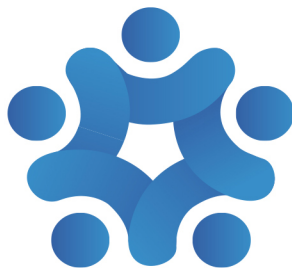




# PROCEEDING

---



## ICFBE 2017

INTERNATIONAL CONFERENCE ON  
FAMILY BUSINESS & ENTREPRENEURSHIP  
Inna Grand Beach Hotel Sanur  
Bali, Indonesia May 3-5, 2017



Publisher:  
**President University**

---

ISBN



9 786026 195302

## Foreword

The global economic landscape is still recovering from the prolonged economic crisis which has significantly affected consumer's buying power, hit commodity prices, as well as hampered growth in general. However, in the midst of the crisis, research has shown that family businesses remain a strong and resilient force which helps propel the economy. A Harvard Business Review article argued that family businesses tend to be more frugal and enter recessionary period with leaner cost structures.

According to McKinsey, in emerging economies, family businesses account for approximately 60 percent of the private-sector companies with revenues of \$1 billion or more, compared to less than one-third of the companies in the S&P 500. However, the upward trend for family businesses as a significant part of their national economies in emerging markets remain strong, and will represent nearly 40 percent of the world's largest companies in 2025, up from 15 percent in 2010, which shows the growing importance of understanding family business and its sustainability in the long run in the midst of the current global scenario.

In this regard, the International Conference on Family Business and Entrepreneurship (ICFBE) 2017 is specifically established to be a leading international conference on family business and entrepreneurship in the region and beyond. The conference is championed by President University, a world-class higher education institution in Indonesia which was established to become a reputable research and development center in the region and to set a new benchmark in Indonesian higher education. This conference aims to gather researchers and practitioners to critically share and discuss the latest empirical, conceptual, as well as theoretical findings and trends in the field of family business, entrepreneurship, strategic management, among others.

Unlisted but related sub-topics are also acceptable, provided they fit in one of the main topic reas as follow:

1. Sustainability of Family Business
2. Succession Planning and Family Conflicts
3. Professionalization and Family Culture
4. Entrepreneurship
5. Strategic Management

Bali, May 4<sup>th</sup>, 2017  
Editors

# Proceeding ICFBE 2017 International Conference on Family Business & Entrepreneurship

**ISBN** : .....

**Editors** : Prof Alfonso Vargas Sanches Spain  
Prof. Dr. Ajay Chauhan India  
Dr. Jony Oktavian Haryanto Indonesia  
Prof Rosna Awang Hashim Malaysia  
Dr.Drs. Chandra Setiawan, Ph.D Indonesia  
Dr. Scott Younger United Kingdom  
Dr. Genoveva Claudia Indonesia  
Liswandi, Ph.D Indonesia  
Dr. Etty Susilowati Indonesia  
Ono Supriyadi, Ph.D Indonesia  
Dr. Yunita Ismail Indonesia  
Dr. Dedi Rianto Rahadi Indonesia  
Dr. Josep Ginting Indonesia  
ABM. Witono, Ph.D Indonesia  
Maria Jacinta Arquisola, Ph.D Indonesia  
Bintang Handayani, Ph.D Indonesia  
Dr. Ika Pratiwi Simbolon Indonesia

---

**Cover Design and Layout** : Natsir Lembah

---

**Publisher** : PresUniv Press

---

**Redaction** : President University  
Jababeka Education Park  
Jl. Ki Hajar Dewantara, Kota Jababeka  
Cikarang Baru, Bekasi 17550 - Indonesia  
Telp/Fax: 021 8910 9762-63/021 8910 9768

---

**Sole Distributor** : President University

---

**First Edition** : June 2017

---

Copyright reserved  
Reproduction of this paper in the form and manner what so ever without written  
permission of the publisher

---

<b>CONTENT</b>	
<b>COMMODITY STRATEGY CRAFTS BUSINESS LOCAL CERAMICS FACING GLOBAL COMPETITION</b> <i>Tri Yulistyawati Evelina, Yosi Afandi</i>	1-11
<b>STUDY ON PERCEPTION AND DEMOGRAPHIC FACTORS OF DIGITAL FINANCIAL SERVICES (DFS)</b> <i>Supramono, Like Soegiono, Rosaly Fransiska</i>	12-23
<b>THE LEGAL TAXONOMY OF THE FAMILY BUSINESS</b> <i>Hania M. Hammoud</i>	24-35
<b>THE INFLUENCE OF SERVANT LEADERSHIP TOWARD EMPLOYEE LOYALTY WITH JOB SATISFACTION AS INTERVENING VARIABLE (PT. SSJ, INDONESIA)</b> <i>Thryanica Hartanti, Rosaly Fransiska</i>	36-48
<b>THE RELATIONSHIP BETWEEN ENTREPRENEURSHIP ORIENTATION AND ORGANIZATIONAL LEARNING TOWARD BUSINESS STRATEGY AND BUSINESS PERFORMANCE OF COCOA'S SMALL AND MEDIUM ENTERPRISES (SME) IN EAST KALIMANTAN</b> <i>Herna Wati, SE. MM.</i>	49
<b>WHY SOME SMEs FACE STAGNANCY WHILE OTHER CAN GROW?(CASE OF SMEs IN BANDUNG)</b> <i>Muslim El Hakim Kurniawan, Prameshwara Anggahegari, Aang Noviyana Umbara, Khansa Aktari Dewi</i>	50-64
<b>"PANG PADA PAYU" FOR LONG LIFETIME BUSSINES</b> <i>Ni Nyoman Juli Nuryani, Ni Made Sri Ayuni, Luh Kartika Ningsih, Putu, Eka Nopiyani</i>	65-72
<b>AUDIT QUALITY ATTRIBUTES AND CLIENT SATISFACTION: EVIDENCE FROM FAMILY BUSINESS</b> <i>Amril Arifin dan Amri Zainuddin</i>	73
<b>THE ROLE OF PRODUCT DESIGN DIMENSIONS TOWARD FORMATION OF PERCEIVED VALUE, SATISFACTION AND</b>	74-83

<b>CUSTOMER INTENTIONS</b> <i>Whony Rofianto, Agnes Ajeng, Amanda Cynantia Sandri</i>	
<b>INVESTIGATING THE IMPACT OF BANKS' SOUNDNESS AND MACROECONOMICS TOWARDS BANK'S PERFORMANCE</b> <i>Alexander William Chandra, Maria Christina Liem</i>	84
<b>STOCK RETURN CHARACTERISTIC IN INDONESIA MARKET</b> <i>Yanuar Dananjaya BSc., MM., Dr. C. Erna Susilowati, S.E., M.Si.</i>	85-91
<b>TRANSFORMATION A FAMILY COMPANY TO BE A PUBLIC COMPANY (CASE STUDY PT. BW PLANTATION TBK)</b> <i>Rini Setiawati</i>	92-102
<b>MARKETING STRATEGY ANALYSIS TO MAXIMIZE SALES GROWTH IN GGOODSTUFF URBAN AND TRAVEL EQUIPMENT</b> <i>Siti Paramadita</i>	103
<b>DEVELOPING BRAND IMAGE OF SMALL AND MEDIUM ENTERPRISES: CASE STUDY OF THE IMPORTANCE OF AFTER SALES SERVICE</b> <i>Daniel Hermawan, Cai Li</i>	104
<b>TAX AGRESSIVENESS IN FAMILY FIRMS: CAN CORPORATE GOVERNANCE MITIGATE IT?</b> <i>Arie Pratama</i>	105-118
<b>OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE, AND RELATED PARTIES TRANSACTIONS: STUDY IN INDONESIAN FAMILY COMPANIES.</b> <i>Arie Pratama</i>	119
<b>DESIGNING COMPETITIVE ADVANTAGE TO ACHIEVE ORGANIZATIONAL PURPOSE</b> <i>Kristina Aryani Nugroho, Hora Widjaja Tjitra, Dek Sintya, Adinda</i>	120-127
<b>HOW AND WHICH INSTITUTIONS MATTER: A CROSS COUNTRY EVIDENCE</b> <i>Putu Poppy Aimy Widyasari</i>	128
<b>PROPOSED COMPETITIVE BUSINESS STRATEGY FOR ENGINEERING CONSULTING COMPANIES IN LAND RECLAMATION BUSINESS IN INDONESIA</b>	129

<i>Anton Sanjaya</i>	
<b>PROFILING SMALL MEDIUM FAMILY-OWNED BUSINESS IN EAST JAVA, INDONESIA</b> <i>Damelina Basauli Tambunan</i>	130-139
<b>DELIVERING SUSTAINABILITY THROUGH BUSINESS MODEL INNOVATION: CHALLENGES FOR STARTUPS</b> <i>Anne Evita Geelhoed, Melia Famiola, Leo Aldianto</i>	140-148
<b>STUDYING THE SOCIAL BENEFITS OF THE PEER-TO-PEER SHARING ECONOMY ON LABOUR</b> <i>Simone Norfo</i>	149-158
<b>THE PUBLIC SERVICE COMMITMENT OF LOCAL GOVERNMENT IN DEVELOPING CENTER OF KNITTING INDUSTRY BINONG JATI BANDUNG CITY, WEST JAVA</b> <i>Candradewini</i>	159-161
<b>THE SMALL SIZE FAMILY INDUSTRIES DEVELOPMENT MODEL OF SUKABUMI CITY GOVERNMENT</b> <i>Candradewini</i>	162-165
<b>WORK ENGAGEMENT, PERCEIVED ORGANIZATIONAL SUPPORT, AND PSYCHOLOGICAL WELL-BEING</b> <i>Kiky Dwi Hapsari Saraswati</i>	166-174
<b>THE ENTREPRENEURIAL SKILLS OF FAMILY BUSINESS (Study in Small Size Food Industries at Sukabumi City)</b> <i>Hermawan Abdul Muhyi</i>	175-181
<b>THE SUSTAINED BUSINESS GROWTH OF MOCHI KASWARI LAMPION AS A FAMILY BUSINESS IN SUKABUMI CITY, WEST JAVA</b> <i>Herwan Abdul Muhyi</i>	182-186
<b>REVIVING LOST COMMUNITIES IN BALI AND ENABLING DEVELOPMENT OF SMALL BUSINESS INITIATIVES</b> <i>D J Booth MBE BSc (Hons) MSc, Founder and CEO, East Bali Poverty Project</i> <i>J S Younger OBE DEng(Hon) PhD MS BSc(Hons) CEng FICE, International Chancellor, President University, Commissioner East Bali Poverty Project &amp; Hon. Research Fellow, Glasgow University</i>	187-194

<i>Komang Kurniawan, Chairman, Board of Trustees, East Bali Poverty Project</i>	
<b>ORGANIZATIONAL COMMUNICATION ON FAMILY EMPOWERMENT POSDAYA (IN JOMBORAN VILLAGE KLATEN DISTRICT)</b> <i>Asri Laksmi Riani, Arum Setyowati, Wulan Permatasari, Winarno, Khotijah</i>	195-205
<b>THE DEVELOPMENT OF PALEMBANG TOURISM DESIGN BY UTILIZING MICE EXCELLENCE AND COMMUNITY CARE IN TOURIST ATTRACTION REGIONS</b> <i>Sri Rahayu, Ervita Safitri, Arniza Nilawati</i>	206-216
<b>THE DIFFERENCES IN STOCK PERFORMANCE OF ASEAN COUNTRIES</b> <i>Abid Djazuli, Ervita Safitri, Yudha Mahrom</i>	217-232
<b>FINANCIAL LITERACY TO FINANCIAL INCLUSION: MILLENNIAL COUPLE IN BANDAR LAMPUNG CITY</b> <i>Lusianna Liunata, Farida Komalasari</i>	233
<b>LEADERSHIP STYLES AND THEORIES ON GENERAL ORGANIZATIONAL BEHAVIOR</b> <i>Terry Immanuel Yoseph Winarta</i>	234-248
<b>CULTURAL INFLUENCE, ORGANIZATIONAL CLIMATE, ABILITY OF INFORMATION TECHNOLOGY TO MOTIVATION AND SATISFACTION EMPLOYEES OF BANKALTIM</b> <i>Didik Hadiyanto</i>	249-270
<b>THE EFFECT OF ORGANIZATIONAL COMMITMENT, CAREER DEVELOPMENT, AND PERFORMANCE APPRAISAL ON THE JOB SATISFACTION OF EMPLOYEES OF STARRED HOTELS IN MALANG</b> <i>Nilawati Fiernaningsih, Halim Dwi Putra</i>	271
<b>PREDECESSORS' ATTITUDE TOWARD CONFLICT PREDICTOR OF FAMILY BUSINESS SUSTAINABILITY</b> <i>Linda Salim, Mohd. Noor Shariff, Darwina Ahmad Arshad</i>	272
<b>THE EFFECT OF CORPORATE BRAND IMAGE TO TRUST IN PURCHASING MUSLIM CLOTHING AT ONLINE STORES LAZADA (SURVEY ON STUDENT FISIPOL ISLAMIC UNIVERSITY OF RIAU, PEKANBARU, RIAU PROVINCE, INDONESIA).</b>	273-286

<i>Rosmayani, Annisa Mardatillah</i>	
<b>ATTITUDE TOWARD CONFLICT AND NEXT GENERATION TALENT POOL IN FAMILY BUSINESS</b> <i>Linda Salim, Mohd. Noor Shariff, Darwina Admad Arshad</i>	287-304
<b>THE SIGNIFICANCE KEY OF INTELLECTUAL CAPITAL TO INCREASE FINANCIAL PERFORMANCE, FIRM'S GROWTH, AND MARKET VALUE</b> <i>Wawan Sadtyo Nugroho, Gudono</i>	305-324
<b>A MODEL OF WASTE MANAGEMENT IMPROVEMENT IN INDONESIA</b> <i>Yefta Andi Kus Noegroho, Suzy Noviyanti, Jony Oktavian Haryanto, Lanita Winata</i>	325
<b>COMPARISON OF GOOD GOVERNANCE IMPLEMENTATION IN INDONESIA: EXPLORATORY ANALYSIS OF FAMILY AND NON FAMILY BUSINESS FINANCIAL STATEMENTS DISCLOSURES THAT LISTED IN LQ-45*</b> <i>Citra Sukmadilaga, Lastuti Abubakar, Tri Handayani</i>	326-334
<b>FAMILY BUSINESS BRAND AND NATION-BRAND IMAGE: A PROPOSED FRAMEWORK</b> <i>Bintang Handayani</i>	335-343
<b>EXPLORING CHALLENGES OF YOUTH ENTREPRENEURSHIP</b> <i>Nana Trianasari, Putu Ayu Setiari</i>	344-353
<b>STRATEGIC FOCUS DEVELOPMENT OF PT. TRIAS SENTOSA, Tbk.</b> <i>Felicia Bella Kurniawan</i>	354-362
<b>PERCEIVED MANAGERIAL DISCRETION, ENTREPRENEURIAL LEADERSHIP AND FIRM PERFORMANCE</b> <i>Riri Andriandi, Sari Wahyuni</i>	363-382
<b>SUPPLY CHAIN RISK MANAGEMENT EVALUATION ON UNCONTROLLABLE RISKS IN AUTOMOTIVE INDUSTRY OF PT. ASTRA INTERNATIONAL – HONDA SALES OPERATION</b> <i>Ghilmansyah Amri, Orlando R. Santos</i>	383
<b>THE EFFECTS OF ENTREPRENEURIAL ORIENTATION AND TEAM REFLEXIVITY ON BUSINESS MODEL INNOVATION TO ACHIEVE SUPERIOR ORGANIZATIONAL PERFORMANCE ( <i>Study of Entrepreneurship on Hospital Organizations in Indonesia</i> )</b>	384-393



<i>Sandra Dewi, Anton Wachidin Widjaja</i>	
<b>THE CAUSE OF STOCK PRICE FALLING BASED ON FINANCIAL ACCOUNTING PERSPECTIVE : STUDY CASE OF PT. GARDA TUJUH BUANA, TBK.</b> <i>Wiliam Santoso, S.E, M.Ak., Hananiel M. Gunawan</i>	394-407
<b>THE STUDY OF THE INFLUENCE OF LEADERSHIP TO THE BUSINESS SUSTAINABILITY ON SMALL MEDIUM ENTERPRISES USING FINANCIAL MANAGEMENT APPROACH</b> <i>Ani Nuraini, Nurminingsih</i>	408-423
<b>THE INFLUENCE OF RETAIL MARKETING MIX TOWARDS CONSUMER BUYING DECISION (A CASE OF U.D SUMBER LANCAR STORE IN MALANG)</b> <i>Kevin Rana Sidharta, Suresh Kumar</i>	424-438
<b>COMPREHENSIVE FEASIBILITY STUDY FOR BUSINESS DEVELOPMENT (STUDY CASE FOR PT. INDO MITRA NIAGA)</b> <i>Hananiel M. Gunawan, BA, MBA, Wiliam Santoso</i>	439-461
<b>THE INFLUENCE OF WORKLOAD, JOB SATISFACTION AND WORKING ENVIRONMENT TOWARDS WOMAN WORK LIFE BALANCE</b> <i>Paulina Hastayu Marsaditha, Grace Amin</i>	462
<b>EVALUATING THE IMPACT OF CSR PROGRAMS ON COMMUNITY: THE CASE OF PT. XYZ IN CIKARANG, INDONESIA</b> <i>Anggraeni Permatasari, Kunthi Afrilinda Kusumawardani, Vinda Octavianie, Sulaiman Jamin</i>	463-480
<b>GARWARE PAINTS: A CASE STUDY OF FAMILY BUSINESS FAILURE</b> <i>Ajay A. Chauhan</i>	481-490
<b>ANALYSIS OF INFLUENCE FINANCIAL RATIO AND FIRM SIZE TOWARDS DIVIDEND PAYOUT RATIO AT MANUFACTURING COMPANIES</b> <i>Eunike Yuliana, Purwanto</i>	491-505
<b>INNOVATION TO SUPPORT FAMILY BUSINESS IN CREATIVE ECONOMY ERA (STUDY CASE ON SMALL MEDIUM ENTERPRISES IN PALEMBANG)</b>	506-516

<i>Pandu Adi Cakranegara, Ety Susilowati, Dedi Rianto Rahadi</i>	
<b>REACH SUSTAINABILITY THROUGH CORPORATE SOCIAL RESPONSIBILITY (CSR)</b> <i>Yunita Ismail</i>	517
<b>EFFORTS TO INSTILL THE SPIRIT OF ENTREPRENEURSHIP INTO STUDENTS (A STUDY ON AKBID DELIMA PERSADA EDUCATIONAL INSTITUTION, GRESIK)</b> <i>Eka Srirahayu Ariestiningih</i>	518-530
<b>BIG CITIES IN INDONESIA: A DIGITAL SNAPSHOT</b> <i>Christian Wibisono, Arvinda Tripradopo</i>	531-542
<b>DETERMINANTS OF AUDIT REPORT DELAY IN NON-FINANCIAL LQ 45 COMPANIES - INDONESIA</b> <i>Yulia Abidin, Setyarini Santosa</i>	543
<b>INVESTIGATING THE FACTORS AFFECTING CONSUMERS' GREEN PURCHASE BEHAVIOR ON NATURAL COSMETICS</b> <i>Tran Thi Juyen, Genoveva</i>	544-558
<b>LOW UPSIDE BETA &amp; LOW DOWNSIDE BETA OF LIQUID STOCKS IN INDONESIA</b> <i>Ika Pratiwi Simbolon</i>	559-567
<b>THE INFLUENCE OF FUNCTIONAL VALUE AND SOCIAL VALUE TOWARDS CONSUMER RELATION MANAGEMENT IN JABABEKA GOLF &amp; COUNTRY CLUB</b> <i>I Putu Adi Golviana, Ihsan Hadiansah</i>	568-588
<b>WHEN PERCEIVED CHARACTERISTICS OF INNOVATION AFFECT THE BRAND IMAGE (A CASE STUDY OF BLANJA.COM)</b> <i>Siska Purnama Manurung, Luqman Gandy Dewanto</i>	589
<b>ANALYSIS THE INFLUENCE OF ASYMMETRIC INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY TOWARD EARNINGS MANAGEMENT</b> <i>Gitavani Putri Paramitha, Marika Suma Raya Sembiring</i>	590
<b>THE AFTER EFFECT OF READINESS PROGRAM FOR INSTRUMENTING TQM IN INDONESIA IT-STARTUP COMPANY. CASE</b>	591-607

<b>STUDY OF SELECTED 5 IT-STARTUP COMPANIES.</b>	
<i>Daud Novel Leonardo, Debby Mei Ekawati, Ni Made Dian Ramavani, Genoveva.</i>	
<b>THE INFLUENCE OF PACKAGING DESIGN ON IMPULSIVE BUYING AT CHATIME CIKARANG CITY</b>	608-616
<i>Kristian Alfredo Jonathan, Filda Rahmiati</i>	
<b>FAMILY BUSINESS AND WEALTH CREATION: ETHICAL ISSUE?</b>	617-624
<i>Bruno Rumyaru,</i>	
<b>THE INFLUENCE OF FUNCTIONAL VALUE ANDEMOTIONAL VALUE TOWARDS CUSTOMER RELATION MANAGEMENT IN JABABEKA GOLF &amp; COUNTRY CLUB</b>	625-636
<i>Kevin Togu, Ihsan Hadiansah</i>	
<b>BUILD STRONG CUSTOMERS RELATIONSHIP MANAGEMENT (CRM): SOCIAL VALUE AND EMOTIONAL VALUE THAT PERCEIVED BY THE CUSTOMERS</b>	637-649
<i>I Gede Rian Prasetiawan Giri, Ihsan Haidansah</i>	
<b>ANALYSIS OF FACTORS INFLUENCING ADOPTION OF REVERSE LOGISTICS AMONG MANUFACTURING COMPANIES</b>	650
<i>Mohammad Jalal, Ono Supriadi</i>	
<b>AN EVALUATION OF FIRST AND SECOND GENERATION FAMILY BUSINESS OWNERS ON BUSINESS PERFORMANCE</b>	651
<i>Genoveva</i>	
<b>SEARCH ENGINE MARKETING: HOW EFFECTIVE IS GOOGLE'S SEARCH ENGINE OPTIMIZATION (SEO) FOR SMES?</b>	652
<i>Randy Azhary Pahlevi, V. Jajat Kristanto, Hanif A. Widyanto</i>	
<b>TO STUDY THE EFFECT OF EMPLOYEE TRAINING FOR NEW FRANCHISE EMPLOYEES AT BODY SHOP IN INFLUENCING ENVIRONMENTALLY SUSTAINABLE STRATEGIES</b>	653-682
<i>Aparna Goyal, Sanjeev Bansal</i>	
<b>TO STUDY ROLE OF INTERMEDIARIES IN ECO-ORGANIC FOOD MARKET AND ITS EFFECT ON CONSUMER PERCEPTION OF ENVIRONMENTALLY GREEN PRODUCTS</b>	683
<i>Aparna Goyal</i>	

<b>DOING RESEARCH AND RUNNING A BUSINESS IS IT JUST TOO MUCH</b> <i>Henning Grosse</i>	684-693
<b>SHARING TACIT BUSINESS KNOWLEDGE BETWEEN FOUNDER AND SUCCESSOR IN FAMILY BUSINESS: CASE STUDIES IN VIETNAM</b> <i>Thanh Trung Pham, Robin Bell, David Newton</i>	694-706
<b>TACIT KNOWLEDGE TRIGGERS: WHEN KNOWLEDGE SURFACES-AN INDUCTIVE APPROACH</b> <i>Hanna Dreyer, Dr. Robin Bown</i>	707-718
<b>TREADING ON A MINEFIELD- CHALLENGES IN CONDUCTING REAL WORLD NEGOTIATION RESEARCH IN THE SME SECTOR</b> <i>Nadine Sulkowski</i>	719-746
<b>EMERGING CORPORATE INITIATIVES AND STRATEGIES TO MEET ECOLOGICAL CHALLENGES ( A STUDY OF SELECT INDIAN CORPORATE HOUSE)</b> <i>Dr. Sudhir Sachdev</i>	747-755
<b>ENTREPRENEURSHIP: ISSUES AND CHALLENGES TO WOMEN OF INDIA</b> <i>Neha Wadhawan</i>	756-762
<b>ART AND CRAFT FAIRS: A SUSTAINABLE PLATFORM FROM SEE'S AND SME'S TOWARDS DISCOVERING AND REINVENTING INDIA</b> <i>Priyanka Verma</i>	763-769
<b>MODELING AND ANALYZING THE FACTORS FOR WORKFORCE CAPABILITY USING ISM APPROACH</b> <i>Rajender Kumar, Neeraj Lamba, R.N. Rai, D.K. Dodeja</i>	770-778
<b>A STUDY OF IMPACT OF FAMILY BUSINESS DEMOGRAPHICS, LEADERSHIP AND MANAGEMENT STYLE ON FIRM PERFORMANCE</b> <i>Dr. Rajat Gera, Dr. Bindu Agrawal</i>	779-791
<b>A STUDY OF STRATEGIC MANAGEMENT IN FAMILY BUSINESS AND ITS IMPACT ON FIRM PERFORMANCE</b>	792-807

<i>Dr. Rajat Gera, Dr. Pragati Chauhan</i>	
<b>THE IMPACT OF FEMALE ENTREPRENEURSHIP ON ECONOMIC GROWTH IN INDIA</b> <i>Dr. Rajat Gera, Dr. Pooja Kapoor</i>	808-818
<b>STUDY RELATIONSHIP OF CORPORATE SOCIAL RESPONSIBILITY AND PERFORMANCE OF ENTREPRENURIAL FIRM IN INDIA</b> <i>Dr. Sudhir Sachdev</i>	819-832
<b>DEVELOPMENT OF SMALL BUSINESS FOR TOUR AND TRAVEL BY USING THE BUSINESS MODEL CANVAS</b> <i>Abdullah Umar, Agung Hari Sasongko</i>	833-843
<b>FAMILY BUSINESS SUSTAINABILITY IN <i>PT. MYSHOP RETAILINDO</i></b> <i>Hellyanda A. Rukmana, Yanti Setianti, Centurion C. Priyatna, Yustikasari</i>	844-850
<b>ENTREPRENEURSHIP TRAINING FOR COMMUNITY EMPOWERMENT EFFORT IN MATHLAUL ULUM MADRASAH TSANAWIYAH</b> <i>Yanti Setianti, Hanny Hafiar, Kokom Komariah, Aat Ruchiat Nugraha</i>	851-855
<b>CHIEF ENTREPRENEUR FOR EVERY INDIAN STATE ECOSYSTEM</b> <i>Sriram Pappu</i>	856-865
<b>THE INFLUENCE OF MARKETING MIX 4A AND ETHICAL CONSCIOUSNESS TOWARDS ETHICAL CONSUMPTION</b> <i>Jason Sulaiman. Jhanghiz Syahrivar</i>	866-875



**COMMODITY STRATEGY CRAFTS BUSINESS LOCAL CERAMICS  
FACING GLOBAL COMPETITION**

**Tri Yulistyawati Evelina, Yosi Afandi**  
State Polytechnic of Malang

Email : [trievelina@gmail.com](mailto:trievelina@gmail.com)

---

**Abstract**

The study aims to examine the strategies featured local ceramics craft businesses face global competition. The subjects in this study are a local pottery business in Dinoyo, Malang. Specifically the study aims to: (1) assess the determinants of competitiveness of local ceramic crafts; (2) identification of various government policies that support the development of business potential actors of local ceramic crafts; (3) development strategy business potential for local ceramic crafts, (4) create a strategic marketing plan ceramic crafts local SMEs in order to improve marketing performance. This research was done in Blimbing- Malang. These types of research are Research and Development. Target outcomes that will result from this research is produced: (1) obtained basic data business potential in the area of research relating to the cases pottery locally in the development potential of the business and marketing performance (2) strategy of developing business potential of ceramic crafts locally through training and mentoring

**Keywords:** Strategy Featured, Local Crafts, global competitiveness

---

**PRELIMINARY**

Malang is the second largest city in East Java and one of Indonesia's largest cities by population. Malang per July 1, 2015 population of 873 716 inhabitants (source: BPS Malang). One of the districts in the city of Malang, districts Dinoyo an industrial district of Small and Medium Enterprises superior products ceramic crafts. SMEs, in the development of this product appears to competition that can not be avoided. With the opening of global competition, local ceramics craft industry is faced with a variety of opportunities and threats that come from within outside the region. For that every effort is required to always know and understand what is happening in the market and what the consumer desires, as well as changes in the business environment so as to compete with other businesses. SMEs should seek to minimize the weaknesses - weaknesses and maximize its strengths. Thus the local ceramics craft industry is required to select and define strategies that can be used for the competition.

With the pressure of competition is so tight, so that either directly or indirectly affects the performance of organizations including the ceramic craft business small and medium scale or global. Rapid changes in today, both in terms of technology, customer needs and product cycles are getting shorter causing serious problems for the business world is no exception small and medium enterprises. Most local businesses still have many weaknesses that are external, such as a lack of ability to adapt to environmental influences strategic, less nimble in opportunities - business opportunities, lack of creativity and innovation in anticipating the challenges as a result of the prolonged economic recession. Besides the internal factors of the majority of SMEs are lack of managerial ability and skills, lack of access to information technology, capital and markets.

Of the various shortcomings mentioned above required special attention to the fate of the existence of the local business community as a support for the real economy. So tight competition requires local business has a competitive advantage to face global competition, if not then the local business can not last long. Competitive advantage in an organization can be obtained by observing the superior value for customers, culture and climate to bring any improvement in efficiency and effectiveness.

Noting the issues that have been outlined, then to overcome the above problems will be pursued how the development strategy of SME business potential employers or local ceramics to enter the global market in the District Dinoyo Malang. In developing the potential of business and marketing performance needed competitive advantage to be able to compete with similar businesses in the free market. According to Jack Welch "if you do not have a competitive advantage, do not try to compete". Based on the statement we can see if we want to succeed in the competition, needed a competitive advantage. The elements of competitive advantage in the development potential of the business and marketing performance are:

### **1. The potential competitive advantage**

Every business has a resource potential that is different from other businesses. The potential of these resources, including the expertise possessed by managers, employees, the ability of managers, facilities owned, and so on. The higher the quality of the potential resources owned by the business, the easier SMEs choose and implement strategic plans. Strategic plans that can be implemented such example is a strong distribution network, high production capabilities, marketing capabilities, supported strong sales team, the ability to master the technology. In addition to the potential resource of expertise, every effort also needs to have the ability to control very well. This good control capabilities including the ability to supervise and the ability to analyze the course of the overall business.

### **2. The position of competitive advantage**

The position of competitive advantage resulting from the leadership in the field of cost (cost leadership) or differentiation, so that customers benefit from the value obtained. The relatively low production costs resulted in the SME is able to sell at a

price relatively cheaper than the selling price offered by a competitor. A very important factor determining competitive advantage in determining a position of competitive advantage is to determine when, where, and how we can compete.

### **3. The resulting performance**

If all the potential and position of competitive advantage held by businesses are used optimally, customers will benefit from the product price is relatively cheap and get a quality product that is in accordance with expectations. Furthermore, all of this will generate a high level of satisfaction; loyalty is high, greater market share, and the high level of profitability to the business. This activity is becoming increasingly large, thus increasing sales and business could increase production. Leading to a lower selling price and customers have benefited more than SMEs.

### **Performance Marketing**

Performance marketing is a measure of the achievements obtained from the process of overall marketing activities of a company or organization. In addition, marketing performance can also be seen as a concept used to measure the extent to which the market performance that has been achieved by a product produced by the company.

## **RESEARCH METHODOLOGY**

The approach adopted is to use the analysis of quantitative and qualitative data. The subjects of this study were:

- a. Ceramic Crafts Business
- b. Government officials (Department of Cooperatives, Department of Industry and Trade, Chamber of Commerce) related to the field of SMEs,
- c. Higher education institutions and non-governmental organizations and associations that deal with SMEs. As an input also invited experts who are competent in their fields as a resource.

There are several types of data to be collected in the research and development strategy as well as following the data collection method.

- a. Data on the profile of the area, ceramic handicrafts entrepreneurs who need to receive services business strategy development potential, identification of the business; revealed by the survey method, observation and interview. This data will be obtained from the sample population study.
- b. Data about the effectiveness of the implementation of the strategy were collected by using questionnaires, observation, and interviews.



This study was analyzed with descriptive quantitative and qualitative techniques. This study used a descriptive statistical analysis (Mason et al, 1999; SPSS Brief Guide, 2008) to describe the profile of respondents in the study area.

Further variables and measurement in this study are:

- a. Access business measured by the ability of respondents in accessing credit assistance. High level of empowerment, if the respondent has the ability to access the credit assistance  $\geq 50\%$  for its business activities (Susilowati et al., 2004; 2005; Bartle, 2003).
- b. Access to market information measured by the ability of respondents in accessing market information, including information on market supply and demand. High level of empowerment, if the respondent has the ability of  $\geq 50\%$  in accessing market information for business activity, and vice versa (Susilowati et al., 2004; 2005; Bartle, 2003).
- c. Access technology is measured from the respondent's ability to access technology by changing technology improvements. High level of empowerment, if the respondent has the ability of  $\geq 50\%$  in accessing technology

## **RESULTS AND DISCUSSION**

The business location potters in these research activities are in the area Dinoyo and Betek in Malang. The numbers of respondents in this research were 33 respondents who are the owners of potters in Malang. Most of the respondents are male as many as 21 people (64%), while the remaining 12 female sex (36%). Most age of the respondents in the age range 31 - 40. Most respondents have to engage in the Craft Ceramics for 5 to 10 years, or about 52% of the total respondents, while about 11 to 15 years were 21%. This suggests that SMEs Craft Ceramics in Malang has had experience in conducting business activities.

To determine the empowerment strategy, the first step needs to be done is to measure the level of empowerment, which includes access to the business, market access, access to technology, access to human resources, lobbying, relationship with stakeholders and business sustainability. Before analyzing the level of empowerment, efficiency analysis, both technical efficiency and allocative efficiency first. This is done to determine whether the production process has been carried out by SMEs Craft Ceramics has been running efficiently or not.

### **The level of empowerment of SMEs Craft Ceramics**

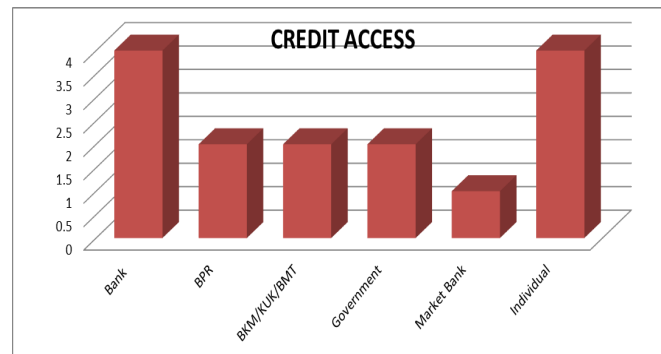
The level of empowerment of SMEs Craft Ceramics business empowerment level is measured with multiple accesses, namely business, market, human resources (HR) and technology and each access will have different measurement indicators.

#### **A. Access business**

One indicator to determine the level of empowerment is viewed against access to community empowerment efforts, in this case is the ability to obtain credit assistance. Of the 33 respondents SMEs Craft Ceramics, who claimed never get credit only 15 respondents (45%) from various financial institutions, individuals, and from government agencies. From Figure 2 shows that the respondents who said that they had

*Tri Yulistyawati Evelina, Yosi Afandi*

to get a credit is much smaller than that claimed never get the credit. A total of 18 people (45%) stated not get credit from anywhere in conducting business activities Craft Ceramics. Some of them he did not know how to get a loan from a bank. In addition to the complicated lending procedures and use of collateral, the amount of refund also feels burdensome.

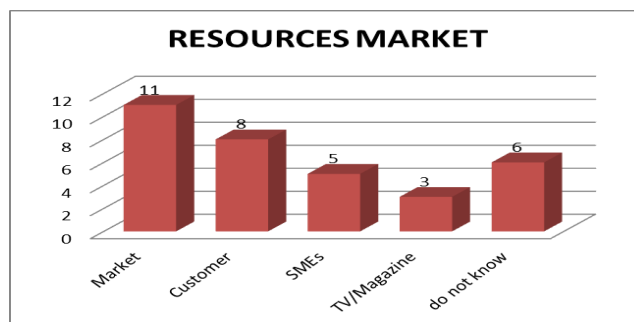


**Figure 1. Sources of SME loans Craft Ceramics**

From Figure 1 shows that the respondents' attempt to find additional capital to meet operational costs through a variety of financing sources among commercial banks, KUK / BMT, RB, Disperindagkop, individuals, and others. Although bank credit as a source of the majority of SMEs Craft Ceramics gets credit but still very small role in helping.

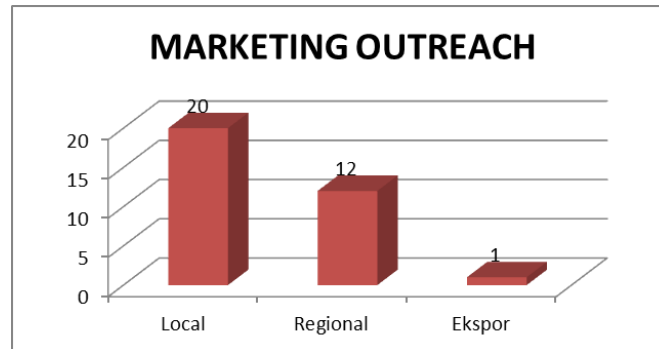
### **B. Market access**

Market access, indicating that the level of empowerment of the SME Craft Ceramics in utilizing the resources market is still relatively low in Marketing Craft Ceramics businesses in Malang. The craftsmen of SMEs Ceramics, still depends on the market and consumer information in marketing their products. Though information can be obtained from other SMEs, TV / magazine or other media such as the Internet that information will be more comprehensive, shown in Figure 2.



**Figure 2. Sources Of Market Information**

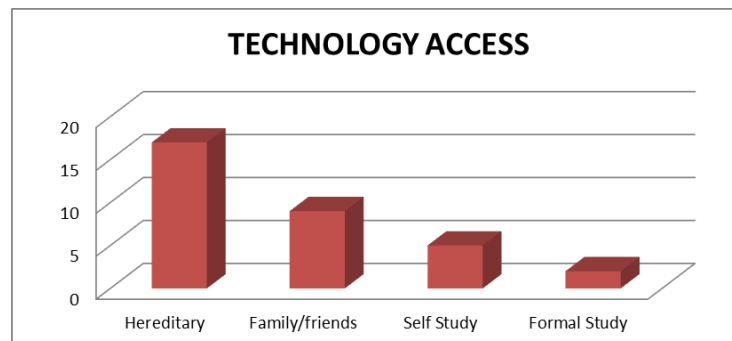
Mostly, the results of efforts Craft Ceramics production is to meet the market regional / national (36%), the local market (31%) and for the export of approximately 3%. This shows that the marketing is done yet reached widespread marketing, only the range of marketing in the city of Malang. While markets outside of Malang, can still be penetrated even to foreign countries, this can be seen in Figure 3.



**Figure 3. Marketing Outreach**

### C. Access Technology

From the picture above shows that most respondents in performing traditional production techniques still are hereditary and information from friends or relatives. Still little is to make changes in business improvement. The consideration due to the change in technology development costs are relatively high, so most rarely changes from the previous one.



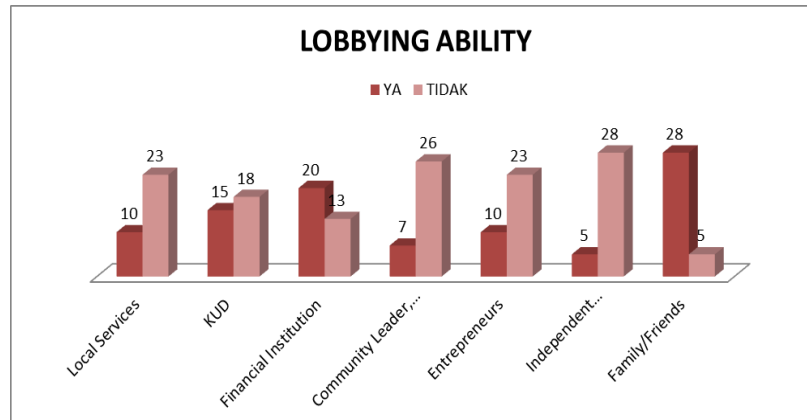
**Figure 4. Production engineering ceramics craft SMES**

### D. Lobbying Ability.

Overall it can be said that the ability and courage to lobby the respondents still low (29%). Lobbying is concerned the relationship between the trade Craft of ceramics with the stakeholders in the conduct of its business activities. The ability of the lobby of the respondent can be seen in Figure 5.

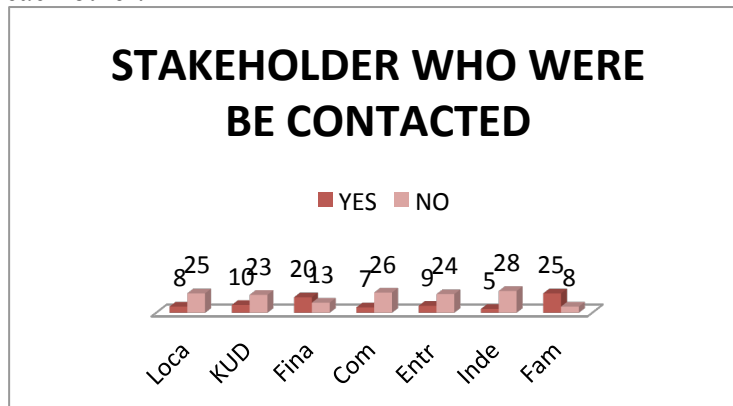
When seen from the relationship between the ceramic and Craft SMES stakeholders see that most of them do not have any contacts at all the stakeholders so that this will weaken the ability of SME Craft ceramics in the area of research in an effort to develop its business.

Tri Yulistyawati Evelina, Yosi Afandi

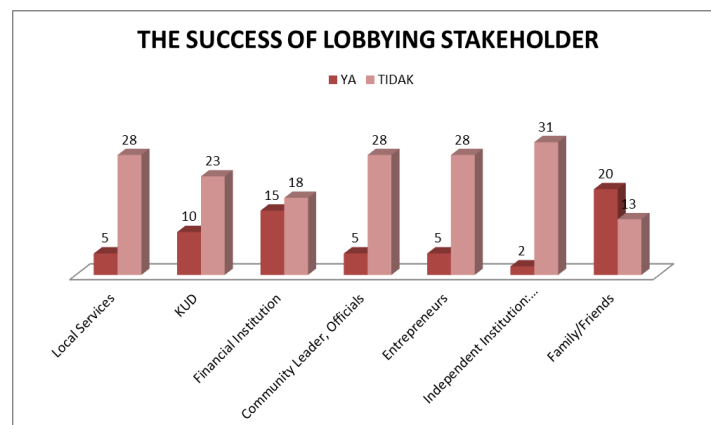


**Figure 5. The ability of the lobby of the Respondents**

Based on Figure 6 and 7 appear that success in asking for assistance related to the craft of ceramics is to brother/friend. This SME dikarena ceramics craft in the area of research is more comfortable asking for help to friends or people/sudara already known than others. Granting favors in a relationship with, among others, giving good rates on loans and help each other.



**Figure 6. Stakeholders who were contacted by SMES**



**Figure 7. The success of Lobbying Stakeholders**

### E. Role of stakeholders

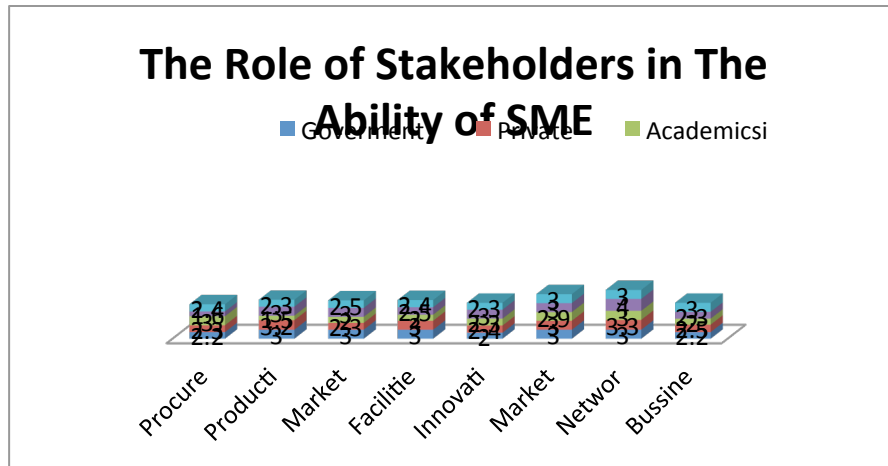
Stakeholders can be considered as one of the parties should be able to help empower SMES. It is composed of stakeholders government, businesses, communities/NGOS, academia/and VILLAGE. Based on the assessment of the respondent with the scale likert (1 to 5) then it can be seen the most prominent role in any activity the SME Craft ceramics. The role of stakeholders according to the respondents can be seen in the picture below:

**Table 1. The role of Stakeholders in the empowerment of SMES ceramic handicrafts**

No	The Role Of Stakeholders	The SME Empowerment Ceramic Handicrafts				
		Government	Private	academics	Society	Cooperative
1	Procurement of raw materials	2.2	2.3	3	1.6	2.4
2	the production process	3	3.2	1.5	3	2.3
3	Distribution Market	3	2.3	2	3	2.5
4	infrastructure	3	3	2	2.5	2.4
5	Innovations /technology	2	2.4	2.3	3	2.3
6	market access	3	3	2.9	3	3
7	Networking	3	3.3	3	4	3
8	business consulting	2.2	2.5	2	2.3	3

*Source: primary processed Data (2016)*

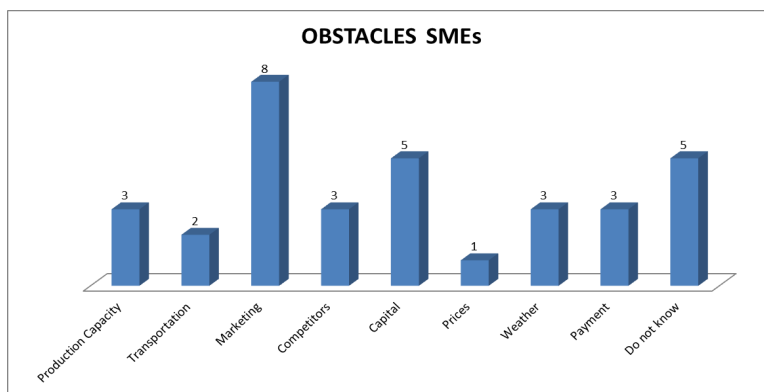
Table 1. and Figure 8 shows that the role of virtually all stakeholders on all activities undertaken by SMES according to the respondent's perception of the Ceramic Crafts are still low. The role of the community which is considered quite high compared to the other stakeholder roles IE in terms of innovation/technology, market distribution as well as networking.



**Figure 8. The role of Stakeholders in helping the empowerment of SMES ceramics craft**

**The Sustainability Efforts**

Figure 9. shows that most respondents (5 people) do not know the obstacles faced to sustainability efforts. This happens because of the low level of education and experience in Ceramic craft business. Level of education most respondents is senior high school with business experience less than 20 years.



**Figure 9. Ceramic Craft Business Constraints**

These constraints resulted in the SMES become low-power competition and the capacity of absorption of technology. It is also seen in the area of research. Keberdayaan level of effort from many different overall access can be summarized as shown in table 2. Based on the results of the analysis of efficiency, both technical as well as alocatif level (table 2) can be aware that Ceramic handicraft business has not been efficient and low capability levels (from a variety of access value is less than 50%). For it needs to be done to improve the strategy and develop small-scale Ceramic craft business.

**Table 2. Summary of the level of capability of SME**

Description	Respondents	N = 33
		%
1. Access Attempts (never got the credit	15	45
2. Market access (utilizing market information resource)	27	82
3. Technological (Access to make changes/improvements to technology	16	32
4. The ability of the lobby (have the ability do lobby)	9	27
5. The role of Stakeholders (a role in helping the development effort, using a	33	2.6
6. Sustainability effort (don't know the obstacles faced	5	15
7. The Phenomenon Of Inclination		Less power

Description: high power levels if has a value of  $\geq 50\%$

For subsequent phases based on data already obtained is putting together a marketing strategy for SMEs. Ceramic Craft business development strategies formulated on the basis of the results of the interview. Ceramic Craft SME empowerment strategy is highly related to the four main access, namely: access business, market, human resources and technology. FGD results and in-depth interviews as follows:

- a. Most businessmen ceramics craft in the area of research is still doing his business based on habits i.e. hereditary
- b. Production is done based on order.
- c. Most of the perpetrators of the Ceramic crafts are still less understand the standardization of production of ceramic handicrafts.
- d. The levels of technology used are lower in producing ceramic handicrafts.
- e. There is no clear and definite market information.

### **Ceramic Craft Business Empowerment**

#### 1. Business Access

Ceramic Craft business development in the city of Malang on the basis of business can be done through access to capital and production. Doing management training and creativity in production, facilitate the procurement of raw materials, the granting of loans with low interest rates.

#### 2. Market access

Based on the results of research efforts on the Hapless City Ceramic Craft has the power level is still low, i.e. 15%. Therefore the necessary business development efforts on the hapless City Ceramic Craft through a strategy of empowerment. Strategies of empowerment that can be performed are:

*Tri Yulistyawati Evelina, Yosi Afandi*

- a. Information and Exhibition industry.
  - b. Provide small business trade house (outlet), optimize the location of special Ceramic craft business centers small scale
  - c. Open market opportunities by conducting cooperation with local, national stakeholders with regard to permasaran of the product.
3. Human Resources Access  
Ceramic craft business Empowerment Strategy is carried out through the education and training both formal and non-formal.
4. Technology Access  
Efforts are being made to use traditional technology into modern technology stakeholders in empowerment, especially of technology access is the Government, the private sector and academia. For the short term priorities include training the application of new technology and information

## CONCLUSIONS

The following are the conclusions of the study as follows:

- a. Level empowered business research in the area of Ceramic Artisans is still low. This is proven by the power indicator still substandard (less than 50%). The power indicators include access venture, market, human resources, and technology.
- b. the development can be done by considering some access as follows:
  - 1) Business Access: training manajemen and creativity in production, facilitate the procurement of raw materials, the granting of loans with interest.
  - 2) Market access: provides home and small business marketing trade, opening up market opportunities, lowering sales tax for small industries.
  - 3) Human Resources Access: strategies of empowerment ceramics craft done through education and training both formal and non-formal).
  - 4) technology Access: the work done using traditional technology into modern technology

## BIBLIOGRAPHY

- , 2010. Data Strategis Indonesia. Badan Pusat Statistik. Kota Malang
- , 2010. Indonesia Dalam Angka. Badan Pusat Statistik. Kota Malang.
- Bartle, Phil. 2003, *Key Words C of Community Development, Empowerment, Participation*: <http://www.scn.org/ip/cds/cmp/key-c.htm>).
- SPSS 12.0 Brief Guide Copyright. 2008. by SPSS Inc. Printed in the United States of America. <http://www.spss.com>
- Sudantoko, Djoko. 2010. Pemberdayaan Industri Batik Skala Kecil Di Jawa Tengah (Studi Kasus Di Kabupaten Dan Kota Pekalongan), Disertasi
- Susilowati, Indah; Mujahirin Tohir; Waridin; Tri Winarni; Agung Sudaryono 2004. Pengembangan Model Pemberdayaan Masyarakat Pesisir (Usaha Mikro, Kecil, Menengah Dan Koperasi- UMKMK) Dalam Mendukung Ketahanan Pangan Di Kabupaten/Kota Pekalongan, Jawa Tengah. Universitas Diponegoro. Riset Unggulan Kemasarakatan dan Kemitraan (RUKK). Tahun I. Ristek. Jakarta





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **STUDY ON PERCEPTION AND DEMOGRAPHIC FACTORS OF DIGITAL FINANCIAL SERVICES (DFS)**

**Supramono <sup>1</sup>, Like Soegiono <sup>2</sup>, Rosaly Franksiska <sup>3</sup>**

<sup>1</sup>Fakultas Ekonomika dan Bisnis, Universitas Kristen Satya Wacana, [supramono@staff.uksw.edu](mailto:supramono@staff.uksw.edu)

<sup>2,3</sup>Fakultas Ekonomika dan Bisnis, Universitas Kristen Satya Wacana, [like.sugiono@staff.uksw.edu](mailto:like.sugiono@staff.uksw.edu)

---

### **Abstract**

*The low level of community access to formal financial institutions needs a policy breakthrough to create a more inclusive financial system. In order to meet the needs of inclusive finance, Bank Indonesia launched a Digital Financial Services (DFS) which in its development, is also synergized for the benefit of Direct Cash Assistance distribution program by the government. This study aims to determine the perceived usefulness, perceived ease of use and perceived risk of the unbanked community towards the presence of DFS. The study results showed that the majority of unbanked community had positive perceptions on DFS. In addition, there were no differences in those perceptions based on demographic factors. The finding of a positive perception is expected to facilitate the acceleration program of DFS means implementation for non-cash transactions, particularly among the unbanked community.*

**Keywords:** *Digital Financial Services, perceived usefulness, perceived ease of use, perceived risk, demographic factor*

---

## **1. Introduction**

BI household balance sheets survey in 2012 showed that only 48% of the total households in Indonesia had savings in banks, non-bank financial institutions, and non-financial institutions (DetikFinance. November 7, 2014). The results are not much different from the World Bank survey in 2010 which stated that only 49% of Indonesian households had access to formal financial institutions. This gives a clear indication of the low level of public accessibility to financial institutions. Therefore a policy development breakthrough is needed to create a more inclusive financial system. Thus to meet the needs of inclusive finance or the ease of getting financial services throughout Indonesia, Bank Indonesia launched Digital Financial Services (DFS) in 2013 in the form of non-cash service as the development of branchless banking. DFS is the activity of limited payment system services and/or finances that are not performed through a physical office, but by using technological means, among others, mobile based or web-based means and third-party services (agents), with the service targets of unbanked and under banked community. Thus people who have not been involved in banking services can access financial services.

In 2014, Indonesia was still lagged behind other ASEAN countries for non-cash transactions, which amounted to only 0.6%, while other countries like Singapore performed non-cash transactions amounting to 44.5% of all retail transactions. At the end of 2015 period, the inclusiveness index in Indonesia reached the middle level of 35.8% with an increasing trend and also the organizing banks and DFS agents continued to rise (bi.go.id). Especially for DFS in the form of electronic money, there was an increase from 2.560.591 transactions worth 76.675 million rupiah to Rp 63.883.592 transactions worth 587.052 million in May 2016.

In its development, in addition to increase inclusive finance in Indonesia, DFS was synergized with the distribution of government's funding assistance programs. It was expected that its' distribution process, including the distribution of direct cash assistance (DCA) program, will be more efficient and effective through DFS. During this time DCA distribution has been done through the authorized government agencies or non-profit organizations appointed by the government. The post office is one of the DCA payments outlets to the public. However, DCA distribution raised many technical problems which caused unsmooth distribution process and long queues. The acceleration of DFS implementation cannot be separated from the public acceptance level to adopt the type of financial service. One very influential theory to explain the acceptance level of new technology adoption is the Technology Acceptance Model (TAM) introduced by Davis (1989). TAM considers that perceived usefulness and perceived ease of use are decisive factors in the acceptance of a technology adoption. Thus unbanked communities in particular will have the intention of adopting DFS if they feel it is helpful and easy to use. Besides, the adoption of new technologies or systems brings inevitable risks. Riquelme and Rios (2010), Luo et al (2010) and Chung and Kwon (2009) suggest the need to examine the perceptions of risk factor. There are two aspects of risk in technology adoption, namely: human error and technical error (Littler and Melanthiou 2006). The higher the perception of risks to face, the more reluctant people are in adopting technology. Every individual has a different perception in facing the risk.

It seems that differences in the public perception on the usefulness, ease and risk in using DFS depend on demographic factors of the communities concerned. For example, a relatively highly educated people may perceive that DFS is easier to use compared to people with lower education. Even so Tarhini, Hone & Liu, (2014) state that there were still relatively few studies examining the correlation between demographic factors and the acceptance behavior of technological innovation.

Based on the description above it is necessary to investigate the perception of the society on the presence of DFS, not only the perceived usefulness and ease, as argued by TAM, but also the perceived risk. In addition, this paper also analyzes their correlation with demographic factors so that there are two study problems: (A) how are the unbanked public perceptions of the DFS usefulness, ease and risk?, and (b) are there any differences of perception based on demographic factors? The description of the unbanked public perception towards DFS is expected to contribute in developing policies and models of DFS accessibility acceleration.

## **2. Literature Review**

### ***Financial Inclusion***

Cashless Society refers to the lifestyle of people who tend to conduct daily financial transactions in non-cash basis. Experts have predicted the existence of cashless society when common payment cards were firstly introduced in the early 1950s (Garcia-Swartz, Hahn, and Layne-Farrar, 2006). Evolving payment instrument becomes evidence that Cashless Society is growing (Liao and Handa, 2010). Many countries support the realization of Cashless Society with various arguments, among others, in line with the spirit to provide inclusive financial services to the public.

The term “financial inclusion” became known after the economic crisis of 2008. It resulted from the impact of the 2008 economic crisis perceived by the community group in the bottom of the pyramid with characteristics of low and irregular income; living in remote areas; people with disabilities, workers who did not have legal identity documents, as well as rural communities who are generally categorized as unbanked community groups ([www.bi.go.id](http://www.bi.go.id)). Sarma and Pais (2012) define financial inclusion as a process that ensures ease of access, convenience, and benefits of the formal financial system for all economic actors. Meanwhile, Hameedu (2014) emphasizes that financial inclusion is a financial service at affordable cost addressed more to the segments of disadvantaged as well as low-income society.

There are two common obstacles encountered by the banking industry to expand financial inclusion, they are external constraints associated with the public and internal constraints from the financial institutions themselves (Rushandie, 2014). External constraints may include, among others, the level of knowledge and society's acceptance of the products and services of formal financial institutions. While the internal constraints faced by the financial institutions in the financial inclusion efforts include the limitations of the area coverage and expansion of office network, lack of information about potential customers, the high cost of establishing a branch, and the limited information on the consumer finance ([www.bi.go.id](http://www.bi.go.id)). Advancement in information technology creates banking innovation that enables banks to provide financial services without a physical office with the use of agency services as well as the cooperation between banking and telecommunications companies. Banking innovation is known as Branchless Banking or Digital Financial Services/DFS (Ivatuary and Mas, 2008). DFS is expected to be a solution to the challenges of geographical distance in establishing formal financial services. Some examples of the most common DFS are mobile banking, internet banking, electronic money, and mobile money (Rushandie, 2014). DFS will involve the agents who can serve basic banking operations such as electronic money account opening, cash deposits and cash withdrawals.

### ***Acceptance Level of Technology Adoption***

Previous studies mostly referred to a number of behavioral theories to identify the factors that affect public acceptance toward the technology innovation of banking

services. Some theories include Theory of Reasoned Action (Fishbein and Ajzen, 1975), Theory of Planned Behavior (Ajzen, 1985), Technology Acceptance Model (Davis, 1989), Decomposed Theory of Planned Behavior (Taylor and Todd, 1995) and the Unified Theory of Acceptance and Use of Technology (Venkatesh et al., 2003). Lee et al., (2003) states that from the various research models, TAM is a research model mostly used by researchers to explain the technology adoption.

TAM is an adaptation of the Theory of Reasoned Action (TRA) to understand user's acceptance to the technology adoption or information systems. This model assumes that the perceived usefulness and perceived ease of use are major determining factors in the acceptance of a technology adoption. Davis (1989) defines perceived usefulness as a belief in the usefulness, namely the level of user's belief that the use of technology or system will improve performance. Thompson & Howell (1991) also state that individuals will use information technology if they know the positive benefits. The results of previous studies, such as Shanmugam et al. (2014) and Mangin et al. (2012), found that a person who had a positive perception on online banking benefits (perceived usefulness), would have greater desire to use mobile banking.

Perceived ease of use is the belief in ease of use, the level of user's belief that new technology or systems can be used easily and free of problems. Technology which is perceived as easier to use will be more accepted by the users (Venkatesh and Morris, 2000). In the case of mobile banking, Wang et.al (2003) explains that perceived ease of use increases customer's belief towards the banks as the banks show that they really care about the interests of their customers. Several previous studies such as conducted by Shanmugam et al. (2014), Chitungo, & Munongo (2013) and Jeong and Yoon (2013) provided empirical evidence that perceived ease of use had a significant impact on interest in using mobile banking.

In the context of DFS with reference to TAM framework, public acceptance of DFS that aims for the development of financial inclusion and supporting the effective distribution of government grants will depend on the extent to which the public has the perception that DFS is helpful and easy to use. However, it is possible that these two factors are not adequate to explain the reason for DFS acceptance. Some previous researchers as Polatoglu and Ekin (2001); Howcroft et al. (2002); Pikkarainen et.al (2004), Jahangir and Noorjahan (2008), Nasri (2011) suggest the perceived risk is one variable that affects the interest in using internet banking.

Everyone always has a different perception of the presence of banking service technological innovations such as DFS. There is a perception that DFS is useful, but the others have the perception that DFS is useless. This is due to how someone interprets the stimuli he or she receives which is influenced by the unique needs, expectations and values of each individual (Schiffman, Kanuk, Hansen, 2012). Perception is a process where a person organizes and interprets stimuli from the environment (Marshall 2001). There are several factors that can affect perception difference, for example personal characteristics or demographics such as age, gender, experiences and education level. Robbins and Judge (2016) mention that individual characteristic affects the formation of a person's perception. When an individual tries to interpret what he sees, it strongly depends on his individual characteristics. However, there are not many studies that relate the personal characteristics factor with the individual's perception regarding the acceptance of technology innovation adoption. Previous study conducted by Linden (2008) found the influence of demographic factors, particularly the experience on the perceived risk related to climate change. Other studies placed the demographic factors as moderating variables. For example, Chung et al. (2010) who conducted a study on the role of age factor in moderating the effect of perceived ease of use on the interest in using an online community engagement and Tarhini, Hone & Liu (2014) tried to prove

the ability of gender and age factors in moderating the influence of perceived usefulness and perceived ease of use on the interest in using e-learning

### **3. Research Method**

This study was a descriptive research. The population in this study was the society included in the category of unbanked people and who received Direct Cash Assistance (DCA) and DFS authorized agents. Samples to be used were as many as 160 people who were included in unbanked category and received Direct Cash Assistance (DCA). This study took three research sites located in the Central Java Province that were Salatiga, Boyolali, and Semarang District. The selection of study locations considered the representation of urban areas (Salatiga Municipality) and non-urban areas (Semarang and Boyolali District). The samples of 160 respondents were from three areas as 40 respondents from Salatiga Municipality, 60 respondents from Semarang District, and 60 respondents from Boyolali District. The sampling method used snowball sampling to find respondents who received DCA.

The data collected in the study were grouped into three sections: (a) the respondents' profile (b) the respondent's perception on the presence of DFS and (c) the correlation between perception and demographic factors. The respondents' profile was more focused in exploring demographic factors and knowledge on DFS. The perception was analyzed in terms of respondents' perception of the usefulness, ease and the risks of DFS adoption. In order to measure the level of perception about the DFS usefulness, the researcher proposed eight question items, while the perceived ease and risks had three question items, respectively. Data collection method used structured interviews. Enumerators approached respondents one by one to explain the purpose and objective of the study and then asked the questions that had been prepared in the form of a questionnaire. In addition, to explore the DFS, Focus Group Discussion (FGD) was conducted by involving the banking parties. Data obtained during the field study were analyzed by using descriptive statistics such as frequency distribution, mean and standard deviation. Moreover, to know whether there was a correlation between perception and demographic factors, the data were analyzed by using chi-square.

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

In terms of gender, male respondents were more than female respondents (56.52%). In terms of age, majority of the respondents aged more than 50 years with education level of primary and no school of 78.13%. In addition, the respondents' employment was dominated by labors (peasant, factory, building, washing, etc.) of 35% and farmers (18.75%). The demographic characteristics showed that the respondents were the people in middle-low economy. The majority of respondents were married (95.63%) with one or two insured people in the family. Most of the respondents who were married, the husband and/or wife worked (69.37%). This is not surprising since the respondents came from poor families, so to cover the family needs they had to work. Most of families had low incomes of less than Rp 1.000.000, - per month (56.88%).

Of the 160 respondents only 14 people or 8.75% who had been aware of digital financial services (DFS) initiated by Bank Indonesia to support government programs so that all levels of society including low economy group obtain financial services or known as inclusive financial program. This shows that DFS program has not been widely recognized by the society. Many parties had introduced DFS, not only from socialization of the banking parties, but also by the Post Office when people collect their DCA, relatives and the Department or Local Government Officer.

In addition to few respondents who knew DFS of 8.75%, but not all respondents used DFS (11 people). There were a variety of interests in using DFS, but the most reason was to take DCA (5 people) and the remaining reason was to take salary, pay installments and receive the money transfer. The site for the transaction or taking cash money was the Post Office. This is understandable with regard to the interests of taking DCA.

Some respondents stated that information about the place or the agent for DFS transaction was obtained from DCA officers and the village leaders. The reason why the respondents chose a transaction agent (Post Office) was because it had been determined by the government. Thus the agent in the view of the respondents was not the individual agent around the respondents' residence.

### ***Public Perception on DFS***

DFS program acceleration to overcome the barriers for the community to access financial institutions services depends on how the public perceive DFS which in turn will affect the community interest in using DFS. Given the fact that many people were not familiar with DFS, in order to determine the level of DFS acceptance in the field study, respondents were briefed in advance by the surveyor in the form of a general knowledge of what DFS is, how to use it and its benefits.

Overall respondents' perceptions of DFS benefits was relatively high, with the mean score of 3.65 with a standard deviation of 0.94. Respondents agreed that if they would be able to use DFS it would save time because they did not need to visit the bank and were able to access banking services anywhere within 24 hours. Moreover, in terms of cost, the community gave the assessment that the cost incurred in the form of mobile-phone charge would not be burdensome compared to the benefits they get from DFS. .

Perceptions of the respondents about the ease when using DFS which indicated that overall respondents' perception about the ease when using DFS was in quite high category with an average score of 3.26 with a standard deviation of 0.85. Respondents felt no difficulty when they had to learn to use DFS since it did not require time-consuming efforts. DFS acceptance level to accelerate the society in order to access financial institutions cannot be separated from the perceived risk or perceived sense of comfort felt by the public. Thus, the mean score of perceived risk of using DFS was 2.77 with a standard deviation of 0.88. This means that respondents tend to disagree if DFS with mobile phones means was risky because it would be accessible to those who do not have the rights. Besides, they were not worried that DFS as banking services through mobile phones would be exposed to the virus and might eliminate the transaction information and caused miscalculation when compared with direct teller transactions. This perception indicated the facilitating condition of DFS in the form of mobile phones was socially acceptable for the society to perform financial transactions with the banks.

In addition to perceptions of the respondents in terms of benefits, ease of use, and risk, response to quickly decide to adopt new technologies such as DFS, early adopter or only wait later (laggard) also became the study variables. The results of field study showed that the overall mean score was just 3.44 with a standard deviation of 0.98. This might imply that the respondents had a positive perception of the presence of DFS and also wanted to take advantage of the services facility quickly. It was also supported by the respondents' answer that adopting technologies relied more on their own decisions, and respondents were interested in the development of technology and perceived that technology provided many benefits.

Table 1. The Speed Level of Adopting Technology

No	Empirical Indicators	Min	Max	Mean	Std. Dev
1	I am pleased to be the first person to make use of the new services related to technology	1	5	3.44	0.98
2	When making the decision to use the new technology, I will rely on my own personal standards despite the others'	1	5	3.38	0.94
3	I am interested in hearing about the development of new technology	2	5	3.86	0.60
4	Technological developments bring benefits in my life	1	5	3.26	0.84

Source: Primary Data, 2016

### ***DFS Perception Differences Based on Demographic Factors***

By considering the balance of the data distribution, demographic factors used were gender, age and education level. Panel A in Table 2 showed that there was no asymp.sig value smaller than 0.05 so that the public perception of the DFS benefits had no difference or a significant association with gender, age and education level of the respondents. In the previous analysis it was discovered that the mean score of the DFS benefit expectations was 3.65 so that it can be understood that any type of demographic factors of the respondents, they agreed to use DFS if later they would have the opportunity to use it, DFS presence would be beneficial because it saves time. There is no need to visit the bank and it may speed up the access to banking services without time constraint.

Likewise, panel B in Table 2 showed that there was no asymp.sig value smaller than 0.05 so that public perception about the level of ease of DFS use was not significantly different from the gender, age and education level of the respondents. If the previous analysis discovered that the mean score of the level of ease of DFS use was 3.26 then the perception of respondents that DFS use was fairly easy was not dominated by respondents with certain demographic factors. Furthermore, Panel C in Table 2 showed that there was no asymp.sig smaller than 0.05, so that the perception of risk faced by the respondents if they used DFS did not differ significantly with demographic factors. The previous analysis discovered that the mean score of the perception of risk was 2.77. This means that respondents with a demographic background tend to disagree if using DFS would pose a risk.

DFS launched by BI in 2013 was a support for financial inclusion program and the fact that Indonesian people who had access to the banking sector was still low compared to neighboring countries such as Thailand, Malaysia, China, India and the Philippines. However, from the study results involving 160 respondents among the underprivileged group who lived in three cities, Semarang District, Boyolali district and Salatiga, we found that DFS had not been widely known with just only 14 people or 8.75% who had already known DFS.

Table 2. Correlation between the Acceptance Level of DFS and Demographic Factors

	Value	Asymp. Sig. (2-sided)
Panel A. Perceived Usefulness of DFS		
Gender		
Pearson Chi-Square	1.245a	.265
Likelihood Ratio	1.272	.259
Age		
Pearson Chi-Square	.837a	.360
Likelihood Ratio	.942	.332
Education level		
Pearson Chi-Square	1.452a	.228
Likelihood Ratio	1.616	.204
Panel B. Perceived Ease of DFS		
Gender		
Pearson Chi-Square	5.475 <sup>a</sup>	.140
Likelihood Ratio	5.684	.128
Age		
Pearson Chi-Square	4.651 <sup>a</sup>	.199
Likelihood Ratio	4.497	.213
Education level		
Pearson Chi-Square	1.070a	.784
Likelihood Ratio	1.061	.786
Panel C. Perceived Risk of DFS		
Gender		
Pearson Chi-Square	5.302 <sup>a</sup>	.151
Likelihood Ratio	5.492	.139
Age		
Pearson Chi-Square	3.950 <sup>a</sup>	.267
Likelihood Ratio	4.723	.193
Education level		
Pearson Chi-Square	.419 <sup>a</sup>	.936
Likelihood Ratio	.407	.939

Source: Processed Primary Data, 2016

Although it has been about three years since DFS program was launched, only few people who knew about the existence of DFS. This raises questions about the effectiveness of socialization conducted by BI. BI stated that they had socialized DFS to agents in several districts/cities. Currently, there were 84,000 DFS agents, and in the average, bank has about 30,000 agents, including legal entities and individual agents (Central Java Tribune, May 27, 2016). Through DFS people do not need to go to a specific bank but they can only visit the agents that are appointed by the banking parties. Thus the agent has a strategic role as one of the chains of DFS acceleration. The challenges faced by BI in doing socialization to the unbanked public about the importance of non-cash transactions or DFS are the time-consuming process to educate the agents, and difficulties in recruiting more agents. It is also related to the fact that only small number of banks are willing to be DFS operator. DFS socialization effectiveness in an area is not only determined by BI but many parties including local governments and agencies.

Through good socialization it is expected that society will have positive perceptions about DFS which result in acceptance of DFS. Perceived usefulness and perceived ease of use are decisive factors in the acceptance of a technology adoption (Davis, 1989). The study results on perceived usefulness showed that some people expressed that DFS



had great benefits. This result implies that the potential for accelerating the implementation of DFS is great considering the public has a positive perception of the DFS benefits. The results of a study by Shanmugam et al. (2014) and Mangin et al. (2012) provides empirical evidence that there was a positive correlation between perceived usefulness and intention to use mobile banking. DFS existence is not only for the financial inclusion benefit but also as a media for distribution of government's financial assistance programs such as DCA program. If DFS can be applied well, the public will get a benefit because they do not need to face a long queue even jostling at the Post Office. People can simply come to the nearest agent to withdraw money and not all money should be withdrawn.

Perceived ease of use is a public trust whether the adoption of the technology can be easily done. If the unbanked community feels confident that DFS is easy to use then they will use it immediately. The study results indicated that the public had perception that DFS was easy to use and did not require much effort to learn its' use. Research in several other countries as was conducted by Chau and Lai (2003), Chitungo, & Munongo (2013) and Jeong and Yoon (2013) found that perceived ease of use had significant positive effect on the use of mobile banking. DFS ease of use aspect is essential since non-cash transactions are not only directed to the urban community with high level of knowledge and high access to finance but they are also directed for people who live in rural areas with relatively low level of education. Through handphone media, the community can easily save money, withdraw money, or transfer without the need to go to the bank directly, they can only come to the closest individual DFS agents. Acceleration of the DFS use has a large capital given the mobile device penetration in various segments of society. Based on e-marketer survey results released by Tempo Newspaper, January 24, 2015, Indonesia was predicted in the top four mobile phone user population, after China, US, and India, with 69.4 million users, up from seventh grade in 2014 and in 2018 it was expected to surpass 100 million.

DFS use acceleration is like two sides of a coin. On the one hand, public digital services which are easy to operate, practical and fast are required to adopt DFS quickly, but on the other hand with the ease it will often pose a greater risk of data safety. Eriksson, et al (2008) asserts that any e-banking applications must incorporate a number of important elements that come from security. If people have the perception that using DFS contains a high risk then there will be no interest in adopting DFS. The study results provided empirical evidence that the community did not have any negative risk perceptions towards DFS. Society was not worried that DFS would be accessible to others, exposed to the virus and would cause an error in the calculation of the transaction. Thus an effort to socialize DFS as convenient and secure banking services would be easier. DFS perceived risk is important given the research conducted Abadi et al (2012) showed that perceived risk had a negative effect on the interest in using mobile banking and became the main factor that hindered the adoption of such services. The similar results were also found by Polatoglu and Ekin (2001); Howcroft et al. (2002); Pikkarainen et.al (2004), Jahangir and Noorjahan (2008), Nasri (2011).

Some of the above findings led to the perception that DFS was helpful, easy to use and did not have a high risk. Although it is possible that the perceptions of DFS adoption in each individual is different, but based on demographic factors including gender, age and education level, there was no significant difference. A previous study conducted by Chung et al. (2010) proved that age factor failed in moderating the effect of perceived ease of use on the interest in using online community engagement. Likewise, the study conducted by Tarhini, Hone & Liu (2014) proved that the gender and age factors failed in moderating the effect of perceived usefulness and perceived ease of use on the interest in using e-learning. Thus, DFS as a non-cash transaction media issued by bank is

more easily disseminated throughout the population regarding the positive perception of unbanked people who have different demographic backgrounds.

## 5. Conclusion and Implications

The knowledge of unbanked community about DFS was still relatively low because the relevant parties such as Bank Indonesia, banks and agencies have not done much socialization about DFS to the public. After an explanation by the researchers in the field on the concept and mechanism of DFS, it seems that most people who became respondents had a positive perception on the presence of DFS. The public had high perceived usefulness, perceived ease of use on DFS and instead had a low perceived risk. Interest to adopt DFS in the category of early adapters and early majority could be determined as a signal that public would immediately adopt DFS. Other interesting study results were demographic factors such as gender, age and education level had no connection with the perceived benefits, ease and risk of DFS as a mean for non-cash transactions in the future use of the unbanked community.

If the study results can reflect the DFS perceptions of the unbanked community as a whole then there is great potential for accelerating the DFS program through socialization to the general public without considering the demographic factors in a structured and intensive manner. Moreover, the acceleration of DFS requires widely-spread and higher number of agents. Therefore, the requirements to become an agent should be loosened.

## References

- Abadi, H. R. D., Ranjbarian, B. dan Zade, F. K. (2012). Investigate the Customers' Behavioral Intention to Use Mobile Banking Based on TPB, TAM and Perceived Risk (A Case Study in Meli Bank), *International Journal of Academic Research in Business and Social Sciences*, 2(10), : 312-322.
- Ajzen, I. (1991). *The Theory of Planned Behavior*. *Organizational Behavior and Human Decision Processes*, Vol. 50, pp. 179-211.
- Alshehri, M., Drew, S., & AlGhamdi, R. (2013). *Analysis of Citizen's Acceptance for E-government Services: Applying the UTAUT Model*. Diunduh dari <http://arxiv.org/ftp/arxiv/papers/1304/1304.3157.pdf>, tanggal 30 Maret 2015.
- Bi.go.id. *Keuangan Inklusif: Apa, Mengapa, Bagaimana, & Siapa?*. Diakses dari <http://www.bi.go.id/id/perbankan/keuanganinklusif/Indonesia/Contents/Default.aspx>, tanggal 2 Maret 2015.
- . *Branchless Banking, Satu Pilar Mencapai Keuangan Inklusif*. Diunduh dari <http://www.bi.go.id/id/publikasi/kajian-ekonomi-regional/sulteng/Documents/fad19d4134304e2ea2bc32866ae5c14Boks3BranchlessBankingSatuPilarMencapaiKeuanganInk.pdf>, tanggal 7 April 2015
- Chung, J. E., Park, N., Wang, H., Fulk, J. & McLaughlin, M. (2010). Age differences in perceptions of online community participation among nonusers: An extension of the Technology Acceptance Model. *Computers in Human Behavior*, 26(6), 1674-1684.
- Davis, F.D. (1989). *Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology*. *MIS Quarterly*, Vol. 13, pp. 319-340.

- Dash, M., Bhusan, P.B., dan Samal, S. (2014). *Determinants of Customer's Adoption of Mobile Banking: An Empirical Study by Integrating Diffusion of Innovation with Attitude*. Journal of Internet Banking and Commerce, Vol. 19, No. 3, pp. 1-21.
- Eriksson, K., Kerem, K. dan Nilsson, D. (2008). The adoption of commercial innovations in the former Central and Eastern European markets: The case of internet banking in Estonia. *International Journal of Bank Marketing*. 26 (3), 154-169.
- Fishbein, M., & Ajzen, I. (1975). *Belief, Attitude, Intention and Behavior : An Introduction to Theory and Research Reading*. MA : Addison-Wesley.
- Garcia-Swartz, D. (2006). The Move Toward a Cashless Society: Calculating the Cost and Benefits. *Review of Network Economics*, Vol 5, 199-228
- Howcroft, B., Hamilton, R. and Hewer, P. (2002), "Consumer attitude and the usage and adoption of home-based banking in the United Kingdom", *The International Journal of Bank Marketing*, Vol. 20(3), 111-21
- Ivatuary, G. dan Mas, I. (2008). *The Early Experience with Branchless Banking*. Diunduh dari <http://www.cgap.org/sites/default/files/CGAP-Focus-Note-The-Early-Experience-with-Branchless-Banking-Apr-2008.pdf>, tanggal 7 April 2015.
- Jahangir, N. and Noorjahan.B (2008), The role of perceived usefulness, perceived ease of use, security and privacy, and customer attitude to engender customer adaptation in the context of electronic banking, *African Journal of Business Management*, Vol.2 (1), 32-040,
- Lee,Y., Kozar, K. A., & Larsen, K.R.T. (2003). *The Technology Acceptance Model: Past, Present, and Future*. *Communications of AIS*, Vol. 12, Article. 50, pp. 752-780.
- Pikkarainen, T., Pikkarainen, K., Karijaluoto, H. and Pahnla, S., (2004). Customer Acceptance of On-line Banking: An Extension of The Technology Acceptance Model. *Internet Research*, Vol. 3, pp. 224-235
- Polatoglu, V.N. and Ekin, S. (2001), "An empirical investigation of the Turkish consumers' acceptance of Internet banking services", *International Journal of Bank Marketing*, Vol( 4), 156-65
- Kesharwani, Ankit dan Bisht, S. S. (2011). The impact of trust and perceived risk on internet banking adoption in India. *International Journal of Bank, Marketing*, 30(4), 303-322
- Liao, W., &Handa, J. (2010). Is the Modern Economy Heading Toward a Cashless and Checkless One? Evidence from the Payments System in Canada. *The IUP Journal of Bank Management*, Vo 19, .48-70.
- Littler, D. dan Melanthiou, D. (2006). Consumer perceptions of risk and uncertainty and the implications for behaviour towards innovative retail services: The case of internet banking. *Journal of Retailing and Consumer Services*. 13: 431-443.
- Mangin, J. P. L., Bourgault, N., Leon, J. A. M. dan Guerrero, M. M. (2012). Testing Control, Innovation and Enjoy as External Variables to the Technology Acceptance Model in a North American French Banking Environment, *International Business Research*, 5(2), 13-26.
- Nasri, W. (2011). Factors Influencing the Adoption of Internet Banking in Tunisia, *International Journal of Business and Management* Vol. 6 (8) August

- Nrsakk, M. (2001). *Undesrtandimn Media*. London : Rouldle
- Rogers, Everett M. (2003). *Diffusion of Innovations*, 5th ed. New York: Free Press. A Division of Macmillan Publishing Co Inc.
- Rushandie, R. (2014). *Branchless Banking Lebih dari Sekedar Jargon Marketing*. Diakses dari <http://ekonomi.kompasiana.com/moneter/2014/10/30/branchless-banking-lebih-dari-sekedar-jargon-marketing-683535.html>, tanggal 7 April 2015.
- Shanmugam, A., Savarimuthu, M.T. and Wen, Teoh, C. (2014). Factors Affecting Malaysian Behavioral Intention to Use Mobile Banking With Mediating Effects of Attitude, *Academic Research International*, Vol 5(2), 236-253
- Schiffman, Kanuk, Hansen. (2012). *Consumer Behaviour (2nd uppl.)*. A European outlook: St .Johns University, Newyork,USA.
- Sarma, M., dan Pais, J. (2012). *Financial Inclusion and Development: A Cross Country Analysis*. Diunduh dari <http://icrier.org/pdf/Mandira%20Sarma-Paper.pdf>, tanggal 2 Maret 2015.
- Sok Foon-Yeoh & Chan Yin Ah, B. (2011). *Internet Banking Adoption in Kuala Lumpur: An Application of UTAUT Model*. *International Journal of Business and Management*, Vol/ 6, No. 4, pp. 161-167.
- Tarhini, A., Hone, K. & Liu, X. (2014c). Measuring the moderating effect of Gender and Age on e-learning Acceptance in England: A structural equation modeling approac for an extended Technology Acceptance Model. *Journal of Educational Computing Research*, 51(2), 163-184.
- Venkatesh, V., Morris, M. G., Davis, G. B., dan Davis, F. D. (2003). *User acceptance of information technology: Toward a unified view*. *MIS Quarterly*, Vol. 27, No. 3, pp. 425-478.
- Wang, Y.S., Wang, Y.M., Lin, H.H., & Tang, T.I. (2003). Determinants of User Acceptance of Internet Banking: An Empirical Study. *International Journal of Service Industry Management*, 14(5), 501-519

**THE LEGAL TAXONOMY OF THE FAMILY BUSINESS****Hania M. Hammoud***Hammoud Law Firm, hania@hammoudlawfirm.com*

*This paper is an extract of an unpublished doctoral dissertation entitled: "Clearing away the Legal Mist of the Family Business" Defended at the School of Law- University of Montreal- Qc – Canada in September 2016. Based on it, the author earned her LL.D degree with honours.*

---

**Abstract**

Family business is omnipresent as the backbone of the corporate life. It is the engine driver of the socio-economic development, and the fundamental source of wealth creation in all nations. Incomparable to nonfamily counterparts, family business reveals unique in its characteristics, constructs, challenges, and prospects. However, the legal differentiated taxonomy of this enterprise reveals absent and forgotten across the globe, whether in the common law system or the civil law system. The lack of the legal recognition of its uniqueness induces jurists to resolve disputes and litigations via the conventional legal channels. This often discloses as the source of injustice for individuals as well as the family, and echoes significant social and economic consequences. Correspondingly, in order to conceive the authentic dynamics of this enterprise, we have embraced the four circles ecosystem theory, which shall allow jurists to visualize this enterprise with a singular eye as a family business, no longer as a business. Besides, this pattern shall reveal the "family" as the "Royal Stakeholder" and the main provider of the "Family Capital". Thus, the latter unveils the intangibles as the fundamental drivers that guide and control this enterprise, and then turn it into a mixed collective co-ownership, rather than an individual ownership.

**Keywords:** Family business, Ecosystem Theory, Familiness, Mixed Collective Co-ownership.

**1. Introduction**

From the earliest times, throughout the pre-industrial and industrial periods (Colli, 2003) and in all cultures, the family enterprise has been prominent (Bork, 1993). It represents the backbone of the corporate life in all nations (Colli, 2003). These firms account for 65 to 80 per cent of all worldwide businesses, and they are amongst the most enduring enterprises for about 70 per cent to 90 per cent of global GDP (Colli, 2003). However, despite its omnipresence, there is a misconception on the genuine legal identity of the family business

and its significant role at the macro level (economic, social, political) as well as the micro level (the family and the individual). Since, law and family business march to the beat of a different drum. A vast hole occurs in the legal literature vis-à-vis this enterprise. Notwithstanding, multidisciplinary scholars, except legal scholars, approve that a **family business is different from a non-family business**. Besides, the consensus extends to admit that all family businesses are alike in all countries; they share common characteristics, same problems, issues, and interests (Gallo & Ángel, 1995), but vary extensively in their objectives, values, cultures, and motivations, regardless of the legal system they are subject to. Yet, jurists expose as disconnected from other disciplines and fail to recognize the uniqueness of the family business, and its distinctiveness from non-family counterparts. They keep dealing with it as a simple business not as a family business. Moreover, judicial decisions, within all legal systems, whether the common law system, or the civil law system, consider the family business as an exception (Means, 2013). Seeing the economic and social significance of the family business, it is primordial that the perspective of jurists, vis-à-vis this enterprise, change. Although, this change will never see the light unless the legal taxonomy of the family business is well demarcated; while having the perception that family businesses reflect the Rule not the Exception. Nonetheless, such an impasse could never be overcome unless the following question is answered legally and distinctly, regardless of other types of enterprises;

**“What makes a business a family business?”**

## **2. Literature Review**

### **The Family Business is a meta-system**

It was agreed that the family business combines two paradoxical systems and rationalities (Steier, 2003), namely, the family and the business. Each system exhibits a high degree of complexity on its own. Thus, the interaction between both systems creates heterogeneous constructs (Chrisman, Chua, & Sharma, 2003) that are inherently dynamic in nature (Marchisio, Shepherd, & Woods, 2010). They combine in order to “produce a joint-system operating according to rules, which derive from the needs of separate parts but adapt to the needs of the whole” (Davis, 1983). Accordingly, the family business develops a unique meta-system that reveals a distinctive identity that does not and cannot operate as non-family counterparts (Stewart & Hitt, 2012). Thus, such an assorted system is reigned by a fundamental component that demarcates the individuality of this enterprise, namely “Familiness” (Habbershon & Williams, 1999). “Familiness” discloses the interactions between **family**, **business**, and **individual family members**. It reveals the central concept that encompasses an idiosyncratic bundle of **complex**, **intangible**, and **dynamic** unique, inseparable, and synergistic resources and capabilities (Chrisman & Sharma, 2003). It represents the umbrella of the “Family capital” that contributes to creating the “Family wealth” (Hughes, 2004), or even more the “True Wealth” (Jaffe, 2010) of the family. It is the supply reservoir of the family enterprise’s longstanding that is composed of observable constructs, such as the human, financial, social, societal, and intellectual capital (Danes, Stafford, Haynes, & Amarapurkar, 2009), in addition to the patient and survivability capital,

along with the governance structure attribute (Sirmon, & Hitt 2003). Accordingly, “Familianness” could be “*distinctive*, as a source of competence” (Chrisman, Chua, & Sharma, 2003) that influences the family business positively (Pearson, Carr, & Shaw, 2008), or it could be “*constrictive*, as an encumbrance. Therefore, this component helps understanding the mechanisms and the core dynamics behind the stakeholders’ involvement in, as well as their attachment to the family business. Also, it allows outweighing liabilities (Sorenson & Bierman, 2009), or the engendered consequences (Sharma, 2008) that affect the healthy operation of the family business and its longevity. Accordingly, based on “familianness” as the distinctive component of the family business and which finds its source in the family capital, it reveals primordial to highlight the authentic theory that reflects the legal taxonomy of this enterprise and demarcates its uniqueness

### **The systemic authenticity of the family business**

Many scholars resort to systemic theories to decipher the complexities of both systems, namely family and business (Heck, Danes, Fitzgerald, Jasper, & Schrank, 2006). These theories have evolved concurrently until 1982 when Taguiri and Davis drew the three-circle system (Davis, Gersick, Hampton, & Lansberg, 1997) that has become the mainstream and received an emerging consensus in the field; seeing, its elegance, simplicity, and effectiveness (Sharma, 2002). This theory elucidates the motivations, perspectives, strengths, and challenges faced by each subsystem, while observing the overlapping roles of individuals at various locations in the overall system (Davis, Gersick, Hampton, & Lansberg, 1997). Yet, assuming each person’s behaviour as homogeneous and monolithic (Hirigoyen, 2008), this theory identifies individuals through their nested memberships of the three subsystems. However, individuals have their personal objectives, aspirations, expectations, behaviours, preferences, and perceptions, which vary, change, and develop through the life cycle of the family business. Therefore, it is crucial to recognize them within a distinct fourth circle and subsystem (Pieper & Klein, 2007), independently from the family as a group in order to create the balance between the role of individuals in business, and their membership of the family. This fourth circle reflects the value brought into business by each person distinctly; which constitutes the human capital that guarantees the success or the failure of both family and business (Heck, Danes, Fitzgerald, Jasper, & Schrank, 2006). Nevertheless, the four-circle theory helps jurist to depict the complete family business system, and allows them to circumscribe their rights, obligations, and liabilities generated from their internal involvement and attachment, still it could not be enough to depict the entire picture regardless of the institutional environment in which the family business operates (Pieper, & Klein, 2007). Correspondingly, espousing the four-circle theory with the ecosystem theory reveals as a prerequisite for the family business institution. Particularly, family business is not parentless or volatile. It is a constellation of living interdependent subsystems, which has an origin. It is sowed, cultivated, and flourished in a fertile soil, governed by a set of rules, influenced by countless circumstances and dynamic inputs and outputs, which, overall, affect its functionality. Such a perspective reveals as a community of diverse biotic (**living**) and (nonliving) self-regulating organisms that interconnect through nutrient cycles and energy flows. They interact as a single integrated system, so as to create a network of internal relations between the organisms, and the external interactions of these organisms in equilibrium with their environment. Besides, these dynamics control the processes and all

activities of the ecosystem and are often subject to feedback loops (F Stuart Chapin, Matson, & Mooney, 2002). It is worth noting, in order to manage the ecosystem effectively; it is crucial to agree upon a standardized and harmonized entity that reflects its classification. By projecting the ecosystem theory into the family business loop, we can emphasize that the living organisms are also independent ecosystems by themselves. Each one has its own interactive resources, mechanisms, and dynamics. The interaction of the sub-ecosystems creates a supra-ecosystem. The latter is affected whenever change occurs in one of these sub-ecosystems; thus, the need for a mutual adaptation to the entire system emerges. In addition, each sub-ecosystem has its peculiar legal perspective, so a specific set of rights and obligations generates, once the constellation is interlinked. Consequently, the interrelationships between different processes, factors, and the relevant contextual variation take place (Darling, 2007). Additionally, it is worth noting, the developing role of the person “shapes environments, evokes responses from them, and reacts to them” (Darling, 2007) variably; as depending on the affordance of the environment’s distinct processes and outcomes are usually observed (Bronfenbrenner, 1994). Nevertheless, in order to understand any type of development, one must consider the entire ecosystem in which change occurs. Therefore, it reveals crucial to highlight five social sub-systems as well as the integral parts that constitute the ecosystem (Bronfenbrenner, 1994), and apply them by analogy on the vigorous family business system by espousing it with the abovementioned four-circle theory. These sub-systems are: the *microsystem*, *mesosystem*, *exosystem*, *macrosystem*, and *chronosystem*.

The **microsystem** represents “the pattern of activities, social roles and interpersonal relations experienced by a developing person in a given face to face setting with particular physical, social and symbolic features that invite, permit, or inhibit engagement in sustained, progressively more complex interaction with, and activity in, the immediate environment.... [in which] development...depends on the content and structure of the microsystem” (Bronfenbrenner, 1994). Applying this definition on the family business system exposes the main features of every single subsystem and its relevant development challenges. For instance, individuals play their roles within the family and business settings as family members, owners, directors, managers/employees, or successor, family or business representatives, or social workers. The **meso-system** is defined by “the interrelationships between two or more microsystems” (Berk, 2000). In other words, it is the interaction created between the microsystems (Berk, 2000), translated by the immediate and reciprocal influence, and the direct impact of each microsystem on the other. The **exo-system** encompasses the environment, settings, or events that profoundly influence each microsystem, devoid of any direct participation in it. It exposes within the family setting, rank and role, governance structure, strategic family or business decisions, family social network, values, or the market. The **macro-system** is the milieu in which all microsystems, meso-systems, and exo-systems interact and operate jointly. It includes the developing society and sub-culture, broadest ideologies, belief systems, shared assumptions, and institutional patterns of the external environment. As family members themselves shape their business culture (Colli, & Rose, 2008), the latter is affected and changes due to social, political, legal policies and structures; however, “unrestricted of where changes come, social structure and work settings may put up with settlement”(Lissoni, Pereira, & Serra, 2010). The **chrono-system** reflects the passage of time as a synonym of the chronological age. It embraces change or consistency over time; namely, family structure, generational development of business management and governance, business expansion and growth,



ownership arrangements adaptations, socio-economic status, employment policies (Bronfenbrenner, 1994); so, all changes that occur over the life course of a family business. Therefore, it was highlighted that “a family business evolution may be understood based on the external influence on internal changes, and which way maturity factors influence company’s internal pressures”(Colli & Rose, 2008). Taking into consideration the whole ecosystem, and dealing with the relevant dynamics, interactions shall absolutely produce a healthy and sustainable family business. It emphasizes its operation and pathway within its natural niche. Additionally, it allows accentuating the legal mechanisms and constructs that influence the functionality of this enterprise, by distinguishing between the internal ecosystem, (the micro-, meso-, exo-, and chrono-systems), and the external ecosystem viz. the macro-system.

### **3. Research Method**

The major developments in the modern science of law often occur when the analytical perspective changes to a functional one (Gurvitch, 1947). Thus, in order to cope with challenging situations, researchers shall seek innovative approaches and suggest new avenues and concepts to solve them intelligibly. This perception synchronizes with the citation “there is nothing more practical than a good theory” (Lewin & Cartwright, 1952). As such, ascribing “good” to a theory transpires when it is possible to justify it practically, and concretize its functionality so as to change and guide the practice of experts, particularly jurists. Accordingly, a good theory shall provoke assertive actions that solve complex, ambiguous, and confusing situations. The latter prove to be a source of insecurity, volatility, and risk aversion. Therefore, people usually prefer formal rules, and applied processes that allow them to understand the past, deal with the present, and foresee the future in a well-defined map. Correspondingly, espousing the four-circle ecosystem theory reveals as a prerequisite for the family business institution. The main origination of this theory resides in the separation between the family as an independent stakeholder detached from individuals as family members. This fine line between the family as a group and the individual shall generate unavoidable legal consequences. Since, it was conceived, “There are no individuals in the world, only fragments of families” (Segrin & Flora, 2011). Individuals start with the family, float around; try to live life (Bumberry & Whitaker, 1988) until they end up within it again. The discrete taxonomy of the family vis-à-vis the individuals, reveals two distinct developing systems, but discloses a reciprocal rapport between each other. Since each identifies its own role, competencies, effectiveness, values, interests, concerns, and aspirations. However, they are inseparable throughout the multigenerational patterns and processes (Bork, 1993). Accordingly, the family can never transpire without its members; it shapes their personalities, and lives through their activities. The family is considered “a living organism”, different from individuals who compose it. It has a definite atmosphere, distinct reactions, spirit, and ambiance (Agazarian, 1989). Therefore, it was concluded, “the family is not simply a group of individuals” having “dyadic relationships with each other”, [instead] ...”these individuals create a unique system or group attributes through family interactions and transactions” (Bellet et al, 1996). So, the family surpasses them, and endures as long as family members survive (de la Gressaye, 1970). Its authority influences its members in terms of strict unspoken values, legacy, allegiances, or reputation. Therefore, family members interact within its forces; abide by its rules, needs, and objectives at a specific place and time, which assures the stability and survival of the family (Agazarian,

1989). However, the endurance of this permanent social institution depends on the adaptation of its rules and norms to life changing conditions (de la Gressaye, 1970). Particularly, the family always expects specific behaviours from its members who mostly modify their actions while interacting within its context (Agazarian, 1989). It is very often expected that their choices be accommodated to the collective interests of the family. Their utterances, observations, reflections, and conducts are continuously directed towards the family as a whole (Agazarian, 1989), and located within its relationships structure. These concerns affect, very often, family members within the enterprise. Since, they should adjust, perceive, conclude, decide, and adapt in order to deal with others, who may not share common personal values or goals with them (Davis & Herrera, 1998). So, they act, interact, and react differently within the family setting as family members, than as independent persons (Agazarian, 1989). Consequently, they reduce their personal autonomy and privacy; particularly within the family enterprise where they struggle between two challenging drives: the personal and the family. Each paradox pulls them to its side. Thus, the character of any individual should naturally be viewed under two different aspects: “first, as it may affect his own happiness; and secondly, as it may affect that of other people” (Smith, 1869). As such, families (as groups) and individuals have their own unconscious dynamics expressed in terms of role (member role and group role) and behaviours; whereby each of them has three forces: “energy organizing, goal-oriented, and self-correcting” (Agazarian, 1997). It “survives, develops, and transforms from simpler to more complex through an ongoing process of recognizing differences and integrating them” (Bellet et al, 1996). The same persons have their self-perception based on “their successions of different overlapping selves” over time (Pronin, 2008). Their identity develops over years; their needs and apprehensions change from being dependent family offspring, to independent persons who achieve, own, and lead. Personal forces drive them towards seeking their self-esteem, self-concerns, and interests. They aim at being autonomous, enhancing their personal, professional, and social status, isolating themselves from their emotional root relationships and issues. Subsequently, both family and individuals, as two “opposing forces” (Zellweger, Nason, & Nordqvist, 2012) in the family business, intertwine into reciprocal roles and authorities, which shall be accommodated while conducting the enterprise. Particularly, individuals encounter the dilemma when both dynamisms seem *mêlée*. They incline to be trapped; powerless to understand their roles, and incapable to define their rights, obligations, authorities and the prevailing primacies within the family business. Chiefly, nothing but ignorance of where the limits end and begin, and/or invading both systems boundaries, echoes the main source of ascending manipulation, agency cost and conflicts, which threaten family connectedness and business longevity. Therefore, it is crucial to depict a clear demarcation of the “family” and “individuals”, delineate their boundaries, and validate their reciprocal interconnection into determining their legal rights, obligations, liabilities, and rewards systems. This shall create equilibrium between both subsystems, as “they limit one another, [...] they balance one another, and by thus creating order, they justify one another”(de la Gressaye, 1970). Yet, it is worth noting, “the individual is not the sole source of his own rights, ... [nor] the absolute source of all rights; ... [admitting this logic leads] to deny social rights, or at least to lose the way of recognizing them and to risk the most hazardous constructions to provide a basis for them”(de la Gressaye, 1970). Particularly, “a right is never born of a unilateral principle; it is realized only in a social group and in practical balance” (de la Gressaye, 1970). So, it is an error “to believe that individual rights can be justified solely by the value of the human individual” (de la Gressaye, 1970). Consequently, we can draw the hypothesis that individuals’ rights within the family business are not born unilaterally and voluntarily. They

stem firstly from their family membership, and the family decision to connect them to the family business and grant them the opportunity to benefit from family resources and capitals. Moreover, the secret behind family members involvement in, and their attachment to their family businesses resides in their implicit intention to maintain their family identity and be linked to their legacy; this reveals as an inherent value aside from any economic return they may expect to achieve (Means, 2013). Hence, scholars outline that the family business reveals as a collective psychological ownership. The family collective sense of ownership is applicable informally and unconsciously by most families, and intentionally by others. It discloses the extension of “**the family**” that reflects the “**us**”, and provides its members “with such cues [that]...orient them...and guide their action ... in the sense of social identity” (Rantanen, & Jussila, 2011). Not to forget that their collective interest is not absolute, still their self-interest plays a major role within this enterprise particularly over generations. Yet, this urges us to consider that the family should not be perceived only through the membership of its individuals anymore.

