3	.732			.856		
16.	NSD-5	.631			.794		
17.	NSD-6	.719			.848		
18.	NSD-7	.796			.892		
19.	NSD-8	.755			.869		
20.	NT-1	.663				.814	
21.	NT-2	.757				.870	
22.	NT-3	.741				.861	
23.	NT-4	.755				.869	
24.	NT-5	.763				.874	
25.	NVS-1	.731					.855
26.	NVS-2	.799					.894
27.	NVS-3	.812					.901
28.	NVS-4	.614					.783
Variance Explained			66.427	58.959	73.353	73.580	73.892

Table 1b			
RESULT OF EFA: PUBLIC SATISFACTION			
No.Item	CODE	Communalities	Component
			Public Satisfaction
1.	PS-1	.681	.825
2.	PS-2	.791	.890
3.	PS-3	.832	.912
4.	PS-4	.819	.905
5.	PS-5	.806	.898
6.	PS-6	.855	.925
7.	PS-7	.833	.913
8.	PS-8	.839	.916
9.	PS-9	.747	.864
10.	PS-10	.833	.913
Variance Explained			80.370

The TVE of the first factor (New Service Concept or NSC) of the service innovation accounted for 66.427 and this factor was measured by the following five items (followed by the score of communalities and loading factor) as follows:

1. NSC-1: I feel by applying PBOH mobile application from Play Store, my safety needs is innovatively fulfilled (.598; .773).
2. NSC-2: I find that PBOH mobile application is an innovative public service that has never been provided before, i.e. Citizen enable to report crime at the site of the crime easily (.607; .779).
3. NSC-4: I gain any new benefit through service innovation PBOH mobile application comparing to the prior benefit I get, i.e. citizen who need protection from the police, they don't need to report directly to the police office (.625; .790).
4. NSC-5: I gain affordable and innovative additional benefit through PBOH mobile application, i.e. without any cost, the application provides citizen ease to get police help in emergency situation (.736; .858).
5. NSC-6: I enable to fulfill my protection and safety needs by various innovative service features of PBOH mobile application, i.e. 'Help' button for emergency case (.756; .870).

The TVE of the second factor (New Client Interface or NCI) of the service innovation accounted for 58.959 this factor is measured by the following seven items (followed by the score of communalities and component) as follows:

1. NCI-1: PBOH mobile application is easily downloaded freely in Google Play Store (.435; .660).
2. NCI-2: I feel MCPD use innovative way to inform about and promote PBOH mobile application (.692; .832).
3. NCI-3: I know that PBOH mobile application is integrated with Malang City Police Central and Sector Command Center (.541; .736).
4. NCI-4: I gain additional value from innovative features of PBOH mobile application in which the application consists of five user friendly features, such as 'Help' Button for emergency case; report reception; Police services; Malang City News (Public information); and critics and suggestion (.753; .868).
5. NCI-6: I feel it is easy to use the five features of PBOH mobile application, such as 'Help' Button for emergency case; report reception; Police services; Malang City News (Public information); and critics and suggestion (.594; .770).
6. NCI-7: I gain ease of interaction through 'Help' Button for emergency case; report reception; Police services; Malang City News (Public information); and critics and suggestion in order to fulfill my safety needs, i.e. enable to contact the police any time (.737; .858).

7. NCI-8: I understand the penalties of the misuse of application and manipulation towards information given, that is the offender would face a prison sentence and be fined (.376; .613).

The TVE of the third factor (New Service Delivery or NSD) of the service innovation accounted for 73.353 and this factor is measured by the following seven items (followed by the score of communalities and component) as follows:

1. NSD-1: I find MCPD delivers the innovative service through PBOH mobile application thus the services responses deliver effectively and efficiently (.757; .870).
2. NSD-2: Through PBOH mobile application, the police officer is directly connected with the emergency button, therefore the police officers who are in Makota Command Center (MCC) would directly contact the officer (.744; .863).
3. NSD-3: I feel easy to use features on PBOH mobile application, i.e. citizen report reception (.732; .856).
4. NSD-5: I feel easy to use features on PBOH mobile application by, i.e. Police services, which give information about obtaining driver license, car license, firearms license and explosive permission (.631; .794).
5. NSD-6: I easily use features on PBOH mobile application, i.e. public information – Malang City News (.719; .848).
6. NSD-7: I feel being eased through report and help features of PBOH mobile application, because for citizen already downloaded the application in their gadget, and then reporting the criminal case, will be detected directly by the police (.796; .892).
7. NSD-8: I feel that Police is always with me by the presence of PBOH mobile application that enables to be used when needed to avoid criminal threats because the application is directly connected to the line operator of MCPD (.755; .869).

The TVE of the fourth factor (New Technological) of the service innovation accounted for 73.580 and this factor is measured by the following five items (followed by the score of communalities and component) as follows:

1. NT-1: additional innovative technology element existed in the services through Panic Button on Hand mobile application by Malang City Police Department, in which there is Malang Kota News feature which connects the citizen with Malang City Police Department website (.663; .814).
2. NT-2: technology which is innovatively applied enables the PBOH to increase safety and orderliness (.757; .870).
3. NT-3: technology innovation of the PBOH mobile application by Malang City Police Department is evaluated as the best way to provide safety and orderliness (.741; .861).
4. NT-4: ease to use application navigation of Panic Button on Hand mobile application by Malang City Police Department (.755; .869).
5. NT-5: ease to interact and contact with police officer through PBOH mobile application by Malang City Police Department, which is similar to an e-service form (.763; .874).

The TVE of the fifth factor (New Value System) of the service innovation accounted for 73.892 and this factor is measured by the following five items (followed by the score of communalities and component) as follows:

1. NVS-1: PBOH mobile application is the most innovative and easiest way for citizen to ask help when there is criminal case happened (.731; .855).
2. NVS-2: Besides its function for emergency call by pressing Help button, this application also provides additional features, which enables citizen to give reports, critics, and suggestions for MCPD officers via mobile phone (.799; .894).
3. NVS-3: With PBOH mobile application as innovative media, it is expected to increase the safety and conduciveness of environment (.812; .901).

4. NVS-4: PBOH mobile application needs to be developed to conform to citizen's safety needs (.614; .783).

The TVE of the second variable (public satisfaction) accounted for 80.370 and this factor is measured by the following ten items (followed by the score of communalities and component) as follows--the performance of MCPD through its service innovation, namely Panic Button on Hand mobile application is:

1. PS-1: actualizing Malang city is safe from crime (.681; .825).
2. PS-2: creating citizen's awareness to use Panic Button on Hand mobile application (.791; .890).
3. PS-2: realizing quick response officer and government towards citizen needs, especially safety needs (.832; .912).
4. PS-2: actualizing the government which serve citizen well (.819; .905).
5. PS-2: actualizing citizen who is conscious of service innovation technology (.806; .898).
6. PS-2: constructing citizen's awareness to be partner with the police officer (.855; .925).
7. PS-2: constructing city citizen's awareness of innovation technology (.833; .913). PS-2: constructing safety systems and crime protection (.839; .916). PS-2: realizing citizen's awareness of information technology (.747; .864).
8. PS-2: constructing awareness of citizen to give self-protection from crime (.833; .913).

The result of the reliability test (Table 2) provides all factors are reliable. The results show that the resulting alpha values for the five factors of service innovation and the variable of public satisfaction are ranged from $\alpha = 0.742$ to $\alpha = 0.910$, which are acceptable according to Nunnally and Bernstein's (1994) guidelines for exploratory research.

TABLE 2 RESULT OF RELIABILITY TEST				
New Service Innovation Revision				
No	Dimension, TVE & CR	Code	Reliability	Cronbach's Alpha if Item Deleted
1	New Service Concept $\alpha=.872$ AVE=.494 CR=.829	NSC-1	.649	.857
		NSC-2	.652	.856
		NSC-4	.667	.854
		NSC-5	.759	.831
		NSC-6	.775	.826
2	New Client Interface $\alpha=.879$ AVE=.456 CR=.851	NCI-1	.553	.874
		NCI-2	.744	.851
		NCI-3	.629	.867
		NCI-4	.792	.846
		NCI-6	.668	.861
		NCI-7	.779	.846
3	New Service Delivery $\alpha=.938$ AVE=.640 CR=.926	NSD-1	.817	.926
		NSD-2	.803	.927
		NSD-3	.798	.928
		NSD-5	.727	.936
		NSD-6	.790	.928
		NSD-7	.845	.924
		NSD-8	.817	.926
4	New Technology	NT-1	.714	.902

	α =.910 AVE=.597 CR=.881	NT-2	.790	.886
		NT-3	.776	.889
		NT-4	.787	.887
		NT-5	.794	.885
5	New Value System α =.881 AVE=.557 CR=.833	NVS-1	.733	.851
		NVS-2	.796	.825
		NVS-3	.808	.822
		NVS-4	.637	.885
Public Satisfaction				
No	Dimension, TVE & CR	Code	Reliability	Cronbach's Alpha if Item Deleted
1	Public Satisfaction α =.973 AVE=.759 CR=.969	PS-1	.788	.973
		PS-2	.863	.970
		PS-3	.890	.969
		PS-4	.881	.969
		PS-5	.872	.970
		PS-6	.905	.968
		PS-7	.890	.969
		PS-8	.893	.969
		PS-9	.831	.971
		PS-10	.890	.969

Note: TVE: Total Variance Explained; CR: Construct Reliability

Content validity is used in this study through the literature review and on the opinions of several experts who examined the items. Construct validity is tested for this study. The average variance extracted (AVE) for each latent factor exceeded the respective squared correlation between factors, thus providing evidence of discriminant validity (Fornell and Larcker 1981). So this study considers these above AVE's score as acceptable. The Kaiser-Meyer-Olkin (KMO) test was performed to test the suitability of the sample for each unifactorial determination. The results indicated that all factors were within the acceptable range from 0.821 to 0.986.

Convergent validity is applied in this study to measure whether the same construct and the variables are strongly correlated to each other. This study also consider the used of discriminant validity. It applies when different variables are used to measure different constructs, and the correlations between the variables of different constructs are relatively weak. The result of convergent validity (using composite reliability or it is also called construct reliability/CR) shows that the item-to-total correlations for variables within the final five factors ranged from .829 to 0.926. Next, the discriminant validity test shows that the dimension of NCS and NCI provided insignificant results. It means that the two indicator of these dimensions is not good enough to distinguish the dimensions of which are actually measured. Nevertheless, this study has shown that a good convergent validity is considered good enough to state a valid indicator.

MODEL FIT

In this study, firstly, the CFA was performed by carrying out path analysis using a structural equation modeling. A measurement model was specified and the model's overall fit was assessed to determine the degree to which the model was consistent with data (Rufaidah, in press). Table 3, Table 4, Table 5 and Table 6 shows the fit indices for the proposed models: Goodness-of-fit Index (GFI), Adjusted Goodness-of-fit Index (AGFI), Root Mean Square of

Approximation (RMSEA), Normed Fit Index (NFI), Comparative Fit Index (CFI), *Parsimony Normed Fit Index (PNFI)*, Parsimony Goodness-of-Fit Index (*PFGI*). All the fit indices (Table 1, Table 2, Table 3 and Table 4) indicate that the scale of new service innovation is five-factor construct and the scale of public satisfaction is uni-dimensional construct. This evidence indicates that the full model of the variables is valid.

Table 3 Result of Fit Indices of New Service Innovation										
No.	Dimension	Number of Items	Range of Std Regression	Chi/df	RMSEA	GGFI	AAGFI	CCFI	TTLI	BBC Coef. Δ
1	New Service Concept	5	0.68 – 0.85	.690	0.000	0.93	0.93	0.98	0.96	0.97
2	New Client Interface	7	0.52 – 0.85	1.114	0.027	0.92	0.85	0.94	0.92	0.92
3	New Service Delivery	7	0.74 – 0.88	1.089	0.019	0.93	0.86	0.96	0.94	0.95
4	New Technology	5	0.75 – 0.84	0.880	0.000	0.97	0.92	0.98	0.97	0.98
5	New Value System	4	0.69 – 0.88	0.655	0.000	0.99	0.95	0.99	0.98	0.99

Note: BBC: Bentler-Bonnet Coefficient

Table 4 RESULT OF FIT INDICES OF NEW SERVICE INNOVATION										
No.	Dimension	Number of Items	Range of Std Regression	Chi/df	RMSE A	GGF I	AAGF I	CCF I	TTL I	BBC Coef. Δ
1	Public Satisfaction	10	0.85 -0.92	1.048	0.014	0.87	0.80	0.950	0.940	0.940

Note: BBC: Bentler-Bonnet Coefficient

Table 5 RESULT OF FIT INDICES OF NEW SERVICE INNOVATION				
Variabel New Service Innovation	χ^2/df	GFI	AGFI	RMSEA
	0.744	0.770	0.730	0.000
	NFI	CFI	PNFI	PGFI
	0.860	0.900	0.78	0.660

Table 6 RESULT OF FIT INDICES OF PUBLIC SATISFACTION				
Variabel Public Satisfaction	χ^2/df	GFI	AGFI	RMSEA
	1.048	0.87	0.80	0.014
	NFI	CFI	PNFI	PGFI
	0.940	0.950	0.730	0.55

The second stage, the study used the results of F test calculations. The F value was obtained as 777 that are greater than the value of F table 3.033 (Table 7). Thus, the null hypothesis is rejected. The impact of new service innovation toward public service was calculated about 0.870 (Table 7).

Table 7					
THE IMPACT OF NEW SERVICE INNOVATION ON PUBLIC SATISFACTION					
No.	Variable	Total influence	T value	t-table value	Note
1	Service Innovation	0.870	0.583	1.96	Significant
2	$R^2 = 0.75$, $F = 777$, $F\text{-Table} = 3.878$ (conclusion significant)				

The last but not least, the study shows the result of the fit model for the impact of new service innovation on public satisfaction (Table 8). The results were indicated by all scores are above cut off value, such as the score of Chi square (393.36 cut off value at $p\text{-value} > .05$), $p\text{-value}$ (1.000 cut off value $p\text{-value} > .05$), Ratio Chi-Square/df (0.666 cut off value at <3), RMSEA (0.000, within the range of 0.05- 0.08); GFI (0.75; 0:no fit to 1: perfect fit); AGFI (0.72; 0:no fit to 1: perfect fit); NFI (0.85; 0:no fit to 1: perfect fit); CFI (0.91; 0:no fit to 1: perfect fit); Standardize RMR (0.042; cut off value <0.80).

Table 8				
RESULT OF FIT INDICES: THE IMPACT OF NEW SERVICE INNOVATION ON PUBLIC SATISFACTION				
P-value: 1.00	Chi-Square 393.36	Ratio Chi-Square/df 0.600	RMSEA 0.000	GFI 0.75
Cut off value P-value: > 0.05	AGFI 0.72	NFI 0.85	CFI 0.91	Standardize RMR 0.042

CONCLUSIONS

Public satisfaction has long been recognized as playing an important role getting public trust. Considerable research has been conducted on what public satisfaction means to users of public services such as services provided by the Police Department in a city. Although, there are many studies conducted worldwide to measure the level of public satisfaction in specific public organization. There is not much research has been conducted to study public satisfaction based on service innovation applied by the public organization. As the concept applied for this study is to investigate the impact of new service innovation on public satisfaction, the findings reveal that there are five determinants of public satisfaction: new service concept, new client interface, new service delivery, new technology and new value systems. The structural equation modeling of the study was tested using LISREL shows that the level of public satisfaction toward the application of PBOH by the MCPD was 87%.