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

##### **The Family is a royalty-owner**

The diversified interests between the collective and self-interest reflect the family as an independent stakeholder that escorts the individual ownership in the enterprise. So, two categories of ownership shall depict the legal uniqueness of the family business, the collective and individual ownership: 1) The collective undivided ownership shall reflect the family as a group, a **Sovereignty-owner** or **Royalty-owner**, which incorporates tangible and intangible assets into business, explicitly and implicitly, seeking the family interest, in priori, and then business interest. 2) The individual ownership shall be translated into the ordinary co-ownership or partnership between family members as founders, or successors of the predecessors, etc. in addition to non-family members if they exist.

Nevertheless, legally speaking, the family collective undivided ownership is a forgotten legal institution. It was recognized by ancient civilizations, namely Romans or even beyond, and known by “the natural collective ownership” established between siblings upon the father’s death. Their property was not considered as an individual ownership; rather it belongs to the family as a group, whereby individuals act as fiduciaries and

Representatives of the family (D’i`a`konov,1969), under the norm of “equality”

between all co-owners over generations. Family co-owners were entitled with the rights of “tenancy and survivorship” so as to benefit from the collective ownership throughout their lives without any right of disposal. Moreover, the family collective ownership was protected, as it endowed relatives with the “right of retrieval” and the “right of pre-emption.” This legal institution finds its natural place within the family business context. Although, it cannot be perceived regardless of the individuals co-ownership; Therefore, the family business ownership reveals as a mixed collective co-ownership. This sophisticated and interdependent taxonomy shall be understood and explained consciously, and cautiously in order to avoid conflicts and tensions between all players within the enterprise. Principally, the family is not a legal person, but it is at the highest

rank of institutions' scale (Renard, 1930). Therefore, the royalty rights of its ownership shall take a distinctive form.

### **Royalty Shares rights**

Like other types of shares, the royalty-shares grant the family with ownership legal rights within the company. Thus, by analogy to the family patrimony as a legal institution recognized within the context of marriage, it is convenient to extend the context of this institution and apply it within the family business, by endowing the family, as a group, with such a *patrimony, so as to recognize its right to be a legitimate decision-maker*. However, seeing the family is not a legal person, it may be endowed with the patrimony by appropriation that echoes what is so-called **Family Hand**. The latter shall have the lone right to dispose of the assets indivisibly while perceiving the family business' common interests. Such a major factor will never individualize to become in the hands of an independent being, unless the family business is transformed into a simple business, or upon its dissolution. Consequently, the family will have its right as a shareowner to receive dividends, like any other individual or legal person owners'. In addition, the family liability towards third parties in terms of its royalty-shares shall be limited. Furthermore, the royalty-shares engender governance measures that allow the family to echo its voice, and to vote for its shares in the "Family Board" or "Family Council", as a supervisory board that aims at protecting the legacy, the reputation, and the longevity of the family business. It convenes to make decisions unanimously, and then transfer them to owners' ordinary and extra-ordinary meetings and the board of directors, via "family representatives" elected by the family board. These representatives transmit the family vision to the above-said bodies that may diverge from the one of the family members, as individuals. Thusly, this procedure renders the voice of the family, as a group, to be legal and mandatory, no longer perceived as a simple advisory opinion. Consequently, the family protects its right to remain on top of affairs by playing an effective role pertaining to the business decision-making process. Correspondingly, this could be considered as a relief for individual family members; since it alleviates, if not removes, the family burden from their shoulders. It separates them from representing the family bloc, and, suitably, their individual roles and interests emerge unreservedly. Moreover, this mechanism creates equilibrium within the family enterprise, and adjusts the misconception between family members as successors. Particularly, as above-mentioned, the main conflicts that most often arise revolve around the struggle of the desire to keep strong connections with the family, and their "individuality" seeking their self-interest. It emphasizes the collective aspect of the family's interest, by reminding individual owners that this enterprise belongs to the whole family, and is not only an individual privilege endowed to some family members over others. Particularly, whenever abusive expropriation from a minority takes place. Since, the family business succession is not just a simple transfer of the financial assets but also a transmission of other intangible human, social, and cultural capitals and assets. Nevertheless, the voting rights of the family as a royalty shareowner may be privileged with the veto power over all matters that have a direct impact on the family, whether among the owners meetings or the board of directors. Overwhelmingly, while the family business is usually run with a collective spirit, still the individual perspective cannot be neglected at all stages of the enterprise's development.

Therefore, it is problematic to consider the family business as a pure collective ownership. Instead, it is a hybrid type of ownership, which embraces both individual and collective characteristics.

## **5. Conclusion and Implications**

Family and non-family businesses represent the balance scales that guarantee the world-market stability. The absence of legal nomenclature for the family business does not render it inexistent; by analogy to categorizing the different types of enterprises and organizations, family business should be considered as a new type of enterprise that generate specific made-to-order advantages and constraints. Lacking its legal taxonomy reveals as the main source of its authentic forgetfulness. However, its neglect is often costly and engenders risky economic, social, and personal consequences.

Correspondingly, the four-circle ecosystem approach exposes as pertinent to: 1) Observe the instrumental role of family members as individuals; and the family, not only as individuals' embracer, but also as an independent stakeholder granted with rights and obligations. 2) Underline the impact of the family as an independent stakeholder and its inputs within the business, in addition to the relevant mechanisms that assure the enterprise' survival as a family business. 3) Customize the rule of law that guarantees the distributive fairness between all stakeholders, aimed at developing justice. However, it is usually expected that law evolve in nature, in a way to mirror the society's needs and identifies with its aspirations. Therefore, "a little sociology leads away from the law but much sociology leads back to it"(Gurvitch, 1947). Besides, law usually encloses comprehensive orders, which regulate various human interactions and conducts within a particular cultural and social setting. It is supposed to govern both individual and group behaviours, and to set the boundaries that guarantee each group's interests. Therefore, law usually operates in an expectable way, while resolving disputes arising from such interactions. Still, seeing the social change and evolution, as well as various challenging and complex problems confronted by humankind, render a human's behaviour unpredictable. Therefore, law sometimes becomes inept at conveying the complexities of human conduct and development. Such ineffectiveness requires creating equilibrium between the legal rules and the social context in order to prevent the conflicts that may occur or even resolve them when they arise. As such, the family business litigations and disputes cannot be perceived through the conventional legal channels anymore, without a thorough understanding of its social and psychological distinctiveness. However, judicial decisions adopt neutral perception and are grounded in the implementation of business and corporate laws, devoid of any single concern for the family system that governs this enterprise. Consequently, the ignorance, unawareness, and/or the lack of recognition of the unique characteristics of this enterprise reveal most often the source of injustice, generate massive social and economic consequences, and have negative repercussions on family relationships. They result in tragic sagas, bitter and rancorous feuds, hidden agonies, animosity, distress, and lesion amongst family members. They also promote various disappointing expectations, disintegration amongst generations, assets dissipation, and consequently, in many cases, the businesses' demise (Bertrand &

Schoar, 2006). Accordingly, it reveals appropriate to put into practice the adopted theory, since it facilitates the recognition of the legal “taxonomy” of the family business, as a singular entity. It acknowledges the impact of the macro-system, serves the purposes of each of its intersected micro-systems, and then the interdependence between each sub-system creates the meta-system that allows its safe mode operation. The synergy between the subsystems only occurs when “the parts can do something together that they cannot do alone” (Habbershon, Williams & MacMillan, 2006). Thus, the whole -the family business meta-system- “cannot be divided into independent parts... [Which each] has one or more defining functions . . . [It] cannot be carried out by any one part of the system taken separately . . . When an essential part of a system is separated from [it] of which it is a part, that part loses its ability to carry out its defining function” (Marriage and Family Encyclopedia). This theory shall help jurists (researchers, scholars, advisors, lawyers, judges, mediators or arbitrators), to visualize and deal with this enterprise in a singular way as a family business, and not just as a business anymore. Hence, their perspectives, the decision-making processes, adjudications, and the outcomes vis-à-vis it will extremely change. Since, they will be equipped with the necessary means to desiccate its complexity and dispose of the ambiguity that encounters its concept. Moreover, legislators shall not overlook it as a distinctive legal institution anymore, considering its primordial impact on all economic, social, and political arenas.

Although, I do not pretend novelty; rather it is just an attempt to link and incorporate the applicable theories, in the best way that justifies a comparative, comprehensive, integrative, and a multidisciplinary approach, so as to elucidate the complexity of this enterprise. However, embracing a continuum of social and human behaviour, in addition to the psychological, economic, and legal disciplines, without slopping any of their boundaries, helps in desiccating the entire system thoroughly. Doing so will disclose the answers of the **when, where, who, what, why,** and **how** the family, family resources and the overlapping interrelationships mark the uniqueness of this enterprise.

## References

1. Agazarian, Y.M. (1989). The Invisible Group: An Integrational Theory of Group-as-a-Whole. *Group Analysis: The journal of Group Analytic psychotherapy*, 22 (4) . 355-369.
2. Bellet, W. et al. (2000). Family business as a field of study. International Family Business Program Association (IFBPA) Task Force Baylor University, Waco, TX. [Unpublished].
3. Berk, L. (2000). *Child Development*, (5th ed). Boston, MA: Allyn and Bacon.
4. Bertrand, M., & Schoar, A. (2006). The Role of Family in Family Firms. *Journal of Economic Perspectives*, 20(2), 73-96.
5. Bork, D. (1993). *Family Business Risky business - How to make it work*. (2nded.). USA: Bork Institute for Family Business.
6. Bornheim, S. (2000). *The organizational form of family business*. USA: Kluwer Academic publishers.
7. Bronfenbrenner, U. (1994). Ecological models of human development. In *International Encyclopedia of*

- education. 3, (pp.37-43) (2nd ed). Oxford: Elsevier. URL  
L  
<http://www.psy.cmu.edu/~sieglar/35bronfebrenner94.pdf>
8. Bumberry, W. M & Whitaker, C. (1988) *Dancing with the family-A Symbolic-Experiential Approach*. NY: Brunner Mazel.
  9. Chrisman, J., Chua, J. & Sharma, P. (2003). Current trends and future directions in family business management studies: Toward a theory of the family firm. *Coleman White Papers Series*, URL <<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.134.43&rep=rep1&type=pdf>>
  10. Colli, A. (2003). *The History of family business 1850- 2000*. New York: Cambridge University Press.
  11. Colli, A., & Rose, M. *Family Business*.(2008) In Jones, G., & Zeitlin, J. (eds). *The Oxford handbook of business history*. (pp.194 -217) (1st ed) New York: Oxford University Press.
  12. D'i a konov, I. (1969). *The rise the despotic state in Ancient Mesopotamia*.. In D'i a konov, I. *Ancient Mesopotamia: socio-economic history: a collection of studies*. (pp.173-203). Moscow: Nauka Pub. House, Central Dept. of Oriental Literature.
  13. Danes, Sh.,Stafford, K., Haynes, G., & Amarapurkar, S. (2009). *Family Capital of Family Firms: Bridging Human, Social, and Financial Capital*. *Family Business Review* 22 (3), 199-215.
  14. Darling, N. (2007). *Ecological Systems Theory: The Person in the Center of the Circles*. *Research in Human Development*, 4(3-4) 203-217.
  15. Davis, J. , Gersick, K., Hampton, M., & Lansberg, I. (1997). *From Generation to Generation: life cycles of the family business*. (1st ed) .USA: Harvard Business School.
  16. Davis, P. (1983). *Realizing the Potential of the Family Business*. *Organizational Dynamics* 12:1, 47-56
  17. Davis, J. A & Herrera, R. (1998). *The Social Psychology of Family Shareholder Dynamics*. *Family Business Review*, 11(3) 253-260.
  18. De la Gressaye, J-B. *The sociological theory of the institution and french juristic thought*. In Broderick, A. ed,(1970). *The French Institutionalists Maurice Hauriou, Georges Renard, Joseph T Delos*. Massachusetts: Harvard University Press.
  19. F Stuart Chapin, F. S., Matson, P., & Mooney, H. (2002). *Principles of Terrestrial Ecosystem Ecology*. (2nd ed). New York: Springer.
  20. Gallo, L.R, & Ángel, M. *Family business in Spain: Research findings*. In Ward,J.L, & Mendoza, D. *Global perspectives on family business* (1995). Chicago: Loyola University Chicago, Family Business Center.
  21. Gurvitch, G. (1947). *Sociology of law*. London: Routledge & Kegan Paul.
  22. Habbershon, T., & Williams, M. (1999). *A Resource-Based framework for assessing the strategic advantages of family firms*. *Family Business Review* 12(1), 1-26.
  23. Heck, R., Danes, S., Fitzgerald, M., Jasper, C. & Schrank, H. *The family's dynamic role within family business entrepreneurship*. In Poutziouris, P., Smyrniotis, S., &

- Klein, S. Eds. (2006) Handbook of research in Family business. 80-105 (1st ed.) USA: Edward Elgar Publishing.
24. Hirigoyen, G. (2008). Biais comportementaux dans l'entreprise familiale: antécédents et impacts. *Revue Économies et sociétés, Série Économie de l'entreprise*, 10 (19), 1901-1930.
  25. Hughes, J. Jr. (2004). *Family Wealth: Keeping it in family- How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations*. (2nd ed). New York: Bloomberg Press, New.
  26. Jaffe, D. (2010). *Stewardship in your family enterprise-Developing responsible family leadership across generations*. (1st ed). USA: Dennis T Jaffe.
  27. Lewin, K. & Cartwright, D. (1952). *Field theory in social science: Selected theoretical papers by Kurt Lewin*. London: Tavistock
  28. Marchisio, G., Shepherd, D., & Woods, C. (2010). A time-based theory of entrepreneurship for family business: The ooda loop. Paper presented at 10th annual World Family Business Research Conference. URL. <<http://lums.lancs.ac.uk/files/familybusiness/20110.pdf>.
  29. Marriage and Family Encyclopedia. Human Ecology Theory - The Family As A System. In the Marriage and Family Encyclopedia. URL <http://family.jrank.org/pages/820/Human-Ecology-Theory-Family-System.html#ixzz2NRuqRqkW>.
  30. Means, B. (2013). Non-Market Values in Family Businesses. 54 *William & Mary Law Review* 1185 - 1193. URL <http://ssrn.com/abstract=2031624>.
  31. Pearson, A., Carr, J., & Shaw, J. (2008). Toward a Theory of Familiness: A Social Capital Perspective. *Entrepreneurship Theory and Practice*, 32(6), 949–969.
  32. Pieper, T., & Klein, S. (2007). The Bulleye: A Systems Approach to Modeling Family Firms. *Family Business Review*, 20(4), 301-319.
  33. Pronin, E. (2008). How we see ourselves and how we see others. *Science Magazine* 320(5880) pp. 1177-1180.
  34. Rantanen, N., & Jussila, L. (2011). F-CPO: A collective psychological ownership approach to capturing realized family influence on business. *Journal of Family Business Strategy*, 2(3), 139- 150.
  35. Renard, G. (1930). *La théorie de l'institution - Essai d'ontologie juridique*. Paris: Recueil Sirey.
  36. Segrin, C. & Flora, J. (2011). *Family communication*. (2<sup>nd</sup> ed) New York: Routledge Communication Series.
  37. Smith, A. (1869). *Essays on, I. Moral sentiments*, ed . London: Alex. Murray & Son.
  38. Sharma, P. (2008). Commentary: Familiness: Capital Stocks and Flows Between Family and Business, *Entrepreneurship Theory and Practice*. *Entrepreneurship Theory and Practice*, 32(6), 971–977.
  39. Sirmon, D., & Hitt, M. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship: Theory and Practice*, 27(4), 339–358.
  40. Steier, L. (2003). Variants of agency contracts in family-financed ventures as a continuum of familial altruistic and market rationalities. 18 *Journal of Business Venturing*, 18 :5. 597–618.



41. Stewart, A., & Hitt, M. (2012). Why Can't a Family Business Be More Like a Nonfamily Business?: Modes of Professionalization in Family Firms. *Family Business Review*, 25(58) 58-86..
42. Zellweger, T., Nason, R. & Nordqvist, M. (2012). From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation. *Family Business Review*, 25(2) 125-135.





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## THE INFLUENCE OF SERVANT LEADERSHIP TOWARD EMPLOYEE LOYALTY WITH JOB SATISFACTION AS INTERVENING VARIABLE (PT. SSJ, INDONESIA)

Thryanica Hartanti <sup>1</sup>, Rosaly Franksiska <sup>2</sup>

<sup>1</sup>Universitas Kristen Satya Wacana, 212013228@student.uksw.edu

<sup>2</sup>Universitas Kristen Satya Wacana, rosaly.franksiska@staff.uksw.edu

---

### ABSTRACT

*An employee who works in a company must have a loyalty to the company and its work. Employee loyalty is an important thing to be considered by the company. Employee loyalty can be influenced by the style of leadership and job satisfaction that can make employees feel comfortable. Servant leadership is a leadership style that give priority to their followers, in this case the employee, when the style of leadership in a company give priority to the employee, then the employee will have sense of belonging in the company. Once employees feel it, the employee will be loyal to the company. Additionally, when employees are satisfied with their work, meaning work is a good thing for them and the employees will do their best for the job. A satisfactory job will make employees survive or maintain it and becomes loyal. This study was conducted to clarify the effect of servant leadership to the loyalty of employees by using an intervening variable of job satisfaction. This study was conducted at PT. SSJ, a family owned business, where the feelings of kinship were shown in working relations. This research resulted in the indirect effect which the value of the indirect effect is greater than the direct effect. Hypothesis test results showed that the three hypotheses contained in research supported by the results of tests performed.*

**Keywords:** *Servant Leadership, Employee Loyalty, Job Satisfaction*

---

## **5. Introduction**

In the process of meeting the everyday needs, someone will work in a particular field that he is interested in or capable of doing it. In this work, a person will be tied to a company as a place to support the achievement of the goals of the company. When someone begins to be tied to the company, he will have important things that must be owned that is loyalty in work. When employees have a high loyalty, the performance will also be good and will have a positive impact for the company. Having loyal employees is also a pride for the company, especially when loyalty of the employees is not only based on things in the form of financial compensation. By doing so, it shows that the company has a heart so that the employees who work there will feel comfortable in it. Work loyalty according to Steers & Porter (1983), will be created if employees feel sufficient in meeting the everyday needs from the job, so that they feel at home while working in a company.

The success of the employees in their job can be used as a company reference in seeing and knowing the loyalty and sense of responsibility of the company employees (Hermawan and Riana 2013). Loyal employees will try to give the best contribution in working to improve the quality of the company. One of the factors that influence employee loyalty is employee satisfaction, employee satisfaction can show that employees are loyal to the company. Job satisfaction is an emotional state of the employee which has or does not have intersection of the value of fringe benefits for employees and the company or organization to the level of the value of fringe benefits that is desired by the employee (Mahesa 2010). Employees who are loyal to the company are employees who are satisfied with their jobs. Complacency may come from wages or salaries given, the leadership style of the manager, the facilities provided, or from the company's work environment. When these factors are in accordance to what they expect, then there will be a sense of job satisfaction of the employee (Setiawan 2011).

Based on the preliminary study by two keynote speakers, the first speaker who works in one of the shipping company in Indonesia said that at the time the employees liked to move across companies to seek comfort in work. Then the second speaker said that a trend in the world of work for today was that the employees were easy come and easy go. Both speakers are employees who work in HR division. This could happen because of several things that affected it. The results of the previous study showed that the style of leadership and management control system were interconnected, both supported each other and worked together in creating employee loyalty (Purnama 2013).

Leadership style in a company or organization is different from the others, there are leaders who are fun, who make employees feel comfortable, but there are also leadership styles which are deemed less in line with employee expectations. A good company is a company that successfully achieves the objectives of the company itself. The process of achieving these objectives can be influenced by the role and qualities of the leader that is reflected from the attitudes and actions that demonstrate his leadership style to the employees and staffs. Being a leader is a great responsibility, a leader must be able to create a pleasant atmosphere and make the employees to love it, of course, also still have respect to the leader. Good leadership can establish an effective management control system. If the management control system that has been implemented is effective, then the employees would feel comfortable in work to increase employee loyalty (Purnama 2013).

Servant leadership began to be known through the writings of Greenleaf (1977) which stated that servant leadership began with the natural feeling that one wanted to serve first. However, there was a presumption that Greenleaf himself did not provide clear boundaries regarding his theory. Then the servant leadership was developed by prominent followers of Greenleaf, such as Larry Spears (2010) who stated servant leadership definition as a new kind of leadership model, the style of leadership that prioritized to serve others first. Spears claimed that servant leadership emphasized on improving service to others, a holistic approach to the work, increase the sense of unity, and power sharing in decision-making. In addition, researches on servant leadership

and employee loyalty were mostly done by western academics. Based on the study results by Liden et al. (2008), servant leadership helped to create a positive work environment, increased the sense of belonging and loyalty of the organization's employees. Another study by Lisbijanto and Budiyanto (2014) with the title of Influence of Servant Leadership on Organizational Performance through Job Satisfaction on the Cooperative Employees in Surabaya, stated the results of tests conducted by Structural Equal Modeling (SEM) that servant leadership had a significant positive impact on job satisfaction, but not significantly affected the performance of the organization. The findings also noted that job satisfaction had a positive and significant impact on organizational performance. Overall, the model was supported that job satisfaction had a significant influence on the relationship between servant leadership and organizational performance. So the study stated that leaders must boost employee satisfaction so that the performance of the organization will also increase.

Nowadays, Indonesia began to show a model of servant leadership. This model can be seen from the lead performed by the President of Indonesia, Joko Widodo, who began to implement servant leadership. It can be seen also through the Jakarta government leader, Basuki Tjahja Purnama (Ahok) who also showed servant leadership. Minister of Utilization of State Apparatus and Bureaucratic Reform Yuddy Chrisnandi said that Jakarta Governor Basuki Tjahja Purnama was an example of a leader who served people. He also said that Mr. Jokowi and Ahok had already started the era of leadership that served the people, then this needs to be emulated by other leaders (Marbun, accessible from <http://www.republika.co.id/> 2014). Comments about the leadership style of Mr. Joko Widodo are also stated by Mahfud Jampidum Manan. He said that "Jokowi is an example of a serving leader, with his 'blusukan' as the way to build a bridge of communication between the leaders and the people. With 'blusukan' then he goes home to think about and decide what is best for the people "(accessible from <http://news.detik.com/>).

With these explanations, this study will use the servant leadership that is a characteristic of the person in terms of leadership which can affect employee loyalty. This study will be conducted at SSJ, Ltd Semarang as a branch in the field of garment manufacturing company established since 1997. The business activities conducted by SSJ, Ltd Semarang are specialized in production only. The level of employee loyalty of SSJ, Ltd Semarang can be quite high, almost 50% of employees have worked more than five years, where the number of employees who have worked more than five years are as many as 369 employees of the total 712 employees. When performing a simple interview to the head of SSJ, Ltd Semarang regarding employee loyalty by using a leadership style variable, the company was interested to know how much influence of the style of leadership on employee loyalty over the years. During this time SSJ, Ltd Semarang has done a lot to make the employees feel at home while working in the company, by holding a picnic activity together, company birthday celebrations and holidays celebrations such as Eid Al-Fitr. Even more so when it is known that factors leadership style can make it successful. Leader stated in this study is the head of the section, also known as production coordinator of SSJ, Ltd Semarang, Mrs. D. SSJ, Ltd Semarang has several branches, and Semarang branch often obtain the best branch category among the other branches based on the number and quality of the production. This happens because the leader is discipline, assertive, pays attention and cares to the employees so that it has an impact on job satisfaction which will create employee loyalty. Different with the case of Lisbijanto and Budiyanto (2014) study which stated that servant leadership made the employees felt satisfied and had impact on organizational performance, this study is intended to observe the impact on employee loyalty. Sort of things to be observed in this study are, 1) Does Servant Leadership have an influence on Employee Loyalty in SSJ, Ltd Semarang?, 2) Does Servant Leadership have an influence on Job Satisfaction in SSJ, Ltd Semarang?, 3) Does Job Satisfaction have an influence on Employee Loyalty in SSJ, Ltd Semarang? 4) Does Servant Leadership have an influence on Employee Loyalty with an intervening variable of Job Satisfaction at SSJ, Ltd Semarang?

By this research, it is expected to be known how great the influence of servant leadership on the loyalty of the employees of SSJ, Ltd. What contributions that have been already provided by the employees of SSJ, Ltd to develop the agency where they work in as a real manifestation of employee loyalty. This study will also observe

the sincerity of the leader of SSJ, Ltd in work by showing care to the employees. This study will also seek out the role of job satisfaction as an intervening variable. In addition, the results of this study can also be used for the benefit of education when necessary.

### **Literature Review**

Formerly leadership is figured in a person who naturally has a soul of serving. A leader who has a servant leadership style is a leader who always put the interests of his followers in this case the employees of a company (Greenleaf, 2002). When the leader does not put himself but prioritize to serve, that is the key of Servant Leadership. Great leader is a leader who prioritizes to serve. Bambang (2009) stated that the leader with a serving heart was a leader who actually made the employees as subjects that should be served well so that they could produce the goods and services well and were able to serve customers and all stakeholders well. The goal was not just for the benefit of the organization but also the interests of employees as individuals to achieve their life goals through the organization he leads.

Neuschel (2008) in his writing said that the servant leader was a leader with followers who he helped to grow in reputation, ability, or in some way contributes to develop them into a more useful and happier condition. Neuschel also wrote that the servant leader was a person with a high sense of humanity. Servant Leadership construction by Dennis and Bocarnea (2005) from the results of study used the Patterson theory states that there are 5 of 7 construction that are successfully measured in stating that Servant Leadership consists of: Love, the first characteristic in Servant Leadership is love. Love refers to the Greek that is moral love (agape love). Love means doing the right thing at the right time for the right reasons (Winston 2002). Dennis also said that love in Servant leadership was also included a sense of concern for the employees by thinking of him as special people, made them feel needed and really interested with their lives. Empowerment, empowerment places emphasis on cooperation that entrusts power to others, and listens to the advice of followers, makes someone feel important, prioritizes work in teams, and appreciates the compassion and equality (Russell & Stone, 2002 in Irving (2005)). This can be done to make employees feel more valuable. Vision, the direction of the organization and the people who are led will be taken. A leader will have a considerable role in achieving the vision of a company or organization. The leader's vision will inspire action and help shaping the future for the company and the influence is more powerful on people who work for the benefit of the organization. When personal value is associated with Servant Leadership characterized by vision, then the team's performance can be improved. Humbleness, Dennis (2004) in Irving (2005) said that effective leaders were leaders who maintained humbleness by showing respect for employees and recognizing employee contributions to the team. Trust, Servant Leadership is the chosen people among a number of others and the selection is based on several specific advantages that cause the servant leaders may gain the confidence to become a leader.

Job satisfaction is defined as a positive feeling about the work of someone as the results of an evaluation of the characteristics (Robbins and Judge 2008). A person with a high level of job satisfaction has positive feelings about the job, while someone who is not satisfied has negative feelings about his job (Robbins and Judge 2008).

Luthans (2006) states that job satisfaction is a result of the employees perception on how good their job gives the items considered as important. Job satisfaction has five components, first, Pay, the number of the wages received by subordinates that is considered appropriate and in accordance with their workload. Second, job, which is an interesting work and provide opportunities for learning for subordinates as well as the opportunity to accept responsibility for the work. Third, promotion opportunities, that is the opportunity for subordinates to progress and develop within the organization, such as: the opportunity to get a promotion, awards, as well as the development of the individual. Fourth, supervisor, which is the ability of an employer to demonstrate attention and care to subordinates, provide technical assistance, and treat subordinates well. Last, co-workers, the co-workers who are technically proficient, friendly and mutually supportive in work environment. Job satisfaction is an emotional state of an individual, where the circumstances are pleasant or unpleasant according to the employees' side and view (Nasyiah and Payamta 2002).

Loyalty is about accepting that there is a bond with mutual relationship in each other, and is shown through actions that defend and pay more attention to the relationship (Keiningham and Aksoy 2009). In this case the relationship between the employee and the company. Loyalty has a crucial link with happiness, both as individuals and as social beings who must have good relations with a group, that is when a person becomes an employee in a company. Loyalty is also a form of employee satisfaction that will make the business performance to be increased.

Loyalty is one of the things that influence the organization-linkage which refers to the quality of membership as well as love, employee participation and employee commitment (Mowday, Porter, and Streers 1982). Steers and Porter (1983) suggest that the onset of employee loyalty is influenced by the following factors:

1. Personal characteristics: age, years of service, gender, level of education, achievements, race, and personality traits;
2. Characteristics of the work: the challenges of work, work stress, the opportunity to interact socially, job enrichment, identification of tasks, task feedback, and match tasks;
3. Characteristics of the company / organization design, it can be seen from a centralization, level of formality, the level of participation in decision-making, at least it have shown varying degrees of association with company responsibility, functional dependency and control functions of the company;

4. Experience gained in the company/organization, that is the internalization of the individual against the company after carrying out the work in the company includes a positive attitude toward the company, trust to the company until it ceates a sense of security, feel the personal satisfaction that can be met by the company.

Employee loyalty is strongly influenced by the leadership, because the success of a company leader depends on the leader himself in creating loyalty of the members. Employee loyalty will tie in accordance with the proper leadership (Purnama 2013). Employee loyalty to the organization is the adoption of the values, attitudes and beliefs of the organization and the willingness of employees to exert additional efforts to achieve the goals and objectives of the organization. It is multidimensional and involves commitment, employee attitudes and organizational behavior (Satyendra 2015). The indicators included in it are overall satisfaction with management, deserves my loyalty, likelihood to continue working at organization, likelihood to provide referrals for the organization.



**Figure 1. Employee Loyalty Index**

**(Source: Satyendra, 2015)**

The previous study proved that there was an influence of servant leadership on job satisfaction at 26.3%, while the remaining 73.7% was influenced by other factors which could affect job satisfaction (Setiawan 2011). Job satisfaction is very important for the company because it can make employees become loyal. Leaders are also expected to listen to the problems encountered and give advice or the best solution for every problem in job. Thus they will feel satisfied and valued as an employee, the commitment and quality of work will also increase (Setiawan 2011). The test results performed in the study conducted by Baihaqi (2010) showed a positive and significant effect of leadership style on



employee job satisfaction. This means that the behavior of leaders is one of the important factors that could affect job satisfaction. Servant leadership variable significantly affected job satisfaction of teachers in Petra Christian High School 5, it can be seen from the path coefficient of 0,072 with a t statistics value of 2,861 greater than t-table = 1.96 (Rukmi 2012). On the basis of the previous studies, the hypothesis is formulated as follows.

H<sub>1</sub>: Servant leadership style has a positive influence on job satisfaction.

In a qualitative study conducted by Cater and Baghurst (2013), they wrote down the answers of the participants who worked in a restaurant that servant heart owned by their owners was the reason the employees to remain staying in place or working. Based on the results of data analysis, it was found a significant difference between organizational culture, leadership style and employee engagement to employee loyalty (Nalestiyas 2013). Servant leadership was significantly positively correlated to employee loyalty and employee satisfaction as a mediation showed a value of 77% of the total effect between servant leadership and employee loyalty (Ding et al. 2012).

H<sub>2</sub>: Servant leadership style has a positive influence on employee loyalty.

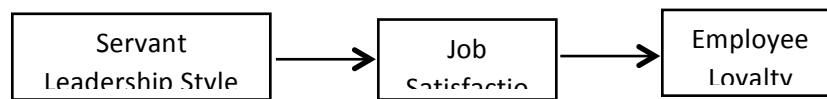
Employee loyalty can be influenced by many things in a company, but the company can also do something to make employees remain loyal and feel comfortable in it. The results of the data analysis of the previous study indicated that there was significant influence of employee satisfaction on employee loyalty (Anugroho 2008). Other researchers also proved that job satisfaction had an effect on employee loyalty, in which the study results indicated that job satisfaction had an effect on employee loyalty in CV Sampurna Part Niaga Bandung as much as 71.1% (Marseilly 2014). Job satisfaction can be one of the things that make employees remain working at the company. In retain employees and make employees stay loyal, employee job satisfaction is very important. There is also a study that showed that job satisfaction only contributed 15.3% to the loyalty of employees while 84.7% was contributed by other variables outside job satisfaction (Noverine 2014). If employees are not satisfied with their work, it may cause the employees cannot stand and lead the bad possibilities to occur, until the employees decided not to be loyal to the company. Based on these descriptions, then the hypothesis is formulated as follows.

H<sub>3</sub>: Job satisfaction has positive influence on employee loyalty.

Job satisfaction is a variable that is quite often used as an intervening variable since job satisfaction is greatly influenced by the development of the company, so that the leadership is expected to create an organizational culture that can increase job satisfaction (Robbins 2001). Based on empirical studies on employees who worked at organizations that implement servant leadership, the leadership style that

showed empowerment, reward and teamwork had a positive impact on employee satisfaction, which then employee job satisfaction could increase employee loyalty (Chang et al. 2010). Then in a study conducted by Wright and Bonett (2007) stated that servant leadership style might lead to job satisfaction and job satisfaction would reduce the turnover rate and raised expectations in the job. A low turnover rate means high employee loyalty.

H<sub>4</sub>: Servant leadership style has a positive influence on employee loyalty with job satisfaction as intervening variable.



**Figure 2: Research framework**

### **Research Method**

This study was a quantitative study because it used primary data that were analysed by using statistical procedures from data presentation. The populations in this study were employees of SSJ, Ltd who had already worked at least six years, as many as 294 employees. The reason for using a total population of employees who had worked at least six years was that company provided specific policies for employees who have worked over five years at SSJ, Ltd, so the closest value was employees who had worked at least six years. The specific policy can be called as awards to employees who are considered loyal. The number of samples to be taken used Taro Yamane sampling formula, with a total sample of 170 respondents. This study used purposive sampling in which the samples were the employees who had worked at SSJ, Ltd for at least six years in the company at the time the sampling was conducted. Such samples would show that they were already know the leadership style within the company so they could be eligible respondents. The hypothesis test in this study was conducted by using Path Analysis.

### **Result and Discussion**

Classification of respondents' characteristics in this study included gender, last education, age, and employment period of each respondent. Characteristics of respondents were obtained from 170 respondents who were employees of SSJ, Ltd Semarang namely the production employees, also known as operators. Information on the characteristics of respondents were obtained are as follows, the number of male respondents was 3.5% and the number of female respondents was 96.5% of the total respondents of 170 employees. It can be seen that most of the company's employees were women. For the respondents' characteristic of last education it was explained that the number of respondents who had elementary education was 10%, junior high school of 25.9%, senior high school of 64.1%. For the respondents' characteristic of age, it can be seen that the employees' age of 25-35 years was as much as 45.3%, 36-45 years of 50.6%, 46-55 years of 4.1%. Then the majority of employees were in 36-45 years age range. Next was the respondents' characteristic of employment period in the company. From the results, it can be explained that 14.1% employees worked for 6-10 years, 50% worked for 11-15 years, and 35.9% of the employees worked for >50 years. Most employees worked in the range of 11-15 years. Prior to hypotheses test, descriptive statistical analysis will be firstly conducted.

The mean value for the Servant Leadership variable was 3.76. The results showed that servant leadership in SSJ, Ltd Semarang was included in the category of high value. For the highest mean value in statement that leaders demonstrated good ethics, had a mean of 4.28 of the 170 respondents. Furthermore, employee loyalty variable had a mean value of 3.66 which meant that employee loyalty was in the high category. The highest value of employee loyalty was in the statement that 'I have a high concern to the company', amounting to 4.14 from 170 respondents. Then job satisfaction variable had a mean value of 3.69, which was included in high category. Then the statement that had the highest value of the job satisfaction variable was the statement that 'my colleagues are very friendly', with mean value of 4.04 of the 170 respondents.

The results of path analysis showed that servant leadership had direct influence on employee loyalty and can also had indirect influence of servant leadership on job satisfaction (as intervening) and on loyalty to employees. The direct influence was 0,211 while the indirect effect should be calculated by multiplying the indirect coefficient namely  $(0.682) \times (0.532) = 0.363$ . In this study the influence was indirect, i.e. servant leadership influence on job satisfaction and job satisfaction influence on employee loyalty. These results supported H4 in this study that job satisfaction act as an intervening variable between servant leadership and employee loyalty.

The study results supported the hypothesis in this study. The influence that occurred in this study was the indirect influence, since the value of the indirect influence was greater than the direct influence. Comparison of the study results can be seen through the beta value ( $\beta$ ) of the direct and indirect influences test results. When the beta value ( $\beta$ ) of indirect influence was greater, then the relationship was indirect, and vice versa (Ghozali 2006). Then the role of job satisfaction as an intervening variable was proven in this study, when employees are satisfied with their job, they will be loyal, and since work loyalty can represent all aspects of satisfaction on leadership with servant leadership style. Through satisfaction on servant leadership style the employee loyalty will arise.

The result of hypothesis 1 (H1) test stated that there was an influence of servant leadership on job satisfaction with a positive and significant correlation. This result supports the previous study conducted by Setiawan (2011), Bayhaqi (2010), and Rukmi (2012). The result of hypothesis 2 (H2) test suggested that servant leadership had a significant positive influence on employee loyalty. So this result also supports the previous study conducted by Carter and Baghurst (2013) and by Nalestya (2013) which stated that leadership style with serving heart could affect employee loyalty. Then for the test result of hypothesis 3 (H3) said that there was a positive and significant correlation between job satisfaction and employee loyalty. This supports the previous study conducted by Marseilly (2014) which stated that job satisfaction had an effect on employee loyalty in CV Sampurna Part Niaga Bandung as much as 71.1%. The result of path analysis supports the hypothesis 4 (H4) in this study, it has been proven that job satisfaction acted as intervening variable between servant leadership and employee loyalty. Based

on the test result performed, the effect occurred in this study was indirect effect. Servant leadership variable had the highest mean value when compared to the other two variables. This was shown as almost all statements had values in the high category. For the highest mean value was in statement 3 that leaders demonstrated good ethics. Of course, that statement is true, because as a leader, it has become imperative to demonstrate good ethics. The Leader in SSJ, Ltd Semarang also showed good ethics, because he really holds the responsibility as a good leader. He also said that "a leader is a role model, with leader who has good ethics, it becomes an example for employees to have good ethic too". Mrs. D as production coordinator at SSJ, Ltd Semarang who had held the position for 15 years at SSJ, Ltd Semarang can be a role model for the employees, there were employees who said that Mrs. D was a firm person but also had high concern, where Ms. D always tried to provide a solution to employees who had problems either in terms of work and personal matters at the time outside the company.

But in servant leadership variable there was still a mean value that indicated the moderate category in the statement 11 that was 'leader believes that I can keep confidential things', with a mean value of 3.00. This meant that employees still felt that the leader of SSJ, Ltd Semarang had no yet fully given confidence to the employees. Of course this happened because a leader must be careful when discussing the very important and confidential matters of the company. The leader of SSJ, Ltd is someone who is careful and knows the limits of the boundaries of what issues are to be discussed with the employees and what issues are not to be discussed with the employees.

The mean value for the employee loyalty variable had a lower value compared to the two other variables. The mean value of employee loyalty variable was 3.66 and was still included in the high category. The highest mean value for the statements in employee loyalty variable was contained in statement 6, that 'I have a high concern to the company', with a value of 4.14. It stated that employees at SSJ, Ltd Semarang cared about the company. The concern was shown by several things, such as obeying all the rules in the company, carry out any tasks given, and works well for the company. Given the level of employee awareness of the company, this makes SSJ, Ltd Semarang became a branch that produced the best performance among the other branches for several years. With the number of employees who have worked more than 10 years at SSJ. Ltd as many as 25% of the total employees, the company still has enough loyal employees.

The mean value of job satisfaction variable of 3.69 of the overall statements on employee satisfaction. It illustrated that the mean value of job satisfaction variable was included in the high category. It showed that the job satisfaction at SSJ, Ltd Semarang was high. It can be seen from the highest mean value at statement that stated colleagues were very friendly, with a mean value of 4.04. Employees at SSJ, Ltd were satisfied with their jobs because there was a sense of friendship among their peers. The friendly sense between colleagues made the employees to be comfortable and felt at home so that satisfaction was high. It is inevitable that colleagues have an important role in making an employee to feel comfortable and satisfied with his or her job. Effect of friendly environment between colleagues in SSJ, Ltd happens because the company often holds activities together such as outbound activities together, so that it is able to strengthen the cohesiveness among employees.

## **Conclusion and Implications**

### ***Conclusion***

From the study that has been conducted, it was indicated that servant leadership in SSJ, Ltd Semarang had a high value, which was expressed by the employees through the answers from the questionnaire. The mean value for servant leadership was 3.76 of 12 statements rated by 170 respondents which indicated that the servant leadership was in the high category. This meant that the leadership style of servant leadership has already been felt by the

employees at SSJ, Ltd Semarang. The results also indicated that servant leadership had an influence on employee loyalty with an intervening variable of job satisfaction. The results of this study indicated that job satisfaction had an intervening role on servant leadership influence on employee loyalty.

### ***Implication***

The company can give more confidence to the employees and provide opportunity for employees to develop the skills of existing employees. It refers to the mean value that was still relatively moderate, namely the statement regarding trust to employees to keep confidential things and the statement regarding opportunities to develop the skills owned by the employees in the servant leadership variable. The company should provide an official benchmark for skill development opportunities for the employees, so it can also be a positive motivation for employees. By looking at mean results for the employee loyalty variable then one thing to be improved by the company is the improvement of the company management that will make employees to adjust themselves to the existing management. Management improvement should be performed by involving employees so that they can really feel the conformity with the existing management, which involve employee representatives in decision making. In addition, the company also needs to instill a more sense of belonging to the employees of the company. So the employees will feel welcome to keep working at SSJ, Ltd Semarang and recommend it to their colleagues outside the company to work there. It is based on a statement regarding satisfaction with management in the company as well as the statements about the desire to spend time career and invite colleagues outside the company to work in SSJ, Ltd Semarang.

This study found that there was an influence of servant leadership on the loyalty of employees with intervening variable of job satisfaction. The results showed a direct influence. Then the high level of servant leadership will make a high level of employee loyalty and a high level of job satisfaction which will also create a high level of employee loyalty. The results of this study also support previous study that suggested that there was an indirect effect in the relationship of servant leadership and loyalty of employees by using employee satisfaction mediation by 77% (Ding et al. 2012). The results of this study can be used as a reference for future studies with related variables to develop the study results. Researchers who are interested to observe the same topic can conduct study with a deeper view of servant leadership and employee loyalty and to be conducted in a descriptive design. So that further study can determine servant leadership and employee loyalty to the parties which are related directly and not only based on quantitative data. Some variables that can be used for the development of subsequent study is trust to the employees, the opportunity to develop the skills of the employees, the company's management and co-workers which can influence employee loyalty. The study process has been done as well as possible and based on scientific procedures, but there are some limitations of this study that the use of indicators in this study was not an indicator devoted to employees at lower levels and the employees in production department. Leaders that were intended were the top leaders considered as indirect superior relationship with employees, which should be directed to the supervisors who deal directly with lower-level employees.

### ***References***

- Anugroho, Maesha. (2008). "Pengaruh Kepuasan Kerja Terhadap Loyalitas Karyawan Pada PT Kompas Cyber Media". Program Studi Manajemen Fakultas Ekonomi Unika Atma Jaya. Available at <http://lib.atmajaya.ac.id>
- Baihaqi, Muhammad F. (2010). "Pengaruh Gaya Kepemimpinan Terhadap Kepuasan Kerja Dan Kinerja Dengan Komitmen Organisasi Sebagai Variabel Intervening (Studi Pada PT. Yudhistira Ghalia

- Indonesia Area Yogyakarta)". Skripsi Universitas Diponegoro: Semarang. Available at <http://eprints.undip.ac.id>
- Bambang, Paulus. (2009). "Lead to Bless Leader: Kepemimpinan yang Menjamin Perusahaan Sejahtera dan Karyawan Bahagia". Jakarta: Elex Media Komputindo.
- Carter, Danon, dan Timothy Baghurst. (2013). "The Influence of Servant Leadership on Restaurant Employee Engagement". September. doi:10.1007/s10551-013-1882-0.
- Dachlan, Usman. (2014). "Panduan Lengkap Structural Equation Modeling Tingkat Dasar". Semarang: Lentera Ilmu.
- Dennis, Robert S., dan Mihai Bocarnea. (2005). "Development of the Servant Leadership assessment instrument." Emerald Group Publishing Limited Vol.26 No.8.
- Ding, Donghong, Haiyan Lu, Yi Song, dan Qing Lu. (2012). "Relationship of Servant Leadership and Employee Loyalty: The Mediating Role of Employee Satisfaction." Scientific Research. Available at <http://dx.doi.org/10.4236/ib.2012.43026>
- Ghozali, Imam. (2006). "Aplikasi Analisa Multivariate dengan Program SPSS". Semarang: Badan Penerbit Universitas Diponegoro.
- Greenleaf, Robert K. (1977). "Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness". Mahwah, New Jersey: Paulist Press.
- Greenleaf, Robert K. (2002). "Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness". Mahwah, New Jersey: Paulist Press.
- Hermawan, I Ketut, dan Gede Riana. (2013). "Analisis Faktor-Faktor Yang Menentukan Loyalitas Karyawan Pada PT. Inti Buana Permai Denpasar Bali". E-Jurnal Manajemen Universitas Udayana Vol.2 No.16.
- Keiningham, Timothy, dan Lerzan Aksoy. (2009). "Why Loyalty Matters". United States of America: BenBella Books, Inc.
- Luthans, F. (2006). "Perilaku Organisasi". 10ed. Yogyakarta: Andi.
- Mahesa, Deewar. (2010). "Analisis Pengaruh Motivasi dan Kepuasan Kerja Terhadap Kinerja Karyawan Dengan Lama Kerja Sebagai Variabel Moderating". E-Journal UNDIP. Available at <http://ejournal.undip.ac.id>.
- Marseilly. (2014). "Pengaruh Kepuasan Kerja terhadap Loyalitas Karyawan CV Sampurna Part Niaga Bandung". Maranatha Repository System. Available at <http://repository.maranatha.edu>.
- Mowday, Richard T., Lyman W. Porter, dan Richard M. Streers. (1982). "Employee-Organization Linkage". New York: Academic Press Inc.
- Nalestiyas, Aldila Putri. (2013). "Peran Keterikatan Karyawan Dalam Memediasi Pengaruh Antara Budaya Organisasi, Gaya Kepemimpinan dan Loyalitas Karyawan Pada PT. Kantaraya Utama". Binus University: Jakarta. Available at <http://thesis.binus.ac.id>.
- Nasyiah, HP, dan Payamta. (2002). "Sikap Akuntan Terhadap Advertensi Jasa Akuntan Publik." Jurnal Akuntansi dan Auditing Indonesia Vol.6 No.1.

- Neuschel, Robert P. (2008). "Pemimpin Yang Melayani: Mengerahkan Kekuatan Orang-orang Anda". Jakarta: akademia.
- Noverine, Syefi. (2014). "Analisa Hubungan Kepuasan Kerja dengan Loyalitas Karyawan di PT CAR". Universitas Gajah Mada. Available at <http://etd.repository.ugm.ac.id>.
- Purnama, Ayu. (2013). "Peranan Gaya Kepemimpinan dan Sistem Pengendalian Manajemen terhadap Loyalitas Karyawan di Perusahaan Keluarga PT. SUS Surabaya". Jurnal Ilmiah Mahasiswa Universitas Surabaya Vol.2 No.2.
- R. C. Liden, S. J. Wayne, H. Zhao and D. Herderson. (2008). "Servant Leadership: Development of a Multidimensional Measures and Multilevel Assessment," *The Leadership Quarterly*, Vol. 19, No. 2, pp. 161-177.
- Retherford, Robert D., dan Minja Kim Choe. (1993). "Statistical Models for Causal Analysis". Canada: John Wiley & Sons, Inc. Available at <http://onlinelibrary.wiley.com/>
- Robbins, Stephen P., dan Timothy A. Judge. (2008). "Perilaku Organisasi". 12ed. Jakarta: Salemba Empat.
- Rukmi, Tri Utami R. (2012). "Pengaruh motivasi kerja, keterlibatan kerja dan kepemimpinan yang melayani (Servant Leadership) terhadap kepuasan kerja Guru di SMA Kristen Petra 5 Surabaya". Universitas Katolik Widya Mandala. Available at <http://repository.wima.ac.id>.
- Santoso, S. (2004). "Buku latihan SPSS multivariat". Jakarta: Elex Media Komputindo.
- Satyendra. (2015). "Employees Loyalty And The Organization". Available at <http://ispatguru.com/>
- Setiawan, Tan Edy. (2011). "Pengaruh Gaya Kepemimpinan Servant Leadership Terhadap Kepuasan Kerja Dosen dan Staf Tata Usaha Pada Fakultas Ekonomi Universitas Kristen Maranatha". Maranatha Repository System. Available at <http://repository.maranatha.edu>.
- Spears, Larry. (2010). "Character and Servant Leadership: Ten Characteristics of Effective, Caring Leaders. *The Journal of Virtues & Leadership*". Vol. 1 Iss. 1, 25-30. Available at <https://www.regent.edu>
- Steers, Richard M., dan Lyman W. Porter. (1983). "Motivation and Work Behavior". New York: McGraw-Hill Book Company.
- Sugiyono. (2014). "Metode Penelitian Manajemen". Bandung: Alfabeta.
- Wijaya, Tony. (2012). "Cara Cepat Menguasai SPSS 20". Yogyakarta: Cahaya Atma Pustaka.
- Winston, Bruce E. (2002). "Be A Leader for God's Sake". Virginia Beach: 1000 Regent University Drive. Available at <http://www.bealeaderforgodssake.org>.
- Yin, Chan Soo, Chan Yee Fen, Khoo Yun Meng, Loh Poh Yin, dan Wong Wein Jack. (2012). "A Study Of Employee Satisfaction And It's Effect Toward Loyalty In Hotel Industry". Universitas Tunku Abdul Rahman. Available at <http://eprints.utar.edu.my/>

**THE RELATIONSHIP BETWEEN ENTREPRENEURSHIP ORIENTATION AND ORGANIZATIONAL LEARNING TOWARD BUSINESS STRATEGY AND BUSINESS PERFORMANCE OF COCOA'S SMALL AND MEDIUM ENTERPRISES (SME) IN EAST KALIMANTAN**

Herna Wati<sup>1</sup>, SE. MM

<sup>1</sup> *Padjajaran University, Doctoral Program of Economy, Indonesia*

*e-mail: hernarspb@yahoo.com*

---

**ABSTRACT:** *The objective of this research was tested the relationship between entrepreneurship orientation and organizational learning toward business strategy and business performance of cocoa's small and medium enterprises (SME) in East Kalimantan.*

*The study was a confirmatory carries out by testing several hypotheses in order to figure out the causal relationship of all the above variables. All Small and Medium Enterprises (SME) of cocoa in East Kalimantan. A standardized questionnaire was distributed among different people pertinent to cocoa's industry (distributors, whole sellers, retailers, sales force and employees etc). Questionnaires were used by random sampling technique. A model with hypotheses of the relationships between the constructs was built. The technical analysis applied to test the research hypothesis was Structural Equation Modeling (SEM) by AMOS program.*

*The result of research showed that there were direct, significant and positive relationships between entrepreneurship orientation and organizational learning and business strategy; there were direct, significant and positive relationships between organizational learning and business*





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## WHY SOME SMEs FACE STAGNANCY WHILE OTHER CAN GROW?

(CASE OF SMEs IN BANDUNG)

**Muslim El Hakim Kurniawan<sup>1</sup>, Prameshwara Anggahegari<sup>2</sup>, Aang Noviyana Umbara<sup>3</sup>, Khansa Aktari Dewi<sup>4</sup>**

*1,2 Doctor of Science in Management, School of Business and Management ITB, muslim.el@sbm-itb.ac.id; prameshwara@sbm-itb.ac.id*

*3,4 Master of Science in Management, School of Business and Management ITB, aang.noviyana@sbm-itb.ac.id*

---

### **ABSTRACT**

*This paper tries to address current phenomena of growth and stagnancy business using case study comparing four SMEs who had a different level of success given the similar circumstance to grow. Researchers chose to apply case study due to the research questions and interview for data collection. We also use the snowballing approach due to the unavailability of some of the informants contacted that are not readily available for volunteering in the research. The results show that the key to growth factors are innovation, business strategy, education, human resources, institutional and government roles, and financial access. We also should underline characters of SME owners as an interesting point of difference both on growth and stagnancy factors. While high growth SME owners are passionate; trustful; religious; give a high social contribution, and have the sense of kinship, the stagnant SME owners are visionless, risk lover, and unfocus. We also argue that external factors such as the economic condition of the nation, market situation, and business strategy take portion in the stagnant situation. By doing so, this paper identifies the root problem to the development and stimulates new research directions on how to minimize or avoid the problem.*

**Keywords :** *Business Stagnancy, Business Growth, Small Medium Enterprise, Entrepreneur Barriers*

---

### **1. Introduction**

In Indonesia, it cannot be denied that the small and medium enterprises (SMEs) play an important role in the economy. SMEs account for 99 percent of all firms, pervading most economic sectors and employing over 99 million people (Bellefleur et al. 2012:3). Moreover, the data of manufacture industries based on enterprise scale in 2014 said that from 3,529,964 manufacture industries in Indonesia, 3,220,563 are micro industries (General Directorate of Small and Medium Industry, 2016: 3).

Tambunan (2007) asserted that SMEs have always been the key player in increasing domestic activities and become “engine for development and export rate”. His recent research has conducted 9 (nine)

years of longitudinal study in order to know the main constraint of SMEs development in Indonesia (Tambunan, 2011). The results pointed out that lack of capital; business information; technology; and skilled workers; difficulties in procuring raw materials; marketing and distribution challenges; and government policies and regulations are the major issue that keeping SMEs to scaling up.

There are mounting researches and studies addressed entrepreneurial challenges, barriers SME growth, and entrepreneurial failure. However, lack of study sorts out the upbringing in doing business. We could say that barrier to growing indeed emerge if condition in each individual is different. The findings might mix up between the real barriers with the pseudo-barrier that existed because of personal matters. For instance, when somebody has capital to invest in their business, their business have the potential to grow, it cannot be compared with people that have less capital.

This research would lead us to better understand why there is discrepancy happened and how entrepreneurs should overcome this challenge for future improvement. If we define and understand the root problem that keeping entrepreneurs to develop, it may lead to effective solutions or at least apprehend struggles with the micro and small enterprises. To assist in the possible advancement of growth for entrepreneurs who considered to face stagnancy, we will try to provide insight by comparing SMEs' attributes (the what, how and why). We believe that recognising the different characteristic of SMEs is necessary toward the ability to move up the ladder of success. Thus, why SMEs growing or facing stagnancy and what factors contributing to the growth or stagnancy of SMEs will be discussed.

## 2. Literature Review

In this section, we provide a brief review of the literature related to SME growth, stagnancy factors, motivation, and entrepreneurship traits. The literature review describes below was considered important to the research question which we try to answer.

### 2.1. SMEs Growth and Stagnancy Factors

SMEs in this paper have been defined according to Law Number 20 Year 2008 about SME's as follows:

Table 1. SMEs Classification

Enterprise Classification	Annual Revenue (AR) from sales (Rp.)
Micro	AR < 300 Million
Small	300 Million < AR < 2,5 Billion

Medium	2,5 Billion < AR < 50 Billion
--------	-------------------------------

Source: Law Number 20 Year 2008 about Small Medium Enterprises

Like a life cycle, that starts from infancy then mature, businesses, in general, are also experiencing similar things, starts from surfacing and later evolved into micro, small, medium and then large business. But, unfortunately, most of them are stuck in certain circumstances or worst.

SMEs that start small often remain small, because they face various barriers to growing. It has been commonly argued that smaller firm face more hardship to growth than large firms (Biesebroeck, 2005). There is a term called “too big to fail” that depicted large enterprise meet a fewer obstacle, especially state-owned firms (Yin, 2012). Lee (2014) developed research that previously done by Brush et al. (2009) and investigated the obstacles that were holding back high growth of small firms in the UK. Using the Small Business Survey in the UK, firms were divided into high growth firms and potential high growth firms. He analyzed the effects of six key barriers to high growth and potential high growth firms. The selected variables were “recruitment” “government”, “premises”, “market conditions”, “management” and “finance”. The results showed that high growth firms were significantly affected by recruitment, government, premises, management and finance. On the other hand, potential high-growth firms were less likely to perceive “government” as a significant problem.

Additionally, several authors addressed finance as the most significant hindrance to SMEs growth (Levy, 1993; Gree & Thurnik, 2003; Beck, 2005). However, this discussion was not clear because results from studies show otherwise (Brush et al, 2009). Lumpkin and Dess (1996) described that environment or external factors such as dynamism, technological opportunities, industry growth and the demand for new products (Zahra & Ellor, 1993) hold a high number of possibilities towards the obstacles on how SMEs could grow. Another reason such as lack of suitable management resources, and also the desire to stay small and informal so as to avoid taxes, size, and age also take a role in the problem (Coad & Tamvada, 2008). What emerges from the literature is that SMEs face a different range of barriers. We should also highlight that those range of barriers varies, specific and unique. The factors might be different from one country to country, or it may determine by market condition globally, nationally or even locally.

In terms of Growth factors, Casia et al. (2010:442) make the tabulation of factors determining growth for SME’s by literature review as follows:

Table 2. Factors Determining Growth for SME’s

Authors	Date	Factors determining growth
Hymer, Pashigian	1962	Initial assets, relative size compared to the largest enterprise in the

		sector, and sector growth trend
Jovanovic	1982	Age
Evans	1987	Age, size
Hall	1987	Size
Storey	1994	Age, size, sector; proprietary assets, legal status
Westhead, Birley	1995	Nature of the clientele and supplier, external competition, financial structure, sector, manager shareholders, support services within the territory
Wagner	1995	Age
Glancey	1998	Age
Johnson, Conway, Kattuman	1999	Education of owner, abilities, entrepreneurial experience, legal status, types of client, client portfolio structure, market situation
Almus, Nerlinger	1999	Age, size, locality, sector, initial legal status, change in governance, abilities of the founder
Robson, Bennett	2000	Age, external consultants, professional skills, exports, profitability, technology, innovation, intensity of the competition
Davidsson, Kirchhoff, Hatemi-J, Gustavsson	2002	Age, size, legal status, locality, sector, internationalisation, initial legal status, change in governance, proprietary assets
Aw	2002	Size, sector, productivity
Littunen, Tohmo	2003	Internal network, external network, strategy, locality, managerial model

Carmeli, Tishler	2004	Managerial ability, human capital (training, experience, ability), internal verification, organisational culture, uncertainty in the external environment, sector
De Clercq, Sapienza, Crijns	2005	Entrepreneurial orientation, internationalisation
Wolff, Pett	2006	Internationalisation, ability to innovate, size, turbulence in the external environment, new product improvement, efficiency
Calvo	2006	Company age, size, legal responsibility, process and product innovation, sector
O'Regan, Ghobadian, Gallear	2006	Innovation, ownership structure, organisational ability, strategic orientation, external environment, e-commerce
Capelleras, Rabetino	2008	Firm age, size and strategy, entrepreneur characteristics, local environment

Source: Casia et al. (2010:442)

Based on this tabulation we can see that almost all of the authors put 'age' as a factor that determining growth. This has to be one of the considerations why author's categories an enterprise which is still in small categories although it has been running more than 15 years is a stagnant enterprise, and an enterprise which is in medium categories and has been running more than 15 years is an advance or developing the enterprise.

## 2.2. Motivation

There are plenty underlying factors on why people chose to be an entrepreneur. Gilad and Levine (1986) coined explanations of entrepreneurial motivation, the "push" theory and the "pull" theory. The "push" theory argues that individuals are pushed into entrepreneurship by negative external forces, such as job dissatisfaction, difficulty finding employment, insufficient salary, or inflexible work schedule. The "pull" theory contends that individuals are attracted to entrepreneurial activities seeking independence, self-fulfillment, wealth, and other desirable outcomes. Research (Keeble et al. 1992; Orhan & Scott, 2001) indicates that individuals become entrepreneurs primarily due to "pull" factors, rather than "push" factors.

Another study pointed out that there are 2 types of entrepreneurs by means of motives (Cassar 2007; Morris et al. 2006; Amit et al. 2001). The first category is the entrepreneur that influenced by a role model, demographic and culture counterpart (Wennekers et al. 2004), not to mention the preferences of each individual based on economic motives and characteristics (Tosun, 2003; Holtz-Eakin et al. 2004). As stated by several researchers, the reason why people chose to be an entrepreneur is related with self-fulfilment, job satisfaction and achievement (Moore & Buttner, 1997; Hisrich & O'Brien, 1981; Schwartz, 1976), but authors also sense the need in economic (Gerritson et al. 1987 - cited in Birley, 1989). On the other hand, the second category is the entrepreneur that has no knowledge of entrepreneurship but force by their condition since they have no other options (Shane et al. 2003; Locke & Baum, 2007). One of the assumptions is they did not have certain capabilities and education (Shapiro & Sokol, 1982) to work in a company, thus chose to open their own business.

### **2.3 Entrepreneurship Traits**

There is a brief summary of the entrepreneurial profile i.e. density for responsibility, preference for moderate risk, confidence in their ability, determination, desire for immediate feedback, high level of energy, future orientation, skill at organizing, value of achievement over money, high degree of commitment, tolerance for ambiguity, flexibility, willingness to work hard and tenacity, but there is no sole set of characteristics can envisage who will become entrepreneurs and whether they will be successful (Scarborough, 2014:21-22). Baum and Locke (2004) stated that personality traits, organisational factors, and environmental factors, have been studied by researchers as causes of venture success. Some studies convincingly asserted that some traits have a positive and significant relationship with firm performance (Hmieleski and Carr, 2008). According to Burger-Helmchen (2008), the traits of the entrepreneur or the owner of business holds a dominant role. This is related to research from Wincent and Westerberg (2005), which stated that the dominant role of owners create a significant development in the enterprise since it will also relate to strategic decisions (Kisfalvi, 2002).

## **3. Research Method**

### **3.1 Case Study**

Researchers chose to applied case study due to the research questions. According to Yin (2007), case studies are appropriate to be used when researchers are questioning "how" or "why" when the investigator has little or no control of the condition. A case study may be able to capture real phenomenon, in order for researchers as well as readers, to understand the actual meaning (Yin & Davis, 2007). The case study also one of the methods to avoid subjectivity caused by interpretations from different researchers that relies not only on the primary data collection but also secondary data, such as documents or even quantitative documents. Most case studies use at least two sources of data: Multiple sources, even multiple investigators and sites may be involved in the collection of the interview, observation and administrative documents and performing structured surveys.

**Relevant situations for different research strategies**

<b>Strategy</b>	<b>Form of research question</b>	<b>Requires control over behavioural events?</b>	<b>Focuses on contemporary events?</b>
Experiment	how, why	yes	yes
Survey	who what, where, how many, how much	no	yes
Archival analysis	who what, where, how many, how much	no	yes/no
History	how, why	no	no
Case study	how, why	no	yes

**Figure 1. Relevant Situation for Different Research Strategies**  
 (Source: Rowley, J. Management Research News Volume 25 Number 1 2002)

### 3.2 Case Selection

Researchers begin our research by interviewing government official in industry and trade department in Bandung. From the interview, information related to the entrepreneurial issue were obtained. Researchers were being told that new start-ups usually aided with funding or management training. Despite the same help, the SMEs failure rate is still high and even if they could survive, most of them can not accelerate their business. Then, Department of industry gave some recommendation of SME that face this dilemma. At first, researchers were being offered the option to do research in several SMEs such as clothing (batik) and craft industry.

However after further discussion, considering that batik and craft cannot be compared as they relate to the taste and different perception of values, researchers asked for another industry which not involves personal judgement and decreases the possibility of bias. Researchers then provided criteria for businesses and SMEs who will be interviewed by us, such as year establishment, field, different speed of growing despite getting similar help. This is as our consideration for subject selection biases.

After setting the criteria, researchers got a recommendation to interview KOPISMA (Entrepreneur Small Industrial Machine and Parts Cooperation) which generally has the same type of business and the treatment from the government. After the interview, we decide to choose metalworking and machinery SME owners, considering that those SMEs is the most related cases which relevant to the phenomena and we also realise that there has been the lack of research on long established SME and given having the same potential to grow. To reduce the subject bias, prior to interviewing the informant, we always make an appointment with them to find the most suitable time and the day that should be convenient to them. It aims to reduce error, thus both informant and researchers may be able to focus on the interview and not interfere with other activities. The interview is always conducted in special rooms such as the room of the director in order not to be overheard or offend by another party, thus the informants may give a thorough explanation. This is to also make sure that informants are giving honest answers. Researchers also made sure that each informant is interviewed

by only one researcher, in order to capture the whole interpretation which may lead to a multi-interpretation based on each researcher's subjectivity. After these process of collecting the data, researchers begin to interpret the data and code them into dimensions.

### 3.3. Data Collection and Data Analysis

Researchers gained access from The Department of Industry and Trade which appointed Head of KOPISMA (Entrepreneur Small Industrial Machine and Parts Cooperation). Nevertheless, we also use the snowballing approach due to the unavailability of some of the informants contacted that are not readily available for volunteering in the research (Saunders, 2012). The snowball process involves asking initial individuals to identify other eligible individuals to participate in the research. The snowball sample will generate through professional and personal relationships, and social networking contacts.

From 53 members of KOPISMA, we choose 4 SMEs owners. 2 of them representing medium industry (turnover of over 2.5 billion per year) and the other 2 representing small industry (turnover below 2.5 billion per year). We considered this representation characteristic is in line with the aim of our study. We assume that by interviewing the owners we could get the sense and deep understanding even at the organisational level since we believe the owners directly involve with the business, therefore, their first-hand knowledge of the phenomena is representative.

By asking their permission through the consent form, researchers already gained access and able to gathered data. We also able to do thorough observations, semi-structured in-depth interviews, gain access to their documents, and able to documenting the data collection process through recording and documentation.

Since the purpose of case study research is theory building rather than theory testing (Eisenhardt & Graebner, 2007) authors did not have any presumptions beforehand. Authors decided to use case study since authors did not have full control over the behavioural events that might happen. Another reason are the Saunders et al (2012) asserted that case study is more suitable for asking the question 'why?'. Besides, the use of the case study method is needed to understand a real-life phenomenon in depth, but such understanding encompassed important contextual conditions—because they were highly pertinent to our phenomenon of study (Yin & Davis, 2007). The collected data processed by researchers, by undertaking an iterative process in search of meaning and patterns between categories. In order to find robust findings, authors decided to do qualitative coding.

## 4. Result and Discussion

Based on the findings that authors gathered from the in-depth interview and observation, there are several factors that shown why these 4 SME's could face growth and stagnancy, even though they were given the same treatment and help from government or other institution. In order to make it easier to understand the data, we provide the results in the table below.

Table 3. Result Tabulation



		COMPANY A	COMPANY B	COMPANY C	COMPANY D
<b>GROWTH</b>					
INNOVATION		✓	✓		
MOTIVATION	Pull Factor	✓	✓		
	Push Factor			✓	✓
BUSINESS STRATEGY		✓	✓		
EDUCATION		✓	✓	✓	✓
HUMAN RESOURCES		✓	✓	✓	✓
INSTITUTIONAL ROLE		✓	✓	✓	✓
GOVERNMENT'S ROLE		✓	✓	✓	✓
FINANCIAL		✓	✓	✓	✓
CHARACTERS OF THE OWNER		✓	✓	✓	✓
<b>BARRIERS</b>					
EXTERNAL FACTORS				✓	✓
RISK LOVER				✓	✓
VISIONLESS		✓		✓	✓
WASTE				✓	✓

From the above findings, we may see that there are several factors which led to the growth of the SME's. Based on the above empirical result, we may see that some owners actually has most of the characteristics that lead to growth. Nevertheless, there were also other factors which led to their down break.

The first concept is characters of the owner, which shows passion, trust, social, religiosity, and familiness.

*In my opinion, the mentality is the key for an entrepreneur. If we have the right mentality, even to the most little things, we would be honest.*

*The point of success is that it can be shared with others. If you can't, then you won't be successful. For example, the SME can share its technology.*

*Indeed I am the leader, for the family which is also my employees. We are four siblings that work here, and we try to be professional. The principle is equality. If I buy a house, the other should also buy one.*

*We focus on service. We approach the customer in an amicable way. So it is not a business to business, not stuffy, we can meet at any time.*

*We usually have 5 minutes talk every morning between employees and the head of the production about today's work. Then once a month we have an integrated meeting. We shared the problem that we faced, including payroll problems, their leaking house, etc. Then we try to provide help as a solution. Once a year we had a vacation together, the purpose is to increase the work spirit and the loyalty.*

*Once a year, we also make a gathering with the employees and their families. Usually to Pangandaran Beach and stay there for one night. Sometimes we do sport together, we set up a badminton court or futsal field. We can do anything, and it also up and down moment, in one time they could want a vacation within the company, but on other time they could just want to stay with their little family. But usually when Eid Adha, we sacrifice a cow here and have a BBQ together.*

*Our work should be sincere and not because of money but because of God. Not because of the circumstances, but we also should always remember that God watches everything we do.*

*I won't be successful if it is not because of my parents. I also won't be successful if I can be useful for others people. But remember works must be sincere and do not forget to be grateful, that way you will always feel enough. God's promise is absolute, we should grateful for granted favors.*

*So successful is not internal, but we also should try to help and improve the other small business that we develop.*

The second concept is financial resources.

*For now, the State Enterprise and the bank have collateral. SMEs that did not get the collateral, won't be able to get back the loan.*

*Indeed there was investment for several years, thank God, when we want to buy this, there is funding from other parties. And the rest of it, we pay by installment.*

*I am encouraged and assisted at PT INTI capital.*

The third concepts are the external role of government and external institutions that helped them to maintain their business.

*The government has a lot of programs. We can absorb it if we are in the incorporated union. One of their function is to receive the fund or help from the government such as the ministry of industry, or the ministry of cooperation. And thanks God we got some tools as the help.*

The fourth concept is their business strategy that comprises of networking, focus, customer relations management, flexibility, collaboration and cooperation, and their marketing strategy through websites. The fifth concept is human capital which shown by 2 major resources, which are temployee and the interns.

*We focus on service. We approach the customer in an amicable way. So it is not a business to business, not stuffy, we can meet at any time.*

*Yes, there is mutual cooperation. If in here, we have less work, then the other help with offering their overwhelming work to us. We complement each other, and thus we grow strong together.*

*Generally, there are small complaints, so we do not charged them, and other companies do something like that, which is time-consuming and got a charge. But we did not do it to keep going forward. A little loss today was not considered as an important issue as long as the order repeatedly coming. From the payment, we are flexible to the consumer. They do not have to do full payment in the first month or we just agreeing with the downpayment. If they can't pay, we are somehow okay and try to understand. Because we believe them and we just try not to be rigid in financial.*

*My frequent visits to Jakarta, they usually come here to eat, exercise or fishing together once in several months.*

The sixth is education; this concept is how they acquire their knowledge. It can come from the formal educational background, informal by coaching they previously had, and autodidact.

*I did it autodidactly, my father has a workshop. And so do my family, although it's small. I know it from them. When I am in senior high school, i got training from Polman, Astra and also I take an electrical course.*

The next concept came from innovation. Their ability to innovate became one of the most important things because it is a two-way learning and sharing process that contains technology mastery, receptiveness toward skills, coaching process, and sharing knowledge.

*My father always has a passion on machinery, and the last thing he made is spear cord, I also just like him. I love to create something. For instance producing spring per.*

The last concept is about push factor motivation that we thought to create stagnancy for SMEs and pull factor motivation vice versa. On the other hand, the company that facing stagnancy might be seen from these views of external factors, visionless, risk lover without having a clear prediction, and unfocused business.

*There are some businesses in the rubber field that has been closed. One of the reason was they try to invest outside their fields. There is 3 closed business in the field of rubber, I am not sure whether it is because the rubber field is more sluggish or what.*

*I had the intention to be self-employed since I was in junior high school. Then from senior high school, I already prepare a crate for simple engineering tools like drills, saws.*

Based on the above table, authors found several concepts as stated below :

Table 4. Concept Finding

REASON WHY BUSINESS DEVELOPED	REASON WHY BUSINESS STAGNANT
INNOVATION	EXTERNAL FACTORS
BUSINESS STRATEGY	RISK LOVER
EDUCATION	VISIONLESS
HUMAN RESOURCES	
INSTITUTIONAL ROLE	
GOVERNMENT'S ROLE	
FINANCIAL	
CHARACTERS OF OWNER	

## 5. Conclusion and Implications

As stated previously, the aim of the study tries to understand why there is a different outcome of business growth given having the similar potential to grow. The main differentiators are innovation, business strategy, education, human resource, institutional and government role, and financial. We also should underline characters of SME owners as another key difference both on growth and stagnancy factors. While high growth SME owners are passionate, trustful, religious, high social contribution, have the sense of kinship, the stagnant SME owners are visionless, risk lover, and unfocused. We want to classify it as internal factors. We also believe that external factors such as the economic condition of the nation, market situation, and business strategy take portion in the stagnancy situation. There are also implications for policy makers that are concerned in ensuring SMEs competitive advantage. Since these SMEs are visionless, both for success and stagnant SMEs, so policy makers may increase supervise for the SMEs for example, placing industrial extension workers, small industry consultants or Shindansi in potential SMEs as guide for them.

The limitation of this study is we only do the interview in four SME owners as the sample with 2 high growth SMEs and 2 small enterprises. With time limitation, the interview process is not lead to saturated data yet, thus the results might not be generalizable. For that reason, further research can be done in more than four sample with a longer interview time and provide more robust data. The next research also could use a quantitative approach to prove our research and provide statistically reliable and valid tool. Future research also can address several issues emerge from this study, such as how to decrease the barriers, the applicability of this research in another industry or another place.

## References

- Amit, R., MacCrimmon, K. R. Zietsma, C. and Oesch, J. M. (2001). Does money matter: Wealth attainment as the motive for initiating growth-oriented technology ventures, *Journal of Business Venturing*, 16(2): pp 119–143
- Beck, T., Demirguc-Kunt, A., and Levine, R. (2005). SMEs, growth, and poverty: Crosscountry evidence. *Journal of Economic Growth*, 10(3): pp 199–229.
- Beleffleur, D., Tangkau, P., and Murad, Z. (2012). A Snapshot of Indonesian Entrepreneurship and micro, small and medium sized enterprise development. *Bappenas Sebar Team*, pp. 1-77.
- Biesebroeck, J. V. (2005). Firm size matters: Growth and productivity growth in African manufacturing. *Economic Development and Cultural Change*, 53(3): pp 545–583.
- Brush, C. G., Ceru, D. J., & Blackburn, R. (2009). Pathways to entrepreneurial growth: The influence of management, marketing, and money. *Business Horizons*, 52(5), pp 481-491.
- Burger-Helmchen, T., 2008. Plural-entrepreneurial Activity for a Single Start-Up: A Case Study. *Journal of High Technology Management Research* 19, p. 94-102
- Casia, L., and Colombelli, A. (2010). Growth factors in medium-sized enterprises: the case of an Italian region. *International Entrepreneur Management Journal* Vol. 6 pp. 437–458
- Cassar, G. (2007). Money, money, money? A longitudinal investigation of entrepreneur career reasons, growth preferences and achieved growth, *Entrepreneurship and Regional Development*, 19(1): pp 89–107.
- Coad, A. & Tamvada, J. P. (2008). The Growth and Decline of Small firms In Developing Countries. *Papers On Economic and Evolution*,
- Hisrich, R. D., and O'Brien, M. (1981). The woman entrepreneur from a business and sociological perspective. *Frontiers of Entrepreneurship Research*, 21, pp 11-19.

- Hmieleski, K., Carr, J., 2008. The Relationship between Entrepreneur Psychological Capital and New Venture Performance. *Frontiers of Entrepreneurship Research* 28(4), p. 1-15.
- Holtz-Eakin, D., Lovely, M. E., and Tosun, M. S. (2004). Generational conflict, fiscal policy, and economic growth. *Journal of Macroeconomics*, 26(1), pp 1-23.
- Gilad, B. and Levine, P. (1986). A behavioral model of entrepreneurial supply, *Journal of Small Business Management*, Vol. 24 No. 4, pp. 45-54
- Gree, A., & Thurnik, C. (2003). Firm selection and industry evolution: The post country performance of new firm. *Journal of Evolutionary Economics*, 4(4), pp 243-264.
- Johnson-Hunter, P. (2008). Educational experiences of habitual entrepreneurs (Doctoral dissertation, *Dissertation*. 2004.
- Keeble, D., Bryson, J. and Wood, P. (1992). The rise and fall of small service firms in the United Kingdom, *International Small Business Journal*, Vol. 11 No. 1, pp. 11-22.
- Lee, N. (2014). What holds back high-growth firms? Evidence from UK SMEs. *Small Business Economics*, 43(1), pp 183-195.
- Levy, B. (1993). Obstacles to developing indigenous small and medium enterprises: An empirical assessment. *The World Bank Economic Review*, 7(1), pp 65-83.
- Locke, E. A., and Baum, J. R. (2007). Entrepreneurial motivation. *The psychology of entrepreneurship*, pp 93-112.
- Lumpkin, G. T., and Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of management Review*, 21(1), pp 135-172.
- Morris, M. H., Miyasaki, N. N., Watters, C. E. and Coombes, S. M. (2006). The dilemma of growth: understanding venture size choices of women entrepreneurs, *Journal of Small Business Management*, 44(2): pp 221– 244.
- Moore, D. P., and Buttner, E. H. (1997). *Women entrepreneurs: Moving beyond the glass ceiling*. Sage Publications, Inc.
- Orhan, M. and Scott, D. (2001). Why women enter into entrepreneurship: an explanatory model, *Women in Management Review*, Vol. 16 No. 5, pp. 232-43.
- Schultz, T. P. (1975). Estimating Labor Supply Functions for Married Women. In Smith (Ed.), *Female Labor Supply : Theory and Estimation*, Princeton Press, pp 25-89
- Scarboroughm N.M. (2014). *Essentials of Entrepreneurship and Small Business Management*.UK: Pearson.
- Shane, S. A. (2003). *A general theory of entrepreneurship: The individual-opportunity nexus*. Edward Elgar Publishing.
- Saunders, M. and Lewis, P. (2012). *Doing Research in Business and Management*. UK: Pearson.
- Shapero, A., and Sokol, L. (1982). The social dimensions of entrepreneurship. *Encyclopedia of entrepreneurship*, pp 72-90.
- Tambunan, T. (2007). Entrepreneurship Development : SMEs in Indonesia. *Journal of Developmental Entrepreneurship* Vol. 12 No. 1 pp. 95-118
- Tambunan, T. (2011). Development of small and medium enterprises in a developing country The Indonesian case. *Journal of Enterprising Communities: People and Places in the Global Economy* Vol. 5 No. 1 pp. 68-82

- Wennekers, S., van Stel, A., Thurik, R. and Reynolds, P. (2005). Nascent entrepreneurship and the level of economic development, *Small Bus Econ*, 24(3), pp. 293–309.
- Wincent, J., Westerberg, M., 2005. Personal Traits of CEOs, Inter-Firm Networking and Entrepreneurship in Their Firms: Investigating Strategic SME Network Participants. *Journal of Developmental Entrepreneurship* 10(3), p. 271 284.
- Yin, Robert K., *Case Study Research: Design and Methods* 1984: Sage Publications, Newbury Park
- Yin, Q. (2012). A study on the dilemma of China's small business finance. *Doctoral Dissertation*. Southwestern University of Finance and Economics.
- Zahra, S. A., and Ellor, D. (1993). Accelerating new product development and successful market introduction. *SAM Advanced Management Journal*, 58(1), 9.

#### APPENDIX

Interviewee	<ul style="list-style-type: none"> <li>Owner of Spareparts and Machinery Business</li> <li>Minimum established &gt;15 years</li> <li>Small and Medium Scale Company</li> </ul>
Interview Length	<ul style="list-style-type: none"> <li>Min 1,5 hour - 5 hours</li> </ul>
Location	<ul style="list-style-type: none"> <li>Workshop, Director Office,</li> <li>Easier to check thus, researchers get reliable data</li> <li>To make interviewee feel comfortable</li> </ul>
Topic	<ul style="list-style-type: none"> <li>Motivation to become entrepreneur;</li> <li>Documentation of workshop and;</li> <li>recording</li> <li>Documents related with sales, patents, etc.</li> </ul>



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**“PANG PADA PAYU”**

**FOR LONG LIFETIME BUSSINES**

**Ni Nyoman Juli Nuryani<sup>1</sup>, Ni Made Sri Ayuni<sup>2</sup>,**

**Luh Kartika Ningsih<sup>3</sup>, Putu Eka Nopiyani<sup>4</sup>**

<sup>1</sup>STIE Satya Dharma Singaraja, nijuli.nuryani07@gmail.com

<sup>2</sup>STIE Satya Dharma Singaraja, nimadesriayuni615@gamil.com

<sup>3</sup>STIE Satya Dharma Singaraja, luhkartikaningsih@gamil.com

<sup>4</sup>STIE Satya Dharma Singaraja, nopiyanieka@gmail.com

---

**Abstract:**

Entrepreneurship becomes very important issue to be able to support the improvement of the economy in almost entire countries. Business competition is increased highly, requires entrepreneurship to be able to develop and create new values or innovation in order to survive in the competition, such as creating value through creativity. It would be harmony if aligned by business strategy which is still prioritize business continuity other competitors. Developing these efforts can be created through a business strategy known as a win-win solution. In particular, the business development in Bali is actually already familiar with the local wisdom is called the principle of “*Pang Pada Payu*”. *Pang Pada Payu* is an expression of the Balinese language which means “to be equally able”. This principle is an understanding to cultivate entrepreneurs not to down and develop their respective businessmen together to achieve success. The purpose of this study is to investigate the application of the principle of local wisdom of *Pang Pada Payu* in order to create sustainable entrepreneurship. The method used is conceptual method that is supported by theoretical studies and recent findings related phenomenon is lifted. The results of this study can be seen that through the application of the principle of local wisdom of *Pang Pada Payu* consistently in any business, proven to provide positive benefits in shaping the character of the entrepreneur not to overthrow each other and work together to establish good relations in order to realize the desired business.

Keywords: business strategy, local wisdom, *pang pada payu*



## **1. Introduction**

Entrepreneurship becomes a very important issue in many countries to be able to support the improvement of the economy. Business competition which is getting higher today, requiring an entrepreneur to be able to develop and create new values or innovation in order to survive in the competition by creating value through creativity. Business people must be understand the ethics of doing business that will give them a lesson that business which is “successful”, not only businessmen that reap the benefits materially but businessmen which is operating in the corridors of ethically responsible and maintaining good relationship between people involved in it.

But in the realization, the competition becomes something frightening when business competitors has never been concerned with other business continuity and just put the success of their own business. This situation makes business people no longer pay attention to the positive things that have to be developed for the sake of continuity of the business, but rather do everything possible to gain advantages through actions which is not appropriate with the code of ethics in business. According to *Ibid*, the businessmen have a tendency to do the collision of interests, do anything in any ways, in order to gain as much as possible, even to kill each other, so that the powerful businessmen are increasingly dominating, while weak mired in the corners of the business space. This is important, so every business person has good ethics in its business.

In the etymology language, the term ethics comes from the Greek, the *ethos* means mores (customs) inner feeling, the tendency of the heart to do or act. Meanwhile, according to the terms of terminology, the experts have different opinions on the true definition of ethics. According to *Untung* (2012), ethics is a branch of philosophy that discusses the values and norms. The morality which manage the human behavior as individual groups and institutions in society. Therefore, ethics is a science that provides guidelines on how the norms manage the human life harmoniously. In order to achieve harmony in life both among humans and between humans and the environment.

In addition, business ethics have also been regulated in RI Law No. 5 year of 1999 about the prohibition of monopolistic practices and unfair business competition. It show that competition in business is right stipulated in the legislation to avoid unfair competition and can provide understanding to the businessmen to conduct its business with the manner that is ethical.

However, in fact is there are still many business people who are very selfish and do not pay attention to other business sustainability, the environment, even against his own efforts. There are still many businessmen doing fraud to get more profit by minimizing production costs but in the end the quality of the products offered is far from the quality that should be. One of the businessmen that had expressed irregularities were PT. Nabisco. PT. Nabisco proved using hazardous materials melamine and formalin in milk production of one of its products was known was Oreo Chocolate Sandwich / Wafer Stick and M & M's (*Kompas*, 20 September 2008). Besides PT. Nabisco which proven use of hazardous substances in its products, PT. Megarsari Makmur also in violation of the ingredients contained in the products, namely the use of hazardous materials and active substances Propoxur and Dichlorvos of HIT mosquito repellent products particularly the type of HIT 2.1 A (spray type) and HIT 17 L (liquid type

refill). The deviations of businessmen do not stop of the fraudulent use of raw materials, but also competition for the full power of a brand product. One of them was a violation committed by Samsung. Samsung offense by intentionally plagiarizing iPhone design used in products Galaxy Smartphone and Tablet Galaxy Tab (Kompas.com).

Some cases of violation of business ethics prove that the competition to win the marketing make business people use unethical ways to be able to survive in the competition and undermining the viability of other businessmen. Lack of understanding of the businessmen to be able to compete well with other businessmen, shaping the character of entrepreneurs who only profit oriented itself without thinking about competitors' business continuity. Violation of business ethics can undermine the competitiveness of industrial products in the market competition. The tendency for the increasing number of violations of business ethics will lead to a loss, not only in society, but also in the framework of the national economy in each country.

Seeing this phenomenon, in order to create a good business cooperation and sustainable, businessmen must have a business concept that can provide positive contribution not only for his own business, but also for business competitors. Business concept that can provide a positive impact for the sustainability of any business must be done in a healthy business competition. Business concept that can be understood is a "win-win solution". This concept is a communication technique in negotiations that put both sides in a winning position. It can also be interpreted as a situation where the sides (usually two sides) gain and/or loss which are relatively balanced when deciding an issue involving the interests of both that sides. The purpose of the strategy of win-win solution is not to beat the competition but to help competitors. The required result and the destination of the sides in the peace of settlement, it can be said very noble they both win so-called win-win solution, by distancing themselves from egoistic and greedy characters, selfish (Yahya Harahap, 2008)

Mutually beneficial conditions in a business can be the first choice of business people to be able to compete fairly. Competed to be able to survive in the competition to win the marketing, but do not sacrifice other business continuity. Fostering a culture of entrepreneurship and forming good character and willing to carry out business ethics should be owned by every businessmen in running the business.

In the development of the business world, the concept of mutual benefit not only embodied in the concept of win-win solution in the general theory, the concept of the business also has the same meaning as the business concept developed in the community which is a local wisdom and has become a culture in the implementation of a business especially Balinese people. In Bali there is the concept of local wisdom has become a culture known as the concept of "*Pang Pada Payu*". *Pang Pada Payu* is an expression in the Balinese language medium (Balinese variety of intermediate or middle) which means to be equally able or to be equally so. Which is meant by able or so mean is achieve the objectives of each sides. Although the goal is achieved, it is not completely on target. The concept of "*Pang Pada Payu*" is used by the Balinese people to solve a problem between two people or more that do not find a solution, through this concept is expected the two sides were able to reach solutions and ends on justice where no one harmed at all.

Based on the discovery of the problem and the exposure of the above phenomenon, then the next researchers are interested in conducting research to determine the application of the concept of “*Pang Pada Payu*” in the business field.

## 2. Literature Review

### 1. Business Ethics

Competition in the business world need to improve efficiency and quality, but the competition does not kill the weak, and vice versa, there must be closely interwoven between big business and the middle and lower class, so that the development of large enterprises are able to provide a spread effect on the surrounding development. For that to create competition there should be a balanced forces in the business world.

Understanding the concept of ethics is based on five general issues (Velasquez, 2002) as follows:

- 1) *Bribery* is the act of offering, giving, receiving, and accept a value with the intent to influence official actions (official) not to perform their legal obligations or the public. The value can be either direct payment or goods.
- 2) *Coercion* is the act of cooking, restrictions, force by force or arms or threat of it may be actual, direct, or positive, in which physical force is used to force action against someone, would or indirectly affect which one party is restricted by the submission that other and restricted freedom.
- 3) another term, *deception* is deceptive activities, intentionally misled by the actions or words that were not true, knowing and doing making false statements or representations, express or implied, touch on the fact that no current or past.
- 4) *Theft* literally theft means stealing. Concept or is claimed that theft is taking something that does not belong to belong to personal or group.
- 5) *Unfair discrimination* is unfair treatment or abnormal or abnormal rights to someone because of race, age, gender, nationality or religion, failure to treat people as equals when no differences were reasoned to be found between helpful and unhelpful.

Furthermore Nugroho (2012) declared moral motives of individual business can be the motor of the application of ethics in a business organization. The business world should not think of profit only in the present, but needs to think about how the situation in the future. This is based on clearly businessmen are required not to think about the current state as much as possible without considering the current and future circumstances.

### 2. Win-win Solution

Win-win Solution is a situation where both sides to the dispute (conflict) equally benefited in a transaction or agreement and neither sides feels in defeat. According Simatupang (2007), with the ‘win-win solution’, many things can be achieved. There are at least two types of success that can be achieved are:

- 1) Communication strategy becomes easier because the aim is not to defeat but to help her partner.
- 2) Gain a win-win solution in communications strategy is an advantage not limited because the project will be more perfect and future projects will be open.

Furthermore Sumarto (2012) states that Win-win solution can be facilitate the accommodation of diverse interests to the dispute so as not to fall victim of the conflict consuming and damaging to both sides.

### 3. *Pang Pada Payu*

*Pang pada payu* is an expression of the Balinese medium language (Balinese variety of intermediate or middle) which is translated as “to be equally able” or “to be equally so”. The definition of ‘able’ or ‘so’ is achieve the objectives of each side. Although the goal is achieved it is not completely on target. According to Budiarna (2007), in his dissertation examines the application of the principle *pang pada payu* in Indonesia Economy law. According to him, the principle *pang pada payu* a convention peaceful resolution of disputes between individuals and groups which means ‘to be equally benefited’. The principle of *pang pada payu*, in Indonesia Economic Law is a kind of customary arbitration of Balinese Hindu community.

Typically expression of *pang pada payu* arise in the interaction between sellers and traders in the market. When bargaining activity peaked and the seller wants immediate end to bargain with buyers, expression *pang pada payu* immediately raised. However, the principle of *pang pada payu* not only true in the world of commerce or economics. The principle of art is often used in resolving disputes or problems in other areas of life. By the principle of *pang pada payu*, settling disputes or problems based on the concept of peace. *Pang pada payu* rooted in values of *paras-paros, sagilik-saguluk*.

### 3. Research Method

The method used is conceptual method that is supported by theoretical studies and recent findings related phenomenon is lifted. Develop problems by using the theory of previous studies and literature study.

### 4. Result and Discussion

Entrepreneurial culture is a term that comes from the two words that culture and entrepreneurial. According to Hodgetts, culture is desired human knowledge to interpret experience and generalize social behavior. Such knowledge shaping values, attitudes and influence behavior, (1994: 59). While entrepreneurship is the study of how entrepreneurs start a business, manage and promote as well as its efforts in achieving success. Entrepreneurial culture then becomes a habit that reflects the implementation of a culture based on local wisdom.

Entrepreneurial culture that is based on the culture of local wisdom, are now widely known. Not just to know the concept of win-win solution, some areas are scattered throughout the world largely indigenous cultures have used for a positive impact on its society. One of the cultural concept of local wisdom that has the same meaning as the concept of win-win solution, is “Guanxi”. *Guanxi* is a concept business network that aims to provide something that is beneficial to all those who joined in the business network. In *guanxi* there is a mutual understanding of a general nature. If there is someone who is in the

*guanxi* need help, then others who are in the *guanxi* automatically provide assistance. If in the future the person who previously provided assistance need help, the people who previously assisted will automatically provide assistance. This transfer will occur continuously in the form of a circular for *guanxi* relationship is maintained.

In addition, the Balinese people in general are also familiar with the concept of an entrepreneurial culture that is known as the principle “*Pang Pada Payu*”. Principle of *pang pada payu* is a convention peaceful resolution of disputes between individuals and groups which means ‘to be equally benefited’. The application of *pang pada payu* principle not only true in the world of commerce or economics. The principle of art is often used in resolving disputes or problems in other areas of life. By the principle of *pang pada payu*, settling disputes or problems based on the concept of peace.

Many things can be done using the principle of *pang pada payu* as a way to resolve a problem. This is to get the same benefit between the two sides, with no one harmed and get the right solution to the problem at hand. In principle realization *pang pada payu* are not only used to resolve a dispute, it is used as a reference in running a business that basically have the purpose of providing the same benefits and advantages to all businessmen and even for the community and the surrounding environment.

Principle of *pang pada payu*, are now widely used by businessmen in an attempt to resolve the imbalance between business, society, and environment. Not only used by community groups in Bali, some enterprises trust the principle of *pang pada payu* used to run every program works with the aim to obtain the same benefits both sides. Business entities entrust the use of *pang pada payu* principles in solving problems such as LPD Kedonganan. LPD Kedonganan using principles of *pang pada payu* to solve the problem of bad loans. It is usually applied when there are customers who are not able to pay the loan, the LPD Kedonganan not necessarily be directly seize assets used as collateral, but will look for alternative solutions other to resolve this problem without anyone to be harmed (source: web LPD Kedonganan, in the article of Principles of *Pang Pada Payu* in governance LPD).

Besides LPD, other enterprises that use the principle of *pang pada payu* in the implementation of each program works is PT. Bank Sinar Harapan Bali which is now the name has become PT. Bank Mandiri TASPEN Pos. From the beginning of the establishment of PT. Bank Sinar Harapan Bali, Bank Sinar is one of the banks that have focused on the development of Small and Medium Enterprises (UKM) in Bali, especially as the UKM Bank loan portfolio. It became the main focus undertaken by the Bank Sinar, as the Bank Sinar see potential opportunities of UKM in Bali. In the development of Bank Sinar showed its best performance with managed to become one of the National Private Non-Bank Foreign Exchange as the best in 2006 ranked 6th) and in 2007 to rank 5th (Infobank Magazine). This can be achieved solely because of concern the management of Bank Sinar to the development of Small and Medium Enterprises in Bali and wanted to promote the economy in the medium-sized economy. In any application, Bank Sinar use principle of *pang pada payu* to realize synergies in providing a great benefit for the future progress.

With the awareness to undertake the development of the Small and Medium Enterprises in Bali using the principle of *pang pada payu* as focus on running and resolve any problems, this will have a positive impact not only for enterprises but for the people who

are perpetrators of Small and Medium Enterprises. Indirectly application of the principle of *pang pada payu* which primarily provide policies to jointly seek a middle ground in the face of problems, will make businessmen, especially small and medium enterprises do not have to fear when a situation cannot pay his credit at the Bank or LPD in question, because there will always endeavored to find the best solution in order to not harm any side. This had a positive impact for the development of Small and Medium Enterprises (UKM) in Bali, UKM can continue to grow and run the business on an ongoing basis through a simple understanding to apply the principle of *pang pada payu*, to get the same value and profits for both parties.

## 5. Conclusion and Implications

Based on the results of the exposure above, it can be seen that the application of the principle of *pang pada payu* in the implementation of the business will have a positive impact for both sides. Nothing to lose and there is no unfair competition in its application. You should be running a business must have an understanding of ethics to be observed in running a business. It is not being a good thing if businessmen commit fraud simply to get more profit but harm others who become their competitors even detrimental to product users. Through the application of the principle of *pang pada payu* businessmen are expected to have a heart and care for the surrounding environment, a lot of positive things that can be felt when the implementation of a relationship based on mutual understanding attitude, understanding what is the desire and needs so that the goal can be achieved without having the expense of others.

Thus the application of the principle of *pang pada payu* is very relevant to be applied in the development of the business. Not only benefit one side only, but all the components involved in its implementation can feel the positive things that have caused. Do not have to do negative things, for the continuation of an ongoing effort.

## References

Budiarna, I Nyoman, 2007, *Penyelesaian Sengketa Kredit Macet Dihubungkan Dengan Arbitrase Sebagai Upaya Pengembangan Hukum Ekonomi Indonesia*. Universitas Padjadjaran, Bandung

Budi Untung, *Hukum dan Etika Bisnis*, (Yogyakarta: Andi, 2012), ed. 1, h.61

<https://en.wikipedia.org/wiki>

<http://tekno.kompas.com/read/2012/07/30/10281377/Cerita.di.Balik.Perseteraan.Apple.dan.Samsung>

M. Yatimin Abdullah, *Pengantar Studi Etika*, (Jakarta: RajaGrafindo Persada, 2006), Cet. Ke-1, h. 4.

Nawawi, Hadari, 2003, *Manajemen Strategik Organisasi Non Profit Bidang Pemerintahan dengan Ilustrasi di Bidang Pendidikan*, Gadjah Mada University Press, Yogyakarta.

Nugroho, Mahendra Adhi (2012). *Konsep Teori Dantinjauan Kasus Etika Bisnis Pt Dirgantara Indonesia (1960 □ 2007)*. Fakultas Ekonomi Universitas Negeri Yogyakarta. Yogyakarta

Simatupang, Patar. 2007. "Potret Efektivitas Organisasi Publik: Review Hasil Penelitian". *Manajemen Usahawan Indonesia*. No 01. Th. XXXVI

Sumarto, 2012. *Penanganan Dan Penyelesaian Konflik Pertanahan Dengan Prinsip Win Win Solution Oleh Badan Pertanahan Nasional RI*

Undang-Undang Republik Indonesia Nomor 5 Tahun 1999, tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat.

Velasquez, Manuel G (2002). *Business Ethics: Concepts and Chases*, Fith edition. Prentice Hall.







The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **AUDIT QUALITY ATTRIBUTES AND CLIENT SATISFACTION: EVIDENCE FROM FAMILY BUSINESS**

**Amril Arifin dan Amri Zainuddin**

<sup>1</sup>STIE YPUP, amrilarifin@gmail.com

<sup>2</sup>STIE YPUP, amrizainuddin@gmail.com

---

### **Abstract:**

*This study examines the effect of audit quality attributes, namely: the audit experience, the understanding of the client's industry, the response to the client's requirement, the compliance to general standards, independency, due care, strong commitment to audit quality, leadership involvement of the accounting firm, the right field work, involvement of the audit committee, high ethics standards, and professional skepticism that has an influence on client satisfaction. This research was conducted on a group of family companies that have nineteen subsidiaries, which grew and developed in eastern Indonesia, and today has become a national company. Fifty senior and junior managers were involved as a sample in this research, which is derived from the Finance and Accounting Department. The filled out questionnaires were then analyzed through multiple linear regression using SPSS. The results show that the auditing experience, the understanding of the client industry, the response to the client requirement, the compliance to general standards, due care, strong commitment to audit quality, leadership involvement of the accounting firm, the right field work, high ethics standards, and the professional skepticism partially significant variables have an impact on client satisfaction, while the two other variables showed no significant impact. It was found that all attributes influence client satisfaction.*

**Keywords:** *Audit Quality Attributes, Client Satisfaction, Family Business.*

---



**THE ROLE OF PRODUCT DESIGN DIMENSIONS TOWARD  
FORMATION OF PERCEIVED VALUE, SATISFACTION AND  
CUSTOMER INTENTIONS****Whony Rofianto<sup>1</sup>, Agnes Ajeng<sup>2</sup>, Amanda Cynantia Sandri<sup>3</sup>**<sup>1</sup>Indonesia Banking School, rofianto@ibs.ac.id<sup>2</sup>Indonesia Banking School, agnes.ajeeng@gmail.com<sup>3</sup>Indonesia Banking School, amandasandri1009@gmail.com

---

**ABSTRACT**

*In the age of information and hyper-competition, in general products or brands offers similar features, technology, and price. In this condition, the product design is considered as an imperative source of competitive advantage. Despite product design's high practical relevance, there is still a lack of widely accepted definition of the product design, its dimensions, as well as its measurement. This research attempts to empirically test the role of product design dimensions from the previous study to the formation of perceived value and customer satisfaction, as well as its implications toward repurchase intention and the intention to recommend. Through an online survey, 182 data collected from customers of vans shoe brand. Hypothesis testing is executed through structural equation model. Hypothesis test results indicate a positive influence of received word-of-mouth, functionality and Symbolism in the formation of perceived value and the following impact toward customer satisfaction. The study also reconfirms positive impact of customer satisfaction toward repurchase intention and the intention to recommend. Meanwhile, in this research effect of aesthetics toward perceived value was insignificant.*

**Keywords:** product design, WOM, value, satisfaction, repurchase intention.

---

**1. Introduction**

Product design can be sought as one of the sources of competitive advantage for companies. Practitioners have acknowledged the imperative of product design and nowadays this aspect becoming more critical to differentiate a brand amongst its competitors (Homburg, Schwemmler, & Kuehnl, 2015). In line with this acknowledgment, research on marketing domain focused on product design discourse has grown significantly (Bloch, 2011). Despite its high practical relevance and growing interest among marketing scholars, there is still a lack of

widely accepted definition of the product design, its dimensions, as well as its measurement (Homburg et al., 2015). Departing from these thoughts they try to propose a definition of product design and its dimension that might be widely accepted namely aesthetics, functionality and symbolism.

On the other side, recently word-of-mouth marketing has attracted a great deal of attention among practitioners and raises interest among marketing scholar to examine the effectiveness of word-of-mouth marketing (Trusov, Bucklin, & Pauwels, 2009). Nowadays, this phenomenon becoming more prominent within internet communication medium. Today consumers engaging in spreading word-of-mouth activities to fulfill the need of self-enhancement (Alexandrov, Lilly, & Babakus, 2013; King, Racherla, & Bush, 2014). Meanwhile, consumers engaging in seeking word-of-mouth activities as a leisure activity and risk reduction effort (King et al., 2014) in the middle of higher uncertainty and risk of the online transaction (Dellarocas, 2003).

Build upon the two stream of research, product design research, and word-of-mouth marketing, this research aims to examine the relative effect of this two different marketing approach toward the formation of perceived value on the consumer side. This research also intended to examine the chain effects of perceived value to build customer satisfaction and consecutively the implication toward the probability of repurchase intention and intention to recommend. Indonesian teenager has been selected as the research context with two consideration. First, Indonesia

## **2. Literature Review**

Despite the important role of product design in achieving market success, in the past, this issue was rarely founded in marketing journals (Bloch, 1995). More than a decade later research activity related to product design has grown significantly in marketing discourse (Bloch, 2011). A good product design will attract consumers, communicate with them, create a deeper connection and finally enhance the value of the product (Bloch, 1995; Noble & Kumar, 2008). In today marketplace, product design becomes one of the most important aspects to achieve competitive advantage by making products more differentiable (Homburg et al., 2015).

Product design can emit a brand signal, reflect the brand values thus increasing values on consumer side by helping the consumer to overcome uncertainty such as doubt about the product quality (Homburg et al., 2015). Managers can enhance the transactional and relational value of their customer relationships through the development of deeper emotional value using product design (Noble & Kumar, 2008). For the case of new product, product design has an important role in increasing consumers perception of the potential value of a new product by triggering positive emotional and cognitive responses (Ravasi & Stigliani, 2012).

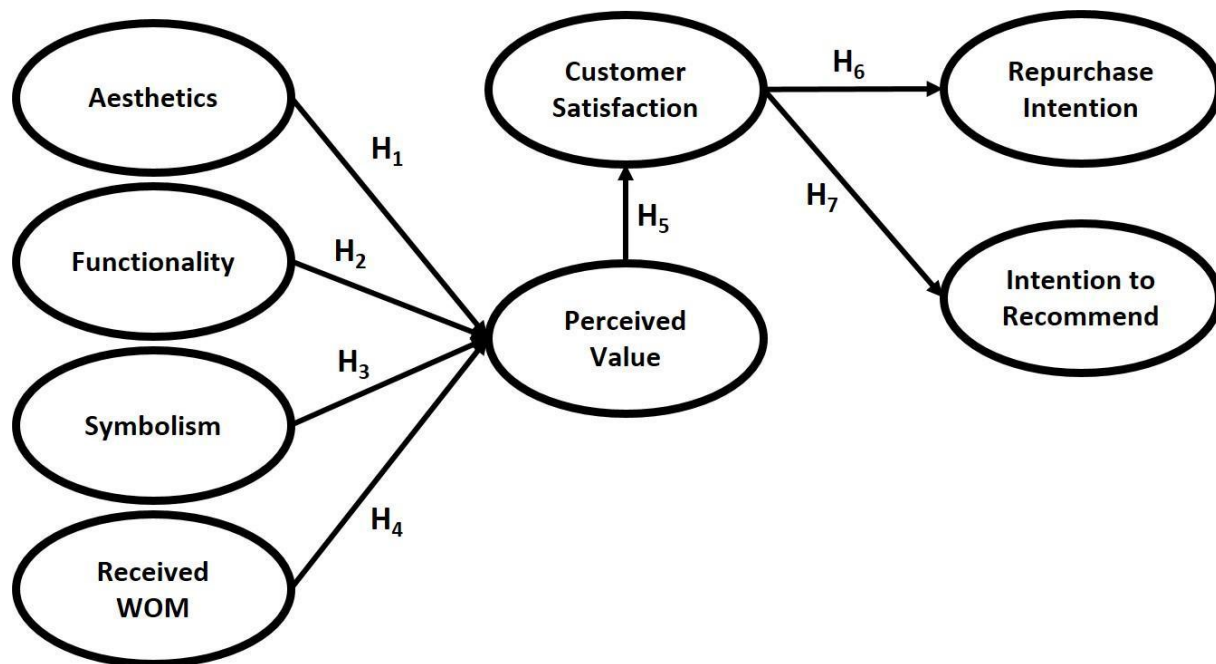
Some of the previous works attempt to propose the definition of product design along with its dimensions. Some of them define product design as the form characteristics of the product that provide utilitarian, hedonic and semiotic benefits to its user (Bloch, 2011). One of the latest works proposed product design definition as three-dimensional construct consist of aesthetics, functionality, and symbolism that considered as applicable across a broad range of product category (Homburg et al., 2015). Based on the arguments that product design can increasing value perceived by the consumer and the latest three-dimensional definition of product design we proposed this three hypothesis.

H1: The higher aesthetic aspect of the product the higher its perceived value will be  
 H2: The higher functionality aspect of the product the higher its perceived value will be  
 H3: The higher symbolism aspect of the product the higher its perceived value will be

Traditional word of mouth (WOM) refers to informal communications between private parties concerning evaluations of goods and services (Anderson, 1998). With the proliferation of internet based communication, this definition expanded toward accommodation of electronic word of mouth (E-WOM). E-WOM can be defined as

*“any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions via the Internet”* (Hennig-Thurau, Gwinner, Walsh, & Gremler, 2004, p 39). The consumer decides to receive word of mouth for several kinds of reasons such as minimize search/evaluation efforts, risk reduction, social assurance and as a leisure activity (King et al., 2014). Being involved in word of mouth activities such as a customer to customer know how exchange will increasing the overall value of the firm offering from the customer perception (Gruen, Osmonbekov, & Czaplewski, 2006). Higher levels of received WOM result in greater product or service quality perception (Schumann et al., 2010). When perceived quality and perceived sacrifice judgment combined or compared perceived value will be constructed on customer mind (Zeithaml, 1988). Based on these arguments we proposed hypothesis regarding the effect of received WOM on perceived value.

H4: Received word of mouth result in greater perceived value



### **Figure 1: Research Model**

Satisfaction can be defined as the evaluation of the perceived discrepancy between prior expectations and the actual performance of products or services (Oliver, 1999). Customer value can be considered as a cognition-based construct capturing any benefit-sacrifice discrepancy that can affect customer satisfaction as an affective response (Lam, Shankar, Erramilli, & Murthy, 2004). On retailing context, a specific value such as hedonic value and utilitarian value can increase customer satisfaction (Chebat, Michon, Haj-Salem, & Oliveira, 2014).

H5: Perceived value can positively affect customer satisfaction

Effect of customer satisfaction on repurchase intention has been studied extensively. Customer satisfaction has a positive effect on customer loyalty in the form of patronage (Lam et al., 2004). Research in retailing context finds that satisfied customer will make more spending on the retailer (Chebat et al., 2014). Study on electronic commerce also confirmed that overall satisfaction positively influences e-repurchase intention (Tsai & Huang, 2007). Study on business to business (B2B) service context also confirmed that satisfaction positively affecting repurchase intention (Molinari, Abratt, & Dion, 2008). Build upon the well-known positive influence of satisfaction toward repurchase intention, this study included the following hypothesis.

H6: Customer satisfaction positively influence repurchase intention

In practice “willingness to recommend” and “recommendations to others” measures are widely used to assess the impact of customers overall levels of satisfaction (Anderson, 1998). In the academic field, the influence of customer satisfaction toward word of mouth intention also already well examined. Customer satisfaction has a positive effect on customer loyalty in the form of willingness to recommend (Lam et al., 2004). Research on the B2B service context proves that satisfaction will drive higher intention to spread word of mouth (Molinari et al., 2008). Study on e-services context also confirmed positive influence of e-satisfaction toward online intention to recommend (Finn, Wang, & Frank, 2009). Hence, this research also aims to reconfirm the mentioned relationship in the study context.

H7: Customer satisfaction positively influence repurchase intention

### **3. Research Method**

This research using descriptive research design approach, a type of research design which try to explain or investigate the relationship between two or several constructs (Cooper & Schindler, 2013). Retrieval of information from the population elements is executed once, in another word this study used cross-sectional designs that are commonly used in a descriptive study (Maholtra,

2007). The population of this research was the teenager in Jakarta-Bogor-Depok-Tangerang-Bekasi (JABODETABEK) who using Vans Shoes. Van Shoes have been chosen as research object as considered having the three-dimensional aspect of product design and somewhat using word of mouth communication as one of the awareness spreading vehicle. The teenager used as a sample considering as the main customer of Vans Shoes. The data was collected through an online self-administered survey using Google form which then filled voluntarily by the respondent who eligible. The voluntary nature of online survey makes this data collection method classified as convenience sampling (Zikmund, Babin, Carr, & Griffin, 2010). Through the online survey, 182 data were collected. This size already complies with minimum sample size requirement of Structural Equation Model approach with around seven constructs, modest communalities, and no under-identified constructs (Hair, Black, Babin, & Anderson, 2010).

Hypothesis testing conducted through Structural Equation Model approach. This approach selected based on several reasons, such as the capability to measure the goodness of fit (Wijanto, 2008), may estimate the relationships between constructs simultaneously through the structural model, also the capabilities to represent the latent concept and conduct measurement error correction (Hair et al., 2010). Regarding goodness of fit, three indices were used, specifically, Normed Chi-Square ( $\chi^2/df$ ), root mean square error of approximation (RMSEA) and comparative fit index (CFI).

Eight variable measurements being used in this research were adopted from relevant previous studies. Aesthetics, functionality, and symbolism adopted from previous work related to product design (Homburg et al., 2015). Customer satisfaction and repurchase intention measured by four indicators each as on previous work (Tsai & Huang, 2007). Received word-of-mouth use adopted measure with some context adjustment (Schumann et al., 2010). Perceived value derived from the related study (Yang & Peterson, 2004) and intention to recommend also adopted from previous work (Kim, Ng, & Kim, 2009). The detailed measurement used presented in Table 1.

Table 1. Operationalization of Variables.

Variable	Measurement	Adopted from
Aesthetics [AES]	[AES1] Vans Shoes is visually striking [AES2] Vans Shoes is good looking [AES3] Vans Shoes looks appealing	(Homburg, Schwemmler, & Kuehnl, 2015)
Functionality [FUN]	[FUN1] Vans Shoes is likely to perform well [FUN2] Vans Shoes seems comfortable [FUN3] Vans Shoes seems to be functional	(Homburg, Schwemmler, & Kuehnl, 2015)
Symbolism [SYM]	[SYM1] Vans Shoes would help me in establishing a distinctive image [SYM2] Vans Shoes would helpful to distinguish me from the mass [SYM3] Vans Shoes would accurately symbolize who I am	(Homburg, Schwemmler, & Kuehnl, 2015)
Received WOM [WOM]	[WOM1] My friends tell me about their positive experience using Vans Shoes. [WOM2] Friends of mine have recommended Vans Shoes to me. [WOM3] Friends of mine have told me positive things about Vans Shoes.	(Schumann et al., 2010)
Customer	[SAT1] In general, Vans Shoes meet my expectations.	(Tsai & Huang, 2007)

Satisfaction [SAT]	[SAT2] Overall, Vans Shoes is the best choice to choose [SAT3] My choice to purchase Vans Shoes was a wise one [SAT4] In general, I am satisfied with Vans Shoes	
Perceived Value [VAL]	[VAL1] Compared to alternative shoes, Vans Shoes offers attractive costs. [VAL2] Vans Shoes charges me fairly compared to similar shoes. [VAL3] Compared to alternative shoes, Vans Shoes has more advantage. [VAL4] Comparing what I pay to what I might get from other shoes, I think Vans Shoes provided me with good value.	(Yang & Peterson, 2004)
Repurchase Intention [RPI]	[RPI1] I am a loyal customer Vans Shoes [RPI2] I will buy again Vans Shoes in the future [RPI3] For me, Vans shoes are the first choice [RPI4] I plan to purchase Vans Shoes again in the future	(Tsai & Huang, 2007)
Intention to Recommend [ITR]	[ITR1] I will tell others about my experience wearing Vans Shoes [ITR2] I would encourage others to use the Vans Shoes [ITR3] I will convey the positive things about Vans Shoes	(Kim et al 2009)

#### 4. Result and Discussion

Based on measurement model estimation this research found that all of the indicators being used shows standardized loading factor greater than 0.5 with the smallest value is SYM1 which scored at 0.649. Thus, can be concluded that all of the indicators being used were valid (Wijanto, 2008). Based on the obtained standardized loading factor, construct reliability (CR) and average variance extracted (AVE) then can be calculated. Aesthetic scoring AVE and CR respectively 0.772 and 0.910, functionality at 0.719 and 0.885, symbolism at 0.616 and 0.826, received WOM at 0.796 and 0.921, customer satisfaction at 0.823 and 0.949, perceived value at 0.724 and 0.912, repurchase intention at 0.766 and .929 while intention to recommend at 0.840 and 0.940. Based on those result can be concluded that all of the instruments being used shows good construct reliability and convergent validity.

Estimation of the structural model shows Normed Chi-Square scored at 2.684 (good fit), RMSEA 0.97 (marginal fit) and CFI 0.901 (good fit) which mean the model overall has an acceptable fit. Based on p-value calculation of the structural model can be concluded that most of the hypothesis being proposed empirically supported with the exception of the first hypothesis regarding the influence of aesthetics toward perceived value. Summary of structural model estimation presented in Table 2.

Table 2. Hypothesis Testing Summary.

Path	Regression weight	p-value	Conclusion
AES <sup>à</sup> VAL	-0.125	-0.146	H1 not supported
FUN <sup>à</sup> VAL	0.482	0.000	H2 supported
SYM <sup>à</sup> VAL	0.461	0.000	H3 supported
WOM <sup>à</sup> VAL	0.177	0.000	H4 supported
VAL <sup>à</sup> SAT	1.115	0.000	H5 supported



SAT <sup>a</sup> RPI	1.026	0.000	H6 supported
SAT <sup>a</sup> ITR	0.917	0.000	H7 supported

Based on the result of structural model estimation as summarized in Table 2 can be concluded that most of the hypothesis being proposed was supported except for the first hypothesis. Hypothesis related to the positive influence of aesthetics aspect toward perceived value was not supported in this research. One of the possible explanation regarding this empirical finding is that Vans Shoe's user didn't put aesthetics aspect as the primary consideration when decide to use or not to use this shoe brand. Based on regression weight coefficient on Table 2 Functionality and Symbolism is the main aspect which can enhance perceived value toward Vans followed by received word of mouth. This finding consistent with practical insight that Vans footwear is widely recognized as one of the best skate shoes because of its comfortability, affordability and the durability (Aitch, 2010).

## 5. Conclusion and Implications

This research aims to examine the relative effect of two different marketing approach toward the formation of perceived value namely product design and word of mouth marketing. Overall, this research proves the importance of product design in constructing perceived value, even though the role of received word of mouth cannot be underrated. Furthermore, this research indicates that the relative importance of each dimension of the three-dimensional definition of product design may vary from product to product or from service to service. This research also proves the positive influence of perceived value toward customer satisfaction and the following repurchase intention and intention to recommend as the further implication.

Toward the marketing science advancement, this research contributes some insight based on the empirical finding. First, this research attempt to implement the three-dimensional definition and measure of product design on a specific product and its customer. As e result, this research found that the product design measurement concept can be applied to a specific product or service but the relative importance of the three dimension may vary from context to context. Second, this research proves the imperative of product design on today market without having to set aside another aspect such as word of mouth strategy. Third, this research managed to reconfirm the importance of customer value as a central concept in marketing science which has a chain effect toward customer satisfaction and the following loyalty intention aspect such as repurchase intention and intention to recommend.

As the implication for brand managers, this research underline the imperative of product design in order to achieve the competitive advantage of the company and surviving the today hyper competition situation. Furthermore, since the relative importance of the dimensions seems to vary from context to context, brand managers should examine the relative importance of each product design dimension of their products or services and carefully design a proper accentuation to such dimension to obtain the most effective and efficient combination. This

research also suggests that such strategy is best suited in combination with another marketing strategy such as word of mouth marketing in order to achieve its optimum result.

Along with its contribution, this research has some limitation. First, this research only accommodates received word of mouth construct along with the three dimension of product design. Investigation another exogenous construct along with the two which has been tested will give broader insights. Second, this research only investigates product design in one context, further research which investigates product design in another context will be a fruitful research avenue toward the generalization of the concept. Third, this research only examines teenager as sample units. Research on a different generation or consumer life cycle will give a further explanation regarding variability of the product design dimensions relative importance.

### **References**

- Aitch, T. (2010). Why Vans Skate Shoes are So Great. Retrieved from <http://www.articlesfactory.com/articles/sports/why-vans-skate-shoes-are-so-great.html>
- Alexandrov, A., Lilly, B., & Babakus, E. (2013). The effects of social- and self-motives on the intentions to share positive and negative word of mouth. *Journal of the Academy of Marketing Science*, 41(5), 531–546.
- Anderson, E. W. (1998). Customer Satisfaction and Word of Mouth. *Journal of Service Research*, 1(1), 5–17.
- Bloch, P. H. (1995). Seeking Design and the Product Form : Ideal Consumer Response. *Journal of Marketing*, 59(3), 16–29.
- Bloch, P. H. (2011). Product design and marketing: Reflections after fifteen years. *Journal of Product Innovation Management*, 28(3), 378–380.
- Chebat, J.-C., Michon, R., Haj-Salem, N., & Oliveira, S. (2014). The effects of mall renovation on shopping values, satisfaction and spending behaviour. *Journal of Retailing and Consumer Services*, 21(4), 610–618.
- Cooper, D. R., & Schindler, P. S. (2013). *Business Research Methods* (12th ed.). McGraw-Hill/Irwin.
- Dellarocas, C. (2003). The Digitization of Word of Mouth: Promise and Challenges of Online Feedback Mechanisms. *Management Science*, 49(10), 1407–1424.
- Finn, A., Wang, L., & Frank, T. (2009). Attribute Perceptions, Customer Satisfaction and Intention to Recommend E-Services. *Journal of Interactive Marketing*, 23(3), 209–220.

- Gruen, T., Osmonbekov, T., & Czaplewski, A. (2006). eWOM: The impact of customer-to-customer online know-how exchange on customer value and loyalty. *Journal of Business Research*, 59(4), 449–456.
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis* (7th ed.). Pearson Prentice Hall.
- Hennig-Thurau, T., Gwinner, K. P., Walsh, G., & Gremler, D. D. (2004). Electronic word-of-mouth via consumer-opinion platforms: What motivates consumers to articulate themselves on the Internet? *Journal of Interactive Marketing*, 18(1), 38–52.
- Homburg, C., Schwemmler, M., & Kuehnl, C. (2015). New Product Design: Concept, Measurement, and Consequences. *Journal of Marketing*, 79(3), 41–56.
- Kim, W. G., Ng, C. Y. N., & Kim, Y. (2009). International Journal of Hospitality Management Influence of institutional DINESERV on customer satisfaction , return intention , and word-of-mouth. *International Journal of Hospitality Management*, 28, 10–17.
- King, R. A., Racherla, P., & Bush, V. D. (2014). What We Know and Don't Know About Online Word-of-Mouth: A Review and Synthesis of the Literature. *Journal of Interactive Marketing*, 28(3), 167–183.
- Lam, S. Y., Shankar, V., Erramilli, M. K., & Murthy, B. (2004). Customer Value, Satisfaction, Loyalty, and Switching Costs: An Illustration From a Business-to-Business Service Context. *Journal of the Academy of Marketing Science*, 32(3), 293–311.
- Maholtra, N. (2007). *Marketing Research* (7th ed.). Prentice Hall.
- Molinari, L. K., Abratt, R., & Dion, P. (2008). Satisfaction, quality and value and effects on repurchase and positive word-of-mouth behavioral intentions in a B2B services context. *Journal of Services Marketing*, 22(5), 363–373.
- Noble, C. H., & Kumar, M. (2008). Using product design strategically to create deeper consumer connections. *Business Horizons*, 51(5), 441–450.
- Oliver, R. (1999). Whence consumer loyalty? *Journal of Marketing*, 63, 33–44. Retrieved from <http://www.jstor.org/stable/10.2307/1252099>
- Ravasi, D., & Stigliani, I. (2012). Product Design: A Review and Research Agenda for Management Studies. *International Journal of Management Reviews*, 14(4), 464–488.
- Schumann, J. H., Wangenheim, F. v., Stringfellow, A., Yang, Z., Blazevic, V., Praxmarer, S., ... Jiménez, F. R. (2010). Cross-Cultural Differences in the Effect of Received Word-of-Mouth Referral in Relational Service Exchange. *Journal of International Marketing*, 18(3), 62–80.

- Trusov, M., Bucklin, R. E., & Pauwels, K. (2009). Effects of Word-of-Mouth Versus Traditional Marketing: Findings from an Internet Social Networking Site. *Journal of Marketing*, 73(September), 90–102.
- Tsai, H.-T., & Huang, H.-C. (2007). Determinants of e-repurchase intentions: An integrative model of quadruple retention drivers. *Information & Management*, 44(3), 231–239.
- Wijanto, S. H. (2008). *Structural Equation Modeling dengan LISREL 8.8: Konsep dan Tutorial*. Yogyakarta: Graha Ilmu.
- Yang, Z., & Peterson, R. T. (2004). Customer perceived value, satisfaction, and loyalty: The role of switching costs. *Psychology and Marketing*, 21(10), 799–822.
- Zeithaml, V. (1988). Consumer Perceptions Of Price, Quality, And Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing*, 52(3), 2.
- Zikmund, W. G., Babin, B. J., Carr, J. C., & Griffin, M. (2010). *Business Research Methods* (8th ed.). South-Western Cengage Learning.





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## INVESTIGATING THE IMPACT OF BANKS' SOUNDNESS AND MACROECONOMICS TOWARDS BANK'S PERFORMANCE

**Alexander William Candra; and Maria Christina Liem**

*President University*  
*alexandercandra03@gmail.com; cliem@president.ac.id*

---

### **Abstract:**

*The aim of this study is to find out the empirical result of the influence of internal factors (CAMEL) and decile-1 external factors (GDP growth, Inflation rate, Gini coefficient) towards bank performance by Return on Average Equity (ROAE) over 36 commercial banks in Indonesia with national coverage for period 2011 - 2015. After the financial crisis in 2008, CAMELS as a result of BASEL II accord doubt can protect banks from insolvency problem that occur and infected financial institution during the crisis. Through purposive sampling, this study examines 180 observations of panel data. This study also adopts quantitative research with random effect model. Based on the statistical result, it is found that Capital Adequacy, Asset Quality, Management Efficiency, Earning Quality, Liquidity, GDP growth  $_{(t-1)}$ , and Inflation rate  $_{(t-1)}$  have significance influence toward return on average equity. On the contrary, Gini coefficient is found to have no significance influence toward return on average equity. Therefore, this study result support that bank performance is influenced by bank soundness and macroeconomics performance.*

**Keywords:** CAMEL; Bank Soundness; Macroeconomics; Bank Performance

---





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**STOCK RETURN CHARACTERISTIC IN INDONESIA MARKET**

**Yanuar Dananjaya BSc., MM<sup>1</sup>, Dr. C. Erna Susilowati, S.E., M.Si<sup>2</sup>**

<sup>1</sup>*Universitas Pelita harapan Surabaya, yanuar.dananjaya@uph.edu*

<sup>2</sup>*Universitas Widya Mandala Surabaya,erna.msi@gmail.com*

---

**Abstract**

*Fama-MacBeth regression is widely used to prove the validity of CAPM by showing that stock return is positively correlated with beta but not correlated with any other company characteristic. So far there is no conclusive result as some research support and other reject validity of CAPM. While these types of research usually use monthly data, we use daily data in Indonesia market to perform Fama-MacBeth regression. The advantage of using daily data is to account for any behavioral effect to stock return, which are more pronounce in daily compared to monthly data. We show that the regression is valid only after certain days delay, suggesting that market take times to digest information. The use of daily data provides information otherwise unobserved using monthly data*

**Keywords:** *Capital Asset Pricing Model, Risk, Return, Efficient Market*

**1. Introduction**

Since its development in the 60s by Sharpe (1964), Lintner (1965), and Mossin (1966) CAPM has been used extensively in finance to predict the return of risky asset. However various assumptions used in the model rises doubt on the accuracy of the prediction, and hence the validity of the model. Fama and Macbeth (1973) established a method to test validity of CAPM using two steps regression process. The result supports CAPM as it was found that stock returns are positively related to beta, and not related to other firm characteristic. However Fama and French (2004) reported that various subsequent test of CAPM validity yield mix results. In particular, it was found that the slope of beta – return regression is less than what predicted by CAPM, while the y-axis intercept is higher than CAPM prediction.

In this paper we use Fama and Macbeth method to test validity of CAPM in Indonesia market. In contrast to the original paper that used monthly data, we use daily data. This is to account for any behavioral effects to stock return, which are more pronounce in daily compared to monthly data. We found that positive relation between return and beta is only established after certain period delay, and slowly disappear after longer period.



## 2. Literature Review

CAPM is built based on Portfolio Theory proposed by Markowitz (1952). In this theory, for the first time standard deviation of investment return is used as proxy for investment risk, which otherwise is poorly defined, and thus unmeasurable. The use of return standard deviation as measurement of risk gives rise to two phenomena in investment, mean – standard deviation optimization and diversification. In diversification, investor can reduce the standard deviation – and thus the risk – of an investment by combining two different asset. This is because the combined standard deviation of two assets obeys the following formula

$$\sigma_p = \sqrt{w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2 w_1 w_2 \rho_{1,2} \sigma_1 \sigma_2}$$

$$\sigma_p = \sqrt{w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2 w_1 w_2 Cov_{1,2}}$$

By choosing 2 assets with low covariance and adjusting the weight of each assets, the third term of the above equation can be minimized and thus reducing the standard deviation. Repeating the process across all possible assets gives rise to the so called efficient frontier, various possible combination of assets where standard deviation is minimal for a certain mean return, and mean return is maximal for a certain standard deviation. Any other assets combination outside efficient frontier will not be chosen as they are inferior compared to assets combination in efficient frontier.

In mean – standard deviation optimization, investors are assumed to be risk averse. It means investors are willing to assume higher risk only for additional expected return. The amount of extra return required by an investor to be willing to assume a certain amount of additional risk depends on investor's risk aversion level. The higher risk aversion level, the higher extra return required to be willing to assume more risk. Thus each investor will have their own optimal mean – standard deviation point in the efficient frontier.

CAPM is started by adding two additional assumption. First it is assumed that investors have same investment period and same distribution of return for all assets. Second, it is assumed that investors can invest or borrow at same risk free rate. The first assumption makes each investor has the exact same efficient frontier as any other investor. If that investor in addition to investing in risky asset, also able to invest in a risk free asset with return  $R_f$ , his/her investment possibility is no longer in efficient frontier, but in a tangent line connecting risk free rate with efficient frontier. The tangent line touch efficient frontier in a point called M. Because in assumption 2 all investors invest and borrow at the same rate, and they also agree on the same efficient frontier, all investors will arrive in the same M point. Thus any investment in risky asset must be invested in point M in efficient frontier. It makes M as a

portfolio which every investors hold. The tangent line itself is called Security Market Line (SML)

As M portfolio is in efficient frontier, which is truly diversified, individual asset's risk matters little. The risk of individual asset that matters is only part of that risk that contributes to risk of M portfolio. Part of individual asset risk that contribute to M portfolio risk is defined as covariance between individual asset return with M portfolio return, divided with variance of M portfolio return. This number is called beta ( $\beta$ ). Mathematically, it is written as:

$$\beta_{iM} = \frac{\text{COV}(R_i, R_M)}{\sigma^2(R_M)}$$

With i denotes individual asset.

As investment return comes from risk, it follows that beta is related to risk. In M portfolio, beta by definition is 1, with return equal to Return Market  $R_M$ . When investor invest in riskless asset, the return is  $R_f$ . It suggest that any risk addition of one beta equal to return addition of  $R_M - R_f$ . CAPM formula is thus can be constructed as follow

$$E(R_i) = R_f + [E(R_M) - R_f]\beta_{iM}$$

With  $E(R_i)$  is the expected return of asset i.

The CAPM formula contains two implication as follow:

1. Relation between beta and return is positive
2. There is no factor other than beta can relate to return

Fama and Macbeth (1973) tested the validity of CAPM by checking those two implication. Fama and Macbeth employs two steps regression, where in the first regression beta for each asset is calculated and in the second regression relation between return and beta is tested. It was found that both implications are supported.

However the supporting of the two implication does not necessarily prove that CAPM is valid. Blume and Friend (1973) formed a zero beta portfolio and check the return. CAPM predicts that zero beta portfolio will have return rate of  $R_f$ . However it was found that return differ from  $R_f$ . Black, Jensen, and Scholes (1973) suggest that based on CAPM, regression of asset return to beta will have slope equal to  $R_M - R_f$ , and y axis intercept equal to  $R_f$ . It was found that the slope is too small, while y axis intercept is too big.

Other critics of CAPM come from discovery of various factors that also affecting stock return. Basu (1977) found that stocks with low P/E ratio will result in higher return. Banz (1981) found that smaller size company will have higher stock return compared to stock of big size company. Fama and French (1993) found that after calculating size and P/E ratio, beta has only small effect to stock return. DeBondt and Thaler (1985) found that stocks with low previous return will result in higher return in the next period. Jegadeesh and Titman (1993) found momentum effect that affecting stock return.

Various factors outside beta that also affecting stock return are usually explained in behavioral context. CAPM is built with no account of behavioral factor, thus behavioral effect to stock return will not be reflected in CAPM prediction. Lakonishok, Shleifer, and Vishny (1994) argued that the higher return of low P/E stock is due to overreaction to bad news causing undervaluation that will be correcting to higher price. Similar explanation was offered by DeBondt and Thaler (1985). Jegadeesh and Titman (1993) explained the momentum effect as the result of either under reaction or delayed overreaction.

It is interesting to test CAPM validity using daily data as opposed to monthly data generally used in previous papers. Any behavioral effect will be more pronounced in daily compared to monthly data. It is expected that testing using daily data will uncover a new insight to stock return characteristic.

### 3. Research Method

Method of this paper mimics Fama and Macbeth (1974) whereby two steps regression is used. The first regression is used to determine beta of each stock, with the following regression equation

$$r_{jt} = \alpha_j + \beta_j r_{mt} + \varepsilon_{jt}$$

With  $r$  is actual stock return,  $j$  denotes  $j^{\text{th}}$  stock,  $t$  denotes period  $t$ , and  $R_m$  is return of Indonesian stock index (IHSG – Index Harga Saham Gabungan). After beta of each stock in the sample are found, they are used in the second regression with the following regression equation

$$r_j = \gamma_0 + \gamma_1 \beta_j + \gamma_2 \text{CHAR}_j + e_j$$

With CHAR is a characteristic of stock, in this case is natural log of company size, measured using average stock price during testing period multiplied with number of shares.

Based on CAPM implications that beta is positively related to return, and that there is no other characteristic of stock that influence return, then there are two hypothesis in this paper as follow. Hypothesis 1:  $\gamma_1$  is positive and significant. Hypothesis 2:  $\gamma_2$  is not significant.

Sample is taken from the list of KOMPAS100 for period of February – August 2016. KOMPAS100 is list of 100 stocks in Indonesian stock market judged by Kompas daily to have good fundamental and liquidity, released every February and August every year. From the sample, 9 stocks are taken out due to data not complete for the whole testing period.

For the first regression, testing period is from 1 June 2016 to 21 October 2016, consisting of 96 trading days. Data source is daily closing price from Yahoo finance. For the second regression, testing period is started from 15 November 2016. The gap between first and second regression testing period is due to US presidential election in 8 November 2016 that caused instability in stocks price. A week after election in 15 November stock prices are deemed to be normal again. Daily stock return is averaged from various period length. Thus for example average daily return for 5 days period is geometric average of stock return from 15 November to the next 5 trading days (in this case 22 November).

#### 4. Result and Discussion

Table 1. Result of second regression. Dependent variable is daily average return. Independent variables are Beta and Len Size. \* denotes significance of 0.05

Period Length (days)	Adjusted R square	F significance	Beta		LenSize	
			Coefficient	t significance	Coefficient	t significance
1	0,005	0,303	0,090	0,414	0,115	0,297
5	-0,022	0,961	0,021	0,852	-0,028	0,800
6	0,005	0,298	0,169	0,125	-0,072	0,513
7	0,031	0,092	0,223	0,041*	0,021	0,846
8	0,158	0,000*	0,385	0,000*	-0,306	0,003*
9	0,111	0,002*	0,359	0,001*	-0,203	0,053
10	0,079	0,010*	0,326	0,003*	-0,120	0,256
11	0,076	0,012*	0,317	0,003*	-0,144	0,176
12	0,037	0,072	0,250	0,022	-0,081	0,451
13	0,056	0,029*	0,279	0,010*	-0,003	0,978
14	0,061	0,024*	0,277	0,011*	0,027	0,796
15	0,047	0,044*	0,253	0,020*	0,026	0,810
16	0,027	0,114	0,227	0,039*	-0,038	0,728
17	0,021	0,146	0,205	0,061	-0,118	0,281
18	-0,003	0,417	0,141	0,202	-0,074	0,501
19	-0,009	0,544	0,121	0,277	-0,05	0,65
20	0,016	0,180	0,200	0,069	-0,019	0,863
30	-0,019	0,844	0,059	0,592	0,008	0,944
40	0,006	0,283	0,134	0,224	0,072	0,513
50	-0,018	0,803	0,040	0,722	0,049	0,661
55	-0,015	0,723	0,051	0,643	0,056	0,613

As table 1 shows, for period length 6 trading days and less, no relation between daily average return with beta or with natural log of company size. From 7 to 16 trading days, there is positive and significant relation between daily average return and beta, as predicted by CAPM, with exception of 12 days period length. F test is significant from 8 to 15 trading days period. With the exception of 7 trading days period, relation between daily average return and natural log of company size is not significant, as predicted by CAPM. It is notable that in the single period where relation is significant, coefficient of len size is negative. This is in agreement with Fama-French Three Factors Model whereby there is negative relation between stock return and company size. It is also notable that adjusted R square values are greater in the periods where relation between daily average return and beta is significant.

There are several possibilities why relation between return and beta is only significant between 7 to 16 trading days periods, and not significant in the shorter and longer periods. First, it is possible that market risk is not important for investors with short holding period. Investment decision is made based on factors other than risk, for example based on technical analysis. For long holding period, investors may prefer to use weekly or monthly beta as reference as it better reflect their long holding period. Second, it is also possible that there is delayed reaction to beta. If beta varies with time, any change of beta will be followed by change in stock return. It is possible that there is delay between change of beta and change of stock return. In this case, the delay is about 3 weeks to 1 month time. The delay can be caused by slow diffusion of information, as result of market that is not fully efficient.

To confirm the first possibility, in the next research the starting period of second regression will be varied to 15 December 2016, 15 Jan 2017, 15 Feb 2017, etc, while the period

of the first regression remain unchanged. If it is true that daily beta only affect daily return in medium term due to short term investor do not pay attention to market risk while long term investors tend to use weekly or monthly beta, then the same pattern will be observed in all starting periods.

To confirm the second possibility, both the period of the first regression and starting period of second regression will be varied. If it is true that daily beta only affect daily return in medium term due to 3 weeks to 1 month lag in beta realization, then the same pattern will be observed in all periods of the first regression.

The weakness of this paper is that there is no data available regarding company action. Any company action during period of first or second regression may affect the result, and could be responsible for the delayed realization of beta.

## 5. Conclusion and Implications

We have shown that the use of daily data in Indonesia market is able to corroborate validity of CAPM by showing positive and significant relation between stock return and beta. However, the positive and significant relation is not observed in very short and very long period. Two possible explanations and the testing methods are offered. They will become the source of future research

## References

- Banz, R. W. (1981). The relationship between return and market value of common stocks. *Journal of financial economics*, 9(1), 3-18
- Basu, S. (1977). Investment performance of common stocks in relation to their price-earnings ratios: A test of the efficient market hypothesis. *The journal of Finance*, 32(3), 663-682.
- Blume, M. E., & Friend, I. (1973). A new look at the capital asset pricing model. *The journal of finance*, 28(1), 19-34.
- DeBondt, W. F., & Thaler, R. (1985). Does the stock market overreact?. *The Journal of finance*, 40(3), 793-805.
- Fama, E. F., & MacBeth, J. D. (1973). Risk, return, and equilibrium: Empirical tests. *Journal of political economy*, 81(3), 607-636.
- Fama, E. F., & French, K. R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of financial economics*, 33(1), 3-56.
- Fama, E. F., & French, K. R. (2004). The capital asset pricing model: Theory and evidence. *The Journal of Economic Perspectives*, 18(3), 25-46.
- Jegadeesh, N., & Titman, S. (1993). Returns to buying winners and selling losers: Implications for stock market efficiency. *The Journal of finance*, 48(1), 65-91.
- Jensen, M. C., Black, F., & Scholes, M. S. (1972). The capital asset pricing model: Some empirical tests.
- Lakonishok, J., Shleifer, A., & Vishny, R. W. (1994). Contrarian investment, extrapolation, and risk. *The journal of finance*, 49(5), 1541-1578.
- Lintner, J. (1965). The valuation of risk assets and the selection of risky investments in stock portfolios and capital budgets. *The review of economics and statistics*, 13-37.

Markowitz, H. (1952). Portfolio selection. *The journal of finance*, 7(1), 77-91.

Mossin, J. (1966). Equilibrium in a capital asset market. *Econometrica: Journal of the econometric society*, 768-783.

Sharpe, W. F. (1964). Capital asset prices: A theory of market equilibrium under conditions of risk. *The journal of finance*, 19(3), 425-442.



## **TRANSFORMATION A FAMILY COMPANY TO BE A PUBLIC COMPANY (CASE STUDY PT. BW PLANTATION TBK)**

Rini Setiawati  
rinikimi@yahoo.com , 081220007464

### **Abstract**

*The purpose of this research is to study the process of organizational transformation that occurs in PT BW Plantation of the family company into a public company. Sub focus includes the company's strategy to create an effective organization, organizational culture and leadership transformation leadership, competency-based human resource strategy and Competitive Advantage company. This study is a qualitative research and the approach used in this study is a case study approach. Analysis of the data in this study used Robert K Yin through five steps are compiling a database, disassembling the data, reassembling and arraying, interpreting and concluding, Results of this case study concluded that organizational changes PT BWP is a change that is transformational or interpreted as an attempt changes radical in the context of paradigm change, organizational culture mindset and work processes that are triggered by external demands. Organizations need leaders who play an active role and strong leadership from the top leaders and senior leaders as the main initiators and supporters in making transformational changes. There are changes in business environment , previously still apply traditional management systems and familiarity with paternalistic leadership style and business controls are intuitively expected to turn into a modern management system and professional. The results of research can be considered by family companies that will lead the public company to find out possible problems that arise during the transformation also as a reference for managers in undergoing the process of organizational transformation.*

### **INTRODUCTION**

PT. BW Plantation Tbk (abbreviated as BWP) is one of the palm oil companies in a journey into a big company in Indonesia, in accordance with the company's vision to become a dynamic palm oil producer. BWP was first dated 6 November 2000.

PT. BWP has a competitive advantage related with plant age composition, land bank and assets that are strategically located, has a large nucleus estate, implement the best industrial applications related to plantation management techniques to improve the production and extraction of CPO, and an experienced management team. Based on these advantages PT. BWP pursuing a strategy to obtain funds through a public offering in which the funds will use to finance the planting of oil palm in 7 subsidiaries scattered in West Kalimantan, East Kalimantan and West Kalimantan in order to increase the productivity of companies in the future.

On October 27, 2009, PT. BWP has reached a new stage in they journey because on that date the Company do the Initial Public Offering. This is a very important milestone for the Company because this moment make a business continuity and increase its role in the Indonesian palm oil industry, the company will continue to growth and develop to enhance the Company's value.

Business environment turbulences drive PT BW Plantation make changes. PT BW Plantation as a family company is still applying the traditional nature management systems and familiarity with paternalistic leadership style and business control intuitively expected to turn into a modern management system and professional. The condition where the owners and management companies

control mechanisms that good so often to make a decision that could harm the owner and other parties. The owner still often intervene in the appointment of suppliers / contractors who will work with the company. The leader of the company retaining poorly performing managers because these managers are members of the family and do not want to make a conflict with them.

Resistance from the managers and employees for the changes also appear, to deny change is happening or reject changes to a variety of reasons. Emerging resistance (a) Implementation of the work and control system is the most widely opposition, especially from employees or senior management of the company that is accustomed to working without strong systems and controls. (B) The workings and mindset (mind set) in the achievement of the low. Employees are not accustomed to challenging targets, so that the power struggle to achieve the employment targets are not maximized.

The transformation to a public company requires PT BW Plantation recruit professional employees instead of family ties. With the inclusion of professionals from various companies with the organizational culture of the company of origin. Companies with diverse cultures complicate the equation of views in view of a problem.

Based on this background, the focus of researchers is a family enterprise organizational transformation into a public company; a case study in PT BW Plantation Tbk. Sub focus of this study were (1) Changes in the family company into a public company, (2) The company's strategy to create an effective organization (effective organization) to perform change management, (3) Transformation of organizational culture, (4) Changes in leadership style, ( 5) .Strategi competency-based human resources and (6) Competitive Advantage of companies that are characteristic of the public company.

By looking at the background, issues and things that have been mentioned above, the formulation of the problem posed in this study are as follows: (1) How is the process of transforming the family company into a public company in PT BW Plantation which include: the importance level of implementation of the transformation, presence / absence of resistance management strategies to overcome such resistance? , (2) Management of any changes made by the company in creating an effective organization? (3) How to change the organizational culture when it became a public company ?, why it is necessary to change organizational culture? (4) How is the leadership style needed at the time the company became a public company ?. (5) How competency-based human resource strategy of employees needed at the time of the transformation of the organization and what the strategy of the company to achieve a competency-based human resources ?, (6) What is the competitive advantage of companies that became the hallmark of the public company ?.

## **Research Methodology**

The research approach used is qualitative research approaches with case study method. According to Creswell (2007) case study method is a process of research to understand the problems of human or social to create a comprehensive picture (holistic picture) and the complex is presented with words, reported the views detail obtained from the resources, and conducted in background (setting) is natural. The approach used in this study is a case study approach. The case study is a strategy that is more suitable for basic research questions with regard to how or why.

The procedure begins with a case study research to formulate a research question and then investigators determine the unit of analysis and protocol or interview, then at the level of the unit of analysis determined the sample. Meanwhile at the level of the guidelines made the analysis of a number of questions which link the formulation of the problem with the data that would be obtained. Next determine the criteria for the interpretation of the findings. It was not until the data is collected, followed by all the data from various sources. It was not until the data is collected, followed by all the data and examined various sources of legitimacy. Recently the entire job of data collection in the case studies were analyzed to formulate the results and research findings.



## Result and Discussion

### 1) Transformation PT BW Plantation from Family Company to Public Company

During the process of change goes, so far not everything goes smoothly, there are some obstacles or challenges that occur. As presented by Kotter in his book "The Heart of Change" (2002) that at some point the bad side of the changes will appear in which humans are forced to adjust to changing conditions cause pain but this can be avoided if you do the 8 steps to create change big. BW Plantation Management from beginning a process of change guided by the theory of Kotter (2002) as follows:



Figure 1 : Implementation 8 Kotter's transformation steps on BW Plantation's transformation process

To see the progress of PT. BW Plantation during 2004 through 2014, the researchers divided 10 years into four periods, namely:



Operational performance indicators of success can be seen from the achievement of production of fresh fruit bunches (FFB) and the main processing products consisting of palm oil from palm oil or CPO (Crude Palm Oil) and core oil or PK (Palm Kernel). TBS increased by 2303% from 27 292 tons (2004) to 655 741 tons (2013), CPO increased by 4461% from 3,197 tonnes (2004) to 145 836 tons (2013), PK increased by 4425% from 527 tons (2004) to 145 836 tons (2013).

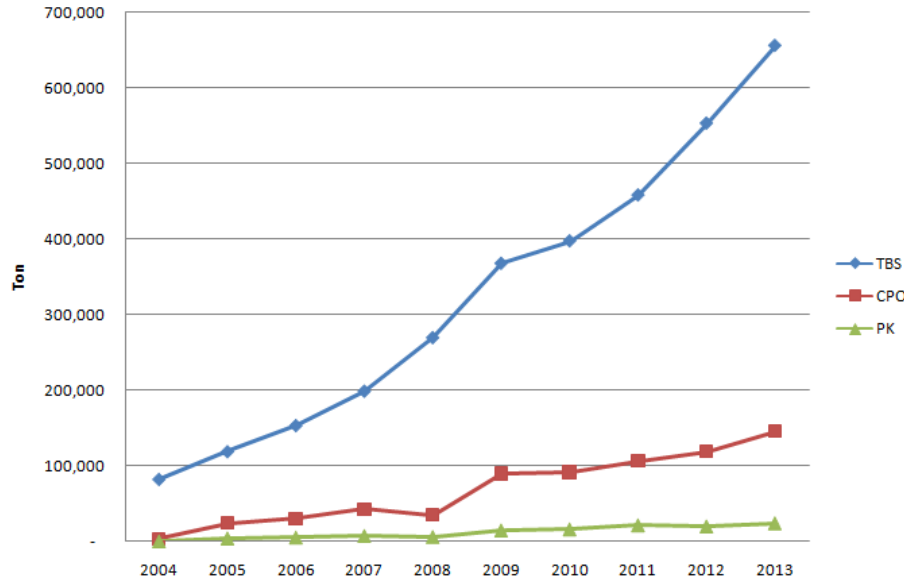
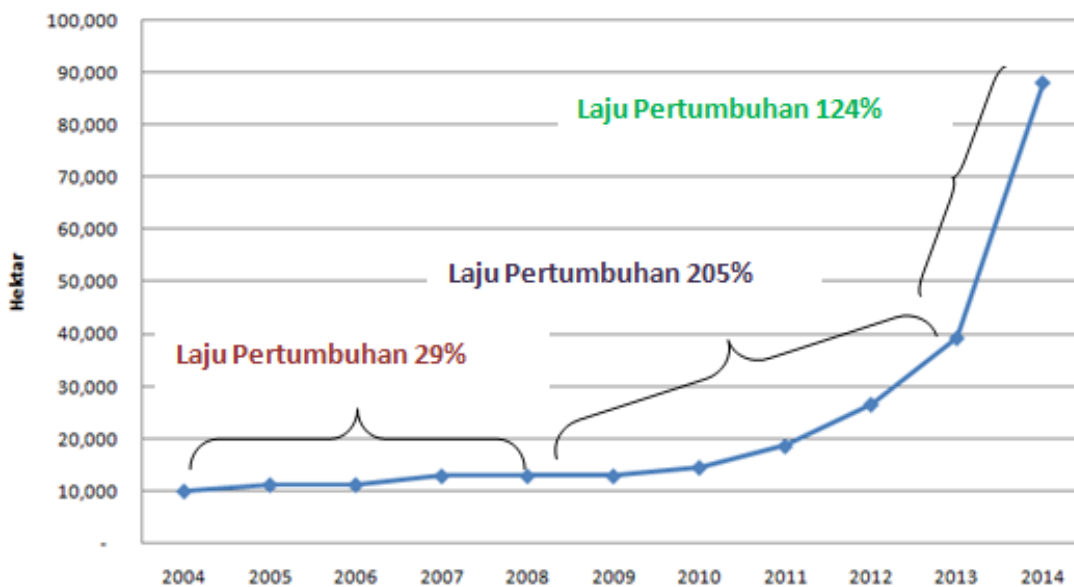


Figure 2. Production trend (FFB, CPO dan PK) - 2004 and 2013

During the period the family company (in 2004-2008), the growth rate resulted in the production area by 29% and in the period of public company significantly increased the rate to 205% in 2014, while acquisition occurs that causes the area resulted to be 124% compared to the previous period.

Overview of financial performance after the company became a public company, revenue increased Rise of Rp. 34.326 billion (2004) became Rp.712.174.000.000, - (in 2010); Increased operating profit of Rp. 866 million (2004) to Rp.371.003.000.000 (2010); Net Income increased from - Rp. 2.467 billion (2004) to Rp.243.287.000.000 (2010); EBITDA increased from Rp. 1.536 billion (2004) became Rp.410.267.000.000, - (in 2010).



Since becoming a public company, PT BW Plantation is always trying to create a competitive advantage both in the palm oil industry as well as in shaping the future structure of the industry. One of the awards received by the BWP is an award from Forbes magazine for three consecutive years (2011-2013) to the criteria of the best-performing company.

The following process steps / activities carried out by PT. BWP in preparation for becoming a public company (based on interviews):

## 2) PT. BWP as learning organization in creating effective company

Mc Shane (2013) says that the learning organization is a company that is able to gain knowledge (knowledge acquisition), communicating (knowledge sharing), implements (knowledge use) and store knowledge (knowledge storage) to create an effective company.

Andreas Budihardjo (2014) states that learning within the organization must be made by individuals and organizations. Individual learning occurs if a person acquires knowledge through education, experience or experiment. Learning organization formed when systems and organizational cultures into account lessons learned and transfer new ideas to the members.

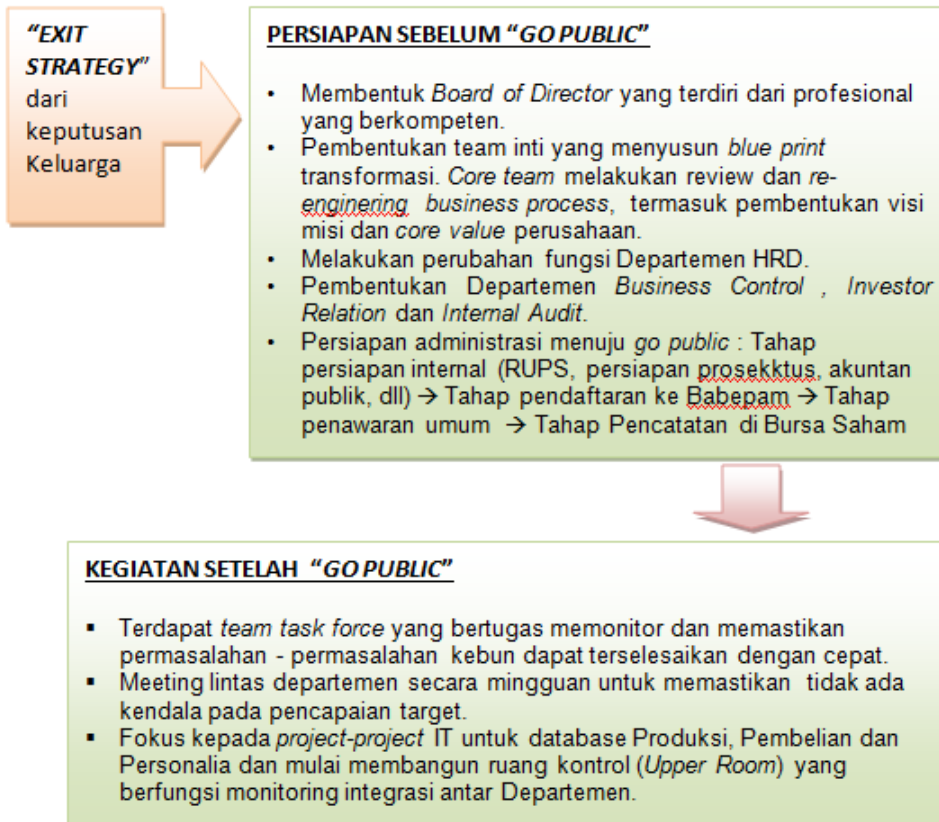


Figure 4. Process to be a public company

Thus, if a company wants the leader of a learning organization then it should encourage and facilitate each member organization to want to keep learning. According to Garvin (2000) there are six important tasks related to learning: (1) collecting new things and intelligence of the environment, (2) Learning from best practices from other companies, (3) Learning from experience in the past, (4) Experiment with new approaches, (5) Encourage problem solving systematically, (6) Transfer of knowledge to the entire organization.

Change Management that have been occur made BWP be a learning enterprise to create effective company. PT. BW Plantation as an organization that embraces open systems (open system) where the survival of the company depends on the stakeholders to be able to respond to their

paradigm of a learning organization. The paradigm requires that employees are always active for the creation of new innovative, adaptive and generative learning, employees not only make adjustments to the environment but also "learn" and is always working ahead on the change itself. Each individual on all levels of management responsible for the learning process. Follow-evident from the company in connection with a learning organization is to conduct a comparative study, the implementation of the training routine as well as forming committees and technological innovation.

In order life cycle curve continues to rise, company made transformation change to be a public company to create a new curve as shown in Figure 6.

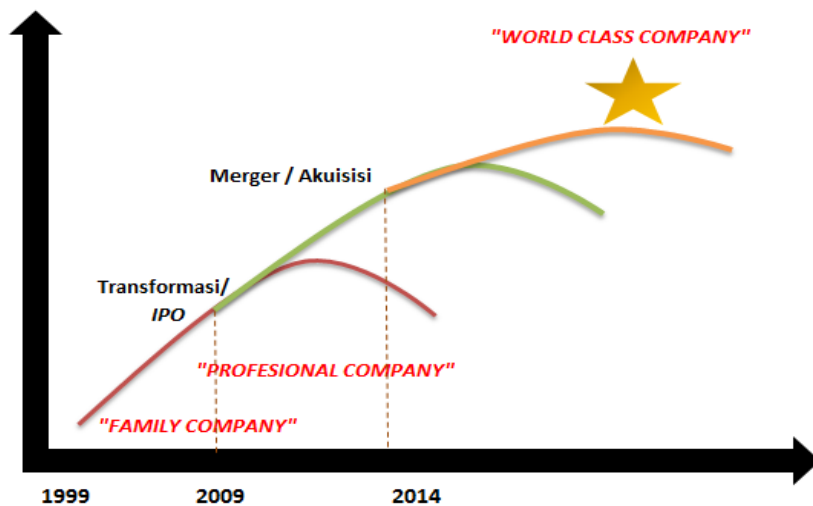


Figure 6. BW Plantation's *Life Cycle Curve*

In the year 1999 - 2009 was a period where the company is still a family company, in 2008 the owners of companies doing business development strategy to make the company public. Public funds are used to expand the company's plantation and plant construction and in 2014 to make acquisitions to achieve world-class companies.

### 3) Company's Formidable Culture to Achieve High Performance

Some of the theory that the process of formulating the organization's culture, among others, social learning theory (Schein, 2002) in which the culture of the organization created by leaders through function leader as creator and manage and according to Robbin (2003) states that the formation of organizational culture stems from a philosophy that is owned by the founders of the organization which is submitted to the leader - a leader in the company.

The process of formation organizational culture that occurred in PT BWP as mentioned by Robbins & Judge (2011) includes: (1) Phase phylosopy of organization's founder, the process of formulating values of the company by forming a drafting team comprising senior leaders and directors. Employers give direction to the drafting team about what it considers to be important and should be done by each employee, (2) Stage of selection criteria, based on the direction that the drafting team had a discussion about the values they believe would make the company capable of developing associated with core business, mission, vision and business strategy of the company. From some values - universal values that emerged was decided to select Responsibility, Integrity, Caring, Ethics, Discipline and Visionary or abbreviated TIKED-V, (3) Phase socialization, after the organization's culture was created, socialization needed to be more easily in identified and followed by the whole of human resources in the company and other parties outside the organization. How the company to socialize is to do a morning briefing in every department before the start of work both at headquarters in Jakarta and in the site / estate. Every employee of the Department / Division / field foreman asked to read the value of the company's value and then leader provides reviews of each of

value for the company. At each event / moment as the opening of training or company anniversary corporate leaders always convey and reaffirm our core values to employees. In addition to physically jargon - jargon and slogans placed at a location where employees can often look like in the meeting room, a work room and in the employee's mess.

Based on grand strategy illustration below shows that the human resources and corporate culture is an important role that underlie the achievement of the company's vision and mission.



Figure 6. BW Plantation's Pillars

#### 4) Leadership style "Execution Leader" key to a successful transformation in the BW Plantation

Leadership style is very important for the leadership style reflect what is done by leaders in influencing followers to realize his vision. Luthan (2002) suggests the style of leadership is how leaders influence their followers, in its application leadership style is influenced by culture. Paul Hersey and Kenneth Blanchard (1996) defines leadership style as follows:

*"The leadership style of an individual is the behavior pattern that a person exhibits when attempting to influence the activities of others as perceived by those others. This may be very different from the leader's perception of leadership behavior which we shall define as self perceptions rather than style"*

Leadership style is the perception of the followers of the leader behavior patterns when trying to influence his followers. Transformational leadership style that have been doing consistently will have an impact on corporate culture change and can influence the performance of the company. Transformational leaders devote all its capabilities and its potential to transform the company with motivate, inspire, encourage and develop subordinates to do the best results and achieve the expected performance (expected performance) and above expectations (performance beyond). To bring a radical change in accordance with the changing demands and challenges of an increasingly tight business, transformational leadership style is the most effective leadership style and impact on enterprise performance improvement, (Alex, 2011).

Execution is the implementation of all the vision, mission, strategic management and planning

failure of an organization / company, because despite how good a vision and mission, strategic management and planning was arranged and created, without excellent execution, everything will be meaningless. Therefore, the quality of execution will determine the success or failure of an organization / company.

Execution quality is determined by the "Leader" that "drive" the execution process in the organization. Therefore the "Execution Leader" became a very important person in the organization / company, since he became determinant of the success of the organization / company.

Every leader in PT BW plantation : Top management, middle management to operational management in the estate all involved in any management process, starting from a discussion of the work plan and annual budget , develop programs and action plans and evaluate the results of the performance of daily, weekly and monthly compared with the targets that have been set up in the monthly planning.

Leadership style "Execution Leader" key to a successful transformation in the BW Plantation. Execution is the implementation of all the vision, mission, strategic management and planning that has been made by the organization / company. Execution is what determines the success or failure of an organization / company, because despite how good a vision and mission, strategic management and planning was created, without excellent execution, everything will be meaningless.

##### 5) Company Strategic to Improve Competitive Advantage

Strategies undertaken by BW Plantation in improving the competitiveness of the company : Competency-based human resource strategy with the application of Knowledge Management and Contributions HR and create a competitive advantage that determines the success of a business strategy.

Next figure described BW Plantation strategy to face the challenges

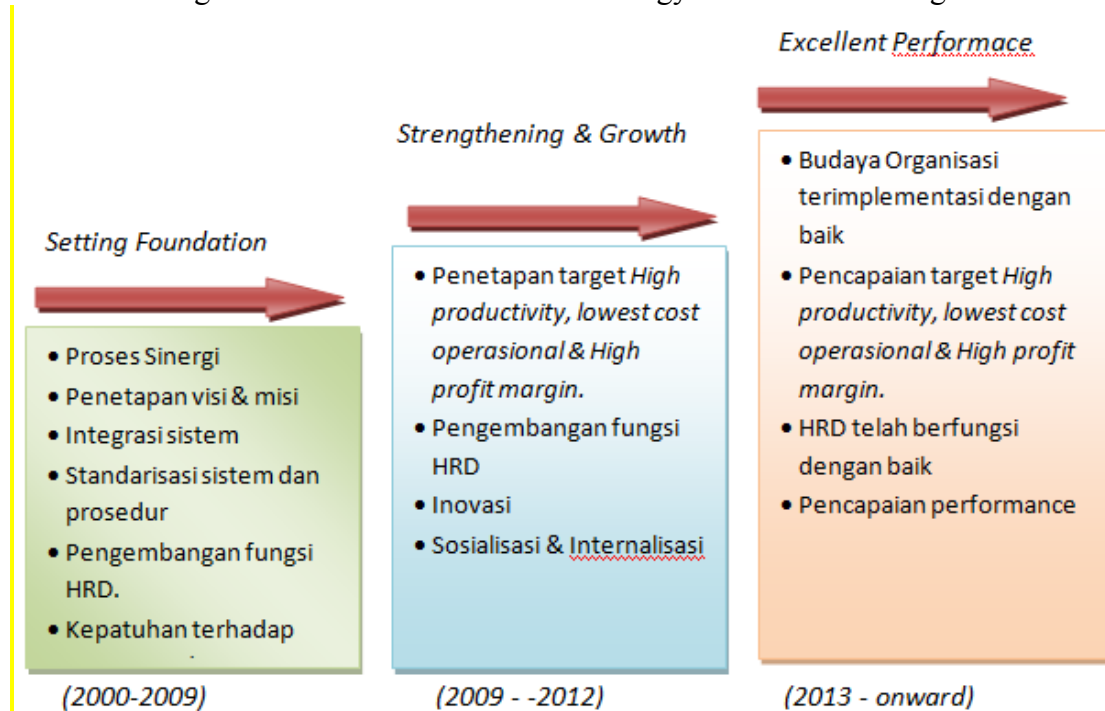


Figure 8. Transformation process and BW Plantation's challenge

The formulation of policies or strategies that was created by PT. BW Plantation was prioritize to analyze the strengths and weaknesses of the industry structure owned. The Strenght point includes (a) Board of management experience and competence, (b) Team solid work both at the top level management, staff and employees, (c) Estate located and close to the distribution channels. (d) estate expansion program & aggressive plant. (e) High Quality CPO and Kernel high /

operation. Meanwhile weaknesses include (a) Soil type dominize with S3 (b) Some palm oil mills need high cost maintenance, (c) IT system unstable, (d) Utilization of by-product is not maximized, (e) Disciplinary power work is still low, (f) Communication with people around the estate not optimum.

Strenght	Weakness
<ol style="list-style-type: none"> <li>1 Jajaran manajemen yang berpengalaman dan kompeten</li> <li>2 Team kerja yang solid baik di level Top Manajemen, staff dan karyawan</li> <li>3 Lokasi perkebunan strategis dan dekat dengan jalur distribusi</li> <li>4 Program ekspansi kebun &amp; pabrik agresif</li> <li>5 Kualitas produk CPO &amp; Kernel tinggi / premium</li> <li>6 Penggunaan mekanisasi, inovasi dan teknologi perkebunan yang <i>environmental friendly</i></li> </ol>	<ol style="list-style-type: none"> <li>1 Lahan perkebunan dominan kelas 3</li> <li>2 Beberapa pabrik kelapa sawit tergolong tua sehingga maintenance tinggi</li> <li>3 System manajemen IT belum stabil karena sistem/program dibangun sendiri bukan membeli program seperti SAP.</li> <li>4 Pemanfaatan by product belum maksimal</li> <li>5 Disiplin tenaga kerja masih rendah karena kurang kontrol.</li> <li>6 Komunikasi manajemen kebun dengan masyarakat sekitar kebun tidak maksimal, CSR belum berjalan.</li> </ol>
Opportunity	Threat
<ol style="list-style-type: none"> <li>1 Permintaan produk dari pasar dalam dan luar negeri masih terbuka dan terus meningkat</li> <li>2 Penemuan baru dalam pemanfaatan produk minyak sawit dan turunannya.</li> <li>3 Produk kelapa sawit lebih unggul dari produk minyak nabati lainnya</li> <li>4 Adanya teknik budidaya baru yang dapat meningkatkan produktivitas</li> <li>5 Minyak sawit ramah lingkungan</li> <li>6 Penggabungan 2 - 3 perusahaan dalam industri sejenis / merger</li> <li>7 Dukungan Pemerintah Daerah dalam pengembangan areal baru</li> </ol>	<ol style="list-style-type: none"> <li>1 Banyaknya investor baru yang masuk di bidang bisnis yang sama</li> <li>2 Persaingan harga dengan kompetitor</li> <li>3 Pembatasan ekspor dan campur tangan pemerintah dalam penentuan harga</li> <li>4 Keamanan makro dalam negeri yang belum stabil dan mikro lingkungan sekitar kebun yang sering tidak kondusif</li> <li>5 Black campaign atas produk minyak dari kelapa sawit</li> <li>6 Claim masyarakat atas tanah perkebunan / tanah ulayat atas nama hukum adat</li> </ol>

Figure 9.

### SWOT analysis PT BW Plantation

Suggestions on this research is that if an understanding of the transformation steps are realized since the beginning, transformation process should be able to run more smoothly and directed. This could be avoided if the transformation from the beginning led by people who have experience / understanding the processes or stages in the process of organizational transformation or use consultants.

BW Plantation transformation process is still continuing, entered the stage of the merger, which is the company's strategy to achieve sustainable competitive advantages. Merger process will be different from tranformation process. Successness of the merger is the interesting issue to research, where the merger will affect directly to the employees as a result of the merge of two

process, if required strong merger committee, management commitment, union labour, or there are other things as determining the success of the merger.

## Conclusion

Based on the findings and discussion, researcher can take some conclusions related to the company's output in the process of transformation into a public company or a public company.

- 1) BW Plantation unconsciously applying Kotter's 8 steps in the process of transformation into a public company from a family company..
- 2) 2) At the beginning of the transformation process, resistance emerged from every level that become an obstacle because of a lack of whole understanding, without "spirit" to make changes, interest piqued. Along with the transformation process and meet the formation, and the positive effects are beginning to rise, the resistance level decreases. Commitment from management to support the transformation was the major factor in transformation process. Without a strong commitment from management to make changes, to the process of change can not run smoothly.
- 3) Management Changes made demands BWP be learning enterprise to create effective company. PT. BW Plantation as an organization that embraces open systems (open system) where the survival of the company depends on the stakeholders to be able to respond to their environment. An increasingly competitive business environment causes companies adopt the paradigm of a learning organization. The paradigm requires that employees are always active for the creation of new innovative, adaptive and generative learning, employees not only make adjustments to the environment but also "learn" and is always working ahead on the change itself. Each individual on all levels of management responsible for the learning process. The real action of the company in respect of a learning organization is to conduct a comparative study, the implementation of the training routine as well as forming committees and technological innovation.
- 4) The tough corporate culture to achieve High Performance. Selection of the appropriate organizational culture that refers to the professionalism and invested in operational activities capable of directing the behavior of all the organizations in achieving the company's objectives. Internalization of organizational culture can be implement through slogans, symbols, rituals, socialization, training and exemplary management of the peaks. Organizational culture was a "driving force" that affects all aspects of achieving the vision and objectives of the company,
- 5) 4) 5) leadership style "Execution Leader" key to a successful transformation in the BW Plantation. Execution is the implementation of all the vision, mission, strategic management and planning that has been made by the organization / company. Execution is what determines the success or failure of an organization / company, because despite how good a vision and mission, strategic management and planning was arranged and created, without excellent execution, everything will be meaningless. Therefore, the quality of execution will determine the success or failure of an organization / company. What is required of a leader to be "execution leader : is a leader who has the responsibility brave mental attitude and be accountable for the work of leadership, leaders capable of directing, encouraging and, motivate and foster enthusiasm subordinates to work more productively; expand the ability of intrapreneurs is to become a professional in the spirit of entrepreneur, developed the mental attitude to take bold decisions, develop the ability to understand the changing environment, the ability to read external opportunities and threats and constantly thinking of innovative improvement process of the company's work to make the company productive, efficient and competitive.
- 6) Strategies undertaken by BW Plantation in improving the competitiveness of the company



Management and Contributions HR and create a competitive advantage that is what determines the success of a business strategy

#### LIST OF REFERENCES

- Alex Benyamin. *Execution Leader*. Kepustakaan Populer Gramedia. 2014.
- Budihardjo , Andreas. *Organisasi Menuju Pencapaian Kinerja Optimum* . Jakarta : Prasetya Mulya Publishing, 2014.
- Creswell, John *Qualitative Inquiry and Research Design – Choosing among Five Traditions*, (United Kingdom : Sage Publication , 2007), hh.36-39.
- Garvin.D.A. *Learning in Action: A Guide to Putting the Learning Organization to work*. Boston. Harvard Business Review, Press.
- Hersey , Paul dan Blanchard,Kenneth. *Management of Organization Behavior : Utilizing Human Resource*. Upper Saddle Rivers NJ : Prentice Hall, 1996.
- Kotter , John P. *Leading Change*. USA : Harvard Business School Press, 1996.
- Luthan, Fred . *Organizational Behavior*. New York ; MC Graw Hill Higher Education, 2002.
- McSchane, *Organizational Behavior*. Sixth edition. MC Graw Hill Higher Education, 2013.
- Robbins , P. Stephen. *Organizational Behavior*. New Jersey: Prentice Hall. International Inc , 2003 .
- Robbins, S. & Judge, T.A. *Organizational Behaviour*. USA: Pearson Prentice Hall, Inc, 2011.
- Schein , Edgar H. *Organizational Culture and Leadership*. San Fransisco : CA Jossey-Bass Publisher, 2002.

**MARKETING STRATEGY ANALYSIS TO MAXIMIZE SALES  
GROWTH IN GGOODSTUFF URBAN AND TRAVEL EQUIPMENT****Siti Paramadita,***Institut Teknologi Bandung, siti.paramadita@sbm-itb.ac.id*

---

**Abstract:**

*Ggoodstuff, an urban and travel equipment brand from Bandung is a creative industry company that entered the business in digital era. Started by selling its product through a free Instagram account, Ggoodstuff now has organically grown and finally own its main offline store in Balubur Town Square and more than 10 consignment stores all around Indonesia. With tight competition in the creative industry, Ggoodstuff has recently experienced a downfall in its sales growth percentage. Henceforth, Ggoodstuff realize that it needs a good marketing strategy to be able to survive.*

*This research is made to give possible solutions for Ggoodstuff's problem. The research method is using combination of qualitative and quantitative research. Firstly, the author did a desktop study, second, interviewing the owner of Ggoodstuff and did an internal observation of the company. Third, the author did external observations to its competitors, and fourth, by distributing questionnaires to Ggoodstuff's customers and prospectus customers.*

*Conceptual frameworks in this study are conducted to analyze Ggoodstuff's market conditions both externally and internally. The external analysis is using Porter's five forces analysis, competitor analysis, and strategic positioning. The internal analysis runs with core competency analysis, value chain analysis, marketing mix, and strategic positioning. Lastly the analysis is elaborated with SWOT analysis, marketing mix analysis, and the marketing strategy (S, T, P&D).*

*The results of this research study will be proposed to Ggoodstuff as their marketing strategy to maximize the growth of its total sales.*

**Keywords:** *Ggoodstuff, Creative Industry, Marketing Strategy, Marketing Mix, SWOT Analysis*

---

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**DEVELOPING BRAND IMAGE OF SMALL AND MEDIUM ENTERPRISES: CASE  
STUDY OF THE IMPORTANCE OF AFTER SALES SERVICE**

**Daniel Hermawan<sup>1</sup>, Cai Li<sup>2</sup>**

<sup>1</sup> Parahyangan Catholic University and Jiangsu University, daniel.dh10@gmail.com  
<sup>2</sup> Jiangsu University, gscaili@ujs.edu.cn

---

**ABSTRACT:**

*It is common knowledge that small and medium enterprises can create unique products and services. Attaining unique brand image of products in a dynamic business environment is greatly helpful in building SMEs' competitiveness, especially in continuously developing young entrepreneurs of new start-ups which are pursued in a highly challenged innovational channel, such as social media, e-commerce platform, and chatting platform. Strong brands can earn SMEs loyal customers through repeat purchases. Further, keeping a loyal customer is cheaper than to obtain a new customer. After sales service is one of the most important things in business, through which customers can evaluate an SME hence influencing their decisions on whether to repeat the purchase or not in the future. Focusing on after sales service approach by SMEs, the study aims to give an overview and broader knowledge about how after sales service approach can strengthen brand image. Base on a case study of restaurants operating in Zhenjiang, this study's competitive analysis show how after sales service gives a competitive advantage for an SME to win market share in the wake of tough business competition. This study also finds out customer decisions with or without a good after sales service. The result of this study reflects that after sales service enhances the brand image of an SME hence making it important for SME growth and development.*

**Keywords:** *after sales service, brand image, SME, customer, innovation*

---

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**TAX AGRESSIVENESS IN FAMILY FIRMS:  
CAN CORPORATE GOVERNANCE MITIGATE IT?**

**Arie Pratama**

*Universitas Padjadjaran, arie.pratama@fe.unpad.ac.id*

---

**Abstract**

*Every taxpayers objectives is to minimize the tax paid to government. Few business tried to avoid tax more aggressively than the others. This research will tried to investigate whether the family firms are more tax aggressive compare to non family firms. Tax aggressiveness might be reduced if there is a working governance structure. This research will also investigate whether the governance structure (i.e size of board of director, proportion of independent director, external audit firms, and audit committee) would significantly reduced the tax aggressiveness. To control the results, researcher used size, profitability and leverage.*

*This research was quantitative explanatory research. Researcher will analyzed 15 out of 57 family own-business in Indonesia, and make a comparison with non family firms. Researcher examined the financial statements and annual report from year 2011 – 2015. The research will used multiple regression analysis as a data analysis tools. This research will produce tax aggressiveness analysis of family firms, non family firms, and combination of both firms.*

*The research showed that, contrast to the non family firms, family firms had aggressive tax avoidance scheme. The research also showed that corporate governance in family company in fact, increasing the aggressiveness o tax avoidance, while non family firms corporate governance reduced the aggressiveness of tax avoidance. Overall this research showed that family business need to improve the governance structure to control its aggressive tax avoidance.*

**Keywords:** *Corporate Governance, Family Business, Ownership, Tax Avoidance.*

---

**1. Introduction**

Indonesia still struggle to increase the level of tax compliance. Based on the report made by Directorate General of Tax, Ministry of Finance in year 2016, tax compliance ratio in Indonesia is 60%. Still far below the target of 75%. Tax ratio of Indonesia also lower compare to other South East Asian countries. Based on the report made by Statistics Bureau of Indonesia,

Indonesia's tax ratio is still 11% in year 2015, while other neighbouring countries, such as Singapore and Malaysia has higher ratio, 24% and 18% respectively. Indonesia tax receipt also never achieving the target in the last 5 years (2010 – 2015), even tax revenue realization in year 2015 is only 85% of the target. The lower amount of tax revenue might be caused of several factors. One of the factors was tax avoidance practice conducted by Indonesia's taxpayer, especially corporate tax payer. Tax avoidance practice conducted to reduce income tax payable of the company legally. Company used several methods to conduct tax avoidance, but the most common method is to use the accounting methods (M.Zain, 2005; Jones, 2012). Company also used estimation to increase the expenses and creating several allowances to reduce the income.

Tax avoidance level vary across the companies. Previous research showed that several companies tend to do tax avoidance compare to the others. The reason might related to economies of scale and complexity issues, e.g if the company has more business unit, the tax charged might be increased (Mills et al. 1988; Rego 2003; Chen et al. 2010). Many researcher used different proxies to represent company characteristics. Minnick and Noga (2010) used size, book-to-market ratio, profitability, leverage, discretionary earnings, and ratio of advertising expense and capital expenditure as a proxy for firm characteristics. Taylor and Richardson (2012) used firm size, leverage, capital intensity, inventory intensity, R&D intensity, return on assets, and industry sector and year effects. Beside the company specific factors, several research also showed that corporate governance can mitigate tax avoidance practice. Desai and Dharmapala (2007) argue that tax avoidance scheme can be overcome by a good governance system. Previous researcher used many proxies to represent corporate governance, Minnick and Noga (2010) used board composition, entrenchment, board compensation and executive compensation. Wahab and Holland (2012) used ownership structure, board structure, and compensation structure. However, as the researcher analyzed, several previous research still showed some inconsistencies of results.

This research will analyze family firms tax avoidance practice. Several previous researchs still produce different result. Private family firms appear to be less tax aggressive compared to nonfamily firms (Steijvers & Niskanen, 2014; Chen et al., 2010; Desai and Dharmapala, 2006; Monterrey and Sánchez, 2010). Steijvers & Niskanen (2014) argue that family firms tend to avoid practice that can damage the company reputation, including aggressive tax avoidance. All of previous research conducted in high alignment country, in which financial accounting and tax reporting has similiar requirements and principles. Indonesia has materially different financial accounting and tax reporting rules, so it is interesting to see if the result in Indonesia will be different from previous research.

This research tried to elaborate the company characteristics and corporate governance as a variable that affecting aggressive tax avoidance practices. This research will used several proxies used by previous research, so it can give broader picture of measurement of company characteristics and corporate governance. This research will also take 5 year period (2011 – 2015), so it can gave more recent view of tax avoidance practice in Indonesia. This research will give a new insight to the tax avoidance practice and hopefully can give more clear view about tax avoidance practice between family and non family firms in Indonesia. Family firms and non family firms will be a major comparison in this research. The next section of the paper will present relevant literature review and is followed by sections on research methodologies, results, further analysis and finally the conclusion and suggestion for future research.

## 2. Literature Review

This section will discuss about relevant literature review regarding tax avoidance, company characteristics, and corporate governance. This section will present a clear link between variables studied in this research, as well as a theoretical foundation of this research.

### 2.1 Tax Avoidance and Firm Motivation

Jones (2012) describe tax avoidance as consists of legitimate means of reducing taxes. In a company perspective. Jones (2012) also argue that the objective of business decisions is to maximize the value of the firm, therefore If a transaction results in an increase in any tax for any period, the increase (tax cost) is a cash outflow, and if a transaction results in a decrease in any tax for any period, the decrease (tax savings) is a cash inflow. Tax cost must be lower than tax savings, so the company can increase their value. Hanlon and Heitzman (2010) argue that tax avoidance had define very broadly. The usual theme of tax avoidance is about uncompliance or aggressiveness. Danny and Darussalam (2007) defined the aggressive tax avoidance as: “unacceptable method of reducing income taxes from point of view of tax authority, although it is legal to conduct it”. They also describe several methods to avoid tax aggressively, e.g thin capitalization, transfer pricing, or treaty shopping

Theory of corporate tax avoidance discussed heavily in several previous research. Hanlon and Heitzman (2010) elaborate agency theory to explain tax avoidance behavior. They stated that in the corporation, there is a separation between ownership and control. Manager will act and think that if tax avoidance is a good activity, then the owners ought to structure appropriate incentives to ensure that managers make tax-efficient decisions. Desai and Dharmapala (2007) also stated that interaction of corporate governance and tax planning will make different view of firm value. Investor will view aggressive tax avoidance to reduce firm value, especially in a company with lack of good corporate governance. However, in a company with strong corporate governance, tax avoidance will have no significant effect to firm value.

This research will used effective tax rate (ETR) as a measurement for tax avoidance. Hanlon and Heitzman (2010) stated that effective tax rate are computed by dividing some estimate of tax liability by a measure of before-tax profits or cash flow, however variations of ETR exist in the previous research. This research used GAAP based ETR. Minnick and Noga (2010) argue that ETR is good to measured long run tax avoidance, and since this research used 5 year data, then this measurement was deemed suitable.

#### 2.1.1 Tax Avoidance and Family Firms

Wang et.al (2016) argue that corporate ownership is an important factor influencing decision making in business. Several previous research show that family business goals is driven by motivation to maintain legacy and to keep the family reputations (Habbershon, et.al, 2003; Carney, 2005; Zahra, et.al, 2004). Therefore Family business goals sometimes viewed as a multidimensional concept formed by economic and social aspects that combines two scales: economic versus non-economic orientation and family versus business orientation (Basco, 2017). This research showed that family business sometimes face dilemma to maintain good reputation while in the same time need to conduct a profit maximization for a benefit of a

business. Carney et.al (2015) stated that private family firms has different behavior with non public family firms. Public family firms has shareholder outside the family, and this shareholder demand more profit to the company. Therefore public family firms tend to do more business-oriented action, compare to family-oriented action.

Chen et.al (2010) research is one of the main research that can explain the family firms tax aggressiveness. At first, it was thought that family firms is more aggressive than non family firms. Chen et.al (2010) because family owners have substantially higher holdings, they benefit more from tax savings or rent extraction that can be concealed by tax aggressive activities. However the Chen's research result showed different things. The result showed that family firms tend to be less aggressive. Family firms tend to protect the reputation, especially in the country in which family entrenchment is deemed not too important. Another research made by Gregorio et.al, (2016) indicate that as family firms move to second or third generation, these generations were less tax sophisticated, and tend to be oriented to business, so they conduct more aggressive tax avoidance. However, for family firms with higher power or control, it will become less tax aggressive.

Corporate governance may also impact family firms tax aggressiveness. Steijvers & Niskanen (2014) stated that the presence of efficient board of directors may reduce tax aggressiveness. Therefore, these boards appear to reduce the tax aggressive behaviour of family firms in second or third generations. It is interesting to test whether the family ownership is affecting tax avoidance. Researcher construct hypothesis as follows:

**H<sub>1</sub>: Family Ownership significantly affected tax avoidance**

## *2.2 Firm Characteristics*

Hanlon and Heitzman (2010) stated that research regarding tax avoidance currently examine the relation between firm-level characteristics and tax avoidance using a number of the proxies. In this research, we will use 4 company characteristics variable: (1) profitability, (2) size, (3) leverage, (4) age of the company.

### *2.2.1 Profitability*

Minnick and Noga (2010) argue that a main reason why companies engage in tax management is to improve financial performance. If we looked at the bonus plan hypothesis, Higher level profit firm tend to increase the profit to improve their performance, and it will minimize several cost, i.e. is income tax (Godfrey, et.al, 2010). However, if we also looked at political cost theory, the profit firm will try to maintain their reputation to gain more investor confidence, and will minimize the use of aggressive method of earnings management (Scott, 2003). Wahab and Holland's (2012) research showed that profitability affected tax avoidance. However, Adhikari, (2006) and Taylor and Richardson (2013) research showed inconsistencies of the result. Since the result is still inconsistency, researcher predict no sign in the hypothesis. Researcher construct hypothesis as follows:

**H<sub>2</sub>: Profitability significantly affected tax avoidance**

### *2.2.2 Size*

Dyreng et al. (2008) suggest that firm size play a role in tax management, and they find that smaller firms have higher tax rates. Rego (2003) argues that larger firms can achieve

economies of scale via tax planning and have the incentives and resources readily available to them to reduce the amount of corporate taxes payable. The previous research result, however showed inconsistencies, Minnick and Noga's (2010) research showed that firm size positively affected tax, if the measurement of tax avoidance is using GAAP ETR, it shows no significant influence if the measurement is using Cash ETR. Taylor and Richardson (2013) also showed no significant influence between size and tax avoidance. Measurement of size can be used several proxy, but natural logarithm of total asset is widely used proxy, so researcher decide to adopt it's as a proxy of size. Since the result is still inconsistency, researcher also predict no sign in the hypothesis. Researcher construct hypothesis as follows:

**H<sub>3</sub>: Size significantly affected tax avoidance**

*2.2.3 Leverage*

High level of debt can also affected the tax avoidance of the company. Minnick and Noga (2010) argue that company with higher leverage used interest expense of liabilities to reduce the amount of income tax payable. Badertscher et.al (2013) stated that firms with greater leverage have less need to tax plan due to the tax benefits of debt financing. The research result still showed that leverage didn't significantly affected tax avoidance. Minnick and Noga's (2010) and Taylor and Richardson (2013) research showed that leverage didn't affected tax avoidance. However research conducted by Badertscher et.al (2013) showed that leverage positively affected tax avoidance, measured by GAAP ETR. The measurement of leverage using debt to equity ratio, since capital structure (debt or equity) become a reason of doing tax avoidance (Minnick and Noga, 2010; Hanlon and Heitzman, 2010) Since the result is still inconsistency, researcher also predict no sign in the hypothesis. Researcher construct hypothesis as follows:

**H<sub>4</sub>: Leverage significantly affected tax avoidance**

*2.3 Corporate Governance*

Desai and Dharmapala's (2007) research is one of research that try to elaborate corporate governance and tax avoidance. They argue that corporate governance affecting the tax avoidance, and it will affected the firm value. Hanlon and Heitzman (2010) also stated that tax avoidance involving manager's behavior and based on agency theory, manager will tried to achieve maximum utility by engineering the financial performance (Jensen and Meckling, 1976). Increase monitoring and incentives in governance will reduce "bad practice" and therefore reduce tax avoidance. This research will tried to elaborate several proxies, namely: (1) size of board of commissioner (2) proportion of independent commissioner (3) audit firms (4) audit committee.

*2.3.1 Size of Board of Commissioner*

Indonesia adopt two tier board system. In this system, the monitoring and executive function was separated. Monitoring function conducted by board of commissioner. The board of commissioners serves as an internal monitoring mechanism to protect the interests of



stockholders (Jensen, 1993; Minnick and Noga, 2010). The board of commissioner can have inside and outside commissioner. Several previous research showed that larger boards with more inside directors tend to have more agency problems, since the commissioner have more power to be abusive and only act on interest of majority shareholder (Scott, 2003; Godfrey, et.al, 2010). Previous research still showed inconsistencies. Wahab and Holland (2012) didn't find the evidence that size of board affected tax avoidance. Minnick and Noga (2010) find a significant, but weak affected of size of board toward tax avoidance. Researcher construct hypothesis as follows:

**H<sub>5</sub>: Size of Board of Commissioner significantly affected tax avoidance**

### *2.3.2 Proportion of Independent Commissioner*

Indonesia board system used terminology of "independent commissioner" as an equal for outside director. Inside director provide several opportunity to increase aggressive behavior, and therefore will fail to control the company (Jensen, 1993). Outside director provide more monitoring mechanism, since the outside director is independent and not having direct or financial interest within company. Several previous research have proofed that percentage of outside director reducing the act of tax avoidance (Minnick and Noga, 2010;;Taylor and Richardson, 2013; Armstrong, et.al, 2015). However, several previous research also failed to find any affected between proportion of independent commissioner toward tax avoidance (Wahab and Holland, 2012). Since the result is still inconsistency, researcher also predict no sign in the hypothesis. Researcher construct hypothesis as follows:

**H<sub>6</sub>: Proportion of Independent Commissioner significantly affected tax avoidance**

### *2.3.3 Audit Firms*

External audit firms may affected tax avoidance practice of company. McGuire et.al (2013) argued that external audit firms might be include several tax expertise. Tax expertise will give advise company to reduce income tax legally. However, since it's difficult to find tax expertise data of auditor in Indonesia, this research will used Big 4 audit firm, to distinguish audit firms. Based on several previous research, Big 4 audit firms have more capable and competent resource qualified as a tax expertise, compare to non Big 4 audit firms. Previous research that tried to make inference of audit firms to tax avoidance is still rare. Research made by McGuire et.al (2013) showed that use of Big4 audit firms increase tax avoidance level of the firm. However, researcher will make no prediction on sign of hypothesis, since lack of previous research and literature. Researcher construct hypothesis as follows:

**H<sub>7</sub>: Audit Firms significantly affected tax avoidance**

### *2.3.4 Audit Committee*

In Indonesia, audit committee is the special committee under board of commissioner. The role of audit committee is to give advise to board of commissioner relating to financial and audit matters, and also provide general monitoring mechanism on behalf of board of commissioner. (Agoes and Ardana, 2012). Audit committee member usually had an accounting

or financial expertise. Audit committee might have role on tax avoidance. There is no previous research regarding on audit committee role on tax avoidance, based on researcher knowledge. But if we used a political cost hypothesis, role of audit committee can reduce tax avoidance practice. Researcher construct hypothesis as follows:

**H<sub>8</sub>: Audit Committee significantly affected tax avoidance**

### 3. Research Method

This research uses the descriptive explanatory approach, following the quantitative methodology. The population in this research consists of all the companies listed on the Indonesian Stock Exchange, a total of 533 companies. Researcher select sample using purposive sampling method. Researcher will select companies that listed for 5 consecutive years in 2011 – 2015, excluding financial and mining companies, do not have ETR value > 1, and not suffering a net loss for 5 years in 2011 – 2015. The total of family companies is 57 companies. The criteria to select the companies was taken from Sukmadilaga et.al (2016). Sukmadilaga et.al (in press) determined that the family business must have either of this criteria: (1) Have family ownership minimum 15% (2) Have family members acting as chair of board of commissioner or board of directors. From 57 companies, only 15 companies made to final sample. To make a fair comparison, researcher select 15 non family firms, which has the same company size as a family firms in the sample Final sample collected is 30 companies. The years 2011–2015 (5 years) are selected as the observation period. The data are collected using the financial statements of the companies for the years ending in 2011–2015.

To analyze data in detail and to make a better comparison accross all the group of companies, we make three data sets consists of : (A) Family firms only (B) Non family firms only (C) Both firms. Panel A and B will be a basis of comparison of analysis of company characteristics and corporate governance influence toward tax avoidance in family and non family firms. Panel C will be used to see if family ownership affecting tax avoidance. To answer all the hyphotheses we will use this model for panel A and B:

$$TA = \alpha_0 + \alpha_1 PROFIT + \alpha_2 SIZE + \alpha_3 LEV + \alpha_4 SIZE\_BRD + \alpha_5 IND\_BRD + \alpha_6 AUD + \alpha_7 AUD\_COM + \varepsilon \quad (1)$$

While for panel C, the model is as follows:

$$TA = \alpha_0 + \alpha_1 PROFIT + \alpha_2 SIZE + \alpha_3 LEV + \alpha_4 SIZE\_BRD + \alpha_5 IND\_BRD + \alpha_6 AUD + \alpha_7 AUD\_COM + \alpha_8 FAMILLY + \varepsilon \quad (2)$$

Notes:

TA	: Tax Avoidance, measured by GAAP ETR (Income Tax Expense / Pre-tax Income)
PROFIT	: Profitability, measured by Return on Asset
SIZE	: Size, measured by natural logarithm of total assets
LEV	: Leverage, measured by Debt-To-Equity Ratio

SIZE_BRD	: Size of board of commissioner, measured by number of member of board of directors
IND_BRD	: Proportion of independent commissioner, measured by number of member of independent commissioner divided by number of member of board of directors
AUD	: Audit firms, measured by 1 for Big 4 audit firms, and 0 for other.
AUD_COM	: Audit committee, measured by number member of audit committee.
FAMILY	: family companies, measured by using dummy variables (1=Family firm, 0=Non family firms)

Data analysis will be conducted using multiple regression analysis. Classical assumption tests in form of normality, multicollinearity, heteroscedasticity, and autocorrelation will be done to assure that the model fit before entering regression process. All the data analysis will be done by using E-Views 8.0 software

#### 4. Result and Discussion

This section will present research result based on the empirical data found by researcher. Researcher will first describe the descriptive statistics of this research, and then present the multiple linear regression result and analysis.

##### 4.1 Descriptive Statistics

Based on the data found, the researcher can present the result on Table 1 below. Table 1 present 3 panel of data. From the table below we can see that mean value of family firms ETR is lower compare to non family firms. The mean differences is significant at  $\alpha = 10\%$ . However, the level of family and non family firms ETR is still lower to current Indonesia's income tax rate (currently 25%). From the corporate governance perspectives, we can see that average number of board of commissioner and percentage of independent comisioner is lower compare to non family firms. However, only mean difference in size of board of commissioner that statistically significant at  $\alpha = 5\%$ . Family firms in the sample mostly audited by Big4 audit firms, while non family firms in the sample were mostly audited by non big4 audit firms. The difference sign is significant at  $\alpha = 1\%$ . There is no significant difference of number of audit committee member of family and non family firms. From the company characteristics, profitability of family firms is slightlt lower than non family firms, and the mean differences is statistically significant at  $\alpha = 5\%$ . However, family firms has low level of leverage compare to non family firms, and the mean differences is statistically significant at  $\alpha = 5\%$ . Size of companies in family and non family firms has no significant differences.

**Table 1**  
**Descriptive statistics**

Variables	Min	Max	Mean	Std Dev
<b>Panel A: Family Business Only</b>				
AUDIT	,0	1,00	,5500	,50169
SIZE_BRD	3,00	8,00	4,3667	1,62571
IND_BRD	,33	,50	,3888	,06861
AUD_COM	,00	5,00	3,0000	,99149
LEV	,15	2,27	,8156	,48900
PROFIT	,00	,27	,0840	,06744
SIZE	26,55	30,84	28,7609	1,24115
TA	,00	,41	,1922	,09023
<b>Panel B: Non Family Business Only</b>				
AUDIT	,00	1,00	,1667	,37582
SIZE_BRD	3,00	9,00	5,0333	1,67703
IND_BRD	,00	,71	,3940	,12827
AUD_COM	,00	4,00	2,8333	,88618
LEV	,00	3,03	1,0625	,58287
PROFIT	,02	,66	,1126	,12273
SIZE	23,12	31,35	28,5490	2,00571
TA	,02	,43	,2132	,09098
<b>Panel C: All Companies</b>				
AUDIT	,00	1,00	,3583***	,48152
SIZE_BRD	3,00	9,00	4,7000**	1,67833
IND_BRD	,00	,71	,3914	,10246
AUD_COM	,00	5,00	2,9167	,94008
LEV	,00	3,03	,9391**	,54987
PROFIT	,00	,66	,0983**	,09965
SIZE	23,12	31,35	28,6550	1,66421
TA	,00	,43	,2027*	,09084

Notes:

- \*\*\* : significant at  $\alpha = 1\%$
- \*\* : significant at  $\alpha = 5\%$
- \* : significant at  $\alpha = 10\%$

#### 4.2 Multiple Regression Analysis

Before conducting multiple linear regressions, researcher conducted classical assumption test. Based on the classical assumption, there are problems of heteroscedasticity and autocorrelation. Since the model has heteroscedasticity and autocorrelation, researcher decide to adopt a robust regression model by using Heteroscedasticity Autocorrelation Correction (HAC). HAC will

used a Newey-West Method. Multiple linear regressions has been done with HAC-Newey West estimator, using Eviews 8.0 statistical software. The regressions equation provided to be as follows:

**Table 2**  
**Multiple Regression Results**

Variable	Expected Sign	Coef	Prob.	Coef	Prob	Coef	Prob
		Panel A: Family Companies		Panel B: Non Family Companies		Panel C: All Companies	
C	(?)	1.460	0.000***	0.408	0.007***	0.381	0.016**
AUDIT	(?)	0.088	0.001***	-0.049	0.003***	0.088	0.001***
AUD_COM	(?)	0.018	0.024**	0.195	0.000***	-0.006	0.277
DEBT	(?)	0.112	0.000***	-0.057	0.007***	-0.003	0.419
IND_BRD	(?)	-0.441	0.026**	0.157	0.040**	0.061	0.278
PROFIT	(?)	-0.200	0.100*	-0.521	0.000***	-0.336	0.002***
SIZE	(?)	-0.048	0.000***	0.003	0.283	-0.003	0.290
SIZE_BRD	(?)	0.024	0.004***	-0.022	0.002***	-0.008	0.108
FAMILY	(?)					-0.071	0.003***
Adj R <sup>2</sup>			0.266		0.379		0.093
F-stat			4.069		6.156		2.351
Prob			0.001***		0.000***		0.018**

Notes:

- \*\*\* : significant at  $\alpha = 1\%$
- \*\* : significant at  $\alpha = 5\%$
- \* : significant at  $\alpha = 10\%$

From Table 2 above, we can see that from the three panel data, all the model were statically significant. In the panel A, all variables are statistically significant, while in panel B only size that not statistically significant. Panel C – combination of all firms – showed that family firms negatively affected the ETR, which mean that family firms are tend to have more tax avoidance. We can see that from this three panel data, audit firms has significant affected toward tax avoidance, however in panel B, the sign is negative, while the other panels show the positive sign. Audit committee significantly affected tax avoidance in Panel A and B, but if the data combined, it showed no significant influence. From the board characteristics, independent board showed negative sign in Panel A, but positive sign in Panel B. Size of board of commissioner showed positive sign in Panel A, but negative sign in Panel B. The difference in coefficient sign prove to be very interesting, since in family firms, independent commissioner tend to influence more tax avoidance, while board of commissioner as a whole reduce tax avoidance. In non family firms, the results is reversed. Independent commissioner reduce tax

avoidance, while size of board of commissioner increase tax avoidance. From company characteristics, higher profitability tend to increase tax avoidance. This result prove to be consistent accross three panel of data. Other company characteristics variable, debt and size showed less consistent results. Debt positively affected tax avoidance in family firms, but negatively in non family firms, while size of company only significantly affect tax avoidance in family firms.