In this millennium era, public awareness using new technology through mobile phone as their communication tools is increased rapidly. This phenomenon is grabbed by MCPD to provide PBOH application that met public expectation. The result of the study provides implication to similar organizations to consider in using similar application to provide new service innovation for the public. The best practices of the MCPD in executing the PBOH application was highly appreciated by the public, which is shown by a very high, score of the impact of new service innovation toward public satisfaction.

Despite the theoretical and practical relevance, the study does suffer from limitations. The present study is a starting point to test the construct of new service innovation at various type of organization by adding one factor, which is not explicitly stated in extant literature, namely new value system. The new service innovation concept if executed properly could enhance the positive image of the public organization that suffers from negative image. Further study could

also be done by measuring the impact of new service innovation on brand image of the public organization through public satisfaction.

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TESTING BRANDING STRATEGY DEVELOPMENT MODEL

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ABSTRACT

The purpose of this paper is to test branding strategy development model. It proposed the relationship of the three variables in branding strategy development, namely branding strategy development based on innovative behavior (BSD-BOIB), branding strategy development through knowledge creation (BSD-TKC) and dynamic capability in branding strategy development (DC-IBSD). Data were collected from a sample of 245 business owners of SMEs. The validation is executed through the use of exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and structural equation modeling (SEM).

The paper explains the theoretical background of the study, which describes the test of conceptual model and discusses the theoretical as well as managerial implications of the study. The dimension applied for each of variable used in branding strategy development tested in this study are as follows: first variable, innovative behavior is measured through brand idea formation, brand opportunities search, brand role model/championing and brand application; second variable, knowledge creation is measured using brand socialization, brand externalization, brand communication and brand internalization; and third variable, dynamic capability through brand sensing, brand shaping and brand reconfiguration.

The results from this study suggest that the branding strategy development based on innovative behavior provides an attractive avenue for influencing dynamic capability through knowledge creation activity. The concept of branding strategy development if executed properly amongst SMEs could enhance strategic positioning of the products produced by SMEs. This research is one of the first to investigate simultaneously branding strategy development as variable that integrates into innovative behavior, knowledge creation and dynamic capability. Future research should investigate the application of the model of branding strategy development using similar variables as well as different variables at various type organizations.

INTRODUCTION

Branding as an organization's tool for building strategic position in the market is a long-term process that could shape organization's competitive advantage (Sanya et al., 2013; Kapferer 2008). It requires the commitment of internal management of the firms to maintain consistent position in the market (Shahri, 2011). The development of branding strategy not only starts from creating a distinct logo to disseminating it but also to maintaining positive and creating memorable image of the firms (Punyatoya et al., 2014)

Branding strategy applies amongst different size of the firms i.e. SME and may create unique offering from one another. Consistent performance in building favorable brand image could also shape the firms into positive internal organizational atmosphere. Internal organization plays critical role in judging the execution of branding strategy (van Riel and van Bruggen, 2002:241). The successfulness of building favorable brand relies on not only to external audiences of the company, but also to those within internal company, particularly in judging its uses positively (Shahri 2002:51). Relevant issue in developing branding strategy within internal

organization is how the innovative behavior of the business owners could influence the creation of their practical knowledge in branding strategy development (Neven, 2014).

Branding strategy as a systematically planned and implemented process of creating and maintaining a favorable unique identity and image of the firm, developed through various internal processes within the organization such as innovating the behavior, creating the knowledge of distinct brand and aligning the capability of the firm with external environment. The process of the creation and development of brand identity in the SME context that illustrates the two main stages of brand building: starting stage and development stage (Centeno et al 2013). Extant literature on brands has been relied heavily on large company brands rather than SMEs (Aaker 1996; de Chernatony and McDonald 2003; Keller 2003; Kapferrer 2004; Centeno et al 2013).

Brand building amongst SMEs, although often built in a very different context, it has been assumed that SMEs' branding strategy development may develop in a similar way to large company (Centeno et al 2013). SME brands are built from an innovative, experiment-oriented and resourceful approach, specifically, engaged in brand exploration phases where SME experimented trials and errors' risk processes that lead to commitment, creativity and willingness to learn (Centeno et al 2013). This paper proposed the testing of the relationship of the three variables namely innovative behavior, knowledge creation and dynamic capability in branding strategy development. The three-variable's was labeled as Branding Strategy Development Based On Innovative Behavior (BSD-BOIB), Branding Strategy Development Through Knowledge Creation (BSD-TKC) and Dynamic Capability In Branding Strategy Development (DC-IBSD). This paper is structured as follows: firstly, it reviews previous literature and empirical research on branding strategy development using innovative behavior, knowledge creation and dynamic capability. The paper subsequently provides the research questions; explains the research methodology adopted for the present study; provides the study findings. Last but not least, the paper discusses several conclusions that derived from the study, as well as the implications for further study.

LITERATURE REVIEW

The need to consider habits in creating favorable brands for products is as an important factor in determining the commitment to innovate the firm (Cavagnoli, 2011). Innovation reflects a process of learning such as developing a memorable brand for a firm. Innovation also reflects a process of transforming knowledge into practice for better outcome, for instance, in branding strategy development -- unique ideas come through several knowledge transformations and convert them into new brand identity and brand image (Audretsch et al., 2006).

In relation to the current study about innovative behavior amongst business owners of the SMEs, therefore, the task of an entrepreneur is not to invent (to create an invention), but to assure that the acquired knowledge -- for instance innovating the visual branding of the firm -- is transformed into a market product (Janakova, 2012). Innovation is a concept that extends to products, processes, and services (Caraballo & McLaughlin, 2012). There is a necessity for involving personnel in building innovation of the firms to achieve competitive advantage through innovating the behavior of the human resources.

Innovation as a process starts with capturing ideas from employees such as brainstorming for getting the ideas of creating unique logo design of the firm; and then evaluating them in order to determine which ideas have the greatest potential to add value to the organization (Bassiti & Ajhoun, 2013). The front-end part of the innovation process, based on Bassiti & Ajhoun (2013)

is called as idea management process that consists of generating new concepts, combining organization's collective intelligence, and aligning it with the organization's contextual factors (strategy, goals, needs).

Similar to branding strategy development based on innovative behavior, it requires continuous processes such as idea formation/generation, opportunities search/ exploration, role model/championing and application of ideas/knowledge. To clarify, executing the existing strong brand as a vehicle to create a new product line can support branding strategy development through idea formation/generation. Running as many as, for example, ten different brand names, is part of opportunities search/exploration process in order to get a greater overall share than having one out of ten brands. Supporting the creation and development of a favorable brand and making sure that all employees understand what the brand stands for is part of the role model/championing process. Shaping a favorable brand continuously that add value to consumers is part of applying new ideas/knowledge in branding strategy development. So that, current study adopted the concept of branding strategy development based on innovative behavior (BSD-BOIB) that is defined as the frequency of new activities related to creating positive image of the firm through idea formation/generation, opportunities search/exploration, role model/championing and application of ideas/knowledge, processes, products or procedures, as part of branding strategy development. This construct is proposed by Rufaidah (in press-A) and is measured using 13 items.

The second variable used in this study is branding strategy development through knowledge creation. Knowledge workers are considered the key to organizational growth since they create innovations via developing brand training that exposes the employee to develop brand's core capabilities of the firm, design marketing programs by launching an innovative event for a new product line to enhance branding performance and executing strategies alongside integrating firm strategic resources to be more competitive (Amir & Parvar, 2014). In relation to that, firm should defeat the pressure from competitive environment in order to sustain in the market competition by winning new customers.

Individuals who are holders of knowledge in defeating competition represent a tool for the generation of innovations (Hana, 2013). Knowledge of the employees as well as the owner of the firm could generate new innovative ideas; for instance, in branding strategy development that will help organization's to achieve competitive advantages. To demonstrate, once a new brand is created, the socialization process to internal and external target market that is part of the knowledge creation is started, it will be followed by what Nonaka Takeuchi's model (1995) called as knowledge creation of externalization, combination and internalization. Nonaka and Takeuchi (1995) defined knowledge conversion as the process with which firms create knowledge through, for illustration, brand socialization, brand externalization, brand combination and brand internalization (Rufaidah, in press-C).

Branding development strategy has similar process with Nonaka and Takeuchi's (1995) knowledge creation, in other words branding strategy development through knowledge creation has similar cyclical process through brand socialization, brand externalization, brand combination and brand internalization. To exemplify, the result of the study of Sinha et al. (2011) has indicated that building customer centricity in a brand by leveraging consumer-brand knowledge is a significant strategic thought that organizations can explore in order to create new opportunities for brand-customer dialogue, knowledge creation, and, critically, provide a new context to be more closely aligned with firm objectives.

Thus, in relation to the knowledge creation process of externalization stage, Sinha et al. (2011) argued that companies constantly evolve their brands to better meet customers' needs - through innovative and inspiring design created by the firm - so there is an engagement process. Additionally, the combination of information from internal and external sources as part of knowledge creation process occurs where the communication between employees and customers takes place in a way to connect how consumers' live, adopt and use a brand. So that, in order to further improve the current study, branding strategy development through knowledge creation (BSD-TKC) is adopted and is defined as the reflection of branding strategy development activities through the process of brand-socialization, brand-externalization, brand-combination and brand-internalization (Rufaidah, in press-B). This construct is measured using 10 items

In relation to the former variables mentioned, innovative behavior and knowledge creation in branding strategy development lead to the premise of continuous improvement which is needed by the firm and requires specific capability that can accommodate the dynamic of the environment that evolve every time. Dynamic capability is a learned and stable pattern of collective activity, such as, creating new brand lines for new market by relying on to the cohesiveness of the branding strategy team. In order to accommodate the changing of customers' preferences, firms need systematic ways to generate the impression of real and authentic brand image of the products; thus modifying routine-activities to be executed in pursuit of improving its effectiveness (Zollo and Winter, 2002:340). Firms also require unique and difficult-to-replicate dynamic capabilities such as the capability of the firm to create a mental picture in the mind of the target market that springs up at the mention of a firm's name; where these capabilities can be harnessed (Teece, 2007). Changing brand identity in order to accommodate the change of firm target market should be supported by various intense corporate marketing campaign techniques to create favorable image. In fast-moving business environments which is open to global competition, and characterized by dispersion in the geographical and organizational sources of innovation and manufacturing, sustainable advantage requires not only the ownership of difficult-to-replicate assets (knowledge) but also requires unique and difficult-to-replicate dynamic capabilities (Teece, 2007).

Dynamic capabilities such as capabilities in creating favorable distinctive brand image require firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing customers' preferences (modified from Teece, Pisano & Shuen, 1997:516). By definition, dynamic capabilities involve adaptation and change such as sensing the change of the environment, integrating or reconfiguring it using other resources and capabilities to accomplish new competitive advantages (Helfat & Peteraf, 2003). So that, in relation to the aforementioned literature, the construct of dynamic capability in branding strategy development (DC-IBSD) is adopted. It is defined (Rufaidah, in press-C) as the activities of sensing, shaping and reconfiguring branding strategy development through brand-sensing (identifying opportunities and threats), brand-shaping (the formation of new habits to seize opportunities), and brand-reconfiguration (strengthening the new system). This construct is measured using 16 items.

HYPOTHESES

Innovative behavior of businesses when done consistently will form a habit of creating knowledge. Among them is innovative behavior that consists of brand idea formation, brand opportunities search/exploration, brand role model/championing, and brand application. Structured knowledge creation will establish the capability of entrepreneurs themselves, such as

the brand-sensing (identifying opportunities and threats), brand-shaping (the formation of new habits to seize opportunities), and brand reconfiguration (strengthening the new system). The ability of business owners to improve their competence over time in a situation of environmental change is known as dynamic capability. When knowledge creation becomes part of the formation of dynamic capabilities, branding strategy development becomes important determinant. Interdependence between innovative behavior and knowledge creation with dynamic capability is a synergy that has not been studied in the development of branding strategies. Therefore, this study tested the following hypotheses:

H1-1: Branding Strategy Development Based on Innovative Behaviour (BSD-BOIB) and Branding Strategy Development through Knowledge Creation (BSD-TKC) have influence on Dynamic Capability In Branding Strategy Development (DC-IBSD).

Innovative behavior in brand development may affect the creation of knowledge, such as the activity development of branding strategies in terms of disseminating the brand that has been created, communicating a branding strategy to target markets, combining all the potential markets and organizations owned and integrating it as part of the culture of marketing and branding. Thus, the creation of successful brands of the firms should not be confused with the development of highly visible promotional campaigns (Friedrich & Witt, 1995). Therefore, this study establishes the hypothesis to be tested as follows:

H1-2: Branding Strategy Development Based on Innovative Behavior (BSD-BOIB) has impact on Branding Strategy Development through Knowledge Creation (BSD-TKC)

The development of innovative behavior-based branding strategy is characterized by the activity of establishing creative ideas for a brand, the activity of exploring opportunities for shaping the uniqueness of the brand, the activity of determining the selected brand's characteristics and activities for successful brand positioning to be perceived in the minds of the target market. To do all these things, firms need a capability that can keep abreast of rapidly changing market. To that end, the study proposes a hypothesis that will be tested as follows:

H1-3: Branding Strategy Development Based on Innovative Behavior (BSD-BOIB) has impact on Dynamic Capability in Branding Strategy Development (DC-IBSD)

The activities of knowledge creation for a branding strategy based on the activity of spinning cyclical through the process of socialization, externalization, combination and internalization. The creation of a distinct and unique brand characteristic occurs through the cyclical process. It occurs in connection with the demands of a rapidly changing environment, thus businesses are demanded to be adapted to the changing tastes of the target market in terms of brand preferences. In respect of this, the study tests the hypothesis as follows:

H1-4: Branding Strategy Development through Knowledge Creation (BSD-TKC) has impact on Dynamic Capability in Branding Strategy Development (DC-IBSD)

Based on the studies involving these three variables as described previously, the research will test the model of branding strategy development. The research question that arises is whether the models to be tested (i.e. branding strategy development based on innovative behavior (BSD-BOIB) and branding strategy development through knowledge creation (BSD-TKC) have influence on the dynamic capability in branding strategy development (DC-IBSD)) is

a model that fits? Therefore, the research hypothesis to be tested is as follows: $H_{0.5} : \chi^2 = \chi^2(\chi^2)$, the structural equation model (SEM) is fit. $H_{1.5} : \chi^2 > \chi^2(\chi^2)$, the structural equation model (SEM) is unfit.

METHODOLOGY

This study adopted exploratory and descriptive research (Malhotra, 2010) and used Small Medium Enterprises's business owners as respondents. Kelloway (1998) recommended at least using 200 respondents as a sample size for using CFA. "The required sample size for any particular CFA is determined, in part, by the number of parameters being estimated in the model" (Hubley, 2004:168). He continues that, "The required sample size for any particular CFA is determined, in part, by the number of parameters being estimated in the model". Therefore, the obtained sample size (N=245) to parameters (39) ratio exceeds the minimum required ratio of 5:1.

The sample of 245 respondents was collected from the Department of Commerce and Trading of West Java Province. As the author is a consultant for the Department of Commerce and Trading of West Java Province, this has given the researcher an opportunity to obtain direct contact with respondents. The corresponding survey generated 100% response rate and were subsequently analyzed utilizing the software package of SPSS and LISREL. The study used descriptive research and causal research (Malhotra, 2010).