#### 4.3 Discussion

This research showed several interesting results. Generally, family firms tend to have more tax avoidance rather than non family firms. This research result confirm the previous theory made by Chen et.al (2010). This research showed that in Indonesia, family companies more driven by motivation to increase the performance of company, rather than keeping he good reputation. Indonesia also still had problem with high tax corruption, so the awareness and compliance of tax in Indonesia are still low. From the company characteristics related variables, profitability, size, and leverage of company showed different results in family and non family firms. In all 3 panels, profitability showed negative sign, which means the higher the profitability, the lower the effective tax rate. This research result is the same like previous result made by **Wahab and Holland (2012)**. This research also confirm the theory of bonus plan hypothesis, in which the management will seek a way to maximize the financial performance, by reducing several expense including tax expense. Size showed negative results in family firms, which means that larger family firms tend to do tax avoidance, while in non family firms, size didn't significantly affect tax avoidance practice. This result is quite interesting, since the results in non family firms seems to support the political cost theory, in which big companies will trying to prevent "negative reputation" by not engaging into agressive action. This research result however, similar to result found by **Minnick and Noga's (2010)**. Family firms research result however, showed that larger family firms posses more resources and knowledge to do more tax avoidance practice. The research results confirm previous research done by Dyreng et.al (2008), Rego (2003), and Minnick and Noga (2010). Leverage, is significantly affected tax avoidance, and this result was in line with **Minnick and Noga's (2010) and Taylor and Richardson (2013)**. There is an interesting difference, however, in a family firms we found there is a negative association between debt and tax avoidance, while in non family firms the association is positive. This research findings confirm that family firms and non family firms has different view on leverage and tax avoidance. Family firms' debt mostly are debt between related parties, and usually interest expense from the related parties cannot be deducted for tax purposes, while non family firms engaging in more non related debt, in which interest expense can be deducted for tax purpose, so it lowering the tax paid by company. Generally, This research showed that managers might be viewed debt as a burden for company performance (**Gitman, 2006; Godfrey, et.al, 2010**). Therefore the manager will choose to remove the burden, rather than utilize it as a tax avoidance tools. Corporate governance variables also showed several interesting results. From 4 variables analyzed, size of board of commissioner, independent commissioner, audit firms and audit committee affected tax avoidance. For size of board of commissioner and independent commissioner, the coefficient

sign showed several contradictive results. For size of board of commissioner in family firms, it negatively affect tax avoidance, while in non family firms the results is positive. For independent commissioner in family firms, it positively affect tax avoidance, while in non family firms the results is negative. The result for board of commissioner in family firms seemed to be consistent with Minnick and Noga (2010) results. It's implied that family firm's board tend to discourage tax avoidance as a whole, but independent commissioner tend to encouraging more tax avoidance. This could confirm the previous results made by Hermiyetti and Manik (2013). Existence of independent commissioner in family firms is only for meeting government regulations, family owner has greater control over the company. However, the family board member still need to maintain company reputation, so it will maintain monitoring activities to reduce several risks in company. In non family firms, size of board commissioner positively affected tax avoidance, while independent commissioner negatively affected tax avoidance. This result showed similarity with **Wahab and Holland (2012)**. This research also confirm previous theory made by **Godfrey et.al (2010)** that member of commissioner engaging in a tunneling activities, that increasing the wealth of majority shareholder. Independent commissioner in non family firms also showed its function in reducing tax avoidance, and this is in accordance with Minnick and Noga, (2010), Taylor and Richardson (2013), Armstrong, et.al (2015). Audit firms is significantly affected tax avoidance, but there is a different coefficient sign between family and non family firms. In family firms, Big4 audit firms tend to advice tax avoidance, while in non family firms, the Big4 audit firms advice to reduce tax avoidance. In family firms, this research result confirmed McGuire et.al (2013) and also Chen et.al (2016) research. Chen et.al (2016) stated that family business not audited by Big4 has more chance to restate the financial statements voluntarily. While in the non family business, the Big4 audit firms tend to advice company to reduce its tax avoidance. Its implied that Big4 audit firms is more conservative in doing an audit, so the Big4 audit will advise the client to strictly follow tax rules, rather than to do a tax avoidance. Audit committee showed positive sign, which mean the more number of audit committee member in company, lead to higher effective tax rate. This research result are consistent in both family and non family firms. This results also showed that audit committee play a significant role in preventing aggressive behavior.

## 5. Conclusion

This research showed that in general there is a relationship between company characteristics and corporate governance to tax avoidance practice. However, as we seen in the discussions, several variables showed different results in family and non family firms. In the company characteristics related variables, it is implied that family firms and non family firms motivation to do tax avoidance is based on profitability level, size and leverage didn't have the same effect in family firms and non family firms. Corporate governance related variables also showed different results. Size of board of commissioner and independent commissioner has opposite coefficient sign in family and non family firms. The results indicate that while independent commissioner in family firms cannot resist the family members influence in company, it can be truly "independent" in the non family firms. Size of board member in family also reducing tax avoidance in order to avoid negative reputation, while in non family firms, there is no additional need like in family members, so members will conduct tunneling

mechanism to benefited majority shareholder. Audit firms also has different sign in family and non family firms. It showed clearly that there is a significance difference in governance structure of family and non family firms.

This research only able to select 15 out of 57 companies. The sample size perhaps is too small to generate a robust conclusions, so future research might expand the sample. Future research might tried to add several more proxies to better represent clearly the company characteristics and corporate governance related variables.

## References

- Adhikari, A., Derashid, C., & Zhang, H. (2006). *Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia*. *Journal of Accounting and Public Policy*, 25, 574–595.
- Armstrong, Chris; Blouin, Jennifer L; Jagolinzer, Alan D; and David F Larcker (2015). *Corporate Governance, Incentives, and Tax Avoidance*. *Journal of Accounting and Economics* 60 (August 2015): 1–17.
- Badertscher, B.A; Katz, S.P; and Sonja, O. Rego. (2013). *The separation of ownership and control and corporate tax avoidance*. *Journal of Accounting and Economics* 5, 228–250
- Basco, Rodrigo. (2017). “Where do you want to take your family firm?” A theoretical and empirical exploratory study of family business goals’, *Business Research Quarterly* (20), 28-44
- Carney, M., 2005. Corporate governance and competitive advantage in family-controlled firms. *Entrep. Theory Pract.* 29, 249-265.
- Carney, M., Van Essen, M., Gedajlovic, E.R., Heugens, P.P.M.A.R., 2015. What do we know about private family firms? A meta-analytical review. *Entrep. Theory Pract.* 39, 513–544.
- Chen, S., Chen, X., Cheng, Q., Shevlin, T., (2010) .Are family firms more tax aggressive than non-family firms? *Journal of Financial Economics* 95,41–61
- Chen, K.L., Chang, S.H., Wang, T.S., (2016). ‘Do Personnel Stability, Family Business and Auditor Influence Financial Restatement?’, *International Journal of Economics and Financial Issues*, 2016, 6(1), 245-251.
- Danny Septiriadi and Darussalam. (2007). *Basic Concept of International Taxation*. Jakarta: Danny Darussalam Tax Center.
- Desai, Mihir A., and Dhammika Dharmapala. (2006) *Corporate Tax Avoidance and High Powered Incentives*. *Journal of Financial Economics* 79, no. 1 (January 2006): 145–179.
- Dyreng, S., Hanlon, M., Maydew, E., 2008. *Long-run corporate tax avoidance*. *Accounting Review* 83, 61–82.
- Gitman, L.J. (2006). *Principles of Managerial Finance 9<sup>th</sup> edition*. New York: Prentice Hall. Inc.
- Gregorio Sánchez-Marín María-José Portillo-Navarro José G. Clavel , (2016), "The influence of family involvement on tax



- aggressiveness of family firms", *Journal of Family Business Management*, Vol. 6 Iss 2 pp. - Godfrey, Jayne; Hodgson, Allan; Tarca, Ann; Hamilton, Jane; and Scott Holmes. (2013). *Accounting Theory 7<sup>th</sup> edition*. New York: John Wiley and Sons Inc.
- Habbershon, T., Williams, M. and MacMillan, I. (2003), "A unified systems perspective of family firm performance", *Journal of Business Venturing*, 18, 451–465.
- Hanlon, Michelle and Shane Heitzman, (2010) *A Review of Tax Research*. *Journal of Accounting and Economics* 50 127–178
- Hermiyatti, and Manik, E.N. (2013). 'The Influence of Good Corporate Governance Mechanism on Earnings Management: Empirical Study in Indonesian Stock Exchange Listed Company for Periods of 2006-2010', *Indonesian Capital Market Review*, Vol 5(1), 52 – 63.
- Jensen, M.C. (1993). *The Modern Industrial Revolution, Exit, and The Failure of Internal Control Systems*. *The Journal of Finance* 48, (1993): 831-880.
- Jones, Sally. 2012. *Principles of Taxation for Business and Investment Planning 14th edition*. New York: McGraw Hill. Inc
- McGuire, S.T; Omer, T.C; and Dechun Wang. (2013). Tax Avoidance: Does Tax-Specific Industry Expertise Make a Difference? *The Accounting Review* 87 ,3 pp 975 – 1003.
- Mills, L., Erickson, M., Maydew, E., (1998). *Investments in tax planning*. *Journal of American Taxation Association* 20, 1–20.
- Minnick, K. & Noga, T. (2010), *Do Corporate Governance Characteristics Influence Tax Management?*, *Journal of Corporate Finance* 16 (5), Elsevier, 703-718
- Mohammad Zain. 2005. *Manajemen Perpajakan Edisi ke-3*. Jakarta: Salemba Empat.
- Monterrey, J. and Sánchez, A. (2010), "Differences in tax aggressiveness between family and non-family companies", *Spanish Journal of Finance and Accounting*, 145, 65–97.
- Rego, S. (2003), *Tax Avoidance Activities of U.S. Multinational Corporations*, *Contemporary Accounting Research* 20 (4), Wiley, 805-833.
- Scott, William R. (2006). *Financial Accounting Theory 6th edition*. New York: Prentice Hall. Inc
- Steijvers, Tensie and Niskanen, Mervi. (2014). 'Tax aggressiveness in private family firms: An agency perspective.', *Journal of Family Business Strategy* (5) 347–357
- Taylor, Grantley and Grant Richardson. (2013). *The determinants of thinly capitalized tax avoidance structures: Evidence from Australian firms*. *Journal of International Accounting, Auditing and Taxation* 22 (2013) 12– 25
- Wahab, Nor Shaifah Abdul and Kevin Holland. (2012). *Tax planning, corporate governance and equity value*. *The British Accounting Review* 44 (2012) 111–124
- Wang, D., Ma, G., Song, X., Liu, Y. (2016). 'Political connection and business transformation in family firms: Evidence from China. *Journal of Family Business Strategy* (7) 117–130
- Zahra, S.A., Hayton, J.C. and Salvato, C. (2004), "Entrepreneurship in family vs. non-family firms: A resource-based analysis of the effect of organizational culture", *Entrepreneurship Theory and Practice*, 28, 363–381.

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**OWNERSHIP STRUCTURE, CORPORATE GOVERNANCE, AND  
RELATED PARTIES TRANSACTIONS: STUDY IN INDONESIAN  
FAMILY COMPANIES.**

**Arie Pratama**

*Universitas Padjadjaran, arie.pratama@fe.unpad.ac.id*

**Abstract**

*Related parties transaction is growing rapidly in Indonesian companies. Related parties transaction may be a sign of non arms-length and might lead to distortion of financial statements information. This research will focused on related parties transaction in family companies. This research mainly would investigate whether the family ownership and governance structure (i.e size of board of director, proportion of independent director, external audit firms, and audit committee) would significantly affected the related party transactions. To control the results, researcher used size, profitability and leverage. As an additional study, this research will also investigate whether there is a significant difference between related party transactions amount accross different industries in Indonesian family companies.*

*This research was quantitative explanatory research. Researcher will analyzed 23 out of 57 family own-business in Indonesia. Researcher examined the financial statements and annual report from year 2011 – 2015. The research will used multiple regression, and One Way Analysis of Variance as a data analysis tools.*

*The research showed that (1) family ownership positively affected the related party transactions; (2) Corporate governance of family companies not affected the related party transactions; (3) There is a significant difference among RPT value accross different industries in Indonesia. Overall this research showed that family business need to improve the governance structure to control its related party transactions.*

**Keywords:** *Corporate Governance, Family Business, Ownership, Related Party Transactions.*

---

**DESIGNING COMPETITIVE ADVANTAGE TO ACHIEVE  
ORGANIZATIONAL PURPOSE****Kristina Aryanti Nugroho<sup>1</sup>, Hora Widjaja Tjitra<sup>2</sup>, Dek Sintya Adinda Sari**<sup>1</sup>Tjitra & associates, k.aryanti@tjitra.com<sup>2</sup>Tjitra & associates, h.tjitra@tjitra.com

---

**ABSTRACT:**

*In 2016, The World Bank downgraded the global growth forecast by half a percentage point, but Indonesia's economy remains resilient. Now, in its most recent report, it was stated that Indonesia's reforms to fiscal policy and the investment climate are expected to boost the economy (worldbank.org). This data provide baseline for McKinsey' forecast as Indonesia - the South East Asia biggest economy - to be among the 7th largest economic powers in the world (The McKinsey Global Institute, 2012).*

*It had been widely acknowledged that family businesses had a long history serves as Indonesian economic pillar. Recent survey by PwC (2014) addressed that in today's economic climate family businesses acknowledge they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations to be able to cope with fast - paced business demands. Therefore, transformation is a gaining ground as key concern.*

*Our recent work with some family business using grounded theory approach to gain understanding on gap between current situation and future vision. One of the key common pitfalls in managing family business is the unclear organizational structure. Confusing job role & responsibility distribution, ambiguous decision making, and unclear structure within top management level being the main characteristics. Therefore, within the transformation itself, the needs for designing structure with the combination of strategic approach & operational approach, is highly needed.*

**Keywords:** *professional, transformation, grounded theory, strategic, ambiguous*

**1. Introduction**

The role of family businesses in moving the economy of a country is evitable. In an article written by Jakarta Consulting Group/JCG (2014), stated that as many as ninety percent of

fifteen million companies in the US is a family-based company's business. Family businesses in the US have even contributed GNP up to forty percent.

Not least in Indonesia, family businesses have long been a key pillar of the Indonesia economy. Actually the existence of family business in the economic sector is not new. When the economic crisis hit Indonesia in 1997/1998 and 2008, family business stood still as a pillar of strength in the capital at a time of national economy recovery (Simanjuntak, 2010). No wonder that in 2016 when The World Bank downgraded the global growth forecast by half a percentage point, Indonesia's economy remains resilient. Now, in its most recent report, it was stated that Indonesia reforms to fiscal policy and the investment climate are expected to boost the economy. Although there is no explanation how much the contribution given by family business in, but certainly the role of family business cannot be ignored.

Collectively, family businesses account for about 40 percent of the market capitalization of the top 125 listed companies in Indonesia and dominate key industries including real estate, agriculture, energy, and consumer goods (Boston Consulting Group, 2012). That is why even though in percentage compared to the overall population owner of family business just as much as 0.2%, in fact donations given by companies of this type in national economic development are enormous (PwC, 2014).

Despite the success of the family businesses in Indonesia, there are also other roles brought by family business toward Indonesian society. In a survey conducted by PwC towards 30 respondents from family businesses, 97% acknowledged the "strong sense of responsibility to provide jobs", and 73% said they also have "strong sense of responsibility to support community activities". This is in line with the number of Indonesia workers who are under the auspices of the family business is not small.

The success of family business in supporting the economy of a country is in a position above the average. Nevertheless, family business is also expected not negligent in competing with other business sectors. Recent survey by PwC (2014), addressed that in today's economic climate family businesses acknowledge that will have to adopt faster, innovate earlier, and become far more professional in the way they run their operations to be able to cope with fast-paced business demands. Moreover, the family business also need to constantly maintain and sustain their own competitive advantage.

Hoffman, Hoelscher, and Sorenson (2006) on their research "Achieving Sustained Competitive Advantage: A Family Capital Theory" confirmed that sustained competitive advantage occurs when a firm develops a distinctive core competency. Furthermore, Prahalad and Hamel (1990) had already observed that a basic core competency becomes a distinctive core competency when it is something not only that a company does very well (a core competency) but something the company does better than anyone else in this industry. In conclusion, every family business should run faster than the other businesses if they want to be a huge company in their own industry.

Like two sides of a coin, in addition to experiencing a positive development, family business also experienced challenges in maintaining continuity. Based on study conducted by BCG in 2012, there are five growing pains that are surprisingly faced by Family Businesses in Indonesia; a) Lack of a common vision and shared core values among members of the family and professional management, which leads to misalignment on the strategies that the business

needs to adopt; b) Organizational structure with multiple shortcomings including misalignment with company strategy, unclear roles, excessive layers, and inherent unscalability; c) Deficient governance systems that often impair the quality and speed of key decision making for both the “hard” issues and “softer” issues that involve the overlap of family and business; d) Perception management in which critical business decisions are made based on “gut-feel” and top management are compensated based on how well they perform in ad-hoc interactions with the chairman or owner instead of well-defined and agreed-upon Key Performance Indicators (KPI); and e) Weak and incomplete people platforms that impair identification and grooming of next-generation leadership.

Reacting to those problems, family business seems to have to transform into organization that is more well-organized if they want to still exist.

## **2. Literature Review**

### **a. Organizational Purposes**

Etzioni (in Daft, 2008) defined an organizational goal as a desired state of affairs that the organization attempts to reach. A goal represents a result or end point toward which organizational efforts are directed. However, to achieve success, organizational goals and strategies are focused with strategic intent. Hamel and Prahalad (2005) said strategic intent means that all the organization’s energies and resources are directed toward a focused, unifying, and compelling overall goal. At the end, the overall aim of strategic intent is to help the organization achieve a sustainable competitive advantage (Daft, 2008).

### **b. Competitive Advantage**

Strategic management is all about gaining and maintaining competitive advantage. The term competitive advantage was firstly mentioned by Michael E. Porter on his first book in 1985. Porter (1985) described competitive advantage as the way a firm can choose and implement a generic strategy to achieve and sustain competitive advantage. Meanwhile David and David (2017) defined competitive advantage as any activity a firm does especially well compared to activities done by rival firms, or any resource a firm possesses that rival firms desire.

### **c. Organizational Structure**

There are many different opinions and definitions on organizational structure. Walton (1986) identified structure as the basis for organizing, to include hierarchical levels and spans of responsibility, roles and positions, and mechanisms for integration and problem solving. Meanwhile Lawrence and Lorsch (1967) describe structure as the technique in which the organization is differentiated and integrated. Differentiation is related to the scope in which executives act quasi entrepreneurs, whereas integration is described in such a way that every member of the organization including managers will do their best to achieve organizational goals.

### **3. Research**

#### **Method a.**

##### **Research Design**

This study used a qualitative methodology, namely a grounded theory approach/design. From the perspective of research methodology, methods of qualitative analysis based on grounded theory paradigm has the goal of developing a theory without being linked to specific data, the direction of research, or theoretical interest. Qualitative analytical method assumes that researchers need to overcome the various levels of generalization in order to better understand social phenomena (Glaser & Strauss, 1967). Also a grounded theory design is a systematic, qualitative procedure used to generate a theory that explains, at a broad conceptual level, a process, an action, or interaction about a substantive topic (Creswell, 2005).

A grounded theory approach was decided as the data analysis technique that is most appropriate for two important reasons: First, the form exploratory needed in this research, which is more related to the discovery of something new compared to just do the verification. Second, this technique provides more space for creative and innovative models that encourage originality of research results.

#### **b. Method and Respondent**

Respondents in this study come from five family businesses in Indonesia, which is derived from a variety of industries ranging from health products, clothing, even mechanics. The data collected in this study came from OrgAlign Method created by Tjitra & associates in 2012. OrgAlign Method is a strategic management process started by evaluating current condition of specific strategic issues, which is anchored by having common agreement on the problem understanding, strategic goals and doable action plan, and will be closed at the implementation of the action plan and the achievement of the agreed goals. OrgAlign Method was made based on decision making approaches by Mintzberg & Wesley (2001) which is consist of thinking first, seeing first, and doing first. After obtaining data through the process of in-depth interviews and focus group discussions, data has been collected and then coded and classify according to the findings obtained.

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

#### **a. Result**

Our analysis and synthesis of the data revealed the gap between current situation and future vision, which is one caused by organizational structure. In the interview with the family business who become participants in this study, it seems there are still some conditions that indicate there is still unclear organizational structure in their companies. Some indications of the ambiguous organizational structure are:

## Unclear Structure in the Top Management Level

Unclear structure in the top management level is a state where there is disharmony at management level regarding to the decisions taking that affects, this unclear structure also can be defined as an unstable implementation structure that can be characterized by 1) their positions in the organizational structure holds too much responsibility at a time (overlapping), and 2) there is an unclear role that is responsible for certain jobs so the structure of organizations seems not to cover all parts of companies (unclear structure).

## Uncertain Decision Making

Unclear decision making is a condition where the organizational structure lacks of clarity in giving decision or reporting lines so the position who have to be responsible in the implementation confuse to execute the tasks and give command, also give impact to the company's documentation / administration

## Confused Job Role & Responsibility Distribution

Job description and job specification is an important component in the organizational structure. Simply, job description and job specification aim to explain clearly what the responsibilities of a position in a company are, also the ability and skill which is needed. This is why the unfit qualification / mismatched position will affect the implementation of the overall organizational structure.

For more details, here are the result of the data collection that has been done:

Table 1: Interview Transcript

Indicative codes	Representative quotes
<p><i>Ambiguous Structure</i> Unclear Structure in the Top Management Level</p>	<p>“There is no need of Director to maintain just the simple thing. So I think now you (Tjitra) here can guide them in making organizational structure”</p> <p>“I hope this company can be a big company and each department has their own responsibilities regarding to the product of our company”</p> <p>“There are so many overlap tasks here. One-person covers a lot of department”</p> <p>“Honestly I still confuse with my operational title, because I have to focus in so many things. Mechanics, electricity, logistic, until land acquisition”</p> <p>“There must be a decision that the regulation is coordinated with us first, because often the coordination only involves one person. So I hope the authority can be better next time.”</p> <p>“The communication here should have been done in two sides. For example, if there is an idea, it should be expanded to the people in horizontal line. The right and left people. Avoid the “already signing contract but there is no communication”</p>
<p>Uncertain Decision Making</p>	<p>“Management function is still overlaps, maybe we can face it when the company is still small but it will be problem when the company</p>

	starts bigger” “Organizational structure must be better than today, especially for the manager and director team” “Now I have responsibility in two departments, sometimes I feel like these too much tasks forced me a lot, like I do not have any time to think about other things”
Confused Job Role & Responsibility Distribution	“Do not let anyone has overloading work but there are others who has relaxing work “I have to understand what to do in the other parts, because I am handling some part, sometimes I feel it is just too much” “There is job description, but I still do not know the job completely. Also the job description is not professional” “The quality of human resources in some department need to be repaired. Sometime there are people who are not competence/unqualified which also make such a detrimental” “The other department who got unfit employee just shocked on that day, I think that is because we did not have a chance to involve in the requitment” “Education and Experience should be rewarded

## b. Discussion

The increasing competition in the business world demanding family business not to complacent and always strive to realize their organizational purpose. In addition, the family business is also expected to compete and demonstrate competitive advantage. One way that can be done by the organization is managing their organizational design.

Daft (2008) described that organizational design (structural form, information and control systems, production technology, human resources policies, organizational culture, and inter-organizational linkages) reflects the way goals and strategies are implemented so that the organization’s attention and resources are consistently focused toward achieving the mission and goals. By this explanation can be seen that transformation within organizational structure is one key to solving problems of a company in an effort to transform.

In fact, based on research conducted on some family business, there is still a family business that has ambiguous organizational structure. Issues within organization contains of confused job role and responsibility distribution, uncertain decision making, and unclear structure in the top management level. If this result was associated with the research by Corkindale (2011), poor organizational design and structure results in a bewildering morass of contradictions such as confusion within roles, a lack of coordination among functions, failure to share ideas, and slow decision -making bring managers unnecessary complexity, stress, conflict, low productivity and inhibit the business from growing.

At the end, once the organization has decided that redesign is in order it is important for everyone involved in the decision-making process to keep in mind the change (Nadler, Tushman, Nadler, 1997). There are two basic approaches to making design decision, the first type is top-down and the second one is bottom-up (Nadler, Tushman, Nadler, 1997).

### Top-Down Approach

Top-down approach deals almost exclusively with the organization’s top levels, focusing primarily on their composition and reporting relationships.



### **Bottom-Up approach**

Bottom-up approach is to start with the work being performed at the most basic level at which the organization manufactures its product or performs its service and do the redesign working bottom-up. This approach is advocated by many job design theorists and has been used extensively by internal staff groups within organizations.

Even though there are two approaches in redesigning organizations, these two approaches are not used for independently, but organization design needs to be done both ways. Designing top-down to implement the strategy and then, within the context of that design, designing from the bottom up to improve basic work processes and create meaningful and motivating jobs for individuals.

### **5. Conclusion and Implications**

The trends of competitiveness in business are forcing companies to become more efficient each day. When companies cannot face today's competition by adopting faster, innovating earlier, and becoming far more professional in the way they run their operations to be able to cope with fast-paced business demands; the collapse of the companies can be ensured a matter of time.

The transformation of the organizational structure is one of the initial steps that can be taken if the company want to initiate a change. The synergy between the strategic approach and operational approach is expected to form the ideal organizational structure that is well-aligned with business model, have clear command link, cover all parties, and have a comprehensive job description and job specification. Finally, the organizational structure as part of the organizational design will also lead the organization toward organizational purpose even competitive advantage which had previously been aspired.

Furthermore, a grounded theory approach which is used in this study expected to help the family business to address the challenges in the future. Maybe not always as a major organizing practice, but at least as a remainder of the importance of organizational structure in family business. In addition, this study may be contributed to the science about organizational structure and the family business, especially in Indonesia.

### **References**

- Boston Consulting Group. (2012). *The Context. Defying The Odds: Building Family Businesses that Last*, 7-9. Corkindale, G. (2011, February 11). The Importance of Organizational Design and Structure. *Organizational Culture*, pp. 1-5.
- Creswell, J. W. (2005). *Educational Research: Planning, Conducting, and Evaluating Quantitative and Qualitative Research*. New Jersey: Pearson Education International.
- Daft, R. L. (2008). *Organization Theory and Design*. (S.-W. C. Learning, Ed.) Mason, USA.
- David, F. R., & David, F. R. (2017). *Strategic Management: A Competitive Advantage Approach, Concepts and Cases*. England: Pearson Education Limited.
- Glaser, B. G., & Strauss, A. L. (1967). *The Discovery of Grounded Theory: Strategies for Qualitative Research*.

- Chicago: Aldine Publishing Company.
- Hamel, G., & Prahalad, C. (2005, July-August). Strategic Intent. *Harvard Business Review*, pp. 1-16.
- Hoffman, J., Hoelscher, M., & Sorenson, R. (2006, June). Achieving Sustained Competitive Advantage: A Family Capital Theory. *Family Business Review*, XIX, 135-145.
- Jakarta Consulting Group. (2014). *Jakarta Consulting Group*. Retrieved from Jakarta Consulting Group Website: <http://www.jakartaconsulting.com/publications/articles/family-business/family-business-2>)
- Lawrence, P. R., & Lorsch, J. W. (1967). *Organization and Environment; Managing Differentiation and Integration*. Irwin, Homewood.
- Mintzberg, H., & Westley, F. (2001). Decision Making: It's Not What You Think. *MIT Sloan Management Review*, 89-93.
- Nadler, D., Tushman, M., & Nadler, M. B. (1997). *Competing by Design: The Power of Organizational Architecture*. USA: Oxford University Press.
- Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.
- Prahalad, C., & Hamel, G. (1990, May-June). The Core Competence of the Corporation. *Harvard Business Review*.
- PwC. (2014, November 28). *Survei PwC*. Retrieved from PwC: <http://www.pwc.com/id/en/media-centre/press-release/2014/indonesian/family-business-survey-indonesia-ind.html>
- Simanjuntak, A. (2010, September). Prinsip-Prinsip Manajemen Bisnis Keluarga (Family Business) Dikaitkan Dengan Kedudukan Mandiri Perseroan Terbatas (PT). *Jurnal Manajemen dan Kewirausahaan*, 113-120.
- Walton, R. E. (1986). A Vision-Led Approach to Management Restructuring. *Organizational Dynamics*, 5-16.



**HOW AND WHICH INSTITUTIONS MATTER: A CROSS COUNTRY  
EVIDENCE****Putu Poppy Aimy Widiasari<sup>1</sup>***<sup>1</sup>J-PAL Southeast Asia, recent graduate of The Australian National University,  
pwidyasari@outlook.com***ABSTRACT:**

*Using panel data from the year 2005 – 2014 compiled from General Entrepreneurship Monitor (GEM), World Bank and Economic Freedom Index from Heritage Foundation of more than 30 countries, this research focuses on a more comprehensive approach in analysing entrepreneurship and its institutional determinants. Random effects model is primarily used to explore how formal and informal institutions together influence entrepreneurship, analysing its interaction and investigate which institution matters more in five different aspects of entrepreneurship (people who intend to be entrepreneurs, early stage entrepreneurs, opportunity entrepreneurs, established entrepreneurs, and informal investors). This study found that both formal and informal institution matters, although the magnitude depends on the different measures of entrepreneurship. Moreover, there is evidence on substitutability between formal and informal institutions in influencing entrepreneurial intention rate, and specific formal and informal institutional variables are found to matter more than others in different aspects of entrepreneurship. This implies that the government need to keep in mind that solely improving formal institutions do not necessarily translate into better entrepreneurship development; instead, right balance is needed. It is also important to consider deeply rooted traditions and culture, norms, values and characteristics of the society in reinforcing pro-entrepreneurship culture.*

**Keywords:** *entrepreneurship, determinants, institutions, informal, formal*

---





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**PROPOSED COMPETITIVE BUSINESS STRATEGY FOR ENGINEERING  
CONSULTING COMPANIES IN LAND RECLAMATION BUSINESS IN  
INDONESIA**

**Anton Sanjaya<sup>1</sup>**

*<sup>1</sup>School of Business and Management, Bandung Institute of Technology,  
anton.sanjaya@sbm-itb.ac.id, +6281293993540*

---

**Abstract**

*This study investigates a competitive business strategy for an engineering consulting firm specializing in water and land reclamation in order to sustain in Indonesia market. Despite the last two years were considered as challenging years because Indonesia's economy slow down and political issues that led to land reclamation moratorium, land reclamation project is still very promising business in Indonesia. Currently there are 37 ongoing reclamation projects that make Indonesia as a very lucrative business place for related engineering consulting companies. The purpose of this study is to determine a business strategy that can be used by engineering consulting companies that specializing in water and land reclamation in order to sustain in Indonesia market. In this paper, interview and questionnaire methods are applied. The interview was conducted with the executive in the related field while the questionnaires were distributed to 100 executives in several companies in different industries in Jakarta that potentially were interested in engineering consulting service. Based on the survey, respondent strongly agree that brand reputation is an important determinant to choose the service of the companies. At the same time respondent also strongly agree that quality is important in choosing the companies. From this study, it is revealed that the most ideal strategy for engineering consulting companies in the field of water and land reclamation in Indonesia is differentiation strategy due to the different yet high value of services offered to the clients compared to other general engineering consulting companies.*

**Keywords:** *Engineering consulting firm, water, land reclamation, project, business strategy*

---

**PROFILING SMALL MEDIUM FAMILY-OWNED BUSINESS  
IN EAST JAVA, INDONESIA**

Damelina Basauli Tambunan  
Lecturer of International Business Management,  
Universitas Ciputra, Surabaya  
damelina@ciputra.ac.id

**ABSTRACT**

The purpose of this research is to describe the profile of the small medium family-owned business in east Java Indonesia. A total of 381 small-medium family-owned business in the East Java are used as research respondents. These respondents were selected using the proportional cluster random method to ensure that all of the predetermined areas in East Java were proportionally represented. The profile of respondents (owners) described by the research instrument includes the respondent's personal identity. The characteristics identified to determine the respondents' company condition. The family member's involvement in the business is also described.

The result showed that male respondents dominate the gender characteristics by 61.9%. The age characteristic indicates that 32.5% of the respondents are between 30-39 years and the most respondents (40.9%) are senior high school graduates. 57.3% of the surveyed companies are established in the last 10 years. The three most common business sectors in this research are hotel and restaurants (53%), followed by the manufacture and other services (16.8%). This research indicates that 81.1% of the surveyed companies were established by the current business owner. A total of 70.3% of the said companies have one dominating figure and 43% of these businesses involve nuclear family members, whereas 49% of the companies involve extended family members. 44.9% of these family members have management-level positions and 45.9% have staff-level positions.

**Keywords: profiling, small medium family-owned business.**

## **INTRODUCTION**

Family businesses have been crucial features of the business landscape for centuries and remain important today in the entire world. As for example, the importance of family business is well recognized and has become the backbone Asia's economy. It is recorded that half of the listed family owned business and 32% of its total market capitalization is equal to 34% of total Asian Gross Domestic Product (GDP). Furthermore, a family business in Asia continues to be a crucial source of private wealth creation and remains a key player in strategic industries, financial markets, and commercial activities in the region. As shown in the finding of Credit Suisse (2011), the total market capitalization of Asian family business has increased six-fold at a compound annual growth rate (CAGR) of 21.3% between 2000 and 2010, indicating the entrepreneurial drive of an early-stage family business to seek growth opportunities through fund-raising in the capital markets after the Asian financial crisis (Credit Suisse, 2011). In Asia, many family businesses are first generation companies which history can be traced back to their entrepreneurial origins in the period after the Second World War.

In Indonesia as well, the role of family business is important, as the existence of family business (FB) affects the economic condition of the nation. The amount of total tax contribution borne by family business in 2009 was 10%. Additionally, family business contributes as much as 60% of the total corporate hiring in terms of employment (Credit Suisse, 2011). This fact is generated from listed family business, while the fact of small medium family-owned business is quite difficult to find. Therefore, the purpose of this study is to find out and provide the profile of small medium family-owned business particularly in East Java province of Indonesia. This study is important to be conducted because the findings will add new data, information, and knowledge on the subject of small medium family-owned business. This is beneficial since there is a limited amount of such data in Indonesia.

## **LITERATURE REVIEW**

The importance of discussion on family business has grown significantly, started from the modest beginnings to a substantial conceptual and theoretical body of knowledge (Lussier & Sonfield, 2010). At the same time, it is important to discuss the small-medium company, because its development is essential for any country (Abouzeedan & Busler, 2004). Small medium



company triggers the existence of the large company. The small company is not merely a smaller form of a large company. There are several fundamental differences between the small-medium company and large company, including organizational structure, external environment response, managerial style, and competitive response (Man, Lau, & Chan, 2002). Most studies focus on the large company, but these differences suggest that more researchers on small-medium company need to be conducted.

Almost 90% of the small-medium companies in Indonesia are owned by families. This fact is in line with the characteristics of a small-medium company in Indonesia, as stated by the Department of Cooperative and SMEs of East Java on their website. The characteristics are: (1) Independent management – there is no barrier between the owner and the management, because the owner is mostly family member; (2) Owners act as managers; (3) Capital is provided by a single owner or a small group of stakeholders; (4) Local operational area – most companies operate within their local area, although some small-medium companies export their goods to trading partners' countries; (5) Small company size in terms of total assets, number of employees, and facilities. Discussing small-medium company is considered the same as discussing small medium family-owned business.

There are four life cycles in a family business – entrepreneurship, growth, governance, and maturity (Credit Suisse, 2012). As the first stage, the Entrepreneurship stage indicates strong family dominance, particularly in small-medium company. The Growth stage refers to a phase in which the family business experiences multiple forms of growth, such as sales growth and production location expansion, while maintaining a small company stature. The Governance stage is a stage where a company develops into a large-scale company. At this stage, the involvement of non-family members is higher and sometimes results in *agency cost*. The last stage of maturity refers to a condition in which the family business is stagnant and in need of rejuvenation. Based on these definitions, the stages of the small medium family-owned business discussed in this study lie in the Entrepreneurship and Growth stages.

Profiling commonly used to describe the characteristics of something (person, market, industry, etc) to understand, assess or predict the conditions to be used for many purposes. One study conducted by Diamantopoulosa, Schlegelmilchb, Sinkovics, & Bohlen, (2003) explore whether socio-demographics have a role to profiling green customers. By understand the profile

of green customers, it can then be saved and used in further retrievals. Other studies by Jackson, (2009) do profiling of industry-relevant management. The findings of that study are used by the business school to design undergraduate programs more aligned to industry requirements and take effectual action to bridge the graduate skill gap. Law, Cheung, & Lo, (2004) studies the profile of Hong Kong traveler's perceptions of the importance of travel activities. The findings of that study suggest the destinations should concentrate their efforts on the right marketing strategies. Briefly stated that conducted profiling of certain things beneficial for many purposes specifically to take the appropriate action.

## **METHODS**

The population of this research is small-medium companies in East Java Java, specifically from 5 areas which determined as an economic backbone of East Java. These 5 areas are: Gresik, Mojokerto, Surabaya, Sidoarjo and Lamongan. The number of samples is calculated proportionally based on the percentage population in each area. The total population in this research is 63,319. Using the approach of Krejcie and Morgan (1970), the amount of sample size from the population 63,319 is 381 respondents with 5% margin of error. The survey is conducted by distributing questionnaires that contain the characteristics of respondents include: (1) the respondent's personal identity; which contains name, business name, business address and telephone number; (2) age; (3) gender; and (4) the respondents' last education. The characteristics identified to determine the respondents' company condition are: (1) the company's year of establishment; (2) the total number of employee; and (3) the business sector. The family member's involvement in the business is identified using: (1) the company's founder; (2) the number of family members involved in the business; (3) the status of the family members involved; (4) the family members' roles in the business; and (5) businesses established using the respondent's company profit as stated at the time of survey. The descriptive analysis is used to determine the characteristics of the respondents is measured using the indicators asked in the questionnaire. Descriptive statistics is used as analysis technique in order to get an overview of the data obtained from samples

## **FINDINGS AND DISCUSSION**

The respondents in this research are small and medium family business owners in the five regions within the province of East Java in Indonesia. The total sample size for this research is 381 people. From the distributed 381 research instruments, 381 are completed and

returned. The characteristics identified in three areas as describe in the following tables. Based on the initial analysis, the respondents' characteristics and companies can be defined as follows:

Table 1.1  
*Personal Characteristics of the Respondents*

No	Background Information	Respondents		
		Frequency	Percentage	Cumulative Percentage
1	<b>Gender</b>			
	Male	236	61.9	61.9
	Female	145	38.1	100.0
2	<b>Age</b>			
	19-29	56	14.7	14.7
	30-39	124	32.5	47.2
	40-49	113	29.7	76.9
	50-59	60	15.7	92.6
	60-69	23	6.0	98.6
	70-79	5	1.4	100.0
3	<b>Owner's Last Education</b>			
	Primary School (SD)	24	6.3	6.3
	Junior High School (SMP)	50	13.1	19.4
	Senior High School (SMA)	156	40.9	60.3
	Vocational (D3)	15	3.9	64.2
	Under Graduate (S1)	120	31.5	95.7
	Master (S2)	14	3.7	99.4
	Ph.D (S3)	2	0.6	100.0

Source:  
Processed  
primary data  
Table 1.1  
shows the  
respondents'  
characteristics  
by gender, age

and last education. Male respondents dominate the gender characteristics by 61.9%, whereas the female respondents amount to 38.1% of the total sample. This sample defines the population where male contributes more to the economics through small and medium business ownership.

The age characteristic indicates that 32.5% of the respondents are between 30-39 years, followed by 29.7% respondents between 40-49 years, and 15.7% respondents between 50-59 years. Additionally, 29.7% respondents are between 19-29 years, 6% are between 60-69 years, and the lowest percentage of 1.4% belongs to respondents between 70-79 years.

Based on the table, as much as 92.6% respondents are business owners in the productive age range between 19 to 59 years. The data shows that most respondents (40.9%) are senior high school graduates; 31.5% are undergraduates; 13.1% are junior high school graduates; 6.3% of the respondents graduate from primary schools; and as much as 3.9% respondents are vocational graduates. Only 3.7% respondents have a Master's degree and a mere 0.6% of the total respondents have a Doctoral degree (Ph.D). Only 19.4% respondents take up primary education (which includes a primary school and junior high school), 39.7% of the respondents take up tertiary education, and the remainder only has secondary education. The condition of the company discussed in table 1.2 below.

Table 1.2  
*The Condition of the Companies*

No	Background Information	Respondents		
		Frequency	Percentage	Cumulative Percentage
<b>1</b>	<b>Year of Establishment</b>			
	1945-1955	3	0.8	0.8
	1956-1965	2	0.5	1.3
	1966-1975	7	1.8	3.1
	1976-1985	22	5.8	8.9
	1986-1995	31	8.1	17
	1996-2005	98	25.7	42.7
	2006-2015	218	57.3	100.0
<b>2</b>	<b>Number of Employees</b>			
	0	34	8.9	8.9
	1-5	253	66.4	75.3
	6-10	58	15.2	90.5

No	Background Information	Respondents		
		Frequency	Percentage	Cumulative Percentage
	11-15	25	6.6	97.1
	16-20	1	0.3	97.4
	20>x<99	10	2.6	100.0
<b>3</b>	<b>Business Sector</b>			
	Mining and Exploration	1	0.3	0.3
	Manufacture	77	20.2	20.5
	Construction	20	5.2	25.7
	Hotel and Restaurant	202	53.0	78.7
	Transportation	11	2.9	81.6
	Financial	6	1.6	83.2
	Other services	64	16.8	100.0

Source: Processed primary data

57.3% of the surveyed companies are established in the last 10 years, suggesting their relatively new existence. Only 8.9% of the companies have been operating for more than 30 years. 66.4% of the surveyed companies have one to five employees, whereas 15.2% have between six to ten employees. A mere 8.9% have zero employees and only 2.6% have 20 to 99 employees. The three most common business sectors in this research are hotel and restaurants (53%), followed by manufacture (20.2%), and other services (16.8%). The hotel and restaurant sector is comprised of the entire lodging and small-scale food businesses, such as food stalls, diners, et cetera. The manufacture section is defined as businesses which process raw materials into finished goods sold in markets or to marketing agents. This definition also includes companies that manufacture intermediate goods to be further processed by large companies. Subsequently, 'other services' refers to services apart from those rendered for transportation and finance, such as beauty shop, educational service, tailor, et cetera. The next table will describe the family members' involvement in the family business.

Table 1.3

*Family Members' Involvement*

No	Background Information	Respondents		
		Frequency	Percentage	Cumulative Percentage
<b>1</b>	<b>Company Founder</b>			
	Grandparent(s)	10	2.6	2.6
	Parent(s)	62	16.3	18.9
	Current Owner(s)	309	81.1	100.0
<b>2</b>	<b>Number of Family Members Involved in the Business</b>			
	1	268	70.3	70.3
	2	55	14.4	84.7
	3	26	6.8	91.5
	4	10	2.6	94.1
	5	12	3.1	97.2
	6	4	1.0	98.2
	>7	6	1.8	100.0
<b>3</b>	<b>Position in the Company</b>			
	Management	171	44.9	44.9
	Staff	175	45.9	90.8
	Both	35	9.2	100.0
<b>4</b>	<b>Status of Family Members Involved in the Business</b>			
	Nuclear Family	164	43.0	43.0
	Extended Family	186	49.0	92.0
	Both	31	8.0	100.0
<b>5</b>	<b>Other Business Ownerships</b>			
	Yes	94	24.7	24.7
	No	287	75.3	100.0

Source: Processed primary data

This research indicates that 81.1% of the surveyed companies were established by the current business owner. As much as 16.3% of the companies were established by the current owner's parents and the remaining 2.6% were established by the current owner's grandparents.

The result indicates that the family businesses in the province of East Java have a relatively low sustainability level. Since all of the surveyed companies indicate the involvement of family members in the business, it can be concluded that the companies are family businesses.

A total of 70.3% of the said companies has one dominating figure, whereas 14.4% have two. A mere 5.9% of the surveyed companies involve more than five family members. 43% of these businesses involve nuclear family members, whereas 49% of the companies involve extended family members. Only 8% of the companies involve both nuclear and extended family members in the business. 44.9% of these family members have management-level positions and 45.9% have staff-level positions. Moreover, only 9.2% of the aforementioned companies have family members in both management and staff level position. Lastly, this research discovers that only 24.7% of the surveyed companies have other businesses established using the profit from the current business. The remaining 75.3% do not own any other business outside the surveyed company. The research also proves that only 24.7% of the family businesses develop the company by opening another business.

The outcome of this study provides an overview on the family-owned SMEs in the East Java region of Indonesia. These finding could be used for further analysis for any kind of purposes. To gain a deeper understanding of family business, develop related programs for the sustainability of the family business, both by the the government and higher education or simply for any further research.

## **CONCLUSION**

This research finds out several characteristics such as: the gender of the business owner dominated by male, then 32.5% of the respondents are between 30-39 years, 40.9% are senior high school graduates. 57.3% of the surveyed companies are established in the last 10 years, and only 8.9% of the companies have been operating for more than 30 years. 66.4% of the surveyed companies have one to five employees. The three most common business sectors in this research are hotel and restaurants (53%), followed by manufacture (20.2%), and other services (16.8%). This research indicates that 81.1% of the surveyed companies were established by the current business owner. A total of 70.3% has one dominating figure. 43% of these businesses involve nuclear family members, whereas 49% of the companies involve extended family members. 44.9% of these family members have management-level positions and 45.9% have staff-level

positions. Lastly, this research discovers that only 24.7% of the surveyed companies have other businesses established using the profit from the current business.

### Bibliography

- Abouzeedan, A., & Busler, M. (2004). Typology Analysis of Performance Models of Small and Medium-Size Enterprises (SMEs). *Journal of International Entrepreneurship* 2, 155-177.
- Credit Suisse. (2011, October). Emerging Market Research Institute. *Asian Family Business Report 2011*, pp. 1-44.
- Credit Suisse. (2012, August 16). Family Business: Sustaining Performance. *Research Institute*, pp. 1-34.
- Diamantopoulou, A., Schlegelmilch, B. B., Sinkovics, R. R., & Bohlen, G. M. (2003). Can Socio-Demographics Still Play A Role In Profiling Green Consumers? A Review Of The Evidence And An Empirical Investigation. *Journal of Business Research*, 465– 480.
- Jackson, D. (2009). Profiling Industry-Relevant Management Graduate Competencies: The need For A Fresh Approach. *International Journal of Management Education*, 85-98.
- Law, R., Cheung, C., & Lo, A. (2004). The Relevance Of Profiling Travel Activities For Improving Destination Marketing Strategies. *International Journal of Contemporary Hospitality Management*, 355 - 362.
- Lussier, R. N., & Sonfield, M. C. (2010). A Six-Country Study of First-, Second-, and Third-Generation Family Businesses. *International Journal of Entrepreneurial Behavior & Research*, 414-436.
- Man, T. W., Lau, T., & Chan, K. F. (2002). The Competitiveness of Small and Medium Enterprises A Conceptualization With Focus on Entrepreneurial Competencies. *Journal of Business Venturing*, 123-142.



## **Delivering Sustainability through Business Model Innovation: Challenges for Startups**

Anne Evita Geelhoed

*Faculty of Technology, Policy and Management, Delft University of Technology*

*School of Business and Management, Institut Teknologi Bandung*

Melia Famiola

*School of Business and Management, Institut Teknologi Bandung*

Leo Aldianto

*School of Business and Management, Institut Teknologi Bandung*

### **Abstract**

Business Model Innovation (BMI) has become a valuable tool to increase business performance. Many successful companies tend to use this approach to improve their productivity and create their competitive advantage, rather than doing innovation in terms of product or value chain innovation, which requires large investment and suffers time constraint.

Additionally, contemporary businesses are requested to involve actively in a global consensus on sustainable development. Companies are challenged to deliver their products and services in sustainable ways. Sustainable development goals should not be viewed as business barriers, but rather as competitive advantages. As a newly established company, a start-up should have many opportunities on how to drive and design their business more social and environmental friendly. Their flexibility in designing the business system, due to the simplicity of the organization, should give them an advantage over large corporations.

This literature study will discuss ideas on how the startups could incorporate sustainability into their business model, using Business Model Innovation approach. Whilst this simultaneously contributes to their competitive advantages.

Keywords: Business Model Innovation, Sustainability, Start-up

### **1. Introduction**

Sustainability development is considered a panacea of the many social and environmental problems that we are facing nowadays, such as the high gap of prosperity, the large number of people suffering from hunger on a global scale, climate change, ecosystem degradation and the scarcity of natural resources (Porter and Kramar (2011); Sachs, 2012).

Today, the entire world's society is driven to contribute in Sustainable Development goals, this is including business sectors regardless of their size, large or small enterprises. Business is encouraged to view sustainability challenges as opportunity to spread their impact to the society as well as their competitive advantages (Smith, 2007; Daily & Su, 2001; Laszaro, 2003; Marcum, 2009).

Discussing sustainable business practices and business strategies towards sustainable development pressure is one of the contemporary growing research agendas. Nevertheless, the discussions and case studies are focused on large business with little attention on the practices in small business (Hall, Daneke, & Lenox, 2010). In fact, small businesses are covering around 90% of global business and that number keeps increasing, in line with the growing interest of governments and universities to create more educated entrepreneurs (Drummond & Stone, 2007; Huang & Brown, 1999). Meanwhile, a research by MIT promoted that 80% of sustainable businesses could maintain their sustainable performance, when sustainable issues are incorporated into the business from a young age (Hall & Vredenburg, 2003). It indicates that sustainable initiatives should be considered from the development process of a startup.

This literature review will explore some potential sustainable innovations that could be initiated by startups by using the concept of business model innovation. Business model innovation has become a phenomenal tool for today's business to create competitive advantage. Large businesses and growing startups are now using this approach to create innovation, rather than doing innovation through their products, which generally are more resource intensive. As a small business, a startup should have many opportunities to drive and design their business more social and environmentally friendly. They have more flexibility in designing the business system due to the simple organization structure. In addition, designing business models for sustainability since the start of the company will bring them to be more sustainable when the business grows.

This study will highlight some important aspects of the potential innovations in the business model from startup businesses towards sustainability. Accordingly, this paper will manage the following structure. First we will discuss the definition of business model innovation, followed by the explanation on how important the business model innovation can be to support the global sustainable mission. The next section of this paper will deliver some possible ways of startup companies to adopt business model innovation to develop sustainable business goals.

## **2. Business Model Innovation**

There is a lack of consensus on the definition of the business model. However, in a business model we could identify how a company develops its organization (Lindgardt, Reeves, Stalk, & Deimler, 2009), delivers value to its consumers (Daniela Abrantes, Marcos Gonçalves, & Marina Dias de; Giesen, Riddleberger, Christner, & Bell, 2010; Lindgardt et al., 2009) as well as how it creates revenues (Girotra & Netessine, 2013; Lindgardt et al., 2009).

Gassmann et al. (2013) stated four essential dimensions of a business model. First, it describes the definition of the consumer segment, the individuals whom are served by the company. Second, the business model describes what product or service offered to the consumer, the so-called value proposition of the products and services delivered. Third, it explains the way how businesses create the value proposition, it describes the key activities and value chains of the business. It encompasses a holistic description on how the business handles the products or services. Fourth, it explains the way the business creates revenue, how the company creates the money as well as it describes the cost structure.

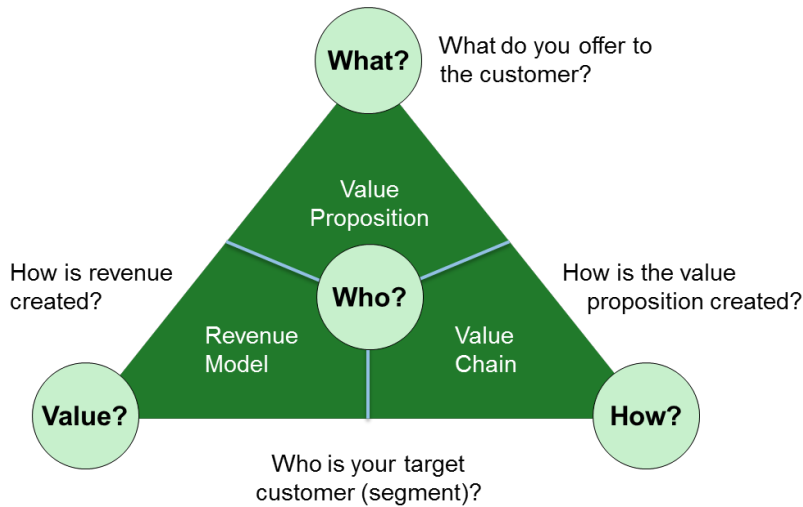


Figure 1: four essential elements of Business Model (source: Gassmann, Frankenberger, and Csik (2013))

Today, a successful business is not only performing innovations to their products or services, rather, it is also innovating the business model. Innovation to improve processes and products are often expensive, time consuming and sometimes need a considerable investment, both for the research and the specific resources (Avery, 2005; Benn & Baker, 2009). Innovations in the business model will change the way the product is delivered to the customer and

alters the philosophy of the firm. Targeting the business model for sustainable innovations will therefore prolong further in the business' actions, compared to innovating one component or product. Due to the above stated reason, recently, researchers gave a fruitful funding that a successful company also promoting innovation in business model (Lindgardt et al., 2009; Massa & Tucci, 2013).

Giesen et al. (2010) states that in the today's rapid change of the economic condition, compelling companies need to revise its business model. Business model innovation usually happens during economic downturn, in which companies are forced to seek new strategies to reduce cost and gain flexibility advantages. In his research, Gassmann et al. (2013) found that of the four dimensions of Business Model, the innovation at least works in two aspects: 1) the way of companies create the value proposition and 2) the way to create revenue.

## 2. Sustainability and the Business Startup challenges

Sustainability is a widely discussed topic in research and addressed by many scholars. The interpretation, nevertheless, varies widely. The most cited definition of sustainability is coming from WCED (1987) and is stating that sustainability entails the protection of the environment and natural resources as well as the protection of the social and economic welfare of present and future generations. This definition includes the three 'pillars' of sustainability. These three pillars for sustainability are regarded the social, economic and environmental pillar. It is not implied in this research that there is symmetry between the three pillars, as the economy and social welfare are tightly interconnected (Keiner, 2006). Meaning that economic welfare is created by society and social welfare cannot be uncoupled from economic performance. Environment is a somewhat independent pillar as it is not *created* in its essence by society, however, it is influenced by the behaviour of society.

Since the economic system is driven by business, it is impossible to achieve the goal of sustainability without involving the business sustainability (Schaltegger, Lüdeke-Freund, & Hansen, 2012). Many scholars and consultants have argued that innovation is one of the essential components on how business drive to achieve the sustainability goals (Benn & Baker, 2009; Girotra & Netessine, 2013; Hall & Vredenburg, 2003)

Recently, many scholars in business strategy schools also put their interest in how to view sustainably as strategic tool on business activities. Porter and Kramer (2011) for example, have developed a concept on how business strategy can drive businesses to be more social and environmental friendly, they called this mutual benefit shared value: what is good for the community is good for business. Many scholars also promote ways to deliver sustainability by modifying the supply chain activities to respond to environmental issues, such as reducing the emission, toxic chemical and pollutants produced by the supply chain (Morana, 2013).

However, small businesses' contribution in sustainability is still low due to the pessimist perception that environmental initiatives do not contribute to the entire organizational performance (Schaltegger et al., 2012). Only 39% of Schaltegger et al. (2012) sample recognizes that bringing sustainable initiatives could reduce cost through economical consumption of energy and water consumption as well as minimalizing of waste.

As a new established company, startups also struggle to sharpen their market segments (Huang & Brown, 1999). Researches involving large businesses found that bringing sustainability into corporate strategy does not only increase economic visibilities by reducing unexpected risk of hazard business residues, but could also develop the firm's social brand awareness (Morana, 2013; Porter & Kramer, 2011; Stefan Schaltegger, Varsei, Soosay, Fahimnia, & Sarkis, 2014). Becoming a sustainable enterprise, a startup should sharpen their brand and gain trust from target consumers who have social and environmental awareness.

Accordingly, this study intent to promote an innovative way how young startups could benefit and increase their competitive advantage by incorporating sustainable initiatives into their business model.

### **3. Bringing Sustainability into Business Model**

As explained above, the business model innovation occurs in two dimensions. First in the process of value proposition. Referring to business model canvas developed by Osterwalder and Pigneur (2010), this aspect may connect with key activities, key resources, key partnerships, channel and consumer relationship building blocks. In the next stage, we call it Sustainable Value Creators. Second, business model innovation also occurs on the way the company determines how to create revenue, or according to Osterwalder and Pigneur (2010) it will discuss cost structure and revenue streams, we define these as sustainable revenue creators.

### 3.1. Sustainable value creators

**Sustainable value creators** could be generalized through the use of the concept of eco-efficiency. Eco-efficiency is the ratio between the value of the product and the impact of the activities for product creation. In other words, eco-efficiency promotes issues on how to minimize impact from production process without reducing the quality of products (Bigliardi, Bertolini, Klewitz, Zeyen, & Hansen, 2012; Keating et al., 2010). The impact could be minimized by optimizing the usage of energy, water and other resources. Startups could employ eco-efficiency by utilizing a life cycle analysis (LCA) approach to describe their business process (Behrendt, Jasch, Peneda, & van Weenen, 2012). With main crucial tools of LCA – inventory and impact assessment, startups could identify the crucial points of their production process that can minimize energy and resource consumptions.

LCA also helps startups to identify the potential of products, are they able to recycle or to be reused? In some cases, byproduct, particularly agricultural residual, could be used for other purposes, such as biomass (Keating et al., 2010) and use for farm feed products (Rattanapan, Suksaroj, Wongsawass, & Ounsaneha, 2013).

Bigliardi et al. (2012) stated that one of strategies to increase the involvement of young business in sustainability is through collaboration initiatives with other parties crossing over their organization. Small businesses always have difficulty to conduct initiatives by themselves due to the limited resources. The collaboration could be a collective initiative to do social and environmental initiatives with other corporations. Collaboration could also emerge by doing byproduct exchange or synergy as is conducted by a sugar refinery in Guangxi Guigang (China). The sugar refinery did an exchange with other local business of their byproduct such as alcohol and sugar pulp as well as work with local authority for water treatment. The business in this areas create an industrial symbiosis to minimize environmental impact in their society (Lowe, 1997).

Collaboration could also emerge by doing byproduct exchange or synergy with other corporations as conducted by a sugar refinery in Guangxi Guigang (China). The sugar refinery did an exchange with other local business of their byproduct such as alcohol and sugar pulp as well as work with local authority for water treatment. The businesses in this areas create an industrial symbiosis to minimize environmental impact in its society (Lowe, 1997).

Having sustainable initiatives, startups should be able to use it as their brand awareness and brand image development. Startups should take a positioning as environmental friendly business. Startups could specifically target ethical consumers with environmental concerns. The number of these consumers nowadays significantly increase. Their intention to purchase a product depends on environmental friendly reputation of the producer of the product (Yu-San, 2010). Furthermore, Startups are able to use their sustainability practices as their consumer relationship agenda. Startups could generate consumer loyalty and attachment by promoting some environment-consciousness trends among their potential consumers. For example, what is conducted by Body Shop by promoting against animal testing to all their products (REFF).

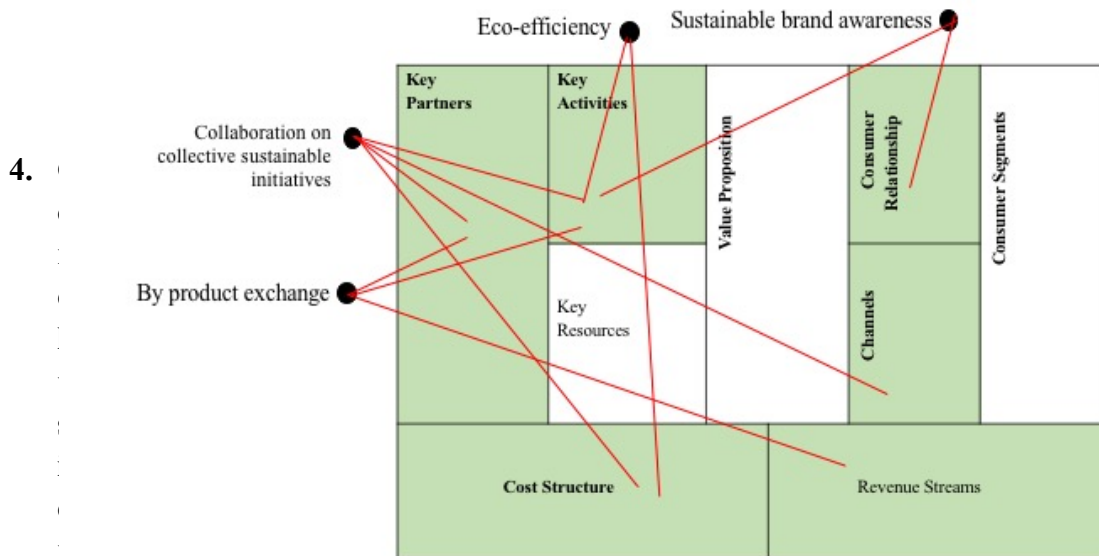
### 3.2. Sustainable Revenue Creators

Current empirical researches in small business explain that small businesses' engagement to sustainability is driven by the extent of their sustainable initiatives and their contribution to reduce the management risk and cost saving whilst increasing their profit (Schaltegger et al.,

2012). Additionally, if startups could identify the possible reuse and recycle issues in their business process, it would be another cost-saving opportunity.

Business Model Innovation could be created through new ways to create another potential revenue stream. For example, byproduct innovation could create potential income for the startups. Startups could sell their byproduct to other companies that need the byproduct as their raw material. Finding a possibility byproduct symbiosis in a nearby business could be benefit both business as well as the local economy. Porter (1990) mentions that synergy among local businesses could contribute to local competitive advantages

As a general description, we argue that business model innovation for sustainability in a startup ventures could be created at last in six building blocks of Osterwalder and Pigneur (2010)'s business model canvas. See figure 2 for the relationships between sustainable innovations and the components of the business model canvas.



Enco  
uragi

Figure 2: Business Model Innovation for StartUp Business toward sustainable development

ng sustainabil  
simple and easy to modify to become more environmental friendly. Moreover, literature is stating the importance to incorporate sustainability from startup phase (Hall & Vredenburg, 2003). By becoming a sustainable corporation, startups will have to keep updating their business practices as they have to respond quick to global business trends and challenges. It is undeniable that sustainability development has become global agenda and consensus among countries around the world, this literature research is therefore contributing to the connection of business model innovation literature with the opportunities for startups.

Nevertheless, the challenges encountered by startups in their early business makes that they face obstacles to adopt sustainable practices. The limited resources they have to deal with make the business model an ideal target for sustainable innovation. As, if implemented cleverly, this

literature review has shown that a startup can get around the resource scarcity and create shared value (Kramer, 2011). This article promotes a simple vision on how startups could adopt sustainable practices by doing innovation in their business model. We promote innovation in six business model blocks of the business model canvas (see figure 2) that try to deal with some problematic issues in startups development.

Future research might explore the current practices by startups in implementing sustainable business model innovations, as well as it could scrutinize the effectiveness of creating shared value for startups. It would be interesting to draw from real life experiences in order to enhance the learning for new firms.

### References

- Abrantes Ferreira, D., Gonçalves Avila, M. & Dias de Faria, M., 2010. Corporate Social Responsibility and Consumers' Perception of Price. *Social Responsibility Journal*, 6(2), pp.208–221.
- Avery, G., 2005. *Leadership for sustainable futures: Achieving success in a competitive world*, Edward Elgar Publishing.
- Behrendt, S. et al., 2012. *Life cycle design: a manual for small and medium-sized enterprises*, Springer Science & Business Media.
- Benn, S. & Baker, E., 2009. Advancing Sustainability through Change and Innovation: A Co-evolutionary Perspective. *Journal of Change Management*, 9(4), pp.383–397.
- Daily, B.F. & Huang, S., 2001. Achieving Sustainability through Attention to Human Resource Factors in Environmental Management. *International Journal of operations & production management*, 21(12), pp.1539–1552.
- Drummond, I. & Stone, I., 2007. Exploring the Potential of High Performance Work Systems in SMEs. *Employee Relations*, 29(2), pp.192–207.
- Gassmann, O., Frankenberger, K. & Csik, M., 2013. The St. Gallen business model navigator.
- Giesen, E. et al., 2010. When and How to Innovate your Business Model. *Strategy & Leadership*, 38(4), pp.17–26.
- Girotra, K. & Netessine, S., 2013. OM forum—business model innovation for sustainability. *Manufacturing & Service Operations Management*, 15(4), pp.537–544.
- Hall, J.K., Daneke, G.A. & Lenox, M.J., 2010. Sustainable Development and Entrepreneurship: Past Contributions and Future Directions. *Journal of Business Venturing*, 25(5), pp.439–448.

- Hall, J. & Vredenburg, H., 2003. The Challenge of Innovating for Sustainable Development. *MIT Sloan Management Review*, 45(1), p.61.
- Keating, B.A. et al., 2010. Eco-efficient Agriculture: Concepts, Challenges, and Opportunities. *Crop Science*, 50(1), pp.109–119.
- Keiner, M., 2006. The future of sustainability. *The Future of Sustainability*, (January), pp.1–257.
- Klewitz, J., Zeyen, A. & Hansen, E.G., 2012. Intermediaries driving eco-innovation in SMEs: a qualitative investigation. *European Journal of Innovation Management*, 15(4), pp.442–467.
- Kramer, M.R., 2011. Creating Shared Value. *Harvard business review*, 89(1–2), pp.62–77.
- Laszlo, C., 2003. *The Sustainable Company: How to Create lasting Value through Social and Environmental Performance*, Island Press.
- Lindgardt, Z. et al., 2009. Business Model Innovation: When the Game Gets Tough, Change the Game. *The Boston Consulting Group, Boston, MA*.
- Lowe, E.A., 1997. Creating By-product Resource Exchanges: Strategies for Eco-industrial Parks. *Journal of cleaner production*, 5(1–2), pp.57–65.
- Marcum, J.W., 2009. Sustainability by Engagement. *The Bottom Line*, 22(3), pp.76–78.
- Massa, L. & Tucci, C.L., 2013. *Business Model Innovation*,
- Morana, J., 2013. *Sustainable supply chain management*,
- Osterwalder, A. & Pigneur, Y., 2013. *Business model Generation: a handbook for visionaries, game changers, and challengers*, John Wiley & Sons.
- Rattanapan, C. et al., 2013. Measure on Eco-efficiency of Thai Growing-Fishing Pig Farms. *International Journal of Environmental Science and Development*, 4(5), p.533.
- Sachs, J.D., 2012. From Millennium Development Goals to Sustainable Development Goals. *The Lancet*, 379(9832), pp.2206–2211.
- Schaltegger, S., Lüdeke-Freund, F. & Hansen, E.G., 2012. Business Cases for Sustainability: The Role of Business Model Innovation for Corporate Sustainability. *International Journal of Innovation and Sustainable Development*, 6(2), pp.95–119.
- Schaltegger, S. et al., 2014. Framing Sustainability Performance of Supply Chains with Multidimensional Indicators. *Supply Chain Management: An International Journal*, 19(3), pp.242–257.



Smith, A.D., 2007. Making the case for the competitive advantage of corporate social responsibility. *Business Strategy Series*, 8(3), pp.186–195. Available at: <http://www.emeraldinsight.com/10.1108/17515630710684187>.

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**STUDYING THE SOCIAL BENEFITS OF THE PEER-TO-PEER SHARING  
ECONOMY ON LABOUR**

**Simone Norfo**

Delft University of Technology, simo.norfo@gmail.com

---

**ABSTRACT:** *The peer-to-peer sharing economy is a novel phenomenon in rapid expansion with social, economic and environmental effects. Yet, the growing literature still lacks of frameworks for the assessment of some of these effects, especially in regard to the suppliers of the digital marketplaces this economy is creating. Understanding the impact of the peer-to-peer sharing economy on the labour market is a crucial step in providing policy makers with evidence to support their decisions. This research will attempt to fill this gap of the literature by investigating micro-entrepreneurial opportunities in the peer-to-peer sharing economy. In order to achieve this goal, a conceptual framework will be designed to analyse peer-to-peer digital markets as a grey area between the formal and informal economy that offers room for entrepreneurship. This problem will be studied in the specific context of Indonesian peer-to-peer ridesharing platforms, where the informal economy is being reorganised by mean of ICT in a disruptive way.*

**Keywords:** *peer-to-peer economy, sharing economy, collaborative consumption, informal entrepreneurship, micro-entrepreneurship.*

---

## **1. Introduction**

Since the 2007-08 financial crisis, peer-to-peer platforms have been raising worldwide. Start-ups companies such as the Californians Airbnb and Uber have exponentially grown their businesses and reached as many as 191 and 81 countries respectively, and received a collective valuation of \$99 billion (\$30 billion Airbnb, and \$69 billion Uber) (Stone, 2017). Platforms have been growing also in number, in a phenomenon described as “peer economy” (or “sharing economy”, or “collaborative consumption”) (J. Schor, 2014). The peer-to-peer business models has been replicated in a variety of industries: from private loans (Upstart, CircleBack Lending, Peerform), to currencies (Midpoint, Currencyfair, Transwerwise), to accommodations (Airbnb, Homeaway), to rides (Uber, BlaBlaCar, Lyft) or even babysitters (Nannies4hire, Care.com), it is nowadays possible to exchange every kind of goods and services on digital marketplaces (Einav, Farronato, & Levin, 2016). Common to all these platforms is the use they make of information technologies in the creation and distribution of value.

Peer-to-peer platforms connect users on a digital marketplace, allowing them to exchange products or services. Instead of relying on physical assets, peer-to-peer platforms can start up with small capitals and create digital marketplaces that are easy to scale (Kenney & Zysman, 2015). The ubiquity of technology, and of smartphones in particular, makes possible to reach instantaneously the billions of users who populate these markets. Users can take advantage of the low costs of transaction (such as barriers to entry, or search and advertising costs) to supply and consume at competitive prices (Henten & Windekilde, 2016). Moreover, the variety that these two-sided markets manage to offer is an attractive feature that traditional businesses struggle to match. Yet, it is unclear how digital markets created by peer-to-peer platforms can be “*supported and protected against*” (Kenney & Zysman, 2015).

The digital marketplaces where peers exchange their services are in a grey area between the formal and informal economies. The legal nature of peer-to-peer marketplaces has gained central

attention in the media and policy discourse (Cheng, 2016; Fang, Ye, & Law, 2016; Zervas, Proserpio, & Byers, 2016). Ridesharing platforms such as Uber, for example, have succeeded in becoming the largest transportation network by acting in what is considered a legal void (Isaac, 2014). Despite offering a taxi service, Uber does not in fact require its partners, here defined as *peer providers*, to own a taxi driving licence or incur in legal expenses. It is by avoiding strict regulations that peer providers can perform formal activities (taxi service) in an informal way, and profit of the low cost of transaction. Instead of relying on the role of governments as guarantor, users rather taking risks on themselves and access goods and services otherwise inaccessible. Without acting in illegality, peer providers have the possibility to become micro-entrepreneurs of these grey market area.

The peer economy has created new room for micro-entrepreneurship, with consequences that have not yet been studied. The growing size of digital marketplaces and of the peer economy as a whole represents an attractive entrepreneurial opportunity. In almost complete absence of entry barriers, everyone can supply goods or services to the increasing demand. Next to the ease of access and economic advantages, peer work, or "work on demand", has received positive attention for the flexibility that this opportunity has to offer (Hall & Krueger, 2015). Peers providers act in the digital marketplaces as self-employed micro-entrepreneurs who autonomously interact with customers via the platform. Due to the youth of this phenomenon, and to the undefined position of digital marketplaces, the benefits and risks of entrepreneurial opportunities in the peer economy have not been studied yet.

Micro-entrepreneurial opportunities in peer-to-peer digital markets will be investigated in this research project in the context of Indonesian ridesharing platforms. The transportation sector, or "ridesharing", is a prominent component of the peer economy, with relevant economic consequences and cause of policy concerns worldwide. This service is becoming increasingly popular in Southeast Asia and specifically in Indonesia, where global leaders such as Uber are challenged by a keen local competition. Interestingly, peer-to-peer platforms are not only threatening incumbent firms, but also a pool of micro-entrepreneurs of the informal economy. Motorbike-taxi is in fact a popular service in Indonesia that has been performed through self-employment for decades outside the institutional boundaries. For the first time, peer-to-peer platforms are reorganising informal labour by mean of ICT and transforming micro-entrepreneurial opportunities. Micro-entrepreneurship on peer-to-peer ridesharing platforms may represent an important step towards formality.

### **1.1 Societal and entrepreneurial problem**

The rise of peer-to-peer platforms is challenging policy makers all around the world. The peer economy is a novel phenomenon which controversial effects are only now being studied by the academia. Governors have to trade-off its costs and benefits in absence of evaluative frameworks or empirical data. On the one hand, it is their duty to protect incumbent firms from a possibly unfair competition (Fang et al., 2016; Zervas et al., 2016). On the other hand, policy makers should act in the interest of their citizens, thus allowing them to regulate the supply and demand of the market. Between the two-opposite liberal and prohibitionist policy interventions, a multitude of compromises can be made with the goal of fostering the beneficial effects while mitigating the negative ones. Shedding light on the mixed consequences that the peer economy has for informal economy and micro-entrepreneurship is hence a necessary step towards the development of adequate policies.

Moreover, it is socially relevant to identify opportunities that can lead to the formalisation of businesses. The informal economy is in fact a feature of the economy that, in developing countries, is responsible for more than half of the whole economic activity (Vial, 2011; Webb, Bruton, Tihanyi, & Ireland, 2013; Williams, 2013). With up two thirds of the population working informally, monitoring, protecting and improving the informal economy is a policy goal in emerging markets such as Indonesia. As studies on the informal economy confirm, it is desirable for workers to move towards the formal economy (Gurtoo & Williams, 2009). Increasing the share of population employed in the formal economy will also result in taxes and other revenues governments can benefit from. Yet, strict institutional boundaries are hampering this transition and informal work is often more attractive or the only available alternative (Gurtoo & Williams, 2009). It is thus in the interest of policy makers to develop new instruments to support the transition of labour toward the formal economy. At today, it is not clear whether the digital markets created by peer-to-peer ridesharing platforms are contributing in a positive or negative way to the achievement of this goal.

Finally, emerging markets such as Indonesia face the challenge of stimulating entrepreneurial activity. Entrepreneurship is recognised to be a sustainable source of development and plays for this reason a fundamental role in society (Schumpeter, 1934). However, entrepreneurship is constrained by the accessibility of capitals: different levels of human and financial capitals are required for different entrepreneurial opportunities and, together with the legal arrangements (or propriety rights), are the main determinant of the success and sustainability of businesses (Alvarez & Barney, 2014). Micro-entrepreneurship has been regarded thanks to its little capital requirements as a feasible alternative to other forms of entrepreneurship in emerging markets (Dalglish, 2008; Mandelman & Montes-Rojas, 2009; Roy & Wheeler, 2006). Increasing the micro-entrepreneurial activities can result both in an increase of wealth at the micro level, and in a source of development at a macro level. The micro-entrepreneurial opportunities created by the peer economy may represent a valuable instrument to stimulate entrepreneurial activity as a whole.

### **1.2 Scientific problem and knowledge gap**

The peer economy is a young phenomenon which mixed effects span from social, to economic, to environmental. The literature on this topic is still at its early stages and the academia is running to create frameworks and categorisations to describe it. The studies conducted so far are fragmented and explore different aspects of this phenomenon. Some of them have investigated the impact that peer-to-peer platforms are having on industries (Fang et al., 2016; Zervas et al., 2016), others have focused on the equilibrium points of supply and demand in a peer economy (Benjaafar, Kong, Li, & Courcoubetis, 2015; Fraiberger & Sundararajan, 2015), and others on social aspects such as inclusion or discrimination (Edelman, Luca, & Svirsky, 2016; J. B. Schor, Fitzmaurice, Carfagna, Attwood-Charles, & Poteat, 2016). So far, only one study has focused on the role of peer providers in digital marketplaces by focusing on employment opportunities for disadvantaged groups (Dillahunt & Malone, 2015). A categorisation of the effects of the peer economy can be found in (Westerbeek, Ubacht, Voort, & Heuvelhof, 2016). Yet, all these studies have taken a western perspective, and do not take into account important features of emerging markets. The research here proposed aims at filling the knowledge gap on peer labour by investigating micro-entrepreneurial opportunities in the peer economy, by scoping to the specific context of Indonesian peer-to-peer ridesharing platforms.

## **2. Research objective**

Following the identification of the problem the objective of this research is:

*To make recommendations to policy makers who wish to regulate peer-to-peer ridesharing platforms and understand their power in stimulating the transition of workers from informal to formal economy, and to micro-entrepreneurs who wish to undertake entrepreneurial opportunities in the peer economy.*

The results of this thesis project will support policy makers and micro-entrepreneurs in evaluating costs, risks and benefits of peer work, with a specific focus on the Indonesia context.

### 3. Research question

This research will answer the following main question to achieve the research objective:

*RQ: To what extent do the micro-entrepreneurial opportunities created by peer-to-peer ridesharing platforms contribute to the transition of labour from the informal to the formal economy in the context of the Indonesian peer economy?*

In order to answer the main research question, several sub-questions are formulated.

Firstly, it is necessary to define the domain of this study: peer-to-peer ridesharing platforms in the Indonesian market. By doing so, the setting of the research will be defined and with it a description of the ridesharing ecosystem and its application in the Indonesian market. The first sub-question will for this reason be:

*SQ 1: What are peer-to-peer ridesharing platforms, how do they create micro-entrepreneurial opportunities and how do they configure in the Indonesian market?*

Secondly, a theoretical framework must be introduced to formally describe micro-entrepreneurial opportunities in the informal economy and as a tool of transitioning towards the formal economy. We want to understand what are the factors that determine the success of micro-entrepreneurship and how they can be used to link formal and informal economy.

*SQ 2: What are formal and informal economy and what frameworks are used in the literature to describe the transition of micro-entrepreneurs from one economy to the other?*

Thirdly, we want to understand how the micro-entrepreneurial opportunities created by peer-to-peer ridesharing platforms contribute to the transition from the informal to the formal economy. This will be done by developing a conceptual framework that related the two economies (formal and informal) to the features of micro-entrepreneurial features of peer-work. The following sub-question is hence formulated:

*SQ 3: How can peer providers move towards the formal economy by undertaking opportunities in the peer-to-peer economy?*

Finally, we will develop and test hypothesis in regard to the perception of micro-entrepreneurial opportunities in the peer economy in the specific Indonesian context. This will allows us to understand what is the perception of peer providers on features of work over peer-to-peer digital marketplaces. The forth and last sub-question is formulated as follows:

*SQ 4: How do peer providers perceive the sustainability of working trough peer-to-peer ridesharing platforms and their possibility to grow as micro-entrepreneurs?*

### 4. Research Methods

The research has been fragmented in six successive phases as shown in *Table 1*.

	Sub-question	Method	Deliverables
Phase 1	-	Desk research: <ul style="list-style-type: none"> <li>Trends in the literature</li> <li>Trends in emerging markets</li> </ul>	Research problem Research design Research question
Phase 2	<i>SQ 1: What are peer-to-peer ridesharing platforms, how do they create micro-entrepreneurial opportunities and how do they configure in the Indonesian market?</i>	Desk research: <ul style="list-style-type: none"> <li>Platform economy</li> <li>Sharing economy</li> <li>Transaction cost</li> <li>Indonesian ridesharing</li> </ul>	Domain definition
Phase 3	<i>SQ 2: What are formal and informal economy and what frameworks are used in the literature to describe the transition of micro-entrepreneurs from one economy to the other?</i>	Desk research: <ul style="list-style-type: none"> <li>Micro-entrepreneurship</li> <li>Informal economy</li> </ul>	Theoretical framework
Phase 4	<i>SQ 3: How can peer providers move towards the formal economy by undertaking opportunities in the peer-to-peer economy?</i>	Framework design	Conceptual framework and hypothesis
Phase 5	<i>SQ 4: How do peer providers perceive the sustainability of work through peer-to-peer ridesharing platforms and their possibility to grow as micro-entrepreneurs?</i>	Online survey to test the hypothesis developed Data analysis	Validated conceptual framework and perceptions
Phase 6	<i>RQ: To what extent do the micro-entrepreneurial opportunities created by peer-to-peer ridesharing platforms contribute to the transition of labour from the informal to the formal economy in the context of the Indonesian peer economy?</i>		Recommendations

Table 1

Phase 1

A preliminary desk research has been carried out to gather information about the problem. The desk research has been performed thanks to the two search engines Google Scholar and Scopus. Multiple key-words have been used and combined to narrow down the problem. The keywords used included elements of the peer economy (such as "sharing economy", "collaborative consumption" and "platform economy"), of large peer-to-peer ridesharing platforms (such as "Lyft" and "Uber") and of entrepreneurship in the informal economy (such as "informal economy", "informal entrepreneurship", "parallel economy" and "grey market"). The outcomes

of this phase have been the formulation of the problem and of the research question presented in this paper.

#### *Phase 2*

The second phase will aim at answering the research sub-question "*What are peer-to-peer ridesharing platforms, how do they create micro-entrepreneurial opportunities and how do they configure in the Indonesian market?*". At this purpose, a desk research will be performed focussing on the formal definition of peer-to-peer ridesharing and of its particular configuration in the Indonesian market. This will include an extensive literature review of the theories on the platform economy and sharing economy, that will be used together to define the domain of the research. Furthermore, the transaction cost theory will be used to define how micro-entrepreneurship is possible in digital marketplaces. Finally, non-academic articles and companies' websites will be reviewed to describe the Indonesian ridesharing ecosystem. The outcome of this phase will be the definition of the research domain.

#### *Phase 3*

This phase will answer the sub-question "*What are formal and informal economy and what frameworks are used in the literature to describe the transition of micro-entrepreneurs from one economy to the other?*". Once more, a desk research has been selected as most suitable methodology. This will involve a review of the literature on micro-entrepreneurship in emerging markets. Secondly, the literature on the informal economy will be reviewed with a particular focus on models describing the relations between formal and informal economy. The outcome of this phase will be a theoretical framework of informal micro-entrepreneurship

#### *Phase 4*

The fourth phase will answer the sub-question "*How can peer providers move towards the formal economy by undertaking opportunities in the peer-to-peer economy?*". In order to do so, we will design a framework describing micro-entrepreneurial opportunities in the peer economy as a instrument of transition from the informal to the formal economy. This framework will take from the models identified during phase 3 and adapted to the specific case of peer-to-peer ridesharing platforms as described in the domain definition. The conceptual framework will then be used to develop hypothesis regarding the role of peer-to-peer digital marketplaces in influencing the transition of micro-entrepreneurs from the informal to the formal economy. The outcomes of this phase will be a conceptual framework and a set of hypotheses.

#### *Phase 5*

This phase will answer the last sub-question "*How do peer providers perceive the sustainability of work through peer-to-peer ridesharing platforms and their possibility to grow as micro-entrepreneurs?*". On the base of the hypothesis and conceptual framework developed in phase four, a survey will be designed. The survey will then be distributed on a digital format to micro-entrepreneurs engaged in activities over peer-to-peer ridesharing platforms in the Jakarta area chosen as population. Considering the estimated population of peer providers, the size of the sample will indicatively be of 200 respondents. The sampling techniques will be determined at a further stage of this research. The data collected will then be analysed with IBM SPSS. Both a multiple regression and a conjoint analysis will be performed. The outcomes of this phase will be a validated conceptual framework and a measure perception of peer providers in matter of micro-entrepreneurial opportunities.

#### *Phase 6*

The sixth and concluding phase will involve answering the research question "*To what extent do the micro-entrepreneurial opportunities created by peer-to-peer ridesharing platforms contribute to the transition of labour from the informal to the formal economy in the context of the Indonesian peer economy?*". The answer will be drawn by the outcomes of the previous phases and will be used to produce recommendations for policy makers and micro-entrepreneurs, objective of this study. The outcome of this phase will be a complete research report.



## 5. Schedule

The research will be carried out by following indicatively the schedule drafted in *Table 2*.

<b>Activity</b>	<b>Description</b>	<b>Progress in the report</b>	<b>Deadline</b>
<b>Thesis proposal</b>	Concise formalisation of the proposal	Chapter 1	February
<b>Kick-off meeting</b>	TPM procedure		February
<b>Desk research</b>	Definition of the research domain	Draft Chapter 2	March
<b>Framework design</b>	Design of the theoretical framework	Draft Chapter 3	March-April
<b>Mid-term review</b>	TPM procedure		April
<b>Survey design</b>	Design of the questionnaire and pre-tests	Draft Chapter 4 Final draft Chapter 2 & 3	April - May
<b>Data collection</b>	Distribution and recollection of the survey	First Draft Chapter 5 Final draft Chapter 4	May
<b>Data analysis</b>	Analysis of the survey results through SPSS	Second draft Chapter 5 Draft Chapter 6 Final draft Chapter	May - June
<b>Final draft</b>	Final draft of the entire thesis report	Final Draft Draft presentation	August
<b>Green light</b>	TPM procedure		
<b>Thesis defending</b>	Graduation presentation to the committee	Presentation	September

Table 2

## 6. Structure of the research report

Figure 1 includes a draft of the structure that will be used for the research report.

Acknowledgment		
Executive Summary		
Table of Contents		
List of Figures		
List of Tables		
1 Introduction	1.1	Problem Identification
	1.2	Research Objective
	1.3	Research Question
	1.4	Research Strategy
	1.5	Report Structure
2 Domain Definition	2.1	Platform Economy
	2.2	Sharing Economy
	2.3	Ridesharing
	2.4	Indonesians Peer-to-Peer Ridesharing Platforms
3 Theoretical Framework	3.1	Formal and Informal Labour
	3.2	Transition models
	3.3	Informal Entrepreneurship
	3.4	Micro-entrepreneurship
4 Conceptual Framework & Survey Design Informal	4.1	Peer-to-Peer Ridesharing Platforms as an Micro-Entrepreneurial Opportunity
	4.2	Framework Design
	4.3	Sampling strategy and data collection method
	4.4	Predictive assessment
5 Survey Results and Data Analyses	5.1	Descriptive Statistics
	5.2	Multiple Regression Analysis
	5.3	Conjoint Analysis
6 Concluding chapter	6.1	Conclusion
	6.2	Contributions
	6.3	Limitations
	6.4	Recommendations for future research

Figure 1

## References

- Alvarez, S. A., & Barney, J. B. (2014). Entrepreneurial Opportunities and Poverty Alleviation. *Entrepreneurship Theory and Practice*, 38(1), 159–184. <https://doi.org/10.1111/etap.12078>
- Benjaafar, S., Kong, G. C., Li, X., & Courcoubetis, C. (2015). Peer-to-peer product sharing: Implications for ownership, usage and social welfare in the sharing economy. *Xiang and Courcoubetis, Costas, Peer-to-Peer Product Sharing: Implications for Ownership, Usage and Social Welfare in the Sharing Economy (October 5, 2015)*. Retrieved from [http://papers.ssrn.com/sol3/Papers.cfm?abstract\\_id=2669823](http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2669823)
- Cheng, M. (2016). Sharing economy: A review and agenda for future research. *International Journal of Hospitality Management*, 57, 60–70. <https://doi.org/10.1016/j.ijhm.2016.06.003>
- Dalglis, C. (2008). From abject poverty to aspiring middleclass – micro-entrepreneurship in urban Mozambique. *Journal of Asia Entrepreneurship and Sustainability*, 4(3), 55–71.
- Dillahunt, T. R., & Malone, A. R. (2015). The Promise of the Sharing Economy among Disadvantaged Communities (pp. 2285–2294). ACM Press. <https://doi.org/10.1145/2702123.2702189>
- Edelman, B. G., Luca, M., & Svirsky, D. (2016). *Racial Discrimination in the Sharing Economy: Evidence from a Field Experiment* (SSRN Scholarly Paper No. ID 2701902). Rochester, NY: Social Science Research Network. Retrieved from <https://papers.ssrn.com/abstract=2701902>
- Einav, L., Farronato, C., & Levin, J. (2016). Peer-to-Peer Markets. *Annual Review of Economics*, 8. <https://doi.org/10.1146/annurev-economics-080315-015334>
- Fang, B., Ye, Q., & Law, R. (2016). Effect of sharing economy on tourism industry employment. *Annals of Tourism Research*, 57, 264–267. <https://doi.org/10.1016/j.annals.2015.11.018>
- Fraiberger, S., & Sundararajan, A. (2015). Peer-to-peer rental markets in the sharing economy. NYU Stern School of Business Research Paper.
- Gurtoo, A., & Williams, C. C. (2009). Entrepreneurship and the informal sector: some lessons from India. *The International Journal of Entrepreneurship and Innovation*, 10(1), 55–62.
- Hall, J. V., & Krueger, A. B. (2015). An Analysis of the Labor Market for Uber’s Driver-Partners in the United States. *Princeton University Industrial Relations Section Working Paper*, 587. Retrieved from <https://assets.documentcloud.org/documents/1507970/uberstudy.pdf>
- Henten, A. H., & Windekilde, I. M. (2016). Transaction costs and the sharing economy. *Info*, 18(1), 1–15. <https://doi.org/10.1108/info-09-2015-0044>
- Isaac, E. (2014). Disruptive Innovation: Risk-Shifting and Precarity in the Age of Uber. *Berkeley Roundtable on the International Economy BRIE Working Paper*, 7. Retrieved from <https://pdfs.semanticscholar.org/0d90/07be68160ee0c27e2abb5e10f92a42075e66.pdf>
- Kenney, M., & Zysman, J. (2015). Choosing a future in the platform economy: the implications and consequences of digital platforms. In *Kauffman Foundation New Entrepreneurial Growth Conference*. Retrieved from <http://www.brie.berkeley.edu/wp-content/uploads/2015/02/PlatformEconomy2DistributeJune21.pdf>
- Mandelman, F. S., & Montes-Rojas, G. V. (2009). Is Self-employment and Micro-entrepreneurship a Desired Outcome? *World Development*, 37(12), 1914–1925. <https://doi.org/10.1016/j.worlddev.2009.05.005>

- Roy, M.-A., & Wheeler, D. (2006). A survey of micro-enterprise in urban West Africa: drivers shaping the sector. *Development in Practice*, 16(5), 452–464. <https://doi.org/10.1080/09614520600792432>
- Schor, J. (2014). Debating the sharing economy. *Great Transition Initiative*. Retrieved from [http://www.tellus.org/pub/Schor\\_Debating\\_the\\_Sharing\\_Economy.pdf](http://www.tellus.org/pub/Schor_Debating_the_Sharing_Economy.pdf)
- Schor, J. B., Fitzmaurice, C., Carfagna, L. B., Attwood-Charles, W., & Poteat, E. D. (2016). Paradoxes of openness and distinction in the sharing economy. *Poetics*, 54, 66–81. <https://doi.org/10.1016/j.poetic.2015.11.001>
- Schumpeter, J. A. (1934). *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle*. Transaction Publishers.
- Stone, B. (2017). The \$99 Billion Idea: How Uber and Airbnb Won. *Bloomberg.com*. Retrieved from <https://www.bloomberg.com/features/2017-uber-airbnb-99-billion-idea/>
- Vial, V. (2011). Micro-entrepreneurship in a hostile environment: evidence from Indonesia. *Bulletin of Indonesian Economic Studies*, 47(2), 233–262. <https://doi.org/10.1080/00074918.2011.585952>
- Webb, J. W., Bruton, G. D., Tihanyi, L., & Ireland, R. D. (2013). Research on entrepreneurship in the informal economy: Framing a research agenda. *Journal of Business Venturing*, 28(5), 598–614. <https://doi.org/10.1016/j.jbusvent.2012.05.003>
- Westerbeek, J., Ubacht, J., Voort, H. V., & Heuvelhof, E. T. (2016). Studying the Effects of Peer-to-Peer Sharing Economy Platforms on Society. In *Electronic Government and Electronic Participation: Joint Proceedings of Ongoing Research, PhD Papers, Posters and Workshops of IFIP EGOV and EPart 2016* (Vol. 23, p. 222). IOS Press.
- Williams, C. C. (2013). Beyond the formal economy: evaluating the level of employment in informal sector enterprises in global perspective. *Journal of Developmental Entrepreneurship*, 18(04), 1350027. <https://doi.org/10.1142/S1084946713500271>
- Zervas, G., Proserpio, D., & Byers, J. (2016). *The Rise of the Sharing Economy: Estimating the Impact of Airbnb on the Hotel Industry* (SSRN Scholarly Paper). Rochester, NY: Social Science Research Network. Retrieved from <http://papers.ssrn.com/abstract=2366898>



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**THE PUBLIC SERVICE COMMITMENT OF LOCAL GOVERNMENT IN  
DEVELOPING CENTER OF KNITTING INDUSTRY BINONG JATI BANDUNG  
CITY, WEST JAVA**

**Candradewini**

*Public Administration Department, Faculty of Social and Political Sciences,  
Universitas Padjadjaran, candradewini@gmail.com*

---

**ABSTRACT**

*A hundreds companies have business activity in producing knit fabric in center of Knitting Industry Binong Jati. This center is one of flagship industries of Bandung Local Government. Some of the companies are family business that life in two generation.*

*The research objective is describing the public service commitment of local government. How local government serve knitting industry of Binong Jati explained in this research.*

*The locus of this research is local government. Focused of this research is on service commitment of Bandung Government in developing center of Binong Jati Knitting Industry. This research used qualitative research method. The informants are key person of local government of Bandung City and owners of industries. This research used observation, in-depth interview, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data.*

*The result of this research show the condition of service commitment of local government. The service clarity of service in developing Binong Jati Knitting Industry indicated by delivering information of services. The consistency of service shown by continues service every year. In communication process, there is many problem for example less coordination between stakeholders. This condition make the development program not in optimal condition. The entrepreneurs of Binong Jati Knitting Industries should invite by local government in designing development program to make sure that program fit with industry need. Then, coordination is needed in implementation and evaluate the quality of service in developing Binong Jati Knitting Industries.*

**Keywords:** *Public Service Commitment*

---

**1.Introduction**

The Center of Knitting Industry Binong Jati is one of the industrial centers of trade in Bandung. The industrial centers including in the area of potential industries that contribute to the improvement of the economy. In addition, The Center of Knitting Industry Binong Jati has become one of the tourist destinations in the city of Bandung.

Development and sustainability of industrial centers is extremely require the participation of various parties. The Department of Cooperative, SMEs, Trade and Industry of Bandung City is one institution where has the task to carry out part of the regional authority in the field of cooperative, SMEs, and industrial trade. In general, the role and function of this institution is to formulate technical and operational policies of SMEs, industrial trade, cooperative fields.

Since 2010, The Center of Knitting Industry Binong Jati decreased based on the number of business units, production capacity, and workforce. Based on data from the Department of Cooperative, SMEs, Trade and Industry, in 2010 was recorded as many as 390 business units and continued to decline until the year 2014 amounted to only 264 units of the business.

In connection with the development of industrial centers, there are the following phenomena: first, in terms of training planning still do not involve all stakeholders, especially the business people. In addition, socialization training are lacking so that the level of participation of the entrepreneurs have not maximized. Second, the communication process, in this case coordination among the government namely the Department, with people in business centers are still not running properly. Based on this phenomenon, this study aims to determine the commitment of public services at the Center of Knitting Industry Binong Jati Bandung.

## **2. Literature Review**

The concept of customer service commitment is defined as the tendency for an individual connection to provide continuous improvement and trying earnestly to the benefit of customers (Peccei & Rosenthal, 1997). The participation of employees in delivering a quality service and always trying to improve services provided are the core of customer service commitment. With a commitment to high customer service, the workers will receive organization as a place that has strong values in the quality of service and customer satisfaction.

The commitment of service is a guideline to achieve success in introducing the initiative service (Sutopo & Suryanto, 2003). As for the sub variable, as follows: 1) Clarity, 2) Consistency, 3) Communication, 4) Commitment.

## **3. Research Method**

The method used is a qualitative research method (Creswell, 2009) that reveals in depth and factual account of the reality on the ground. Data and information collected through interviews and observations as well as triangulation techniques for data validity. Informants in this study are the leaders and employees in The Department of Cooperative, SMEs, Trade and Industry, and the owner of industries.

## **4. Result and Discussion**

In this section will explain the commitment of public services at the Center of Knitting Industry Binong Jati Bandung.

The employees of the Department of Copperative, SMEs, Trade and Industry has had regulations in order to provide better services, especially to business people at The Center of Knitting Industry Binong Jati. In Local Legislation Bandung Number 23 Year 2009 on Micro, Small and Medium Enterprises says that is necessary to the development, one of which is done by the government to empower micro, small, and medium enterprises through the provision of facilities, counseling assistance and help to foster and improve capability and competitiveness of micro, small, and medium enterprises.

In terms of clarity of service seen from the planning process and socialization services. For example in planning the training is still not fully involve businessmen. In addition, the socialization of training needs to be improved so that businessmen actively involved and participate in any training course held.

Consistency of service one of which is shown on the continuous implementation of the program. Training for businessmen are still not optimal in both the intensity and the quality of the instructors. This of course will impact on the level of knowledge to the businessmen related to the production, sale, and to sustainable business growth.

As for communication in order to service looks of coordination between the Department with the business people. In connection with the training undertaken, coordination in determining the schedule and training materials have not been implemented as intended. Whereas business people urgently require training related to the effort to develop the business.

Service commitment shown by the improvement of the workings in order to serve. Still found errors are repeated at the time of service provision showed the commitment of service still needs to be improved.

## **5. Conclusion and Implications**

The results showed that the public service commitment at the Cnter of Knitting Industry Binong Jati must still be improved. This can be done by improving the clarity of service in terms of planning by involving business people in order to know the needs of businessmen. Besides the implementation of the program should be more continuous service, coordination was done in the implementation and evaluation of programs, and improvement of continuous work in order to serve.

## ***References***

- Creswell, John W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Third Edition. California: Sage Publication, Inc.
- Peccei & Rosenthal. (1997). *The Antecedent of Employee Commitment to Customer Service*. *International Journal of Human Resources Management*.
- Sutopo & Suryanto, Adi. (2003). *Pelayanan Prima*. Jakarta: LAN R



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**THE SMALL SIZE FAMILY INDUSTRIES DEVELOPMENT MODEL OF  
SUKABUMI CITY GOVERNMENT**

**Candradewini**

*Public Administration Department, Faculty of Social and Political Sciences,  
Universitas Padjadjaran, candradewini@gmail.com*

---

**ABSTRACT**

*Sukabumi City have many industries as a economic entity in developing city. Some of them are family industries. These are owned by family from generation to generation. There is challenging condition for local government in developing this industries.*

*The objective of this research is to describe the process development effort of local government. This research analyze how the local government design and implement development program for small size family industries in Sukabumi City.*

*Focused of this research is on development model of Sukabumi City Government in developing small size family industries in Sukabumi City. This research used qualitative research method. The informants are key person of local government of Sukabumi City and owners of family industries. This research used obervation, in-depth interview and focussed group discussion, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data.*

*There are challenges in developing small business especially for family business. They have business from their family generation. Local government facilitated training of managerial skill for operate their business. In other hand, there is less objectiveness in recruitment and promotion because of conflict of family interest. Then most of them operate their business as usual activity, so less innovation and creation. In the other side, local government give training and facilitate expo for promote their product.*

**Keywords:** *Small Size Family Business Development*

---

**1. Introduction**

Sukabumi City has the specific characteristics compared to other areas surrounding. Geographically, Sukabumi City does not have the potential of natural resources and vast territory. Under these conditions, make The City of Sukabumi can only be occupied by small and medium scale industries.

Small and Medium Industries in Sukabumi City dominated by the industry engaged in the sectors of food and beverage processing, wood processing and handicrafts. In general, the industry is managed and operated by a family and run for generations. Some industries in Sukabumi City including food processing industry located in the

area Kaswari street named Mochi Cake. This cake is round is packaged in a small bamboo basket and made of glutinous rice flour finely ground peanuts and sprinkled with tapioca flour. Mochi Cake has a variety of flavors, chewy when chewed, and perfectly suited to serve as a souvenir. In addition, there is a doll-making industry in the village of Kebonjati and crafts paintings of banana in the area of Barostugu.

Development and sustainability of small industries in The City of Sukabumi to the attention of the local government. The Department of Cooperative, SMEs, Trade and Industry of Sukabumi City is one institution that has the task of carrying out business in the field of cooperative, SMEs, trade and industry. In general, the function of this Department is to formulate a policy, carry out the service and guidance in the field of cooperative, SMEs, trade and industry.

The development of the small industries are managed and run by the family has become a challenge. For example in planning the training for business needs analysis is required in advance. In addition, the quality of training instructors must still be improved. The socialization training has not been done properly. Facilities such as the promotion of the exhibition is also still limited. Based on this phenomenon, this study aims to describe and analyze the process of development for the small size family industries by The Government of Sukabumi City.

## 2. Literature Review

Policies regarding the decision-making process concerning the overall activity of the organization which in turn will allow achieving the goals set. In the policy cycle, the implementation of an activity which is most important because it involves political translation into routine procedures until decisions are complicated as to who gets what and how much of a policy.

Edward III (1980) suggests that “policy implementation as we have seen is the stage of policy making between the establishment of a policy such as the passage of a legislative act, the issuing of an executive order, the handing down of a judicial decision, or the promulgation of a regulatory rule and the consequences of the policy for the people whom it affects”.

There are four factors that influence the successful implementation of policies (Edward III, 1980), namely:

- a. Communication, the first requirement for effective policy implementation is that those who are to implement a decision must know what they are supposed to do.
- b. Resources, implementation orders may be accurately transmitted, clear, and consistent, but if implementations lack the resources necessary to carry out policies, implementations is likely to be ineffective.
- c. Dispositions or attitude, if implementers are well-disposed toward a particular policy, they are more likely to carry it out as the original decision makers intended. But when implementers attitudes or perspectives differ from the decision makers, the process of implementing a policy becomes more complicated.
- d. Bureaucratic structure, policy implementers may know what to do and have sufficient leisure and resources to do it, but they may still be hampered in implementation by the structures of the organizations in which they serve. Two prominent characteristics of bureaucracies are standard operating procedures (SOPs) and fragmentation.

### 3. Research Method

In this study, the qualitative research method (Creswell, 2009) is used to reveals in depth and factual account of the reality on the ground. Data and information collected through in-depth interviews and observations as well as triangulation techniques for data validity. The informants in this study are the leaders and employees in The Department of Cooperative, SMEs, Industry and Trade, and the owner of industries.

### 4. Result and Discussion

Government Regulation No. 17 Year 2013 on the Implementation of Law No. 20 Year 2008 on Micro, Small, and Medium Enterprises mandated to conduct business development services for micro, small, and medium enterprises. This policy is a base in the business development process that includes the facilitation and implementation of business development.

In the policy (article 5) said that small business development is the duty of the Government and Local Government, which can be done through:

- a. data collection, identification of potential, and problems encountered;
- b. preparation of guidance and development program according to the potential and problems encountered;
- c. implementation of coaching and development programs; and
- d. monitoring and evaluation of program implementation.

Sukabumi City Government through The Department of Cooperative, SMEs, Trade and Industry has responded and did small industrial development efforts in The City of Sukabumi and is a challenge in developing the family business, especially small businesses. Small businesses are usually carried out by the family for generations. Small family businesses often carried out by members of the family so less objective in the hiring and promotion of workers due to a conflict of interest. In addition, most businesses manage the business in the usual manner so that innovation is still low. In this regard, the Department has provided business skills training for business people. Identification of training needs is absolute must along with the development challenges faced by the business people. Therefore, the planning of the training program should involve various stakeholders, especially small businesses. Similarly, in terms of implementation of the training program is not optimal either on the quantity and quality of training. Instructors who are still limited in number and technical competence according to the needs of businesses that are diverse.

Implementation of the training program will not work when businesses are not entirely aware of the existence of training programs that exist. In this case, the socialization in the implementation of the training is still not optimal. The businesses there are those who do not know when the training was held. Whereas it should socialization conducted using a variety of print and electronic media.

One of the barriers perceived by business people is the problem of capital and marketing results of operations. In this regard, the Department has provided an exhibition, but the intensity is still lacking. In addition, businesses can not entirely follow the exhibitions are held. From the capital, was undertaken in collaboration with various banks such as BRI and BJB in the provision of credit for small industrial enterprises in The City of Sukabumi.

### **5. Conclusion and Implications**

The results showed that the development of small family businesses in The City of Sukabumi still needed. This resulted in the training of entrepreneurs, socialization program and exhibition facilities are not optimal. Therefore, it needs to conduct training need analysis and the recruitment of qualified instructors. In addition, the website socialization and implementation of the exhibition needs to be improved.

### ***References***

- Creswell, John W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Third Edition. California: Sage Publication, Inc.
- Edward III, George C. (1980). *Implementing Public Policy*. Congressional. Quarterly Press. Washington.
- Indonesia Government Regulation No. 17 Year 2013 on the Implementation of Law No. 20 Year 2008 on Micro, Small, and Medium Enterprises



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**WORK ENGAGEMENT,  
PERCEIVED ORGANIZATIONAL SUPPORT,  
AND PSYCHOLOGICAL WELL-BEING**

Kiky Dwi Hapsari Saraswati  
Universitas Tarumanagara, kikysaraswati@yahoo.com

***ABSTRACT:***

Competition in the business recently becomes tighter. To maintain its position, a company must demonstrate high performance. Therefore the companies should have the right strategy, especially strategy for managing human resources. High performance employees are those able to demonstrate a high commitment to work. Simply, they must show great engagement to their work. Work engagement (WE) is a condition of a positive mental, associated with the fulfillment of the work characterized by vigor, dedication and absorption. High work engagement can be seen through the motivation and commitment in working, enthusiasm, and passion (Schaufeli, in Luthans, 2011). According to Schaufeli and Bakker (2003), one of the antecedents of the WE is external factors, such as Perceived Organizational Support (POS). POS is general belief in which employees feel that their organization values their contributions and cares about their well-being (Eisenberger, Huntington, Hutchison, and Sowa, 1986). Ryff and Keyes (1995) defined Psychological Well-Being (PWB) as the condition when a person has a purpose in life, realizes his potential, has good relationships with others, and has a sense of responsibility for his own life. This study aims to investigate the engagement of employees who work in PT X, East Java, a family business which was founded almost 40 years ago. Using a quantitative method by distributing questionnaires to the employees, it is found that POS and PWB contributed significantly to WE ( $F = 12,419$ ,  $P < 0,01$ ).

Key words: family business, work engagement, perceived organizational support, psychological well-being

## **1. Introduction**

Donnelley (in Zachary, 2011) explained that a company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family. Family business is unique since the family members take control in daily management. Hence, nepotism and unprofessionalism have become their main issues of the management style. Although they grow with such issues, family-owned and family-controlled firms account for approximately 90 percent of all incorporated businesses in the United States (Astrachan & Carey in Zachary, 2011). They also account for more than 50% of the gross domestic product in the same area.

PT X is a family-owned chemical company, specializing in coating industry. The head office is located in Tangerang, Banten. They have run the business for almost 40 years, and now the business is managed by the second generation. PT X has more than 50 branches and distributors all over Indonesia, the biggest one is in East Java. They also have branches in Southeast Asia, including Malaysia and Vietnam. In total, their production capacity is 70.000 mT/annum and employ more than 4000 employees.

It is well known that the challenge that most of family business, including PT X, face is succession plan. They will survive if the succession from one generation to the next runs well. But as they grow bigger, succession is not the only problem they have to manage. Human resource has become an important issue as well. To maintain their position, the family business must demonstrate high performance. Therefore the company should have the right strategy, especially strategy for managing human resource or employees. High performance employees are those able to demonstrate a high commitment to work. In other words, they must show great engagement to their work. Engaged workers are able and willing to “go the extra mile” (Bakker and Demerouti, 2009).

Engagement is generally defined as an energetic state in which the employee is dedicated to excellent performance at work and is confident of his or her effectiveness (Naudé & Rothmann in Olivier & Rothmann, 2007). According to the analysis of Maslach, Schaufeli and Leiter (in Olivier & Rothmann, 2007), work engagement is distinct from other constructs such as organizational commitment, job satisfaction, or job involvement. Engagement focuses on the work itself. Work engagement potentially leads to both individual and organizational-level outcomes. Sohrabizadeh & Sayfour (2014) found that the consequences of work engagement in their hypothesized model included job satisfaction, Organizational Citizenship Behavior (OCB), and absence of intention to quit.

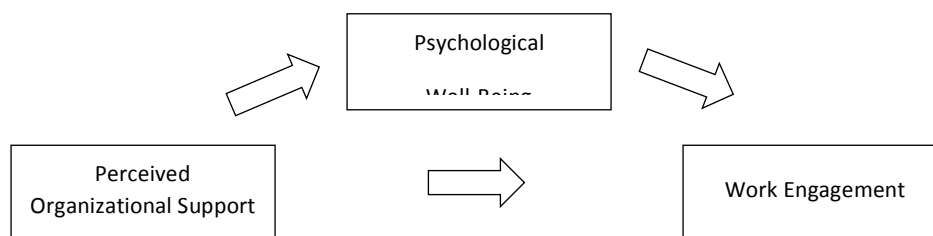
Employees are willing to demonstrate their full commitment to their job only when they feel appreciated by the company. According to what the Social Exchange Theory says, employment is viewed as the trade of effort and loyalty by the employee for tangible benefits and social resources from the organization (Cropanzano & Mitchell in Kurtessis, Eisenberger, Ford, Buffardi, Stewart, & Adis, 2015). Employees with high organizational support have a higher expectation to get reward and concern, and

positive social-emotional state, then the individual's self-worth is more likely to achieve and maintain, and then get a higher degree of psychological well-being (Ni & Wang, 2015). One of the antecedents of the work engagement is external factor or job resource, such as Perceived Organizational Support (Schaufeli and Bakker, 2003). Saks (2006) found that employees who perceive higher organizational support are more likely to reciprocate with greater levels of engagement in their job and in the organization.

Furthermore, employees who perceive higher organizational support will feel higher psychological well-being. They are willing to do more because they realize their potential, feel more satisfied with what they do, and have better relationship with others. Organizational support can positively predicted psychological well-being. Organizational support has two core elements: first, employees' perception of whether the organization value their contribution; second, employees' perception of whether the organization concerns their psychological well-being. Employees usually take the individual effort as the degree of contribution to the organization, and whether their social emotional need is satisfied as the measure of how the organization values their psychological well-being (Ni & Wang, 2015).

This study aims to investigate the engagement of employees who work in PT X, East Java, a family business which was founded almost 40 years ago. Thus, hypotheses proposed are: (1) Perceived Organization Support has significant effect on Work Engagement; (2) Psychological Well-Being has significant effect on Work Engagement; (3) Psychological Well-Being and Perceived Organization Support have significant effect on Work Engagement.

The model of this study is described below:



Picture 1. Model of the study

## 2. Literature Review

Kahn (1990) defined the concept of work engagement as “the harnessing of organizational members’ selves to their work roles.” Work engagement involves the expression of the self through work and other employee-role activities. The concept was later expanded to describe when employees feel positive emotions toward their work, find their work to be personally meaningful, consider their workload to be manageable, and have hope about the future of their work (Macey & Schneider, 2008). Work engagement is an individual’s involvement with, satisfaction with, and enthusiasm for, the work she does. Highly engaged employees have a passion for their work and feel a

involvement, commitment passion, enthusiasm, absorption, focused effort, and energy. In contrast, based on business and academic perspectives, no agreement exists among particular conceptualization of work engagement (Bakker & Lieter, 2010).

Schaufeli, Salanova, Gonzalez-Roma, & Bakker (2002) defined work engagement as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. Vigor is characterized by high levels of energy and mental resilience while working. Dedication refers to being strongly involved in one's work and experiencing a sense of significance, enthusiasm, and challenge. Absorption is characterized by being fully concentrated and happily engrossed in one's work, whereby time passes quickly and one has difficulties with detaching oneself from work. In short, engaged employees have high levels of energy and are enthusiastic about their work.

One of the antecedents of the work engagement is external factor or job resource, such as Perceived Organizational Support (Schaufeli and Bakker, 2003). Antecedents of work engagement occur when an employee experiences the suitable blend of workload, control, reward, sense of community fairness, and value congruence (Maslach & Goldberg, 1998). Fairness is one of three general forms of perceived favorable treatment. This component leads to increased Perceived Organizational Support (Rhoades & Eisenberger, 2002). Another research done by Sacks (2006) found that employees who perceive higher organizational support are more likely to reciprocate with greater levels of engagement in their job and in the organization

Perceived Organizational Support refers to employees' perception concerning the extent to which the organization values their contribution and cares about their well-being (Eisenberger, Huntington, Hutchison, and Sowa, 1986). Employees' commitment to the organization is strongly influenced by their perception of the organization's commitment to them. Perceived organizational support is assumed to increase the employee's affective attachment to the organization and his or her expectancy that greater effort toward meeting organizational goals will be rewarded. The extent to which these factors increase work effort would depend on the strength of the employee's exchange ideology favoring the trade of work effort for material and symbolic benefits (Eisenberger et al., 1986).

Perceived Organizational Support was positively related to employees' felt obligation to care about the organization's welfare and to help the organization reach its objective, felt obligation mediated the associations of Perceived Organizational Support with affective commitment, organizational spontaneity, and in-role performance, and the relationship between Perceived Organizational Support and felt obligation increased with employees' acceptance of the reciprocity norm as applied to work organizations (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001).

Perceived organizational support corresponds to the degree to which employees feel



in case of need (e.g. illness, work-related problems), make their work interesting and stimulating, and provide them with adequate working conditions (Eisenberger dalam Eisenberger, Cummings, Armeli, & Lynch, 1997)

Work Engagement is significantly positively related to Psychological Well-being and motivation at work (Vijayakumari & Vrinda, 2016). Meanwhile, Perceived Organizational Support has been found to have important consequences on employee performance and well-being (Eisenberger, et al., 1986).

Psychological Well-Being is the extent to which a person has a purpose in life, realize his potential, has a good quality relationship with others, and has a sense of responsibility for his own life (Ryff and Keyes, 1995). Furthermore, *Psychological Well-Being* is not a condition in which a person is free from stress, happiness, or satisfaction. Psychological Well-Being is a condition where a person can function psychologically well, so as to realize his potential (Ryff, 1989).

The convergence of these multiple frameworks of positive functioning served as the theoretical foundation to generate a multidimensional model of well-being (Ryff and Keyes, 1995). Included are six distinct components of positive psychological functioning. In combination, these dimensions encompass a breadth of wellness that includes positive evaluations of oneself and one's past life (Self-Acceptance), a sense of continued growth and development as a person (Personal Growth), the belief that one's life is purposeful and meaningful (Purpose in Life), the possession of quality relations with others (Positive Relations With Others), the capacity to manage effectively one's life and surrounding world (Environmental Mastery), and a sense of self-determination (Autonomy).

### **3. Research Method**

The study used quantitative method. Data was collected by distributing questionnaires to respondents. The questionnaires used are Work and Well-Being Survey (UWES) developed by Schaufeli and Bakker, POS Scale developed by Eisenberger, Huntington, Hutchison, and Sowa, and PWB Scale developed by Ryff. The 17-item Work and Well-Being Survey (UWES) was based on the three constituting dimensions of work engagement: vigor, dedication, and absorption. After try out, there were 16 reliable items to be used for data collection. Cronbach's alpha coefficient of this scale was 0,916. The 16-item scale in the perceived organizational support variable was based on unidimensionality of Eisenberger et al.'s scale. After try out, there were 11 reliable items to be used for data collection. Cronbach's alpha coefficient of this scale was 0,796. The 18-item Psychological Well-Being scale was based on the six dimensions of Psychological Well-Being: Self-Acceptance, Personal Growth, Purpose in Life, Positive Relations With Others, Environmental Mastery, Autonomy. After try out, there were 15 reliable items to be used for data collection. Cronbach's alpha coefficient of this scale was 0,742.

The data used to test the hypotheses were collected from a sample of 76 out of 200 employees who had worked in East Java branch of PT X for more than one year. PT X is a family-owned chemical company, specializing in coating industry. The results showed that most of respondents were male, accounted for 55 participants (72,37%). The respondents with ages under 40 years old were accounted for 52 participants (68,42 %), whereas those with ages more than 40 years old were accounted for 24 participants (31,58%). Moreover, respondents who had been working for less than 5 years were accounted for 26 participants (34,21%), whereas those who had been working for more than 5 years were accounted for 50 participants (65,79%).

To test the hypotheses, regression analysis was used to investigate the impacts of the independent variables (Psychological Well-Being and Perceived Organizational Support) to the dependent variable (Work Engagement).

#### 4. Result and Discussion

Hypothesis 1: Perceived Organization Support has a significant effect on Work Engagement. The hypothesis was put to test, using regression method. The results obtained from the test are summarized in table 1.

Table 1. ANOVA showing the effect of Perceived Organizational Support on Work Engagement

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	576.433	1	576.433	14.426	.000 <sup>b</sup>
Residual	2956.975	74	39.959		
Total	3533.408	75			

Table 1 reveals the effect of the effect of Perceived Organizational Support on Work Engagement. The table shows that there was a significant effect of Perceived Organizational Support on Work Engagement ( $F = 14,426$ ,  $P < 0,01$ ). The result gives support to the first hypothesis. Hence, the hypothesis was accepted.

Maslach and Goldberg (1998) described the antecedents of work engagement occur when an employee experiences the suitable blend of workload, control, reward, sense of community fairness, and value congruence. Another research done by Sacks (2006) found that employees who perceive higher organizational support are more likely to reciprocate with greater levels of engagement in their job and in the organization. Thus, this finding supports the previous researches that Perceive Organizational Support has a significant effect on Work Engagement.

Further test found that the effect that Perceive Organizational Support contributes on Work Engagement is 16,3%. Here a conclusion may be made that another 83,7% is contributed by other factors. The result detail is shown in table 2.

Table 2. Model Summary showing the contribution of Perceive Organizational Support on Work Engagement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.404 <sup>a</sup>	.163	.152	6.32132

Hypothesis 2: Psychological Well-Being has a significant effect on Work Engagement. The hypothesis was put to test, using regression method. The results obtained from the test are summarized in table 3.

Table 3. ANOVA showing the effect of Psychological Well-Being on Work Engagement

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	325.645	1	325.645	7.512	.008 <sup>b</sup>
Residual	3207.762	74	43.348		
Total	3533.408	75			

Table 3 reveals the effect of Psychological Well-Being on Work Engagement. The table shows that there was a significant effect of Perceived Organizational Support on Work Engagement ( $F = 7,512$ ,  $P < 0,01$ ). The result gives support to the second hypothesis. Hence, the hypothesis was accepted.

Previous research done by Eisenberger, et al. (1986) found that Perceived Organizational Support has important consequences on employee performance and well-being. Later on Vijayakumari and Vrinda (2016) found that Work Engagement is significantly positively related to Psychological Well-being and motivation at work. The finding in this research strengthened the previous researches that Psychological Well-Being has a significant effect on Work Engagement.

Further test found that the effect that Psychological Well-Being contributes on Work Engagement is 9,2%. A conclusion may be made that another 90,8% is contributed by other factors. The result detail is shown in table 4.

Table 4. Model Summary showing the contribution of Psychological Well-Being on Work Engagement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.304 <sup>a</sup>	.092	.080	6.58393

Hypothesis 3: Perceived Organization Support and Psychological Well-Being has a significant effect on Work Engagement. The hypothesis was put to test, using regression method. The results obtained from the test are summarized in table 5.

Table 5. ANOVA showing the effect of Perceived Organization Support and Psychological Well-Being on Work Engagement

Model	Sum of Squares	df	Mean Square	F	Sig.
-------	----------------	----	-------------	---	------

	Squares		Square		
Regression	897.009	2	448.505	12.419	.000 <sup>b</sup>
Residual	2636.398	73	36.115		
Total	3533.408	75			

Table 5 reveals the effect of the effect of Perceived Organization Support and Psychological Well-Being on Work Engagement. The table shows that there was a significant effect of Perceived Organizational Support on Work Engagement ( $F = 12,419$ ,  $P < 0,01$ ). The result gives support to the second hypothesis. Hence, the hypothesis was accepted.

Further test found that the effect that Perceived Organization Support and Psychological Well-Being on Work Engagement is 25,4%. A conclusion may be made that another 74,6% is contributed by other factors. The result detail is shown in table 6.

Table 6. Model Summary showing the contribution of Perceived Organization Support and Psychological Well-Being on Work Engagement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.504 <sup>a</sup>	.254	.233	6.00958

## 5. Conclusion and Implications

Work Engagement is significantly effected by Perceived Organization Support and Psychological Well-Being. To increase employee's engagement to work, it is recommended to develop programs which increase the perceived support and employee's well-being. When the two factors are fulfilled, company may expect a higher engagement to work. Furthermore, the more the employees feel engaged to their work, the better performance they can demonstrate. And finally, the company will be more effective and competitive in the global market.

## References

- Bakker, A.B., & Demerouti, E. (2009). The crossover of work engagement between working couples: A closer look at the role of empathy. *Journal of Managerial Psychology*, 24, 220-236.
- Bakker, A. B., & Leiter, M. P. (2010). *Work engagement: A handbook of essential theory and research*. Psychology Press, New York.
- Eisenberger, R., Armeli, S., Rexwinkel, B., Lynch, P. D., & Rhoades, L. (2001). Reciprocation of perceived organizational support. *Journal of Applied Psychology*, 86, 42-51.

- Eisenberger, R., Cummings, J., Armeli, S., Lynch, P. (1997). Perceived organizational Support, Discretionary Treatment, and Job Satisfaction. *Journal of Applied Psychology*, 82, 812-820.
- Eisenberger, R., Hungtington, R., Hutchison, S., & Sowa, D. (1986). Perceived Organizational Support. *Journal of Applied Psychology*, 71, 500-507.
- Kahn, W. A. (1990). Psychological conditions of personal engagement and disengagement at work. *Academy of Management Journal*, 33, 692–724.
- Kurtessis, J. N., Eisenberger, R. Ford, M. T. Buffardi, L. C. Stewart, K. A., & Adis, C. S. (Published online March 2015). Perceived organizational support: A meta-analytic evaluation of organizational support theory. *Journal of Management*.
- Luthans, Fred. (2011). *Organizational Behavior : An Evidence-Based Approach*. New York: McGraw-Hill.
- Macey, W. & Schneider, B. (2008). The meaning of employee engagement. *Industrial and Organizational Psychology: Perspectives on Science and Practice*, 1(1), 3-30.
- Maslach, C., & Goldberg, J. (1998). Prevention of burnout: New perspectives. *Applied and Preventive Psychology*, 7, 63–74.
- Ni, C. and Wang, Y. (2015) The Impact of Perceived Organizational Support and Core Self-Evaluation on Employee's Psychological Well-Being. *Journal of Human Resource and Sustainability Studies*, 3, 73-81
- Olivier, A.L., & Rothmann, S. (2007). Antecedents of work engagement in a multinational oil company. *South African Journal of Industrial Psychology*, 33(3), 49–56
- Rhoades, L., & Eisenberger, R. (2002). Perceived organizational support: A review of the literature. *Journal of Applied Psychology*, V ol.87, 698-714.
- Robbins, S.P. & Judge, T.A. (2013). *Organizational Behavior (15 ed.)*. NJ: Prentice Hall
- Ryff, C. (1989). In the eye of the beholder: Views of psychological well-being among middle and old-aged adults. *Psychology and Aging*, 4, 195-210.
- Ryff, C., & Keyes, C. (1995). The structure of psychological well-being revisited. *Journal of Personality and Social Psychology*, 69, 719–727.
- Saks, A.M. (2006) "Antecedents and consequences of employee engagement", *Journal of Managerial Psychology*, Vol. 21 Iss: 7, pp.600 – 619

- Schaufeli, W. B., & Bakker, A. B. (2003). *Utrecht Work Engagement Scale: Preliminary Manual*. Department of Psychology, Utrecht University, The Netherlands
- Schaufeli, W. B., Salanova, M., González-Roma, V., & Bakker, A. B. (2002). The measurement of engagement and burnout: A two sample confirmatory factor analytic approach. *Journal of Happiness Studies*, 3, 71–92
- Sohrabizadeh, S. & Sayfour, N. (2014). “Antecedents and consequences of work engagement among nurses,” *Iranian Red Crescent Medical Journal*, vol. 16, no. 11, Article ID e16351.
- Vijayakumari, K., and Vrinda, K. C. (2016). Work Engagement in relation to Psychological Well-Being and Motivation at Work. *Guru Journal of Behavioral and Social Sciences*. Volume 4 Issue 3 & 4 (July –Dec, 2016)
- Zachary, R.K. (2011). The importance of the family system in family business. *Journal of Family Business Management*, 1, 26–36.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**THE ENTREPRENEURIAL SKILLS OF FAMILY BUSINESS**  
**(Study in Small Size Food Industries at Sukabumi City)**

**Herwan Abdul Muhyi**

*Business Administration Department, Faculty of Social and Political Sciences,  
Universitas Padjadjaran*

*herwan\_am@yahoo.com, herwan@unpad.ac.id*

---

**Abstract**

*The City of Sukabumi do not have environmental resources for tourism. It is different with The Regency of Sukabumi that have natural resources for tourism industries. So, the city of Sukabumi have to develop the industries to raise the economy development. Food industries is one of business sector which contribute to local development. Some of these industries are owned by family.*

*This research objective is describing the entrepreneurial skills of small size family industries in food sector. This research discussed personal entrepreneurial skills, business management skills, and technical skills (Hisrich, et. al., 2005:21).*

*Focused of this research is on entrepreneurial skills and used qualitative research method. The informans are key person of small familiy business in food industries. This research used obervation, in-depth interview and focussed group discussion, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data.*

*This research results show three dimensions of entrepreneurial skills. Personal entrepreneurial skills of small size family business in food industries described by good inner control, risk taker and good persistant but less innovation. Business and management skills face many problems. Almost all aspect of management not in good implementation, only human relations in high level condition. The technical skills aspect of small size family business in food insustries sector at Sukabumi City is not in good performance. They have to develop all dimensions of entrepreneurial skill to make their business perform. Many family entrepreneurs have the opinion that business as usual and given by their families.*

**Keywords:** *Entrepreneurial Skills, Family Business*

---

**1. Introduction**

Sukabumi City is located around Sukabumi Regency. Sukabumi Regency have natural tourism region, for example Selabintana, Pangrango, Pelabuhan Ratu Beach, Pondok Halimun, Citarik Rafting and more. How about Sukabumi City?



Sukabumi City is a one smallest City in West Java, Indonesia. It has only 48.25 km<sup>2</sup>. This City almost has not natural tourism region. So, it has to create other potentions to develop economic sector.

Fortunately, Sukabumi City located on the middle of Sukabumi Regency which has many natural tourism region. So, the tourists of Sukabumi Regency frequently visit Sukabumi City to shopping, culinary tour and stay at the hotels of Sukabumi City area.

The citizens of Sukabumi City take this opportunity by pioneering and developing business in trading, culinary and hospitality.

Culinary business in Sukabumi City has good prospect and attract citizens to build and developing this business. This opportunity stimulate them to create food venture. Hundreds food business operated in Sukabumi City to serve citizens and tourist of Sukabumi Regency who stay or shopping in Sukabumi City.

Law of the Republic of Indonesia, constitution Number 9 of 1995 article 1 point 1 about small businesses and cooperatives, explains: "Small businesses as people's economic activities are small in scale and meet the criteria of net worth or annual sales and ownership as stipulated in the Act." Criteria for small businesses according to the Small Business Act and the Cooperative are: 1). It has a net worth of at most Rp.200.000.000,00 excluding land and buildings. 2). Having an annual sales turnover of Rp. 1.000.000.000,00 3). Owned Indonesian citizens. 4). Standing alone not subsidiaries or branches of companies owned, dominated by or affiliated directly or indirectly with medium and large businesses, and 5). Shaped individual business, a business entity that is not a legal entity, or entities with legal status as a cooperative.

The BPS (1998) provides small business boundaries are defined as follows: "Small businesses are the economic activities carried out by individuals or households or an agency, aims to produce goods or services for commercial which have a net worth of at most Rp. 200 million, and has annual sales value of Rp. 1 billion or less. "Limitations on the number of business scale based on the criteria of labor, namely: a. Micro Industries: 1-4 people b. Small industries: 5-19 c. Intermediate industries: 20-99 people. "

## 2. Literature Review

Hisrich, et.al (2005:8) stated the entrepreneurship concept: *"Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence."*

Other statement from Hatten (1997:31): *"Entrepreneurship is the process of identifying opportunities for which marketable needs exist and assuming the risk of creating an organization to satisfy them. An entrepreneur needs the vision to spot opportunities and the ability to capitalize on them."*

The other says that: "Entrepreneurship is creating a new business to take risks in order to achieve benefit by identifying opportunities and combine the necessary resources." (Zimmerer and Scarborough, 2002: 3)

Churchill and Lewis (1983:2) said: *"Categorizing the problems and growth patterns of small businesses in a systematic way that is useful to entrepreneurs seems at first glance a hopeless task. Small businesses vary widely in size and capacity for growth. They are characterized by independence of action, differing organizational structures, and varied management styles."*

Someone brave pioneering and trying to grow its business certainly have positive values that are embedded in his soul. Meredith et al. (2002: 5-6), suggests an important intrinsic value of entrepreneurship is: 1. Self-confidence (self-confidence) 2. The task-oriented and results 3. The courage to take risks 4. Leadership 5. originality: Creativity and Innovation 6. Oriented to the future

Hisrich, et. al., (2005:21) stated the entrepreneurial skills elemen as:

1. *Personal Entrepreneurial Skills*: Inner control, Risk taker, Innovative, Change oriented, Persistent, Visionary leader and Ability to manage change.
2. *Business Management Skills*: Planning and goal setting, Decision making, Human relations, Marketing, Finance, Accounting, Management, Control, Negotiation, Venture launch and Managing growth
3. *Technical Skills*: Writing, Oral Communication, Monitoring environment, Technical Business Management, Technology, Interpersonal, Listening, Ability to organize, Network building, Managemnet style, Coaching and Being a Team Player

### 3. Research Method

Focused of this research is on entrepreneurial skills and used qualitative research method. The informans are key person of small familiy business in food industries. This research used obervation, in-depth interview and focussed group discussion, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data. The informants of this reseach are entrepreneurs, managers and employees of small family business in food industry in Sukabumi City.

### 4. Result and Discussion

#### *Personal Entrepreneurial Skills*

To describe the condition of personal entrepreneurial skills of family business entrepreneurs in small food insustry at Sukabumi City, researcher use guiding concept from Hisrich et, al. According to the statement of Hisrich, et. al., (2005:21), *personal entrepreneurial skills* consist of: inner control, risk taker, innovative, change oriented, persistent, visionary leader and ability to manage change.

Entrepreneurs of family business as other entrepreneur, generally have a big challenge in controlling themselves. In this case, entrepreneurs must have *Inner control*. Entrepreneurs in the family company in the field of food industry in sukabumi face the fact that the company is family owned. This caused him to be less able to control themselves, especially in cases that investor are their parents, This led to weak inner control the entrepreneurs in running the business.

Like most entrepreneurs, family business entrepreneurs have the courage to take risks. These entrepreneurs were born and raised in a family environment so that entrepreneurs are accustomed to risk-taking. According to one informant, as one member of the family businessman, he was familiar with the courage to take risks.

Likewise in terms of courage to innovate and make changes. We were taught by our predecessors dared to innovate and make changes. This is important because the development of the food industry in Sukabumi town so fast. However, the innovations made in accordance limited our ability.

Based on the observations of researchers, the products produced by food entrepreneurs in

Associated with the persistence of a small family entrepreneurs in the food industry, have a high enough variation. That is, persistence is owned by the founders of family firms. This became the start that drove the family business at this stage of growth or development. Having passed on to the next descent, then depending on the process of regeneration and succession. When founders did well regeneration and succession process effectively, then the successor has a high tenacity. This is due to the planting of the responsibility for maintaining and developing the family business.

Not all family businesses have a visionary leader. Most leaders in the family business in the city of Sukabumi in small food industry felt compelled to run a business out of habit or just continue the family business. Most of them do not know the exact pattern of development and long-term plans in running the business of food.

In the case of family business entrepreneurs the ability to manage change either intentional or due to pressure business environment, yet many are able to manage change effectively. Suppose that when employers deliberately changed the food or packaging food recipes, not accompanied by the readiness of employees and outreach to consumers and customers. This condition leads to consumer confusion and unpreparedness employees in a certain time.

#### ***Business Management Skills:***

According to the statement of Hisrich et. al, (2005:21) Business Management Skills consist of elements: planning and goal setting, decision making, human relations, marketing, finance, accounting, management, control, negotiation, venture launch and managing growth

The ability of planning and goal setting family business entrepreneurs drawn from their ability to plan. Most of the small businesses in this field of food business objectives to continue the family business and provide for the family. This led to the planning prepared without a structured pattern. Based on interviews with family business entrepreneurs of small food industry, obtained information that they were planning spontaneously, for example, for the months ahead how the stock material to be prepared. So just a small part entrepreneur who has an annual planning approach.

How about the decision making ability of family business entrepreneurs of small-scale food?

In terms of courage to decide they have a good capacity. Only in the case of a decision to increase the scale of business in terms of both quantity and quality, they are often faced with the dilemma concerns the conditions when the decision actually cause a decline in sales.

Based on the research results, obtained information that this is the case because of lack of alternatives and the selection of information on the impact of alternative development efforts. This is why they are stuck on the decisions of the routine activities.

In general, smaller companies either family owned or not similar in human relations ability. They have a level of care and hospitality high on consumers and customers. Direct contacts between entrepreneurs and managers with the customer is very possible in small-scale enterprises. This condition makes the smaller companies in the field of food Sukabumi City has a level of human relations are very good.

Although it has good human relations, in terms of marketing capabilities, they generally run only a part of the marketing aspects. For example, the promotion by simply making banners and rely on word of mouth alone. Besides competitive pricing and the ability to seek a strategic place to sell products. So, based on the results of research, marketing management capabilities are still not complete.

In terms of accounting and financial management, a lot of similarities with smaller companies in general. Only, in the family company condition is more severe in terms of financial management. Attachment of family and brotherhood often interfere with firmness in financial terms. Awe and a sense of family to make financial management distracted and do not obey the rules of corporate finance. These conditions often interfere with the management and development of the family business.

Span of control of the small size company is not too complex because there is a little amount of people. The challenge is part of member or all member as a family. This is a unique situation in family business. How to control your manager if he or she is your son or daughter. In Sukabumi City, they meet this condition. They try to resolve this condition by way of highlight aspects of life and business continuity needs. So inevitably they are trying to implement a control mechanism to save the family business.

In term of negotiation activity, the most entrepreneurs of family business not have big condition of negotiation. The activities of negotiaton frequently in routine negotiation. For examples: price negotiation with supplier and customers.

How about the ability of small family business in food industry in term of venture launch and managing growth? The food industry, especially small businesses in the form of family businesses recognize that the growing business is not easy. Even some family business at the level of growth experienced difficulties and concerns when managing enlarged business. Let's say when having to hire managers or employees outside the family. A habit of recruiting families in a strategic position in the company to raise doubts when recruiting from outside the family. This doubt especially in terms of commitment to the firm. These barriers are traditions and disrupt business growth.

### ***Technical Skills***

Researcher describe technical skills of family business entrepreneurs at Sukabumi City according to Hisrich, et. al statement (2005:21). Hiserisch at. al, said technical skills of entrepreneurial skills consist of: writing, oral communication, monitoring environment, technical business management, technology, interpersonal, listening, ability to organize, network building, managemnet style, coaching and being a team player.

Writting skills is one of key success of entrepreneurs. Most family entrepreneurs in Sukabumi City especially in small food industry have less ability on it. Traditionally, they do business only by oral way not only in financial aspect but also in other aspect of business activity. The companies often do not have written data of transactions, report and annual data. This condition might have causing difficulties in evaluating and preparing improvements in the future. On the other hand, they have strong ability in communication with customers and suppliers. This phenomenon occurs because of habit of their communication with customers and suppliers frequently.

As a small business, family business in small food industry in Sukabumi City have same problem in monitoring environment. They have less ability in monitoring environment. For example in monitoring the competition and local environment stability. This condition correlated with lake of technical business management. They no have standard operating procedure and service standard. So, they no have enough time for monitoring environment because of busy in performing routine activities.

In the use of technology, there are two things that small food family businesses facing in Sukabumi Citv First the lack of skill to operate and second cost constraints Transformed

from the hand strength to the technological sophistication will bring convenience and business developments. For example, industry of drinks, not all of them use a automatic tools, but still using traditional tools. Other examples in the food industry, "Bika Ambon" still use the traditional box of bamboo.

How about interpersonal and listening skills of family business entrepreneurs of small food industry in Sukabumi City? These elements are similar to the skills of entrepreneurs in oral communication. Their habits to meet directly with customers and suppliers to make them accustomed to listen and relate interpersonally. But, the unique challenge for family business is about gave a clear line between family interpersonal relationships and interpersonal relationships as a professional in the business relationship. Most of them in Sukabumi City feel this is the dillema. They often difficult to separate these two thing.

Ability to organize the family firm is one of key sucess in developing business. Small family business of food industry in Sukabumi City have poor academic background. Most of them cant develop simple organization structure and describe outhority, responsibility, job description and other basic skills of organizing firm. Poor of regulation and too musch flexibility causes the condition of indiscipline. For example regulation of worktime.

Then, writer will describe the network building and management style of the entrepreneurs. The entrepreneurs of family business in Sukabumi City stuck into business routine situations. This causes them to feel swordfish require wider business network. This condition is also related to management style. Their management style tends to maintain and carry out regular business activities. They assume business as usual so that it runs by itself. They feel less need to develop business networks and make the necessary management style innovation in business development. Just a little family business in the food industry sukabumi small that seek to develop business networks.

To develope work ability of people, entrepreneurs have to coach and build team player. Coaching activity implement by entrepreneurs as usual without planning. otherwise it is not planned they build without planning team player. This activity takes place spontaneously through daily business activities. This fact led to the absence of monitoring and evaluation in coaching and team building.

## **5. Conclusion and Implications**

According to Hisrich at, al (2005), researcher find three dimensions of entrepreneurial skills of family business entrepreneurs of sma;; scale food industry in Sukabumi City. These are personal entrepreneurial skills, business management skills and technical skills. Researcher descibe that This study suggests that the similarity between the entrepreneurial skills of the family business with non-family business on a small scale industry. However, there are significant differences in characteristics. First, in terms of personal entrepreneurial skills: entrepreneurs in the family company in the field of food industry in sukabumi face the fact that the company is family owned. This caused him to be less able to control themselves, especially in cases that investor are parents themselves, This led to weak inner control the entrepreneurs in running the business. The second, in managing finance and accounting, they face dilemma cause of feeling as family and broyherhood. The third, technical skills: the unique challenge for family business is about gave a clear line between family interpersonal relationships and interpersonal relationships as a professional in the business relationship. Most of them in Sukabumi City feel this is the dillema. They often difficult to separate these two role.

These findings have implications to improve the skills of entrepreneurs entrepreneurial family business. The main thing that should be improved is the ability to control themselves (inner control), the ability to create a distinct line in the financial management of the family business and the third is capability to separate interpersonal role as a family and as a professional in business management.

### **References**

- Churchill, Neil C and Lewis, Virginia L. 1983. *The Five Stages of Small Business Growth*. USA: Harvard Business Review
- Hisrich, Robert D, Peter Michael P and Shepherd Dean A.1989. *Entrepreneurship, Sixth Edition*. NewYork: McGrawHill.
- Hatten, Timothy S. 2009. *Small Business Management: Entrepreneurship and Beyond*. South-Western: Cengage Learning
- Longenecker Justin G, Moore Carlos W, and Petty J William. 2000. *Small Business Management; An Entrepreneurial Emphasis*, 11 th Edition. Singapore: South Western College
- Meredith, Geoffrey G. 2000. *Kewirausahaan*. Jakarta: Ppm
- Zimmerer, Thomas W and Scarborough Norman M. 2005. *Essentials of Entrepreneurship and Small Business Management*. New Jersey: Pearson Prentice Hall, Inc.

### **OTHER REFERENCES:**

- Central Bureau of Statistics of Indonesia. 1998. *Statistical Yearbook of Indonesia 1998*. Biro Jakarta: BPS.
- Ministry Regulation. 1997. *The Decision of Industrial and Trade Ministry No. 254 /1997: The Criteria of Small Industry and Small Trading*
- Constitution of Indonesia Number 9/1995.; *Small Business and Cooperative*.
- The Departement of Cooperative, Industrial and Trade of Sukabumi City. 2009. Profile of Small and Medium Industries



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**THE SUSTAINED BUSINESS GROWTH OF MOCHI KASWARI LAMPION AS  
A FAMILY BUSINESS IN SUKABUMI CITY,  
WEST JAVA**

**Herwan Abdul Muhyi**

*Business Administration Department, Faculty of Social and Political Sciences,  
Universitas Padjadjaran*

*herwan\_am@yahoo.com, herwan@unpad.ac.id*

---

**Abstract**

*Mochi Kaswari Lampion is a famous brand of Mochi a traditional cake. The owner of business is Wanti K Wiharsa, a third generation of mochi producer at Sukabumi City. The objective of this research is explaining how The Mochi Kaswari Lampion grow. This research described sustained business growth from first generation to third generation of Mochi Kaswari Family Business.*

*The locus of this research is Mochi Kaswari Lampion is a family business which produce mochi. Focused of this research is on sustained business growth and used qualitative research method. The informans are key person of Mochi Kaswari Lampion. This research used obervation, in-depth interview and focussed group discussion, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data.*

*The sustained growth of business refers to Peter Wilson and Sue Bates dimensions (2003:12): continuing excellent service to customers, internal operations effectively and efficiently, track record of sustained profitability and have sufficient credibility to raise the necessary finance externally.”*

*The results of this research describe Mochi Kaswari Lampion as a family business with sustained business growth. This company grow in sustained pheriod. It establish in three generation of Family Mochi Producer. Continuing excellent service to customers indicated by excellent service of store management of Mochi Kaswari Lampion. The management have effective and efficient production and service process to achieve sustained profitability. This family company have own financing to grow the business. Many financial institution propose financing facility to this company for growing business.*

**Keywords:** *Sustained Business Growth, Family Business*

---

**1. Introduction**

Mochi continues to be one of the traditional foods eaten around [Japanese New Year](#), as it is sold and consumed in abundance around this time. It made form rice Mochi is

relatively simple to make as there are only a handful of ingredients for plain, natural mochi. The main ingredient is either Shiratamako or Mochiko, Japanese sweet glutinous rice flours. Both Shiratamako and Mochiko are made from Mochigome, a type of Japanese glutinous short grain rice. The difference between Shiratamako and Mochiko comes from texture and processing methods. Shiratamako flour has been more refined and is a finer flour with a smoother, more elastic feel. Mochiko is less refined and has a doughier texture. (<https://en.wikipedia.org/wiki/Mochi#Ingredients>)

The above paragraph describe the consist of Mochi and the country origin of Mochi. Mochi is a Japanese cake. The Mochi Cake flavor preferred by the tongue of Indonesia. Therefore, several regions in Indonesia producing Mochi with different variations. One town in Indonesia which is famous prodik Mochi cake is Sukabumi.

In Sukabumi City, there are many sellers of mochi cake. There is one that is already famous and reputedly was a pioneer souvenirs typical of Sukabumi, namely Mochi Kaswari "Lampion". In early pheriod of business, Mochi Lampion operate business activity in a small street in Bahayangkara Sukabumi City. Now, in Bhayangkara Street, there is a new modern building of Mochi Kaswari "Lampion."

Various flavor of mochi presented here: suji pandan, vanilla, durian, banana, blueberry, melon, mocha, chocolate, cheese, and strawberry and so on. These varians are contain sweet peanuts.

Mochi Kaswari Lampion is a famous brand of Mochi a traditional cake. The owner of business is Wanti K Wiharsa, a third generation of mochi producer at Sukabumi City.

These phenomenon drive writer to research the sustained growth of Mochi Kaswari Lampion as a susscess family business in Sukabumi City.

At least five characteristics of sustainable growth shown by this family company. First, the growth of which is characterized by relay efforts already reached three generations. Both the addition of new buildings as a marker of greater business growth. The third additional labor. Fourth, fifth market expansion and increased profits. This early data of observation and first interview motivate writer to explore this phenomenon as detail as possible.

## 2. Literature Review

Paul J. A. Robson dan Robert J. Bennett (2000, 193-208) had a research "*SME Growth: The Relationship with Business Advice and External Collaboration*". Their research used three step of SME's growth. The results indicate the correlation between SME's growth and external business advice. The general condition of market is dominant factor of grwth and extrnal advice will determine business performance.

Other research title, *Empirical Analysis of Business Growth Factors using Swedish Data* by Per Davidson, Bruce Kirchoff, Abdunnasser Hatemi-J, and Helena Gustavsson (2002:32). Their research show that business age, single ownership, the type of business activity, scale of business, legal form are the important factors which have cocorrelation wih growth.

Business growth is a goal of entrepreneurs. This condition indicate the sucess condition of business. "The step of company success will indicate the growth of financial performance consistently. This condition usually accompanied by an increase in sales growth bit not too fast." (Katz and Green II, 2011:639).



In infancy, company build information, skills and routine activity to grow business profit. Profitability is not only in the form of money. "The availability of time off from work, work more relaxed, recruit additional staff to help do the work employers are the advantages that make the life of the entrepreneur (owner) easier."

(Katz and Green II, 2011:639).

Business growth indicated by the growing tendency of business operations significantly. This was stated by Peter Wilson dan Sue Bates (2003:12): "*Growth mean a business that demonstrates (or shows visible signs of) a propensity to expand operations significantly.*"

Continuous business growth within a certain time or continuing a success parameter entrepreneurs in starting and managing a businessl Barringer, et al (2010:450) stated: "*Sustained Business growth, which is growth in both revenues and profits over a sustained period of time.*"

How to evaluate or monitor business growth? Academicians and expert stated the dimensions of sustained business growth. Baum, Locke and Smith (2001:296) said "*Three measure of venture growth: sales growth, employee growth and profit growth.*" Another dimension in determining the proposed growth limits Premaratne (2001: 365), he said, "to measure the growth of small businesses (small business growth) using sales performance and profitability.

Various criteria can be used as a basis for assessing sustainable business growth. Wilson and Bates (2003:12) stated:

First, *continuing excellent service to customers* indicated by *generating repeat orders*, customer retention), *referrals from satisfied customers* and *sustainable gross profit margins*. Second, *internal operations effectively and efficiently* indicated by *control of unit costs* and *satisfactory net margins*. Third, *track record of sustained profitability*. Fourth, *have sufficient credibility to raise the necessary finance externally.*"

### **3. Research Method**

The locus of this research is Mochi Kaswari Lampion is a family business which produce Mochi. Focused of this research is on sustained business growth and used qualitative research method. The informans are key person of Mochi Kaswari Lampion. This research used observation, in-depth interview and focussed group discussion, study of literatures and documents to gain data and informations. Triangulation technique was used to verify and test the validity of data. To gain the primary data, researcher do the indepth interview with leaders, managers and employees of Mochi Kaswari Lampion located at Bhayangkara of Sukabumi City.

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

Pioneering efforts is a challenge, and may be more pronounced when the run and develop it. In the first years standing, little progress to show growth is something that is expected by the employers.

The expected growth is continuing growth, not only grow when the early pioneering. This is the difficult phases of an entrepreneur. Many pioneering entrepreneur and

Various criteria can be used as a basis for assessing sustainable business growth. Wilson and Bates (2003:12) stated:

First, *continuing excellent service to customers* indicated by *generating repeat orders*, customer retention), *referrals from satisfied customers* and *sustainable gross profit margins*. Second, *internal operations effectively and efficiently* indicated by *control of unit costs* and *satisfactory net margins*. Third, *track record of sustained profitability*. Fourth, *have sufficient credibility to raise the necessary finance externally*.”

### ***Continuing Excellent Service To Customers***

Mochi Kaswari Lampion is one of a success family business. This condition indicated by continuing excellent service to customers. This family firm can create business to be a service excellent company. Customers of this firm often repeat their order. The customers not only from Sukabumi City but also from other city in West Java and Indonesia. Satisfied customers recommen others about the taste of Mochi Kaswari Lampion. Entrepreneurs and employees of Mochi Kaswari doing well in developing customers retention. These achievement create *sustainable gross profit margins*.

### ***Internal Operations effectively and efficiently***

The leaders of Mochi Kaswari Lampion said, there are challenging situation in maintain quality of Mochi cake both taste and performance. We have to maintain quality hut in other hand we have to make the *control of unit costs* and create *satisfactory net margins*. In facts, we can make best price with high quality product. So, higher price from others substituted by high quality of our products. Finally, we can create the satisfactory net margins to grow our firm.

### ***Track record of sustained profitability***

The growth of net margins deliver Mochi Kaswari Lampion as a firm which have sustained profitability year by year. The profitability of firm raise every year because of well management and professionalism. Entrepreneurs as athird generation of this family business can make role clearly. Leaders and managers can make role separately between family relations and profesional relations in growing firm and managing finance.

### ***Have sufficient credibility to raise the necessary finance externally***

This family firm often get good deals on investment capital from individuals and financial institutions. This proves that the company gets high trust of external investors.

## **5. Conclusion and Implications**

*Mochi Kaswari Lampion is a family business which have sustained business growth. The third generations of entrepreneurs indicated sustained growth. Beside that, thesec are four dimensions which have describe the sustained growth of this family firm: continuing excellent service to customers, internal operations effectively and efficiently, have ttrack record of sustained profitability and have sufficient credibility to raise the necessary finance externally.*

This sustained growth has implications for third generation of entrepreneurs to developed and enlarge the scale of business. Mochi Kaswari have to dare to take biggest risks in enlargng the scale of business. This firm owner and leaders should be more confident because they have long experience in growing their firm

**References**

- Barringer, B. R., Jones, F. F., & Neubaum, D. O., (2005). "A quantitative content analysis of the characteristics of rapid-growth firms and their founders", *Journal of Business Venturing*, 20(5): 663 – 687.
- Baum, J Robert, Locke, Edwin A and Smith Ken G. *A Multidimensional Model of Venture Growth*. The Academy of Management Journal Vol. 44, No. 2 (Apr., 2001), pp. 292-303
- Katz, Jerome A and Green, Richard P (2008). *Entrepreneurial Small Business*. USA : McGraw-Hill International
- Lee, D. Y. and E. W. K. Tsang (2001), "The Effects of Entrepreneurial Personality, Background and Network Activities on Venture Growth", *Journal of Management Studies*, 38(4), pp583-602.
- Wilson, Peter and Bates, Sue (2003). *Small Business Growth*. England : Jhon Wiley & Sons Ltd
- Davidson, Per, Bruce Kirchhoff, Abdunnasser Hatemi-J, dan Helena Gustavsson. 2002. *Strategic And Business Planning Practices Of Fast Growth Family Firms*. *Journal of Small Business Management*; Oct 2002; 40, 4; ProQuest pg.332.
- Robson, Paul J. A, Robert J. Bennett (2000). *SME Growth: The Relationship with Business Advice and External Collaboration*. *Journal Small Business Economics* 15: 193-208.

**Other Reference:**

(<https://en.wikipedia.org/wiki/Mochi#Ingredients>)

## **REVIVING LOST COMMUNITIES IN BALI AND ENABLING DEVELOPMENT OF SMALL BUSINESS INITIATIVES**

D J Booth MBE BSc (Hons) MSc, Founder and CEO, East Bali Poverty Project  
J S Younger OBE DEng(Hon) PhD MS BSc(Hons) CEng FICE, International  
Chancellor, President University, Commissioner East Bali Poverty Project & Hon.  
Research Fellow, Glasgow University  
Komang Kurniawan, Chairman, Board of Trustees, East Bali Poverty Project

### **ABSTRACT**

The East Bali Poverty Project was founded in 1998 to address the needs of an isolated and previously ‘forgotten’ village of more than 15,000 people in 19 distinct and separate impoverished communities located on the steep and arid north slopes of Mounts Agung and Abang in East Bali, prioritizing the health, nutrition and education of children. Living in isolation and poverty for generations, these communities’ struggle to survive was intensified after the cataclysmic eruption of Mount Agung in 1963. This destroyed much of the habitat of the area, plugged all the natural springs, destroyed many homes and left poor surface soils as a result. Following participatory discussions with the communities, early activities involved addressing issues of water, health, education, nutrition and basic infrastructure requirements, as reviewed in the paper. Once the communities started to recover, with the introduction of primary health care, safe water, road access and community schools from 1999 for 6 most isolated and impoverished Desa Ban mountain hamlets, this provided the foundation from which the communities, by learning mathematics, good hygiene, sanitation and nutrition practice from their children, could venture into starting up small business ventures, some of which were established by the newly educated children. This paper describes a number of personal initiatives taken by enterprising people within the Desa Ban communities, and is complementary to a second paper describing businesses that have evolved from the project’s use of vetiver grass and bamboo.

**Keywords:** *Poverty, motivation, empowerment, ownership, sustainability*

### **INTRODUCTION**

Like many newly emerging countries, Indonesia has been developing steadily over the past three decades and is now one of the larger global economies. Latterly it has been posting growth rates of over 5% despite a general world slowdown, thanks in part to an expanding domestic economy. However, as also witnessed in some well-developed economies, incorrect government policies and lack of a sound regulatory control over a country’s financial sector will result in increasing inequalities across the population broadly (Stiglitz, 2015). This will be manifested in increasing poverty and losses in employment despite the fact that the most valuable resource of a country is its people.

As Stiglitz and others have said, the policies that have been followed by the leading global economies have involved the assumption that the financial sector is capable of self-regulation and in the belief that reducing upper levels of taxation will lead to automatic trickle down investment to employment of the bottom levels of society. These policies have manifestly failed with resulting greater unemployment and poverty, and are unsustainable.

While recognising the essential part that government must play at macro-level in steering a country's growth, the experience of the East Bali Poverty Project over the past 18 years has shown that focusing properly on the bottom level of society can lead to real sustainable development and improvements in people's well-being giving them an opportunity to exercise otherwise wasted talents (Younger et al, 2012).

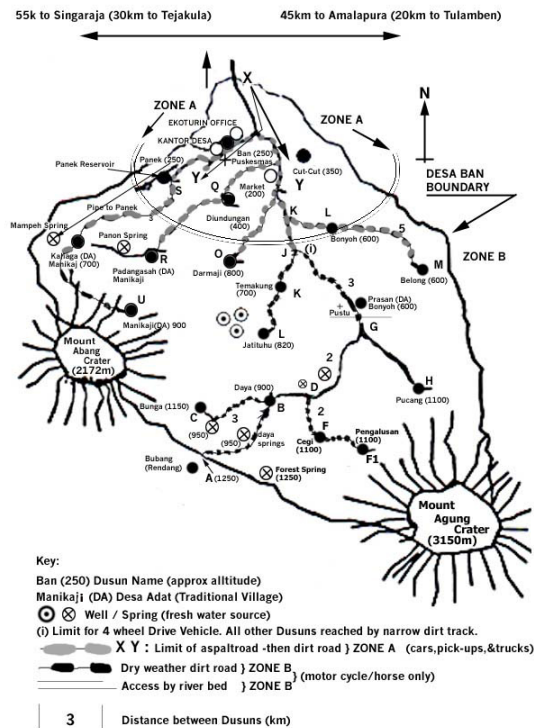
After summarising briefly the work of the project since inception, this paper will discuss some of the small businesses that have evolved through establishing key sustainable support functions in infrastructure and education.

## **OVERVIEW OF EAST BALI POVERTY PROJECT**

After the founder first engaged with the communities of Desa Ban, a location map was prepared by the project in November 1998 as the first pre-development map of Desa Ban, and this is shown in Figure 1. The first few months were then spent establishing mutual trust between the EBPP and the 19 isolated communities and securing commitments by their leaders to sign up to rules of engagement, e.g. no hand-outs of money or rice and the direct involvement of the communities themselves in development. It was also the time to set out the mission requested by the most impoverished community's elders, namely a better life with special focus on children's education and opportunity for the young people of Desa Ban to lead them to a better future. So critical were the conditions found - 85% illiteracy, 85% infant malnutrition, infant mortality levels far above world norms and continuing prevalent sickness, compounded by no road access or transportation means to venture outside their village – that initial activities were clearly defined: education that was relevant and integrated, access to health care and facilities, improved nutrition, provision of road access to connect the various communities within and outside Desa Ban, water supply (WHO & UNICEF, 2004) and upgrading diets (Younger et al, 2012).

With regard to diet, it was necessary to stabilise steep mountain slopes with vetiver grass (Booth and Adinata, 2003; Truong et al, 2008; Booth et al, 2017), not just for the access roads, but also to facilitate terrace preparation for growing many nutritious vegetables – carrots, tomatoes, greens and potatoes - to supplement their staple foods of cassava and corn, and absolutely necessary for a balanced diet not previously possible on the sandy slopes

The defined activities became the focus of application of the initial donor funds as set out in Younger et al (2012) with the engineering components discussed more fully in Younger et al (2017). However, the principle of empowerment and ownership has been fundamental to the engagement with all of the nineteen, largely distinct and separate communities that live in Desa Ban. Only in this way, the continual involvement of and ownership by the people, can any investment in development be sustained and the project has clearly endorsed this principle.



**Figure 1. 1998 Original map of Desa Ban, the first in existence**

Early discussion also concerned planning for long-term sustainability with realisation that a project that had to begin from virtually a ‘ground zero’ position would take at least 12-15 years of steady sustainable development and assuming a regular supply of funding, in this case entirely from private sector sources. There would need to be continuing support of higher level community requirements as well as maintenance of the infrastructure while self-sustainable activities took root.

At this juncture, much of the support infrastructure is in place, including accessible health facilities, domestic water supplies from roof rainwater harvesting and mountain springs and 6 remote hamlet schools, although the sanitation programme still requires additional investment. With the later involvement of government in terms of completion of a 15km spinal district road through the *desa*, completed in 2012, as shown in Figure 2, and access to government electricity supply using a solar farm, as pioneered by the project, increasing attention has been and is being focused on self-sustainable activities.

The paragraphs below discuss some of the small business opportunities that have evolved once the basis of education, healthy living and access had been established, and the people had the energy and confidence to proceed with many and varied endeavours of their choice .

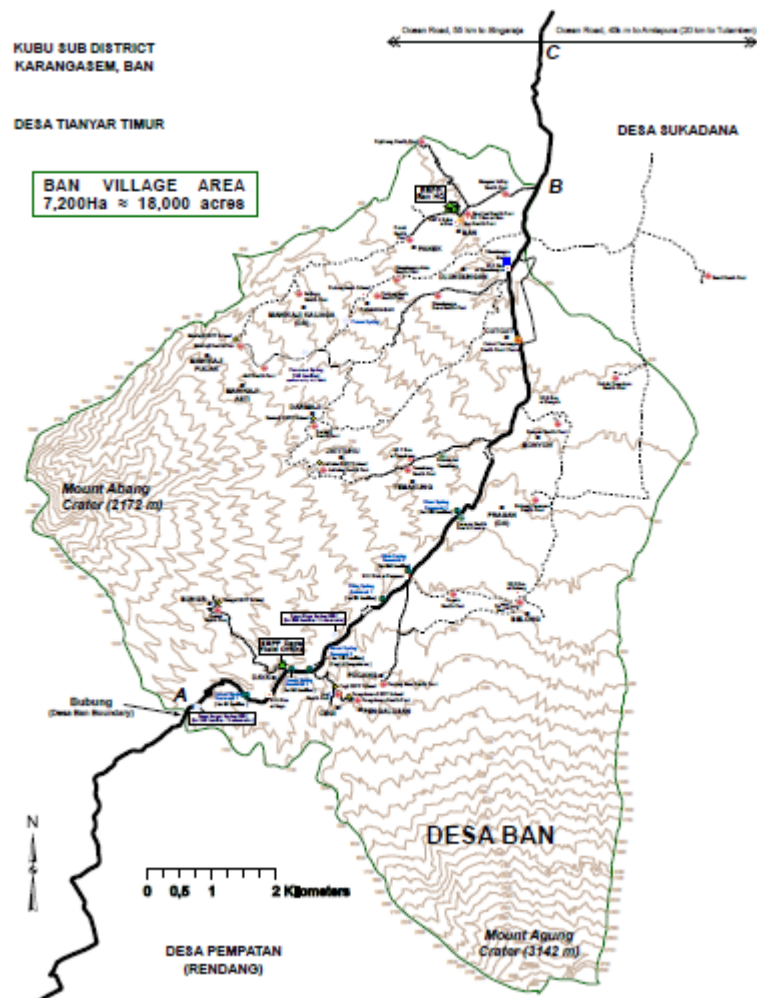


Figure 2. GIS map of Desa Ban showing infrastructure in place by 2016

## THE START UP AND DEVELOPMENT OF SMALL BUSINESSES

In 1998, participatory interviews with over 1,000 of the 3,000 or so families revealed that none had a job or any skill outside of their subsistence cassava and corn farming that was their survival trade handed down from their ancestors. However, all were keen to learn new skills and appropriate technology and, coupled with their improved health and stamina through better diets, the project's monthly healthy living, safe water, hygiene and sanitation awareness programmes and the first paved access roads in and out of their village, local entrepreneurs emerged, establishing small businesses with local *warungs*, cattle farming, provision of essential services and supply chains, etc. to cater to the growing economy. This also led to an interest in the upgrading of homes from single room bamboo huts to sturdy clinker block 2-3 room houses.

Some of the most inspiring success stories from the previously most isolated and impoverished hamlets are covered below.

### I Nengah Kartawa, Bunga tutor and local entrepreneur, 1999-2017:

Born in 1970 in Bunga hamlet, situated at 1,150 metres elevation on Mount Abang, Nengah Kartawa was a cassava and corn farmer like all other families and was also the parent of one of the 35 children enrolled in EBPP's first community school in Bunga hamlet in August 1999. He immediately volunteered to be one of the three tutors to educate the illiterate Bunga children as he was one of the few adults who were

educated to middle school level by staying with family in Bangli in his youth. He helped register the new children and applying teaching techniques taught by the EBPP founder, he soon excelled and was appointed senior tutor. With new knowledge and determination for a better life after EBPP facilitated the vehicular access road to Bunga in 2001, he directly had new business ideas: the first was to sell building materials and handicrafts by buying timber and selling outside his village in Bangli; and the second was to intensify his Bali cow breeding and sell not only the beef cattle and calves but also organic cow manure, which was in great demand in Karangasem and Bangli due to the poor volcanic ash soils.

By 2012, as the most trusted and educated community member, the Bunga community selected Kartawa as Kepala Dusun (Government salaried community leader) in their first democratic elections. As Kepala Dusun he was instrumental in securing government support in developing his hamlet by widening the 2.5km road from Daya to Bunga, facilitating safe water supply using polyethylene pipes from a Mount Abang forest spring over a 3km distance, asking electricity from PLN centre in Denpasar so that each home had electricity and built a retaining wall to prevent landslides on the steep and winding track to Bunga community centre.

At the same time his own business grew so well that in 2014 he was able to purchase a 4 ton truck and a block making machine, selling concrete blocks as his new business to support the extensive home improvement now underway in Ban village.



**Figure 3. Kartawa and his wife**

#### **I Wayan Suci, Cegi School student and successful store owner and agro products trader:**

Wayan Suci, born in 1991 in Cegi hamlet located at 1,100 metres elevation on Mount Agung slopes, joined EBPP's second community school in Cegi hamlet in April 2000. He dropped out of school in 2010, a year before graduating high school, for economic reasons feeling a responsibility to support his aging parents and impoverished family by starting a small business. He borrowed a motorcycle almost daily to buy goods from the nearest market, 18km away in Menanga village, leaving at 2.00am and returning at 7.00am to sell the vegetables, fruit, fish and other consumables to the local community. Everything he bought from the market sold well as he knew what people needed. He was diligent in managing his money and used his profits to buy Bali beef cows which resulted in capital gains 3 years later that he used to buy a pickup truck to (a) buy more supplies on each market trip and (b) take his and neighbour's cows to the West Bali cattle market in Beringkit. His highest profit came from selling fish and meat, food types that had never been available to his community before EBPP facilitated the new road out of the village, and economic improvements enabled purchase of transport to start shopping at well stocked markets outside the village.



In 2010, he married a young Cegi woman who had attended the same school and very soon taught her how to trade and do business. His wife learnt very quickly and in 2012 he opened the first *warung* in Cegi hamlet which his wife manages and from starting with a very small zinc shack, they now have quite a large shop which buzzes with activity from the moment he returns from the market with dozens of women gathered round, vying for the best fish, meat cuts, fresh fruit, vegetables and all other supplies needed for families meals and hygiene needs.



**Figure 4. Suci and family in their well-stocked shop**

The founder recalls asking Suci in 2010 if his dream was to leave his village to find work and raise his family. He replied without hesitation: “David, I learnt so much at EBPP School and I loved learning about organic vegetable farming in our school garden and my dream is to support my family with a business that focuses on nutritious food that I can sell to all the families in my community.” An entrepreneur was born.

#### **I Nyoman Kantor, Pengalusan Community Leader and the first local entrepreneur**

Nyoman Kantor, the trusted Pengalusan community leader (Kepala Dusun) since 1991 is regarded by the founder and many others as a local hero who took his community from total isolation and the highest illiteracy, malnutrition and goitre rate in the region to relative prosperity by 2005. Located at 1,100 metres elevation on Mount Agung’s arid slopes, Pengalusan hamlet was the most remote of all the 19 communities where their isolation prevented any community member from seeking education, health care or aspiring for positive change due to their lethargic acceptance of the situation inherited from their ancestors, believing they had no choice or chance for change.

However, Kantor had a different perception after listening to the EBPP founders in 1998 and saw the potential to lift his community out of isolation and into the 21<sup>st</sup> century. He enthusiastically accepted EBPP’s terms of no hand-outs and 100% motivation and participation by their communities in what they might aspire to in the future. The first test of this commitment was in encouraging at least one family member to trek the 5 kilometres in November 1999 to participate in building the first road from the Mount Agung/Abang saddle to facilitate the first ever vehicular transport in and out of their village. That day, he led more than 90 people from the 59 families in his community on that cold morning and as soon as the road was complete in February 2000, coupled with the promise of a local EBPP school for Pengalusan children. It gave him an idea!

His idea related to income generation from Bali cattle sales. With only survival income from occasional sales of cassava and corn to the local market, a 6-7 hours walk in the north of Desa Ban, sales of the Bali beef cows were the main ‘bank’ for all the local people. When interviewed by EBPP in 1998, the average family had less than one cow, but after feeding with elephant grass and local leaves for 3 years, they could sell, via a middle-man, to the West Bali cattle market in Beringkit. However, with no road access out of the village they had to walk the cows to the saddle and wait for a pickup truck to come from

Menanga and then, 3 days later, would meet the driver to receive the sale price, less his commission of 20-30%, and the cost of a new calf.

With the new road in place, Kantor decided that instead of using the cattle sales income to improve his woven bamboo hut, he would seek a second hand pickup, learn to drive and take his and his neighbour's cattle to market himself. Even though he had to park his old pickup at the bottom of the 3km access road to Pengalusan, he rapidly saved his capital gains, built a better house and proudly purchased expensive furniture which, when asked as to why he did not buy bamboo furniture which could be easily repaired if damaged, he proudly replied: "If it gets spoiled, I've enough money to buy a new set!". In the meantime, Pengalusan School was launched in September 2000, and his wife was appointed the school cook. He sent his two daughters to the EBPP school and both excelled in their respective classes, educating their father along the way. By 2011, he had built himself a very nice house with 4 rooms, ceramic tiles on floor and walls and rallied his community to collect funds to provide piped water to each house from the remote Mount Agung spring EBPP developed in 2002. This was followed by building a large and welcoming *Bale Banjar* (community meeting hall) where the EBPP has held the 2<sup>nd</sup> May National Education Day event since 2014.



**Figure 5. Kantor and wife doing bamboo basket weaving**

Since Kantor used his initiative to purchase the pickup and transport cattle to the West Bali market, the average Pengalusan family now has 7-10 cows, ensuring a regular income which supports his and the other families to build good quality well equipped houses, purchase expensive motor cycles and enjoy a quality of life that could not be imagined before 1999. Kantor's other initiatives were to use his pickup to purchase daily food supplies that his wife sells in their well-stocked local *warung*, and to lead his community to grow their bamboo basket weaving business with a successful cooperative that he leads. As an illiterate man with no schooling himself, he has been a true inspiration to many others and a shining example of how to use every opportunity to lead his family and community from abject poverty to comfort and prosperity.

#### **Ni Nyoman Rahayu, fast learning student becomes first store owner in remote Manikaji hamlet**

Nyoman Rahayu joined EBPP's fourth community school, established in Manikaji hamlet, located at 950 metres elevation on the steep Mount Abang slopes, in January 2001. Born in April 1990, she grew up in poverty with her parents and siblings, with no health care access, electricity, clean water, toilets or accessible school. Within a year of starting school from total illiteracy, she was top of her class and, along with 10 other of the 45 students who joined the school, was fast tracked and graduated elementary school in 2004. She was the 2<sup>nd</sup> best student in the class. She went to a junior high school in 2005 and graduated in 2008. She was the 1<sup>st</sup> best student in the class. She went to a senior high school in 2009 and graduated in 2012. She was the 1<sup>st</sup> best student in the class. She went to a university in 2013 and graduated in 2016. She was the 1<sup>st</sup> best student in the class. She went to a postgraduate program in 2017 and graduated in 2019. She was the 1<sup>st</sup> best student in the class. She went to a doctoral program in 2020 and graduated in 2023. She was the 1<sup>st</sup> best student in the class.

continue further after getting married to a local man and starting a family and needing income. However, she was keen to join EBPP local education team as a tutor, teaching elementary school with exceptional results. Whilst teaching 3 times/week (Monday, Wednesday and Friday) she was also inspired to start her own business, because there were no shops nearby to buy supplies she needed for her children, and she tired of the 5km each way walk to buy her daily needs. This situation and the conditions in her hamlet made her feel determined to run her own business. Almost every morning she was driving a motorcycle long distances to buy daily needs in the Tianyar market, 8km away, and then sell from her home. Within a short time, she identified more community needs and started selling not just daily consumables but also livestock food, LPG canisters, and gasoline.

Now her business is expanding and her family life improving since she built her own house and no longer needs to live with her parents-in-law. She has opened a large *warung* (shop) that not only sells all supplies but also has seating for selling coffee, snacks and other refreshments. Her shop is located quite close to the Manikaji School and she often drops in to share her entrepreneurial dreams that became one of Manikaji's greatest success stories, fuelled by a determination for a better life whilst obtaining a good education at EBPP Manikaji School.



**Figure 6. Rahayu and her large *warung***

### **CONCLUDING REMARKS**

This paper has focused on the impact that the interventions by the East Bali Poverty Project has made to providing the basis from which a completely isolated and forgotten community in Northeast Bali, living in abject conditions and with no prospect of future betterment, has been completely turned around to become self-supporting and the generator of contributions to a healthy human society of its area, previously cut off from the mainstream of the global holiday island of Bali. The results have been presented in terms of four major success stories where, from the provision of basic infrastructure and education, on top of a significant raising of the health profile of the 19 communities of the project area, the efforts of personal initiatives have prospered into growing businesses, these in turn improving the general wealth of the communities benefiting therefrom. It is an outstanding testament to the importance of 'bottom up' sustainable development through constant encouragement and through direct empowerment of the people involved.

### **ACKNOWLEDGEMENTS**

The East Bali Poverty Project has been in existence for nearly two decades and would not be able to measure its significance in aiding the uplifting and economic growth of the 17,000 people of Desa Ban without the support of many donors, professional advisors, local and foreign expert volunteers from

**REFERENCES**

**Booth D J and Adinata N A** (2003). Vetiver grass: a key to sustainable development in Bali. *Proc. of 3rd International Conference on Vetiver and Exhibition, Vetiver and Water, Guangzhou, China*. China Agricultural Press, Beijing, China, pp. 21-31.





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**ORGANIZATIONAL COMMUNICATION ON FAMILY EMPOWERMENT  
POSDAYA (IN JOMBORAN VILLAGE KLATEN DISTRICT)**

**Asri Laksmi Riani <sup>1</sup>, Arum Setyowati <sup>2</sup>, Wulan Permatasari <sup>3</sup>,  
Winarno <sup>4</sup>, Khotijah <sup>5</sup>**

<sup>1</sup> Faculty of Business and Economics, Universitas Sebelas Maret, [asrilaksmiriani@yahoo.com](mailto:asrilaksmiriani@yahoo.com)

<sup>2</sup> Faculty of Business and Economics, Universitas Sebelas Maret

<sup>3</sup> Magister Management Program, Universitas Sebelas Maret

<sup>4</sup> Faculty of Teacher Training and Education, Universitas Sebelas Maret

<sup>5</sup> Faculty of Medicine, Universitas Sebelas Maret

---

**ABSTRACT:**

*This study examines: 1. The companion role of local village government and local public figure in Posdaya activity, 2. The participatory communication that happens on cadres in Posdaya activity, 3. The impact of participatory communication on cadres in Posdaya activity and, 4. The society response to the presence of Posdaya. The research took place in Posdaya Lotus, Dahlia, and Cempaka at Jomboran village, Klaten district. The informants involved in this research are Posdaya cadres and personnel or agencies that support this research. Personnel or the institution which involved in this research are the local village government, community leaders, school health program in each schools and Posdaya chairman. The collecting data techniques are through documentation study, observation, in-depth interviews and group discussions. Data were analyzed qualitatively by using the Participatory Action Research method. The results showed that the local village governments of Jomboran village, the Damandiri LPPM UNS, and community leaders have their respective roles in the Posdaya activities. The impact of participatory communication in Posdaya activity involves information and knowledge sharing, solving problems together and intertwining of familiarity among cadres. The society were well responded to the presence of Posdaya, it is reflected by the growing number of participants in waste management, the cultivation of oyster mushroom, the cultivation starlings and worms and also sewing course.*

**Keywords:** *participatory communication, Posdaya cadres, companion role, local village government, community leaders.*

---

**1. Introduction**

Every human being in almost all daily activities can never be separated from communication activities to achieve their goals, as well as to do something or carry out certain activities in accordance with their role in society. The fact shows that communication is an essential

element for human life. As a consequence of being the social people, every human being will carry out communication activities when they want to make a contact with other people. Therefore, communication is also a consequence of social relationships (Effendy, 2002). To achieve the goal of development in all sectors, the participation of the community in implementing development plans were needed. Directing resources efficiently need to be done to foster non-governmental activities (*swadaya masyarakat*) which will determine the success of development itself. Therefore, the development program which is involving human resources need to be increased to the maximum level. Government programs will outperform when there is active participation from the society. Community participation in the development program not only in terms of the development in the communication management based on the principles of assertive, effective and ethical, as well as technology assessment, but efforts to advance development requires community participation.

In the era in which new participative development communication paradigm emerges, all parties are invited to participate in the communication process up to the decision making. The communication that support the development is performed in horizontal communication model, the communication interaction is performed more democratically. The communication is not an activity of giving and receiving, but an activity of “sharing” and “dialogue”. For long, community involvement is viewed in a narrow context; means that people is regarded as unskilled labor to reduce the cost of social development. With this condition, community involvement is limited to the implementation of a program, the community itself is not conditioned to be creative, and they have to taken for granted the decision made by external parties so the consequence is participation becomes passive (Midgley in Prijono & Pranaka, 1996).

Human being needs communication, both with another individual or with a group or community. This shows that human is formed from the result of social integration with fellow human in a group or community. Muhammad (2005) stated that the importance of communication for human is undeniable, likewise for an organization. With a good communication, an organization will be success in order to achieve their purpose. Contrary, the absence of communication will lead to conflict among members and as an effect; it will disturb the communication in the organization. Brent D. Ruben in Muhammad (2005), states that the definition of communication is a process in which individual in their relationship, group, organization, and community, create, send, and use information to coordinating their environment or other people.

Beside communication, another important part in organizational communication is the organization itself. Schein (in Muhammad, 2005) states that the definition of organization is a rational coordination of several people activity to achieve general objectives through allocation of jobs and functions in form of hierarchical authority and responsibility. Besides that, Schein also state that organization has certain characteristics, that is having structure, objectives, interrelation and dependency on people communication to coordinates the activities in the organization. Organization is formed because there is similarity in vision, mission, and

objective that want to be achieved by the people in the organization. Thus, every element in the organization directly or indirectly has to hold into their objectives and principles of the organization firmly, so that their organization will be able to achieve its vision and mission.

Empowering local society with the pattern of mutual cooperation called Posdaya was established to improve the quality of the community itself. Posdaya is a container formed by the community, nurtured by the communities themselves so that the results will be enjoyed by themselves. Posdaya is brand new idea which was captured and followed the government's recommendation to establish human resources through active participation of families. The empowerment process is prioritize on improving the ability of the family to work hard to eradicate stupidity, laziness and poverty in the broadest meaning (Mulyono, Burhanuddin and Bachtiar, 2010).

According to Suyono & Haryanto (2009), Empowerment Posdaya (*Pos Pemberdayaan Keluarga*) as a friendship (*silaturahmi*), advocacy, communication, information, and education forum, can be developed as a place for coordinating integrated activities to strengthen family functions. By strengthening the main functions it is expected that each family will be able to develop their family to become a prosperous and independent family, and a family that able to face the future challenges better. The improvement of human resources quality as a resource for development is the main requirement to increase the level of people welfare. The main objective of Millennium Development Goals (MDGs) in Indonesia is poverty alleviation, decreasing the number of poverty to 8.2% of total population in 2015. To achieve this objective, government need to develop an intensive move to empower the family. Economic development is need public participation, so that the development will be balanced and succeed in achieving its goals. Economic development has to be counterbalanced with social participation. Social advocacy is also needed to strengthen the commitment to the development (Suyono, 2007). In order to implementing the MDGs program, the development of family function directed at the five priorities of the main targets, namely: commitment to the elders of the village, districts and counties, the development of a religious function, the function of birth control (KB) and health, education function, the function of entrepreneurship and environmental functions that give meaning of a prosperous and happy family life.

Referring to the condition in which various poverty alleviation program conducted by the government have not succeed in performing its function, thus this activity is aimed to analyze the efforts taken to empower the community and alleviate poverty through Posdaya model. The family empowerment activity is performed in Jomboran village, Klaten Tengah sub-district, Klaten district is focused in the aspect of family empowerment, especially in three fields: economy, education, and health care. This study aims to implement the concept of community empowerment for all age segments in the family through Posdaya model in an effort to develop social condition and family economy to alleviate the poverty.

Based on the description, the problems in this study are formulated as follows: (1) What is the role of company, village government, and public figure in Posdaya activity?; (2) What is the participative communication developed among cadres in Posdaya activity?; (3) What is the



effect of participative communication among cadres in Posdaya activity?; and (4) How the community responses to the Posdaya?

This study aims to: (1) Analyze the role of assistant, village government, and public figure in Posdaya activity; (2) Analyze the anticipative communication among the cadres in Posdaya activity; (3) Analyze the effect of participative communication among cadres in Posdaya activity; and (4) Analyze community responses to Posdaya. Following are the problems that we identify from Jomboran village:

1. The lack of knowledge and ability of partners to take the efforts and business development in Jalak bird breeding business.

The local potency for Jalak bird breeding is pretty good, however capable human resources still needed, both in managerial and skills needed to run the business and to develop the business. If the business succeed, it will be able to improve the economy and family income, thus it can alleviate the poverty in Jomboran village through Posdaya.

2. The need to provide the knowledge on business management in: waste management and Oyster mushroom cultivation.

In Jomboran, there is an area for waste management; however, its operation is not optimal. The people only collecting the waste, sorting, and then external party from other area will take the sorted wastes. In the future, the waste management needs a system that will be able to convert recycle able wastes to a product that have high economic value. Thus, it will increase the added value and family income in the village.

In Jomboran village, there is Oyster mushroom cultivation. The people/Posdaya Cempaka members who cultivate the Oyster mushroom wish that they will be able to develop their cultivation, and further increase their income. They even wish that it will become their main source of income.

3. The need of education and training on Healthy Lifestyle (*PHBS-Pola Hidup Bersih dan Sehat*) to the schools in Jomboran village and to the families in the village.

In Teratai and Dahlia Posdaya, there are considerable number of toddler, children in elementary and middle school age, and several preschools, elementary schools, and middle schools.

## 2. Research Method

The research location is intentionally chosen (purposive) that is Teratai, Dahlia, and Cempaka Posdaya in Jomboran Village, Klaten Tengah sub-district, Klaten district. The data is taken and collected started from April to June, 2016; followed with data processing and preparing research result report. The informant in this study is Posdaya cadres and personnel or organization that has supporting data for this research. The personnel or organization is village government (village chief, the wife of village chief, the head of social and society affairs, and the head or organizational affairs), public figure, the health care unit in each school, and the head of Posdaya. The total number of informants contacted is 31 people which consist of 20 cadres of Teratai, Dahlia, and Cempaka Posdaya; three assistants; two village governments, two public figures; and four people from the community. The informants are selected based on certain considerations and purposes using snowball sampling; a non-probability sampling technique that is frequently used in field research in which each person interviewed provides

the information on who is the next person that can be interviewed, after considering the predetermined criteria and purposes according to the research needs.

The following paper used Participatory Action Research Method. PAR seeks to understand and improve the world by changing it. At its heart is collective, self reflective inquiry that researchers and participants undertake, so they can understand and improve upon the practices in which they participate and the situations in which they find themselves. The reflective process is directly linked to action, influenced by understanding of history, culture, and local context and embedded in social relationships. The process of PAR should be empowering and lead to people having increased control over their lives (Minkler & Wallerstein, 2003; Yu, 2004). Participatory Action Research (PAR) is one option in qualitative research methodology that should be considered and understood. Qualitative research integrates the methods and techniques of observing, documenting, analyzing, and interpreting characteristics, patterns, attributes, and meanings of human phenomena under study (Gillis & Jackson, 2002). The qualitative analysis is a continual and recurring effort. The analysis takes place along with data collection process. The analysis consists of data reduction (sorting, focus on important things), presenting (narrative, excerpt of statement, photos), interpretation, and drawing conclusion. We employed a participatory action research (PAR) approach to develop a group activity programme for community. The model for PAR is a community intervention model employed in the field of community, this model is used to conduct community assessments, initiate community collaborations, involve the target population, and include reflection (Kelly, 2005). The PAR evolved over three cycles; each cycle of intervention involved the use of three activities, planning, action, and reflection. The researcher considered PAR to be one of the most appropriate methods as such a process had to be iteratively applied to develop a programme suited to the local culture and customs

### **3. Result and Discussion**

According to Leeuwis (2009), communication is an important process used by human in exchanging experience and idea, and it becomes an important trigger for knowledge sharing and perception from various activities (learning, for example). Thus, communication is the main element in changing strategy to encourage changes. Soekartawi (1988) states that communication is a statement from human, either personally or in group setting, in general, using meaningful symbol; thus, by the development of a certain object, it will require a more specific communication. For example, developmental communication, political communication, inter-cultural communication, etc. The aim of communication, according to Levis (1996) among others are: (1) information, to provide information using thinking approach; (2) persuasive, to arouse receiver's feeling; (3) to change behavior (attitude, knowledge, and skill), the change in attitude toward development; (4) improve the skill to develop efficient business in the field that will provide a benefit in uncertain limit of time; (5) realize the active participation of community members in the development.

#### **Developmental Communication**

According to Effendy (2001), developmental communication is a process to spread a message by a person or a group of person to the public to change their attitude, opinion, and behavior in order to improve physical development and psychological satisfaction, which should be distributed fairly by all peoples. The developmental communication is a strategy that focused

on the importance of socialization of development to the all parties who participate in the local government and people in general through various strategic media.

As a process of change and community reform, development needs the contribution of communication, both as a part of community activities or as a knowledge that continues to evolve from time to time. There are numerous developmental project that cannot achieved its objective due to the low information and communication with the community, which in turn leads to the low participation, while people participation is needed for achieving the developmental purposes (Dilla, 2007).

### **Participative Communication**

Participative communication is a communication process in which the communication takes place to two directions or dialogic, thus result in an understanding on the message that is delivered. Rahim (2004) offers four concepts related to participative communication that will encourage the development of empowerment namely heteroglasia, dialogic, polyphony, and carnival. First, Heteroglasia: this concept shows the fact that development system is always built in different groups and communities with various economy, social, and cultural background, which in turn will complete each other.

Second, Dialog is transactional communication in which the sender and receiver of message interacts in certain period of time until they reach shared meaning or understanding. Third, Polyphony is the highest form of dialog in which the opinions that are separated or cannot merge will become open, clarify each other, and do not block each other. Fourth, Carnival: this concept in developmental communication means that people brings all variants of rites, including legend, comic, festive, games, parody, and entertainment altogether. This process takes place in informal background and interspersed with humor and laughter.

### **Family Empowerment Posdaya Program**

Posdaya is a friendship (*silaturahmi*), advocation, communication, information, and education forum and can be developed as a place for coordinating integrated activities to strengthen family functions (Suyono & Haryanto, 2009). Posdaya can also become a forum to provide integrated services for family, a service for sustainable development in religion, education, entrepreneurship, and environment field for families, so that families will live in harmony and independently in their own village.

The development of Posdaya according to Suyono and Haryanto (2009) is aimed to achieve following purposes: (1) revising socio-cultural or socio-capital support such as living in mutual cooperation (*gotong royong*) in the community to encourage other families to, integrally or collectively, solving complex life problems through a forum that provide a chance for families to polish, love, and nurture each other in fulfilling the needs to build a happy and prosperous family; (2) maintaining the smallest and most solid social infrastructure; family as a social cohesion to create a harmony and peaceful life with high dynamics; (3) creating a dynamic

social institution with the membership and participation from families in the village as a forum for social participation, so that families can provide and receive changes.

Posdaya is formed as a forum to develop integrated and dynamics empowerment activities; developmental empowerment for all family members, which is carefully combined and well connected. The purpose is so that the head of the family understand their complete role and function to develop an intact family unit. In the end, each head of family and family members can remind each other to perform the independent empowerment of family members.

## **The Role of Assistant, Village Government, and Public Figure in Posdaya Activities**

### ***The Role of Assistant***

The supporting factor for the success of community empowerment is assistance. The dominant role is Posdaya activity is the role of assistant from Damandiri LPPM UNS who always conduct coordination with the managers of Posdaya Dahlia, Cempaka, and Teratai. The role of *Damandiri* LPPM UNS is as assistant and consultant. The assistance is provided in the form of visitation to the Posdaya, consultation with managers and cadres, assisting to visit and observe the activities in other Posdaya, and invite Posdaya to various discussion, seminars, or trainings.

The assistant also aid the Posdaya in preparing proposal for an event that will be submitted to external party. The coordinator or cadres also can consult the assistant for the solution for the problem that arises. The assistance provided by Damandiri LPPM UNS does not bind the Posdaya or give full freedom to the Posdaya, but rather conducting control to the management of Posdaya. The assistance provided by Damandiri LPPM UNS for Posdaya is not scheduled, the assistance is provided when Posdaya join training, receiving visitation, and providing information about the activities in the Posdaya. The assistance is not scheduled in order to build an independence of Posdaya in performing their activities. However, even though physical assistance is not performed intensively, but the control from the assistant through communication devices (telephone, whatsapp, and text message) is always performed by the assistant. The assistance is provided to accelerate the Posdaya development and to keep people spirit in maintaining socio-capital to create a sustainable empowerment, and not to encourage the community to depend to the assistant.

### ***The Role of Village Government***

The village government of Jomboran village as a governmental institution has several role in the Posdaya activities, among others are: supervising the cadres, training the cadres, and motivating the cadres. The supervisory performed by village government includes delivering information, activity monitoring, and aiding in solving problems. The involvement of village government in Posdaya is not intensive because there are other activities in lower levels that need an attention from village government. The territorial coverage of Jomboran village government is quite large with 9 RW (second lowest level of village government that consist of several RTs) and 28 RT (the lowest level of village government consist of several houses). This make the village government's attention is divided to many activities, which is aimed to avoid

jealousy from the lower level. All RWs and RTs in Jomboran village receive similar attention and there is no discrimination.

### ***The Role of Public Figure***

Public figure who becomes the role model in Jomboran village is involved in Posdaya activities. Public figure serves as advisor in Posdaya activities such as giving different perspectives, suggestion, critics, and new ideas which can keep Posdaya's activities sustainable. However, public figure's role is inadequate; public figure tends to give more contribution when there is disagreement, internal issues related to its cadres, and obstacles in Posdaya activities implementation.

Every program or activities that are related with a community will always need public figure's role, in order to explain the purpose and objective of the program or activity. This condition is considered as an important rule because when a program or activity is accepted by public figure it will be accepted by a society. Public figure usually becomes an effective social marketing tool in order to change people's behavior.

### **Participative Communication in Posdaya Program**

Participative communication is a communication process when there is two-way communication or dialogic, thus there will be a common understanding related to delivered message.

### **Has an Equal Access**

All cadres in Posdaya have an equal access to participate in planning, implementation, evaluation, and the decision making. This equal access is shown when all cadres are invited to planning and evaluation meeting. Cadres' attendance in every meeting is not limited to merely listening on the delivered information but also to actively participate in discussion by delivering their opinions, suggestion, and critics. During the discussion, cadres who are present are not only serving as meeting participants but also involved in the discussion. Cadres are given the chance to make decision, because Posdaya is not managed by one person, but many cadres are having their rights to get involved in Posdaya activities.

Public space according to Habernas is a place where each interest is vividly revealed. Each resident has an equal access to participate, which will encourage them to prioritize public interest and reaching a consensus on the direction of society in the future as well as finding joint solution on the problems they have. The provision of an equal access to each cadre is mainly because each cadre has an objective to help their community by increasing their welfare and provide service to society for the development of their regional. The involvement of each cadre in Posdaya meeting is not limited to listening on the presentation but also promoting community interest instead of personal or individual interest.

### **Communication through Dialogue**

Dialog is an interaction between listener and speaker, or between the meeting moderators with its participant in overall. The meaning of dialog is recognizing and respecting other speaker. In a dialog, each person has equal rights to speak up or to be listened, and wishing that their opinion is not being suppressed or merged with other's opinion. Meeting participant or cadre are not only attend the meeting, filled the list of attendees, and being a listener during the meeting. They are physically meeting each other, between male and female cadre as well as assistant, while giving a chance to other cadre to deliver their perspective, suggestion, critic, and ideas for the development of Posdaya and minimize disagreement. Solidarity between cadre and assistant in a dialog will create trust, because they already know each other and is part of a co-worker.

A dialog which aims to solve a barrier or obstacle is usually conducted to find an agreement between cadres. Dialog will establish ties which make each cadre will respect other cadre and creating a sense of belonging toward Posdaya activities. This will leads to a sense of responsibility to solve a problem together. Dialog is the correct process in solving a problem, overcome an obstacle, and taking decision. During the meeting in empowerment forum, the moderator will open a dialog session, thus there is no patronized impression in the communication between moderator (leader) and participant.

### **The Effect of Participative Communication on Posdaya**

Posdaya cadre perceives that the participative communication in every Posdaya meeting bring many advantages. The advantages are, among other, Posdaya cadre can share information and knowledge, solving a problem together, and establishing solidarity between cadres. The existence of Posdaya provides a space where cadre can exchange information and knowledge and become a brainstorming place to solve problems. Coordination between cadres in implementing Posdaya activities establishes a solidarity and trust between cadres.

### **The Respond on Posdaya from Community Member**

Respond is something that is carried out by somebody as a result of receiving a stimulus. Community knows the presence of Posdaya through three ways; 1) a name plate installed on the office yard, 2) the establishment of waste management group, PHBs in schools and households, oyster mushroom cultivation, cultivation of starlings, worms, and also sewing training by Posdaya. The presence of Posdaya was responded very well by the society, proved by the increasing number of members who are involve in the waste management program, oyster mushroom cultivation and processing and aquaculture starlings, also PHBs activities in schools through UKS and households. From the four areas that exist in Posdaya, waste management, cultivation of oyster mushrooms and starlings and PHBs activity are activities that a lot of people known that such activities is closely related to Posdaya. The society become aware of the Posdaya presence in the Jomboran village area because they have seen the name plated of

Posdaya. The establishments of economic, health and education efforts have made people interested and conduct pilot waste management attempt, oyster mushrooms, and starlings. During the four months of training and mentoring program as well as a discussion between coaches, facilitators and participants of Posdaya, the number of society who follow the Posdaya program were growing. As well as, the growing number of members who became group of starlings and the cultivation of oyster mushrooms and waste management program.

#### 4. Conclusion and Implications

Jomboran village government apparatus and Damandiri LPPM UNS as well as public figure has their own role in Posdaya activities. Village government apparatus as government institution has a role in cadre's coaching, training, and motivation. The role of Damandiri LPPM UNS is as assistant and consultant. The role of public figure involvement is as an advisor such as giving different perspective, opinions, criticism, and constructive ideas to maintain Posdaya activities sustainable. Participative communication, including equal access, heteroglasia, polyphony, dialog, and carnival, is happened in Posdaya activities. The effect of participative communication in Posdaya including information and knowledge exchange, cooperative problem solving, and establishment of solidarity between cadres. The response given to the presence of Posdaya from the community is positive. This is proven by the increase in the number of people who were joining the waste management program and the participant of Burung Jalak business and oyster mushroom cultivation and also sewing course.

#### Structure

Files must be in word / PDF only (with format of .doc maintain compatibility with MS Word 2003 and covert it to PDF) and should be formatted for direct printing. Figures and tables should be embedded and not supplied separately.

#### References

- Badan Pusat Statistik. (2010). *Angka Kemiskinan Kota Bogor*. [diakses 18 Januari 2011] <http://www.kotabogor.go.id/download/ILPPD-2010.pdf>.
- Dilla S. (2007). *Komunikasi Pembangunan*. Bandung: Simbiosis Rekatama Media.
- Effendy OU. (2001). *Ilmu Komunikasi: Teori dan Praktek*. Ed.Ke-14. Bandung: Rosdakarya.
- Gillis, A., & Jackson, W. (2002). *Research methods for nurses: Methods and interpretation*. Philadelphia: F.A. Davis Company
- Kelly, P.J.. (2005). Practical suggestions for community interventions using participatory action research. *Public Health Nursing*, 22 (1) 65–73
- Leeuwis C. (2009). *Komunikasi Untuk Inovasi Pedesaan: Berpikir Kembali tentang Penyuluhan Pertanian*. Yogyakarta: Kanisius.
- Levis LR. (1996). *Komunikasi Penyuluhan*. Bandung: Citra Aditya Bakti.
- Minkler, M. and N. Wallerstein (eds.). 2003. *Community-Based Participatory Research for Health*. San Francisco: Jossey-Bass

- Prijono OS & Pranaka AMW. (1996). *Pemberdayaan, Konsep, Kebijakan dan Implementasi*. Jakarta: Centre For Strategic and International Studies.
- Rahim SA. (2004). *Participatory development communication as a dialogical process. Participatory Communication Working for Change and Development*. New Delhi: Sage Publication India Pvt Ltd.
- Salim A. (2001). *Teori dan Paradigma Penelitian Sosial*. Yogyakarta: PT Tiara Wacana.
- Soekartawi. (1988). *Prinsip Dasar Komunikasi Pertanian*. Jakarta: Universitas Indonesia Press.
- Suyono H & Haryanto R. (2007). *Buku Pedoman Pembentukan dan Pengembangan Pos Pemberdayaan Keluarga (Posdaya)*. Jakarta: Balai Pustaka.



**THE DEVELOPMENT OF PALEMBANG TOURISM DESIGN BY UTILIZING MICE EXCELLENCE AND COMMUNITY CARE IN TOURIST ATTRACTION REGIONS****(Sri Rahayu, ErvitaSafitri, ArnizaNilawati)**UMP, [ayu\\_mir67@yahoo.com](mailto:ayu_mir67@yahoo.com)***Abstract***

*Since the declaration of Palembang becoming a tourism destination in the MICE. However, these events have not had a significant impact on the number of tourists visiting the tourist objects in Palembang; even in 2013 the number of tourists decreased by 18.45%. The room occupancy rate of star hotels in South Sumatra has increased 46.52%, but the average length of stay of foreign and domestic tourists in star hotels has decreased by 0.20 days. Likewise, the number of foreign tourists coming to South Sumatra has substantially decreased by 18.45%. Based on these situations, the researchers would like to provide a solution, to find a form of tourism which is combined with the MICE tourism. Having found a form of collaborative tourism, there would be guidance to the people living in and near the tourist sites so that the people around the leading tourist attractions would care and maintain the tourist objects and be able to describe them if requested by the tourists. To this end, the researchers would study the tourism management in the island of Bali and Yogyakarta. On the basis of our experience, the level of participation of the people in both places is very high and they are able to provide a detailed explanation to the tourists.*

**Keywords:** *MICE tourism, tourism design, excellent tourism***1. Introduction**

The development of MICE (Meetings, Incentive, Conferences and Exhibitions) tourism has been giving colour to the types of service industry that are identical to the provision of services. The MICE tourism also gives great benefits to tourism entrepreneurs. The development of MICE tourism as a new industry could be beneficial to many parties because MICE tourism is a complex industry. This is the reason for the growth of MICE organizing entrepreneurs, so it is an undeniable fact that MICE tourism as today's industry is much in demand by business people. Palembang is one of the cities having been designated as a MICE tourism city, besides 10 major cities designated as the MICE tourism cities, namely Jakarta, Bali, Bandung, Yogyakarta, Makassar, Surabaya, Medan, Manado, Semarang and Batam. Palembang to become a MICE tourist destination must have the support from all elements, such as government policies, readiness of means of transportation, stakeholders, tourism organizations, such as ASITA and IHRA, supporting infrastructure including, among others, hotels, restaurants, tourist attractions, and tour guides.

However, in practice MICE tourism in Palembang is not without a hitch. The difficulties are:

3. Absence of online and comprehensive MICE database
4. Difficult accessibility to the natural tourist attractions
5. Lack of routine arts and cultural performances
6. Limited representative souvenir shops
7. Relatively high price of good quality food
8. Lack of concern and language used by the people around the tourist objects

Besides the above problems, on the basis of our observations in Palembang, there is no tourism design which is in harmony with the MICE activities. Based on this background, the researchers were interested in studying and designing tourism activities that can be applied to MICE.

From the background above, the researchers formulated some problems as follows:

- a. How to map the consumers' behaviours in terms of demographic aspects and objectives of MICE participants coming to the city of Palembang?
- b. How to design the tourism that can support MICE activities based on demographic and tourist objective mapping?
- c. What are the roles of tour guides in the tourism design?
- d. How to keep the sustainable implementation of tourism design combined with MICE activities?

### **Objectives of the Study**

The objectives of this study are:

- a. To produce a mapping based on demographics and objectives of MICE participants coming to the city of Palembang,
- b. To produce a tourism design that can support MICE activities based on demographic and tourist objective mapping,
- c. To describe the roles of tour guides in the tourism design,
- d. To have MOUs with relevant government departments so that the tourism design could be sustainably implemented.

## **2. Literature Review**

### *Concept of Tourism*

In a broad sense tourism is a recreational activity outside one's domicile to break away from the routine or look for another atmosphere (Weber, et al., 2006: 1). According to Wahab (2003: 3), tourism can be seen as something abstract, for example, as a phenomenon depicting the departure of people within their own country (domestic tourism) or crossing the border into a country (international tourism). Therefore, tourism is composed of three elements, namely: human (the human element as the doers of tourism activities), place (the physical element actually covered by the activity itself), time (the tempo element spent in the journey itself and the dwelling at the destination) as well as the tourism industry that provides the services, attractions, and atmospheres.