Descriptive research describes the characteristics of phenomena such as the frequency of the occurrence of the activities of SME's business owners in evaluating their branding strategy development based on innovative behavior, knowledge creation and dynamic capability. Causal research involves finding the effect of one thing on another, in this current study, to find the effect of BSD-BOIB on BSD-TKC, BSD-BOIB on DC-BSD, and BSD-TKC on IDC-BSD.

RESULTS AND DISCUSSION

Descriptive Statistics

The background information of the surveyed respondents are explained as follows: the respondents were business owners of the SMEs. They produced various products, such as male cloths (4.9%), female cloths (5.71%), cloth accessories (2.45%), handicrafts (14.69%), foods and drinks products (42.04%), tailor services (13.06%), saloon services (4.49%), loan services (0.82%), shoes products (10.61%), bags (0.41%), ceramics (0.415), and printing services (0.41%). The male respondents consist of 52.24% from the total study. This figure implies that the majority of the SME's business owners are male. More than 59,2% respondents have been operating in the current business for more than one year. In term of the respondents' age, more than 33% of them are aged above 36-45 years old. Then, in term of their education, more than 49.8% of their educational background are graduated from high schools and 41,2% are graduated from college. The data also shows that nearly 52,2% of the respondents have been living in the current location of their business.

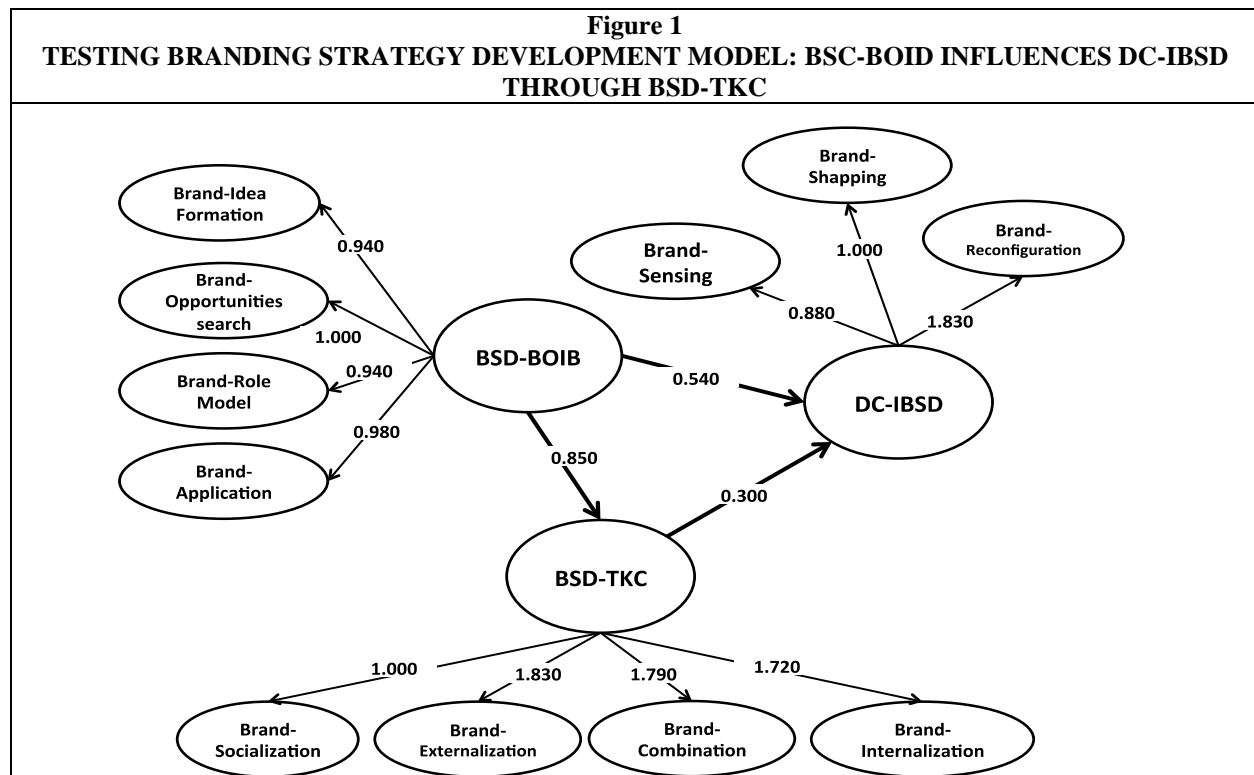
TESTING THE MODEL

As the present study is part of larger study that investigated the influence of three variables namely "BSD based on innovative behavior (BSD-BOIB)", "BSD through knowledge

creation (BSD-TKC)” and “dynamic capability in branding strategy development (DC-IBSD)”;

the study conducted exploratory research to test a new proposed model of Branding Strategy Development (BSD). The scale of BSD-BOIB, BSD-TKC and DC-IBSD used by Rufaidah (in press-A, in press-B) was adopted in this study. All of her constructs have been assessed using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA).

The present study involved using SEM on the survey data to test the initially conceptualized model (Figure 1) for overall data-model fit.



A two-step analysis process was conducted using LISREL as recommended by Byrne (1998). Firstly, a CFA was performed to assure that each latent variable was measured appropriately. The second step was assessing the overall data-model fit of the model. A measurement model was specified and the model’s overall fit was assessed to determine to which degree the model was consistent with data.

The result of the tests shows the fit indices for the proposed models: Goodness-of-fit Index (GFI), Adjusted Goodness-of-fit Index (AGFI), Root Mean Square of Approximation (RMSEA), Normed Fit Index (NFI), Comparative Fit Index (CFI), Parsimony Normed Fit Index (PNFI), Parsimony Goodness-of-Fit Index (PGFI). All the fit indices indicate that the scale of “BSD based on innovative behavior (BSD-BOIB)”, “BSD through knowledge creation (BSD-TKC)” is a four-factor construct and the scale of “dynamic capability in branding strategy development (DC-IBSD)” is a three-factor construct. This evidence indicates that the full model of the variables is valid.

PRELIMINARY ANALYSIS

Based on model fit index, the hypothesis for the study is tested as follows:

H_0 : $\chi^2 = \chi^2_{(df)}$, The structural equation modeling of the model is a fit model.

H_1 : $\chi^2 > \chi^2_{(df)}$, The structural equation modeling of the model model is not a fit model.

This section describes the variables used in this study: BSD Based on Innovative Behavior (BSD-BOIB); BSD through Knowledge Creation (BSD-TKC); and Dynamic Capability in Branding Strategy Development (DC-IBSD). Firstly, the variable of BSD based on innovative behavior (BSD-BOIB) is measured by a four-dimension of Brand-Idea Formation (3 items), Brand-Opportunities Search (3 items), Brand-Role Model (3 items), and Brand-Application (4 items). Secondly, the variable of BSD through knowledge creation (BSD-TKC) is measured using four dimensions, namely: Brand-Socialization (4 items), Brand-Externalization (2 items), Brand-Combination (2 items) and Brand-Internalization (2 items). Finally, the variable of dynamic capability in branding strategy development (DC-IBSD) is measured using three dimensions, namely: Brand-Sensing (5 items), Brand-Shaping (5 items) and Brand-Reconfiguration (6 items).

Based on overall model fit calculation for the study, the result of the chi-square score for the SEM model is 1159.22 with the probability of 0.01 (p-value). Chi-square indicates how well the specified measurement model fits the sample data. Referring to the score of chi-square, the model is categorized unfit. This result is emerged due to the large size of sample which attains 245 sample, larger than 200. It gives significant impact towards the value of chi-square, in which big size sample creates a tendency of the enhancement of chi-square score while p-value goes smaller. It is proven by the fact that chi-square is the only fit index which certify the incompatibility of the model whereas the others fit measurements prove that the model is fit.

In solving the non-significant chi-square, Scheider, (2009: p.154) stated that

“A non-significant chi-square (with a high probability level) would indicate that the hypothesized measurement model is not different from the data (fits the data well)”. Then, he adopted the suggestion from Byrne (1998) that convinced, “because chi-square is sensitive to sample size, well-fitting models where chi-square approximates degrees of freedom are unrealistic in most SEM calculations (Byrne, 1998)”.

Furthermore, Scheider (2009) adopted what Hofmann (1995) recommended for solving a nonsignificant chi-square by adjusting the chi-square using the Jöreskog index (χ^2_{sup} / df) along with the normed fit index (NFI) as ancillary indices. A Jöreskog index of two or less indicates good fit. An NFI of .9 and above indicates good fit.”.

The rest of six models of fit measurement indices reflect how well the measurement model fits the sample data. The Root Mean Square Error Approximation (RMSEA) score of the model is 0.058. According to the criteria, the RMSEA of 0,058, less than 0.08 (<0.08) indicates that the model is good fit (Browne and Cudeck, 1993). This also expresses that there is small deviation between the hypothesized models with its empirical model as the presentation of value is less than 8%.

The score of Goodness of fit index (GFI) attains 0.80. In the regression analysis, the score of GFI is consistent with the coefficient of determination (R^2). GFI represents the diversity of data which enable to be explained simultaneously by the model. The diversity of data described

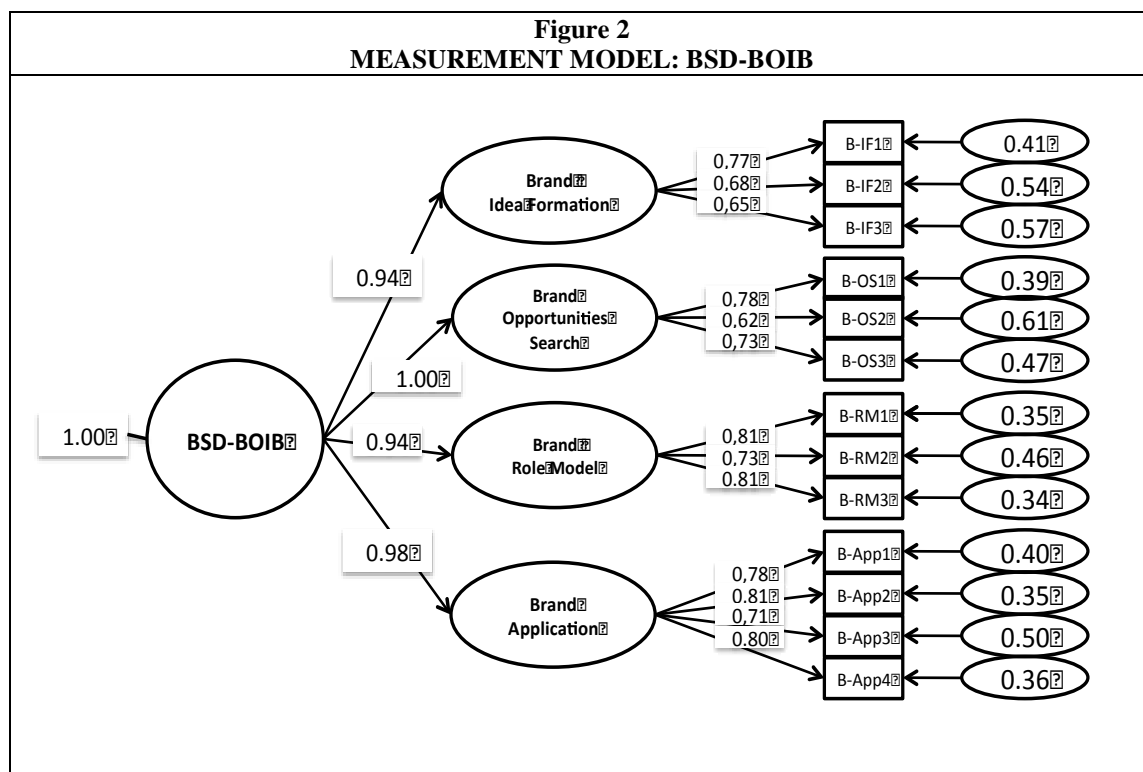
attains the level of 80% which indicates that the model is fit (Bagozzi and Yi, 1998; Hair et al., 1998). Then, the score of AGFI (Adjusted of fit index) is 0.77. AGFI is considered as the value adjustment of GFI towards the degrees of freedom of the model. The value of AGFI stands in the cutoff point (Bagozzi and Yi, 1998; Hair et al., 1998) which indicates that the model is fit.

The value of NFI (Normed fit Index) attains 0.81. NFI represents the degree of model fit. The value lies in the cutoff point, which indicates the model compatibility (Bagozzi and Yi, 1998; Hair et al., 1998). Furthermore, the value of CFI (Comparative fit index) obtains 0.90. CFI represents model validation measurement. The value of CFI is in the cutoff point (Bagozzi and Yi, 1998; Hair et al., 1998) which indicates that the model is fit. Finally, the value of Root Mean Square Residual (RMR) is 0.074. The value of RMR is in the cutoff point which indicates that the model is fit (Bagozzi and Yi, 1998; Hair et al., 1998).

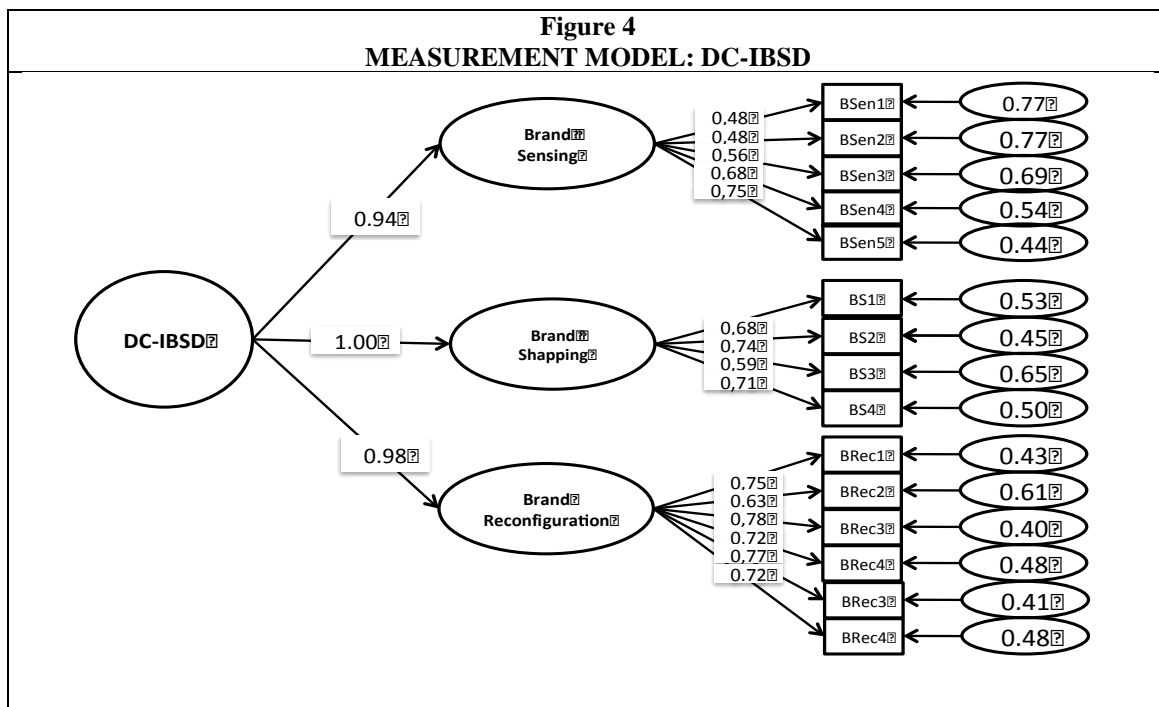
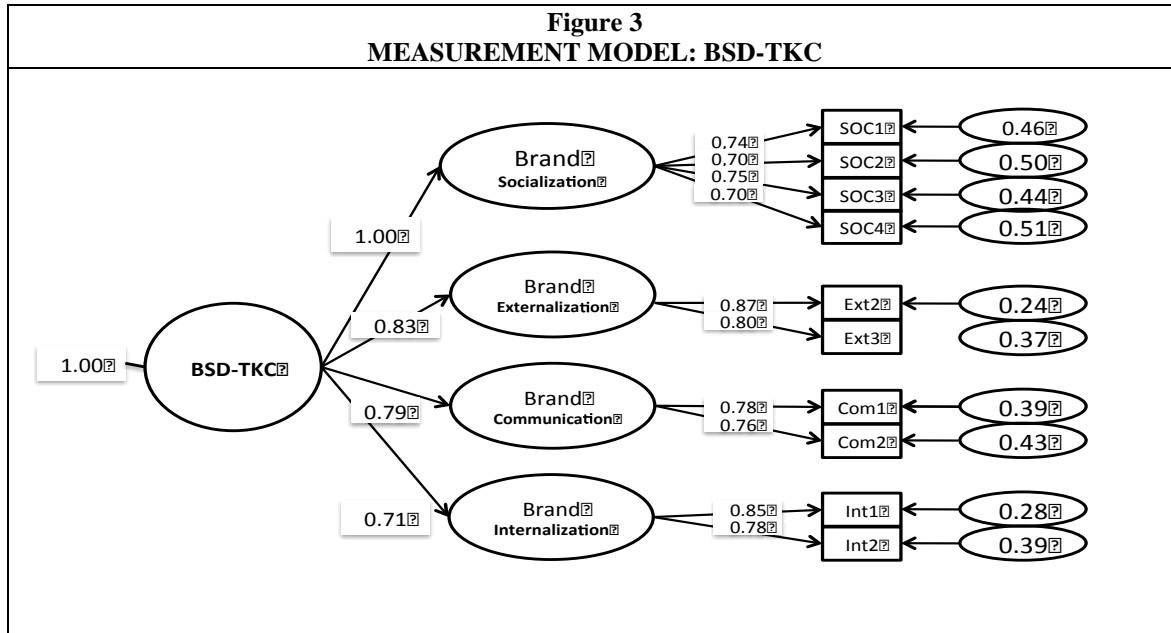
It can be concluded that based on the seven model fit measurement indices, almost all of them meet the requirements of fit model, thus the model is categorized good fit. This condition leads the possibility for hypothesis testing.