### *Characteristics of Tourism*

Tourism is a combination of goods and services. Both are important, needed and produced by the tourism industry. Basically, tourism has unique characteristics (Ismayanti: 15), namely:

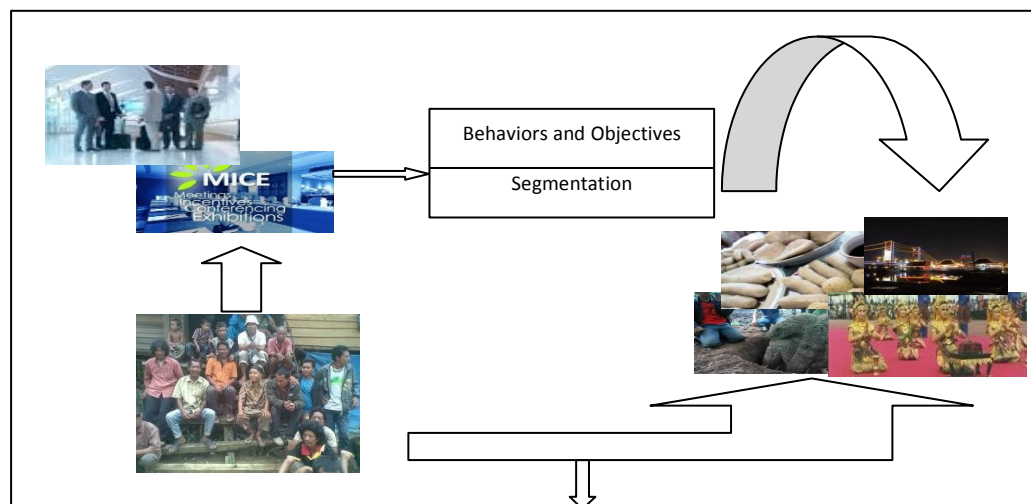
- a. A blend of transitory nature (intangible) and tangible nature
- b. Inseparable nature
- c. Volatility
- d. Diversity
- e. Fragile nature (perishable)
- f. Seasonality
- g. No ownership

### *MICE Tourism*

MICE tourism consists of four main activities, namely meetings, incentives, conventions and exhibitions. These four types of activities are an attempt to provide services for a meeting of a group of people (business people, scholars, government and private-sector executives) to discuss various issues related to common interests as well as to showcase their business products. (Deni, 2011). The deciding factors in choosing the MICE destinations, according to Ismayanti (2010: 169), are, among others:

- 1) Security
- 2) Prices
- 3) Ease of Access
- 4) Facilities
- 5) Infrastructure
- 6) Leisure Time Attractions
- 7) Discussion

These seven factors were the indicators of the study, which would determine the tourist segmentation and the MICE tourist behaviour mapping. The results of this mapping would



determine  
the design of

comprehensive and integrated tour packages. The framework of this study can be seen in the following figure:



### 3. Research Method

#### *Variable Operationalization*

The variables of this study were Tourism Product Design and MICE Tourism. The design of tourism products is the arrangement of tourist objects in the city of Palembang with the indicators of natural, historical, cultural, and culinary tourism. MICE tourism is a sector of the tourism industry whose activities are intended to unite the information providers and the recipients (tourists) with the indicators of security, prices, convenience, facilities, infrastructure, leisure time attractions, language.

#### **Population and Sample**

The population of this study was all the hotel visitors in the city of Palembang with the purpose of participating in one of the MICE activities. Because the population was infinite, then the samples taken from the population were the visitors of the hotels presumably having more than 100 rooms and having already been in operation for at least three years in the city of Palembang. There were 10 out of 29 star hotels chosen in this study. Then, the sampling for the questionnaire was based on the opinion of Hairs, Anderson, Tatham, and Black (1998) that the sufficient amount of data is at least 5 times the number of items. There were 35 items in the questionnaire; therefore, the minimum required sample size was 175 respondents. The study used simple random sampling. The samples were selected with the criteria of the guests coming to Palembang and staying for the purpose of MICE activities. The distribution of samples selected from 10 hotels is as follows

Hotel Name	Number of	Number of
Aryaduta	194	22
Arista	142	16
Novotel	194	22
Sanjaya	172	19
Daira	173	20
Aston	163	19
Grand Zuri	154	17
Lembang	100	12
Royal Asia	140	16
Duta	107	12
Jumlah	1,539	175

Source : processed from *Sumsel dalam Angka 2014*

#### **Data Collection Techniques**

To obtain the data above, the necessary data collection techniques were:

1. Questionnaire, a list of questions posed to the respondents on the

2. Documentation, i.e. the data obtained from the documents of each hotel, Tourism Office related to the MICE activities

### **Data Analysis Techniques**

According to Patton (in Hasan, 2009: 29), data analysis is the process of ordering the data, organizing them into a pattern, category, and unit of basic description. The purposes of data analysis are, among others, to solve problems, to show relationships and to make conclusions. The main analysis tool often used in data analysis is the descriptive method.

## **4. Result and Discussion**

### *Tourism Conditions in Palembang City*

Palembang as the capital of South Sumatra Province has a lot of potential for cultural tourism assets. The city more than 13 centuries old has left many interesting historical traces to explore. Chronologically, the relics are from the time of the Srivijaya Kingdom, the Palembang Darussalam Sultanate until the Dutch colonial era. In the Srivijaya era the city was generally located in the Musi River meanders in the form of natural levees or elevated grounds.

In the time of the Palembang Darussalam Sultanate, the city activities were concentrated along the Musi River bank. Most settlements were located on the north bank of the river, such as the palace, mosques and folk residences. Wood or bamboo houses with palm-leaf thatched roofs were built on stilts. There were also raft houses moored beside the Musi River bank.

After the abolition of the Palembang Darussalam Sultanate in 1823, the area around *Benteng Kuto Besak* (Fort Kuto Besak) became the administrative area of the Dutch East Indies, headed by a resident. At the time, *Benteng Kuto Besak*, originally the residence of the Sultan of Palembang, became the military installations and the residence of Dutch East Indies commissioner, government officials, and military officers. In general, the development of Palembang into a modern city was done by the Dutch East Indies government starting in the early twentieth century AD. Based on the Decentralization Law issued by the Dutch East Indies government, Palembang was designated to be a *gemeente* on 1 April 1906 with Stbl No. 126 and headed by a *burgemeester*, which in the current governance structure is equivalent to a mayor. Nevertheless, the first *burgemeester* of Palembang named LG Larive was appointed in 1919. At the time, the center of Palembang administration was moved to a new location, which was west of *Benteng Kuto Besak*. Public buildings were built in this area, and the market which was originally on a boat on the Musi River was permanently moved to the east of the fort. In the Palembang city planning in the twentieth century AD, there was also the location of the European settlement in the west of the fort. Nowadays we can see the location around the area of *Kambang Iwak*. In general, the archaeological

remains to be the city's tourist objects can be found in *Benteng Kuto Besak* and the surrounding areas, along *Merdeka Street* and *Talang*

*Semut*. In these areas, we can still find ancient buildings dated from the Sultanate and the Dutch colonial era. In *Benteng Kuto Besak* area, we can still find Palembang Great Mosque, Museum of Sultan Mahmud Badaruddin II, and the House of Chinese Lieutenant. Along *Merdeka Street* and the surrounding areas, there are still some ancient buildings from the colonial era, such as Palembang Mayor's Office, and the Office of South Sumatra's Regional Research and Development Board. Around *Talang Semut* are a school and an ancient church. We can still see the landscape like a network of roads that follow the hilly ground contours.

The charm of the buildings along *Merdeka Street* and *Talang Semut* is the unique architectural style which once became the lifestyle trend in Indonesia in the early twentieth century, and was known as "Indies Style". The uniqueness reflected in the buildings lies on the incorporation of European and Indonesian architectural styles. Of course, it requires careful and comprehensive planning to make the archaeological remains become tourist attractions. The area where the archaeological remains are concentrated should be first determined as a "historical region". Public facilities need to be provided in the region because they are very important for the preservation of archaeological remains there. With the development of all public facilities, the tourists will not focus in one place and they can be controlled. It is believed that if only all aspects or potential venues in Palembang are cared for and managed as well as possible, Palembang will have tourist objects not inferior to those of other provinces in Indonesia. There are many other places to be potential tourist objects in Palembang, such as Sabokingking, which was believed to be the capital of the Srivijaya Kingdom, Sriwijaya Kingdom Archaeological Park, and the Ampera Bridge connecting *Iliir* (downstream) and *Ulu* (upstream) regions. The classification of tourist objects in the city of Palembang is nature tourism, culinary tourism, industrial tourism, cultural tourism, religious tourism.

### **Tourist Mapping**

The mapping was made on the basis of MICE tourist behaviours in terms of demographic and motivational aspects. The demographic aspects are shown in the following tables:

#### 1. Based on Age

Age	Total	%
15 – 25 years	138	55.42
26 – 35 years	63	25.30
36 – 45 years	28	11.24
> 46 years	20	8.03
	249	100.0

Sex	Total	%
Male	147	59.04
Female	102	40.96
	249	100.0

## 3. Based on Domicile/Origin

Domicile/Origin	Total	%
Palembang	11	4.42
Outside Palembang	48	19.28
Outsidethe Province	126	50.60
Abroad	64	25.79
	249	100.00

## 4. Based on Marriage Status

Marriage Status	Total	%
Unmarried	81	32.53
Married	168	67.47
Ever married	0	
	249	100.0

## 5. Based on Education

Education	Tota	%
Elementary School	3	1.20
Junior High	17	6.83
Senior High	137	55.02
Bachelor's Degree	89	35.74
Postgraduate	4	1.61
Doctorate Degree	0	-
Others	0	-
	200	100

## 6. Based on Occupation

Occupation	Tota	%
Civil Servants	14	5.62
Private Sector	77	30.92
Professionals	10	4.02
Others		
	249	100.0

## 7. Based on Family Status

Family Status	Total	%
withChildren	80	32.13
withoutChildren	166	66.67
Others	3	1.20
	249	100.0

## 8. Based on the Number of Children

Number of Children	Total	%
0	166	66.67
1 child	23	9.24
2 children	33	13.25
3 children	18	7.23



	249	100.0
--	-----	-------

## 9. Based on Average Daily Spending

Spending	Total	%
< Rp. 250,000	192	77.11
Rp. 250,000 – Rp. 500,000	30	12.05
> Rp. 500,000 – Rp	18	7.23
>Rp. 750,000 – 1,000,000	5	2.01
> Rp. 1,000,000	4	1.61
	249	100.0

## 10. Main Motivation to Visit Palembang

Motivation	Total	%
Recreation	32	12.85
Research/Study	5	2.01
Meeting	158	63.45
Others	54	21.69
	249	100.0

## 11. Sources of Information about Palembang

Sources of	Total	%
Travel Bureaus	12	4.82
Friends	165	66.26
Brochures	3	1.21
Others	69	27.71
	249	100.0

## 12. Visited Tourist Objects

Tourist Objects	Total	%
<i>Punti Kayu</i>	66	11.92
<i>Benteng Kuto Besak</i>	169	30.59
<i>Pulau Kemaro</i>	89	16.09
<i>Danau Opi</i>	70	12.66
Others	159	28.74
	553	100.0

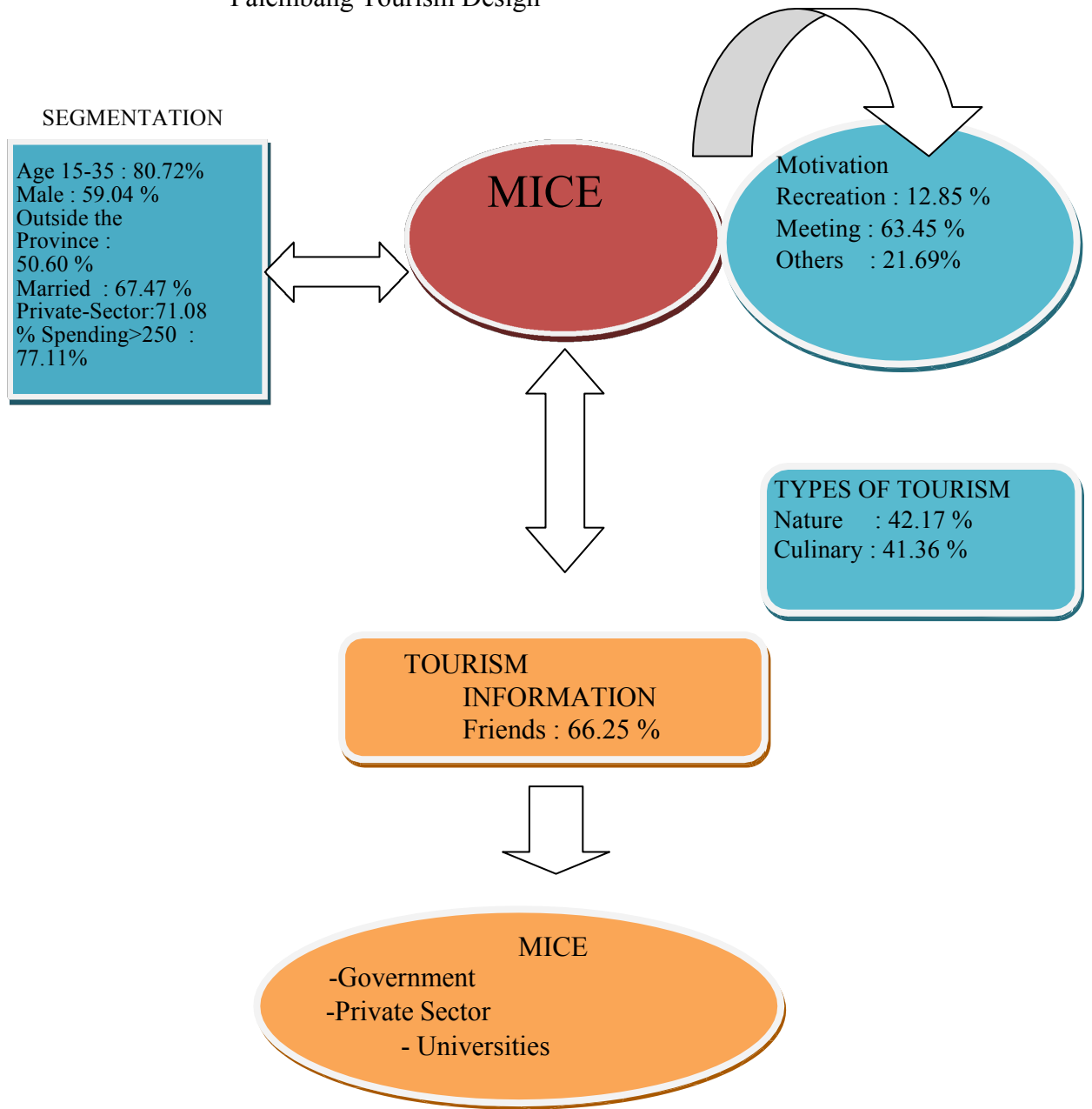
## 13. Total Travel Costs in Palembang

Travel Costs	Total	%
<Rp2,000,000	166	66.67
Rp2,000,000–	23	9.24
Rp5,000,000–	33	13.25
>Rp8,000,000	18	7.23
	249	100.0

## 14. Based on Types of Tourism Wanted

Types of Tourism	Total	%
Cultural Tourism	41	16.46
Nature Tourism	105	42.17
Culinary Tourism	103	41.36
Total	249	100.00

### Palembang Tourism Design



## 5 . Conclusion and Implications

From the discussion, some conclusions are drawn, as follows:

1. The results of demographic mapping of tourists coming to the city of Palembang were at the age of 15-35 years, more males, from the regions outside the province, married status, mostly self-employed, and average spending above Rp. 250,000.
2. The highest motivation was for meetings, recreation 12.85%. This will become a challenge as well as an opportunity to increase MICE tourists, not only for the events but also for enjoying the tourism in Palembang in particular and in South Sumatra Province in general.
3. Types of tourism desired by the tourists were nature tourism and culinary tourism.
4. Information about Palembang obtained by MICE participants was mostly from friends.

## Suggestions

1. The tourism design produced could be implemented so that MICE participants coming here will not only focus on the events but also enjoy the tourism in the city of Palembang.
2. There should be extensive information on Palembang tourism.
3. Tourism care groups can become part of the tourism activities in the city of Palembang

## References

- Hair, F. Joseph, Rolph E Anderson, Ronald L Tatham, and William C Black. 1998. *Multivariate Data Analysis*. New Jersey: Prentice Hall.
- Hasan, Iqbal. 2009. *Analisis Data Penelitian dengan Statistik*. Bumi Aksara.
- Ismayanti. 2010. *Pengantar Pariwisata*. Jakarta: PT. Gramedia Widiasarana Indonesia.
- Janianton Damanik and Helmut F. Weber. 2006. *Perencanaan Ekowisata: Dari Teorik Aplikasi*. Yogyakarta: Penerbit Andi Yogyakarta.

- Pendit, Nyoman S. 2006. *Ilmu Pariwisata: Sebuah Pengantar Perdana*. Jakarta: PT. Pradnya Paramita.
- Tambunan. 1999. *Dapatkah Sektor Pariwisata Menyumbangkan Devisa yang Berarti dalam Ilmu dan Wisata*. Pusat Penelitiandan Pengabdian pada Masyarakat, Usahid Jakarta.
- Sumsel dalam Angka. 2013. Biro Pusat Statistik, Provinsi Sumatera Selatan Palembang. Retrieved 5 April 2014.
- Media Indonesia. 2010. *Kunjungan Wisman Naik, Devisa Melorot*. 2 February 2010



**THE DIFFERENCES IN STOCK PERFORMANCE  
OF ASEAN COUNTRIES****Abid Djazuli, Ervita Safitri, Yudha Mahrom****Faculty of Economics and Business UM Palembang abid@umpalembang.ac.id  
Faculty of Economics and Business UM Palembang ervitasafitri@gmail.com  
Faculty of Economics and Business UM Palembang mahrom\_putra@yahoo.com****ABSTRACT**

*Capital market conditions have negative indications due to various global phenomena that occur around the world, making the indexes of ASEAN countries in the past three years decreased. The objective of this study was to determine the stock performance of ASEAN countries and the differences in stock performance of ASEAN countries. This was a comparative study because it aimed at comparing one or more variables in two or more samples. There were seven stock exchanges as the population in this study. The sample was taken by using judgment sampling. Four stock exchanges were finally selected as the sample based on the researchers' assessment. The data used in this study were secondary data. This study used quantitative analysis. The analysis techniques used to assess the stock performance were Sharpe, Treynor and Jensen methods. The stock performance of ASEAN countries using Sharpe, Treynor, and Jensen methods did not have any differences in 2013, 2014 and 2015 using One-Way ANOVA test with the values of  $F_{count\ of\ Sharpe}(F_o) = 0.132$ ,  $F_{count\ of\ Treynor}(F_o) = 0.047$ , and  $F_{count\ of\ Jensen}(F_o) = 1,140$  with  $F_{table} = 4.07$ .*

**Keywords:** *differences in stock performance, ASEAN, Sharpe, Treynor, Jensen*

**1. INTRODUCTION**

Rapid developments in the era of globalization in the recent years have made radical changes in some sectors of life. Technology, information, and economy are the sectors with the most radical changes. Very dynamic global economic developments make everything possible. One example is the phenomenon of the strengthening of the USD against the currencies of almost all countries in the world. US economic growth is getting

central bank) makes the value of USD rise sharply, particularly against the currencies of developing countries. This is exacerbated by the economic slowdown in the People's Republic of China. This economic slowdown forces the government to make a policy of yuan devaluation, so it has the impact on the global economy and world commodity prices.

With the fast flow of information, the events and phenomena happening in the United States and China will have a direct impact on the economic situations in other countries, especially the countries included in the category of developing countries. The countries that are members of the ASEAN are not immune from the crisis caused by the phenomena.

To Indonesia, various phenomena happening in the last few years have also affected the Indonesian economy, making it worse. This is reflected in the value of rupiah against the US dollar which drops sharply, the peak occurred in 2015. Besides the value of rupiah tumbles against the US dollar, a similar condition happens in the Indonesian capital market. It is reflected by the Composite Stock Price Index which is less stable and even tended to drop in 2015.

Similar conditions have also been experienced by the countries like Malaysia, Thailand and Singapore in the recent years. Their capital markets experienced negative indications due to various global phenomena. Here are the Composite Stock Indexes of ASEAN countries in the past three years:

Table I.1  
Composite Stock Indexes of ASEAN Countries in 2013-2015

Date	KLCI	STI	SET Index	IDX Composite
2 January 2013	1,674.72	3,201.74	1,407.25	4,346.48
1 July 2013	1,775.14	3,140.93	1,463.98	4,777.45
2 January 2014	1,852.95	3,174.65	1,230.77	4,327.27
1 July 2014	1,879.12	3,242.64	1,491.81	4,884.83
2 January 2015	1,752.77	3,370.59	1,483.25	5,242.77
1 July 2015	1,727.96	3,331.14	1,491.62	4,904.06
31 December 2015	1,692.51	2,882.73	1,288.02	4,593.01

Source : [www.set.or.th](http://www.set.or.th) , [www.sgx.com](http://www.sgx.com), [idx.co.id](http://idx.co.id), [finance.yahoo.com](http://finance.yahoo.com)

Table I.1 shows that in general the composite stock price indexes of ASEAN

countries decreased in the last semester of 2015. KLCI (Malaysia) at the beginning of 2013 was 1,674.72 then rose to 1,852.95 in 2014, unfortunately this trend did not continue in 2015 because KLCI weakened at 1,752.77 on 2 January 2015 and then decreased to 1,692.51 at the end of 2015. The Composite Stock Index of Singapore (STI) in 2013 opened at 3,201.74, then declined in early 2014 to 3,174.65. Although in early 2015 it rose 196 points from the previous year, STI finally dropped to 2,882.73 at the end of 2015. In 2013 the SET Index opened at 1,407.25, later dropped to 1,230.77 at the beginning of 2014. In 2015 the SET index crept up over the previous year to 1,483.25, but at the end of 2015 the SET Index was forced down again at 1,288.02. As already mentioned previously, at the beginning of 2013 JCI was at 4,346.48 and then decreased to 4,327.27 at the beginning of 2014. At the beginning of 2015 JCI shot up over the previous year to 5,242.77, but due to the global phenomena, JCI plunged to 4,593.01 at the end of 2015.

With the unstable economic conditions plus the MEA (free trade among ASEAN countries) which started to take effect in 2016, the competition in all sectors of the economy will be increasingly fierce. Therefore, the researchers were interested in conducting a study so that investors, especially domestic investors, would know the stock performance of ASEAN countries and could invest in the country which would provide maximum benefit.

Based on the description above, we conducted a study on the differences in stock performance of the ASEAN countries.

## **2. THEORETICAL FRAMEWORK**

### **2.1. Empirical Study**

Agustin Sulistyorini (2009) conducted a study entitled *An Analysis of Stock Portfolio Performance using Sharpe, Treynor and Jensen Methods: LQ-45 Stocks on the Indonesia Stock Exchange in 2003-2007*. The results of the analysis showed that based on the performance indexes of *Sharpe*, *Treynor* and *Jensen*, there were 4 stocks of LQ-45 from 2003 to 2007 which always showed a negative performance index: BCA (Bank Central Asia Tbk), INDF (Indofood Sukses Makmur Tbk), ISAT (Indosat Tbk), TLKM (Telekomunikasi Indonesia Tbk). Assessing portfolio performance by using *Sharpe*, *Treynor*, and *Jensen* methods would have the characteristic of producing different indexes from one another so that they could not be logically compared with one another; therefore,



there should be the standardization of performance measures that can be used to compare portfolio performance measurement using *Sharpe*, *Treynor*, and *Jensen* methods, that is the z-score transformation (standardized). The results of z-score transformation showed that the *Sharpe* index and *Jensen* index put PTBA (Bukit Asam Coal Mine Tbk) portfolio as the first rank in 2007. However, the *Treynor* index generated ASII (Astra International Tbk) portfolio as the first rank in 2005.

The results of testing the differences in portfolio performance measurement using *Sharpe*, *Treynor*, and *Jensen* methods with the Kruskal Wallis test showed that there were no significant differences in performance measurement using *Sharpe*, *Treynor*, and *Jensen* methods. The results of treatment testing of the three methods also showed that there were no significant differences among the three. In terms of mean rank, *Treynor* method showed the most consistent similarity of the three methods because *Treynor* had the lowest mean rank difference compared to *Sharpe* and *Jensen*.

Ervita, Arniza and Putri (2014) conducted a study entitled *The Differences in Stock Performance of Agricultural Companies before and during the Global Economic Crisis on the Indonesia Stock Exchange*. The research results showed that there were some differences in stock performance of agricultural companies before and during the global economic crisis by using *Sharpe* and *Jensen* methods. However, with *Treynor* method, there was no difference before and during the global economic crisis using one-way ANOVA. If using paired-sample t- test, there was a difference in stock performance of agricultural companies before and during the global economic crisis using *Sharpe* and *Jensen* methods. However, *Treynor* method showed no difference before and during the global economic crisis.

## 2.2. Stocks

Stock is evidence of ownership of capital/fund in a company (Fahmi, 2015: 67).

The advantages of buying stocks for investors:

- 1) Dividends, part of the company's profits distributed to shareholders.
- 2) Capital gain, a profit resulted from the difference between the sale price and the purchase price
- 3) Non-financial benefits, namely the emergence of power, pride and voting rights to

determine the running of the company.

The disadvantages of buying stocks for investors:

- 1) Capital loss, the loss resulted from the difference between a lower selling price and a higher purchase price.
- 2) Opportunity loss, the loss resulted from the difference between deposit interest rates and the total results obtained from stock investments.
- 3) The loss from company liquidation but the liquidation value is lower than the stock price or the stock price at the time of liquidation is lower or cheaper than the initial stock price.

According to Halim (2015: 68), stock performance is the achievement level of total monthly return for each stock in the portfolio. Sorensen, Miller and Ooi (2000: 47) distinguish 2 kinds of stock performance:

1. Superior stock performance (outperforming)  
Stocks with positive comparative or reductive results are called outperforming stocks.
2. Lower stocks (underperforming)  
Stocks with negative comparative or reductive results are called underperforming stocks.

### 2.3. Portfolio/Stock Performance Measures

On the basis of the capital market theory, some measures of portfolio performance have included return and risk factors in the calculation. Some methods of assessing stock performance, according to Halim (2015: 68), are as follows:

#### a. *Sharpe* Method

This method measures portfolio performance by comparing the portfolio risk premium (i.e. the difference between the average portfolio return rate and the average risk-free interest rate) with portfolio risk represented by the standard deviation (total risk).

*Sharpe* method is mathematically formulated as follows:

$$S_{pi} = \frac{R_{pi} - R_f}{SD_{pi}}$$

The formula essentially calculates the slope of the line connecting the portfolio risk and the risk-free interest. The line slope is expressed as  $(R_p - R_f) / \sigma_p$ . Thus, the greater the line slope is, the better the portfolio that forms the line. Because, the greater the ratio of the portfolio risk premium to the standard deviation, the better the portfolio performance is.

#### b. Treynor Method

This method measures portfolio performance by comparing the portfolio risk premium (i.e. the difference between the average portfolio capture rate and the average risk-free interest rate) with the portfolio risk represented by beta (market risk or systematic risk).

*Treynor* method is mathematically formulated as follows:

$$T_{pi} = \frac{R_{pi} - R_f}{\beta_{pi}}$$

The formula essentially calculates the slope of the line connecting the risky portfolio and the risk-free interest. The line slope is expressed as  $(R_p - R_f) / \beta_p$ . Thus, the greater the line slope is, the better the portfolio that forms the line. Because, the greater the ratio of the portfolio risk premium to beta, the better the portfolio performance is.

#### c. Jensen Method

This method is based on the concept that the security market line (SML) is the line that connects the market portfolio and the risk-free investment opportunity, so it is mathematically formulated as  $R_p = R_f + (R_m - R_f) \beta_p$ . The slope of SML is expressed as  $(R_m - R_f) / \beta_p$  and the constant is  $R_f$ . In a state of equilibrium, all portfolios are expected to be on the SML. If there is a deviation, the same risk will have different rates of return on the SML. The difference is called the *Jensen* index where the risk is expressed by beta (market risk or systematic risk). If the actual portfolio return rate is greater than the rate of return that corresponds to the SML equation, the *Jensen* index will be positive. Conversely, if the actual portfolio return rate is smaller than the rate of return that corresponds to the SML equation, the *Jensen* index will be negative. The *Jensen* index can be formulated as follows:

## 2.4. Hypotheses

The hypotheses of this study were:

1. There weresome differences in the stock performance of ASEAN countries using *Sharpe*, *Treynor*, and *Jensen* methods.
2. There wasa difference in the stock performance using *Sharpe*, *Treynor*, and *Jensen* methods in ASEAN countries

## 3. RESEARCH METHODOLOGY

This was a comparative study because the objective of this study was to compare one or more variables in two or more samples.

### 3.1. Population and Sample

Population is a complete set of entities which may consist of people, events, or objects, which have a number of common characteristics (Wibisono, 2013: 81). The population of this study was all stock exchanges in Southeast Asia. There were sevenstock exchanges as the population of this study. Here isthe list of stock exchanges in ASEAN countries:

Tabel III.1

List of Stock Exchanges in ASEAN Countries

No	Country	Stock Exchange
1	Indonesia	Indonesia Stock Exchange (IDX)
2	Malaysia	Kuala Lumpur Stock Exchange (KLSE)
3	Thailand	Stock Exchange of Thailand (SET)
4	Singapore	Singapore Exchange (SGX)
5	Philippines	Philippine Stock Exchange (PSE)
6	Vietnam	Ho Chi Minh City Stock Exchange
7	Vietnam	Hanoi Securities Trading Center

Source: [www.wikipedia.org/wiki/Daftar\\_bursa\\_efek](http://www.wikipedia.org/wiki/Daftar_bursa_efek)

Sample is part of the population (Wibisono, 2013: 81). The sampling technique used in this study was judgment sampling, that is the sampling based on the researchers' judgment that could provide the needed information. The criterion for determining the sample in this study was based on the Composite Stock Indexesof each stock exchange in the period of 2013-2015. Based on the criterion, the stock exchanges qualified were shown in Table III. 2.

List of Sample Stock Exchanges in ASEAN countries

No	Country	Stock Exchange
1	Indonesia	Indonesia Stock Exchange (IDX)
2	Malaysia	Kuala Lumpur Stock Exchange (KLSE)
3	Thailand	Stock Exchange of Thailand (SET)
4	Singapore	Singapore Exchange (SGX)

Source: [www.wikipedia.org/wiki/Daftar\\_bursa\\_efek](http://www.wikipedia.org/wiki/Daftar_bursa_efek) processed by researchers

The data collected from this research were secondary data. Secondary data sources are the sources that indirectly provide the data for data collectors, for example, through other people or documents (Sugiyono, 2010: 402). The source of the data to be processed in this study was [www.idx.co.id](http://www.idx.co.id) \situsweb resmi Bursa EfekIndonesia. The data needed were the composite stock indexes from each stock exchange (KLSE, SET, SGX, and IDX).

### 3.2 Variable Operationalization

The variable used in this study was:

Tablel III.3

Variable Operationalization

No.	Variable	Operational Definition	Indicator
1.	Stock Performance	The performance of monthly total return index in a stock portfolio on stock exchanges in ASEAN countries	a. <i>Sharpe</i> Method b. <i>Treynor</i> Method c. <i>Jensen</i> Method

Source: processed by researchers

### 3.3 Data Analysis and Analysis Techniques

This study used a quantitative analysis. To answer the research questions, this study needed the report of composite stock price indexes on the stock exchanges in ASEAN countries in the period of 2013-2015. The data needed were:

- 1) for *Sharpe* method, the Composite Stock Price Index data at the end of each month during the period of 2013-2015.
- 2) for *Treynor* method, the Composite Stock Price Index data at the end of each month during the period of 2013-2015.
- 3) for *Jensen* method, the Composite Stock Price Index data at the end of each month

the period of 2013-2015.

The technique of analysis was by analyzing all the data needed to generate the values of stock performance using *Sharpe*, *Treynor* and *Jensen* methods. According to Halim (2015), the steps are as follows:

a. Determine the performance of each Stock Exchange using *Sharpe* method.

1) Finding the value of Actual Return:

$$R_{it} = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}$$

2) Finding the value of Average Portfolio's Rate of Return:

$$R_{pi} = \frac{\sum R_{it}}{n}$$

3) Determining SBI average monthly Return by using the formula:

$$E(R_f) = \frac{\sum R_{fi}}{n}$$

4) Determining Portfolio Standard Deviation by using the formula:

$$SD_{pi} = \sqrt{\frac{\sum (R_i - \bar{R}_i)^2}{(n-1)}}$$

5) Determining the value of performance based on *Sharpe* method:

$$Sharpe_{method} = \frac{(R_{pi} - R_f)}{SD_{pi}}$$

b. Determine the performance of each Stock Exchange using *Treynor* method.

1) Finding the value of Actual Return:

$$R_{it} = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}$$

2) Finding the value of Average Portfolio's Rate of Return:

$$R_{pi} = \frac{\sum R_{it}}{n}$$

3) Determining SBI average monthly Return:

$$E(R_f) = \frac{\sum R_{fi}}{n}$$

4) Determining the stock's Beta by using the formula:

$$\beta_{stock} = \frac{\sum (R_i - \bar{R}_i)(R_m - \bar{R}_m)}{\sum (R_m - \bar{R}_m)^2}$$

5) Determining the value of performance based on *Treynor* method:

$$Treynor_{method} = \frac{R_{pi} - R_f}{\beta_{saham}}$$

c. Determine the performance of each Stock Exchange using *Jensen* method.

$$R_{it} = \frac{(P_t - P_{t-1}) + D_t}{P_{t-1}}$$

2) Finding the value of Average Portfolio's Rate of Return:

$$R_{pi} = \frac{\sum R_{it}}{n}$$

3) Determining SBI Average monthly Return:

$$E(R_f) = \frac{\sum R_{fi}}{n}$$

4) Determining Market Return:

$$R_m = \frac{\sum R_m}{n}$$

5) Determining the stock's Beta by using the formula:

$$\beta_{stock} = \frac{\sum |(R_i - \bar{R}_i)(R_m - \bar{R}_m)|}{\sum (R_m - \bar{R}_m)^2}$$

6) Determining the value of performance based on Jensen method :

$$J_a = (R_{pi} - R_f) - (R_m - R_f)\beta_{stock}$$

#### d. Statistical Analysis

F-test (one-way ANOVA)

After finding the performance values of stock exchanges in ASEAN countries by using *Sharpe*, *Treynor* and *Jensen* methods, then one-way ANOVA through SPSS 16.0 was used to answer the question whether there were any differences in stock performance of ASEAN countries. The statistical product and service solutions (SPSS) with one-way ANOVA hypothesis testing was used to determine whether there were any differences in the average for more than two unrelated groups of sample.

## 4. RESEARCH RESULTS AND DISCUSSION

### 4.1 Stock Performance in ASEAN

The stock performance in the ASEAN countries during the past three years using *Sharpe*, *Treynor* and *Jensen* methods can be seen in the following table:

Table IV.1  
Stock Performance in ASEAN using *Sharpe* Method in 2013-2015

Stock Exchange	2013	2014	2015
IDX	-0.300066	0.89356	-0.46521
KLSE	0.459213	-0.76572	-0.38681

SGX	-0.001915	0.381844	-0.50537
-----	-----------	----------	----------

Researchers, 2016

The results of the calculation of stock performance of ASEAN countries in 2013 with *Sharpe* method showed that in general the performance values were negative. Only the stock performance of KLCI was positive with the value of 0.459213. In 2014 the stock performance of ASEAN countries was good, especially IDX with a higher value compared to SET and SGX. The performance of Malaysia Stock Exchange greatly declined to -0.76572. In 2015 all ASEAN stock exchanges declined to a negative value.

Table IV.2

Stock Performance in ASEAN using *Treynor* Method in 2013-2015

Stock Exchange	2013	2014	2015
IDX	-0.008523	0.01196	-0.01236
KLSE	0.0074	-0,00831	-0.00687
SET	-0.007475	0.008977	-0.01765
SGX	-0.0000357	0.004933	-0.01187

Researchers, 2016

In Table IV.2. the calculation results of the stock performance of ASEAN countries in 2013 with *Treynor* method showed that in general the performance was not good, with negative values. Only the stock performance of KLCI was positive with the value of 0.0074.

In 2014 the stock performance of ASEAN countries was good, especially IDX with a higher value compared to SET and SGX. The performance of Malaysia Stock Exchange greatly declined to -0.00831. In 2015 all stockson ASEAN stock exchanges declined to a negative value.

Table IV.3

Stock Performance in ASEAN using *Jensen* Method in 2013-2015

Stock Exchange	2013	2014	2015
IDX	-0.003485	0.001352	0.004508
KLSE	-0.00026	-0.00045	-0.00219
SET	-0.000839	-0.00176	-0.00444
SGX	-0.007835	0.000868	-0.00045

Researchers, 2016

The calculation results of the stock performance of ASEAN countries in 2013 using *Jensen* method showed that in general the performance was not good, all with negative values. In 2014 the stock performance of ASEAN countries was good, especially IDX



with a value higher than SGX. In 2015 all stockson ASEAN stock exchanges had a negative value except IDX.

Having obtained the stock performance in three years with three methods, then the values of stock performance for three consecutive years would be determined by using *Sharpe*, *Treynor* and *Jensen* methods.

Table IV.4  
Stock Performance in ASEAN using *Sharpe*, *Treynor* and *Jensen* Methods  
in 2013-2015

Stock Exchange	<i>Sharpe</i>	<i>Treynor</i>	<i>Jensen</i>
IDX	-0.074506	-0.003069	0.000437
KLSE	-0.107227	-0.002822	-0.00115
SET	-0.128122	-0.005374	-0.002217
SGX	-0.068573	-0.002241	0.000479

Researchers, 2016

Based on the stock performance ratings per year by using *Sharpe*, *Treynor* and *Jensen* methods, it can be concluded that the Indonesia Stock Exchange had the best performance of all the countries, with the highest value of 0.89356 using *Sharpe* method and 0.01196 using *Treynor* method in 2014. As for *Jensen* method, Indonesia received the highest value of 0.004508. However, in the period of 2013-2015 Singapore was ranked first with the value of -0.06857 using *Sharpe* method and -0.00224 using *Treynor* method and 0.000479 using *Jensen* method. But in general the stock performance of ASEAN countries in 2013-2015 was not good. It was shown by the fact that the majority of stock performance using *Sharpe*, *Treynor* and *Jensen* methods had negative values.

## 4.2. Stock Performance Differences in ASEAN countries

To see the differences in stock performance of ASEAN countries, one-way ANOVA was conducted.

### 4.2.1 Differences in stock performance of ASEAN countries with *Sharpe*, *Treynor* and *Jensen*

#### Methods

##### a. ANOVA Testing of Stock Performance of ASEAN Countries with *Sharpe* Method

**ANOVA**Stock Performance of ASEAN Countries with *Sharpe* Method

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.156	3	.052	.132	.938
Within Groups	3.152	8	.394		
Total	3.308	11			

The results of one-way ANOVA test showed that the value of  $F_{\text{count}}$  ( $F_o$ ) was 0.132 while the value of  $F_{\text{table}} = 4.07$  with the confidence level = 95%,  $\alpha = 5\%$ ,  $df_1$  (number of variables-1) = (4- 1) = 3, and  $df_2 = (12-4) = 8$ . Because of  $F_{\text{count}} < F_{\text{table}}$ , then  $H_o$  was accepted and  $H_a$  was rejected, so it can be concluded that there was no difference in stock performance of ASEAN countries.

b. ANOVA Testing of Stock Performance of ASEAN Countries with *Treynor* Method

**ANOVA**Stock Performance of ASEAN Countries with *Treynor* Method

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.000	3	.000	.047	.986
Within Groups	.001	8	.000		
Total	.001	11			

The

results of one-way ANOVA test showed that the value of  $F_{\text{count}}$  ( $F_o$ ) was 0.047 while the value of  $F_{\text{table}} = 4.07$  with the confidence level = 95%,  $\alpha = 5\%$ ,  $df_1$  (number of variables-1) = (4 -1) = 3, and  $df_2 = (12-4) = 8$ . Because of  $F_{\text{count}} < F_{\text{table}}$ , then  $H_o$  was accepted and  $H_a$  was rejected, so it can be concluded that there was no difference in stock performance of ASEAN countries.

c. ANOVA Testing of Stock Performance in ASEAN countries with *Jensen* Method

**ANOVA**  
Stock Performance of ASEAN Countries with *Jensen* Method

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.000	3	.000	1.140	.390
Within Groups	.000	8	.000		
Total	.000	11			

The results of one-way ANOVA test showed that the value of  $F_{\text{count}}$  ( $F_o$ ) is 1.140 while the value of  $F_{\text{table}} = 4.07$  with the confidence level = 95%,  $\alpha = 5\%$ ,  $df_1$  (number of variables-1) = (4 -1) = 3, and  $df_2 = (12-4) = 8$ . Because of  $F_{\text{count}} < F_{\text{table}}$ , then  $H_o$  was accepted and  $H_a$  was rejected, so it can be concluded that there was no difference in stock performance of ASEAN countries.

It means that the hypothesis was not proven; the stock performance of ASEAN countries was not different. The investors who invested on the stock exchanges of ASEAN countries were the same parties or persons, so that the performance of stock exchanges among ASEAN countries influenced one another. Besides, one characteristic of ASEAN community is that the type of investors is risk-averse.

#### 4.2.1 Difference in stock performance of ASEAN countries with *Sharpe*, *Treynor* and *Jensen* Methods

ANOVA testing of Stock Performance with *Sharpe*, *Treynor*, and *Jensen* Methods

**ANOVA**  
Stock Performance with *Sharpe*, *Treynor*, and *Jensen* Methods

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.001	3	.000	.102	.957
Within Groups	.024	8	.003		
Total	.025	11			

The results of one-way ANOVA test showed that the value of  $F_{\text{count}}$  ( $F_o$ ) was 0.102 while  $F_{\text{table}} = 4.07$  with the confidence level = 95%,  $\alpha = 5\%$ ,  $df_1$  (number of variables-1) =  $(4 - 1) = 3$ , and  $df_2 = (12-4) = 8$ . Because  $F_{\text{count}} < F_{\text{table}}$ , then  $H_o$  was accepted and  $H_a$  was rejected, so it can be concluded that there was no difference in stock performance using *Sharpe*, *Treynor*, or *Jensen* methods

Three stock performance methods (*Sharpe*, *Treynor*, *Jensen* methods) produced the same stock performance of ASEAN countries, meaning that we could use only one method, whichever the most appropriate, to assess the stock performance.

## 5. CONCLUSIONS AND SUGGESTIONS

### 5.1. Conclusions

There were no differences in stock performance of ASEAN countries in 2013, 2014 and 2015 by using *Sharpe*, *Treynor*, and *Jensen* methods. The results of one-way ANOVA test showed  $F_{\text{count}} = 0.132$ ,  $F_{\text{count}}$  ( $F_o$ ) = 0.047, and  $F_{\text{count}}$  ( $F_o$ ) = 1.140 with  $F_{\text{table}} = 4.07$ , respectively by using *Sharpe*, *Treynor* and *Jensen* methods. Besides, there was no difference in stock performance using three methods; the results of one-way ANOVA test showed that the value of  $F_{\text{count}}$  ( $F_o$ ) = 0.102 with  $F_{\text{table}} = 4.07$ , the confidence level = 95%. It can be concluded that there was no difference in stock performance using *Sharpe*, *Treynor*, and *Jensen* methods.

### 5.2 Suggestions

1. This study showed that the results of assessing stock performance using *Sharpe*, *Treynor*, and *Jensen* methods did not have any differences. The students who will assess stock performance may use one of the three methods.
2. The investors who are interested in investing on the stock exchanges of ASEAN countries should consider some factors because the stock performance of ASEAN countries is still negative and has the same performance. However, if Indonesian investors would like to invest on the stock exchange, the researchers suggest that the investors continue to invest on IDX in order to make a positive contribution to the economic growth in Indonesia.

## REFERENCES

- Agustin Sulistyorini. (2009). *Analisis Kinerja Portofolio Saham dengan Metode Sharpe, Treynor dan Jensen Saham LQ-45 di Bursa Efek Indonesia*. Tesis.UNDIP, Semarang
- Fahmi, Irham. (2015). *Pengantar Teori Portofolio dan Analisis Investasi*. Bandung : Penerbit Alfabeta
- Halim, Abdul. (2015). *Analisis Investasi dan Aplikasinya: Dalam Aset Keuangan dan Aset Riil*. Jakarta : Salemba Empat.
- Hartono,Jogiyanto.(2013). *Teori Portofolio dan Analisis Investasi*. Edisi kedelapan.Yogyakarta : BPFE Yogyakarta.
- S, Alam. (2007). *Ekonomi untuk SMA dan MA Kelas XI*. Jilid 2.Jakarta: Esis.
- Safitri,Ervita dkk. (2014). *Perbedaan Kinerja Saham Pada Perusahaan Agriculture Sebelum dan Pada Saat Krisis Ekonomi Global di Bursa Efek Indonesia*. Palembang:Pusat Penelitian dan Studi Lingkungan, Universitas Muhammadiyah Palembang.
- Sorensen, Miller dan Ooi, 2000. The Decision Tree Approach to Stock Selection, *The Journal of Portofolio Management*, pp. 42-52.
- Sugiyono. (2009).*Statistik Non Parametris*. Bandung: Penerbit Alfabeta.
- Undang-Undang Republik Indonesia Nomor 8 Tahun 1995 tentang Pasar Modal (1995)*  
Jakarta.
- Wibisono,Dermawan.(2013).*Panduan Penyusunan Skripsi, Tesis, dan Disertasi*. Yogyakarta: ANDI
- [www.finance.yahoo.com](http://www.finance.yahoo.com)  
[www.idx.co.id](http://www.idx.co.id)  
[www.investing.com](http://www.investing.com)  
[www.set.or.th](http://www.set.or.th)  
[www.sgx.com](http://www.sgx.com)  
[www.wikipedia.org/wiki/Daftar\\_bursa\\_efek](http://www.wikipedia.org/wiki/Daftar_bursa_efek)



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**FINANCIAL LITERACY TO FINANCIAL INCLUSION:  
MILLENNIAL COUPLE IN BANDAR LAMPUNG CITY**

**Lusianna Liunata, Farida Komalasari**

*President University, lusianna.liu@gmail.com, faridakg@gmail.com*

---

**Abstract**

*This research aims to find whether financial literacy which consists of financial knowledge, financial behavior, and financial attitudes influence financial inclusion level among millennial married couple in Bandar Lampung City. The research about financial literacy which consists of financial knowledge, financial behavior, and financial attitudes towards financial inclusion is very few since financial inclusion is analyzed to its impact towards many variables, such as poverty reduction and financial stability. Either it is analyzed by its macroeconomic factors such as income per capita income, gross domestic product, or rule of law. Thus the researcher wants to find out whether financial literacy influences financial inclusion, particularly among millennial married couple. Primary data using questionnaire is used for this quantitative research to millennial married couple in Bandar Lampung City with the total of 220 respondents. The questionnaire was validated through validity and reliability test that resulted 18 questions were valid and reliable to be used. Multiple linear regression was used to test the hypothesis of this research. This research resulted financial literacy which consists of financial knowledge, financial behavior, and financial attitudes significantly influence financial inclusion.*

**Keywords:** *Financial Literacy, Financial Knowledge, Financial Behavior, Financial Attitudes, Financial Inclusion, Millennial Married Couple*

---





## **LEADERSHIP STYLES AND THEORIES ON GENERAL ORGANIZATIONAL BEHAVIOR**

Terry Immanuel Yoseph Winarta, Universitas Ciputra Surabaya

[winarta.terry@ciputra.ac.id](mailto:winarta.terry@ciputra.ac.id), +6281232624120

### **ABSTRACT**

An in-depth analysis discussing about leadership traits in facing organizational behavior. A study discussing leader's role on organizational success and goals achievement. Concept about leadership playing a key role to promote individuals' willingness to strive for common missions and visions. A detailed qualitative approach in exploring previous theories done in giving readers ideas relating to this topic. Demonstrating a close relationship between a leader and a follower could result differently if such both sides are in distant. Leaders could use some achievement behavioral method in developing confidence in the followers' ability to reach the goal of an organization. Positive attributes of a leader will give hints to the subordinates on how one will influence their behaviors and performance. Result:

**Keywords:** Leadership, Drive, Self-Confidence, Good Communication Skills, Honesty, Forward-Looking, Inspire.

### **1. Introduction**

In the mid of 1900's, the productivity level of employees' in U.S. business industry was at a very low level. There had been a number of efforts to enhance the employees' performance due to low productivity. Even though successes have been increasing, deeper understandings about organizational behavior is still needed (Luthans, 1981). In his book, Mark Wallace defines organizational behavior as, "The concerns on the behavior, attitudes, and performance of workers in an organization, and the effect of the workers on the organization and its effectiveness" (Szilagyi, Wallace, & Ivancevic, 1980). Thus, an argument might rise where a leader plays an important role in affecting followers' behavior in improving the follower's performance and innovation. (Boerner, Eisenbeiss, & Griesser, 2007)

It is remindful that individual's behaviors are crucial in completely understanding the organizational behavior concepts. Jennifer George says that because every person directly contributes to a company because one comes from a different background, has different sets of unique characteristics and brings diverse experience from other organizations. (George, 2000) Different set of individual's background can bring potential problems because without leadership, human beings tend to conclude themselves into unclear conflicts and arguments due to different perspectives. (Mills, 2005). Therefore, leaders must hold the responsibility to look at different perspective that the followers brings, in order to understand them (George, 2000). One must know

that leaders play a crucial role to impact the followers' behavior by setting the directions and motivating them to reach the goals and objectives.

One of the main role of leadership is to promote organization in reaching their goal (Slack, 1997). According to Yammarino et al, leaders must establish a mutual relationship between followers and organization by aligning their goals and objectives (Yammarino, Dionne, Uk Chun, & Dansereau, 2005). Leaders have to influence the followers in achieving outstanding results both for their own personal achievement and organization's concern. A leader is as no use without any followers. Therefore, it is safe to assume that leaders are given the opportunity to lead because followers first recognize and then be in consent. (Boseman, 2008).

### **Purpose of This Research**

The purpose of conducting this research is to better understand the organizational behavior concept, along with how leadership theories will/ will not have an effect on the behavior of the organization itself. Some of the leadership theories will include: Transformational Leadership Theory, Transactional Leadership Theory, Laissez Faire Theory, Contingency Theory and Path-Goal Theory

## **2. Literature Review**

This chapter focuses on identifying the essential qualities that the leader must possess in order to influence the followers' performance. One may see how a leader's quality may impact the follower's behavior in achieving their goals and objectives. This literature review will start by evaluating the theories and framework of transformational and transactional leadership theory, other theories such as; Laissez Faire Theory, Contingency Theory and Path-Goal Theory; the leaders' qualities that influence followers' behaviors, and the result of this study.

### TRANSFORMATIONAL LEADERSHIP

#### *TRANSFORMATIONAL LEADERSHIP THEORY*

The theory of transformational leadership was primarily presented by James MacGregor Burns in 1978 (Vondey, *People of Bread: Rediscovering Ecclesiology*, 2008). He described it as a continuous process done to improve the morality and motivations of one another from leaders towards its followers. (Burns, 1978) In their journal in 1996, Lowe, et al. described Transformational Leaders as those who keep looking for new innovations, prefer progress over stagnancy, seek opportunities in hard times and love effective solutions. Transformational leaders rarely react to quick and sudden changes, but rather, they tend to create and alter them. (Lowe, Kroeck, & Sivasubramaniam, 1996) This statement was also supported by Bass & Avolio who mentioned that Transformational Leadership will only be effective when leaders successfully transform the followers to self-realize their capabilities to be used properly in their respective maximum capacity. (Bass & Avolio, *Developing Transformational Leadership: 1992 and Beyond*, 1990)

Bernard Bass further described transformational leadership in term of how the leader influences followers who sacrifice their self-interest for the sake of the organization. (Bass B. M., *Leadership and performance beyond expectations*, 1985) As mentioned above, he desires that leaders are only effective when followers self-realize their capabilities. This means that followers have to continuously expand their capacity by having their own initiative to finish tasks, exploring new ideas and critically outperform to achieve better results. (Bass & Avolio, *Developing Transformational Leadership: 1992 and Beyond*, 1990) The goal of transformational leaders is to develop self-management and self-development in followers' mind. Avolio and Gibbons also said that Transformational leaders are those whose job is to ensure followers to be fully committed in developing themselves. (Avolio & Gibbons, 1988)

### *TRANSFORMATIONAL LEADERSHIP FRAMEWORK*

For decades, a number of research have been done to prove any relationship between transformational leadership and organizational behavior. (Boerner, Eisenbeiss, & Griesser, 2007) The researchers focused on exploring followers' development due to transformational leadership. (Bass B. M., Avolio, Jung, & Berson, 2003) The results show a positively correlation between transformational leadership and followers' behavior with their performance. (Lowe, Kroeck, & Sivasubramaniam, 1996)

Transformational leadership emphasizes on the leader-follower relationship through a developed inspiration by the leaders so that the others are motivated to produce extraordinary work (Bass B. M., 1997). Bernard Bass further expanded Burn's 1978 theory by identifying 4 characteristics of transformational leadership in pushing their followers to stretch their maximum capacity in achieving better working performance. They are: Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration. (Bass & Avolio, *Developing Transformational Leadership: 1992 and Beyond*, 1990)

#### 1. Idealized influence

This characteristic represents the ability of leaders to build their self-confidence and to be accepted by the followers. (Boerner, Eisenbeiss, & Griesser, 2007) With strong charismatic behaviors, followers are inspired to be fully committed in following their leaders. Therefore, Leaders must demonstrate strong moral and ethical principles in order to gain respect and trust from the followers. Leaders must set an example to his followers by influencing them to do the right thing and to make a positive impact for the organization. (Modassir & Singh, 2008) Leaders ought to walk the talk. Leaders earn their title by successfully managing available resources to achieve organizational goals. On the other hand, it is considered as morally unrighteous if leaders misconduct their position and abilities to achieve personal goals; which is commonly found in the society nowadays. (Simic, 1998)

#### 2. Inspirational motivation

This characteristic of transformational leadership seeks a leader who has the ability to visualize optimistic future and ways in achieving it. Despite economic downturn, leaders need to guide followers in accomplishing tasks, accompanied with

installing self-confidence with positive attitude on others who constantly remind them that it is possible

to be done. (Givens, 2008). Leaders who are able to motivate and inspire others tend to have positive response in their followers. (Conger & Kanungo, 1988) When followers have positive response through constant motivations, studies have shown that higher level of satisfaction is achieved on the followers' side. By having a higher level of satisfaction, followers tend to be more committed to the leaders subconsciously. (Bekele & Darshan, 2011). The motivation can be done by not taking followers' credits, giving out recognition for their achievements, and word encouragements. Recognition of achievements tend to increase followers' enthusiasm and commitment in reaching shared goals. (Lai, 2011)

### 3. Intellectual stimulation

This characteristic requires leaders to help their followers in looking at problems from different angles. This characteristics is very useful in encouraging followers to think outside the box. The leaders use positive persuasions to motivate the followers to use their creativity in generating higher level of performance (Bass B. , Two Decades of Research and Development in, 1999). Often times, the leaders avoid to criticize the followers' mistake because of the fear of discouragement (Bass & Avolio, Improving Organizational Effectiveness Through Transformational Leadership, 1994). For that reason, leaders use revise the ideas given by followers to get better results. (Simic, 1998)

### 4. Individualized Consideration

This characteristic of transformational leadership focuses on the relationship between followers and leaders. (Boerner, Eisenbeiss, & Griesser, 2007) A good transformational leader should spend more time knowing and coaching the followers. By recognizing the followers' needs, leaders build positive relationships in others which allow leaders to promote followers' self-development skills, nurture individual's emotional needs and be a good listener to followers' problems. (Bono & Judge, 2004) Because every individual comes with different needs, leaders are required to analyze and identify individual's different expectation from one to another. By knowing their personalities, leaders can now more effectively position the followers into respective job duties, resulting in higher productivity, effectiveness and efficiency. (Bass B. , Two Decades of Research and Development in, 1999)

## TRANSACTIONAL LEADERSHIP

### *TRANSACTIONAL LEADERSHIP THEORY*

On the other hand, another study by Burns resulted in a theory called transactional leadership which counterparts his theory on transformational leadership. (Givens, 2008). Burns described transactional leader as a managerial leadership who believe that relationship between leaders and subordinates are determined by motivations through rewards and punishment giving. (Bass B. M., Leadership and performance beyond expectations, 1985)

Graen and Cashman suggested that, Transactional leadership style is usually more effective when being applied on tasks where less or no creativity is needed, and the conditions are easy to predict. (Graen & Cashman, 1975) This is because in this theory, motivation is done much more

passively by concentrating their resources strongly on formal interaction between both sides. (Bass B. M., *Leadership and performance beyond expectations*, 1985) The behavior itself surrounds leader in a cocoon succumbing them from seeking new ideas and innovations. (Tichy & Devanna, 1986) By being hindered to new ideas, companies will be lagging in the already losing competition within the rampaging rapidly changing environment.

### *TRANSACTIONAL LEADERSHIP FRAMEWORK*

To better understand the concept of transformation and transactional leadership, Bernard Bass established Multifactor Leadership Questionnaire. (Boerner, Eisenbeiss, & Griesser, 2007) MLQ 5X (short of the standard MLQ) is designed to distinguish the leaders' characteristic in both theories and to use it as a conceptual method in evaluating the effectiveness level of the leaders. MLQ is very useful in standardizing the instruments to assess between transactional or transformational. Four of the six scales are identified and defined previously as the characteristic of transformational leadership, and the rest two are described as the characteristic of transactional leadership. (Bass, Avolio, & Goodheim, *Biography and the assessment of transformational leadership at the world class level*, 1987)

#### 1. Contingent reward

This component requires transactional leader to provide reward in motivating and developing followers' performance. (Bass B. M., *Leadership and performance beyond expectations*, 1985) Leaders are expected to set organizational goals and directions. (Avolio & Bass, *Developing potential across a full range of leadership*, 2002) As a result, followers may be motivations are flowing through followers as their job descriptions and instructions become clearer, resulting in a higher job satisfaction and productivity. (Judge & Picollo, 2004). Despite of its benefits, this characteristic tends to have a problem related to it. Followers are only limited to perform in their area and only as expected. (Turunc, Celik, Tabak, & Kabak, 2010)

#### 2. Management by exception

Hetland, Andreassen and Notelaers described management by exception as, transactional leaders will only generate instructions if the goals cannot be achieved through existing methods. (Hetland, Hetland, Andreassen, & Notelaers, 2011). Management by exception is characterized to the leaders' act in both active and passive management. While active management stresses on leaders activeness on avoiding problems from occurring by identifying the potential risk, mistakes, and failures (Judge & Picollo, 2004), the passive management focuses on solving arising problems. In case of dealing with conflict and crisis, this practice will come handy for leaders in delivering proper responses. (Hetland, Sandal, & Johnsen, 2007)

### *LAISSEZ FAIRE THEORY*

In Laissez Faire theory, leaders use minimum amount of influence on their followers. (Javed & Chaudhry, 2012) Bass discovered that Laissez Faire style leaders tend to be more passive in taking responsibility on followers' progress. (Bass & Avolio, *Potential biases in leadership measures: How prototypes, leniency, and general satisfaction relate to ratings and rankings of transformational and transactional leadership constructs*, 1989) Laissez faire leadership is almost the opposite of transactional leadership where leaders delegate freedom to the followers in order

to achieve organizational goals. (Mondy & Premeaux, 1995). This situation enhances creativity among followers and dependency on each other for self-made directions. An argument may arise pointing out that despite creativity is enhanced, poor result and lack of motivation are possible outcomes due to lacking supervision. (White & Lippitt, 1960). As a result, leaders who practice this leadership theory will have lower level of satisfaction in their followers compared to the other two mentioned. (Avolio & Bass, Manual for the Full Range of Leadership, 1991)

### *CONTINGENCY THEORY*

The Contingency theory was firstly introduced in 1960 by Fred Fiedler (da Cruz, Nunes, & Pinheiro, 2011) He suggested that, “Leadership effectiveness is highly depended on the style that the leader used.” (Fiedler, 1967) Fiedler argued that leadership style can be categorized into task oriented or relationship oriented style, which focuses either on task accomplishment or interpersonal relationship. (Fieldler & Chemers, 1974) The leaders then influence the followers’ behavior in accomplishing the job based on the leadership style that is used.

### *PATH-GOAL THEORY*

Robert House, who expanded the theory one year after it was developed by Martin Evans in 1970, suggested that leaders should provide paths enabling followers in completing organizational goals. He argued that leaders must adopt particular behavior in specific situations for the purpose of encouraging followers in putting their best effort toward task accomplishment (House R. J., 1971). Four types of leadership behavior are identified to further understand this theory: supportive, directive, achievement, and participative. Supportive behavior is effective to increase followers’ interest in a situation where the task is dull and monotonous. In a situation where the task is unclear and complex, Directive behavior is useful to increase followers’ expectation in task accomplishment. Moreover, Leader can use achievement behavior to demonstrate confidence in the followers’ ability to reach the goal. Supportive behavior focuses on a close relationship with the employees by encouraging communication, team work, and collaboration. (House R. , 1996)

### *EFFECTIVE LEADERSHIP QUALITIES*

In the previous section, leadership styles are identified as an important factor in influencing the followers’ behaviors. Despite the fact, these styles alone may not be sufficient for successful business leadership. Leaders are expected to develop qualities that can positively impact followers’ behaviors. Leaders are evaluated mainly on his attitude and actions which reflect their qualities. (Vondey, People of Bread: Rediscovering Ecclesiology, 2008) Although some of the theories might be practiced by companies’ leaders, they still ought to own some leadership natural qualities.

Therefore, if the leaders develop qualities that the followers expect from them, one may expect followers to accept leaders in their role. This situation may motivate the followers to be fully committed in their behaviors toward meeting organizational goal. Here are the 6 leadership qualities that a leader must have to effectively influence followers in their behaviors and performance.

### 1. Inspire

Transformational Leaders must have the ability to inspire followers to contribute beyond their expectation. (Bass B. M., *Leadership and performance beyond expectations*, 1985) Transformational Leaders can inspire followers by sharing their visions toward success. (Tracey & Hinkin, 1998) The followers then are encouraged to turn the visions into a reality. Sharing visions are crucial in order to give meaning and purpose to followers in putting their best effort in their performance (Vondey, *People of Bread: Rediscovering Ecclesiology*, 2008). By giving the followers purpose in their work, leaders can increase followers' commitment toward the organizations. This approach will make the followers feel that they are an important part of the organization. As a result, the followers will be loyal to the company and will increase their productivity and performances.

### 2. Forward looking

To build a successful company, leaders must be able to look further in the future (Kouzes & Posner, 2007). Leaders must set directions to where the company is heading and develop strategies to meet both short-term and long-term objectives. By setting the current and future goals, leaders can develop a sense of accomplishment among the followers (Fry, 2003). This method is effectively useful to generate followers' enthusiasm to work hard. Looking forward may encourage both the leaders and followers to be creative. Leaders may influence followers to think of new ideas and ways to improve the business operation. This way, the company may improve their effectiveness and gain competitive advantage against the competitors.

### 3. Honesty

Honesty is a vital factor of leadership. Leaders are expected to be honest with themselves and their followers. Being honest can determine the character and culture of the company. A leader that maintains a high level of honesty behavior tends to be more successful in keeping low numbers of employee turnover and high productivity (Moorman & Grover, 2009) The employees are found to be more loyal and have a good relationship with the management. As a result, the employees are willing to work harder, which increase the productivity.

Honesty requires leaders to be open with their followers. Being open will allow the leader to create a path for followers to give suggestions, critics or any ideas of improvements. (Kirkpatrick & Lock, 1991) Leaders must have the integrity for being honest with their decisions and responsible with their actions. As a result, the followers may develop their trust in the leaders. (Moorman & Grover, 2009) Moreover, effective leaders are one who has credibility, excellent reputations, and high levels of integrity (Stogdill, 1948). Therefore, leaders must motivate followers to behave with high ethical standard. This situation will help the leaders to create a friendly working environment and a good reputation for the company.

### 4. Self confidence

Successful Leaders must have the self-confidence to lead the followers. By believing in their own action, leaders can develop followers to have faith in their



capabilities as a leader. Moreover, leaders may empower the followers to gain the self-confidence in their behaviors and performance. (Conger & Kanungo, 1988) This leadership quality is very useful to assure the team member to put their effort toward achieving goals. This situation may occur when a company performs poorly in a quarter sales. In this case, leaders have the responsibility to keep the confidence level of individuals high and motivate them to keep their focus toward achieving the goals. (Kirkpatrick & Lock, 1991) As a result, the followers may be assured to stay calm and to do their best to increase their productivity.

#### 5. Drive

Achieving goals are the desire of every leader. This desire requires ability of the leaders to drive followers to perform well in their job tasks and duties. This practice can be seen when the leaders keep their optimism in completing the job, even at the risk of failure (Goleman, 1998). Leaders can drive followers by challenging and encouraging them to focus on organizational goals. This leadership quality requires the leaders to be determined and committed in motivating followers to have the desire for achievement. (Kirkpatrick & Lock, 1991) Leaders can motivate followers by appreciating their works and encouraging them to improve their performance. As a result, followers may feel responsible to carry out the leaders' direction.

#### 6. Good communication skill

Communication skill is a crucial aspect of leadership. Leaders must be able to clearly communicate what they want to accomplish to followers. (Moorman & Grover, 2009) As Kirkpatrick and Locke say, "Leaders must communicate vision to followers through inspirational speeches, written messages, appeals to shared values and acting as a role model in a way that is consistent with the vision." (Kirkpatrick & Lock, 1991) Despite the fact, leaders must make sure that the followers understand the message. By understanding the message, the followers may know exactly what the leaders expect from them. As a result, the followers may behave according to the standard set by the leaders in order to meet their expectation.

### **Empirical Review**

Studies similar to this paper have been done numerous times in the past which is also used in previous sections of the paper as well. An example of a similar study include a 2015 journal by Igbaekeman Go, titled "Impact of Leadership Style on Organization Performance: A Critical Literature Review." (Go & JE, 2015) This studies is done mainly in quantitative approach, where the aim of the research is to aid readers to be more suggestive in understanding about different leadership qualities and characteristics. The hefty descriptive research referencing other works has also helped the researcher in completing this paper very carefully.

As many studies have been done according to this topic, one must carefully select the appropriate content of each journal to be further reviewed. However, given that the journal by Go in 2015 was seen as sufficient in similarity, the researcher has decided to use it in supporting the statements and ideas throughout the paper.

### **3. Research Method**

In this study, the researcher uses extensive quantitative approaches as adequate informative findings. Collections of literature reviews and journals of leadership have helped the researcher in getting much information regarding the topic. Popular leadership attributes mentioned previously are referenced by the researcher to ease reader in finding and understanding each and every attribute of a leader.

Qualitative approach has also been done by other researchers on their journals or papers regarding this topic, but for the purpose of this paper none is necessary as it focuses more on descriptive information.

### **4. Discussion**

Leadership theories are found to be helpful to understand the impact of leaders' behaviors on followers' performance. The researchers focused their studies based on the knowledge and experience that they have found. These theories are developed by the self-expectation to what the leaders would and should behave. Consequently, these studies may be considered to be incomplete because of the limitation that the researchers have in their capacity.

The leadership theories focus their study on the self-quality of the leaders. These theories suggest that leaders must have the ability to inspire followers to achieve organizational goals. Leaders are expected to inspire followers in order to transform them to be a leader. Most of other researchers agree that honesty is an essential factor of leadership. The world requires a leader to be honest and have integrity in their character. They expect leaders to be the role model in order to influence their followers in their performance. Moreover, leaders are considered to represent the company. Therefore, their attitude both in and out of the workplace must represent what the company believes. By being honest, leaders may develop trust among the relationship with followers.

Most leadership theories find that building self-confidence is the key factor in giving influence in others. Not only do leaders affect others by having self-confidence, confident leaders are the face of a company. If leaders are found as the opposite, this might give disadvantages for the company especially in the aspect of impression.

Throughout the research, one may learn how leaders would be able to influence followers and transform them to be a leader. Leaders are expected to have vision and purpose in their life in order to inspire others. Then, leaders may expect to receive a reward in their effort to influence others in a form of higher performance and productivity. The research suggests the importance of leaders' behaviors in influencing others. Effective leaders are expected to transform followers to raise their capacity in becoming a leader.

Transformational leadership theory suggests that, to influence effectively, leaders must share their vision and purpose to followers. By sharing their purpose, leaders may help followers to see the directions in where they are going to be. If followers see the visions match to their

expectations, one may expect them to follow the leaders and to perform in achieving organizational goals.

Throughout the research, one may learn that leaders are expected to transcend their self-interest for the sake of organizational goals. The leaders then are expected to influence followers with their actions. In return, followers may accept leaders and reward them with high productivity and performance.

## **5. Conclusion and Implications**

One limitation of the finding can be discovered in the basic foundation of the study. The leadership theories that have been discussed are developed with the focus on humanism view. As a result, one may expect these theories to suggest the concept of self-expectation of what the leaders are expected to behave in influencing others. The researchers develop their study through their experience and knowledge in their field. Despite using one leadership theory can be right in one particular situation; yet, one may find it difficult to find the best principles that best meet their character as a leader.

Leadership theories in this paper tend to ignore the level of educations that the leaders have as a factor to influence followers. The level of education holds an important factor to help leaders identify the best way to treat others. The more educated leaders usually know better to understand the concept of leadership because they have more experienced to deal with others. For comparison, one may expect graduated MBA students have more ability to lead others compare to undergraduate degree students. MBA students tend to look for a job in where they are responsible in managing others. In contrast, the undergraduate students may look for a job where they can utilize their skills and knowledge for a leader. In this case, one may find that the leadership theories do not count the education level as one aspect that can contribute to the leaders' performance in leading others.

Another limitation of the findings comes from the preferential treatment that the leaders may have among the followers. The theories suggest the idea that the leaders treat everyone equally and reward them according to their work. However, there are times where the leaders may have preferential treatment toward his family members or friends. These behaviors may create the biases in the result of the theories. Preferential treatment may discourage the followers in their performance because the leaders may have favored his relations and friends regardless of their skills and knowledge. Consequently, this behavior may create an unhealthy atmosphere within the workplace, which reduces the level of trust and fairness. For this reason, one may find that leadership theories to tend to limit the study to a situation where the leaders have a normal relationship with the followers. This perception can be seen in the transactional leadership theories where the leaders have the exchange relationship with followers based on their effort and performance, which produce either reward or punishment.

The research may be more accurate when other factors of leadership are evaluated to identify the impact of leaders on followers. Some factors like leaders' personality, emotional, and followers' perception are not relevant in this research because the study limits the factors of influencing followers only to the effective qualities that the leaders possessed.

## Recommendation for Future Research

Throughout the research, one may see that leadership theories are developed from the research in the matured countries. These theories look for leaders that have impact over followers in the majority of successful companies. As a result, the research tends to ignore the leadership principles that are present in the developing countries. These theories may become more complete if the research contains the study of the leaders-followers relationships both in the matured and in the developing countries. By studying the leadership relationship as a whole, one may find the best style that fit to the system that works in those countries. Therefore, it is essential for the researchers to gather more sampling data in order to develop the more accurate leadership principles.

Another recommendation for future research may come from the study in leader and their relation to the stakeholders. Employees may be considered as the important part to influence the leaders. However, customer, investor, and supplier may also have an influence on leaders' decision and behaviors. For that reason, the researchers must focus their study not only on the leaders-followers relationship but also the relation of leaders' behavior in meeting the stakeholders' interest. By studying the impact of stakeholders on leaders and its relation to the employees, one may find the more complete leadership principles of how the leaders can effectively perform in their role within the company.

## References

- Avolio, B. J., & Bass, B. (1988). Transformational leadership, charisma and beyond. In J. G. Hunt, B. R. Baliga, H. P. Dachler, & C. A. Schriesheim (Eds.), *Emerging leadership vistas* (pp. 29-50). Lexington, MA: Lexington.
- Avolio, B. J., & Bass, B. M. (1991). *Manual for the Full Range of Leadership*. Binghamton, N.Y: Bass, Avolio & Associates.
- Avolio, B. J., & Bass, B. M. (2002). *Developing potential across a full range of leadership*. Mahwah, N.J: Lawrence Erlbaum Associates.
- Avolio, B., & Gibbons, T. (1988). Developing transformational leaders: A life span approach. In J. A. Conger, & R. N. Kanungo (Eds.), *Charismatic leadership: The elusive factor in organizational effectiveness* (pp. 276-308). San Fransisco: Jossey-Bass.
- Bass, B. (1999). Two Decades of Research and Development in. *EUROPEAN JOURNAL OF WORK AND ORGANIZATIONAL PSYCHOLOGY*, 8(1), 9-32.
- Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press.
- Bass, B. M. (1997). Does the transactional–transformational paradigm. *American Psychologist*, 22, 130-142.

- Bass, B. M., & Avolio, B. J. (1989). Potential biases in leadership measures: How prototypes, leniency, and general satisfaction relate to ratings and rankings of transformational and transactional leadership constructs. *Educational and Psychological Measurement, 49*, 509-527.
- Bass, B. M., & Avolio, B. J. (1990). Developing Transformational Leadership: 1992 and Beyond. *Journal of European Industrial Training, 14*(5), 19.
- Bass, B. M., Avolio, B. J., & Goodheim, L. (1987). Biography and the assessment of transformational leadership at the world class level. *Journal of Management, 13*, 7-19.
- Bass, B. M., Avolio, B. J., Jung, D. I., & Berson, Y. (2003). Predicting unit performance by assessing transformational and transactional leadership. *Journal of Applied Psychology, 88*(2), 207-218.
- Bass, B., & Avolio, B. J. (1994). *Improving Organizational Effectiveness Through Transformational Leadership* (1 ed.). New York: SAGE Publications, Inc.
- Bekele, S., & Darshan, G. M. (2011). Transformational Leadership and its Relationship with Subordinate Satisfaction with the Leader (The case of Leather Industry in Ethiopia). *INTERDISCIPLINARY JOURNAL OF CONTEMPORARY RESEARCH IN BUSINESS, 3*(5), 686-697.
- Boerner, S., Eisenbeiss, S. A., & Griesser, D. (2007). Follower Behavior and Organizational Performance: The Impact of Transformational Leaders. *Journal of Leadership & Organizational Studies, 13*(3), 15-26.
- Bono, J. E., & Judge, T. A. (2004). Personality and transformational and transactional leadership: A meta-Analysis. *Journal of Applied Psychology, 89*, 901-910.
- Boseman, G. (2008). Effective leadership in a changing world. *Journal of Financial Service Professionals, 62*(3), 36-38.
- Burns, J. M. (1978). *Leadership*. New York: Harper & Row.
- Conger, J. A., & Kanungo, R. N. (1988). The Empowerment Process: Integrating Theory and Practice. *The Academy of Management Review, 13*(3), 471-482.
- da Cruz, M. R., Nunes, A. J., & Pinheiro, P. G. (2011). Fiedler's contingency theory: Practical application of the least preferred coworker (LPC) scale. *IUP Journal of Organizational Behavior, 10*, 7-26.
- Fiedler, F. (1967). *A theory of leadership effectiveness*. New York: McGraw-Hill.
- Fieldler, F. E., & Chemers, M. M. (1974). *Leadership and Effective Management*. Glenview, IL: Foresman Scott and Co.

- Fry, L. W. (2003). Toward a theory of spiritual leadership. *The Leadership Quarterly*, 14, 693-727.
- George, J. M. (2000). The Role of Emotional Intelligence. *Emotions and Leadership*, 53, 1027.
- Givens, R. J. (2008). Transformational Leadership: The Impact on Organizational and Personal Outcomes. *Emerging Leadership Journeys*, 1(1), 4-24.
- Go, I., & JE, O. (2015). Impact of Leadership Style on Organization Performance: A Critical Literature Review. *Arabian Journal Business Management Review*, 5(5), 1-7.
- Goleman, D. (1998). The emotional intelligence of leaders. *Leaders to Leaders*, 1998, 20-26.
- Graen, G. B., & Cashman, J. F. (1975). A role making model of leadership in formal organizations: A developmental approach. In J. G. Hunt, & L. L. Larson (Eds.), *Leadership Frontiers*: (pp. 143-165). Kent, Ohio: Kent State University Press.
- Hetland, H., Hetland, J., Andreassen, C. S., & Notelaers, G. (2011). Leadership and fulfillment of the three basic psychological needs at work. *Career Development International*, 16(5), 507-523.
- Hetland, H., Sandal, G. M., & Johnsen, T. B. (2007). Burnout in the information technology sector: does leadership matter? *European Journal of Work and Organizational Psychology*, 16(1), 58-75.
- House, R. (1996). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. *Leadership Quarterly*, 7(3), 323-352.
- House, R. J. (1971). A path-goal theory of leader effectiveness. *Administrative Science Quarterly*, 16, 321-339.
- Javed, H., & Chaudhry, A. Q. (2012). Impact of Transactional and Laissez Faire Leadership Style on Motivation. *International Journal of Business and Social Science*, 3(7), 258-264.
- Judge, T. A., & Picollo, R. F. (2004). Transformational and Transactional Leadership: A Meta-Analytic Test of Their Relative Validity. *Journal of Applied Psychology*, 89(5), 755-768.
- Kirkpatrick, S. A., & Lock, E. A. (1991). Leadership: do traits matter? *The Executive*, 5(2), 48-60.
- Kouzes, J. M., & Posner, B. Z. (2007). *The leadership challenge* (4th ed.). San Francisco, CA: Jossey-Bass.
- Lai, A. (2011). Transformational-Transactional Leadership Theory. *2011 AHS Capstone Projects*, 17-51.

- Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996). Effectiveness correlates of transformational and transactional leadership: A meta-analytic review of the MLQ literature. *The Leadership Quarterly*, 7(3), 385-415.
- Luthans, F. (1981). *Organizational Behavior* (3rd ed.). New York: McGraw Hill.
- Mills, D. Q. (2005). *Leadership: How to Lead, How to Live*. Waltham: MindEdge.
- Modassir, A., & Singh, T. (2008). Relationship of Emotional Intelligence with Transformational Leadership and Organizational Citizenship Behavior. *International Journal of Leadership Studies*, 4, 3-21.
- Mondy, R. W., & Premeaux, S. R. (1995). *Management: Concepts, Practices, and Skills* (7th ed.). Upper Saddle River, NJ: Prentice Hall.
- Moorman, R., & Grover, S. (2009). Why does leader integrity matter to followers? An uncertainty management-based explanation. *International Journal of Leadership Studies*, 5(2), 102-114.
- Simic, I. (1998). Transformational leadership - the key to successful management of transformational organizational changes. *Facta Universitas*, 1(6), 49-55.
- Slack, T. (1997). *Understanding sport organizations: The application of organization theory*. Champaign, IL: Human Kinetics.
- Stogdill, R. M. (1948). Personal factors associated with leadership: A survey of the literature. *Journal of Psychology*, 25, 35-71.
- Szilagyi, A. D., Wallace, M. J., & Ivancevic, J. M. (1980). *Organizational behavior and performance* (2 ed.). Goodyear Pub. Co.
- Tichy, N. M., & Devanna, M. A. (1986). *The Transformational Leader* (1 ed.). New York: John Wiley & Sons.
- Tracey, J. B., & Hinkin, T. R. (1998). Transformational leadership or effective managerial practices? *Group & Organization Management*, 23(3), 220-236.
- Turunc, O., Celik, M., Tabak, A., & Kabak, M. (2010). THE IMPACT OF TRANSFORMATIONAL LEADERSHIP AND CONTINGENT REWARD LEADERSHIP STYLES ON INNOVATIVE BEHAVIOUR: MEDIATING ROLE OF LEADER-MEMBER EXCHANGE QUALITY. *International Journal of Business and Management Studies*, 2(1), 69-79.
- Vondey, W. (2008). *People of Bread: Rediscovering Ecclesiology*. Mahwah: Paulist Press International, U.S.

- Vondey, W. (2008). *People of Bread: Rediscovering Ecclesiology*. New York: Paulist Press.
- White, R. K., & Lippitt, R. (1960). *Leader Behavior and Member Reaction in Three 'Social Climates'* (Autocracy and Democracy, eds ed.). New York: Harper & Row.
- Yammarino, F. J., Dionne, S. D., Uk Chun, J., & Dansereau, F. (2005). Leadership and levels of analysis: A state-of-the-science review. *The Leadership Quarterly*, 16(6), 879-919.





**CULTURAL INFLUENCE, ORGANIZATIONAL CLIMATE, ABILITY OF  
INFORMATION TECHNOLOGY TO MOTIVATION AND SATISFACTION  
EMPLOYEES OF BANKALTIM**

Didik Hadiyatno  
Faculty of Economics, Universitas Balikpapan  
didikhadiyatno@yahoo.co.id

**ABSTRACT**

This research cope to study the relationship between cultural variables of organization, organizational climate, ability of information technology, motivation work to satisfaction of bank employees performance and activity of BPD in east Kalimantan This research of the survey by using the approach of pad cross sectional study of 13 sub-province and town Bank of BPD in east Kalimantan. Technique intake of the sample by random sampling proportional. Measurement of conducted with *Structural Equation Modeling* (SEM) pass courses of AMOS 5 counted 150 samples taken by Bank employees of BPD east Kalimantan. Result of examination with technique of SEM, indication that the model have developed degree of axle According to research data at moderating storey; levels. Result of evaluation of goodness of fit indices indicate result of the moderating to the overalls of constructs in the model. By partial, developed by constructs evaluate good fit of goodness. In general all the exogenous variables (cultural of organization, the ability of information technology and organizational climate) having an effect on significantly to motivation and satisfaction of Bank activity of BPD East Kalimantan . Some hypothesis are raised in this research can be accepted. Organizational culture have an effect on significantly to motivation work employees and have an effect on significant to satisfaction of activity. and ability of information technology have an effect on significantly to motivation and satisfaction of activity, while organizational Climate not have an effect on significantly to motivation and satisfaction of employees work activity of Bankaltim in East Kalimantan

**Keyword: cultural of organization, the ability of information technology, organizational climate of motivation work, and satisfaction of activity**

**INTRODUCTION**

**Background**

Development of banking in the East Kalimantan region shows the promise accordance with the development of industrial sectors and services, both public and private national banks and foreign private. The emergence of banks in East Kalimantan, it is required management skills and have a reliable management personnel who are specialized so that they can face competition in banking.

The growth of banking in East Kalimantan are not only internal factors but also external factors that have the attention of the manager of the bank to make absorbing and distributing the

funds raised, the bank's ability to cultivate the role of banks in East Kalimantan. The development required a specialization culture bank owned, in addition to the need to pay attention to internal sectors such as organizational culture, competence information technology, organizational climate, which could lead to a further motivation to make the job satisfaction of employees in the bank.

The more growth and development of an organization coupled with the external and internal pressures, it will require a change in human resource management. Human resource management programs, systems, and implementation needs to be well organized to fit the needs and changes (Fisher, Schoendfelt and Shaw, 1993). In an organization that is growing and developing human resources is seen as a source for competitive advantage (*competitive advantage*) in which the competencies that distinguish accomplished worker skills development, organizational culture, management processes and systems (Greer, 2001)

Human resource development from the perspective of an employee, the employee culture provides guidelines for everything that is important to do. This is consistent with what is expressed by Wheelen and Hunger in Nimran (1997) a number of the important role played by culture in the company is: (a) helps develop a sense of identity for employees (b) is used to develop a personal relationship with the organization (c ) help stabilize the organization as a social system (d) presents the code of conduct, as a result of behavioral norms that are already in shape.

Organizational culture is built from deeply held beliefs in depth about how the organization should be run or operate (Rois *et. al.* 2003) Culture is the system of values of the organization and will influence the way work is done and the way employees behave (Cushway and lodge 1993). As an illustration, one can be very capable and efficient without being dependent on others, but the behavior does not fit with the organizational culture.

Information technology capability is a characteristic / trait capable to improve the quality of life (Echolas in Sira, 2002; 22). Information technology capability is a characteristic that shows the difference one's motivation, initiative, ability to stand tall to face the task through to the end to solve the problem or how to adapt to the environment that will affect the performance of individuals. Someone very influenced by information engineering capabilities as well as a manager or as a subordinate contribution to the decision-making and acting are strongly associated with the performance of the organization (Leonard *et al.*, 2004)

In the understanding of individual behavior, is necessary to study the characteristics inherent in the individual. Individual differences present in the people in the organization is an important factor in determining their response to something or behavior. The various technical skills necessary information can be called as follows: the ability, skill, age, education level and years of service (Suprihanto. 2003; 23)

Robbins (2001) proposed three techniques for improving the performance of employees, namely: 1). Increasing employees by improving skills, 2) to increase motivation and 3) provide an opportunity to develop.

Efforts to reach the destination on Bankaltim supported by the vision and mission to guide their activities. Bankaltim Vision is "As Bank healthy, efficient and trustworthy ", with reference to the vision that Bankaltim form and nurture all employees to boost motivation.

The Bankaltim mission is as follows: Bankaltim in East Kalimantan providing banking products and services dynamically sustained. The mission has been a sub Bankaltim guide and is believed to be the key to success Bankaltim, therefore any Bankaltim human resources should be utilized optimally so that they can work optimally to achieve organizational goals.

In particular there are some important things that underlie the research was conducted in Bankaltim namely: First, the ability of individual employees Bankaltim is something that is important, both for employees and for the organization itself Bankaltim or Bankaltim concerned. Due to the ability of individual jobs, more likely to achieve personal goals and objectives of the organization.

Second, underlying the importance of the analysis of the influence of the individual's ability to motivation and job satisfaction Bankaltim job satisfaction is one who wants to be grown in Bankaltim orientation on performance. This means that all employees of both leaders and subordinates should always give their best performance on Bankaltim. To that end, each person must not only satisfied enough with his work today. To achieve such conditions in need of an organizational culture, organizational climate, information technology capabilities and forms of motivation to increase employee job satisfaction.

Keith (1985:96) argues that *"the Job satisfaction is the favorableness or un favorableness with employees view their work"* that job satisfaction is a feeling that supports or does not support the employee experienced in the work. Wexley and Yukl (1977; 98) defines job satisfaction, *"is the way an employee feels his or her job about"*.

Based on the opinion of Davis, Wexly and Yukl mentioned above, job satisfaction is a feeling of self-supporting or not supporting employee-related work as well as the condition itself (Locke, 1976:316). Feelings associated with work involving aspects such as wages or salary, career development opportunities, relationships with other employees, job placement, job type, company's organizational structure, the quality of supervision. Feelings associated with him, such as age, health condition, ability, education employees will feel satisfied at work when he supported aspects and vice versa if these aspects do not support, employees will feel dissatisfied.

Job satisfaction is the degree to which individuals feel positively or negatively about their jobs. It is a response to one's duty, such as physical and social conditions in the workplace. The concept of job satisfaction also indicates the degree of fulfillment of the expectations of the psychological contract. Job satisfaction will be higher for people who received a contribution equal in their relationship with the organization benefits. Definition, there are three important dimensions of job satisfaction. First, the work is a response (response) on the employment situation. Second, job satisfaction is often determined by agreement between results and expectations. Third, job satisfaction represents several related attitudes.

By analyzing and assessing the influence of organizational culture, information technology capabilities, motivation and job satisfaction of employees in Bankaltim, as well as increase knowledge will be found what indicators should be maintained and even enhanced, as well as indicators of what to get attention for repair of variables studied so Bankaltim will get valuable inputs from the findings of this study so beneficial in improving organizational culture, information technology capabilities, and enhance work motivation and job satisfaction, which in turn can enhance the organization's goals in the future.

Barbara Bigliardi (2012) Indicates that a positive organizational culture affects job satisfaction, and particularly in the industry, in addition to culture can help managers detect things that should be improved in the organization in order to increase job satisfaction.

Koesmono (2005: 87-88) in a summary of his dissertation, entitled Effect of organizational culture, job satisfaction and motivation on performance in the sub-sectors of manufacturing industry in East Java Wood Export argued that:

1. Positive organizational culture and significant influence job satisfaction .

2. Positive organizational culture and significant job influence
3. Motivation influence job satisfaction positively
4. Organizational culture positively affects motivation

Komariah (2006: 37) in a summary of his dissertation entitled "The Effect of Individual Characteristics, Motivation and Organizational Climate on Job Satisfaction and performance headman the era of regional autonomy in Sidoarjo" at Airlangga University Graduate argued as follows:

1. Path coefficient analysis of organizational climate on job satisfaction has a value of 0.305 and obtained significant probability  $p$  (0.003) value is less than the level of significant  $\alpha$  (0.05), indicating the influence of climate significant between job satisfaction organization the village head.
2. Path coefficient Organizational Climate on Performance of .255 and earned significant probability  $p$  (0.013) is smaller than the standard significant  $\alpha$  (0.05), indicating the influence of significant between organizational climate on the performance of village head

### **Problem Formulation**

Based on the background of the above problems, the formulation of the problem is as follows:

1. Do organizational culture, information technology capabilities, organizational climate has a partial influence which institutions are significant to employee motivation Bankaltim in East Kalimantan?
2. Do organizational culture, information technology capabilities, organizational climate has a partial influence significant to employee satisfaction Bankaltim in East Kalimantan?
3. Do employee motivation has an influence on employee job satisfaction Bankaltim in East Kalimantan.

Based on the background and problem formulation research aims to:

1. Prove and analyze the effect of partial culture organization, information technology capabilities, Organizational Climate on employee motivation Bankaltim in East Kalimantan.
2. Prove and analyze the influence of organizational culture partially, information technology capabilities, Organizational Climate on job satisfaction of employees Bankaltim in East Kalimantan.
3. Prove and analyze the effect of motivation on job satisfaction of employees Bankaltim in East Kalimantan.

## **LITERATURE REVIEW**

### **Understanding Organizational Culture**

Organizational culture is the social glue that binds the members of the organization through the sharing of values, symbolic and social ideas. Strong or weak depending on the alignment of

organizational culture, the deal values and individual commitment to a common goal (Krietner and Kinichi 2000: 206).

Robbins (2001) says that will build a strong cultural alignment, loyalty and responsibilities in the organization. In the end it will increase effectiveness organization. In general, organizational culture or management who founded the pioneering company. philosophy or strategy set by the founders of this year to the instructions and guidelines in carrying out the duties of their subordinates.

When implementing this strategy proved successful and can survive same years, the philosophy or vision, which is believed to be developing into the organizational culture. Culture of the organization by the founder or top management will be applied to all existing human resources within the organization, thus organizational culture can be defined as a form of assumption held, implicitly accepted by the group and determine how the proficiency level feel, think and react to its environment diversity. characteristics definition highlights three important organizational culture. First, given the organizational culture to new employees through the process of socialization. Second, organizational culture affects behavior in the workplace. Third, the effect of organizational culture on two different levels. Organizational culture can also foster commitment to exceed their own personal goals. Organizational culture is also a control mechanism that provides guidance and shaping attitudes and behaviors of employees. Just as organizational rules, organizational culture encourages consistency in the attitude of the employees. Both can support each other, when the rules stated that the misuse of the assets forming the mental attitude of employees to refrain from misuse of assets of the organization, the rules on the matter can be very effective and do not need maximum control.

Glaser *et al.*, (1987); Organizational culture is often described in terms of a jointly owned. The patterns of beliefs, symbols and rituals of the myths that evolved over time and serve as the glue that involves the organization. Rich variety forms of organization, of course, have different cultures but this is simply because the organization is different also.

Many opinions that attempt to characterize the culture of an organization. Robbins (2001: 595-596) suggests seven primary characteristics that are used together to understand the nature of the culture of an organization, the masses now. The seven primary characteristics are as follows:

1. Innovation and risk-taking (*innovation and risk taking*) a freedom for the members of the organization so motivated to perform actions that are innovative and willing to take risks.
2. Attention to details Expectations of the organization to its members to act in a careful, analytical and attention to details.
3. Orientation on the result The extent of the organization's management to pay more attention the work of members of the organization rather than technique or process to achieve those results.
4. Orientation to the people How an organization treats its members humanely.
5. Orientation on the team Indicates whether the work processes of the organization carried out in working groups, rather than individuals.
6. Aggressiveness The extent to which members of the organization behave aggressive and competitive in the working process.

7. Stability The power of seven members of the organization to uphold these characteristics indicate whether or not the organization is stable in laying her face changes that occur.

### **Understanding information technology capabilities**

Robin (2001) explains that the capacity refers to an individual's capacity to do various tasks in a job. The ability of an individual is in fact composed of two sets of factors: the ability of intellectual and physical abilities. Intellectual ability is the ability required to perform mental activities. The seven dimensions that make up the most often cited is the intellectual ability numeracy skills, verbal comprehension, perceptual speed, inductive reasoning, deductive reasoning, visualization and memory space. Physical ability is the ability required to perform tasks that require stamina, dexterity, strength, and similar skills.

Capabilities are the skills a person has,. Capabilities associated with a person's proficiency in performing a job and is a very important factor in improving the performance or productivity of labor, ie the extent to which one can work achieved satisfactory results in the work depends on skill or capabilities.

Employees tend to prefer jobs that give them opportunities to use their skills and abilities, while less demanding jobs create a boredom (Robbins, 2001: 181). Further said that the conditions are, most employees will experience pleasure and gratification.

Description above it can be concluded that the skill is an ability, skill and ability of the individual to perform a job and take advantage of an opportunity to align and motivate yourself to achieve a goal.

The ability of information technology in general is more easily understood as information processing includes storing, accessing and communicating, informing, processing and communicating information. As noted Molloy and Schwenk (1995), information technology is defined as a computer-based technology to store, access, process, and communicate information.

Described by Syampurnajaya (2001), that information technology is a factor that strongly supports the implementation of the information system, an organizational and management solution to solve management problems therefore management most organizations today use information technology to solve organizational problems.

Medium according to Schein (1992: 106) the information is knowledge gained from data technology called Artificial Intelligence (Loudon and Bitta, 1994) can produce quality information.

According to Kroenke (1989: 68) there are five characteristics of high quality information that: *pertinence, timeliness, accuracy, and the element of surprised reduce uncertainty*. Taken the quality of the private sphere (s) should not just be applied to the public sector or civil. Of MIS obtained information that the information system includes several components only between different *hardware* and *software*.

According to Davis (1995: 63) the technology itself and the IT (information technology) change and grow more rapidly. Technology is a way and a specific tool in the hands of management to control changes and create something in such changes.

Technology is a new opportunity to explain the basis of the combination of economic development. Technology helps improve productivity and effectiveness. By using new combinations can be found and developed new things (new innovations) are expected to increase the productivity of the company (Noori 1990: 67) means that the implementation of technology in the organization are expected to enhance the productivity or performance of the organization.

### **Understanding Organizational Climate**

Describes the organizational climate and organizational internal environment rooted in the culture of the organization, if the organizational culture is relatively fixed in the long term, organizational climate is relatively temporary and can change quickly. Climate organization can easily be controlled by the leader or manager. Organizational climate is the perception of the organization's members climate organization dimensions, so that organizational climate can be either positive or negative, can negatively affect the nature of high work stress, motivation and job satisfaction are low, and vice versa which can give rise to positive low job stress, motivation employment and high job satisfaction

Davis and Newstrom (2006:23) states that the climate of an organization is the human environment in which the organization's employees do their jobs. Based on the definition above, it can be concluded that the climate of an organization is the perception of employees on all aspects of their work environment that affect motivation and behavior which can be measured employee perceptions.

Robert Stringer (2002) found that the characteristics or dimensions of organizational climate affect the motivation of organizational members to behave. Therefore, organizational climate can be described and measured in terms of the dimension. To measure the six dimensions of organizational climate are necessary:

1. Structure. Structure (*structure*) reflect organizational feeling well organized and has a role and a clear responsibility within the organization. Structure height if a member of the organization they work well defined. Low structure if they are was no clarity as to who is doing the job and has the decision making authority.
2. Standards. Standards in an organization to measure feeling pressure to raise their performance and degree of pride which is owned by members of the organization to do the job well. High standards means that members of the organization are always trying to find ways to improve performance. Low standards reflect lower expectations for performance.
3. Responsibility. Responsibility reflects feeling employees that they are being "b os yourself" and does not require legal decision by members of the organization. Perceptions of responsibility shows that members of the organization are encouraged to solve their own problem . Responsibility low indicates that risk-taking and experimentation on new approaches are not expected.
4. Awards. indicated that members of the organization feel valued if they can complete the task well. The award is a measure of reward and punishment faced with criticism upon completion of work. Organizational climate that values performance characterized by the balance between reward and .Low Award means completion of work well rewarded inconsistently.
5. Support. Support reflects the feeling trust and ongoing support among members of the working group. Support high if the members of the organization feel that they are part of a team that works well and feels the help of his boss, if you have difficulty in performing their duties. If endorsement low, members of the organization feel isolated or left out alone. The dimensions of organizational climate has become very important for business models that exist today, where resources are very limited.
6. Commitment. Commitment (commitment) reflect the feeling proud member of the organization and the degree of loyalty to the achievement of organizational goal



.Feeling associated with a strong commitment to personal loyalty. Low level commitment means employees feel apathetic about secret societies and objectives.

### **Understanding Motivation**

Motivation comes from the Latin word meaning push or move. Motivation (*motivation*) in the management of human resources aimed at the general and particular subordinate. Motivation questioned how to direct the power potential of subordinates, in order to work together productively managed to achieve and realize the intended purpose. Motivation is a potential power that exists within a person, which can be developed alone, or developed by a number of external forces that essentially revolves around monetary reward, rather than monetary that may affect performance results are positive or negative.

Deciphering motivation as a psychological process that enhances and direct behavior to achieve a goal. Motivation by Mathis and Jackson (Nurhayani 2004: 19) is a desire on the one that causes the person to act. An often take action to achieve something. Motivation is drive that leads to the emergence of purpose rare motivation requires that managers know how to always give information to the people, so that it provides a time and perform the necessary effort to obtain the tools and recommendations from the people on matters of mutual interest.

### **Theory - Theory of Work Motivation**

#### *1. Hierarchy of Needs Theory*

The most well known theory of motivation is better than Maslow's Hierarchy of Needs (Robbins, 2001). He hypothesized that within every human being there is a fifth level requirements are:

- a. Physiological needs, namely the need to eat, drink, physical protection, sexual. These needs are the lowest level requirement or the most basic needs.
- b. The need for security, the need for protection from threats, and environmental hazards.
- c. The need for a sense of belonging / social, namely the need to be accepted by the group, affiliated, interact, and the need to love and be loved.
- d. The need for self-esteem, namely the need to respect and respect of others.
- e. The need to actualize themselves, namely the need to use the abilities, *skills*, and potential.

#### *2. Theory X and Theory Y*

McGregor proposed two distinct views of the people, the basis of one negative is marked as Theory X, and the other positive is basically characterized by Theory Y (Robbins, 2001). Having looked at how managers about employees, Mc. Groger concluded that a manager's view of human nature based on a certain grouping according to modality and managers tend to print behavior towards subordinates according to the modality.

#### *3. Motivation-Hygiene Theory*

Hygiene motivation theory proposed by psychologist Herzberg (Robbins, 2001). In confidence that ties an individual at work is a basic relationship and that his attitude towards work can determine the success or failure of an individual. Furthermore, Herzberg differentiate the factors that lead to job dissatisfaction (*hygiene*) including supervision, working conditions, interpersonal relations, salary, security and company policies. Another factor is the factor that adds to the above job

satisfaction (*motivators*) include achievement, recognition, work itself, responsibility and advancement and growth.