MEASUREMENT MODEL ANALYSIS

This section describes the measurement model analysis for the variables used in this study: BSD Based on Innovative Behavior (BSD-BOIB); BSD through Knowledge Creation (BSD-TKC); and Dynamic Capability in Branding Strategy Development (DC-IBSD). Using composite reliability, all constructs were assessed. It shows that all scores exceed 0.70. Bagozzi and Yi (1988) stated that good construct reliability requires composite reliability exceeding 0.70. Validity coefficients (factor loadings) in the measurement model for all items of the constructs were assessed. The results are discussed as follows.



Firstly, the variable of BSD based on innovative behavior (BSD-BOIB) is measured by a four-dimension of Brand-Idea Formation, Brand-Opportunities Search, Brand-Role Model, and Brand-Application (Figure 2). The composite reliability of each dimension respectively are 0.743, 0.755, 0.827, and 0.858. The results of analysis show that all scores for validity coefficients (from 0.62 to 0.81), reliability indicators (from 0.384 to 0.656) and variances errors (from 0.344 to 0.616) are at acceptable scores.



Secondly, four dimensions of the variable of BSD through knowledge creation (BSD-TKC) are used to measure the variable, namely: Brand-Socialization, Brand-Externalization, Brand-Combination and Brand-Internalization (Figure 3). The composite reliability of each dimension respectively is 0.814, 0.822, 0.744, and 0.799. The results of analysis show that all scores for validity coefficients (from 0.70 to 0.87), reliability indicators (from 0.490 to 0.757) and variants errors (from 0.243 to 0.510) are at acceptable scores.

Finally, three dimensions of the variable of dynamic capability in branding strategy development (DC-IBSD) are used to measure the variable, namely: Brand-Sensing, Brand-Shaping and Brand-Reconfiguration (Figure 4). The composite reliability of each dimension respectively is 0.731, 0.78, and 0.872. The results of analysis show that all scores for validity coefficients (from 0.48 to 0.78), reliability indicators (from 0.238 to 0.608) and variants errors (from 0.392 to 0.770) are at acceptable scores.

In relation to the high score of composite reliability for all dimensions that shaped the variables: it is important to comprehend the meaning of composite reliability score. To illustrate, the score of composite reliability for the dimension of “Brand-Idea Formation” is 0.743 which indicates that 74.3% of the variation of businessmen behavior in assessing the three items is explicable due to diverse evaluation of Brand-Idea Formation, whereas 25.7% is constructed and influenced by other variables. The high score of composite reliability indicates that the indicators that shaped the dimension of Brand-Idea Formation is categorized reliable.

It is also important to comprehend the meaning of the validity coefficient. To illustrate, one of the items to measure Brand-Idea Formation, was coded as X1, used the statement of ‘the frequency of developing brand strategy though the activity of creating new ideas related to the public service and work processes’; it has a validity coefficient of 0.77. This value indicates that the item enables to measure the dimension of Brand-Idea Formation. The value of 0.77 also indicates a close relationship between the items of X1 (as innovative action in branding strategy development) with dimension of Idea Formation. Therefore, the total frequency of the entrepreneur applying the activity (x1) reflects the innovative behavior in Brand-Idea Formation. The result of descriptive analysis shows that 58.8% of the business owners stated that the item X1 is good. Thus, as the item X1 is closely related to Idea Formation, it can be concluded that generally the evaluation of the respondents towards Idea Formation is considered good. The reliability indicator of the item shows the score of 0.539 indicating that 53.9% of the business owners activity in Idea Formation, is affected by other activities towards Idea Formation, while the rest of them, 31.7%, is affected by other dimensions.

After the measurement model analysis has fulfilled the standard minimum, and then the study analyzed each results of the relationship amongst variables. Firstly, Table 1 specifies the result of testing Model 1: The influence of BSD based on innovative behavior (BSD-BOIB) and BSD through knowledge creation (BSD-TKC) on dynamic capability in branding strategy development (DC-IBSD). Then, Table 2 delivers the result of testing Model 2: The influence of BSD based on innovative behaviour (BSD-BOIB) on BSD through knowledge creation (BSD-TKC). Next, Table 3 provides the result of testing the Model 3: The influence of BSD based on innovative behaviour (BSD-BOIB) on dynamic capability in branding strategy development (DC-IBSD). Furthermore, Table 4 gives the result of testing the Model 4: The influence of BSD through knowledge creation (BSD-TKC) on BSD in dynamic capability in branding strategy development (DC-IBSD).

The result of testing Branding Strategy Development Model for the first model (Table 1) shows that the F test calculations obtained the F value of 234.882, which is greater than the F

table value of 3.033. So that the null hypothesis is rejected, which can be defined that innovative behavior in the branding strategy (BSD-BOIB) affects dynamic capability in branding strategy development (DC-IBSD) of the business owners through knowledge creation (BSD-TKC) by the intervening effect as much as 0.30 of deviation standard.

No	Table 1 MODEL 1-THE INFLUENCE OF BSD BASED ON INNOVATIVE BEHAVIOUR AND BSD THROUGH KNOWLEDGE CREATION ON DYNAMIC CAPABILITY IN BSD				
	Variable	Total influence	T value	t-table value	Note
1	BSD based on innovative behavior	0.54	5.40	1.96	Significant
2	BSD through knowledge creation	0.30	3.65	1.96	Significant
3	$R^2 = 0.660$, $F = 234.882$, $F\text{-Table} = 3.033$ (conclusion significant); significant at alpha of 5%				
4	Hypothesis 1: $\gamma_{11} \neq 0$: Branding Strategy Development Based On Innovative Behavior (BSD-BOIB) and Branding Strategy Development Through Knowledge Creation (BSD-TKC) influence on Dynamic Capability in Branding Strategy Development (DC-IBSD)				
5	Conclusion: The results of F test calculations obtained the F value of 234.882, which is greater than the F table value of 3.033. So that the null hypothesis is rejected.				
6	Statistic test:	$F = \frac{(n-p-1)R_{\eta_2}^2}{p(1-R_{\eta_2}^2)} \sim F_{[\alpha; (p, n-p-1)]}$		Criteria of the test: reject H_0 if $F > F_{\text{tabel}}$	

The result of testing Branding Strategy Development Model for the second model (Table 2) shows that the score of t-value is 9.33, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that innovative behavior in the branding strategy (BSD-BOIB) affects the knowledge creation (BSD-TKC) of the business owners as much as 0.850 of deviation standard.

No.	Table 2 MODEL 2-THE INFLUENCE OF BSD BASED ON INNOVATIVE BEHAVIOUR TOWARD BSD THROUGH KNOWLEDGE CREATION				
	Variable	Total influence	T value	t-table value	Note
1	BSD based on innovative behavior	0.850	9.33	1.96	Significant
2	Hypothesis 1: $\gamma_{11} \neq 0$: Branding Strategy Development Based On Innovative Behavior (BSD-BOIB) has impact on Branding Strategy Development Through Knowledge Creation (BSD-TKC)				
3	Conclusion: The calculation result shows the score of t-value is 9.33, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that Branding Strategy Development Based On Innovative Behavior (BSD-BOIB) affects knowledge creation of the entrepreneur in branding strategy development as much as 0.850 deviation standard				
4	Statistic test:	$t = \frac{\hat{\gamma}_{11}}{se(\hat{\gamma}_{11})} \sim t_{\text{student}}$		Criteria of the test: reject H_0 if $t > t_{\text{tabel}}$	

Then, the result of testing Branding Strategy Development Model for the third model (Table 3) shows that the score of t-value is 5.40, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that innovative behavior in the branding strategy (BSD-BOIB) affects dynamic capability in branding strategy development (DC-IBSD) of the business owners as much as 0.540 of deviation standard.

No.	Table 3 MODEL 3-THE INFLUENCE OF BSD BASED ON INNOVATIVE BEHAVIOUR TOWARD DYNAMIC CAPABILITY IN BSD				
	Variable	Total influence	T value	t-table value	Note
1	BSD based on innovative behavior	0.540	5.40	1.96	Significant
2	Hypothesis 1: $\gamma_{11} \neq 0$: <i>Branding Strategy Development Based On Innovative Behavior (BSD-BOIB) has impact on Dynamic Capability in Branding Strategy Development (DC-IBSD)</i>				
3	Conclusion: The calculation result shows the score of t-value is 5.40, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that innovative behavior in the branding strategy affects dynamic capability of the entrepreneur in branding strategy development as much as 0.540 deviation standard				
4	Statistic test:	$t = \frac{\hat{\gamma}_{11}}{se(\hat{\gamma}_{11})} \sim t_{student}$		Criteria of the test: reject H_0 if $t > t_{table}$	

Then, the result of testing Branding Strategy Development Model for the fourth model (Table 4) shows that the score of t-value is 9.33, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that knowledge creation in the branding strategy (BSD-TKC) affects dynamic capability in branding strategy development (DC-IBSD) of the business owners as much as 0.300 of deviation standard.

No.	Table 4: MODEL 4-THE INFLUENCE OF BSD THROUGH KNOWLEDGE CREATION TOWARD DYNAMIC CAPABILITY IN BSD				
	Variable	Total influence	T value	t-table value	Note
1	BSD through knowledge creation	0.300	3.65	1.96	Significant
2	Hypothesis 1: $\beta_{21} \neq 0$: <i>Branding Strategy Development Through Knowledge Creation (BSD-TKC) has impact on Dynamic Capability in Branding Strategy Development (DC-IBSD)</i>				
3	Conclusion: The calculation result shows the score of t-value is 9.33, higher than t-table (1.96) therefore the null hypothesis is rejected, which can be defined that knowledge creation in the branding strategy affect dynamic capability of the entrepreneur in as much as 0.300 deviation standard				
4	Statistic test:	$t = \frac{\hat{\gamma}_{11}}{se(\hat{\gamma}_{11})} \sim t_{student}$		Criteria of the test: reject H_0 if $t > t_{table}$	

The last but not least, after the study has performed the analyzed process for the measurement model of all the variables (BSD-BOIB, BSD-TKC and DC-IBSD) and analyzed each results of the relationship amongst variables; the study shows that the model of “the impact of ‘BSD-BOIB’ on ‘DC-IBSD’ through ‘BSD-TKC’” are a fit model. The results were indicated by all scores being above the cut off value, except the score of Chi Square.

The chi-square score for the SEM model is 1159.22 with the probability of 0.01 (p-value). Referring to the score of chi-square, the model is categorized unfit. This result is emerged due to the large size of sample which attains 245 sample, larger than 200. It gives significant impact on the value of chi-square, in which big size sample creates a tendency of the enhancement of chi-square score while p-value goes smaller. It is proven by the fact that chi-square is the only fit index which certify the incompatibility of the model whereas the others fit measurements prove that the model is fit.

The Root Mean Square Error Approximation (RMSEA) score of the model is 0.058. According to the criteria, the RMSEA of 0.058, less than 0.08 (<0.08) indicates that the model is good fit. This also expresses that there is a small deviation between the hypothesized model and its empirical model as the presentation of value is less than 8%.

The score of Goodness of fit index (GFI) attains 0.80. In the regression analysis, the score of GFI is consistent with the coefficient of determination (R^2). GFI represents the diversity of data which enable to be explained simultaneously by the model. The diversity of data described attains the level of 80% which indicates that the model is fit.

The score of AGFI (Adjusted of fit index) is 0.77. AGFI is considered as the value adjustment of GFI towards the degrees of freedom of the model. The value of AGFI stands in the cutoff point which indicates that the model is fit. Next, the value of NFI (Normed fit Index) attains 0.81. NFI represents the degree of model fit. The value lies in the cutoff point which indicates the model compatibility.

The value of CFI (Comparative fit index) obtains 0.90. CFI represents model validation measurement. The value of CFI is in the cutoff point which indicates that the model is fit.

The value of Root Mean Square Residual (RMR) is 0.074. The value of RMR is in the cutoff point which indicates that the model is fit.

Based on the seven model fit measurement indices, almost all of them meet the requirements of fit model, thus the model is categorized good fit. So that, based on model fit index, the null hypothesis is accepted ($H_0: \Sigma = \Sigma(\theta)$, the SEM model is a fit model) and the alternative hypothesis is rejected ($H_1: \Sigma \neq \Sigma(\theta)$, The SEM model is not a fit model).

CONCLUSIONS

Branding strategy development is one of the strategic executions to sustain the business in tougher competition. Particularly, business owners of the SME should prioritize this issue to enhance their positioning in the market. Branding strategy development relates to the effort of the business owners to innovate their behavior, to create more knowledge and to enhance their capability in facing dynamic environment. The results of the study provides avenue for SME's business owners to enhance their branding strategy. The results also imply that BSD-BOID influenced two strategic issues: (1) the knowledge creation of business owners in developing their brand; (2) the dynamic capability of business owners in creating branding strategy. Then, the results of the study also imply that the dynamic capability of business owners in shaping their branding strategy is determined by the knowledge creation of business owners.

Despite the theoretical and practical relevance, the study does suffer from limitations. As the model is executed at the small and medium size organization, so that similar model could be tested at larger size organization. Whilst small and medium size organizations would likely have different marketing culture with larger size organizations in building distinctive brand, the market orientation of all size of the organizations would likely have similar market orientation in different level. If executed properly, the concepts of BSD based on innovative behavior (BSD-BOIB); BSD through knowledge creation (BSD-TKC); and dynamic capability in branding strategy development (DC-IBSD) could enhance the positive image of the public organization that suffers from negative image. The result of the study provides implication to the management of various organizations to consider in using similar application when applying the model of branding strategy development.

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THE INFLUENCE OF SUPPLY CHAIN INTEGRATION ON COMPANY PERFORMANCE THROUGH COMPETITIVE ADVANTAGE IN INDONESIAN PHARMACEUTICAL INDUSTRY

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ABSTRACT

This article constructs on to the earlier work done on supply chain integration, competitive advantage, and company performance. The aim of this paper is to propose a conceptual model for examining the relationship between supply chain integration and Indonesian pharmaceutical industry's company performance that recognizes the mediating effect of competitive advantage. This literature review determines the positive correlation between supply chain integration and company performance. Additionally, competitive advantage was found to have the mediation effect on the direct relationship between supply chain integration and company performance. The proposed conceptual model is applied to Indonesian pharmaceutical industry which has narrow studies.

Key Words: *Supply Chain Integration, Competitive Advantage, Company Performance, Pharmaceutical Industry*

INTRODUCTION

The pharmaceutical industry is a strategic industry in Indonesia. The slogan "Mensana Incorpore Sano" or "In a healthy body there is a strong spirit" often resonated among Indonesian. It proves that health becomes a major factor in the lives of the population of Indonesia. Thus, the pharmaceutical industry is needed to support the health of the people of Indonesia.

Indonesia as a country with a population of more than 250 million inhabitants which is ranking 4th in the world is the potential market business. A large population by a substantial purchasing power attract companies from various industries to do business in Indonesia. The pharmaceutical industry is one industry that can enjoy the potential of a vast number of people in Indonesia. Moreover, the uneven distribution of the population and geographic conditions in tropical climates that cause potential viruses and bacteria thrive makes potential business opportunities for the pharmaceutical industry to improve the Indonesian pharmaceutical market.

Having a demographic bonus was not automatically put the performance of Indonesian pharmaceutical industry in the top ranking in the global market. Seen from the global pharmaceutical market in 2013, Indonesia is only the fifth-largest pharmaceutical market in Asia after Japan, China, India, and South Korea (Aitken, 2014). However, in Southeast Asia, Indonesia is the largest pharmaceutical market. There are opportunities for the pharmaceutical industry in Indonesia to be able to raise the pharmaceutical market in Indonesia. The

performance of the pharmaceutical industry in Indonesia is relatively small. In 2014, the pharmaceutical market in Indonesia amounted to 69.5 trillion Rupiah. Compared with the food industry, this sales performance number is only as big as one company PT Indofood Sukses Makmur Tbk which has a sales value of 63.5 trillion Rupiah in 2014. In 2014, Indonesia's pharmaceutical sales per capita amounted to 23.2 USD. Compared to pharmaceutical sales per capita in other countries such as the United States amounted to more than 1,000 USD, Japan amounted to more than 700 USD, and Canada amounted to more than 600 USD, Indonesia has a subtle pharmaceutical market.

Furthermore, in a percentage of GDP (Gross Domestic Product), in 2014, Indonesian Pharmaceutical Industry only has figures 0.65% of GDP. The percentage is also actually declined in the last five years. In 2009, Indonesian Pharmaceutical Industry achieved 0.80% of GDP. Besides relatively small, this share of GDP shows that the actual sales performance of the pharmaceutical industry in Indonesia is declining.

Conditions on the downstream side of the pharmaceutical market in Indonesia are not necessarily the same as the conditions on the upstream side of the pharmaceutical market in Indonesia. The Indonesian government has set strict implementation of pharmaceutical business in Indonesia. Pharmaceutical Supply Chain from upstream and downstream has been regulated by the Minister of Health of the Republic of Indonesia in Permenkes No:1799/Menkes/Per/XII/2010. This regulation manages the three entities of the business involved in the pharmaceutical supply chain in Indonesia before the drug product reaches the consumer.

Figure 1
PHARMACEUTICAL SUPPLY CHAIN IN INDONESIA (ACCORDING TO PERMENKES NO:1799/MENKES/PER/XII/2010)

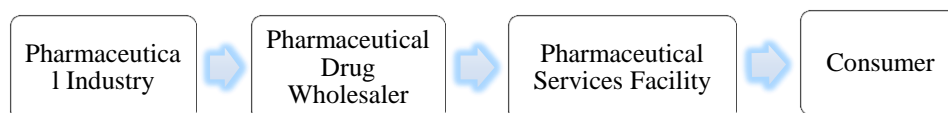


Figure 1 illustrates how the Indonesian government using Permenkes No:1799/Menkes/Per/XII/2010 to strictly regulate the pharmaceutical supply chain in Indonesia starting from the upstream side to the downstream side of the consumer. Pharmaceutical Industry is the entity who manufactured the drug product or the raw material. The pharmaceutical industry is not allowed to sell the product directly to the consumer. Pharmaceutical Drug Wholesaler is the party who has a license to distribute the drug product. Pharmaceutical Drug Wholesaler cannot sell the product directly to the consumer. Pharmaceutical Services Facility is the entity who sells the pharmaceutical product to the consumer such as drug store and hospital. Therefore, Supply chain integration is needed in pharmaceutical industry in Indonesia to reach the consumer.

The Indonesian government has regulated the pharmaceutical business strictly. Each entity in the drug supply chain has their role. The pharmaceutical industry cannot reach the consumer unless via pharmaceutical drug wholesaler and services facility. Therefore, the need for pharmaceutical supply chain integration in Indonesia is mandatory in order the upstream side to connect with the downstream side. The supply chain integration for global pharmaceutical companies is also a must because they need to integrate with a local pharmaceutical company as a requirement to run the pharmaceutical business in Indonesia. However, the pharmaceutical

company performance is declining. Therefore, the need to study about the impact of supply chain integration and competitive advantage on pharmaceutical company performance in Indonesia is necessary.

LITERATURE REVIEW

Supply Chain Integration

Supply Chain Integration is the main component of the supply chain management (Chen et al., 2009). Supply chain integration means integration (Narasimhan and Kim, 2001) and collaboration (Frohlich and Westbrook, 2001) between companies with suppliers and customers throughout the supply chain.

Stonebraker and Liao (2006), said that the integration of the supply chain is an extension and an application of the theory of vertical integration. Supply chain integration will generate models of manufacturing variable and integrated supply chain distribution. Vertical integration is defined as decisions concerning whether the company, through its business unit, should provide certain goods or services them or buys them from outside.

According to Agan (2011), supply chain integration conceptualized as a process integration capabilities. The supply chain has a lot of complex inter-organizational processes. The supply chain is the "mother of all processes" because of the size, scope, and complexity. However, most of the processes in the supply chain are still not controlled by the company.

Gimenez et al. (2012), argued that supply chain integration is a multi-dimensional concept and a diverse dimension of the integration of the supply chain which can ultimately be divided into three dimensions, namely customer integration, supplier integration and internal company integration. The way to achieve supply chain integration consists of three stages: information integration, resources integration, and organizational integration. Information integration is a cornerstone and requires that information is visible in a transparent, accessible, and easy to share with all levels of customer transactions (Zeng and Pathak, 2003).

Van Donk et al. (2008), did research in the food industry and disputed that the integration of the supply chain is often described as the flow of products and information smoothly from suppliers to customers. The integration of the supply chain is defined as a joint coordination within the organization or across organizational boundaries. In the food industry, the integration of the supply chain increasingly necessary, but difficult to achieve because of sharing resources and the specific characteristics of the food. The integration of the supply chain is considered as one of the main factors in improving company performance.

Hsin Hsin et al. (2013), said that the integration of the supply chain is defined as the coordination and process integration activities of the supply chain between companies and their partners along the supply chain. So the concept of supply chain integration is treated as the basis for activities related to the integration of the supply chain.

Research by Primo (2010), in the electronics and aerospace manufacturing industry in North America said that the integration of the supply chain is a mechanism that can encourage interaction and collaboration within the companies along the supply chain, especially in the interaction of buyers and suppliers.

Pagell (2004), said that integration is composed of two kinds, namely internal integration and external integration. This statement was followed by the supply chain integration in the research conducted by (Kim, 2006). His research shows that the integration of the supply chain

has three dimensions that are company's integration with suppliers, cross-functional integration within the company, and company's integration with customers.

Company's integration with suppliers has several indicators, namely exchange of information with suppliers using information technology, the level of supplier participation in the design stage, the level of strategic partnership with suppliers, the level of participation of suppliers in the procurement process and production, creation of fast ordering system, and stable procurement network use.

Cross-functional integration within the company has numerous indicators that is data integration between internal functions using the network, systematic information systems integration between internal functions, real time search on inventory levels, real-time search on data relating to operational logistics, data integration on the production process, integrated inventory management, systematic system interaction between production and sales, and regular inter-department meetings between internal functions.

Company's integration with customers has several indicators, namely contacted back the customers for the input, the level of computerization in the customer order, the level of organic link with customers using the network, the level of market information sharing, reliability of process order, routine customer contact frequency, level of communication with customers.

Hussein Zolait et al. (2010), who conducted research in the manufacturing industry in Malaysia identified that there are three dimensions of the supply chain integration process that is statistically significant affecting the company performance, namely information flow integration, physical flow integration, and financial flows integration.

Huo (2012), in his study of 617 companies in China say that the integration of supply chain integration has two dimensions, namely internal integration and external integration. Internal integration is integration between functions within the scope of the company. External integration is a combination of supplier integration and customer integration.

According to Tan (2001), supply chain integration has the objective to create a strategy of manufacturing and logistics that are seamless throughout the supply chain as a competitive advantage that cannot be duplicated by competitors. According to AlSagheer and Ahli (2011), Kim (2006), and Sakaguchi et al. (2004) supply chain integration have a significant and positive effect on company performance.

Competitive Advantage

Competitive advantage is the company's expected results of the implementation of the competitive strategy. Generic competitive strategies proposed by Porter (1985) is a Cost Leadership, Product Differentiation, and Focus. Typology of generic competitive strategies has emerged since 1980 and is used by many companies as a generic strategy.

Wu (2013), says that there are three perspectives in defining the competitive advantage that positions the activity perspective, the resource-based perspective, and relational perspective.

How to view the status of the activities proposed by Porter (1985) who said Competitive Advantage is a condition in which the company successfully developed a series of activities to support strategic position in the industrial structure.

Resource-based Perspective argues that businesses will achieve different performance because of their competitive advantage (or disadvantage competing) generated from the resources they acquire or maintain. Barney and Hesterly (2012), said that sustainable competitive advantage is owned by a company depends on the enterprise's strategic resource in meeting the criteria Valuable, Rare, imperfectly imitable, and non-Substitutable (referred to as VRIN).

Relational perspective emphasizes that the distinctive competitive advantages will result from the cooperation between the company or network and not of the organization's resources are unique or separate activities. According to Dyer and Singh (1998), there is four competitive advantage among companies that may be generated from collaboration company that ties specific asset, the routine sharing of knowledge, complementary data sources, and effective governance. Thus, it would be difficult for a company to create a competitive advantage by itself. The company's ability to compete with its rivals are not based on the unique resources (or the unique ability) owned by the firm but are based on relational capabilities generated or created through active interaction and coordination among enterprises to achieve a common goal.

Treacy (1997), suggested a different competitive strategy that the company has a competitive advantage, namely Product Leadership, Operational Excellence and Customer Intimacy. The third dimension of this strategy is the competitive strategy.

Competitive advantage as a result of the application of competitive strategy proposed by Hill and Jones (2004), which stated that the efficiency, quality, innovation, and customer responsiveness is a factor that can build competitive advantage. The fourth factor is said to represent the generic building blocks that can be adopted by companies in both the sale of goods or services.

According to Li et al. (2006), competitive advantage is defined as a company's ability to create defensible position over its competitors.

Company Performance

Literature that is reviewing company performance showed varying opinions about company performance. Huo (2012), said that there are two approaches to measuring the company performance, namely financial approach and balanced approach. In the financial approach, financial performance should be considered as the main concept of company performance because the main purpose of an organization is to make profits for shareholders (Chen and Paulraj, 2004). The concept of financial performance has been widely used as the main theory of company performance. The concept of financial performance may not adequately describe the performance of the system and will be vague and difficult to use for simple qualitative evaluation. Other approaches to defining company performance are to use a balanced approach. Balanced approach is looking at company performance as the use of a combination of qualitative and quantitative concept to present a clear picture of organization performance, such as financial performance and operational performance (Gunasekaran et al., 2001).

Bryceson and Slaughter (2010), considers that company performance is metric used by shareholders which include some areas including profitability, liquidity, financial stability, cash flow, and the adequacy of cash. This metric is the focus of the shareholders and company managers.

Bulak and Turkyilmaz (2014), said that company performance is the measurement of financial performance and non-financial performance which are important factors for leading the company's progress and control the desired output. Financial performance includes a variety of financial efficiency measurement such as return on investment, return on equity and earnings measurements such as return on sales and profit margins. Non-financial measurements include customer satisfaction, sales growth and market share.

The Company Performance has a three-dimensional measurement namely Supplier Performance-Oriented, Customer-Oriented Performance and Financial Performance (Huo, 2012). Supplier-oriented performance measures the performance of the supply chain in the upstream

and customer-oriented performance measures the supply chain performance in the downstream. A combination of both so-called supply chain performance. Accordingly, supplier performance-oriented and customer-oriented supply chain performance affects the overall performance. Supplier-oriented performance and customer-oriented performance is an operations-oriented measurement therein involves a variety of performance measurements such as delivery, flexibility, and customer service. To measure the company performance is necessary to measure the other performance which is financial performance containing profitability, sales, market share, ROI, and return on sales.

Diab et al. (2015), examined the nutritional industry in Jordan found the performance of the company consists of three dimensions, namely environmental performance, financial performance, and operational performance. Environmental performance concentrating on the reduction of air emissions, reduction of waste water, solid waste reduction, reducing the consumption of hazardous substances that are toxic, pressing the frequency of environment accident, and improving the company's environmental situation. Financial performance concentrating on the positive economic performance, namely the decrease in costs for the purchase of materials, reduction in costs for energy consumption, lower costs for waste treatment, decreasing costs for waste disposal, and at the same time attempting to eliminate the negative economic performance, such as the increase of investment, the rise in operating costs, the increase in training costs, and an increase in the cost of purchase of environmentally friendly materials. The operational performance is reflected in the increasing number of goods delivered on time, lowering inventory levels, decreasing the product damage, promoting product quality, increasing product lines, and increasing capacity utilization.