### **Understanding Job Satisfaction**

Job satisfaction is a matter of considerable interest and importance, because it proved to be beneficial both for the benefit of individuals, industry, and society. For individuals, knowing the sources of job satisfaction enables the emergence of businesses increase their happiness. For companies, useful for improving employee attitudes and behavior. The community will certainly enjoy the maximum capacity of the company and increase the value of humans in the context of the work.

Basically, job satisfaction is the individual. Each individual will have a level of satisfaction varies according to the system of values that apply to him. This is because of differences in each individual. More and more aspects of the work in accordance with the wishes of the individual, the higher the level of satisfaction felt.

A more precise understanding of job satisfaction can be realized, if the analysis is related to job performance, absenteeism, the desire to move, working age, the rank and the size of the organization.

determinants of job satisfaction, the writer limiting factors become determinants of job satisfaction in this study to be in accordance with the opinion of Smith, Kendall & Hulin cited by Gibson (2005:153) and Steers (1991:80), namely :

#### **1) Work**

The main source of job satisfaction is the work of an employee in the face. There are two important aspects that influence job satisfaction derived from work, namely variation and control of work methods and work steps (Arnold and Feldman, 1988:88).

The work could provide a broad autonomy to the employees to carry out its work will result in a high level of job satisfaction. Conversely, excessive attention by the management of the methods and steps terms of labor will lead to sustained job dissatisfaction.

#### **2) Salary**

Salary or wages is known as an influential factor in determining the complex and job satisfaction. Salary or wages received by an employee not only to meet their basic needs, but also as a means to realize the satisfaction of the need for a higher level of education and professional workers, the higher the level of satisfaction of social comparison is likely he did the same with employees outside company. If the salary that the company is lower than the prevailing wages in similar companies and had the same type of job dissatisfaction will arise for employees on salary.

#### **3). Opportunities Promotion**

Promotional opportunities a higher level will cause job satisfaction. This variable is measured by responder opinion about the possibility to get better positions in the workplace.

#### **4) Oversight**

Supervisors in overseeing policy tarot affect employee job satisfaction, which are two of the most important dimensions, namely

1. Attention of the supervisor of the employee who supervises.
2. The number of employee participation allowed by the supervisor of the work itself.

This means that employees feel satisfied when given the opportunity to participate in making decisions that may affect their own work.

#### **5) co-worker**

A satisfied worker will work if the co-worker who had provided support, comfort, advice and assistance to him, so that work is placed in him to do, with a sense of excitement. Co-workers who either make the job more enjoyable.

**Conceptual Framework**

Based on the study of theoretical and empirical studies, this study hence it can be made a conceptual framework, the proficiency level of each variable has its constituent indicators outlined in the conceptual framework of study in Figure 1

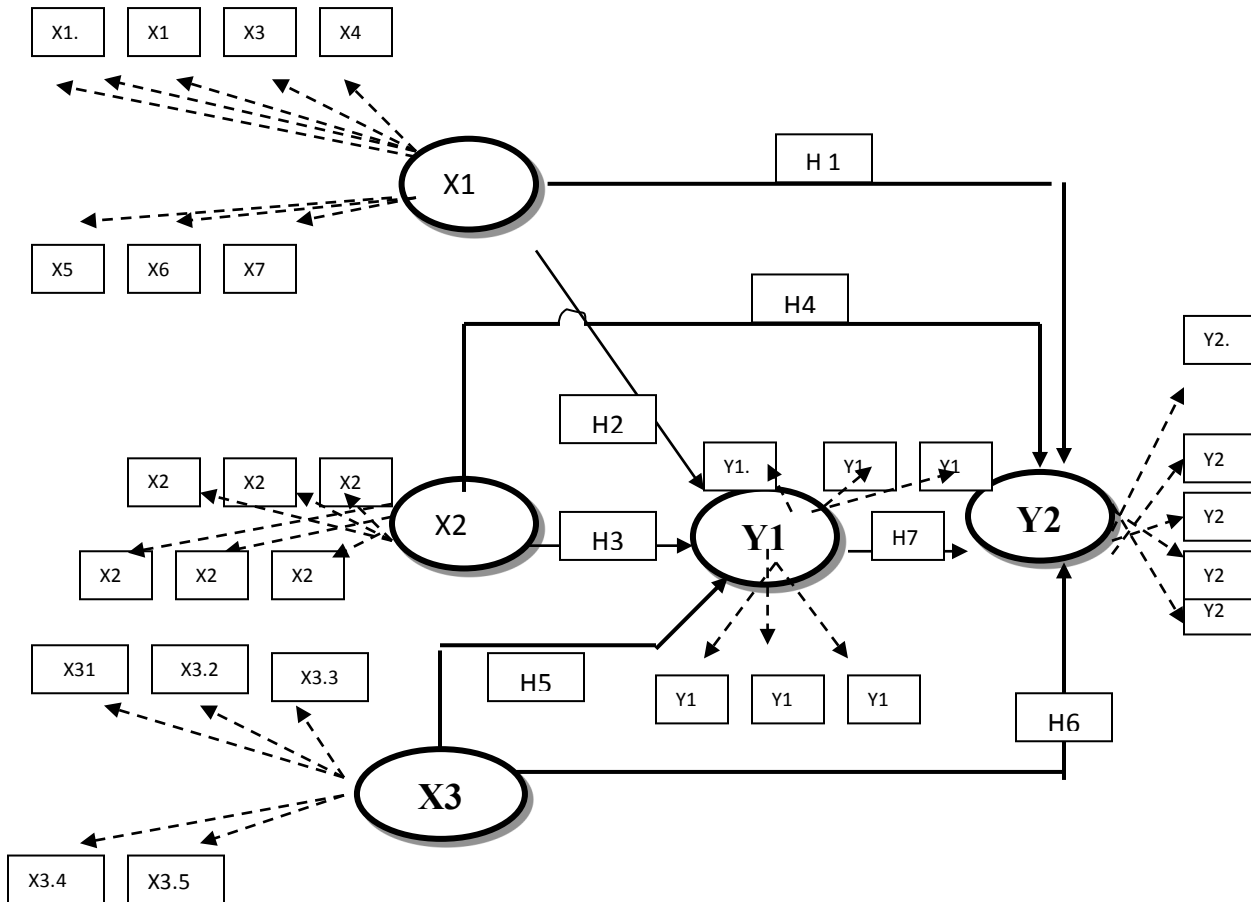


Figure 1. : Conceptual Framework for Research

**The research hypothesis**

Based on the formulation of the problem and the theoretical basis of the research objectives can be stated as the following hypothesis:

1. Organizational culture have an influence which institutions are the significant on motivation **Bankaltim** employee in East Kalimantan
2. Organizational culture has an effect on employee satisfaction sig Significantly **Bankaltim** in East Kalimantan
3. Organizational climate has a significant effect on employee motivation **Bankaltim** in East Kalimantan
4. Organizational climate has a significant impact on job satisfaction in East Kalimantan **Bankaltim**
5. The ability of information technology has a significant impact on employees' work motivation **Bankaltim** in East Kalimantan
6. The ability of information technology has a significant influence on job satisfaction Karyawan **Bankaltim** in East Kalimantan
7. Employee motivation has a significant impact on job satisfaction in East Kalimantan **Bankaltim**

## METHODS

### Research Design

In designing a study, known explanatory and conclusive research, which can be classified more conclusive research on descriptive research and causal (Santoso and Tjiptono, 2001). Exploration conducted research if the research has limited information about a particular research problem, because previous studies that examined the problem is relatively not much done by other researchers.

As explained in the introduction, the general purpose of this study was to demonstrate and analyze the effect of job satisfaction variables, consisting of organizational culture, climate organization information technology capabilities, the work motivation and job satisfaction of employees **Bankaltim** in East Kalimantan.

Based on the research objectives, this study is the kind of research explanations (*explanatory research*), which would explain the causal relationship between the five variables through testing motivation and job satisfaction. In addition, based on the explanation Malhotra (in Brahmawati 1999: 84), this study also includes conclusive research because it has the following characteristics:

1. The goal is to test hypotheses about the influence of the variables job satisfaction and performance of employees consisting of: organizational culture, information technology capabilities, organizational climate, employee motivation **Bankaltim** in East Kalimantan.
2. Data or information required to be clearly defined.
3. The research process is formal and structured.
4. The sample used is large enough. In this study the total sample of 240 (two hundred and forty) using techniques Sloving
5. Engineering data analysis using quantitative techniques. Technique used in this study Structural Equation Modeling (SEM).

### Population, Sample,

#### 1. Population

Hold elections in the data, then the first step is to determine in advance the study population. The population is a region consisting of generalization: the object / subject that has a certain quantity and characteristics applied by researchers to learn and then drawn conclusions (Sugiyono, 2001:57). Determination of different populations by determining the unit of analysis, although both are related to the units of the data being analyzed.

The population in this study were all employees Bankaltim office in East Kalimantan which includes 13 cities and counties in the province of East Kalimantan.

## 2. Sample

The sample is part of the number and characteristics possessed by a population (Sugiyono, 2001:57). The samples are part of the population that are carefully selected to represent the population (Cooper and Emory, 1995:200). Based on studies conducted on the samples, the researchers were able to draw conclusions that will be generalization to the population (Sekaran, 2000:267). Study using a representative sample (*representative*), will provide results that have the ability to generalize (Indriantoro and Supomo, 1999:115). From Bankaltim in 13 cities and counties in East Kalimantan. *sampling areas* were selected, using the Slovin. The respondents of this study are around 240 employees working in the office Bankaltim.

### Research Analysis Tool

Structural equations (*structural equations*) was formulated to express causality between various constructs. Structural equation basically built with the following guidelines:

Exogenous Endogenous Variable = Variable + + Endogenous Variables Error

Structural equation models were used in this study are:

$$Y_1 = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \zeta_1$$

$$Y_2 = \beta_1 Y_1 + \zeta_2$$

Description:

$Y_1$  = Motivation employee Bankaltim East Kalimantan

$Y_2$  = Job Satisfaction of employees Bankaltim East Kalimantan

$X_1$  = Organizational Culture

$X_2$  = Organizational Climate

$X_3$  = Capability of Information Technology

$\beta_1 \dots \beta_1$  = *Intercept*

$\zeta_1 \zeta_2 \dots$  = Factor error

Equation specification measurement model (*measurement model*). Researchers determine which variables to measure the construct where, and define a set of matrices showing hypothesized correlation between constructs or variables.

## RESULTS ANALYSIS

### Research

Table 1: Results of Testing Significant Variables in Interpersonal  
*Structural Equation Modeling (SEM)*

Variable Relationships	Estimation	Estimated Standard	Critical ratio	T Critical	Probability	Conclusion
Organizationalculture → Work Motivation	1.167	0.418	2.788	1.961	0.005	Significant
OrganizationalCulture → Job Satisfaction	1.008	0.466	2.161	1.961	0.031	Significant
OrganizationalClimate → Work Motivator	-0.544	0.581	-0.936	1.961	0.349	Not significantly
OrganizationalClimate → Job Satisfaction	-0.908	0.633	-1.434	1.961	0.152	Not Significant
Capability TI → Motivation	0.370	0.097	3792	1.961	0000	Significant
Capability TI → Job Satisfaction	0.221	0.095	2.261	1.961	0031	Significant

Motivation → Job satisfaction	1.635	0.062	2.761	1.961	0007	Significant
-------------------------------	-------	-------	-------	-------	------	-------------

### **Testing Hypothesis 1: "Organizational culture has an influence on employee motivation Bankaltim in East Kalimantan"**

The findings of the study showed that organizational culture has a positive effect on employee motivation Bankaltim in East Kalimantan, it is shown from the  $t$  value (2.788) is greater than the critical  $t$  1.961 with a probability of 0.005 thus, hypothesis 1 which states that "organizational culture have an influence on employee motivation Bankaltim in East Kalimantan unsubstantiated.

### **Testing Hypothesis 2 "sisgnifikan organizational culture has an influence on employee satisfaction Bankaltim in East Kalimantan"**

The findings of the study showed that organizational culture has a positive effect on job satisfaction of employees Bankaltim in eastern Kalimantan (Bankaltim), it is shown from the  $t$  value (2.161) is greater than the critical  $t$  1.961 a 0.031 probability thus, hypothesis 2 which states that "organizational culture has an influence on employee job satisfaction Bankaltim attested in East Kalimantan.

### **Testing Hypothesis 3 "organizational climate has a significant influence on employee motivation Bankaltim in East Kalimantan"**

The findings of the study showed that organizational climate had a negative influence employee motivation Bankaltim in eastern Kalimantan (Bankaltim), it is shown from the  $t$  value (-0.963) is smaller than the critical  $t$  1.961 with a probability of 0.391 thus, hypothesis 3 which states that "organizational climate has an influence on employees' motivation in Kalimantan Bankaltim EAST (Bankaltim) unsubstantiated.

### **Testing Hypothesis 4 "organizational climate has a significant influence on Employee Job Satisfaction in East Kalimantan Bankaltim"**

The findings of the study showed that organizational climate had a negative influence on employee job satisfaction Bankaltim in East Kalimantan, it is shown from the  $t$  value (-1.434) is smaller than the critical  $t$  1.961 with a probability of 0.152 thus, hypothesis 4 which states that "organizational climate has an influence on employee job satisfaction in the East Kalimantan Bankaltim unsubstantiated.

### **Testing Hypothesis 5 "Capabilities of Information Technology has a significant influence on employee motivation Bankaltim in East Kalimantan."**

The findings of the study showed that the ability of information technology has a positive effect on employee motivation Bankaltim in eastern Kalimantan (Bankaltim), it is shown from the  $t$  value (3.792) is greater than the critical  $t$  1.961 with a probability of 0.000 thus, hypothesis 5, which states that "the ability of information technology has an influence on employee motivation Bankaltim unsubstantiated East Kalimantan.

### **Testing Hypothesis 6 "The ability of information technology has a significant influence on job satisfaction of employees in East Kalimantan Bankaltim"**

The findings of the study showed that the ability of information technology has a positive effect on job satisfaction of employees Bankaltim in east Kalimantan, it is shown from the  $t$  value (2.161) is greater than the critical  $t$  1.961 with a probability of 0.031 thus, hypothesis 6, which states that the ability of Information technology has an influence on employee job satisfaction Bankaltim unsubstantiated East Kalimantan.

### **Testing Hypothesis 7 Employee Motivation has a significant influence on employee job satisfaction Bankaltim in East Kalimantan**

The findings of the study showed that employee motivation has a positive effect on job satisfaction of employees Bankaltim in East Kalimantan, it is shown from the  $t$  value (2.716) is greater than the critical  $t$  1.961 with a probability of 0.007 thus, hypothesis 7, which states that " Work motivation has an influence on employees' job satisfaction in East Kalimantan Bankaltim unsubstantiated.

### **Effect of Organizational Climate on Motivation**

The study showed there was no significant effect between organizational climate on employee motivation is not tested.

Results *Confirmatory Factor Analysis* (CFA) with the dimensions of organizational climate variables that have the greatest value is the dimension *loading factor* responsibility given the burden of leadership, responsibility and compliance leadership tasks assigned to employees.

*Loading factors* shown by the CFA produce more motivation variable is determined by the dimensions or indicators opinion delivered recognition by employees either with co-workers, groups and parties or opinion Bankaltim the initiative put forward by the employees.

The results of the analysis showed that organizational climate had no effect and have a negative effect means that the dimensions of the organizational climate dimensions of motivation opposite direction. This means that the dimensions of responsibility with the dimensions of motivation that is inconsistent support. Where the liability provided employees with recognition of the results the employee is not in line with the responsibilities imposed by the employee Bankaltim

Thus, these results can not be said to prove the theory and the study results presented Steers (1985) that potentially organizational climate is the number of individuals in organization due employee collection of individual participation in the form of personal characteristics of employees that includes the ability, motivation, and performance requirements for achievement and job satisfaction.

This result is quite interesting because generally studied theoretically and by researchers who have carried influence of organizational climate on motivation has always been positive. CR are negative numbers indicate if the climate in the organization will increase motivation decrease, and vice versa. According to researchers, this condition occurs because the dimensions of organizational climate dimensions does not affect the linear dimensions of motivation.

Reject the findings of the study were presented Stringer (2002) which states that the climate of the organization focuses on common perceptions can be assessed primarily the motivation. Similarly, researchers have also rejected what has been proposed by previous researchers:

Foster (1999) which states the results of the study with create good working environment, the employees will be motivated to do the job as well as possible in accordance with the capabilities and satisfaction of a surround. Motivating employees do offer non-cash prizes such as an employee party, celebrate holidays, employee programs monthly or annual employee motivation programs.

Study both theoretically and empirically from the results of a study conducted states that organizational climate had no effect on motivation and this is because:

1. The working conditions of employees in that area Bankaltim Bankaltim development, for example in the area of sand Penajam North Malinau Melak, Nunukan, Sangata,

Bontang working conditions of the infrastructure is still far when compared with cities and counties such as in Balikpapan, Berau, Samarinda and Tanjung Selor, from employee respondents gave a neutral answer and do not agree there is still a small percentage though

2. Employee responsibilities relating to compliance and decision making employees employee stating they are neutral and not in accordance with the recognition of the responsibility of the employee.
3. Suitability regulations are applied in Bankaltim for employees in performing their duties there are employees who give neutral answers and do not agree with a percentage of 32%.
4. Giving awards over the employee and the employee promotion efforts to a higher level can not motivate employees because the employees are not able to feel the appreciation of works.

The results of the mean value of organizational climate indicator shows a value between 2.8 to 3.6 which has a neutral meaning Appreciation was shown by indicator indicators working conditions, responsibilities, rules, feelings and commitment to addressing the statement agreed indicators, showed responses agreed dominate. However, when associated with a mean value of motivation indicators that have an average value between 2.8 to 3.6 dominates, it can also be used as an excuse from this study that organizational climate had no effect on employee motivation Bankaltim in East Kalimantan.

#### **Effect of Organizational Climate on Job Satisfaction of employees**

The study states that there is no significant effect between organizational climate on employee not proven.

Results *Confirmatory Factor Analysis* (CFA) with the dimensions of organizational climate variables that have the greatest value is the dimension *loading factor* responsibility given the burden of leadership, responsibility and compliance leadership tasks assigned to employees.

The results of the CFA showed job satisfaction variable indicated dimensions or indicators of value that has the largest value of *loading factor* is salary related to an understanding of the salary, the salary received conformity and methods of remuneration received by employees Bankaltim.

The results of *factor loading* values of the dimensions of organizational climate dimensions of job satisfaction showed an imbalance between the load of responsibility with salary and payroll systems and methods provided by the Bankaltim.

Thus the results of this study can be said to have not been able to prove the theory and the study results presented Steers (1985) that potentially organizational climate is the number of individuals in organization due employee collection of individual participation in the form of personal characteristics of employees that includes the ability, motivation, needs and performance for achievement and job satisfaction.

Keuter *et.al.*, (2000) which states that the organizational climate affect job satisfaction. As'ad (2001) Factors that affect job satisfaction include environmental conditions employee

This result is quite interesting because generally studied theoretically and by researchers who have carried influence of organizational climate on motivation has always been positive. CR are negative numbers indicate if the organizational climate will be improved lower job satisfaction, and vice versa. According to researchers, this condition occurs because the



dimensions of organizational climate dimensions does not affect the linear dimensions of satisfaction.

From the results of this study are theoretically reject Steers, As'ad., And Kouter stating that Organizational Climate can be a yardstick to determine the amount of job satisfaction. Similarly premises study stating that organizational climate influence job satisfaction have work are:

Komariah (2006) which states that organizational climate has an influence on job satisfaction headman in Kabupatenm Sidoarjo. distinguishes this research is to study the object Komariah village chief object is an object while researchers with employees Bankaltim in East Kalimantan. Umen (2007) work environment influence job satisfaction in the object of the research on the processing of land in Batam, while researchers in Bankaltim

From the results of both studies based on theory and previous research, research findings earlier rejected.

1. The authors suggested this difference in opinion, fueled by the difference in the study area and the object of study. In fact the study area has a condition that is not the same from one place to another in this case between cities and counties in East Kalimantan that have different characteristics.
2. The award is given to employees Bankaltim raise still disagreement on the amount of salary received by the employee because of the respondent's answer was neutral and disagree give answer of organizational climate dimensions associated with the award given by the employee.
3. Still the feelings of employees who do not agree with the conditions of work in performing their duties.

### **Summary of Findings**

Based on the previous description, it can be seen that in this study produced several findings as follows:

1. Variable organizational culture, information technology capabilities, has a positive and significant effect on motivation Bankaltim in East Kalimantan. Thus hypothesis 1, (H1), Hypothesis 5 (H5) can be accepted as true.
2. Variables of organizational culture, information technology skills, and motivation variable has a positive and significant effect on job satisfaction of employees Bankaltim in East Kalimantan. Thus hypothesis 2 (H2), Hypothesis 6 (H6) and Hypothesis 7 (H7) can be accepted as true.
3. Organizational climate variables have a negative and significant effect on motivation Bankaltim in East Kalimantan. Thus hypothesis 3 (H3) is not accepted as true.
4. Organizational climate variables have a negative and significant effect on job satisfaction of employees Bankaltim in East Kalimantan. Thus Hypothesis 4 (H4) is not accepted as true.

### **Theoretical Findings**

As discussed in the previous chapter that the study is expected to clarify the influence of organizational culture, organizational climate, the ability of information technology on employee motivation and job satisfaction Bankaltim in East Kalimantan, the expected results of this study

can contribute to the development of science as well as for the leadership Bankaltim input to be considered in policy making.

These findings have implications theoretically that organizational culture, Traffic information technology has a positive and significant effect in increasing motivation and job satisfaction of employees with existing cultural and set by Bankaltim can be used as a motivator for employees Bankaltim, the thing with upgrades capability information technology with program-controlled program by employees for the challenges of the future will build a better motivation of employees in accordance with the individual goals and objectives of the organization. Thus, this study supports the theory / finding Robbin (2001), Rue and Byras (1989), Kirl L Cavities (2001) Robbins (2003) Gito Sudarsono (2001), Kinichi (2003) Porter and Lower (in kinichi 2003)

Organizational climate has a negative effect on motivation and job satisfaction, it has resulted in the reverse effect that if the climate worsened organizations increase employee motivation and satisfaction of this does not fit with the theory proposed by Steers (1997) and Robert Stringer (2002 ).

#### **Limitations of the Study.**

The results of this study can not fully answer all outstanding issues relating to economics, especially its relation to the study variables of organizational culture, organizational climate, information technological capabilities, motivation, and job satisfaction. This is due to several limitations that arise when the study include:

1. Primary data was obtained through a questionnaire study, the answer choices based on perceptions of the respondents, as well as other studies on the perception, the study was not able to control fully the sincerity and honesty of the respondent to choose a response option in accordance with the circumstances and facts.
2. Data retrieval respondents (sample) could not be performed on the entire division, filling the questionnaire results for each group of respondents who are very diverse allowing the appreciation of a very diverse respondents to the question, however, the research is still quite valid and reliable having been represented throughout 13 cities and counties in eastern Kalimantan.
3. Inability to observe the factors beyond the variable of research that may have the possibility of dominant influence on the studied variables. This may affect the significance level of hypothesis testing results are available.

### REFERENCES

- Abubakr M. Suliman, Hanan Al Obaidli, (2011) "Organizational climate and turnover in Islamic banking in the UAE", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 4 Iss: 4, pp.308 – 324
- Amstrong, Michael. (1998) *Manajemen Sumber Daya Manusia*. Terjemahan. PT. Alex Media Kompotido, Jakarta.
- Andre Wijaya (2002) Pengaruh Faktor budaya Organisasi terhadap kepuasan Kerja karyawan PT. Valgua Indonesia.
- Andrian Fumham, Andreas Eracleous, Tomas Chamorro-Premuzic, 2009, "Personality, motivation and job satisfaction: Hertberg meetsthe Big Five" *Journal of Managerial Psychology*, Vol Iss 8 pp 765 -779
- Arifin (2006) Pengaruh Iklim Organisasi terhadap Kepuasan Kerja Pegawai Dinas Kimpraso Banjarmasin
- Arnold, Hug J And Felmand, Daniel C (1988) *Organization Behavior*, First Edition, Singapore, Mc. Graw Hill Book Co.
- As'ad, Moh.(2000), *Psikologi Industri*, Edisi ke 4, Liberty, Yogyakarta.
- Asmosh, Donde P, John W Hounker san reuben R McDaniel, JR. (1998), "*Participation as Complicating Mecchanism : The Effect of clinical Professional and middle Manager Participation on Hospital performance*", *Health Care manage Review Journal*, Aspen Publisher, Inc.
- Bangcheng Liu, Ningyu Tang, Xiaomei Zhu, (2008) "Public service motivation and job satisfaction in China: An investigation of generalisability and instrumentality", *International Journal of Manpower*, Vol. 29 Iss: 8, pp.684 – 699
- Barbara Bigliardi, Alberto Ivo Dormio, Francesco Galati, Giovanni Schiuma, (2012) "The impact of organizational culture on the job satisfaction of knowledge workers", *VINE*, Vol. 42 Iss: 1, pp.36 - 51
- Bernardin, John. H & Joice F.A. Russel (1993), *Human Resource Management*, Mc Graw-Hill, Inc., Singapore.

- Brahmasari, (2004) Pengaruh variable Budaya perusahaan terhadap komitmen karyawan dan kinerja perusahaan kelompok penerbit Pers Jawa pos, Surabaya
- Boran Toker, (2011) "Job satisfaction of academic staff: an empirical study on Turkey", *Quality Assurance in Education*, Vol. 19 Iss: 2, pp.156 - 169
- Catherine T. Kwantes, (2009) "Culture, job satisfaction and organizational commitment in India and the United States", *Journal of Indian Business Research*, Vol. 1 Iss: 4, pp.196 - 212
- Cooper, Donald R dan C. William Emory. (1999), "Metode Penelitian Bisnis"  
Alih Bahasa Widyono Soetjipto dan Uka Wikarya, Erlangga, Jakarta.
- Cheney, Paul H. 1984 Effects of Individual Characteristics, Organizational Factor and task Characteristics on Computer Program Productivity and Job satisfaction. *Journal of Information & management* Vol. 7 pp 209-214
- Churchill Jr; Gilbert A; Ford; Neil m; and Walker Jr Orville C 1979. Personal Characteristic of Salespeople and the Attractiveness Reward, *Journal of Busines Research*. Vol 1 pp 25-50
- Dany Ayu Putribarsari (2005) Pengaruh Fariabel Budaya Perusahaan eterhadap Motivasi Kerja dan Prestasi Kerja Karyawan Bank jatim di Surabaya
- Dartono Umen, 2007. Pengaruh Budaya organisasi dan lingkungan kerja serta Motivasi kerja terhadap kepuasan kerja dan kinerja Direktorat Pengolahan lahan otorita Batam pada Universitas Airlangga Surabaya
- Davis, Keith and John W. Newstrom. (2006), " *Human Behavior At Work : Organizational Behavior*", *Seventh Edition*, Alih Bahasa Agus Dharma, "Perilaku Dalam Organisasi", Erlangga, Jakarta.
- Davis, Keith, and William B. Werther. Jr. (1989)." *Human Resources and Personnel Management*", Third Edition, Mc. Graw Publishing Ltd, Singapore.
- Daulatram B. Lund, (2003) "Organizational culture and job satisfaction", *Journal of Business & Industrial Marketing*, Vol. 18 Iss: 3, pp.219 - 236
- Dessler, Gary. (2008), " *Human Resources Management*", Alih Bahasa Benyamin Molan, "Manajemen Sumber Daya Manusia", Prenhalindo, Jakarta.
- Farkas, Arthur J. and Tetrick, Lois E, 1989, A Three Ware Longitudinal Analysis of the Casual Ordering of Satisfaction and Comitmen on Turnover Decision. *Journal of Applied Psychology*, Vol 74 No.6 pp.855-868
- Flipo, Edwin B. (1984), " *Personel Manajemen*", Alih Bahasa Moh. Masud, "Manejemen Personalia", Erlangga, Jakarta.
- Foster, R, 1999 Coconing the Company with a Schumpeterisan Field "Interview with Richar Foster Mc Kinsey & Co

- Gomes, Faustino Cardoso. (2000), “ Manajemen Sumber Daya Manusia”, Andi Offset, Yogyakarta.
- Glisson, Charles and Durick, Mark1, 1988, Pridictors of Job Satisfaction and Organization Comitment in Human Service Organization Administrative Querty Vol 33. No.5 pp61-81
- Gibson James L Ivancevich John M Donnelly Jr james H (2005) Organisasi, Edisi Bahasa Indonesia, Jakrta Binarupa Aksara.
- Greer, 2001, Human Resources & Organizational Behavior university of Greenwich
- Hamid (2002) Pengaruh Budaya Organisasi Terhadap Motivasi dan Prestasi Kerja di PT.PTP Nusantara IV (Persero) Sumatra Utara
- Hasibuan, Malayu, SP. (1999). *Manajemen Sumber Daya Manusia*, Gunung Agung, Jakarta.
- Hian Chye Koh, El'fred H.Y. Boo, (2004) "Organisational ethics and employee satisfaction and commitment", *Management Decision*, Vol. 42 Iss: 5, pp.677 – 693
- Igbaria, Jacques and Roussel, Patrice, 1999, Antecedents and Comitmen, Job Involment and Turnover A Subntive and Methodological Analysys. *Journal of Applied Psychology* Vol 76 No.3,pp.380-391
- Jansen, Patrick G.M. Kerstra ada ; saad Abu Hujer Huda and Van der Zee, Jouke 1996, The Effect on Job Characteristics and Individual Characteristics on Job satisfaction and Bournut in *Community Nurse International*, journal Nurs Stud, Vol 33 No 4 pp 407-421
- Jeni Didham, Paul Theivananthampillai,2011, "Motivation, pay Satisfaction, and Job satisfaction of front-line employes" *Qulitative Reseachin Acconting & Management* Vol 8 Iss 2pp 161- 179.
- Jonathan H. Westover, Jeannette Taylor, (2010) "International differences in job satisfaction: The effects of public service motivation, rewards and work relations", *International Journal of Productivity and Performance Management*, Vol. 59 Iss: 8, pp.811 – 828
- Kinicki Angelo, 2003, *Prilaku Organisasi*, Salemba Empat, Jakarta
- Kosmono,2005, Pengaruh Budaya Organisasi terhadap Motivasi dan Kepuasan Kerja serta Kinerja pada sub sector Industri Pengolahan Kayu Ekspor di Jawa Tmur.
- Keuter, Karen; Byrne Eileen; Voel, Jocelyn and Larson, Elaine 2000,, *Nurses Job Satisfaction and Organizational Climate in a Dynamic Work Enviroment*. *Applied Nursing reseach*, vol 13 No1 (February) pp 46-49
- Landy, Frank J, 1978 An Oppened Processs Theory of Job Satisfaction, *Journal of Applied Psychology*. Vol. 63 No.5 pp. 533-54
- Locke E.A (1976) *The Nature And Cause of Job Satisfaction* “ In Dunnette Md (Ed) *Hand Book of Industrial Psykology*, New York : John Wiley & Sons
- Luthan, Fred (1992) *Organization Behavior*, Sixth Edition, Singapore Mc Graw Hill Book Co

- Mangkunegara, A.A. Anwar Prabu. (2000), “Manajemen Sumber Daya Manusia Perusahaan” PT. Remaja Rosdakarya, Bandung.
- Martin Omar Gomes, George, Ronald H Heck, 2011, “Examining Culture and performance at different middle school level structures” *International Journal of Education Management* vol 26 no.2 2012 pp.205-222
- Md Zabid Abdul Rashid, Murali Sambasivan, Azmawani Abdul Rahman, (2004) "The influence of organizational culture on attitudes toward organizational change", *Leadership & Organization Development Journal*, Vol. 25 Iss: 2, pp.161 - 179
- Muhadjir, Noeng. (2001), “Filsafat Ilmu: Positivisme, PostPositivisme, dan PostModernisme”. Rake Sarasin, Yogyakarta.
- Muslih, Mohammad. (2006), “Filsafat Ilmu: Kajian Atas Asumsi Dasar Paradigma dan Kerangka Teori Ilmu Pengetahuan”. Belukar, Yogyakarta.
- Namara, Carter. (1999), “ *Overview Of Leadership in Organization* “, *Journal of Management*.
- Peter Lok, John Crawford, (2004) "The effect of organisational culture and leadership style on job satisfaction and organisational commitment: A cross-national comparison", *Journal of Management Development*, Vol. 23 Iss: 4, pp.321 – 338
- Rachid Zeffane, Mohamed E. Ibrahim, Rashid Al Mehairi, (2008) "Exploring the differential impact of job satisfaction on employee attendance and conduct: The case of a utility company in the United Arab Emirates", *Employee Relations*, Vol. 30 Iss: 3, pp.237 - 250
- Robbins, Stephen P. (2001), *Organizational Behavior*”, Alih Bahasa Hadyana Pujaatmaka, “Perilaku Organisasi”, Prenhalindo, Jakarta.
- Sekaran U, 2000, *Research Methods For Business A Skill Building Approach*, Singapore, John Willey & Sons Inc
- Schein, Edgar H (1992) *Organization Culture And Leadership*, Second Edition San Fransisco : Jossey Bass Publishers
- Schuler, Randall S. and Susan E. Jackson. (1999) “ *Human Resource Management*, Alih Bahasa Abdul Rosyid, “Manajemen Sumber Daya Manusia”, Erlangga, Jakarta.
- Schermerhorn, John R. Hunt, James and Osborn Richard N, 1991, *Managing Organization Behavior*, Forth ed, New York: John Wiley and Son, inc
- Singodimejo, Markum, Djoko S Wahyudi dan Sulistyorini. (1999). *Human resources. Management*, Asosiasi Institute Manajemen Indonesia, Jakarta.
- Smither, James W. (1998), “*Performance Appraisal State Of The Art in Practice*” Jossey-Bass Publisher, San Fransisco.
- Solimun, (2002), *Structural Equation Modeling, Lisrel Dan Amos*, Diklat Angkatan II, Program Pasca Sarjana Universitas brawijaya Malang, Tanggal 11 – 13 Maret 2002.

- Soumendu Biswas, Arup Varma, (2007) "Psychological climate and individual performance in India: test of a mediated model", *Employee Relations*, Vol. 29 Iss: 6, pp.664 - 676
- Steers, R.M.1991, *Efektifitas Organisasi* (H.Pujaatmoja, Pengalih Bahasa) Jakarta Airlangga
- Sugiono, (2010), *Statistika Penelitian*, Cetakan Keua, CV. Alfabeta, Bandung.
- Sunarko (2006) Pengaruh Budaya Organisasi terhadap Kepuasan Kerja Karyawan Pada Kantor Wilayah Jenderal pajak Jawa Timur di Surabaya
- Sujono, (2005) Pengaruh Budaya Organisasi terhadap Kinerja Organisasi dan Kepuasan Kerja pada Terminal Penumpang Umum di Surabaya.
- Triwijono, Agus. (2000), "Pengaruh Perilaku Pemimpin, Motivasi Kerja Dan Lingkungan Kerja Terhadap Prestasi Kerja Karyawan", Pasca Sarjana Universitas Brawijaya, Malang.
- White, Randall P and Philip Hodgson and Stuart Crainer. (1997), "*The Future of Leadership*", Alih Bahasa Hari Suminto, "Masa Depan Kepemimpinan", Interaksara, Batam.
- Yong Han, Nada K. Kakabadse, (2009) "Job satisfaction: what is its true meaning in Greater China?", *Asia-Pacific Journal of Business Administration*, Vol. 1 Iss: 2, pp.155 - 164
- Yukl, Gary. (1998), "*Managerial Leadership: A Review of Theory and Research*", *Journal of Management* Vol. 15 No. 2.
- Wether, William B Davis Keith (1975) *Human Resources and Personal Management*, Fifth Edition Printed in The United State of Amarica Mc Graw Hill ,Inc
- Walker, James W (1977) *Human Resources Strategy*, Schaum Division, MC Graw Hill Inc, Princenton Road S-1 High Stown NJ.08520
- WexLey, K.N. and Yulk, G.A. 1984 *Organization Behavior and Personnel Psykology*, Home Wood, Illinois Richad D Irwin
- Wirawan, 2007, *Budaya dan Iklim Organisasi ; Teori Aplikasi dan Penelitian*, Penerbit salemba Empat, Jakarta





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**THE EFFECT OF ORGANIZATIONAL COMMITMENT, CAREER DEVELOPMENT,  
AND PERFORMANCE APPRAISAL ON THE JOB SATISFACTION OF EMPLOYEES  
OF STARRED HOTELS IN MALANG**

**Nilawati Fiernaningsih<sup>1</sup>, Halim Dwi Putra<sup>2</sup>,**

<sup>1</sup>*Politeknik Negeri Malang, email nilafh@yahoo.co.id*

<sup>2</sup>*Politeknik Negeri Bengkalis, email halim@polbeng.ac.id.*

---

***Abstract-** This study aims to determine the effect of organizational commitment, career development and performance appraisal to job satisfaction. The samples were 200 respondents who are employees of starred hotels in Malang. Measurements were performed by a Likert scale questionnaire with 1-5 score degrees of agreement from “strongly disagree” to “strongly agree”. The structure of relationships between variables was analyzed with SEM using AMOS 20. Most respondents had a diploma-level education, were 20-30 years old, and worked at the hotel for 1-8 years. Modeling results showed that there was a direct effect of organizational commitment, career development, and performance appraisal on job satisfaction, especially from career development.*

***Keywords:** organizational commitment, career development, performance appraisal, job satisfaction.*

---

**PREDECESSORS' ATTITUDE TOWARD CONFLICT  
PREDICTOR OF FAMILY BUSINESS SUSTAINABILITY**

**Linda Salim<sup>1</sup>, Mohd. Noor Shariff<sup>2</sup>, Darwina Ahmad  
Arshad<sup>3</sup>**

<sup>1</sup>Universitas Ciputra, salim.linda@gmail.com

<sup>2</sup>Universiti Utara Malaysia, mdnoor@uum.edu.my

<sup>3</sup>Universiti Utara Malaysia, darwina@uum.edu.my

---

**Abstract:**

*Using qualitative interviews to understand the mindset of family business leaders in succession, this study proposes that attitude toward conflict is an important decision making element. A collective case studies uncover how attitude toward conflict predicts decision making during succession and influence optimism on the future of the firms. Findings of the study suggest that predecessors who welcome conflicts as a part of family firms take a more relaxed attitude toward succession, with a wider talent pool. This group are also more egalitarian in strategic decision making and optimistic toward the future of the firms.*

*Predecessors who avoid conflict have smaller talent pool, making decisions to nominate few for the position. They is cautious, making decisions for the successors, and are pessimistic about the future of the firms.*

*Contributions from this study are threefold. First, we introduce the use of attitude toward conflict to measure predecessors' behaviors during succession. Second, through identification of attitude toward conflict, we contribute to the literature by predicting predecessors' optimisms toward the future of the firms in the hands of the next generations. Third, this study contributes another dimension to reciprocal nepotism through discovery that family businesses upholding reciprocal nepotism behave differently.*

**Keywords:** *family business, conflict, family business succession, attitude towards conflict, succession*

---



**THE EFFECT OF CORPORATE BRAND IMAGE TO TRUST IN  
PURCHASING MUSLIM CLOTHING AT ONLINE STORES LAZADA  
(SURVEY ON STUDENT FISIPOL ISLAMIC UNIVERSITY OF RIAU,  
PEKANBARU, RIAU PROVINCE, INDONESIA).**

**Rosmayani, Annisa Mardatillah**

*Islamic University of Riau, [rosmayani.fisipol@soc.uir.ac.id](mailto:rosmayani.fisipol@soc.uir.ac.id)*

*Islamic University of Riau, [annisa.fisipol@soc.uir.ac.id](mailto:annisa.fisipol@soc.uir.ac.id)*

---

### **Abstract**

*This research is descriptive and verification conducted through data collection in the field. Implementation using descriptive survey and explanatory survey method. The unit of analysis of the research is FISIPOL UIR students who have purchased the product online Muslim fashion. In the modeling and solution techniques will be used as natural as the analysis in this research is using Structural Equation Modeling (SEM). To obtain information data in this study conducted a complete disclosure of these variables with the concept of variables, indicators and measurement scale. In this study, the variable (X) is the company's brand image, variable and variable (Y) is trust. Until the studies taken as many as 97 students using the formula solvin. The amount of influence on consumer confidence in the brand citar of 0,482. Brand image significant effect on consumer confidence, this is evidenced by the value of  $t$  is greater than  $t$  table. Simultaneously, the image of the brand and consumer confidence have a significant effect on the intention to behave, this is evidenced by the value of  $F$  count is greater than the value of  $F$  table. Partially, corporate brand image and consumer confidence have a significant effect on the intention to behave, this is evidenced by the  $t$  value greater than  $t$  table.*

*Keywords: Corporate Brand Image, Trust, Online Purchasing, Product Online, Consumer*

### **1. Introduction**

Information technology development is very rapid, including the Internet turned out to have a great impact on all aspects, not least the development of business and marketing. This gives a change in the type and level of need and desire of consumers. Now so many people are utilizing the Internet as a medium for marketing and business. This gives a huge impact on the world of marketing. This is not strange considering the number of Internet users continues to grow rapidly can be a potential market to enter the business. On the other hand, the practice of e-commerce and e-business turned out to have many benefits for both companies

According to data from [www.internetworldstar.com](http://www.internetworldstar.com) (November 2015), the number of internet users, both globally and in Indonesia, has increased every year even Indonesia claimed the No. 4 Internet users in Asia. Indonesia has a population of 255 million and as much as 30.5% of them use the Internet.

According to a survey by Nielsen global online the products and services that may be purchased by the consumer Asia pacific are books by 52% and then the fashion product by 44% after it followed by air tickets and electronic needs respectively 35% and 32%, according to Gendis (2009 ) the proliferation of online shop opened up business opportunities in the field of fashion products on the internet that many targeting teens as the consumer were teenagers who come from the educated class like the University Student. Many kinds of fashion products from head to toe like a shoe causes the demand for the product is very much to meet the needs of their wanita. penelitian made Kim and Kim (2004) of predicting online purchase intentions for clothing product explained that many female consumers make the decision to buy clothes, jewelry and accessories through online.

As mentioned above, the use of e-commerce is on the rise in Indonesia triggered the online purchase is also evident from the data obtained that the increasing number of Indonesian people who purchase various products online, especially clothing. Consumers who in this study devoted to teens where the emotional and cognitive condition is still not stable, and the number of teenagers who become users of the internet and online shopping.

Adolescents presenting themselves through their appearance, therefore, it is important to fashion products for teenagers. Fashion is fashion apparel products, includes all the accessories such as belts, shoes, hats, bags, socks and underwear. Watches and mobile phones can also be a product that has its own fashion so that some people consider the two is also a fashion product.

Students FISIPOL Islamic University of Riau amounted to 3423 people is a group of teens who participated advantage of technological developments through online shopping to satisfy the needs and desires of their spending, especially Muslim fashion products. Muslim fashion products needs are basic needs for them because as a student studying in college Islam requires them to wear Muslim clothing in their daily activities during the campus. Students are a group of modern teenagers of today have a tendency to do online shopping for their ease in transacting their fashion needs. Teens also one of the active users of the internet. Maulana (2015) describes the results of nationwide research conducted by the Indonesia Association of Internet Service Providers (APJII) and the Center for the Study of Communication University of Indonesia which showed that the majority of Internet users in Indonesia are in the age range 16-25 years. The research results show that adolescents make up the majority of Internet users in Indonesia with a wide range of activities they can do one of them is to shop online. Sutriyanto (2014) says that the teen Indonesia today more generous in shopping online. In his article includes results of a survey conducted by the company that Visa payment technology provider, shows that online shoppers tend to be younger than the offline buyers. Nearly half of online shoppers were aged 16-30 years. This proves that many teenagers who shop online and increase the possibility of buying behavior of teenagers when shopping online.

Based on the above phenomenon researchers interested in conducting research with the title: **The Effect Of Corporate Brand Image To Trust in Purchasing Muslim Clothing At Online Stores Lazada (Survey on Student FISIPOL Islamic University of Riau, Pekanbaru, Riau Province, Indonesia).**

**Formulation of the problem**

Based on the above background that the problem in this research is:

8. What is the company's brand image effect on consumer confidence in online purchasing products Moslem?
- 9.

**Research purposes**

43. To examine the influence of corporate brand image to the consumer confidence in online purchasing products Moslem.

**Academic usability.**

1. This study is also expected to be input for researchers who want to conduct further research that will enrich knowledge, especially in marketing management research, especially in terms of marketing online marketing knowledge.

**2. Literature Review****Definition of Brand Image**

Brand image can be defined as a perception that appears in the minds of consumers when considering a particular brand of product. There are several definitions of brand image, here are some definitions of brand image, according to experts: According to the American Marketing Association in Kotler and Keller (2008: 258) defines a brand as a name, term, sign, symbol, or design, or a combination thereof, which are intended to identify the goods or services of one seller or group of sellers and differentiate from competitors' goods or services. According to Kotler and Armstrong (2008: 275), the brand is a name, term, sign, emblem or design, or a combination of all these that show the identity of the products or services of one seller or group of sellers and differentiate the product from competitors' products. According Ginting (2011: 99) defines a brand is a name, term, sign, symbol, design or combination thereof for marking products or services of one seller or group of sellers and to differentiate it from competitors.

**Understanding Corporate Image**

Corporate image is one of the most important parts of a company owned by both large companies and small companies. According to Nguyen and Le Blanc in the Flavian et al. (2005), the corporate image is the result of the collection process where consumers compare the various attributes of the company. Attributes are intended for example product, price, product quality and service quality.

According to Berman and Evans (1995) in Weiwei (2007), the company's image is a mixture of functional and emotional aspects that previous experiences between consumers and companies such as advertisements, word of mouth, the expectations that will come directly positive effect on customer satisfaction. If consumers ever get a good experience with the company, the satisfaction will increase. Conversely when bad experience never happened, then satisfaction will also be decreased. From understanding the company's image, according to experts, it can be concluded that the image of the company / online shop is the result of the evaluation process carried out by consumers against online shop as well as all the activities and the products it offers. The evaluation results are then stored in memory and transformed into a perception. When the name of an online shop called or appeared in consumer memory, that's when the online shop's image positively or negatively ingrained reappeared.

Shop online image positive or negative depending on the feeling and impression of the consumer at the time was evaluated. If at that time consumers feel disappointed and dissatisfied, it would appear the negative image of the online shop. Conversely, when consumers are satisfied, it will form a positive image of the online shop. Then shop online image is something that is subjective and varies according to each person.

### **Definition of Trust**

Confidence (trust) is the foundation of the business. Building trust in a long-term relationship with our customers is an important factor for creating customer loyalty. This belief not just is recognized by other parties/business partners, but must be built from scratch and can be proved. According to Prasaranphanich (2007: 23.1), when consumers trust a company, they would prefer to re-purchase and share personal information that is valuable to the company.

### **Dimensions of Trust**

People may behave differently or have different levels of trust or beliefs when faced with a different communication channel or in varying conditions. McKnight et al. (2002) suggest three important influential factors associated with the development of the trust relationship between online companies and end users, namely the safety of the online trading environment, and quality of the company's goodwill website. Trust in electronic commerce can depend on the vendor web (Trust interpersonal), web transaction environment (institutional trust) and end users' own public trust (dispositional trust) (McKnight and Chervany, 2002).

According to McKnight and Chervany (1996), more than half of the sixty selected articles or books interpreting the trust of more than one aspect, and most of the literature is consistent in claiming that there should be more than one meaning to "trust" Glossary. One of the reasons why the term does not have a definition that is generally accepted is that trust has studied from different perspectives, such as from the point of view of economics, marketing, sociology, psychology, and political science (Fung and Lee, 1999; McKnight and Chervany 2002 ). Six constituent elements of trust to examine how the element of trust can influence end-user behavior, McKnight and Chervany (1996) analyzed six construction confidence:

- (1) trusting beliefs;
- (2) trusting intentions;
- (3) trusting behavior;
- (4) the belief system;
- (5) dispositional trust; and
- (6) The decision of situational to believe.

They are defined trust in relation to the three main categories. First, trust is always portrayed as hope and confidence. Second, it can also be defined as a behavior and a third, also consisting of affective, cognitive or aspects / affective. Trusting faith belief trust occurs when a person thinks that the trustee is relied upon in specific situations. belief believe consists of four elements, namely virtue, honesty, competence, and predictability. Virtue means that the trustee took her benefit into consideration when using or making decisions regarding this trustees Information (Lee and Turban, 2001). Honesty means that carers make reliable decisions and respect the rule that they are guaranteed (Siau and Shen, 2003). Competence refers to the ability of the trustee to achieve the expected results and, ultimately, predictability means that the trustee's actions in certain circumstances can be predicted from its past behavior. Sometimes trusting faith can also develop at the base of other skills, such as

professional knowledge of a doctor or a lawyer (Gambetta, 2000; McKnight and Chervany, 2002).

Trusting intentions of the willingness of the parties to rely on other parties in specific situations. McKnight and Chervany (2002) outlines five essential components included in the will to believe. These elements include the potential negative consequences, dependency, the feeling of security, the context of a particular situation, and lack of reliance on the control. First of all, negative consequences or risks can emphasize the importance of trust. Secondly, dependency or trust is also an important factor that supports trust the intentions and can also be defined as the strength-based dependency. This means that one party is willing to give power to another party as a result of the first party's dependence on the part of both. Third, the feeling of security made to believe that a strong intention. The feeling of security boost people's willingness to rely on companies that trusted them, because they are more reliable and comfortable. Furthermore, the level of public trust in the other party also depends on the context of the particular situation (Gambetta, 2000). For example, people will trust their own doctors to cure their disease more than, say, someone working on the plane. Finally, the lack of dependence on trust means that people can not rely on the mechanism of control but must "trust trust" or "dependent trust" when they believe the other party (see McKnight et al., 2002).

Trusting behavior refers to the people who give their power over others or feeling safe to rely on the other party even when there is a risk in certain situations (Gambetta, 2000). Several confidence indicators have been found in the literature. For example, people may allow some types of sacrifices to be made, such as allowing the guardian to use the property or their information on their behalf or disclose their details to the trustees (McKnight and Chervany, 2002).

The belief system is impersonal structures that support trust intentions. There are two main types of structures impersonal belief systems, guarantees that structural and situational normality. Issues such as policies or contracts are included in the structure of the guarantee, and issues such as the role of guardian and trustees in certain circumstances belong situational normality. Belief systems can also be seen as a reliable confidence.

Dispositional trust is built situational generally expected by the trustees. in other words, it means that this kind of confidence can occur when a person has a general preference for a conceptual. The model belief of trust, which cover a broad spectrum of situations and people. such as trust systems, dispositional trust also contains two categories: the belief in people and trust establishment. Trust in people refers to this trustees assumption that people can be trusted, while trusting attitude refers to the belief that a better result would follow if he or she relies on certain parties. In other words, mutual trust someone means that he tends to rely on the trustee, which contributes to trust the person intentions more directly than belief-in-one (McKnight and Chervany, 2002).

#### Past Research

No	Research Title	Journal/Year	Method	Variable
1	Online Corporate Brand Images And Consumer Loyalty.  Sharifah Faridah Syed Alwi (2009)	International Journal of Business and Society, Vol. 10 No. 2, 2009, 1-10	Quantitative	Corporate Brand, Loyalty



2	American and Taiwanese Perceptions Concerning Privacy, Trust, and Behavioral Intention in Electronic Commerce.	Journal of Global Information Management,	Quantitative	Perception, Trust, Initiative
	Chang Liu ( 2004)	12(1), 18-40, Jan-Mar 2004		
3	The Effect of Corporate Brand Images to Satisfaction and loyalty costumer (Survey on S1 students of UB Faculty of Administrative Sciences Universitas User of Gadget Merek ASUS). Muchamad Ali Syukron Suharyono Edy Yuliyanto (2016)	Jurnal Administrasi Bisnis (JAB)  Vol. 40 No. 1 November 2016	Quantitative	Corporate Brand, Satisfaction, Loyalty
4	The Effect of Quality Impact Academic Services and Brand Institute on Student Satisfaction Padang State University. Parengki Susanto (2012)	TINGKAP Vol. VIII No. 1 TH. 2012	Quantitative	Service Excellency, Corporate Brand, Satisfaction

### Research Framework

The framework describes the influence of the independent variables, the brand image of one dependent variable is the belief in the Muslim fashion online purchases at the store Lazada.com

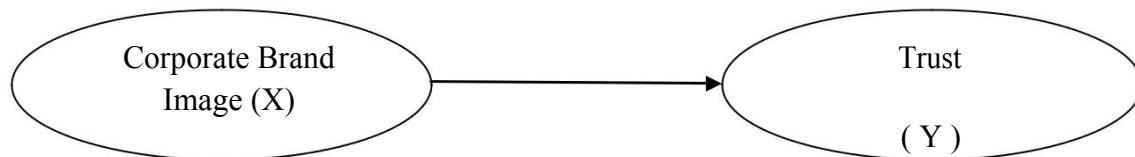


Figure 2.1  
Framework

### Hypothesis

Based on the proposed framework research hypothesis as follows:

H1 effect on the company's brand image online purchasing confidence in the Muslim fashion products.

### 3. Research Methods

Method used

This research is descriptive and verification conducted through data collection in the field. While in practice using descriptive survey and explanatory survey method. The unit of analysis of the research is FISIPOL UIR students who have purchased the product online Muslim fashion. In the modeling and solution techniques will be used as natural as the analysis in this research is using Structural Equation Modeling (SEM).

### 4. Results And Discussion

Descriptive analysis  
Characteristics of  
Respondents

Characteristics of respondents by age. Of the 97 respondents, there are 58 people (59.8%) aged between 10-20 years, 37 (38.1%) aged between 21-30 years and 2 (2.1%) aged between 31 - 40 years. so most of the respondents aged between 10-20 years.

Characteristics of respondents by education last. Of the 97 respondents, there are 90 people (92.8%) were the final education SMA / SMK, 5 (5.2%) whose final college

education/diploma and 2 (2.1%) whose education last Strata 1. So most respondents have an education past high school / vocational school.

Characteristics of respondents based on the time to know the online store. Of the 97 respondents, there are 26 (26.8%) are familiar with the online store for less than 3 months, 14 (14.4%) are familiar with the online store between 3-6 months, 35 (36.1%) who know shop online between 6 months - 1 year and 22 people (22.7%) are familiar with the online store more than 1 year. So most of the respondents are familiar with the online store between 6 months - 1 year.

Characteristics of respondents based on the cost incurred / month. Of the 97 respondents, there were 11 (11.3%) are the cost per month is less than US \$ 50,000, 64 (66.0%) who had spent a month between Rp 50,000 - Rp 250,000, 21 people (21.6% ) that the cost per month is more than Rp 250,000 and 1 (1.0%) who did not answer. So most of the respondents spend per month between Rp 50,000 - Rp 250,000.

Characteristics of respondents based shopping destination. Of the 97 respondents, there are 81 people (83.5%) were of interest to the private shopping, 6 (6.2%) which shopping destination for families and 10 people (10.3%) which shopping destination for friends. So most of the respondents have shopped for personal purposes.

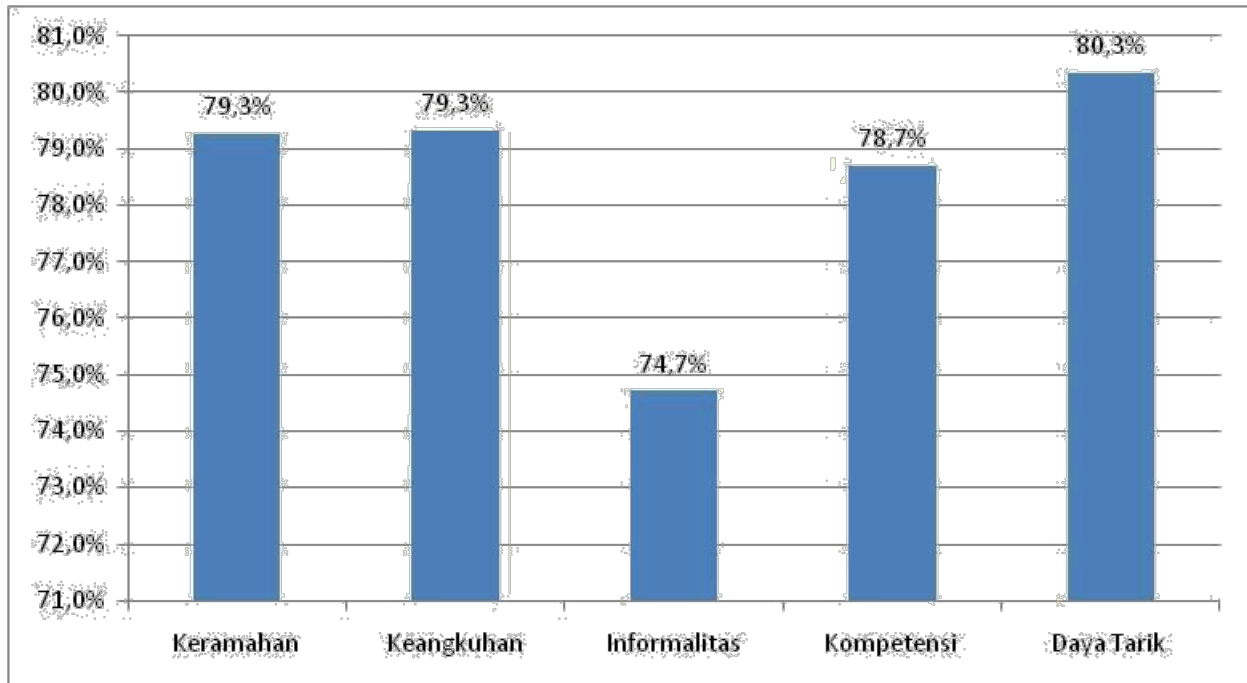
Characteristics of respondents by recommending it to others. Of the 97 respondents, there are 17 people (17.5%) who did not recommend to others, and 80 (82.5%) were recommending to others. So most of the respondents recommend to others.

#### 4.1.1. Response from the respondents regarding variable corporate brand image

**Table 4.1**

##### **Response from the respondents regarding variable corporate brand image**

No	Indicator	Total Score	Ideal Score	Ratio
1	Hospitality	1538	1940	79,3%
2	Haughtiness	1539	1940	79,3%
3	Informality	1087	1455	74,7%
4	Competence	1145	1455	78,7%
5	Attractiveness	1169	1455	80,3%
<b>Total</b>		<b>6478</b>	<b>8245</b>	<b>78,6%</b>



**Figure 4.1**  
**Responder comments regarding Variable Corporate Brand Image Company**

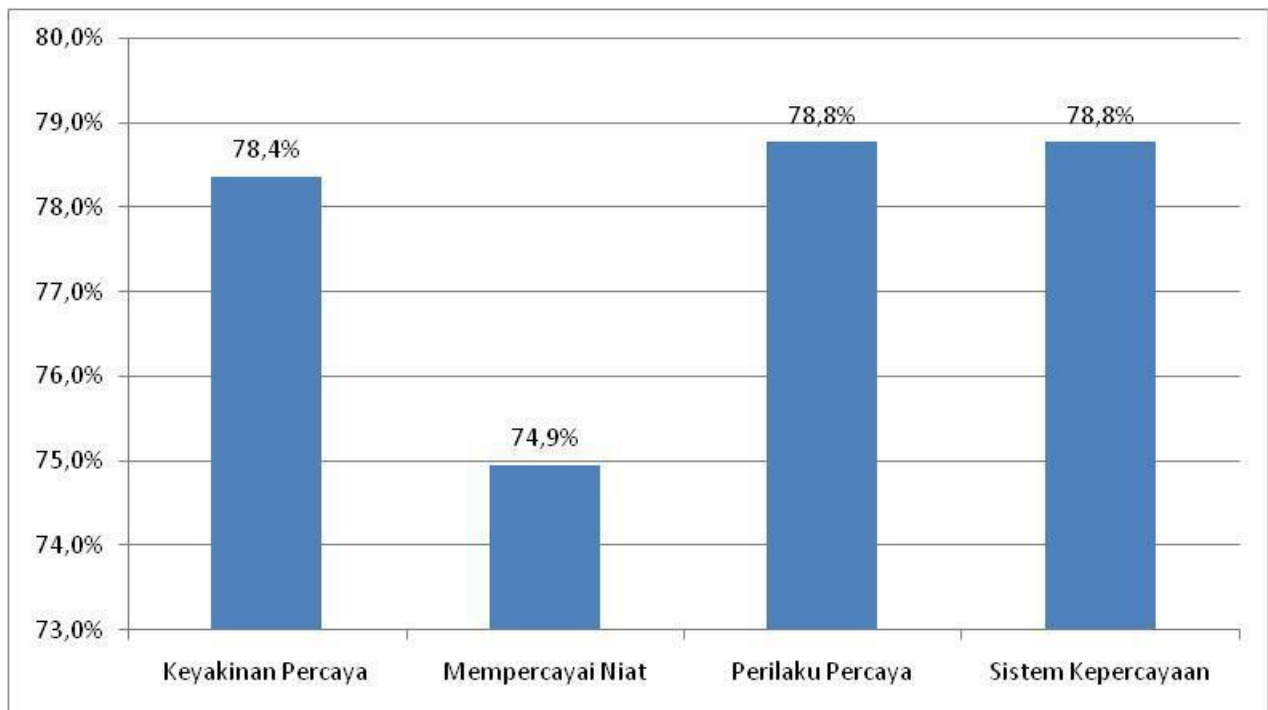
Table 4.1 above illustrates the responses of respondents regarding the variable corporate brand image. Based on the processing results are presented in the table above, it can be seen that the total score for the Variable brand image of the company is 6478. The number of these scores is inserted into the line of the continuum, the measurement is determined by:

- Maximum Index Value =  $5 \times 17 \times 97 = 8245$
- Minimum Value Index =  $1 \times 17 \times 97 = 1649$
- Distance Interval = [the maximum value - the minimum value]: 5  
 $= (8245 - 1649) : 5$   
 $= 1319.2$
- Percentage Score = [(total score): maximum value] x 100%  
 $= (6478 : 8245) \times 100\%$   
 $= 78.6\%$

Ideally, the expected score for the respondents' answers to the 17 statements is 8245. From the calculations in the table shows the values obtained 6478 or 78.6% of the ideal score is 8245. Thus the company's brand image variables are in either category.

**Responder Comments Regarding Variable Trust**  
**Table 4.2**  
**Responder Comments Regarding Variable Trust**

		Score	Score	
1	Trust Confidence	1520	1940	78,4%
2	Trust Believe	1454	1940	74,9%
3	Trust Behaviors	764	970	78,8%
4	Trust System	764	970	78,8%
<b>Total</b>		<b>4502</b>	<b>5820</b>	<b>77,4%</b>



**Figure 4.2**  
**Responder comments Regarding Variable Trust**

Table 4.2 above illustrates the responses of respondents regarding the variable trust. Based on the processing results are presented in the table above, it can be seen that the total score for Variable trust is 4502. Jumlah score is inserted into the line of the continuum, the measurement is determined by:

- Maximum Index Value =  $5 \times 12 \times 97 = 5820$
- Minimum Value Index =  $1 \times 12 \times 97 = 1164$
- Distance Interval = [the maximum value - the minimum value]: 5  
 $= (5820 - 1164): 5$   
 $= 931.2$
- Percentage Score = [(total score): maximum value] x 100%  
 $= (4502: 5820) \times 100\%$   
 $= 77.4\%$

Ideally, the expected score for the respondents' answers to the 12 statements is 5820. From the calculations in the table shows the values obtained 4502 or 77.4% of the ideal score is

**Analysis of Measurement Model**  
**Evaluation Measurement Model**  
**Convergent Validity**

**Table 4.3**  
**Outer Loadings Value**

Variable	Indicator		original sample estimate	mean of subsamples	Standard deviation	T- Statistic
Corporate Brand Image (X)	X1	Hospitality	0,931	0,931	0,024	38,245
	X2	Haughtiness	0,956	0,952	0,020	47,711
	X3	Informality	0,904	0,903	0,033	27,647
	X4	Competence	0,928	0,932	0,015	61,598
	X5	Attractiveness	0,908	0,902	0,035	26,041
Trust (Y)	Y1	Trust Confidence	0,955	0,952	0,016	58,717
	Y2	Trust Believe	0,891	0,889	0,039	22,938
	Y3	Trust Behaviors	0,931	0,929	0,024	38,643
	Y4	Trust System	0,890	0,892	0,037	24,184

Based on table 4.2 above, all the indicators of each construct has the above Loading Factor above 0.7. It can be concluded that all indicators are valid.

The subsequent examination is viewed reliability construct the composite reliability. Reliability of composite value said to be reliable if the value is above 0.7.

Results composite reliability in the company's brand image (X) is 0.967 and Trust (Y) is 0.955 which composite reliability values for each construct can be said to be reliable because of the value above 0.7.

Further evaluation of convergent validity is the evaluation of the value of average variance extracted (AVE). The construct is said to have good convergent validity when the AVE value above 0.5. Corporate brand image (X) indicates the value AVE 0.856 and Trust (Y) 0.841 so it can be concluded that these constructs have good convergent validity.

**Discriminant Validity**

Validity discriminant evaluation begins by looking at the cross loading. Rated cross loading shows the correlation between each construct to construct indicators and indicators of other blocks.

**Table 4.4 cross loading**

	Brand Image Corporate (X)	Trust (Y)	Conclusion
X1	0,931	0,570	good
X2	0,956	0,611	good
X3	0,904	0,643	good

X4	0,928	0,716	good
X5	0,908	0,650	good
Y1	0,699	0,955	good
Y2	0,712	0,891	good
Y3	0,774	0,931	good
Y4	0,687	0,890	good

Based on table 4.4 above, all the indicators have values higher correlation to construct his or her own, then these indicators have good discriminant validity. Further evaluation of discriminant validity is to compare the value of the root of the correlation between constructs AVE. Results are recommended are the root AVE value should be higher than the correlation between the constructs to get a good discriminant validity.

**Table 4.5**  
**AVE Value and AVE Root**

	Average variance	AVE Root
--	------------------	----------

Corporate Brand Image (X)	0,856	0,925
Trust (Y)	0,841	0,917

Root value AVE to construct the brand image of the company is 0.925, while the maximum correlation between the company's brand image with other constructs was 0.694 (with constructs Believe). Because of root value AVE Citra higher than its correlation with other constructs, then said his good discriminant validity.

Root value AVE to construct Believe is 0.917, while the maximum correlation between the Trust with other constructs was 0.694 (with constructs image). Because root value AVE Believing higher than its correlation with other constructs, then said his good discriminant validity.

**Evaluation of Structural Model**

Having described the measurement model each variable then the next study will analyze the structural model between variables formed from the measurement model.

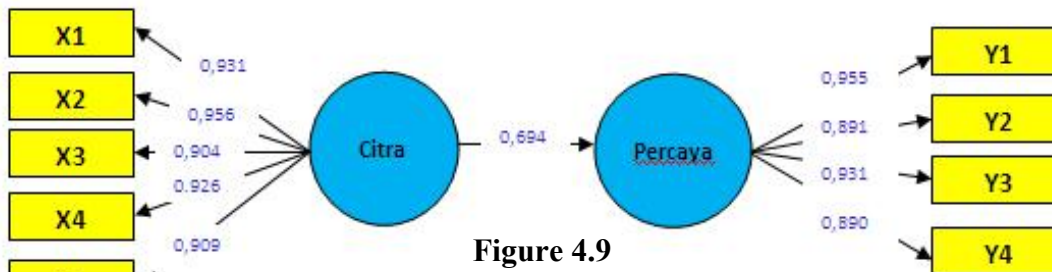


Figure 4.9

**Model Effect of Brand Image and Confidence in Customer Behavior Intention**  
**Influence of Brand Image Company to Consumer Trust**

Tests on structural models done by testing the significance of each parameter by comparing the value of t-statistic with t table (at the 5% significance level), then look at the value of R-square is a test for a goodness-fit model.

Table 4.6

	$\lambda$	T-Statistic	R-Square
Image (X) -> Trust (Y)	0,694	8,567	0,482

\*\*significance level 0,05,  $t_{table} = 1,96$   
 $X = 0,694 Y + 0,518$

The coefficient parameters of the exogenous latent variable is positive, it means there is influence the direction of the Trust. If the image (X) increased by 1 unit, then it will increase the Trust (Y) of 0.694. Rated R-square of 0.482 indicates that brand image is able to explain variable construct of trust by 48.2%, the remaining 51.8% is explained by other constructs in addition to the brand image.

**Hipotesis:**

- H01 : Brand Image (X) has no significant effect on Trust (Y) UIR FISIPOL students who have purchased the product online Muslim fashion.
- H11 : Brand image (X) significantly affects the Trust (Y) UIR FISIPOL students who have purchased the product online Muslim fashion.

- Accept  $H_0$  if  $-T\text{-tabel} < T\text{-Statistic} < T\text{-tabel}$
- Refuse  $H_0$  if  $T\text{-Statistic} > T\text{-tabel}$  atau  $T\text{-Statistic} < -T\text{-tabel}$

Based on the above table T-Statistic values obtained at 8.567. Because of the value of T-Statistic (8.567) > T-table (1.96), the  $H_0$  is rejected, thereby Brand (X) significantly affects the Trust (Y) UIR FISIPOL students who have purchased the product online Muslim fashion.

## 5. Conclusion

1. The amount of influence on consumer confidence in the brand image of 0,482.
2. Brand image significant effect on consumer confidence, this is evidenced by the value of t is greater than t table.
3. Simultaneously, the brand's image and consumer confidence have a significant effect on the intention to behave, this is evidenced by the value of F count is greater than the value of F table. Partially, brand image and consumer confidence have a significant effect on the intention to behave, this is evidenced by the t value greater than t table.

## Reference

- Brussee, R., and Hekman, E. (2010). Social Media are Highly Accessible Media, *Research Group Crossmedia Content at the University of Applied Sciences Utrecht*.
- Ba, S., Whinston, A.B. and Zhang, H. (2003), *Building trust in online auction markets through an economic incentive mechanism*, Decision Support Systems, Vol. 35 No. 3, pp. 273-86.
- Bachmann, R. (2001), *Trust, power and control in trans-organizational relations*", *Organization Studies*, Vol. 22 No. 1, pp. 337-65.
- Boeyen, S. and Moses, T. (2003), "Trustmanagement in the public-key infrastructure", white paper, Entrust, available at: [www.entrust.com/resources/download.cfm/21126/trustmodels.pdf?inline](http://www.entrust.com/resources/download.cfm/21126/trustmodels.pdf?inline) ¼ false
- Brannigan, C. and de Jager, P. (2003), *Building e-trust*, Computerworld, Vol. 37 No. 36, pp. 40-1. A conceptual model of trust 617
- Briggs, P., Simpson, B. and de Angeli, A. (2004), *Personalisation and trust: a reciprocal relationship?*, in Karat, J., Vanderdonckt, J., Karat, C. and Blom, J.O. (Eds), *Designing Personalized User Experiences in Ecommerce*, Human, Computer Interaction Series, Vol. 5, pp. 39-55.
- Chen, S.C. and Dhillon, G.S. (2003), *Interpreting dimensions of consumer trust in e-commerce*, Information Technology and Management, Vol. 4 Nos 2-3, pp. 303-18.
- Cho, C.H. (1999), *How advertising works on the www: modified elaboration likelihood model*", Journal of Current Issues and Research in Advertising, Vol. 21 No. 2, pp. 33-50.
- Chen Injaz J. and Kasen Popovich, (2003). *Understanding Customer Relationship Management (CRM) People, Process and Technology*, *Business Process Management Journal*. 9,5 ABI/INFORM Complete, P. 672-688.
- Chung, Yi-Chan, Shiao-Wen Tien, Chih-Hung Tsai and Lin-Lin Tang, (2007). *An Empirical Study of Customer Relationship Management Implementation in Taiwan's Machine Industry*, *Business and Public Affairs*. Vol 1, Issue 1, P 1-12.
- Cristobal, Eduard, Carles Flarian and Miguel Guinaliu, (2007). *Perceived e Service Quality (PeSQ) Measurement Validation and Effects on Customer Satisfaction and Website Loyalty*, *Managing Service Quality*. Vol 17, No. 3 P. 317-340.
- Dong-Hun, L. 2010 Growing Popularity of Social Media and Business Strategy, [www.seriquarterly.com](http://www.seriquarterly.com), pp 112-117.
- Fitzsimmons James dan Mona J Fitzsimmons (2011) Service Management · Operations



- Frow Pennie and Adrian Payne, (2009). *Customer Relationship Management : A Strategy Perspective*, *jbm*. vol 3, P. 7-27.
- Griffin, Jill, (2002). *Customer Loyalty How To Earn It, How To Keep It I*, Mc Graw Hil, Kentucky.
- Hurriyati Ratih, (2008). *Bauran Pemasaran dan Loyalitas Konsumen*, Alfabeta, Bandung.
- Jari Salo and Heikki Karjaluoto,(2007). *A conceptual model of trust in the online environment*. [www.emeraldinsight.com](http://www.emeraldinsight.com)
- Kotler Philips and Keller Lane Kevin, (2012). *Marketing Management*, Pearson Education.
- Liu,Chang; Marcheewka,Jack.T;Ku,Catherina, 2004. *American and Taiwanese Perceptions Concerning Privacy, Trust, and Behavioral Intentions in Electronic Commerce*.*Journal of Global Information Management*; Jan-Mar 2004;12,1;Technology Collection pg.18
- Lovelock Cristopre and Wirz Jochen, (2011). *Service Marketing People, Technology, Strategy*, Prentice Hall: USA.
- Marhatra, N.K. and Birks, D. F., (1999). *Marketing Research; An Applied Approach*, England: Prentice-Hall.
- Mukerjee Kaushik and Kundan Singh, (2009). *CRM : A Strategic Approach, The IUP Journal of Management Research*. Vol VIII, No. 2 P. 65-82.
- Payne Adrian and Pennie Frow, (2006). *Customer Relationship Management: From Strategy to Implementation* *Journal of Marketing Management*. 22 P. 135-168.

## **ATTITUDE TOWARD CONFLICT AND NEXT GENERATION TALENT POOL IN FAMILY BUSINESS**

**Linda Salim<sup>1</sup>, Mohd Noor Shariff<sup>2</sup>, Darwina Ahmad  
Arshad<sup>3</sup>**

<sup>1</sup>Universitas Ciputra, salim.linda@gmail.com

<sup>2</sup>Universiti Utara Malaysia, mdnoor@uum.edu.my

<sup>3</sup>Universiti Utara Malaysia, darwina@uum.edu.my

---

### **ABSTRACT:**

*Looking at family firm leaders' attitude toward conflict, we measure its impact on next generation talent pool using collective case study. Participants lead family firms with next generation family members entering the firms. Qualitative interviewing are conducted to capture accurate data on the issue.*

*Data shows that participants who perceive conflict as a natural part of family business have larger next generation talent pool. It is the only proposition supported. Other propositions suggesting that attitude toward conflict influences firm diversification and performance are not supported. We also reveal that participants who perceive conflict as natural part of business tend to have more cohesive family relationships than those who prefer to avoid conflict.*

*Our study opens the way to look into behavior toward conflict and its impact on family firms. This study is also useful for family firms that start involving next generation family members next generation family members to be able to attract larger talent pool.*

**Keywords:** *family business, conflict, family business succession, attitude towards conflict, human resource*

---

### **1.Introduction**

From strategic management standpoint, what sets apart a family business from nonfamily business is not the structure and tangible element of the business but the behavior, institutional logics at play during decision making, and the long term goals. Nonfamily firms is driven by profitability and marketshare. While sustainability is certainly in the agenda of every business institution, closure of a family firm devastates the family not only financially but also emotionally (Berrone, Cruz, & Gomez-Mejia, 2012; Lam, 2010). We sense the urgency of looking into the issue while looking at recent statistics report. Hay Group (2012) and Credit Suisse (2011) conducted reports in 10 Asian countries that alerted the declining lifespans of family firms by half within the past two decades. In the reports that were published a year apart, Asian family firms' life expectancy shortened by half to a period of 24 years, roughly 1.5 generations, from the previous data of 50-60 years, roughly 3 generations, as recent as 1990.

The above mentioned statistics is an alarming discovery, regarding the fact that most businesses in the world are family-owned. Credit Suisse (2011) claimed that 70% of all Asian corporations are family-owned and -controlled. While an exact proportion is rarely reported, vast majority of business institutions, even in capitalist economies, are family-owned (Caspersz & Thomas, 2013; Nordqvist & Melin, 2010). With that knowledge, we are aware that economic catastrophe would occur is family firms around the world crumbles. There has not been a study to predict how global economy would change should family firms are omitted. Nevertheless, Globerman, Peng, and Shapiro (2010) suggested that family firms managed to bounce Asian economy back from the impact of the recent financial crisis while the consequences of the said crisis still lingers in many places.

An important element of firm sustainability is, of course, talent pool. It is hard to remain sustainable when favoritism is presumed like it is in family firms. Cronyism is a "general tendency to favor one person or group over others" (Loewe, Blume, Schonleber, Seibert, Speer, & Voss, 2007). While this phenomenon is not specific to family firms, it is assumed that the glass ceiling in a family firm were lower because of the obvious choice to a point family members to the position of power. In reality, cronyism does not always end in declining job performance, nor it is related to organizational trust (Cingoz & Akilli, 2015).

To be more specific to family firms, the term nepotism is introduced. As expected, nepotism carries with it the weight of unfairness the way cronyism does. In fact, nepotism is cronyism happening in a family firm. This connotation is consistent to the specific character of Socioemotional Wealth (SEW), in which family firms aims to preserve their sustainability through 'dynastic succession' (Berrone, Cruz, & Gomez-Mejia, 2012). It is such a strong word that nepotism has only been in the title of *Family Business Review* articles four times from the start of its publication in 1988. It is worth noting that the latest two articles studying nepotism empirically proved that competence prevails in family business succession. Despite the occurrence of nepotism, CEOs in family firms are appointed based on merit and competence (Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013). In fact, the tenure required to rise to the top is similar for CEOs

in family firms and nonfamily corporations (Salvato, Minichilli, & Piccarreta, 2012).

Berrone, Cruz, and Gomez-Mejia (2012) introduced five dimensions in the SEW constructs, namely family control, identification of family members with the firm, social ties, emotional attachments to the business, and dynastic succession. Hiring family members, then, is a solution to many SEW elements, on top of being a natural solution to the cronyism and nepotism polemics. As a result, this study provides the answer to the following research questions:

10. *How does attitude toward conflict of a family business leaders influence next generation talent pool?*
11. *How does offsprings react to the parents' decisions, as a result of their attitude toward conflict?*

Jaskiewicz, Heinrichs, Rau, & Reay (2015) warned that many family failed succession because they could not manage their logics. Extending the discovery, we argue that the difference between family firms that successfully manage their use of family and commercial logics and those that do not lies in the attitude toward conflict. To be more specific, we are looking into family business leaders' attitude toward conflict as the determinant of family business sustainability. While family firms include multiple members of the same family working together, family business leaders are usually the ultimate leaders of the family, leading the business and acting as the matriarchs and patriarchs of the family (Cicellin, Mussolino, Martinez, & Iacono, 2013).

We contribute to practitioners and scholars in family business field in two ways. Practitioners in family firms can benefit from this study through the picture of what could happen to their talent pools when they attempt to avoid conflict. While attitude toward conflict is human nature that cannot be changed easily, practitioners can implement more specific plans of actions by learning about unpredictability associated with strategic planning involving the next generation family members.

This study also contributes to the family business field by pushing the agenda of utilizing attitude toward conflict scale to understand the complex dynamic of family business. Conflict is a major part of family firms due to the intermixing of family and business interests. Knowing how family members and leaders respond to conflicts will yield useful information and knowledge for the field.

## **2.Literature Review**

### **Attitude toward conflict**

Bresnahan, Donohue, Shearman, & Guan (2009) developed a conflict and mediation scale to measure how individuals respond to potential conflicts. The scale consist of statements describing behaviors and responses to conflict in a 5 Likert scale. Results from the questionnaire determines how a business leader approaches conflicts. This scale is used against interview notes to discover participants' attitude toward conflict.

Table 1. Attitude Toward Conflict Scale

---

<b>Conflict Approach</b>	<b>Conflict Avoidance</b>
Conflict is healthy, force people to face their problem	I usually avoid open discussion of my differences with others
Fight can help a troubled relationship	I think of conflict as something ugly
Conflict is positive because it gets prob men's out in the open and they can be dealt with	Conflict is usually humiliating for me
I'm always firm in pursuing my side of the issue	I wait to see if a dispute will resolve itself before taking action
Conflict helps you to know where you stand with other people	I hate arguments
I believe that conflict is a reality we must live with	I avoid conflict if at all possible
I like to world through conflict	I feel upset after an argument
I'm good at resolving conflict	
I like when people challenge my opinions	

\* Bresnahan, Donohue, Shearman, & Guan (2009)

The use of attitude toward conflict in family business setting was first used in Salim, Shariff, Arshad, and Suryasaputra (2016) to measure how a family business leader approaches successions based on their conflict approach and conflict avoidance.

Table 2. Predecessors' attitude toward conflict

	<b>Conflict as a natural part of business</b>	<b>Conflict avoidance</b>
Intention for succession	Plan A	Sole plan
Talent pool	Unlimited, all next generation	Select few, others kept away from operation
Decision making	Egalitarian or consultative	Pre-drafted, predecessor-controlled
Attitude toward the family firms' future	Relaxed, successor is well-equipped	Nervous, hoping for the best
Anticipation for retirement	Equally nervous of the word 'retirement', because of culture	
Reciprocal nepotism	Applies in both groups	

### **Family business**

Putting family business into one category can be misleading because of the variety of the business model. While it shares the quality of putting family members side by side in the workplace and intention to be passed down through generations, family business is very vibrant and diverse, including firms of many shapes and sizes, in every industry (Stewart & Hitt, 2012; Chrisman, Chua, Pearson, & Barnett, 2010). One thing the literature agrees upon is that treating family firms solely as profit-making institutions limit the ability to study its uniqueness (Berrone, Cruz, & Gomez-Mejia, 2012).

In the past, the dissolve of family businesses is often blamed on the management incompetence, which is an easy target, considering the fact that many startups became accidental family business through the exploitation of family capital when they could not afford to hire staff. In fact, as recently as 1995, world-renown economist Francis Fukuyama, in his book 'Trust', wrote that low trust cultures such as Asian and Latin American countries do business through references, resulting in economies dominated by family businesses that develop in slower speed, in comparison to high trust, Western cultures. This, according to Fukuyama, is a drawback in the economy caused by the limited talent pool when hiring for family businesses. Stewart and Hitt (2012), however, countered the claim that hiring process in family firms are much simpler because the employers know the skills and qualifications of the potential employees.

On the other hand, however, family firms' inability to structure a proper operational management was proven untrue when a study by Lam (2011) discovered that family members often disagree during succession process because of conflicting roles at home and at work. Lam (2011) added that skillful nonfamily employees can even step up to the plate and takeover operational issues while the family is dealing with succession. Stewart and Hitt (2012) suggested the middle ground, which professionalization is done in the form of leveraging the skills of family members

### **Nepotism**

Discussion on family business is impossible without the mention of the word nepotism. After all, a family business without nepotism is a mere business consisting of blood-related employees, which is common in developing nations such as Indonesia, as is an entrepreneurial startup utilizing family capital to staff the operation when the firm cannot afford to hire proper employees. Nevertheless, skepticisms surrounding family business

as a viable business model often revolve around the narrow talent pool from which successors are nominated from, such that a search on Family Business Review resulted in exactly four articles with the word '*nepotism*' on the titles, showing that even in the family business field, the word is preferably avoided.

A search of articles with the word '*nepotism*' on the titles in Family Business Review results in a total of 4 articles since its first issue in 1988, one of which is a book review, leaving us with 3 articles mentioning nepotism in family business. The oldest article was not available during search, so rely on the latter two for reference. This study adopt the notion of reciprocal nepotism, proposed by Jaskiewicz, Uhlenbruck, Balkin, and Reay (2013). While the notion was not empirically tested, the idea was proven in this study, that privileges such as primogeniture do not prevail in succession. Comparing family firm CEO to their nonfamily counterparts, Salvato, Minichilli, and Piccarreta (2012) agreed with the notion of reciprocal nepotism, reporting that CEO of family firms, while they are family members, are appointed for their qualifications. They also take as much time rising up to the rank as nonfamily CEO does.

### **Decision Making**

A few issues are important in family firm decision making. First of all, family firms have to decide on which family capital to utilize and which to leave behind. Family firms are propelled by three different family capitals, social capitals, human capitals, and financial capitals (Sorenson & Bierman, 2009). Social capital is almost always used in family firms, since it cannot easily be separated from the family. Family social capital has to do with the reputation of the family, relationships, and integrity. Family human capital is the highlight of this study. In its early stage, family firms employ human capital as an alternative to hiring professional management. Brundin and Sharma (2012) warned that family members with low tolerance of emotional messiness would sink, unable to keep themselves afloat amidst the pressures of family and workplace issues mixup. At the same time, those who are able to use emotional messiness to propel themselves u other management will flourish (Brundin & Sharma, 2012).

Human capital is also the root of the debate on whether family firms should keep management in the family as it grows. Stewart and Hitt (2012) suggested that hiring professionals to staff the firm can be substituted with leveraging family members to fill the human resource needs. The same study defended allegations that family firms run less professionally compared to nonfamily firms, explaining that family firms can afford to implement a much simpler human resource operating procedures. While Stewart and Hitt (2012) provided a fresh idea to tackle human resource problems during growth spurts of family firms, the study endangers firms' ability to operate with stability during succession period. Lam (2011) suggested that family members did not always act rationally during succession process, a period of which the strength of professional employees were tested to keep the business running while family members sort out their family issues.

The third family capital is family financial capital that should be credited for stability of family firms during financial crises (Globerman, Peng, & Shapiro, 2010; Sorenson & Bierman, 2009). Financial capital in the family business is not limited to personal wealth of family members, it also extended to available credit lines, courtesy of family members' social capital, i.e. Reputation of family member who provides guarantee on loans.

Another important decision making associated with family business is which logic to use. Jaskiewicz, Heinrichs, Rau, and Reay (2015) pointed out the two major logics at play, family and commercial logics. For family firms to successfully cruise competitively, they have to use the two logics interchangeably. Based on the study, inability to manage the use of family and commercial logics is responsible for the threat to family firms sustainability.

Yet another decision making issues much debated in family business is whether or not it is worth sacrificing family for work-related benefit. The literature was discussing about Chinese children of Chinese takeout places in the UK who risk discrimination when helping parents serve at the businesses (Jennings, Breikreuz, & James, 2013). As family scholars, Jennings, Breikreuz, and James (2013) argued that business-owning families sacrificed the well-being of family members, questioning whether or not the tradeoff is worth it. The big question in the study is whether or not entrepreneurship is good for the family.

**Conflict**

Conflict is not a new issue in family firms. Literature suggested family business succession is conflict-laden because it often involves intense emotions of actors involved in the process (Lam, 2011). Search of Family Business Review articles with the word 'conflict' in their titles result in a total of 13 articles, none of which talk about attitude toward conflict. Despite suggesting that lack of communication can jeopardize succession process in family firms, Blumentritt, Mathews, and Marchisio (2013) noted that conflict is the source of failure in family business. Brundin and Sharma (2012) added to the warning toward conflict-prone atmosphere in family business workplaces with their review of emotional messiness, in which work and family issues intermix, suggesting that ability to handle the pressure of emotional messiness propels a family member to the top while vulnerability and inability to cope sinks others to the bottom. The study paths the discussion that sets family firms apart from nonfamily firms. Caspersz and Thomas (2013) concluded that leadership in a family firm is more than a mere job, as one is also expected to take care of the family beyond their professional needs. In fact, Cicellin, Mussolino, Martinez, & Iacono (2010) suggested that family firm leaders often act as a paternal or maternal to both family members and their professional employees, taking care of them and their families beyond the scope of the workplace

**3. Research Method**

Dawson and Hjorth (2012) suggested that family business studies looking at complex issues involving many elements done qualitatively. Likewise, Sharma and Carney (2012) encourages learning from the main actors in a style similar to biographical interview, when uncovering new issues in family business. We decided to use multiple case studies as a medium to seek understanding of the impact of attitude toward conflict toward next generation talent pools in family firms.

In addition to being able to understand more about the issue, qualitative method allows participants to be more willing to share the truth through the telling of their reflections and inner thoughts without much thoughts of sugarcoating the reality. Family business involves 'messy emotions' and sensitive issues related to subjective feelings of one family member to another (Brundin & Sharma, 2012). It gets personal, and participants usually hesitate to give the whole truth when asked directly.

**Research Setting**

Data collection was done in Surabaya, the second largest city in Indonesia which is also an industrial hub of Eastern Indonesia. In Surabaya, it is common for middle and upper class families to run businesses intended to be passed through generations. Taking over parents' businesses is so common in the city that it is a disgrace to the family when a child applies for a job. The participants are parents to grownup children between the ages of 18 and 53, some of which employ siblings as well as nieces and nephews.

**Method**

We adhere to collective case study to answer the research question to allow us to extract as much information about the issue (Creswell, 2011). We try to study the



impact of family business leaders' attitude toward conflict to next generation talent pool but we also need to keep our eyes peeled for issues that we may not have been aware of, considering the fact that the idea of using attitude toward conflict scale to predict behavior of family firm leaders is brand new.

Common to qualitative studies, interview protocols are made available as a guideline, but participants are given the freedom to tell their family business stories the way it is most comfortable to them. It is the researchers' job to extract information and zoom in on matters important to the participants, based on the recordings and field observations, taking into accounts changes and dominant body language and tones of voice.

### **Propositions**

44. Family business leaders' attitude toward conflict influence the size of next generation talent pool:
  2. Family business leaders who perceive conflict as a natural part of a family firm tend to have larger next generation talent pool;
  3. Family business leaders who prefer to avoid conflict tend to have smaller talent pool
3. Family business leaders' attitude toward conflict influence firm diversification:
  - 1 Family business leaders who perceive conflict as a natural part of family firm tend to diversify more as a result of the larger talent pool;
  - 2 Family business leaders who prefer to avoid conflict tend to diversify less as a result of the smaller talent pool
4. Family business leaders' attitude toward conflict influence firm performance:
  - 1 Family business leaders who perceive conflict as a natural part of family firm tend to have better firm performance;
  - 2 Family business leaders who prefer to avoid conflict tend to perform less well compared to those who are friendly to conflict

### **Data Collection**

Participants of this study are selected purposively based on the qualifications. To be qualified as participants, ones have to be family business leaders, either founders or successors to their parents, in charge of family businesses with an annual revenue over Rp. 50,000,000 (50 million Rupiah or an equivalent of roughly US\$5,000 depending on the exchange rate). The threshold is set because of Undang-Undang Nomor 20 Tahun 2008 tentang UMKM, which is Indonesian government regulation regarding the size of SME. Businesses with annual revenue under Rp 50 millions are considered micro, small or medium enterprise, which would skew the result because owners of small and medium businesses prefer to provide financial and human capital for their children to form startups of similar industries. In reality, the actual revenue of the participants' firms are \$100,000 or more. The floor limit of the firm revenue is decide because small business owners with low capital prefer to provide their human or financial capitals to their children as a strait up capital to replicate the business or enter into similar industries.

Businesses under the controls of the participants have to be managed by the participants themselves as the pinnacle of decision makers' pyramid. This is a prerequisite for the study, in order to discover the impact of participants' attitude

toward conflict in the succession process. Having nonfamily managers in charge of daily operations would dilute the results of the study.

Participants are chosen purposively from the first author's professional network. Careful considerations were taken into account to make sure personal opinions and biases are not interfering with data collection. Several qualified participants had to be scratched from the list due to the authors' presumptions of them. Prevailing sampling methods are purposive and partial snowballing. Snowballed participants were also vetted to maximize demographic variety.

Data collection activity produced robust interviews from 7 participants ranging from the age of 53 to 71 with next generation children, nieces, and nephews' ages ranged from 18 to 53.

### Data Analysis

The main data collection method in this study is interview, during which we collect recordings of the interviews and take field notes of atmosphere observations, facial expressions, body language, signs of discomfort, and change in tone of voice or unease on the direction of the conversation. We mind mapped both the recordings and transcripts to extract the keywords and connections among keywords. Keyword reduction is done multiple times until they make a short list of keywords that is not redundant. Transcripts from the interviews were also run through the Attitude Toward Conflict Scale to develop patterns of decision making (Bresnahan, Donohue, Shearman, and Guan, 2009). While the word 'conflict' is included in the research protocol, overall analysis is needed to test validity of the claim.

## 4. Result and Discussion

Table 3. Details of participants

Participant	Generation	Next Generation		Potential Successor	Attitude Toward Conflict	Growth*	Diversify
		Total	In the firm				
A	3	6	5	Maybe	Approach	Yes	No
B	1	2	1	Decided	Avoid	No	No
C	1	3	1	Decided	Avoid	Yes	No
D	1	6	4	No	Approach	Yes	No
E	1	5	2	No	Approach	No	No
F	8	1	2 (one son in law)	Yes	Approach	Yes	Yes
G	2	5	5	Maybe	Approach	Yes	Yes

\* self-reported estimate

The most obvious finding is that all participants introduced the children to the business early in their lives, save for Participant E.

Growing up, I keep reminding my children to support this family firm that my grandfather worked so hard to pass down. I'm the only one actively involved in the operation but my sister's children, two of whom work with me, were also told to support the family firm. (Participant A, generation 3)

I still have the boys' pictures going to be farms with me when they were young. (Participant B, generation 1)

My grandson who is now 10 comes with me to drive the forklift at night when we have delivery during his school holiday. (Participant G, generation 2)

While this finding is not new to the family business studies, it confirms a few recent studies suggesting that hanging out with the family promotes mutual understanding among family members in the workplace (Hatak & Roessl, 2012; Jaskiewicz, Heinrichs, Rau, & Reay, 2015). We specifically choose to use the casual word 'hanging out' to describe the reality of the causality of relationship and time spent together that would later form mutual understanding and help offsprings understand the mindset of their parents.

Participant A, F, and G display the most obviously relaxed attitude toward conflict. Nevertheless, because participant F has only one daughter, it is not known whether situation would have been different if there are more children in the household. Both participants A and G implement open door policy welcoming all next generations to join the firm based on interests. In fact, participants A and G urge their children to 'show their supports to the family' through participations in the firms.

I keep telling them that they have to support the family firm like me and my father. (Participant A, generation 3)

Though more indirectly said, participant G made similar statement regarding preparation of the career paths of the children.

I send them to the US for their bachelor's degrees, but I think Indonesia is more suitable for their master's degree because they should learn things are done here. They can't learn that in the States. (Participant G, generation 2)

Both participants A and G have similar succession plans which is to invite all next generation family members to enter the competition and later to appoint the most qualified individual to the position of power. The most qualified individual according to participants A and G is someone who is good at solving problems, referee family members through conflicts in peace, and keep the family together. Both participants echo Chrisman, Kellermanns, Chan, and Liano (2010) through confirmation that family matters are a higher priority than business issues. This is also similar to the interwoven approach in which family business leaders involve family members in decision-making (Jaskiewicz, Heinrichs, Rau, & Reay, 2015).

It is obvious, then, that both participants A and G, while they look at conflicts as a natural part of family business life, are aware that prolonged conflicts threaten the integrity of the family business. Assumption can also be made, looking at the manners at which both participants emphasize family unity more than business competence, that conflicts can threaten the family business sustainability even more than economic reasons

The plan works great for both participants so far, it is business as usual with the entries of their next generations, be it their own children, nieces and nephews, and even a son in law for participant A. However, they both are a bit reluctant to think about what might happen should the unexpected happens, such as sickness or sudden deaths. Due to the culture, the question of sudden death was not asked directly. Instead, we asked about plan B for the time when participants cannot be involved in the workplace anymore.

I don't know when I will announce my successor, I have to wait until one of them emerge and gain recognitions from their siblings, cousins, and employees that (s)he is a better leader. Until then, I cannot really say anything. Human's age is in God's hands, but I think I give enough time to groom my successor. I'm 53 now, if I want to withdraw from operation when I am 60, I think they have enough time and experience to be on their own. (Participant A, generation 3)

My plan is to someday draft a family constitution that will mediate future problems, but it's a dream. (Participant G, generation 2)

Our concern is when there is sudden death or sickness to the current leader when the next generation is not ready to do without. Currently, both participants A and G assign their next generation members in different departments, based on their own strengths. Sudden disappearance of the leaders may confuse the young trainees and leave them without leaders. Worse yet, they may all think they are as capable as each other to succeed their parents that they each go their own way, threatening the integrity to find both the family and the business. Participants B and C avoid conflicts in the workplace by keeping certain children from the firms. For participant B, the decision is based on the younger son's superior capability at running the business and absorbing tacit knowledge from his father. The decision created a dent in the family relationship. There was no explicit declaration of the relationship lost as a result of the decision but sources close to the family validated the suspicion. We also caught the tension when the younger son was the only one the participant talked about during the interview. Despite the tension, the older son obliged and kept himself uninvolved. In return, the family provided the older son's financial needs as a compensation to his voluntary withdrawal from the business. It is one of the ugly consequences of family firms. Family business studies often discuss about agency syndrome in the younger generation family members involved in the business, that they are agents whose performance is determined by the benefit they receive. There has yet any study about family members outside of the firms who feel entitled to financial rewards just for being a member of the family.

Participant C is more unique in its approach and attempt to keep conflict at bay. As a father to one son and two younger daughters, he kept the daughters away from the business behind the logic that his mechanical and electrical distribution business is not a place for his daughters. On another note, he corrected himself and added that the son and the youngest daughter share the same type A character that would put them in constant conflict if they have to work near each other.

My son and youngest daughter are both hard-headed, they cannot work together without friction. They would both want to be the boss. My second one, however, is more accepting. She's a follower but she's very loyal and she has a gentle heart. (Participant C, generation 1)

It is worth noting that the family relationship of participant C is not dented as a result of the different treatment in terms of participation in the family firm. We suspect that part of the reason is the age of the children. All three are single in their 20s. More studies needs to be done to determine the accuracy of the current situation. To this allegation, participant B and his wife admitted they expect the children to have different relationship dynamics once they get married and start their own families.

They still live with us right now, and we can keep them from fighting but it all will change when they get married. The influence of their spouses and bigger family responsibilities and financial needs might change them. (Participant C, generation 1)

Participants D, F, and G diversified and reported growth while all other participants aside from participant B reported growth without diversification with the entry of next generation family members. Participant B focuses more on financial security of the family than the growth of the business.

My goal is to provide the basic needs of the children. They both own their houses and they have their basic needs such as cars and funding for their children's education provided. My job is pretty much done and I think I'm doing a pretty good job so far. (Participant B, generation 1)

Participant C is more ambitious in revenue growth despite the fact that no diversification occurs. In this area, participant C is similar to participant A who assigned each next generation family member to handle a certain product line or conquer a new region.

We have the goal reaching US\$10 millions in revenue in 2016...my son can handle financial and investment decisions but I am still in charge of the technical decisions, it's one of the area he has no expertise of. My staff has to go through me for technical issues. (Participant C, generation 1)

Participant D invested in their children through overseas education. As a mother with limited education, she has no doubt that her children can handle the operation of the firm but she focuses on cost reduction.

The kids could do is to buy new assets like new vehicles but they don't care about maintenance. Every time I am away from the warehouse, I come back to find broken forklifts that cannot be used and un repaired. They can handle the business but nobody can reduce cost like me. (Participant C, generation 1)

Looking into firm diversification from our data, reasons for diversification varies but they are all profit- and growth-oriented. Participants D, F, and G who diversified involve next generation family members in the process, for a chance to pick up the tacit knowledge.