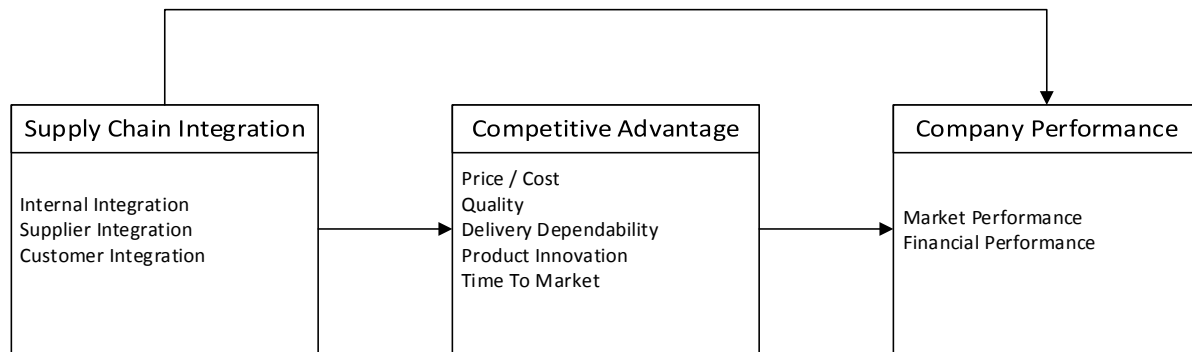
Li et al. (2006) and Mzoughi et al. (2008), use the same dimension for Corporate Performance variables in their research, namely Market Performance and Financial Performance. Market performance is a performance measurement which is done by looking at the company's sales growth and market share growth. Market Performance has two indicators, namely sales growth and market share growth. Financial performance is a performance measurement based on financial performance. Financial Performance has several indicators that are Total Cost Reduction, Return on Investment (ROI), Return on Assets (ROA), Financial Liquidity and Net Profit.

Kim (2006), adds a further dimension to measure Company Performance that is Customer Satisfaction. Thus, the dimensions used in the variable of Corporate Performance are Market Performance, Financial Performance, and Customer Satisfaction.

Customer Satisfaction has several indicators, namely reduce the response time to changes in product design, suppress the response time to changes in the volume of products, the accuracy of the customer ordering process, pressing the ratio of product returns, the speed of handling orders, and reduce the response time for product return or after sales.

Figure 2 shows the research paradigm which shows dimensions of each variable.

Figure 2
RESEARCH PARADIGM



THEORETICAL DEVELOPMENT

Supply Chain Integration and Competitive Advantage

Du (2007), studied the shoe industry in China to research the topic about how to obtain a competitive advantage in the industry through the integration of supply chain. The study shows that there is a significant influence between the variables of Supply Chain Integration and Competitive Advantage.

Other studies that support the relationship between Supply Chain Integration and Competitive Advantage is the research done by Hosseini et al. (2012). His studies in the food industry in Tehran on the investigation topic of supply chain integration effect on the ability to compete using LISREL showed that the variables of Supply Chain Integration have a significant impact on Competitive Advantage.

Mediating Role of Competitive Advantage between Supply Chain Integration and Company Performance

Competitive Advantage has significant and positive effect on the Company Performance. The higher the competitive advantage of a company, the higher the performance of the company (Li et al., 2006). The statement was reinforced by Mzoughi et al. (2008) who conducted research on 216 managers in Tunisia using linear regression method and found that the Competitive Advantage had a significant effect on the Company Performance.

Supply Chain Integration and Company Performance

A literature review conducted by Singh and Lee (2013) showed that the variable of Supply Chain Integration significantly influences the variable of Company Performance. In another study, AlSagheer and Ahli (2011) examined 21 journal's articles that put the variable of Supply Chain Integration as an independent variable and the variable of Company Performance as the dependent variable. The study concluded that the variable of Supply Chain Integration significantly influences the variable of Company Performance.

Han et al. (2013) were studying the impact of supply chain integration on firm performance in 229 pork processing companies in China. Using Partial Least Square (PLS), this research concluded that supply chain integration has a significant impact on firm performance.

Richey et al. (2009) also put Supply Chain Integration as an independent variable and Company Performance as the dependent variable. Using Multiple Regression, his research comes up to the same conclusion that Supply Chain Integration significantly affect the Company Performance.

Sakaguchi et al. (2004) put Supply Chain Integration as an intervening variable between External Task Environment, Extend of Resource Dependency, and IT Sophistication as independent variables and Company Performance as the dependent variable. Using Structural Equation Modelling and LISREL, this study concluded the result that Supply Chain Integration has a significant effect on the Company Performance.

Figure 2
THEORETICAL FRAMEWORK

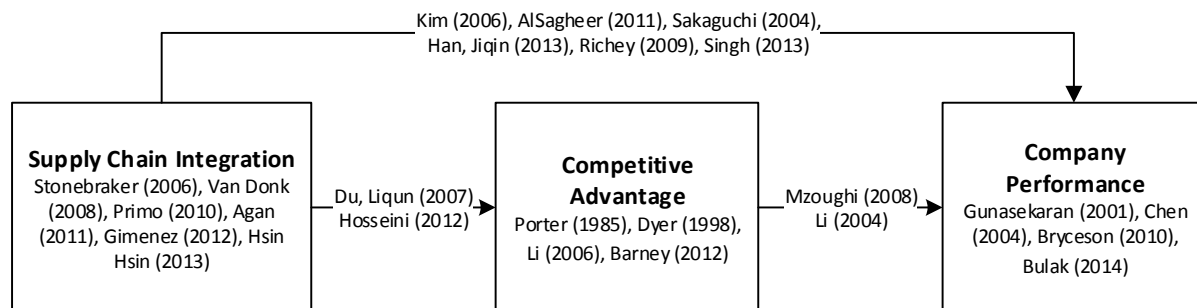


Figure 2 illustrates the summary of the theoretical development and the relationship between variables.

Based on literature review and theoretical framework that has been developed, the proposition that can be put forward are:

Preposition 1 (P₁): Supply Chain Integration will have a positive and significant effect on Competitive Advantage.

Preposition 2 (P₂): Supply Chain Integration will have a positive and significant effect on Company Performance.

Preposition 3 (P₃): Competitive Advantage will be positively related to Company Performance.

Figure 3
CONCEPTUAL MODEL

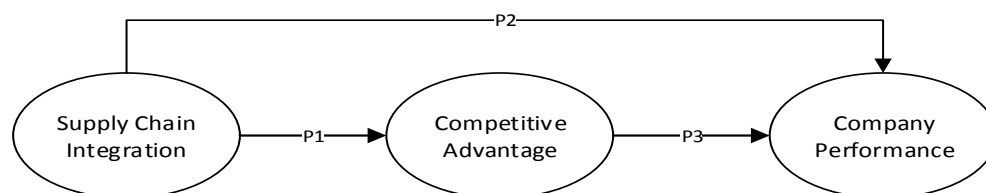


Figure 3 displays the conceptual model that has been generated based on the preposition.

CONCLUSIVE REMARKS AND SUGGESTIONS

The Indonesian legislature has regulated the pharmaceutical industry stringently. The supply chain integration is a mandatory for the global pharmaceutical companies because they need to integrate with a local pharmaceutical company as a requirement to run the pharmaceutical business in Indonesia. The literature review has established the critical role of supply chain integration in influencing the company performance. Hence, a conceptual model has been postulated linking a comprehensive supply chain integration as possible determinants of company performance. Additionally, since the competitive advantage which is created by the synergistic effect of supply chain integration may intervene the relationship between supply chain integration and company performance. This variable has been postulated as a mediator.

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LIQUIDITY ADJUSTED CAPITAL ASSET PRICING MODEL (LCAPM): A CRITICAL REVIEW

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ABSTRACT

This paper shows that the liquidity adjusted capital asset pricing model (LCAPM) is simply an extension of standard capital asset pricing model (SCAPM) by taking into account the amortized transaction cost. This paper also shows that the use of amortized risk premium is very critical in order to obtain a correct result. Various contradictory results in many previous publications are shown in this paper. A simple static equilibrium that relating the investor income and expenditure, is used to explain the basic concept of LCAPM and the appropriate liquidity proxy. As the actual transaction cost is usually unknown, this paper proposes two methods to estimate transaction cost. Bid-ask spread and daily price changes are proposed as the proxy of transaction cost. Indonesia stock market characteristics are included to illustrate the importance of the concept.

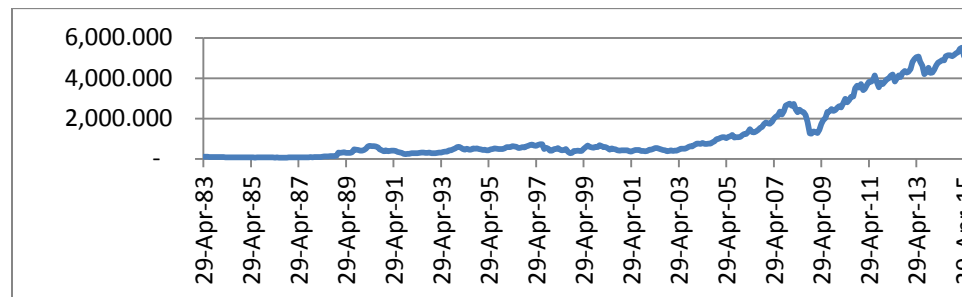
Key Words: CAPM, LCAPM, Liquidity, Amortized Transaction Cost

INTRODUCTION

Frictionless is one of the basic assumptions of standard capital asset pricing model (SCAPM). In a frictionless market, we can buy or sell an asset at no cost and can be done immediately. In SCAPM, therefore, it is assumed that the market liquidity is perfect or infinite. Though the market liquidity is getting better from time to time, the liquidity is still finite and should be taken into account in asset pricing. How to take into account the liquidity in capital asset pricing model have attracted a lot of attention in the last three decades (see Amihud et.al. 2013 and Foucault et.al. 2013, for comprehensive references). In emerging markets such as Indonesia, many works have shown that the liquidity premium can be very significant (Lesmond, 2005).

Figure 1 shows the Indonesia Stock Index (IHSG) for the last 30 years. It can be seen that the index has increased more than fifty times in the last 30 years. Fast increased especially occurred in the last 10 years. A short period declined can also be seen in 2008 during financial world crises. It has been shown that the average return in Indonesia Stock exchange is the highest compared to the other countries (Liang and Wei, 2012).

Figure 1
INDONESIA COMPOSITE INDEX FOR PERIOD OF APRIL 1983 – SEPTEMBER 2015



Though a lot of empirical and theoretical works on liquidity adjusted capital asset pricing model (LCAPM) have been published, the results are still not conclusive and various contradictory results still remain (Goyenko, Holden, and Trzcinka, 2009). The contradictory results are partly due to the definition of the liquidity itself. Liquidity is an elusive concept that difficult to define and to measure exactly (Amihud et.al, 2013). Various liquidity measures have been proposed but many works have shown that no single liquidity measure can capture many dimensions of liquidity (Chai, Faff, and Gharghori, 2010). The most common of liquidity measures are related to the transaction cost, trading activity, and resiliency.

Similar to SCAPM, the central point of LCAPM is how to estimate the amortized excess return as a function of amortized risk premium. Different to SCAPM, LCAPM takes into account the liquidity premium in addition to the market risk premium. The liquidity premium is usually measured by a liquidity measure such as transaction cost, trading activity, and resiliency. As the liquidity level varies from time to time there is also a liquidity risk. Thus, both liquidity level and liquidity risk are important in LCAPM. Liquidity premium includes both liquidation cost and liquidity risk premium. As the excess return is amortized excess return, both market risk premium and liquidity premium have also in the form of amortized premium. Unfortunately, however, except the work of Chalmers and Kadlec (1998) and He and Kryzanowski (2006), no works have used explicitly the amortized liquidity premium.

The main aim of this paper is providing a critical review on the existing literature of LCAPM. This paper also shows that liquidity adjusted capital asset pricing model is simply an extension of SCAPM by taking into account the transaction cost. It is also shown in this paper that the used of amortized risk premium is very critical in order to obtain a correct result. Various contradictory results in many previous publications are shown in this paper. A simple static equilibrium that relating the investor income and expenditure, is used to explain the basic concept of LCAPM and the appropriate liquidity proxy. This paper shows that the use of amortized transaction cost is the only appropriate liquidity proxy in LCAPM. As the actual transaction cost is usually unknown, this paper proposes methods to estimate amortized transaction cost. The first method is using bid-ask spread as the proxy of transaction cost. Many works have shown, however, that the use of bid-ask spread as a method to estimate transaction cost is noisy and not always available. As an alternative, this paper proposes the daily price change as the proxy of transaction cost. Indonesia stock market characteristics are included to show the importance of the proposed concept.

The next section discusses the critical review of the existing literature. After discussing the literature, a simple equilibrium model is discussed to explain why the use of amortized

liquidation cost is so important. Some empirical results are discussed before concluding the paper.

A CRITICAL REVIEW

Liquidity is an elusive concept that is difficult to define and to measure exactly. As liquidity is defined as how an asset can be exchanged easily and immediately, liquidity is usually measured by the liquidation cost, trading activity, and resiliency. Liquidation cost includes direct and indirect cost that is difficult to determine exactly. The liquidation cost is usually measured by the bid-ask spread (Amihud and Mendelson, 1986), proportion of zero return days (Lesmond, Odgen, and Trzcinka, 1999), weighted order value (Marshall, 2006), or effective tick (Holden, 2009). At present, however, the most commonly used proxy of liquidation cost is bid-ask spread. Trading activity is usually measured by the trading volume or turnover. Resiliency is usually measured by the price impact or price reversal. It should be noted that, until now, there are no liquidity measures that capture more than one dimension of liquidity simultaneously.

In SCAPM, the expected excess return can be predicted by the following expression: is the market risk factor of i -stock. $E[R_i]$ is expected excess return of i -stock per unit price and per unit time, and $E[R_m]$ is expected market excess return per unit price per unit time. The expected excess return is computed by the expected return minus the risk free return (in Indonesia, it can be the BI rate). Thus, SCAPM is relating the expected excess return per unit time and the market risk. It should be noted here that all variables in (1) are amortized returns that is return per unit price and per unit time.

$$E[R_i] = \beta_i \times E[R_m] \quad (1)$$

where

$$\beta_i = \frac{\text{cov}(R_m, R_i)}{\text{var}(R_m)} \quad (2)$$

If the liquidation cost is should be taken into account, the liquidation cost will reduce the expected excess return. Equation (1) can be rewritten as follow:

$$E[R_i - C_i] = \beta_i \times E[R_m - C_m] \quad (3)$$

and

$$\beta_i = \frac{\text{cov}(R_m - C_m, R_i - C_i)}{\text{var}(R_m)} \quad (4)$$

Where C_i is the liquidation cost per unit price per unit time of i -stock and C_m is the market liquidation cost per unit price and per unit time. Equation (4) can be rewritten as the following

$$\beta_i = \underbrace{\frac{\text{cov}(R_i, R_m)}{\text{var}(R_m)}}_{\beta_{1i}} + \underbrace{\frac{\text{cov}(C_i, C_m)}{\text{var}(R_m)}}_{\beta_{2i}} - \underbrace{\frac{\text{cov}(R_i, C_m)}{\text{var}(R_m)}}_{\beta_{3i}} - \underbrace{\frac{\text{cov}(C_i, R_m)}{\text{var}(R_m)}}_{\beta_{4i}} \quad (5)$$

Substituting (5) into (3) then we obtains the following

$$R_i = \underbrace{\beta_{1i}\lambda_m}_{\text{market risk premium}} + \underbrace{C_i + \beta_{2i}\lambda_m - \beta_{3i}\lambda_m - \beta_{4i}\lambda_m}_{\text{Illiquidity premium}} \quad (6)$$

Equation (6) can also be written as

$$R_i = C_i + \underbrace{(\beta_{1i} + \beta_{2i} - \beta_{3i} - \beta_{4i})}_{\text{systematic risk}} \times \lambda_m \quad (7)$$

where $\lambda_m = E[R_m - C_m]$

Equation (6) shows that the expected excess return should compensate the market risk premium and illiquidity premium. Illiquidity premium consist of liquidation cost level and illiquidity risk premium. In the other form, equation (7) shows that the expected excess return should compensate liquidation cost plus systematic risk that consist of market risk and liquidity risk.

The work of Amihud and Mendelson (1986) is the one that completely relating the transaction cost and excess return. The transaction cost that consist of direct and indirect costs is measured by the bid-ask spread. The main results of this work are 1) there is a positive relationship between holding period and bid-ask spread (cliente effect) and, 2) the bid-ask spread has a positive effect on the excess return. This work has been criticized by Eleswarapu and Reinganum (1993) that find the effect of bid-ask spread is seasonal (January effect). Though the effect of fixed component of the transaction cost to the excess return is positive, Brennan and Subrahmanyam (1996) find that the effect of bid-ask spread on the excess return is negative. Jacoby, Fowler, and Gottesman (2000) have shown that the excess return is a convex function of the bid-ask spread. It is shown later that the effect of bid-ask spread on the excess return can be positive or negative depending on the relation between turnover and bid-ask spread. Moreover, Bekaert et al. (2007) and Johnson (2008) have shown that turnover and bid-ask spread are not always significantly correlated. Thus, the cliente effect that is found by Amihud and Mendelson (1986) is not always valid. It is also shown later that the bid-ask spread or transaction cost alone is not appropriate proxy for liquidity premium.

Trading activity shows how often an asset is traded in the market. Higher trading activity is usually indicating a liquid asset. Trading activity can be measured by the trading volume per unit time or turnover. If the outstanding share is constant, it can be shown easily that trading volume and turnover will be almost the same. The turnover is different to frequency that is defined as how often an asset is traded per unit time without taking into account the number of shares. The relationship between stock prices and volume has been discussed thoroughly by Gallant et.al (1992). They found that variability of trading volume has a significant effect on the stock prices. Most of the works have shown that the excess return is negatively influenced by trading volume or turnover. Those results are reasonable because a liquid asset will be traded more often than an illiquid asset. Brennan, Chordia, and Subrahmanyam (1998) find a significant and negative relation between the expected excess return and trading volume. Datar, Naik, and Radcliffe (1998) have shown that the excess return is negatively affected by the turnover that is defined as the ratio of number of shares traded to the number of outstanding shares. This result is also supported by the work of Chordia, Subrahmanyam, and Anshuman (2001). Liu (2006) has proposed a turnover that is adjusted by the number of zero trading days as a liquidity measure. Liu has also find that the excess return is negatively affected by the turnover. However, some works have also shown that turnover has no influence on the excess return especially in the emerging markets (Bekaert, Harvey, Lundblad and Siegel, 2007). During financial crises, some works have reported that the turnover is increased though the market is illiquid (Summers, 2000).

It will be shown later that the influence of turnover can be positive, negative, or insignificant to the excess return depending on the relation between liquidation cost and turnover.

In a perfectly liquid market, trading activity has no effect on the asset prices. In practices, however, a large trading volume will change the price. How large the price is changed depending on the market and stock liquidities. How fast the stock price will be stable after a large trading activity is called resiliency. Amihud (2002) has proposed price impact to measure the resiliency. The price impact, hereafter will be called Amihud factor, is defined as the ratio of daily price change to the trading volume. Pastor and Stambough (2003) have also proposed the number of price reversal as a measure of resiliency. Illiquid stocks will have frequent price reversal when a large trading is executed. At present, the Amihud factor is the most commonly used to measure the resiliency. Amihud factor can also be used to measure the liquidation cost. Most of the previous works have shown the Amihud factor has a positive impact to the excess return.

Though commonality among liquidity measures have been mentioned previously, Acharya and Pedersen (2005) are the ones who first formulated various channels relating the market liquidity, stock liquidity, and excess returns. In addition to the market risk premium and liquidation cost, excess return is also influenced by liquidity risk premium as shown by equation (7). That means, the liquidation cost is not constant and varies according to the market condition. The works on LCAPM are then becoming a hot research topic in many countries until now. Asparouhova, Bessembinder, and Kalcheva (2010) provide a theoretical discussion on liquidity biases in asset pricing tests and also find an evidence that there are illiquidity premiums on the return. Lee (2011) and also Liang and Wei (2012) find that the pricing of liquidity risk varies across countries according to geographic, economic, and political conditions. Donadelli and Prosperi (2012) have studied the role of liquidity in emerging markets stock prices. They find that the transaction cost has significant positive effect on the excess return. By using long term data, Hagstromer, Hansson, and Nilsson (2013) have shown that the illiquidity premium is positive and significant. Baradarannia and Peat (2013) have also studied the relationship between liquidity and expected returns in NYSE from 1926-2008. They find that illiquidity level has significant effect on stock returns only for post 1963 period. Vu, Chai, and Do (2014) find that the liquidity risk is an important component in the generation of stock return.

It should be noted that LCAPM attempt to determine the amortized excess return as a function of market risk and liquidity premium. Thus, both market risk and liquidity premium must also in the form of amortized values as it is shown by equations (6) and (7). Market risk premium is usually already in the form of amortized value. Liquidity premium, however, is usually not in the form of amortized value. Chalmers and Kadlec (1998) are the only ones who use amortized value as the liquidity premium measure. By using amortized bid-ask spread, Chalmers and Kadlec show that the liquidity premium is getting significant and robust. It is shown later that the use of amortized liquidity premium is important to obtain a proper and meaningful result.

THEORETICAL MODEL

In this section, a theoretical model that relating transaction cost, turnover, and return is developed. The model is developed by using the same assumptions as the ones used by Amihud and Mendelson (1986).

Under static equilibrium, the generated income by an asset in one holding period must be greater or equal to the transaction cost. Thus,

$$D \times T = L \times P \quad (8)$$

where D is the perpetual income per unit time that can be in the form of capital gain or dividend, T is the holding period, L is the transaction cost or liquidation cost per unit price, and P is the asset price. Equation (8) can also be written as

$$d \times T = L \quad (9)$$

where $d=D/P$ is the perpetual income per unit price and per unit time.

Based on (9), it can be seen that under the assumption of constant d , the holding period is proportional to the transaction cost (cliente effect) as has been predicted by Amihud and Mendelson (1986). It should be noted that cliente effect is valid only under the assumption of constant d .

According to Atkins and Dyl (1997), the holding period can be estimated as

$$T = Os / Vol \quad (10)$$

where Os is the number of outstanding share and Vol is the number of traded shares per unit time. Turnover is usually defined as

$$To = 1/T = Vol / Os \quad (11)$$

Substituting (10) into (9) we can obtain the following

$$d \times Os / Vol = L \quad (12)$$

or

$$d = L \times Vol / Os = L \times To = C \quad (13)$$

where

$$C = L \times To = L / T \quad (14)$$

C has unit of transaction cost per unit price and per unit time that is the amortized transaction cost. Thus, the proxy for illiquidity or liquidation cost in LCAPM must be in the form of transaction cost per unit price and per unit time (amortized). The excess return per unit time is proportional to the C that is transaction cost times turnover.

Some empirical results have shown that turnover and transaction cost are usually strongly correlated. The turnover is usually reduced (increased) when the transaction cost is increased (reduced). Thus, the effect of turnover on capital gain or return can be positive or negative depending on how liquidation cost is changing with turnover. Similarly, the effect of transaction cost that is commonly proxied by bid-ask spread can be positive or negative depending on how the turnover is changing with the bid-ask spread. If the turnover is reduced slower than the increase of bid-ask spread, the relation between return and bid-ask spread will positive concave as shown by Amihud-Mendelson (1986). If turnover is reduced much faster than the bid-ask spread then the effect of bid-ask spread on the return will be negative as the one found by Brennan and Subrahmanyam (1996). Thus, the use of only either transaction cost or turnover as a liquidity measure cannot be conclusive. We have to use the amortized transaction cost as the liquidity measure. By using the amortized transaction cost, we don't need to care about the relationship between turnover and transaction cost as both quantities are taken into account simultaneously.

The problem now is how to estimate the transaction or liquidation cost as there are many indirect costs that difficult to measure exactly. The most common method is using the bid-ask spread as a proxy of liquidation cost. It is shown in the literature, however, bid-ask spread is noisy measure as there are many large trading volumes are executed outside the bid-ask spread. One possible method to estimate the transaction cost, by using the price change. The price of stock is usually changed when a large volume of stock is traded. This is the reason why Amihud (2002) using price impact as a liquidity measure.

EMPIRICAL RESULTS

Some empirical data taken from the Indonesia Stock exchange from January 1997 to December 2014 are presented here. Based on the daily data, average over one month of daily bid-ask spread and monthly turnover and trading volume are computed.

Figure 1 has shown that Indonesia Composite Index has increased more than 50 times in the last thirty years. Figure 2 shows the monthly rate of increase of Indonesia Composite Index in the last thirty years. It can be seen that the IDX may provide significant returns but at high risk similar to findings in other emerging markets.

Figures 3 and 4 show the market bid-ask spread and turnover. The bid-ask spread is the average over one month of daily bid ask spread. The market bid-ask spread value is the weighted average bid-ask spread of all listed stocks, that is, weighted against the stock market capitalization. The turnover that is used in this investigation is the monthly turnover. Once again, the market turnover is the weighted average of stock turnover. It can be seen that bid-ask spread and turnover vary widely from time to time. During financial crises, the bid ask spread increases significantly. On the other hand, turnover decreases significantly during the crises. These variations are also indicating that IDX is a volatile market though significant returns can be obtained.

Figure 5 shows the relation between bid-ask spread and holding period. This figure shows that bid-ask spread has a positively relation with holding period. Table 1 shows that coefficient of correlation between bid-ask spread and holding period is 0.536. It means that bid-ask spread has a significant correlation with holding period. This result shows that there is a clientele effect in the Indonesia Stock Exchange.

Figure 6 shows the average daily price change from 1997 until 2014. It can be seen that during financial crises, the price change varies widely from time to time. The relationship between the daily price change and turnover is shown in Figure 7. It can be seen that there is a clientele effect between the daily price change and turnover similar to the case of bid-ask spread and turnover. The correlation between price change and holding period is significant as it is shown in Table 1. Thus, the price change is possible candidate as a proxy for transaction cost.

Table 1
CORRELATION COEFFICIENT (R)

Predictors	Dependent Variable	R	Prob.
Bid-ask spread	Holding Period	0.536	0.000 (Sig.)
Price change	Holding Period	0.379	0.000 (Sig.)

Figure 2
THE GROWTH OF INDONESIA COMPOSITE INDEX FOR PERIOD OF APRIL 1983 – SEPTEMBER 2015

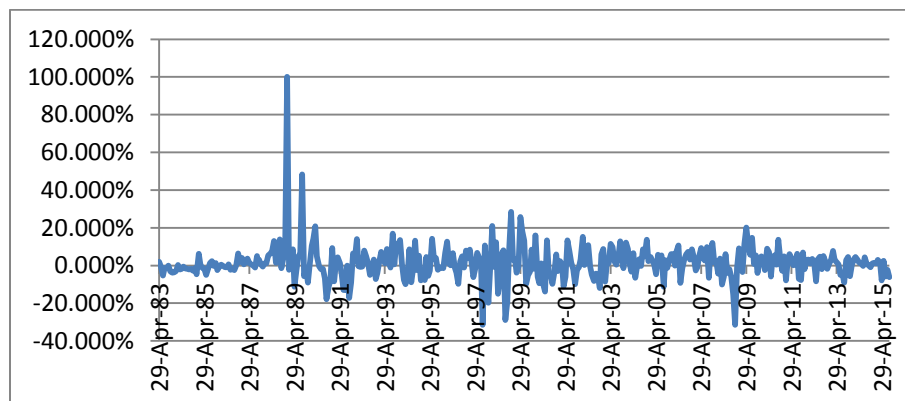


Figure 3
THE STOCK MARKET BID-ASK SPREAD FOR PERIOD OF JANUARY 1997 – DECEMBER 2014

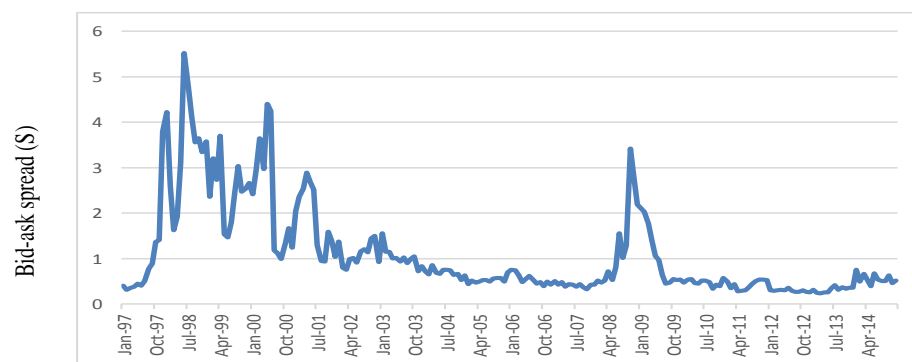


Figure 4
THE STOCK MARKET TURNOVER FOR PERIOD OF JANUARY 1997 – DECEMBER 2014

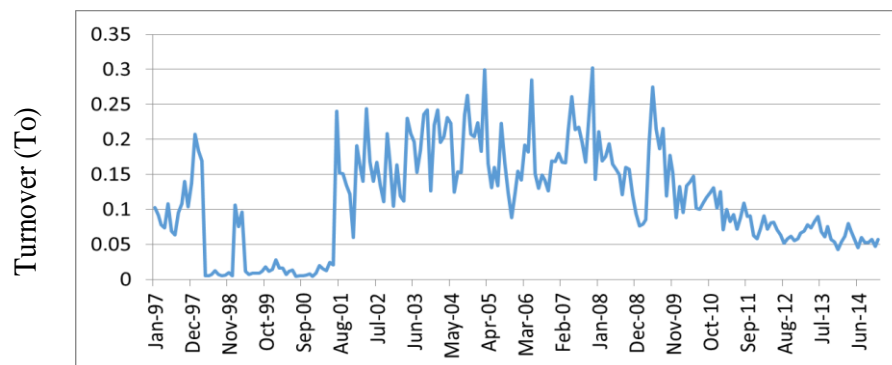


Figure 5
THE RELATION BETWEEN BID-ASK SPREAD AND HOLDING PERIOD

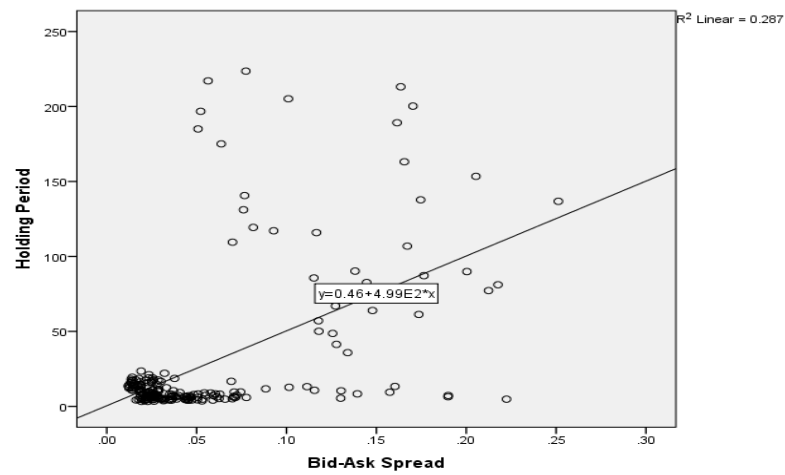


Figure 6
THE AVERAGE DAILY PRICE CHANGE FROM PERIOD OF JANUARY 1997 UP TO JULY 2014

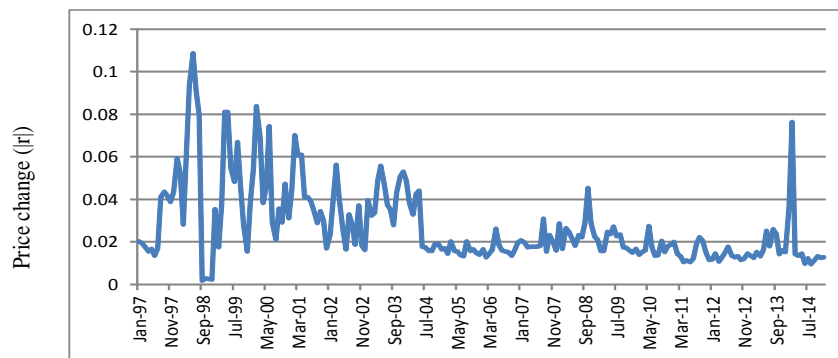
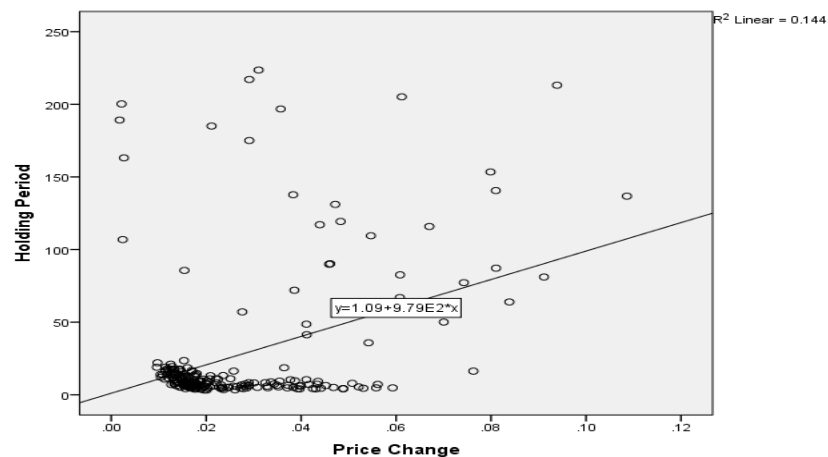


Figure 7
RELATIONSHIP BETWEEN HOLDING PERIOD AND PRICE CHANGE



CONCLUSION

A critical review on liquidity adjusted capital asset pricing model has been presented in this paper. It has been shown that contradictory results in previous works are due to the inappropriate use of liquidity measures. Liquidity measure that is used in an LCAPM study must be in the form of amortized liquidation cost. A simple equilibrium model has been used to explain how the amortized liquidation cost is the only appropriate liquidity measure in an LCAPM study. Some empirical results are included to support the theory. The detailed research results on the use of amortized liquidation cost in LCAPM studies using IDX data from 1997 until now will be reported in the next occasion.

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THE ROLE OF MANAGERIAL ORIENTATION FOR THE ORGANIZATION'S NEW BUILDING AND INNOVATION IN COMPETITIVE ADVANTAGE AS WELL AS ITS IMPACT ON EMPLOYEE PERFORMANCE

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ABSTRACT

The existence of a new era of change in the current government has an impact on policy in the various ministries. Ministry of Health which is one of the government-owned agencies has experienced changes to the system policy, for the change in the management of the Ministry of Health or change management requires an implementation strategy to support the increased performance of the organization.

This research aims to know the role of managerial orientation for the organization's new building and Innovation In competitive advantage as well as its impact on employee performance. This research uses quantitative methods, namely an approach to research that is objective, which includes data collection and analysis of quantitative data. In terms of the variables that will be on the study of its effect, then the study uses descriptive and verification.

The results show that while the role orientation of managerial management has a significant effect on the behavior of innovative, performance effects are very surprisingly strong. Further examination revealed that participatory management style and goal-oriented management style are more important in developing innovative culture rather than supporting and style management directive. And the transformation of leadership is an important contributor to innovation, while transactional leadership has the effect of significantly lowers, though, on innovative behavior.

Key Words: *The Role of Managerial Orientation, Organization, Innovation in Competitive Advantage, Employee Performance*

INTRODUCTION

Effective innovation has been considered the key in continuing success. The companies, both high-tech and traditional, it has been pushed to keep the corporate environment that fosters the progressive activities. New ideas are requested and appreciated. Careful screening and selection processes are built. The importance of innovation is not only evident in the technology section, new products and the improvement of important in maintaining revenue growth and improve the competitiveness of the market for many companies established in Food and consumer products market as well. Institutions such as Ministry institutes namely for example health innovation has become a key to survival. Without an effective innovation, a company can quickly lose the competitive advantage and forced out of the market in a very short time. On the other hand, a successful innovation can effectively change the company fortune. For example, Apple Inc. has found its own transformation.

As one of the implementation of new policies at this time of the Reformation Era, the Ministry of Health of the Republic of Indonesia with reference to the Vision, Mission, and Nawacita President specified in Presidential Decree No. 2 of 2015 on the National Medium Term Development Plan (RPJMN) Year 2015-2019, then based on that the Ministry of Health has developed a strategic plan to support one of the president's mission is, to realize the quality of Indonesian human life high, progress and prosperity through health development efforts in the Programme Action Plan (RAP) and the Action Plan Activity (RAK).

Health Minister is elected to have a role in contributing to a new policy related to the programs and activities within the Ministry of Health, it is shown in the organizational structure of the proposed changes to the president, both the change in function as well as administration. For example, as happened in the Directorate General of Health Efforts in which one of the directorate of the Directorate of Health Efforts References will be changed to the Directorate of Health Service Improvement Referral originally had five (5) Sub-Directorate currently three (3) Sub-Directorate. In order to achieve all of its programs and activities on the changes taking place in the Ministry of Health in particular the Directorate of Health Efforts Reference require an adjustment in the run vision, a new mission in the organization through socialization, the determination of the structure, tasks, outputs and outcomes in the organization, given the changes to the new policy related to the organization occurred during the preparation of action plans are already underway in the current year nationally in Bapenas.

The role of managerial orientation for building new organizations and innovation as well as competitive advantage as the impact on the performance of employees to support the implementation of this phase of the change management aims at building the understanding, commitment, capacity and momentum shifts, in particular between stakeholders, and on all elements of the Organization in General. • Assess the situation to determine design requirements. This stage aims to look at the circumstances and situations that exist in the Organization to look at the role and influence in management. This step helps managers in in order to improve performance as well as innovations that could be developed within the organization. Plan and set up the management system by the Manager in running the Organization and personnel in it. as a first step in the new organization was creating a mechanism to continuously improve the performance of managerial employees and output, the organization is able to dynamically match the development and demands of the State Ministry of health needs.

The following discussion, this paper reviews the theoretical background and theories leading to a number of research hypotheses. This is immediately followed by a detailed specification of the research methodology. Thereafter, the empirical results are presented and discussed. The final part of the paper presents the discussions on the basis of the research findings, managerial implications, outlines some inherent limitations and provides some directions for future research.

LITERATURE REVIEW

Research and development activities play a role in producing innovative performance for maintaining and building a competitive edge in a dynamic organizational environment. Managerial plays an important role in building a good environment for innovation and orientation activities are effective and efficient. The Manager has the final impact on how subordinates behave and respond to various managerial and the Organization of the stimulus. As an organization innovative cultures reflect the original perception of the subordinates. The desired state management, a team of top management must exert influence through concrete

actions and striking gestures. Therefore the management team has to communicate effectively with subordinate innovative activities leading to value added innovations that should be commended and quite appreciated.

Managerial Orientation

Comerford and Abernethy (1999), states that put forward the orientation system of the individual destinations can be grown via the media participation in budgeting, although other studies, such as Lawrence and Lorsch, 1967 in Merchant, 1985), which stated that the magnitude of the Organization will face issues such as coordination and communication, both with regard to the information, cognitive and emotional orientation differences among managers. The conjecture is that individuals with a high professional orientation will be less experienced adverse consequences (i.e. a lower role conflict) when involved in a budgeting process on the basis that they have taken the orientation of the destination system. Invalid constructs managerial orientation describes the commitment of the individuals at managerial goals and values. This is reflected in the behavior that leads to the achievement of the management-related objective that includes, among others, efficiency and accountability. Empirical evidence suggests that the effectiveness of the use of the budget as a tool of performance evaluation on the performance of sub-unit requires the existence of a managerial orientation. This study uses the same invalid constructs to capture the breadth of individual commit against managerial goals and values.

Abernethy Stoelwinder (1995) paid attention to the professionals if you use the type output as tools to monitor and measure the performance of sub-units. His model was developed based on the premise that the professionals looked at efforts to support administrative control will threaten the values and norms of professional so that it will give rise to a conflict of roles if reunited with the environment such as the above. Abernethy Stoelwinder (1995) stated that the conflict occurs because the form of the accounting control model describes the behavior that is contrary to the professional control of the model. Conflict of roles arise if professionals regard that compliance with one of the models would result in conformity with the model that other difficult and unlikely. In other words, hope that is associated with a role as a professional look is a direct conflict with the hope that related to her role as Manager (Rizzo, 1970).

Further, Comerford and Abernethy (1999) suggests that the relationship between the professional orientation and the role of conflict are moderated by managerial goal orientation (orientation of the purpose of the system). Abernethy and Stoelwinder (1991), is also developing a framework for measuring the relationship between uncertainty and belief tasks depends on the existence of a commitment on the orientation of the purpose of the system (managerial orientation).

Organization

The organization is a system, has the structure and the planning was done in full awareness, in it the people work and relate to each other with a coordinated, cooperative manner, and impulse-impulse in order to achieve the goals that have been set (Beach, 1980; Champoux, 2003). The theory of organization as stated by Tompkins (2005) is a study of how and why a complex organization to behave as they do. Organizational theory examines the Organization's formal structure, internal processes, external hambatanhambatan and how organization affects and is affected by its surroundings (Tompkins, 2005:1). Similarly, the opinion of Jones (2007) which stated that the theory is the study of how the Organization functions and how organization

affects and is affected by the environment in which the organization operates. Besides Robbins and Barnwell (2002) adds that the organization theory is a macro approach to its analysis unit not only the Organization itself is also a sub-subsection of the core unit in the organization.

The theory of organizations focused on organizational behavior and using a wider definition about the effectiveness of the Organization and not only fixated on the performance and attitude of the members are also on the overall ability of the Organization to adapt and achieve its aims. Based on the brief description then it is one of the things that attract the theorists of the organization is the Organization's efforts to adapt, affects and is affected by its environment as a consequence of an open system. One of the efforts to the attention of the experts the organization is about the concept of the learning organization or sometimes also called organizational learning. In this case will be examined the position of learning organization in the literature on organizational theories. In some literature on organizational theory, learning organization is one of discussion related to organizational changes conducted in the organization. For example, Gareth r. Jones in his book *Organizational Theory, Design and Change* (2007) puts the learning organization as one of the Organization's approach in organizational change, in addition to other approaches.

Jones (2007), the learning organization as a process that is necessary for the Organization to adapt, modifies and changes the environment of the Organization so that the organization can maintain his survival. Even the Jones relate this approach to the process of decision making within the organization. He mentioned that the decision-making process in the Organization will succeed if the Organization has the ability and capacity to learn behaviors as well as the old inefficient actions. Furthermore, Jones also stated that the implications of the decision making process and a learning organization, the Organization must be able to build a knowledge management by making use of optimization may be the development of information and communication technology.

Innovation in Competitive Advantage

According to the etymology of the word innovation, innovation which means "renewal, changes (by) new ". Innovation is sometimes interpreted as a Discovery. But different meaning with the invention in the sense of diskoveri or invention. Diskoveri has the meaning of the discovery of something that is something that has been there are earlier. But not yet known. For example the discovery of the continent united. In fact, the American continent has been around since dahuIu but the new discovered in 1492 by Europeans named Columbus. Invention is the invention really is new as a result of human creations.

Bharadwaj et al (1993, p. 83-84) explained that competitive advantage is the result of implementation strategies that utilize a variety of resources that belong to the company. The unique skills and assets are seen as a source of competitive advantage. As said by (Bolfek, Simic, The stoic, 2008) that says, the competitive advantage needed to satisfy customers, so that customers will receive a higher value from the products, at the same time can also provide a great income, such as that requested by the owner of the business at hand management of the company, where the need to achieve this can be filled with the company's productivity, high-quality applications and also the company's production costs as low as possible.

Employee Performance

According to Simamora (1995), employee performance is the rate against the where employees achieve the requirements of the job Performance as a noun (noun), then the notion of performance or performance is the result of work can be reached by a person or group of people in a company in accordance with the authority and responsibilities of each in achievement of the objectives of the company's efforts are not illegal, unlawful and does not conflict with the moral and ethical (Rivai Basri, 2004; Harsuko 2011).. According to Byars and Rue (Harsuko 2011) performance is the degree of preparation tasks that manage the work of a person. So, the performance is the willingness of a person or group of people to perform the activity or refine it in accordance with his responsibilities with the results as expected.

According to Sinambela, dkk (2012) suggests that the performance an employee is defined as the ability of the employee in performing the something particular expertise.

METHODOLOGY

Managerial role in the new organization are examined based on the theory of managerial objectives with the underlying managerial support, participatory, goal-oriented and directive; and transformational transactional the dichotomy of leadership. Item measurements developed based on a review of the literature in the past with some items, one of which for each managerial leadership in style. Cronbach alpha coefficient and analysis of the factors used to measure the adequacy of a scale of reliability. Items that are deleted and added back needed to clean the scales so that leadership is different every single build new organization.

The results of factor analysis and alpha orientation items borrowed from the 20th were developed. The competitive orientation is not determined in the good model Jaworskis and Kohli and have proven it has a negative effect on the performance of employees. We examine the managerial orientation with two generally received components, the customer orientation and functional coordination with eleven items modified self-reported perception of scale. Coefficient alpha values resulting from 0.86 to customer orientation and functional coordination 0.76 for 24. Finally, innovation is measured by items which are conceptualized and developed by the literature review, including items used in the 2, 3, and 4. After several rounds of deletions and additions based on a series of factors analysis and reliability testing using Cronbach alpha coefficient, scaled a six-item maintained with coefficient alpha 0.84.

Research questions are dealt with in a survey conducted on a sample of 70 managers, who show that they have experience in organizational knowledge, innovation, and impact on performance. The survey package, including cover letter, survey questionnaires, and return envelope, delivered to each Respondent. Returns a total of 100 survey respondents.

HYPOTHESIS TESTING

Orientation of managerial role in the conditions of the new organization outlines proposed activities within the structure and function of the employee who created by each sub Directorate with reference to design new forms of organization. Innovations that are expected to give a positive impact on the performance of employees, as many as 70 of the respondents stated that the socialization orientation of managerial Organization recently very helpful staff of employees. The activities carried out by the operational support health service (Chief of staff)

and the remaining Reply submission of information brought by the Executive support (the Director and Assistant Director).

The role of managerial orientation Hypothesis against the new organization, and its impact on innovation performance will be examined. As expected, the strongest effects have a managerial orientation while the innovation impact performance-oriented employees who demonstrate a significant influence. The result also shows clearly that the Innovation and transformation of the affected transactional positive role orientation of managerial Organization recently, this indicates that the orientation of the managerial in the new organization has a significant effect, the meaning of innovation and impact performance.

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