We were very poor so once my oldest child was old enough to go everywhere with me, I asked my husband's boss to let me take metal scraps from their factory that I repurposed and sold. I learned from experience and moved on to repurposing old metal scraps into cracker cans that I sold to food seller. Then we moved on to a small workshop producing custom-sized gutters. Several years after, when we had our own building supply outlet, I started branching out to include more items. I'm always on the lookout. I do not want to be poor like we used to. I also need to make sure my children has enough. My youngest daughter worked for me but quit when she got married. She and her husband are house flippers. They buy old houses and renovate them to put them back in the market. When the market was good, they made a lot of money. (Participant D, generation 1)

It's not hard to make it in my industry. Most people are not interested in selling coffins. Around the world, most cultures look down on us so it's one of the least competitive industries. On the other hand, it is also not easy because repeat purchase is rare although it is balanced by the fact that our clients' seek our service on their next family loss. I cannot wish my clients' families frequent death. When my daughter was young, I took her to funeral homes to around the world when we travelled. I always took the time to visit my counterparts from other places to learn a thing or two. I came to learn that we could extend our service to a one stop funeral management company. I think we're the only one in town although our competitors try to replicate us. I can safely say that we own at least 50% marketshare. (Participant F, generation 7)

There has to be an innovation in every generation. We cannot keep doing the same thing and expect to survive. In my dad's day, he found opportunities during the World War II. When the Japanese invaded, they did not know anyone in Malang. They needed someone to operate the town for them. My dad was there providing basically any custom request from finding operator to

run the local utility companies to providing engineering supplies. Once Japan was defeated, as the Allied Forces descended in Malang, they also needed someone to roundup Japanese weapons and modify their own bullets so they could utilize Japanese weapons. I personally do not believe in middle man. I think we should only sell things that we add value to. Reselling things we buy without adding value is not sustainable. Our business is agriculture. It has to cover the agro and the culture. One without the other is incomplete. Now my son Arief is involved in reforestation. The government had 5% success rate in their own attempt. They was not able to maintain growth of the seeds so we come in to take care of the first year of the growth. We keep track of the growth of each tree, took photographs of the area, planted replacement trees, and replace the dead trees. We hand over the initiative at the end of year one. From then on, they should have good survival rate. Our first round resulted in 95% success rate. (Participant G, generation 2)

Participants A, E, F, and G emphasized that families were always there after the businesses cease operation. This awareness creates an atmosphere similar to family firms adopting the interwoven approach, where family culture is cohesive (Jaskiewicz, Heinrichs, Rau, & Reay, 2015). Nevertheless, the four participants do not all exhibit egalitarian leadership as characterized by the interwoven approach, indicating an alternative way to group family firms coming from a cohesive family cultures without adopting inclusive decision making. Reuther, they are simply putting family first. What can be concluded from participants A, E, F, and G is they all perceive conflicts as natural part of family business life.

Participant D is the only conflict-friendly participant who did not emphasize the importance of family unity. In the previous section, it is obvious that participant D, a mother of 4 daughters and one son, is the breadwinner and the business expert of the family. In the interview, she shared how difficult it was to take care of an aging husband who gets sick often while staying patient with the children. She also shared how sad her husband was when their only son decided to move out after he got married, even after the father's plea for him to live I with the parents.

My son moved out a few months after he got married. My husband was very sad but I told he didn't need to cry. It happened. They still live in town but he felt a terrible loss...my youngest two were born when we were better off. Business was good so they were fortunate to be able to study in Singapore from early ages but we're not close to them. Sometimes I feel sorry for them. They never knew the love of a mother. I was mostly very busy so my husband was the only one who visit them often. (Participant D, generation 1)

It is apparent that participant D was hardened by situation that required her to bring home the bacon for the family. Underneath it all, her family is still very important to her.

Data shows that in general, participants who perceive conflicts as natural part of family business life are those who are more flexible in the direction the firms are taking. They get extra boost in trusting their children to navigate the firms the best they can as stewards of the firms, although the directions taken may not be the ones chosen by the participants themselves.

In the process of understanding the impact of attitude toward conflict on next generation talent pool, we have tested the accuracy of the interchangeable use of family and commercial logics as the two main institutional logics used in family firms, as proposed but Jaskiewicz, Heinrichs, Rau, and Reay (2015). The data shows that not all family firms with cohesive family culture implements egalitarian leadership but all of them have more relaxed approach toward conflict.

Reviewing the propositions made, our data can only support propositions 1A and 1B. Participants who are relaxed toward conflict do attract more of their next generation talents to get involve in the firms, despite the fact that they have options to build their careers elsewhere. Participants' relaxed attitude does not only provide a more comfortable workplace for their children but also makes the family firms an attractive place to work.

Only participant E falls into the category of a leader who perceives conflict as a natural part of family business life and does not diversify. Nevertheless, there is no relationship between the attitude toward conflict and diversification. At this point, it is more plausible to say that parents who diversify their family firms and involve their children in the process are more likely to groom them into family business leaders who have keen eye for opportunities and diversify the businesses.

An early concern toward looking at growth as an element influenced by attitude toward conflict is that findings will not be accurate because data on growth is self-reported. In the end, the concern goes unfounded because the proposition is not supported, even with self-reported growth that may not be the most accurate.

Despite banking on very richest of data that can be mined into different angles, the obvious limitation of our study lies in the number game. It is hard to convince the field of study with only 7 participants. Nevertheless, in the quest of understanding a certain behavior, the choice falls into sacrificing generalization for the sake of depth and robustness. Another limitation of the study, as Sharma suggested in one of the editor's notes of *Family Business Review* is the unobtainable information that can only be filled with longitudinal studies. Longitudinal studies on the impact of attitude toward conflict on next generation talent pool will yield much more accurate pictures.

## **5. Conclusion and Implications**

Contributions of our study is useful for both practitioners and scholars in family business field. Practitioners in family firms can obviously benefit from this study through the picture of what could happen to their talent pools when they attempt to avoid conflict among the children. While attitude toward conflict is human



nature that cannot be changed easily, practitioners can implement more specific plans of actions by learning about unpredictability associated with strategic planning involving the next generation family members.

This study also contributes to the family business field by pushing the agenda of utilizing attitude toward conflict scale to understand the complex dynamic of family business. Conflict is a major part of family firms due to the intermixing of family and business interests. Knowing how family members and leaders respond to conflicts will yield useful information and knowledge for the field.

It is advisable that leaders who tend to avoid conflict exercise with manageable conflicts to push their boundaries further out. It is also beneficial that family business leaders leave some rooms for flexibility in strategic planning. After all, the future of the firms are in the hands of the next generations. However, family business leaders should also draft a safe contingency plan should the unexpected occurs before next generation family members are ready to take over the leadership. Part of family business field is driven by culture that studying the business without understanding of the family leads to the wrong conclusion (James, Jennings, & Breikreuz, 2012), this study can benefit from more samples from other cultures to see how cultural variations would change the patterns. It will also be interesting if future research is conducted longitudinally to see if there are temporal changes. Family business issues deal with maturity and past experience, which may change the attitude of both predecessors and successors as they both go through time. Being a qualitative study, this study lacks the ability to measure the intervals in between the two ends of being open to conflicts and avoiding conflicts. Future studies should also focus on measuring the conflict avoidance group's sensitivity toward conflict as this study has not yet gotten into what this group would do when they face conflict

### **References**

- Berrone, P., Cruz, C. and Gomez-Mejia, L.R., 2012. Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, Vol.25(3), pp.258-279.
- Blumentritt, T., Mathews, T. and Marchisio, G., 2013. Game theory and family business succession: An introduction. *Family Business Review*, Vol.26(1), pp.51-67.
- Bresnahan, M.J., Donohue, W.A., Shearman, S.M. and Guan, X., 2009. Research note: Two measures of conflict orientation. *Conflict Resolution Quarterly*, Vol.26(3), pp. 365-379.
- Brundin, E. and Sharma, P., 2012. Love, hate, and desire: the role of emotional messiness in the business family. In *Understanding Family Businesses* (pp. 55-71). Springer New York.
- Caspersz, D. and Thomas, J., 2013. Developing Positivity to Manage. *Family Business Review*. Advance online publication. doi: 0894486513505641.
- Chrisman, J.J., Chua, J.H., Pearson, A.W. and Barnett, T., 2012. Family involvement, family influence, and family-centered non-economic goals in small firms.

*Entrepreneurship Theory and Practice*, Vol.36(2), pp.267-293.

- Chrisman, J.J., Kellermanns, F.W., Chan, K.C. and Liano, K., 2010. Intellectual foundations of current research in family business: An identification and review of 25 influential articles. *Family Business Review*, Vol.23(1), pp.9-26.
- Cicellin, M., Mussolino, D., Martinez, M. and Iacono, M.P., 2013. Towards the construct of paternalism to investigate control in family business governance. *Corporate Ownership & Control*, Vol.10(4), pp.317-328.
- Cingoz, A., & Akilli, H. S. 2015. 'A study on examining the relationship among cronyism, self-reported job performance, and organizational trust', paper presented at the 2015 WEI International Academy Conference Proceedings, Vienna, Austria, 12-15 April.
- Credit Suisse, 2011, *Asian family businesses in report 2011*, Switzerland.
- Creswell, J.W., 2012. *Qualitative inquiry and research design: Choosing among five approaches*. Sage publications.
- Dawson, A. and Hjorth, D., 2012. Advancing family business research through narrative analysis. *Family Business Review*, 25(3), pp.339-355.
- Fukuyama, F., 1995. *Trust: The social virtues and the creation of prosperity*.
- Globerman, S., Peng, M.W. and Shapiro, D.M., 2011. Corporate governance and Asian companies. *Asia Pacific Journal of Management*, Vol.28, pp. 1-14.
- Hatak, I.R. and Roessl, D., 2015. Relational competence-based knowledge transfer within intrafamily succession: An experimental study. *Family Business Review*, Vol. 28(1),pp.10-25
- Hay Group, 2012, *Family business in Asia: Breaking the third-generation curse*, Singapore.
- James, A.E., Jennings, J.E. and Breitreuz, R.S., 2012. Worlds apart? Rebridging the distance between family science and family business research. *Family Business Review*, Vol.25(1), pp.87-108.
- Jaskiewicz, P., Heinrichs, K., Rau, S.B. and Reay, T., 2016. To be or not to be: how family firms manage family and commercial logics in succession. *Entrepreneurship Theory and Practice*. Advance online publication. doi: 10.1111/etap.12146.
- Jaskiewicz, P., Uhlenbruck, K., Balkin, D.B. and Reay, T., 2013. Is nepotism good or bad? Types of nepotism and implications for knowledge management. *Family Business Review*, Vol.26(2), pp.121-139.
- Jennings, J.E., Breitreuz, R.S. and James, A.E., 2013. When family members are also business owners: Is entrepreneurship good for families?. *Family Relations*, Vol.62(3), pp.472-489.
- Lam, W., 2011. Dancing to two tunes: Multi-entity roles in the family business succession process. *International Small Business Journal*, Vol.29(5), pp.508-533.

- Loewe, M., Blume, J., Schönleber, V., Seibert, S., Speer, J., & Voss, C. 2007. Deutsches Institut für Entwicklungspolitik gGmbH, The impact of favouritism on the business climate : a study on Wasta in Jordan, DIE Studies 30, Bonn, Germany, <http://nbn-resolving.de/urn:nbn:de:0168- ssoar-110675>
- Nordqvist, M. and Melin, L., 2010. The promise of the strategy as practice perspective for family business strategy research. *Journal of Family Business Strategy*, Vol.1(1), pp.15-25.
- Salim, L., Shariff, M.N.M., & Arshad, D., forthcoming. Attitude toward conflict and family business succession. *Journal of Business Management and Accounting*.
- Salvato, C., Minichilli, A. and Piccarreta, R., 2012. Faster route to the CEO suite: Nepotism or managerial proficiency? *Family Business Review*, Vol.25(2), pp.206-224.
- Sharma, P. and Carney, M., 2012. Value creation and performance in private family firms: Measurement and methodological issues. *Family Business Review*, Vol.25(3), pp.233-242.
- Sorenson, R.L. and Bierman, L., 2009. Family capital, family business, and free enterprise. *Family Business Review*, Vol.22(3), pp.193-195.
- Stewart, A. and Hitt, M.A., 2012. Why can't a family business be more like a nonfamily business? Modes of professionalization in family firms. *Family Business Review*, Vol. 25(1), pp.58-86.

***THE SIGNIFICANCE KEY OF INTELLECTUAL CAPITAL TO  
INCREASE FINANCIAL PERFORMANCE, FIRM'S GROWTH, AND  
MARKET VALUE***

**Wawan Sadtyo Nugroho**

Muhammadiyah Magelang University  
Doctoral Student, Faculty of Economics and Business  
Gadjah Mada University  
wawan.sn11@gmail.com

**Gudono**

Faculty of Economics and Business, Gadjah Mada University

**Abstract**

**Purpose** – *The purpose of this study is to examine the contact between intellectual capital and financial performance, firm's growth, and market value also on high-tech industry, low-tech industry, and telecommunication companies. Another contributions of this study is to investigate is there any intellectual capital differences between each company's sectors.*

**Design/methodology/approach** – *Value Added Intellectual capital (VAIC™) method by Pulic (1998, 1999, 2000, 2003) is used to verify the effect of intellectual capital on financial performance, firm's growth, and market value. By using purposive sampling method in 5 years period from 2010 to 2014, obtained 45 sample of high-tech industry, 185 sample of low-tech industry, and 25 sample of telecommunication companies. Partial Least Square (PLS) and one way anova are used in this study to investigate the empirical causalities of each variables.*

**Findings** – *The results of the analysis indicate that intellectual capital has a positive effect to financial performance. In the otherwise, firm's growth and market value are not influenced by intellectual capital. The results also revealed that there is an intellectual capital differences on each company's sectors.*

**Originality/value** – *The results extend the understanding of the role of intellectual capital in creating corporate value and building sustainable competitive advantages for companies in emerging economies, where different technological advancements may bring different implications for valuation of intellectual capital.*

**Keywords:** *Intellectual Capital, Financial Performance, Firm's Growth, Market Value, High-Tech Industry, Low-Tech Industry, Telecommunication Companies.*

## INTRODUCTION

The continuously developed science and technology always give impacts to the companies. Each company must be *survive* among many similar emerged companies, even each company has to try to be the most superior among the others. Being superior in this case could be superior in product and other competitive advantages. The main target of the most superior company would be the achievement in economic orientation of the company, which could be measured by company profits.

This condition is consistent with the concept of *intellectual capital*, where business organizations focused increasingly on the importance of *knowledge assets* as a form of intangible assets. Edvinsson and Malone (1997) are the researcher who have firstly discussed about IC (*Intellectual Capital*), which divided the two elements, IC Human Capital and Structural Capital. Edvinsson and Malone (1997) defined *Intellectual Capital* as a part of *Intangible Assets*.

Pulic etc. (1998, 2004) developed new method of IC (*Intellectual Capital*) measurement at Research Center for IC in Austria. The VAIC method developed by Pulic (1998, 1999, 2000, 2003), was designed to provide information about the efficiency of the additional values of the tangible and intangible assets owned by the company. The elements which have formed the IC (*Intellectual Capital*) included VACA (*Value Added of Capital Employed*), VAHU (*Value Added of Human Capital*), and STVA (*Structural Capital Value Added*). According to Pulic (1998), the main goal in a knowledge-based economy is to create additional value of the company, while it needed the right size to create *Physical Capital* and *Intellectual Potential (Potential Capital)*. VACA is a measure for *Physical Capital*, while VAHU and STVA are the measures of *Potential Capital*. All of VACA, VAHU, and STVA are internal resources of the company.

Bontis (1998) has also expressed his opinion about the IC component that was consisted of three: *Human Capital (HC)*, *Structural Capital (SC)*, and *Relational Capital (RC)* or *Customer Capital (CC)*. HC and SC are the internal resources of the company, while the RC/CC is a source of power derived from external company. Bontis (1998) defined IC as a collection or combination of *Internal* and *External Knowledges* owned by the company.

Pulic (1999) has critiqued the IC component expressed by Bontis (1998). Pulic (1999) has given criticism that the *Relational Capital (RC)* or *Customer Capital (CC)* was not an IC components for RC/CC reflecting the company reputation. The company reputation is formed in external environment (such as trust), it is a side effect of the used IC wisely in the company. It is the underlying reason of Pulic (1999) that the RC/CC is not part of the IC.

The both reasons were still under debate among several researchers who have conducted research on IC until now, so that it made the researchers to be interested to review the IC components. Referring to Edvinsson and Malone (1997), the researcher who firstly discussed the IC, they have defined *Intellectual Capital* as a part of *Intangible Assets*. Therefore, there were some items of *Intangible Assets* that did not logically contribute as IC parts of a company. One of them was reputation of the company (RC/CC), that might be a side effect of the used IC wisely in the company according to Pulic (1999). Based on this, the researchers have tried to use the IC components developed by Pulic (1998, 1999, 2000, 2003).

They were already performed several studies on the effect of *intellectual capital* to the company. Mr. Wang's research (2011) has used the model Pulic (VAIC™) to study the relationship between *intellectual capital* and financial performance, which the result showed that *intellectual capital* had the positive effect on firm performance. Whereas the research conducted by Gan and Saleh (2008) on Bursa Malaysia Securities showed that *intellectual capital* (VAIC™) was associated positively with the company performance and the market value. The research conducted by Muhammad (2009) in the Malaysian financial sector has also proved similar thing that the *intellectual capital* had positive and significant effects to the company performance as measured by profitability and *Return on Assets* (ROA).

It was conducted for several times the research on *intellectual capital* in Indonesia, one of them was performed by Ulum *et al.* (2008), which proved that: first, *intellectual capital* (VAIC™) affected the financial performance of the company; second, *intellectual capital* (VAIC™) effected on the future of financial performance of the company; and the third, ROGIG did not affect to the future of the financial performance of the company.

In contrast to the mentioned studies, the research of Mosavi *et al.* (2012) and Kuryanto (2008) showed the inversed results, i.e. there was not any positive influence between *intellectual capital* and financial performance of the company. Based on the study result that was contradictive, it was interesting to be reexamined by conducting research on *intellectual capital*. This research was a development of the research conducted by Solikhah *et al.* (2010), and the differences in this study with the Sholikhah research (2010) were: **first**, put into the entire cost of employees to calculate VAHU because the previous studies included only salaries and wages for the reason of IC concept considered the cost expenditures incurred by the company that was viewed as an investment of actual company with the hope of obtaining the additional value for the

company in the future; **second**, the used samples in this study were the companies of *high-tech industry*, *low-tech industry* and services, especially telecommunications for all categories of the companies must have a company in managing different resources such as activities of R & D costs. The previous research was performed only on manufacture companies; **third**, the indicators of firm *size* were added to the variable of the *financial performance*. *Size* indicator was added as a control variable to the financial performance of big and small companies because it was worried that the financial performance of the company was also influenced by the company size; **fourth**, this study examined also specifically the effect of intellectual capital to the industrial manufacturing based on *high technology* and the companies that did not use high technology (*low technology*), and service companies, because we believed that the technology application in manufacturing and service companies would be different results in the use of intellectual capital.

### HYPOTHESIS DEVELOPMENT

Pulic (1998; 1999; 2000, 2003) did not measure directly the company intellectual capital, but he have filed a measure to assess the efficiency of the additional values as a result of the company intellectual ability (*Value Added Intellectual Coefficient – VAIC™*). The main components of VAIC™ could be viewed on the company resources: *physical capital* (*value added capital employed – VACE*), *human capital* (*value added human capital – VAHC*), and *structural capital* (*structural capital value added – VASC*).

*Value Added of Capital Employed* (VACA) is an indicator of the VAIC™ used to measure the additional values created by the use of a unit of physical capital. Pulic (1998) said that any use of a unit of CE (*Capital Employed*) has generated greater profits than other company, it meant that the company was better in using its CE. Better use of CE is a part of the company *intellectual capital* (IC).

*Value Added Human Capital* (VAHU) showed how many *value added* (VA) that could be produced with the spent funds on the workers. The relationship between VA with *human capital* (HC) indicated the ability to create value in the company.

*Structural Capital Value Added* (STVA) showed the *structural capital* (SC) contribution in creating values. STVA measured the number of the required SC to produce 1 rupiah of VA and was an indication of the SC success in creating values. SC was not an independent measure as HC in the process of creating values. It meant that the greater the contribution of HC in value creation, the smaller the contribution of SC in this regard. Furthermore, Pulic stated that the SC was VA minus HC.

The companies that could manage their intellectual resources is believed to be able in creating *value added* and to make *competitive advantage* by conducting innovation, research, and development with the purpose of improving the financial performance of the company. The company financial performance is a display or a wholly financial state of the company during certain period of time. It is similar to the concept of *Resource-Based Theory* that is created by the idea of Wernerfelt in 1984 and developed by Jay B. Barney in 1986. In the context of explaining the influence of *intellectual capital* on the financial performance, the growth and market value of the company, Wernerfelt explained that according to the *Resource-Based Theory*, a company would gain a competitive advantage and a good financial performance by possessing, controlling, and using the important strategic assets. The strategic assets include tangible and intangible assets (Barney Clark, 2007).

The similar thing was stated by Belkaoui (2003), according to *Resource-Based Theory* the company resources are key drivers of competitive advantage and firm performance. In addition, it was said that in achieving the sustainable profits a company must be able to control the tangible and intangible assets. According to Gan and Saleh (2008), the definition of *intellectual capital* is intellectual matter, such as good knowledge, information, intellectual property, experience that could be used to produce the wealth of the company.

Whereas from the viewpoint of *Stakeholder Theory* it is stated that the corporate managers would attempt to get *value added* which would then be redistributed to all *stakeholders*. This theory maintained the relationship of the *stakeholders* including all forms of the relationship between the company and all *stakeholders*. According to Fontaine *et al* (2006) the *stakeholder* approach was appeared firstly and was developed by Freeman in 1984. Based on *stakeholder* theory, organizational management is expected to perform the important activities by *stakeholders* and for reporting back on those activities to the *stakeholders*. In context to explain the relationship between VAIC™ and *financial performance, firm's growth, and market value*, the *stakeholder* theory is viewed by the two fields, both in ethics (moral) and managerial fields. Ethics field argues that all *stakeholders* have rights to be treated fairly by the organization, and managers should manage organization for the benefit of all *stakeholders* (Deegan, 2004). Whereas managerial fields found that the *stakeholders* strength in influencing corporate management should be regarded as a function of the *stakeholder* control level over the resources needed by organization (Ulum *et al*, 2008). The researcher used *Stakeholder Theory* in this study, because in theory it is expected that the manager would be able to manage the use of IC wisely



and consider the the *stakeholders* interests so that it could improve *financial performance, growth, and market performance* of the company.

Most of the study results, such as research Wang (2011), Muhammad (2009), and Mosavi *et al* (2012) and Chen *et al* (2005) showed that the *Intellectual capital* affected positively to the financial performance. Similarly, the research of Solikhah *et al* (2010) which proved empirically that the *intellectual capital* affected positively to the *firm's performance*. Financial performance is oftenly considered in determining the investor choices to invest. A company with the capability to leverage its intellectual resources optimally could be seen on its financial performance. It meant that the capital invested by the investor could be used optimally so that it could increase the company revenue.

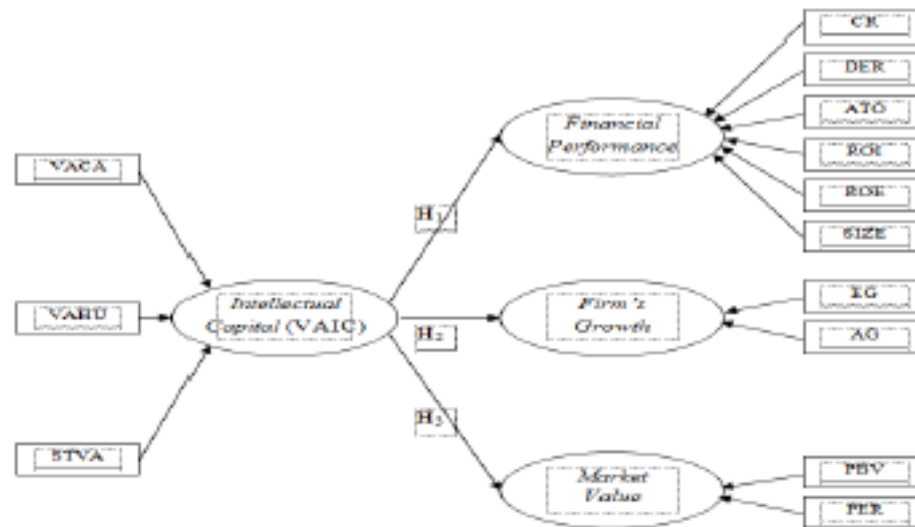
The study results conducted by Mosavi *et al* (2012) provided empirical evidence that *intellectual capital* could influence to the growth (in this case measured by sales growth). Although in the study sales growth is an indicator of the company performance. Then, the study conducted by Solikhah *et al* (2010) has also showed that *intellectual capital* was proved significantly to the company growth. The companies with optimal utilization of *intellectual capital* will create an *value added* regularly and continuously so that the company will be able to grow and survive.

Based on the study results of Mosavi *et al* (2012), it has noted that the investors were likely to pay a higher rate on the shares of companies with the intellectual resources compared to the companies with low intellectual resources. The paid price of the investor reflected the company value. *Market value* was happened due to the inclusion of the concept of intellectual capital that was the main factors and could increase the company value. The previous study that was also conducted by Chen *et al* (2005) and Mosavi *et al* (2012) noted that intellectual capital had positive effect on the market value. Along with the development of a knowledge-based industries, the investors would not only focus on short-term interests to improve the financial return. In addition, the investors would also give more votes to the companies with high intellectual resources.

The empirical studies of Pulic (2000) found that it was different the *intellectual capital* contribution to each industry. In the industries of drilling and mining, *value added* showed a slightly higher value than the expenditure for employees with the relative insignificant components of structural capital. Whereas in the pharmaceutical industry, the biggest *software* of contribution in providing *value added* was structural capital. Pulic opinion was supported by the evidence of Tan *et al* (2007) who

found that the *intellectual capital* contribution to the company performance was different for each industry. The research of Solikhah *et al.* (2010) provided also empirical evidence that the contribution of intellectual capital to the company was different for each industry.

**Figure 1**  
**Framework of Research Model**



Based on the theories and previous studies, there are several hypotheses that could be proposed such as follows:

- H<sub>1</sub>** : The increased financial performance of the company is influenced by the also increased *Intellectual capital (High-Tech Industry, Low-Tech Industry, and Telecommunications Services Company), ceteris paribus.*
- H<sub>2</sub>** : The increased company growth is influenced by the also increased *Intellectual capital (High-Tech Industry, Low-Tech Industry, and Telecommunications Services Company), ceteris paribus.*
- H<sub>3</sub>** : The increased market value of the company is influenced by the also increased *Intellectual capital (High-Tech Industry, Low-Tech Industry, and Telecommunications Services Company), ceteris paribus.*
- H<sub>4</sub>** : The *Intellectual capital* performance is different for each company sector (*High-Tech Industry, Low-Tech Industry, and Telecommunications Services Company*).

## METHODS OF RESEARCH

### Population and Sample

The population in this study was consisted of the manufacturing and telecommunications services companies in Indonesia. The samples were several manufacturing companies and telecommunication services companies that have made *go public* in Indonesia Stock Exchange (BEI) during 2010, 2011, 2012, 2013, and 2014. The selection of manufacturing sector as a sample was referred to the research of Solikhah *et al.* (2010), except that this study examined specifically the manufacturing companies classified as *high tech* and *low tech industries*. Previously, the research of Gan and Saleh (2008) performed a study on manufacturing companies that implemented the ICT (*Information and Communication Technology*) development, so that it tried to retest the similar samples that was grounded in how intense the kind of research and development by cost R & D companies. Every manufacturing company needs certainly the activities of R & D, especially for manufacturing companies of high-tech, therefore, this study divides manufacturing companies into *high-tech* and *low-tech industries* based on *Short-Term Business Statistics* (STS, 2013) of the EU-27's *industrial growth*.

The service companies that would be used as samples came from the telecommunications services companies with the consideration that the field of telecommunications services companies has high activities of R & D in supporting business continuity.

The samples selection in this study used method of *purposive sampling*. The research samples were based on the determined criteria such as the followings:

1. Representing industries that included in *high-tech industry*, *low-tech industry*, and the telecommunications services company.
2. Not delisting (exit) from the Indonesia Stock Exchange for five years respectively: 2010, 2011, 2012, 2013, and 2014.
3. The company has performed *listing* at Indonesia Stock Exchange before 2010.
4. The company is not suspended from trading in 2010, 2011, 2012, 2013, and 2014.
5. Each annual report has completeness of information to meet the interests of measuring each variable.

### Variable Measurement

#### Independent Variables: *Intellectual Capital*

The performance of *intellectual capital* is value creation obtained for

*intellectual capital* management. The performance of *intellectual capital* here is measured by *value added* created by *physical capital* (VACA), *human capital* (VAHU), and *structural capital* (STVA). The combination of the three *value added* is symbolized by the name of VAIC™ that is developed by Pulic (1998; 1999; 2000) with the following measurements:

$$VACA = \frac{VA}{CE}$$

$$VAHU = \frac{VA}{HC}$$

$$STVA = \frac{SC}{VA}$$

Note:

*Value Added* (VA): The difference between *Output* and *Input*

$$VA = \text{OUT} - \text{IN}$$

Output (OUT) : Total sales and other revenue

Input (IN) : Costs and expenses (other than personnel expenses)

Human Capital (HC) : Personnel costs

Capital Employed (CE): Available funds (equity, net income)

Structural Capital (SC) : the difference between *value added* and *human capital*

$$SC = VA - HC$$

**Dependent Variables:**

#### 1. *Financial Performance* (FP)

The first dependent variable in this research is *financial performance* (FP), then measured by the indicators of *Current Ratio* (CR), *Debt to Equity Ratio* (DER), *Assets Turnover* (ATO), *Return on Investment* (ROI), *Return on Equity* (ROE), and *Company Size* (SIZE).

$$CR = \frac{\text{current assets}}{\text{current liabilities}}$$

$$DER = \frac{\text{total debt}}{\text{shareholders equity}}$$

$$ATO = \frac{\text{Sales}}{\text{total assets}}$$

$$ROI = \frac{\text{Net earning}}{\text{Total Assets}}$$

$$ROE = \frac{\text{Net Earning}}{\text{shareholders equity}}$$

$$SIZE = \text{Ln Total Asset}$$

## 2. *Firm's Growth (GR)*

The variable of company growth is proxied by the two indicators: *Earning Growth* (EG) and *Asset Growth* (AG).

$$EG = \frac{\text{earning of year}_t}{\text{earning of year}_{t-1}} - 1 \times 100\%$$

$$AG = \frac{\text{asset}_t}{\text{asset}_{t-1}} - 1 \times 100\%$$

## 3. *Firms' Market Value (MV)*

The variable of *firms' market value* (MV) is proxied by *Price to Book Value ratio* (PBV) and *Price to Earning Ratio* (PER).

$$PBV = \frac{\text{Market Price}}{\text{Book value pershare}}$$

$$PER = \frac{\text{Stock Price}}{\text{Earning per share}}$$

## Method of Data Analysis

The used methods of data analysis in this research included descriptive statistical analysis and *one-way ANOVA* using SPSS V.21. In addition, this research used measurement of test model (*Outer Model*) and test of structural model (*Inner Model*) using *WarpPLS* 3.0. The selection of PLS method was based on the consideration that in this study all of used variables were latent variables formed with formative indicators. PLS was a suitable technical choice because of its small

sample size and *normally attribute variable*.

Descriptive statistics were used to determine the value of the maximum, minimum, average, and standard deviation of each variable (Ghozali, 2012: 19). Stevens (2013) stated that the purpose of the *one-way ANOVA* test was to determine whether the average value of the dependent variable was different or not. Based on Stevens (2009), Montgomery (2013), and also Ghozali (2013: 71), decision-making on this analysis used multiple stages, *Test of Homogeneity Variance* to test if a variable had a same *variance*, *Test of between-subject effects* that would indicate the different performance of *Intellectual capital* for each company sector, *Post Hoc Test* that would determine which variables that contributed to make a difference (Stevens, 2009: 151), and *Homogeneous Subset* that would determine the differences or similar in the average value of the variables.

Testing with PLS was conducted to evaluate H1, H2, and H3 by using the entire samples based on J ogiyanto (2011: 82). Test of measurement model used to validate the built research model. In this study, it could not be conducted the reliability test because each formative indicators in a latent variable was assumed to be correlated (independent), so that the reliability value could not be fixed (J ogiyanto, 2011: 93). Then, test of structural model (*Inner Model*) was performed to predict the causal relationships among variables or test of hypothesis.

The *output model* is the most important output results in the decision-making test with PLS. The *output model* would provide the resumed information about the research model and the value of testing results of *R squared value*, the value of *path coefficient* (value of coefficient  $\beta$ ), and *p-value* in form of picture researching model.

## EMPIRICAL RESULTS AND DISCUSSION

### Empirical Results

The tabulation results from sample selection of the overall company population and the used consideration could be tabulated in Table 4.1.

**Table 1**  
**Sample Distribution Company**

No	Description	Total			
		<i>High-tech Industry</i>	<i>Low-tech Industry</i>	Telecommunication Service	Integration
1	Number of	11	47	6	64

companies					
2	Not delisting (exit) on Indonesia Stock Exchange for five years respectively: 2010, 2011, 2012, 2013, and 2014.	0	0	0	64
3	The company has performed <i>listing</i> at Indonesia Stock Exchange before 2010.	(1)	(5)	0	(6)
4	The company is not suspended from trading in 2010, 2011, 2012, 2013, and 2014.	0	0	(1)	(1)
5	Each annual report has completeness of information to meet the interests of measuring each variable.	(1)	(5)	0	(6)
Total		9	37	5	51
Total in Five Years		45	185	25	255

Hypothesis Testing used PLS (*Partial Least Square*)s such as follows:

#### 1. *Outer Model* Testing

After it was conducted *outer model* testing, it was known that not all





	s		s		s		s	
APC	0.526	<0.001	0.334	<0.001	0.660	<0.001	0.239	<0.001
ARS	0.324	0.006	0.141	0.248	0.449	0.015	0.100	0.021
AVIF	1.000	<5	1.000	<5	1.000	<5	1.000	<5
Note	Values of APC, ARS and AVIF have qualified to <i>goodness of fit</i>		Values of APC and AVIF have qualified to <i>goodness of fit</i>		Values of APC, ARS and AVIF have qualified to <i>goodness of fit</i>		Values of APC, ARS and AVIF have qualified to <i>goodness of fit</i>	

Testing of *inner model* also performed on each sample of companies so that it obtained results as shown in Figure 3 (enclosed) with samples of *high-tech industry* companies, Figure 4 (enclosed) with samples of *low-tech industry* companies, figure 5 (enclosed) with samples of telecommunication service companies. The variable of *intellectual capital* always produces *p-value* that is significant to the variable of *Financial Performance*, either in the type of *high-tech industry* companies, *low-tech industry* companies, and the telecommunications services companies and the integration of <0.001; 0,013; <0.001; and <0.001. Whereas the influence of *intellectual capital* variable to the variables of *Firm's Growth* and *Market Value* still shows the inconsistent results. The influence of *intellectual capital* to the *firm's growth* and *market value* was partial, only on a certain type of the company.

### 3. One Way ANOVA Testing

SPSS output of *one way ANOVA* showed that there were differences in *intellectual capital* (VACA and STVA) among types of the companies. The value of the *adjusted R<sup>2</sup>* of 0.058 meant that VACA variability could be explained by the variability of company types by 5.8%. The value of the *adjusted R<sup>2</sup>* showed also that the variability of the company types was able to explain the STVA variability of 15.2%. Whereas the indicator of VAHU was proved to be similar among company types with the *adjusted R<sup>2</sup>* that also showed the value of 0.000, it meant that the influence of the company against VAHU was very small.

## Discussion

### 1. Effect of *Intellectual Capital* on Corporate Financial Performance (*Financial Performance*)

This study has proved that the IC effected positively to the *financial performance* so that it was accepted the first hypothesis (H1). It means that the higher the value of *intellectual capital* the higher the value of *financial performance* of the company. It applies to the companies with *high-tech industry*, *low-tech industry*, and telecommunications services (not affected by other factors).

This finding supports empirically the *stakeholder theory* in which the stakeholders will play a role in the management of intellectual resources of the company to create *value added* and *competitive advantage*. A company with the capability to leverage its intellectual resources optimally could be seen on its financial performance. This study results have also reinforced the *resource-based theory*, that meant that the capital invested by the investor could be used optimally so that it could increase the the company *revenue*.

The study results are consistent with the research conducted by Mr. Wang (2011) about the *listed* companies in *Taiwan Economic Journal Database* and Baroroh (2013) who has conducted research about banking company in Indonesia that stated that *intellectual capital* was proved to have significant and positive effect on the financial performance of the company.

## 2. Effect of *Intellectual Capital* on Company Growth (*Firm's Growth*)

Based on the test results, it was obtained that IC did not affect to the company growth, it meant that the increased company growth was not affected by the also increased *Intellectual capital*.

The study results were not yet able to support the stakeholder theory and RBT where the companies with the capability to utilize the intellectual resources effectively and efficiently would encourage the development capabilities of the company. These findings indicated two possibilities, first, the company has minimum knowledge of *intellectual capital* so that it could not be utilized optimally.

The second is the *intellectual capital* will only give effect to the *firm's growth* only in certain companies, because in this study it was also noted that the *intellectual capital* positively affected to the *firm's growth* in companies with high technology. The higher the used technology in a company, the more optimal the use of the intellectual resources.

These results were contradictive with the study results of Solikhah *et al* (2010) that showed that the *Intellectual capital* was proved significant to the company growth. The study results were proved contradictive with some of other studies results such as the study of Mosavi *et al* (2012) that provided empirical evidence that the

*Intellectual Capital* (VAIC™) has effected on the growth (in this case measured by sales growth). It could be proved that the model has not been a comprehensive study because it only used two indicators in assessing the *firm's growth*, *earning growth* and *asset growth*. The use of more than two indicators might improve the research model, such as indicators of revenue growth that was performed by Mosavi *et al* (2012) in his research. According to Mosavi *et al* (2012), *growth revenues* is the simplest measurement indicating the growth of an organization.

### 3. Effect of *Intellectual Capital* on the Market Value of the Company (*Firm's Market Value*)

This study showed that the IC did not affect to company's market value. It meant that the increased market value of the company was not influenced by the also increased *Intellectual capital*. The study result was appropriate with the result of Gan and Saleh (2008) which stated that the VAIC was not able to explain the company value. These findings indicated that market appreciation of a company was based on the owned physical resources, and the investors were not focused on the intellectual resources of the company. It was suggested from the the fact that the *intellectual capital* has not become an interesting theme to be developed in creating value for the company. The investors are still not focused on long-term interests, but only focus on improving the financial returns. It was not certainly appropriate with the theory of RBT.

The different results were proposed by Chen *et al* (2005) which stated that intellectual capital had a positive impact on the market value. This study used only two indicators to describe the value of the company: *price to book value ratio* and *price-to-earning ratio*. Even if it was based on the testing results of the outer model, it was also known that the indicator of *price to earnings ratio* was not feasible, in other words the variable market value was only represented by the indicator of *price to book value ratio*. It indicated that the indicator of *price to book value ratio* was less representative so that in next study it could add other indicators such as *annual stock return*.

### 4. There Is A Difference of *Intellectual Capital* Performance in Each Sector of The Company.

Each type of company would have different focus of interest so that the utilization of its resources would also be different. It is reinforced by Pulic opinion (2000) in his research that found that the contribution of each industry to the *Intellectual capital* is different.

The test results showed that the type of company had marginal and significant effects on the *intellectual capital* in the companies of telecommunications services, *high-tech industry*, and *low-tech industry*. It meant that these types of companies would affect marginally to some components of *intellectual capital* VACA and STVA, whereas the other types did not effect to VAHU. The test results of this study supported Solikhah *et al* (2010) who found that the *Intellectual capital* contribution on the performance of different companies was different for each industry.

The findings of the research can illustrate how good is the circumstance of industry in Indonesia, where the majority is still many companies that rely on *human capital*.

## 5. Additional Discussion

**Table 3**  
**Output Test Results Summary**

	<i>High-Tech Industry</i>			<i>Low-Tech Industry</i>			Telecommunication Service			Integration		
	FP	GR	MV	FP	GR	MV	FP	GR	MV	FP	GR	MV
p-value	<0.001 <sup>***</sup>	0.086 <sup>*</sup>	<0.001 <sup>***</sup>	0.013 <sup>**</sup>	0.210	0.102 <sup>*</sup>	<0.001 <sup>***</sup>	0.187	<0.001 <sup>***</sup>	<0.001 <sup>***</sup>	0.244	0.111
IC Koef. $\beta$	0.769	0.237	-0.570	0.557	0.144	0.302	0.745	-0.499	0.711	0.530	0.111	0.076
R <sup>2</sup>	0.592	0.056	0.325	0.310	0.021	0.091	0.555	0.249	0.506	0.281	0.012	0.006

Note:

<sup>\*\*\*</sup> significant at 1%

<sup>\*\*</sup> significant at 5%

<sup>\*</sup> marginal significance at 10%

The conducted tests on the sample of company with *high-tech industry*, *low-tech industry*, and the telecommunications company proved that the *intellectual capital* positive effected on *financial performance*. This is supported by research of Wang (2011) which stated that the *intellectual capital* influenced significantly to the company's performance. Whereas the variable of *firm's growth* that was appeared to be affected by the *intellectual capital* could only be proven in testing by samples of companies with *high-tech industry*. These results indicated a considerable influence on utilization of *intellectual capital* in the company with *high-tech industry*. Components of the resources including *physical capital* and *intellectual potential* have been utilized by the companies of

*high-tech industry* in order to improve the company's growth. The average value of VACA and STVA owned by telecommunications services company was similar with the *low-tech industry* companies, it meant that the telecommunications services companies were still not able to optimize the available funds and structural capital in the company. Inversely, the research of Gan and Saleh (2008) showed that the *intellectual capital* was able to explain the company growth using the company's productivity indicators in this case.

The different result was occurred in testing of *intellectual capital* effect on the *market value* where the *intellectual capital* was proved to have affected negatively to the *market value* with  $\beta$  coefficient of -0.57. IC was also proved to have affected positively on a sample of companies with *low-tech industry* and telecommunications services. These results are supported by the study results of Chen *et al* (2005), which proved that *intellectual capital* affected positively to the *firm's market value*.

The possible reasons that could underlie this condition was the difference in the management of *value added capital employed* (VACA) and *structural capital value added* (STVA) such as could be seen in *one-way ANOVA* test. Therefore, it could be assumed that the companies of *low-tech industry* are still not able to optimize the available funds and structural capital in the companies so that it has not been optimal the impact on growth of the company.

## CONCLUSION AND LIMITATION

It could be conclude from the results of hypothesis testing that the *intellectual capital* has positive impact on *financial performance*. Whereas on the other hand, it could be concluded that the *intellectual capital* has not any effect on the *firm's growth* and *market value*. *One way ANOVA* test could concluded that there was differences in the performance of *intellectual capital* of each company.

The values of *adjusted R<sup>2</sup>* of 0.28 indicated that the variable of *financial performance* could be explained by the variable of *intellectual capital* of 28%, whereas the remaining 72% was explained by other factors in outside of the research model.

The test results of *one way ANOVA* showed that the company types influenced VACA indicators and STVA company. The number of *adjusted R<sup>2</sup>* of 0.058 on testing among types of companies towards *intellectual capital* (VACA) meant that the variability could be explained by the variability of company types by 5.8%. Whereas the value of *adjusted R squared* on testing the company types to the STVA indicators also showed that the variability in the company types could explain the STVA variability of 15.2%

It could be conducted further research by expanding the scope of research, such as by adding objects like corporate banking services that were indeed largely utilize their human resources, so that it could be seen really different with the manufacturing companies. It would be better if the further research could add indicators of *Annual Stock Return (ASR)* in the variable of *market value*.

The indicators addition should also be conducted at the variable of *firm's growth*, such as by adding indicators of *growth revenue*. The further researches could also deepen the testing of the influence of company types by using *two-way ANOVA* analysis to know the influence of company types to the *intellectual capital* on the dependent variable. Then, it should be performed the hypothesis addition in order to analyze the test results in more detail.

#### REFERENCES

- Barney, Jay B. dan Delwin N. Clark. 2007. Resource Based Theory: Creating And Sustaining Competitive Advantages. (*Online*), (<http://http://www.slideshare.net>) diakses 19 Juni 2015.
- Baroroh, Niswah. 2013. Analisis Pengaruh Modal Intelektual Terhadap Kinerja Keuangan Perusahaan Manufaktur Di Indonesia. *Jurnal Dinamika Akuntansi*. Vol. 5 No.2 pp. 172-182.
- Belkaoui, A.R. 2003. Intellectual Capital and Firm Performance Of Us Multinational Firms: A Study Of The Resource-Based And Stakeholder Views. *Journal of Intellectual Capital*. Vol. 4 No. 2. pp. 215-226
- Chen, M.C., S.J. Cheng, Y. Hwang. 2005. An Empirical Investigation Of The Relationship Between Intellectual Capital And Firms' Market Value and Financial Performance. *Journal of Intellectual Capital*. Vol. 6 No. 2. pp. 159-176.
- Deegan, C. 2004. *Financial Accounting Theory*. McGraw-Hill Book Company. Sydney.
- Fontaine, Charles et al. 2006. The Stakeholder Theory. (*Online*), (<http://www.martonomily.com>) diakses 19 Juni 2015.
- Gan, Kin and Zakiah Saleh. 2008. Intellectual Capital and Corporate Performance of Technology-Intensive Companies: Malaysia Evidence. *Asian Journal of Business and Accounting*, 1(1), 2008, 113-130.
- Gudono. 2012. *Analisis Data Multivariat*. BPFE-UGM: Yogyakarta.
- \_\_\_\_\_. 2013. *Aplikasi Analisis Multivariate dengan Program IBM SPSS 21 Update PLS Regresi*. Badan Penerbit Undip: Semarang.
- Jogiyanto. 2011. *Konsep dan Aplikasi Structural Equation Modeling Berbasis Varian Dalam Penelitian Bisnis*. STIM YKPN: Yogyakarta.
- Kuryanto, Benny et al. 2008. Pengaruh Modal Intelektual terhadap Kinerja Perusahaan. *SNA XI*. Pontianak.
- Kusumo, Bambang Parto. 2012. Studi Empiris Pengaruh Modalintelektual Terhadap Kinerja Keuangan, Pertumbuhan Perusahaan, dan Nilai Pasar Pada Perusahaan Yang Terdaftar Di Bursa Efek Indonesia (BEI). *Skripsi: Fakultas Ekonomika dan Bisnis Program Studi SI Akuntansi Universitas Diponegoro*.
- Molodchik, Mariya Anatolievna et all. 2012. Intellectual Capital Transformation Evaluation Model. *Journal of Intellectual Capital*. Vol. 13.
- Montgomery, Douglas C.. 2013. *Design and Analysis of Experiments Eighth Edition*. John Wiley & Sons, Inc.: United States.
- Mosavi, Seyed Alireza, Shekoufeh Nekouezadeh and Mahnoosh Ghaedi . 2012. A Study of Relations Between Intellectual Capital Components, Market Value and Finance

- Performance. *African Journal of Business Management*. Vol. 6 (4), pp. 1396-1403, 1 February, 2012.
- Wang, Mu Shun. 2011. Intellectual Capital and Firm Performance. *Annual Conference on Innovations in Business & Management London, UK*.
- Muhammad, Nik Maheran Nik. 2009. Intellectual Capital Efficiency and Firm's Performance: Study on Malaysian Financial Sectors. *International Journal of Economics and Finance*. Vol. 1 No. 2 pp. 206-212.
- Nasrullah, Muh. 2011. Anova Satu Jalan (One Way Anova ) dengan SPSS. (Online), (<http://www.paknasir.info>.) diakses 19 Maret 2016.
- Pulic, A. 1998. Measuring the Performance Of Intellectual Potential In Knowledge Economy. *Paper presented at the 2nd McMaster Word Congress on Measuring and Managing Intellectual Capital by the Austrian Team for Intellectual Potential*.
- \_\_\_\_\_. 1999. Basic information on VAICTM. (Online), (<http://www.vaic-on.net>.) diakses 20 Februari 2016.
- \_\_\_\_\_. 2000. VAICTM – an accounting tool for IC management. (Online), (<http://www.measuring-ip.at/Papers/ham99txt.htm>) diakses tanggal 20 Februari 2016.
- Short-Term business Statistics. 2013. High-technology Versus Low-technology Manufacturing. (Online), (<http://ec.europa.eu/eurostat/statistics-explained/index.php>.) diakses 6 November 2015
- Sholihin, Mahfud dan Dwi Ratmono. 2013. *Analisis SEM-PLS Dengan WarpPLS 3.0 Untuk Hubungan Nonlinier Dalam Penelitian Sosial dan Bisnis*. Andi Yogyakarta: Yogyakarta.
- Solikhah, Badingatus *et al.* 2010. Implikasi Intellectual Capital Terhadap Financial Performance, Growth dan Market Value; Studi Empiris Dengan Pendekatan Simplistic Specification. *SNA XIII*. Purwokerto.
- Starovic, *et.al.* 2003. *Handbook for Chartered Institute of Management Accountants*. Published by Chartered Institute of Management Accountants.
- Stevens, James P..2009. *Applied Multivariate Statistics For The Social Sciences Fifth Edition*. Routledge Taylor & Francis Group: London.
- Tan, H.P., D. Plowman, P. Hancock. 2007. Intellectual Capital and Financial Returns of Companies. *Journal of Intellectual Capital*. Vol. 8 No. 1. pp. 76-95.
- Ulum, Ihyaul, *et al.* 2008. Intellectual Capital dan Kinerja Keuangan Perusahaan; Suatu Analisis dengan Pendekatan Partial Least Squares. *SNA XI*. Pontianak.

## **A MODEL OF WASTE MANAGEMENT IMPROVEMENT IN INDONESIA**

**Yefta Andi Kus Noegroho<sup>1</sup>, Suzy Noviyanti<sup>1</sup>,  
Jony Oktavian Haryanto<sup>2</sup>, Lanita Winata<sup>3</sup>.**

1. Faculty of Economics and Business, Satya Wacana Christian University, Indonesia

2. President University, Indonesia

3. Griffith University, Gold Coast Campus, Australia

---

### **Abstract**

Waste management (garbage) is an important thing and cannot be negotiated by any companies. By applying a good waste management system, companies will be the companies that are pro-environment and they will be positively appreciated by their stakeholders. This study aims to examine the factors that influence the waste management and their impacts on the financial performance of the company through a model to determine the antecedents of commitment and waste management program that eventually lead to improved financial performance. This research was conducted by distributing questionnaires to 100 managers of companies that implement waste management programs. The results show that there is a positive influence of awareness and legal compliance towards its environmental commitments and positive influence on the environmental commitment program of waste management and waste management programs towards the financial performance of the company. This study also gives a boost to companies that want to improve the company's financial performance through waste management program.

**Keywords:** *Environmental awareness, environmental compliance, environmental commitment, waste management, capacity building, corporate financial performance.*

---

---

<sup>1</sup> Yefta Andi Kus Noegroho  
Faculty of Economics and Business  
Satya Wacana Christian University  
Jl. Diponegoro no. 52-60 Salatiga, Indonesia  
e-mail: yefta@staff.uksw.edu



**COMPARISON OF GOOD GOVERNANCE IMPLEMENTATION IN  
INDONESIA: EXPLORATORY ANALYSIS OF FAMILY AND NON FAMILY  
BUSINESS FINANCIAL STATEMENTS DISCLOSURES THAT LISTED IN  
LQ-45\*****Citra Sukmadilaga<sup>1</sup>, Lastuti Abubakar<sup>2</sup>, Tri Handayani<sup>3</sup>**<sup>1</sup>*Faculty of Economics and Business, Universitas Padjadjaran,  
(citra.sukmadilaga@unpad.ac.id)*<sup>2</sup>*Faculty of Law, Universitas Padjadjaran,  
(lastutiabubakar@yahoo.com)*<sup>3</sup>*Faculty of Law, Universitas Padjadjaran, (t212h@yahoo.com)*

---

**ABSTRACT:**

*The purpose of this research is to investigate disclosure level for family and non-family business financial statement that listed in LQ-45.*

*Research method employed is exploratory quantitative. Data collected using disclosure checklist provide by PricewaterhouseCoopers and Forum for Corporate Governance in Indonesia (FCGI). Family Businesses are defined from the majority shareholders of each firm to find whether the firm belongs to one family or is managed by family members. Furthermore, we compare with Non family business with similar industry and nearest total asset. Data analysed using descriptive statistics.*

*The research indicated that although Family and non-family business corporate governance score is good, but could be further improved. Based on overall comparison score, Non Family Businesses are outperformed than Family Businesses.*

**Keywords:** Family Business, Non Family Business, disclosure, good governance.

---

**1. Introduction**

Claessens, Djankov and Lang (1999) classified ownership concentration in East Asian region into two broad groups: widely held corporations and corporations with ultimate controlling owners. In widely held corporations none of the owners has a significant control right. Corporations with ultimate owners were those in which certain shareholders – those controlling some percentage of voting right – could be traced in the chain of ownership. Claessens et al (1999) further divided ultimate owners into families, widely held corporations, widely held financial institutions and the state ownership of firms. However, there is little evidence on the relationship between ownership concentration and performance in less developed South East Asian countries, despite the fact that many economies in this region are characterized by considerable family and state ownership of listed corporations (see table 1.1.). Hence, this study focuses on the

performance of family and state owned enterprises, prominent feature of firm ownership in the Asian region, and contributes further to the discourse on the research area of interest.

**Table 1. Control of Publicly traded companies in East Asia within 20% cut-off Ownerships**

Country	Number of Corporations	Widely Held	Family	State	Widely Held Financial	Widely Held Corporations
Hong Kong	330	7.0	66.7	1.4	5.2	19.8
<b>Indonesia</b>	<b>178</b>	<b>5.1</b>	<b>71.5</b>	<b>8.2</b>	<b>2.0</b>	<b>13.2</b>
Japan	1,240	79.8	9.7	0.8	6.5	3.2
Korea	345	43.2	48.4	1.6	0.7	6.1
Malaysia	238	10.3	67.2	13.4	2.3	6.7
Philippines	120	19.2	44.6	2.1	7.5	26.7
Singapore	221	5.4	55.4	23.5	4.1	11.5
Taiwan	141	26.2	48.2	2.8	5.3	17.4
Thailand	167	6.6	61.6	8.0	8.6	15.3

Source: Claessens et.al (1999)

Recently, survey that has been done by PricewaterhouseCoopers regarding Family Business Survey in 2014, revealed that 95 percent businesses in Indonesia belongs to families and those family businesses approximately were contributed 25 percent to Indonesia's Gross Domestic Product (GDP).

In term of corporate governance, there was a survey conducted by Asian Development Bank (ADB) in 2014 incorporated into ASEAN Corporate Governance Scorecard in six ASEAN countries showed that although there were governance improvements in six ASEAN countries surveyed, and the average index of governance for Indonesia was 54.55 (from maximum score of 142.00), which means that governance in Indonesia still far from sufficient.

Generally, corporate that perceived to have good governance, will gain trust from stakeholders and will generate good business and corporate culture. One of vital area in corporate governance is how corporation manage their financial resource. The information provided in financial statements

Financial statements can present quality in corporate financial management. By looking into financial statement disclosure, user can know several vital information regarding how management manage the corporation, especially how good the accountability and governance of corporation. Corporate Governance usually has a standard. Generally, all countries published their own unique corporate governance standard. However, Forum for Corporate Governance in Indonesia (FCGI) and PriceWaterhouseCoopers have drawn up the Corporate Governance Self Assessment Checklist as an national reference in corporate governance standard. This research is trying to compare family and non family business financial statement's disclosure level, using the Corporate Governance Self Assessment Checklist as a guidance.

## 1.1 Research Questions

The purpose of this research is to answer question, namely how is the disclosure level for Family and Non Family businesses' financial statement that listed in LQ-45, using the Corporate Governance Self Assessment Checklist for the year 2014 ?

## **2. Literature Review**

### **What is Corporate Governance?**

Presently, academics and professionals have shown increasing interest in the study of corporate governance, which enhances our knowledge of how corporate governance may be seen as the system by which companies are directed and controlled (Cadbury, 1999). It centres on the configuration of control mechanisms that attempts to limit problems arising from potential conflict of interest between the different participants in the firm, managers, shareholders, employees, creditors, etc.

According to the revised principles of corporate governance of OECD (2004), corporate governance is defined as a framework to coordinate the relationship between shareholders, board of directors, managers and other stakeholders. Specifically, corporate governance is divisible into: corporate governance structure and corporate governance process. Governance structures, which include ownership structure and board structure, are intended to discipline the behavior of corporate governance actors (owners, directors and executive management). Governance processes refer to the interaction of governance actors based on governance structures. Hence, governance structures influence the effectiveness of governance process and ultimately the firm performance. Evidence from the literature suggests that, good governance generates investor goodwill and confidence. For example, Gompers et al (2003) stated that, where there is good corporate governance it increases the firm's valuations and boosts the bottom line. Claessens et al (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

### **How Corporate Governance can help?**

Kashif and Siddiqui (2012) explained that Corporate Governance helps countries and companies attract investment from around the globe as investors consider companies practicing good governance being safer. It also strengthens the foundation for long-term economic growth. Following are some of the requirements of Good Corporate Governance and their effects.

12. **Transparency:** Corruption and non-transparency drains a company of its image as well as long-term prospects, while driving investors away. Therefore, by demanding transparency in corporate transactions, Corporate Governance attacks the core of corruption and is major source in eradicating it from its roots.
13. **Improving Management:** Corporate Governance helps managers to make sound business decisions and formulate strategies that are in the best interest of the organization and the stakeholders. This improvement in decision making and managing helps companies to attract investment on favorable terms and enhances performance of the company.
14. **Standards and Procedures:** Corporate Governance favors formulation of standards and procedures to deal with crisis that hit capitalist economies after every decade or two. By adopting standards to deal with investors and creditors, this prevents banking crisis as well as business failures.

15. Safeguarding minority shareholders: For countries that are trying to attract small investors (foreign or local), Corporate Governance matters a great deal on getting the finances out of their pockets. Research has shown that countries with stronger corporate governance protections for minority shareholders also have much larger and more liquid capital markets.

Hence, Good Corporate Governance:

45. Reduce risk
46. Stimulate performance
47. Improves access to capital markets
48. Enhances the marketability of goods and services
49. Improves leadership
50. Demonstrate transparency and social accountability (CIMA Handbook Corporate Governance, 2012).

### **Why Corporate Governance is crucial for family firms?**

Increasing growth and globalization has brought many challenges for family businesses and many of these challenges can be tackled by adopting sound corporate governance systems (Gulzar and Wang, 2010). As the family firms expand, the relationship between the owners, managers and employees becomes more complex. To be able to handle such issues, a good corporate governance system put in place the right policies to manage such a complexity. Corporate governance creates a solid organizational structure that clarifies roles, reporting lines and delegation of responsibility. It also draws the line between ownership and management and separate policy direction from the day-to-day running of the company.

A solid governance system helps to resolve conflicts within the family setting thereby allowing the family members to focus on other key issues of the business. This would invariably lead to an open decision-making and procedures that ensures fairness, an essential tool in avoiding tension and thereby raising the reputation of the company.

### **Corporate Governance and Family Business**

This research provides a review of important trends in the strategic management approach to studying family firms and corporate governance. There are both a convergence in definitions and the emergence of new approaches and theories as agency theory, the resource based view of the firm and other strategic models as the leading theoretical perspectives. The corporate governance discussion in the family business field has received much attention during the last decade. The interest in the subject comes not only from the academic side. The topic figures also among the top priorities on the agenda of family business owners and their advisors alike. Many family businesses today are multinational companies (MNCs) operating in an international arena and with their local partners.

Beside the types of stakeholders found in any organization, family firms contain stakeholders different in nature from those described in the previous sections: family stakeholders are historically, culturally, and relationally different from the other groups. Historically, a family is related to its business for a long duration; furthermore, each family has its own culture and set of values, which do the family members internalize as they grow up; finally, family stakeholders are genetically related to each other. According to Ward (2003b), this is what differentiates family business from general business governance. In the widely held firm, the relationships among the governance bodies (and mainly between the board of directors and the management) are

characterized by distrust: does the agent (the manager) really act in the best interest of the principal (the shareholder)? On the contrary, trust and the quality of relationships are what make family businesses so distinctive. The role of trust as a governance mechanism and its importance in family firms will be further investigated in the next section.

With the background knowledge of the previous passages, we are now able to introduce a suitable definition of governance in family firms. Cadbury's 1999 definition is well adapted to assess the particular governance configuration in family firms: "Corporate governance is the system by which companies are directed and controlled." Several reasons back the adoption of this definition: Firstly, it contains all-important elements necessary to describe corporate governance, but employs simple language and is therefore easy to understand.

Secondly, governance is described here as a system. We can further develop this idea and analyze what elements constitute the governance system. A system contains actors (or structures) and processes describing how these elements interact with each other. Structures and processes constitutes the governance system in any family firm, and furthermore, it is important to mention that each individual family firm has a particular governance system of its own, depending on the patterns of interaction between the structures and processes (Nordqvist & Melin, 2002). Structures (used as a synonym for actors) of family business governance system include (1) the family and its institutions (family meeting, family assembly, and family council), (2) the board Directors, (3) the Chief Executive Officer (CEO) and the Top management Team (Neubauer & Lank, 1998). By some, family agreements are another important structural element of family firm governance (Hughes, 1997). This particular structure results from the nexus of the family-, the ownership-, and the business sphere. The model is often referred to in literature as the "three circle model" (Tagiuri and Davis, 1996; Gersick et al, 1997) and it is characterized by multiple relationships and interactions among the actors of the different spheres. In the same context, Neubauer and Lank (1998) speak of "the three circle and tie model" as they add the board of directors as an individual systems.

Governance processes in family firms are concerned with the activities of and the interactions among the different actors within the governance structure. These processes encompass both concrete and relational activities like social interaction, institutional forces and cultural patterns (Nordqvist & Melin, 2002).

A third reason for the choice of the Cadbury (1999) definition is that it is consistent with the requirements for a governance system claimed by Carlock and Ward (2001). The authors state, "Family Business governance requires parallel family and business thinking to support the development of planning, decision-making, and problem solving structures for both the family and business system. " In their book, the authors propose a Parallel Planning Process for family firms to integrate and balance both the family's and the business's interests. This is an important insight, as Cadbury (2000) mentioned earlier "It is essential at the outset to recognize that the governance of a family firm is in many ways more complex than the governance of a firm with no family involvement. Family relationships have to be managed in addition to business relationships." A sound and solid governance structure is fundamental for the family's and the business's continuity over time, as the case of the French Wendel family with its almost three hundred year-old history impressively illustrates (Blondel & Van der Hayden, 1999a & 1999b). As soon as at the end of the 1800s, the family established ownership agreements regulating ownership requirements and establishing management duties.

Strong family commitment and shared values combined with business excellence are at the heart of this family's success during times of turbulent changes and its success persist even today.

Financial management processes in corporation ranging from planning to financial control. Financial management usually consist of these activities: Planning, Budgeting, Treasury, Accounting and Reporting, and auditing. The financial statement is a product of financial management. Financial statement has several purposes, namely as a decision making tools for user of financial statements, and also to show accountability and stewardship of entity to users. Financial statement inform several financial matters, not just numbers, but also qualitative information. There are several information required to disclose by accounting standard. Disclosure serve a purpose as further explanation of numbers provided in financial statement, and as another explanation of corporate financial management, which cannot be explained in numbers, or in face of financial statements. Higher disclosure level will indicate how much corporation comply to its commitment for governance.

Research framework can be defined as follows:

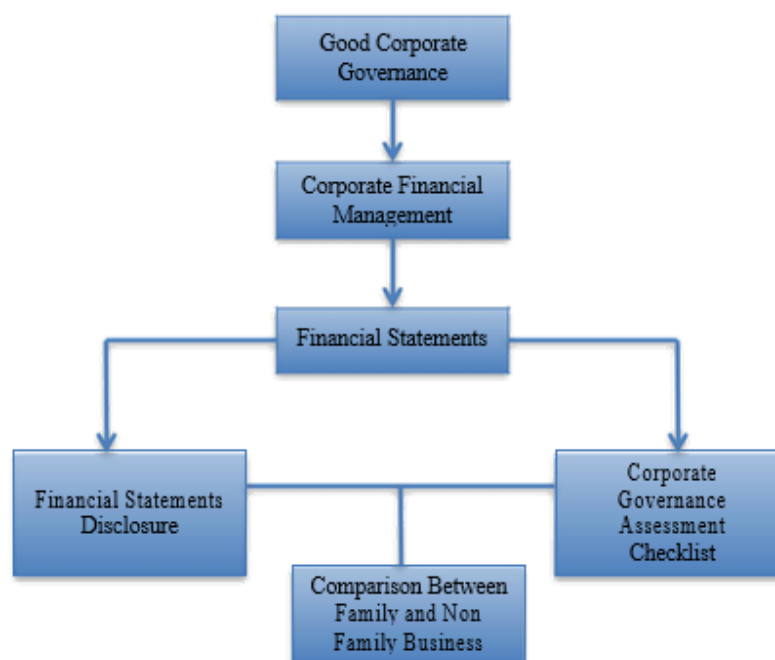


Figure 1. Research Frame Work

### 3. Research Method

This research uses exploratory method with quantitative approach. Researcher used family and non family business' financial statement as an instrument. Population is all public listed family businesses and non family businesses that match in similar industry and total asset, however researcher select only family business that included in LQ-45 index as those companies are not only most liquid but also most active trading share in Indonesia Stock Exchange (IDX). It means that those companies is more favourable for investor. Hence, it will be good sample for comparison the good corporate governance between two types of companies.

Researcher select financial reporting in 2014 as observation years due to it is the latest data from family and non family businesses financial statements.

Family business is defined from majority shareholder that classified in financial reporting. Data collected by browse sample financial statement both family and non family businesses that include in LQ-45 Index. Disclosure checklist used a guidance that provided by PriceWaterHouseCoopers, one of Big 4 audit firm and Forum for Corporate Governance in Indonesia. Data analyzed using descriptive statistics. Data is presented in form of tables and explain narratively.

#### 4. Results and Discussions

Generally, Sample of Family and Non Family Businesses still lack of financial statements disclosure. Family Businesses' disclosure score was around 72 percent, while Non Family Businesses was better, more than 75 percent. More detailed analysis is presented in table below:

**Table 2. Financial Statements Disclosure**

Summary Scores	Weighting Scores (in %)									
	FOB					NON FOB				
	AALI	AKRA	ASII	CPIN	LSIP	BWPT	JPFA	POLYCEM	UNSP	UNTR
1. Shareholder Rights	10.8	12.2	11	11.4	12.6	13.6	14	13	13.6	13.6
2. Corporate Governance Policies	14.4	15.45	16.2	15	16.2	16.2	15.3	15.3	15.9	15.9
3. Corporate Governance Practices	30.9	37.5	37.2	33	36	33.6	37.8	37.8	40.2	39.3
4. Disclosures	6.8	7.6	7.6	7.6	7.6	7.2	7.6	7.6	7.6	7.6
5. Audit	3	3	3.3	2.85	3	3	3	3	3.15	3
Total score	65.9	75.75	75.3	69.85	75.4	73.6	77.7	76.7	80.45	79.4

Based on table, Non Family businesses provide better disclosure rather than Family business. There are several reasons of why Family Businesses can provide less disclosure rather than Non Family Businesses. First is, although public listed family businesses have diverse their ownership but still the majority ownership under one family. Hence, a sense of privacy about the business and a possessive feeling of entitlement to unquestioned and unfettered discretion in decision-making naturally arise. (Young, 2002)

Another reason is most family businesses tend to believe that transparency and information disclosure pertaining to business issues should circulate and consequently benefit the business owner and family inner circle since they were the majority investor. Some family businesses claimed that disclosures of financial transactions in family businesses would make them vulnerable to witchcraft, they also confirmed that implementation of good governance is not beneficial to family businesses' growth. (Viriri and Muzividzi, 2013). This clearly shows that the

majority of family owned businesses are neither aware nor committed to implementation of good governance principles.

## 5. Conclusion and Suggestions

Based on research result above it can be concluded that although Non Family businesses' financial statements provide more disclosure rather than family businesses's, but generally, disclosure level of Family's and Non Family's Businesses financial statements could be further improved.

The researcher suggest several effort that can be done to increase the level of financial statements disclosure:

- 2 Family and Non Family Businesses need to practice transparency and information disclosures to key stakeholders. Transparency is considered one of the determinants of good governance.
- 3 Like in the United States, Indonesian government and regulators needs to strengthen minority shareholder interest protection that can accomplished under the threat of litigation for violation of the securites law, so there could be serious consequences for failure to disclose material information involving these companies.

This research is still an exploratory so it has many weaknesses. For future research, we suggest to add more samples of companies and also adding years of observation to see whether any improvement or declining in term of score for every year. Future research can also test any relation between financial disclosure level with companies performance, such as: audit opinion, good governance index, etc.

## References

- Blondel, C & L, Van der Hayden. (1999a). The Wendel Family: Affectio Societatis (A) – The Story of a French Industrial Dynasty (1704-1976). Research Case no.09/1999-4784, INSEAD, Fontainebleau, France.
- Blondel, C & L, Van der Hayden. (1999b). The Wendel Family: Affectio Societatis (B) – CGIP; The Family as Shareholder Entrepreneur (1977-1996). Research Case no.09/1999-4784, INSEAD, Fontainebleau, France.
- Cadbury, Sir A. (1999). What are the Trends in Corporate Governance? How will they Impact your Company? Long Range Planning. Vol.32 (1). 12-19.
- Cadbury, Sir A. (2000). Family Firms and Their Governance; Creating Tomorrow's Company from Today's. Egon Zehnder International. Great Britain.
- Carlock, Randel. S. and John L.Ward. (2001). Strategic Planning for the Family Business. Palgrave-macmillan. New York.
- CIMA Handbook Corporate Governance. (2012), --- [www.cima.org.uk](http://www.cima.org.uk), June 2012.
- Claessens, S., Djankov, S., Fan, J., and Lang, L. (1999). Expropriation of minority shareholders: evidence from East Asia. Policy Research paper 2088, World Bank, Washington DC.
- Claessens, Stijn. Simeon Djankov, Joseph P.H. Fan, and Larry H.P. Lang. (2002), Disentangling the incentive and entrenchment effects of large shareholdings, Journal of Finance Vol.57, 2741-2772.
- Gersick. K.E, J.A.Davis, M.M. Hampton, & I. Lansberg. (1997). Generation to Generation: Life Cycles of the Family Business. Harvard Business Press, pp. 1-4.
- Gompers, Paul. Joy Ishii, and Andrew Metrick. (2003). Corporate Governance and Equity Prices. Quarterly Journal of Economics, Vol.118, 107-155.



- Gulzar and Wang. (2010). Corporate Governance and Non-Listed Family Owned Businesses: An Evidence from Pakistan. *International Journal of Innovation, Management and Technology*, Vol.1(2), 124-129.
- Kashif, Shagufta and Saima Siddiqui. (2012). Corporate Governance for Family Firms: An Essential Move towards Optimal Organizational Performance and Growth. *Journal of Contemporary Management*. 66-72.
- Hughes, J.E. Jr. (1997). *Family Wealth: Keeping it in the Family*. Princeton Junction. NetWrx Inc.
- Neubauer, F. & A.G. Lank. (1998). *The Family Business: Its Governance and Sustainability*. London: Macmillan – now Palgrave). 247
- Nordqvist, M. & Melin, L. (2002). The Dynamics of Family Firms: An Institutional Perspective On Corporate Governance and Strategic Change. in Fletcher D., ed., *Understanding the Small, Family Firm*, London, Routledge,
- OECD. (2004). *Principles of Corporate Governance*. <http://www.oecd.org>.
- PricewaterhouseCoopers and Forum for Corporate Governance in Indonesia. (2014). *Indonesia Report – Family Business Survey 2014*.
- Tagiuri, R and Davis, J.A. (1996). Bivalent attributes of the family firms. *Family Business Review*, 9(2), 199-208.
- Viriri and Muzividzi. (2013). Corporate Governance In Family Owned Business: A New Paradigm Shift in Management. *European Journal of Business and Management*, Vol. 5, No. 8, 180-189.
- Ward, J.L. (2003b). *Governance and Leadership in Family Business*. Presentation at IFERA Annual Researchers' Meeting, Bocconi University, Milan, Italy.
- Young, Stephen B. (2002). *Family Business and Reforms in Corporate Governance*. Paper presented on July 12, 2002 at The Institute of Policy Studies Singapore.

## **FAMILY BUSINESS BRAND AND NATION-BRAND IMAGE: A PROPOSED FRAMEWORK**

*Bintang Handayani*

### **Abstract**

This paper discusses on the needs of introducing Family Business Brand (FBB) in the context of Branding the nation. It is a reflective study that relies on a structure review approach. This study is an agreement of the previous study which points out that (1) FBB is regarded as a “brand” on its own; (2) authenticity and family owner’s shared values could sustain FBB. The finding of this study offers a way of examining the contribution of FBB attributes in Branding the Nation and it raises suggestions for further empirical study to test the framework. The study’s limitations and directions for future research are outlined.

**Keywords:** Family businesses brand, Nation-Brand Image, Nation Branding, authenticity, and Indonesia.

### **1. Introduction**

This conceptual paper discusses the intertwine variables of Family Business Brand (FBB) in the context of Branding the Nation. To date, research into FBB in conjunction with branding and image theory suggest that FBB is a brand its in own (Krappe, Goutas, & von Schlippe, 2011). More so, FBB is an important component of national economy and it plays a critical role in promoting growth of a country’s economy (e.g. Sarbah & Xiao 2015). Further, Collins and O’Regan (2011) point out that FBB not only constitute the majority of global businesses but also FBB contribution to the global economy is positive. In this sense, promoting growth of a country’s economy through FBB could also give brand image to a Nation (Rendon, 2003; Roth & Diamantopoulos, 2009). With this in mind, FBB as one of creative business forms could not only be able to assist a country to improve its communication with the world but also it could be intertwined with Branding the nation. Studies also mentioned that Branding the nation which is also well-known as Nation Branding (NB) may mediate the relationships between National dimensions e.g. Export, Tourism and Hospitality attributes and Nation-Brand Image (NBI) (Handayani & Rashid, 2013, 2015, 2016; Fan, 2006, 2008, 2010, Fanning, 2011; Kemming, 2007). In addition, conceptualisation of NBI suggests that NB can be derived from national dimensions e.g. Export and Tourism & Hospitality attributes (O’Shaughnessy and O’ Shaughnessy, 2000; Olins, 2002, 2014; Handayani & Rashid, 2013). Further, Handayani and Rashid (2013, 2016) indicate National Identity as predictor for Nation-Brand Image (NBI).

Among the Tourism and Hospitality attributes, Service and Hospitality attributes (e.g. Friendly residents, Hospitable local people, Hospitable service providers, Service quality, Cleanliness) are considered as the most influential variables on NBI and National Identity attributes (Handayani & Rashid, 2016; Rashid, 2013). In this sense, these Service and Hospitality attributes could be used to predict FBB formation as Krappe et al., (2011) suggested that Family Businesses (FBs) could emerge as a “brand” in the eyes of the wider population. More so, sociological-based understanding of brands which intertwines with the myth concept of Holt (2004) suggests that the term of

“Family” in FBB is associated with longings and worries, that it is attached with less positive image (e.g. middle-size FBs embedded with inflexible and stiff). However, no less true FBB is regarded as the backbone of the economy and it is attributed as the most sustainable type of company. What is more, Krappe et al., (2011) suggest that positive image of FBs remains stable both in 2008 and 2009. FBB which is associated with longings and worries, derived from personal values. In the terms of Olins (2014) personal values i.e. the “true” self could be emerged as authenticity attributes. On the other hand, Kammerlander, Sieger, Voordeckers and Zellweger (2015) suggest that values creation in FBs are derived from family owner’s goals, resources and capabilities, and institutional environment. In line with personal values, these values creations may also be attributed to authenticity attributes. With this in mind, the myth concept of Holt (2004) about FBB could be useful for linking the middle-size FBs which revolve around Tourism and Hospitality Attributes i.e. in the context of Service and Hospitality with NBI. However, research into middle-size FBs in the context of Service and Hospitality with NBI seems to be limited. Therefore, this study aims to scrutinise the contribution of middle-size FBB in the context of Service and Hospitality business on NBI. Presumably, additional research into FBB particularly and middle-size FBs in general would be beneficial for not only practitioners but also it could enrich body of knowledge (Krappe et al., 2011). Therefore, the statement that set as the research problem is how do the proposed variables i.e. middle-size FBB (that embedded with Service and Hospitality business), NB, and NBI significance in the model?

## **2. Design of the Study**

A literature review as a method is considered research in its own right (Evans and Kowanko, 2000). Reviews may apply different approaches, namely systematic or structure reviews. According to Mulrow and Oxman (in Evans and Kowanko, 2000) systematic reviews cover the review question(s), critical appraisal, data extraction and analysis. On the other hand, structure reviews summarise a conceptually broader area than limited literature and recommendations (Stevens and Milne, 1998).

Cooper (1998) denotes to the uses of a literature review as seeking to describe, summarise, evaluate, clarify and/or integrate the content of a database which reports original types of scholarship, e.g. empirical, theoretical, critical/analytic or methodological. In this sense, a review of the literature indicates an investigation of certain issue(s) that relies on these types scholarship for integrating, summarising, evaluating and/or clarifying the issue(s) in the past, present, and predicting the future. In this sense, the literature review is used as the basis for mapping FBB in relation to NBI. As this study employs the structure reviews approach for examining the research questions, therefore, it does not seek the specific database articles required by the systematic review approach. Relevant interdisciplinary scholarly articles are appropriate for critical appraisal on research questions. In other words, structure reviews aimed to seek relevant interdisciplinary scholarly articles that allude study variables i.e. authenticity and shared values of family owner’s. In this vein, this study aims to summarise a conceptually broader area that revolves around scholarly publications into FBB, NBI, authenticity and shared values which are relevant, contextual, and is in line

to be adapted. Technically, the methodology entails: selecting databases from which retrieve papers for analysis, identifying keywords, classifying topics and methodology, and identifying the study context. Accordingly, the structure review is as follow.

### **3. FBs Structure Review**

Neologism of FBB highlights the definitory of business and “Family” as a unique

Sociological discourse, is intertwined with brand. Brand in general can be conceptualised as collection of beliefs that frames entity, is derived from identity attributes (Handayani & Rashid, 2013, 2015; Olins, 2014; Keller, 1998). In the case of FBB, identity is developed based on a product of different attributions made by both internal (employees, owners or family members) and external (customers, public or the media) stakeholder groups (Krappe et al., 2011 pg.38). On the other hand, brand is a sum of perceived identity attributes verified by its publics (Olins, 2002, 2014). In this token, FBB is defined as a commercial business that managed by a family which attached with unique attributes i.e. a long-term focus, strong efforts in sustainability, social working conditions, and strong ties to specific location (Krappe et al., 2011). FBB emerges as a brand in its own is derived from insider perspectives about conception of brands. In particularly, insider’s self-concept and perception by other(s) (Meffert & Kirchgeorg, 2008; Krappe et al., 2011), is derived from the identity-oriented approach and outsider perspectives i.e. sociological and mythical conception of brand (Armstrong, 2006; Holt, 2004; Krappe et al., 2011). In this context of identity-oriented approach, FBB which has been identified as combination of conceptualisation of Family business and brand, the Family Values in the family firms play crucial role (Tàpies & Moya, 2012).

In one of the seminal works, quality, honesty and hard work are values that highly contribute to FBs longevity (Tàpies & Moya, 2012). Further, Tàpies & Moya (2012) point out the mapping long-term process of Values and longevity in family business which revolves around: (1) values that contribute to family cohesion; (2) values that contribute to a firm’s sustainability; (3) values that allow the transmission of core values. Further, interconnections of FBB with identity and proliferation of Information and Communication Technology (ICT) indicate the existence of communicated identity in the official Websites (e.g. Botero et al., 2013). With this in mind, the Value creation and longevity in family business can be communicated through official Websites, which would be revolved around the identity attributed with FBB. Therefore, the communicated identity that exposed in the official Websites, which is also attributed as personal values and values creations are seen by wider population.

Research indicates that identity-oriented approach is used for construction of FBB. Specifically, FBB requires the compliance between the intro-perspective and the external-perspective of brands (Krappe et al., 2011). Further, Krappe et al., (2011) suggest that FBB is perceived as the most sustainable, social, and fair company which has ability to cope with the challenges of globalisation. In this sense, research into FBB

to date has intertwined with other variables i.e. value creation in the FBB as proposed model fit (Kammerlander et al., 2015), communicated multiple FBB identities in the official websites (Botero, Thomas, Graves, & Fediuk, 2013), Corporate Social Responsibility Communication in FBB (Block, Stiglbauer, Kühn & Wagner, 2015), Corporate Governance in FB (Sarbah & Xiao 2015), contribution that new Journal brings to the family business subject area (Collins and O'Regan, 2011), new talent in FB (Hauswald, Hack, Kellermanns, & Patzelt, 2015). Presumably, conceptualisation of Values creation, which interconnects Family in business, Family firm, and Longevity revolve around image, reputation, and credibility (Tàpies & Moya, 2012). With this in mind, Values creation which revolves around these variables could be intertwined with wider spectrum such as Branding the nation, as mentioned that FBB plays a critical role in promoting growth of a country's economy (e.g. Sarbah & Xiao 2015); FBB constitute the majority of global businesses and their contribution to the global economy is positive (Collins and O'Regan, 2011); and FB in which refers to Small and medium-sized FBs are considered as the most favoured company type and are identified as being closest to the personal values i.e. viewed as "sustainable" (Krappe et al., 2011).

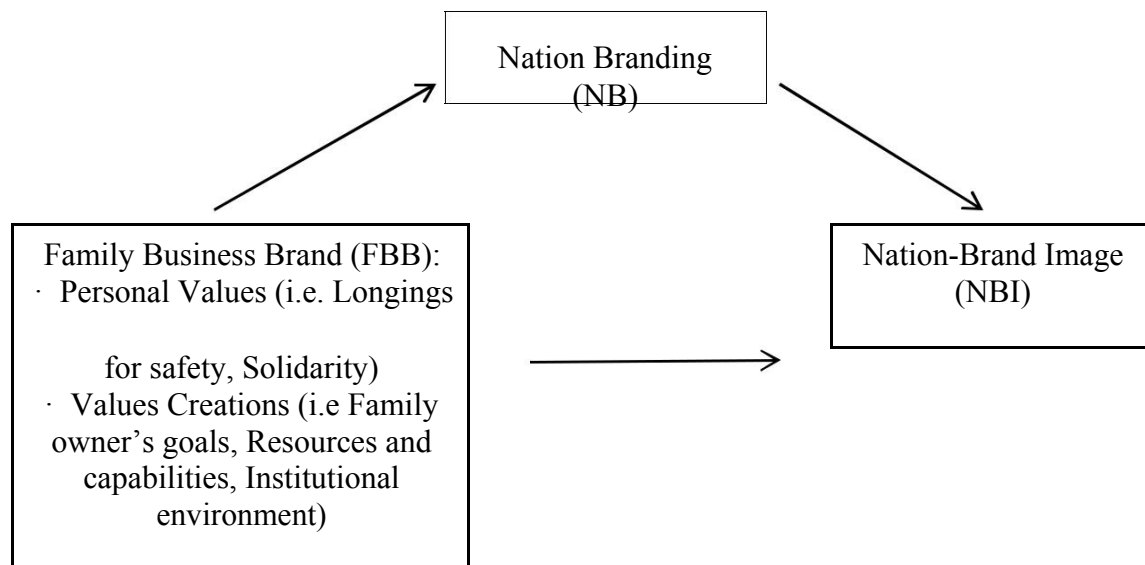
As research indicate that promoting growth of a country's economy could be derived from

Export dimensions and/or Tourism and Hospitality attributes (Nadeau, Heslop, O'Reilly &

Luk, 2008; Roth and Diamantopoulos, 2009; Olins, 2014; Olins, 2002; Anholt, 2007; Kotler and Gertner, 2002; O'Shaughnessy and O' Shaughnessy, 2000; Asworth and Kavaratzis,

2010) therefore, conceptualisation of NB could be applied (Dinnie, 2008; Dinnie, Melewar, Seidenfuss & Musa, 2010; Olins, 2014; Handayani and Rashid, 2013, 2015). However, research into FBB on Nation Brand Image (NBI) formation seems to be limited. One of the ways to intertwine these variables is by adapting conceptualisation of NBI which suggests that NB could plays role in mediating Tourism and Hospitality attributes (Handayani and Rashid (2013, 2015). In this sense, it can be inferred that middle-size FBB which attaches with flatform attributes of services and hospitality may be intertwine with NBI. Therefore, the relationships between middle-size FBB (i.e. which attaches with flatform attributes of Services and Hospitality) and NBI can be summarised as shown in the figure 1

Figure 1. Research Framework



As mentioned, one of ways to intertwine variables of FBB and NBI is through NB. In this sense, middle-size FBB that suggested to be examined is the one that attached with attributes of services and hospitality. Middle-size FBB must be in line with the model fit values creation proposed by past research e.g. Kammerlander et al., (2015). This model fit value creation which revolves around variables such as Family owner's goals, resources and capabilities, and institutional environment are considered as shared values that could emerge as form of authenticity. Authenticity which is conceptualised as being "true" is arguably derived from identity attributed to self and it adds value to the touristic market offerings (Olins, 2014; (Ramkissoon & Uysal, 2014; Handayani, Ivanov & Korstanje, 2017) and it is in line with the "self" projected image. In the case of middle-size FBB, authenticity could be emerged as from the model fit values creation which is expected would be influencing NBI though NB. This proposition is derived specifically based on previous research which points out that: (1) Family Values in the family firms play crucial role (Tàpies & Moya, 2012); (2)

Krappe et al., (2011) suggest that Family Businesses (FBs) could emerge as a "brand" in the eyes of the wider population; (3) FBB is regarded as the backbone of the economy and it is attributed as the most sustainable type of company (Krappe et al., (2011).

#### 4. Concluding Remarks

Studies on Family Business (FBB) associated with interdisciplinary and/or multidisciplinary studies and it have gained significant scholarly and practitioner attention. The interconnection of FBB with many domains of studies, e.g. technological innovations and Entrepreneurship may have increased our preparedness to face global challenges. As the argument given, FBB which is well known as “brand” on its own could be useful in enhancing NBI through NB. In addition, personal values and values creations are proposed as core essence that could emerge as authenticity. In this sense, this study shows that middle-size FBB addresses authenticity as variable which could not only differentiate identity attributed to FBs but also it may strengthen Family values of middle-size FBB to be emerged as NBI. Therefore, this study contributes to the layer of FBs in general and middle-size FBB in particular as predictor for NBI.

### 5. Direction for future research

This study also leaves several issues to address future study. First, this research procedure administered i.e. employing structure review should be tested empirically. Second, the proposed framework needs further rigorous research. Third, future research direction should be focus on replication of this study, which presumably would enable further testing of this link and the inclusion of associated constructs. Other variables such as consumer’s satisfaction and women empowerment in micro-business can be added. Both quantitative and qualitative research could be applied as research methodology to gain more robust findings.

### References

- Armstrong, A.S. (2006), *A Short History of Myth*, Canongate Books, Edinburgh.
- Anholt, S. (2007). *Competitive Identity: The New Brand Management for Nations, Cities and Regions*. New York: Palgrave Macmillan.
- Ashworth, G., & Kavaratzis, M. (2010). *Towards Effective Place Brand Management: Branding European Cities and Regions*. Cheltenham, UK: Edward Elgar Publishing Limited.
- Botero, I. C., Thomas, J., Graves, C., & Fediuk, T. A. (2013). Understanding multiple family firm identities: An exploration of the communicated identity in official websites. *Journal of Family Business Strategy*, 4(1), 12-21.
- Block, J. H., Stiglbauer, M., Kühn, A. L., & Wagner, D. (2015). Corporate social responsibility communication of German family firms: a content analysis. *uwf UmweltWirtschaftsForum*, 23(4), 251-257.
- Blombäck, A. (2009). Family business: A secondary brand in corporate brand management.

- Blombäck, A. (2011). Realizing the value of Family Business Identity as Corporate Brand Element—A Research Model. *Jönköping International Business School, 17*.
- Blombäck, A., & Ramírez-Pasillas, M. (2012). Exploring the logics of corporate brand identity formation. *Corporate Communications: An International Journal, 17*(1), 7-28.
- Collins, L., & O'Regan, N. (2011). Editorial: The evolving field of family business. *Journal of Family Business Management, 1*(1), 5-13.
- Cooper, H. M. (1998). The structure of knowledge synthesis. *Knowledge in Society, 1*, 104-126.
- Dinnie, K. (2008). *Nation branding: Concepts, issues, practice*. Burlington MA: Butterworth-Heinemann.
- Dinnie, K., Melewar, T. C., Seidenfuss, K. U., & Musa, G. (2010). Nation Branding and intergrated marketing communicatons: An ASEAN perspective. *International Marketing Review, 27* (4), 388-403.
- Evans, D., & Kowanko, I. (2000). Literature reviews: Evolution of a research methodology. *Australian Journal of Advanced Nursing, 18*(2), 33-36.
- Fan, Y. (2006). Branding the nation: what is being branded. *Journal of Vacation Marketing, 12* (1), 5-14.
- Fan, Y. (2010). Branding The Nation: Towards a better understanding. *Place Branding and Public Diplomacy, 6*, 97-103.
- Fan, Y. (December 2008). Self perception and significant others.A conceptual framework for nation image. *The Sixth Conference of Asia Academy of Management*, (pp. 14-16). Taipei.
- Fanning, J. (2011). Branding and Begorrah: The importance of Ireland's nation brand image. *Irish Marketing Review, 21* (21), 23-32.
- Gallucci, C., Santulli, R., & Calabrò, A. (2015). Does family involvement foster or hinder firm performance? The missing role of family-based branding strategies. *Journal of Family Business Strategy, 6*(3), 155-165.
- Holt, D. (2004), *How Brands Become Icons – The Principles of Cultural Branding*, Harvard Business School Publishing Corporation, Boston, MA.



- Handayani, B., Ivanov, S., & Korstanje, M. E. (2017). Smart Tourism for Dark Sites: The Sacred Site of the Dead, Trunyan Cemetery. In M. E. Korstanje & B. Handayani (eds.), *Gazing at Death: Dark Tourism as an Emergent Horizon of Research* (pp. 15-42). New York: Nova Publishers.
- Handayani, B., & Rashid, B. (2016). The mediating influence of nation brand image in the relationship between tourism and hospitality attributes and behavioural intention. *TEAM Journal of Hospitality and Tourism*, 13(1), 1– 14.
- Handayani, B., & Rashid, B. (2015). Giving brand image to a nation: A proposed framework. *Emerging Innovative Marketing Strategies in the Tourism Industry*, 339-358.
- Handayani, B., & Rashid, B. (2013). Conceptualisation of nation brand image. *International Journal of Management Studies (IJMS)*, 20(2), 165-183.
- Hauswald, H., Hack, A., Kellermanns, F. W., & Patzelt, H. (2015). Attracting new talent to family firms: who is attracted and under what conditions?. *Entrepreneurship Theory and Practice*.
- Holt, D. (2004), *How Brands Become Icons – The Principles of Cultural Branding*, Harvard Business School Publishing Corporation, Boston, MA.
- Kammerlander, N., Sieger, P., Voordeckers, W., & Zellweger, T. (2015). Value creation in family firms: A model of fit. *Journal of Family Business Strategy*, 6(2), 63-72.
- Kemming, J. D., & Sandikci, O. (2007). Turkey's EU accession as a Question of Nation Brand Image. *Place Branding and Public Diplomacy*, 3 (1), 31-41.
- Keller, K. L. (1998). *Strategic Brand Management; Building, measuring, and managing brand equity*. New Jersey: Prentice Hall.
- Kotler, P., & Gertner, D. (2002). Country as brand, product, and beyond: A place marketing and brand management perspective. *Journal of Brand Management*, 9 (4-5), 249-261.
- Krappe, A., Goutas, L., & von Schlippe, A. (2011). The “family business brand”: an enquiry into the construction of the image of family businesses. *Journal of Family Business Management*, 1(1), 37-46.
- Meffert, H., Burmann, C. and Kirchgeorg, M. (2008), *Marketing Grundlagen marktorientierter Unternehmensführung – Konzepte – Instrumente – Praxisbeispiele*, Gabler Verlag, Wiesbaden.

- Nadeau, J., Heslop, L., O'Reilly, N., & Luk, P. (2008). Destination in a country image context. *Annals of tourism Research*, 35(1), 84-106.
- Olins, W. (2014). *Brand New: The shape of brands to come*. London: Thames and Hudson.
- Olins, W. (April 2002). Branding the nation: The historical context. *Journal of Brand Management*, 9, 241-248.
- O'Shaughnessy, J., & O'Shaughnessy, N. J. (2000). Treating the nation as a brand: Some Neglecting Issues. *Journal of Macromarketing*, 20(1), 56-64.
- Ramkissoon, H., & Uysal, Muzaffer. (2014). Authenticity as a value co-creator of tourism experiences. In Prebensen et al., *Creating experience value in tourism*. CABI, 113-124.
- Rashid, B. (2013). Post Visit Assessment: The influence of consumption emotion on tourist future intention. *Journal of Business and Management*, 9(3), 39-45.
- Rendon, J. (November 23, 2003). When Nations Need A Little Marketing. The New York Times. Retrieved from <http://www.nytimes.com/2003/11/23/business/business-when-nations-need-a-little-marketing.html?pagewanted=all>
- Roth, K. P., & Diamantopoulos, A. (2009). Advancing the country image construct. *Journal of Business Research*, 62, 726-740.
- Sarbah, A., & Xiao, W. (2015). Good Corporate Governance Structures: A Must for Family Businesses. *Open Journal of Business and Management*, 3(01), 40.
- Stevens, A., & Milne, R. (1998). A knowledge-based health service: how do the new initiatives work. *Journal of the Royal Society of Medicine* 9 (suppl 35), 26-31.
- Tàpies, J., & Fernández Moya, M. (2012). Values and longevity in family business: Evidence from a cross-cultural analysis. *Journal of Family Business Management*, 2(2), 130-146.

**EXPLORING CHALLENGES OF YOUTH ENTREPRENEURSHIP****Nana Trianasari<sup>1</sup>, Putu Ayu Setiari<sup>2</sup>**<sup>1</sup>*Universitas Pendidikan Ganesha; nanatrianasari01@gmail.com*<sup>2</sup>*Universitas Pendidikan Ganesha; ayu1234518@gmail.com*

---

**ABSTRACT:**

*The primary objective of this paper is to report the results of a study aiming to explore the challenges faced by young entrepreneurs. Furthermore, the study was also intended to understand the motivation, perception, and perceived risk of young entrepreneurs toward youth entrepreneurship. Data were collected from young entrepreneurs who operate several small scale business fields, majoring in food and beverages. They were recruited using purposive and snowball sampling technique. Data were analyzed using qualitative approach. The findings revealed four themes being the major challenges which are access to capital, financial management, time management, and human resources management. Further discussions on the results of the study are presented in this paper. Limitation, avenue for future research, and limitation are also provided.*

**Key words:** *challenges, entrepreneurship, youth entrepreneur, motivation, perception*

---

**1. Introduction**

Entrepreneurship has continuously attracted scholarly attention following the increasing popularity of this term which is said to be the source of job creation empowerment, and economic dynamism (Chigunta, 2002). In fact, entrepreneurship is also getting more popular in the eye of people besides academia. Although, it may mean differently to different people (Dees, 1998), such recognition has indeed triggered the growth of entrepreneurship. Indeed, there are increasing number of people involve in the entrepreneurial sector, around the world, both within developed and developing countries.

In Indonesia, government encourages the growth of entrepreneurship. In fact, supports are also offered to college or university students through student entrepreneurship grants or scholarship. Besides, entrepreneurship has been included in the curriculum of many training and education

institutions. There has been also an increasing number of entrepreneurial education and development program that is particularly designed to cater the needs of creating strong, creative, and innovative entrepreneurs.

The Indonesian Minister of Cooperation stated that in order to be prosperous, Indonesia requires more youths to involve in innovative and creative entrepreneurship. Currently, the entrepreneurship rate in Indonesia is 1.63% from the total number of inhabitant. The percentage rate of entrepreneurship is targeted to 2% by the year 2020. As such, the role of government to achieve such target cannot be neglected.

While entrepreneurship has gained considerable attention within the academic realm, research on this topic has not much dedicated from the youth perspective (Chigunta, 2002). The tendency has been either to subsume the youth into the general adult population or to ignore their efforts to forge a livelihood through enterprise activities. This has resulted in the lack of an adequate understanding of the potential benefits of youth entrepreneurship as a means of improving youth livelihoods.

Based on the above rationales, this study explored the practices of entrepreneurship within the context of young people and intended to understand: 1) What are the challenges faced by young entrepreneurs? 2) What are the motivational factors for youth to involve in entrepreneurship? 3) What kind of risk perceived by young entrepreneur? and 4) How do youth perceive entrepreneurship?

The contribution of this study lays in its ability to demonstrate challenges, motivation, perception toward entrepreneurship, and perceived risks in youth entrepreneurship especially within the context of fresh graduates. As such, it is arguable that this study enhances the literature on entrepreneurship from the perspective of youth. In addition, this study also provides insights and implications regarding entrepreneurship particularly for young people.

## **2. Literature Review**

This section overviews relevant literature on entrepreneurship used for this study.

### **2.1 Youth Entrepreneurship**

Scholars have defined entrepreneurship in a various way which however reflects similar meaning. It is originated in French economics as early as the 17th and 18th centuries (Dees, 1998). Entrepreneurship is said to be a generic term that covers many issues and is defined as the ability to create something that is creative and innovative that will give benefit and value added (Drucker, 1985). With this definition, the underlined meaning is the effort to create, find, and do new things or doing something that already exists in a new way including creating new product, new quality, new production method, new market, new supplier and organization (Chigunta, 2002). Indeed, the main characteristic of entrepreneurship is the ability to combine already existing resources in creative ways. As such, there seems to be two key words that require attention in defining entrepreneurship: "invention" (the discovery of new technical

knowledge and its practical application to industry) and "innovation" (the introduction of new technical methods, products, sources of supply, and forms of industrial organization). Moreover, scholars also stated that entrepreneurship is the process of creating new product on value using time and effort, facing financial physical, and societal risk, receive monetary aspect in return, satisfaction and personal freedom (Hisrich, Peters, & Sheperd, 2008).

The definitions surround entrepreneurship changes over time following the evolvement of the field. Given the changing definition of entrepreneurship, it may be essential not to focus on the definition of this term as much, rather, understanding the term from who or what or how it is done is more important. Entrepreneur is the term used to address the person who does the entrepreneurship. An entrepreneur is associated with creating and starting business, although, this association seems to be weak.

While the term entrepreneurship has considerably discussed in the literature, little attention has been given about youth entrepreneurship. In fact, youth in many countries have involved in the activities of entrepreneurship. Thus, it is arguable that youths have significant contribution to the rising importance of entrepreneurship. Among limited definition, youth entrepreneurship is defined as the "practical application of enterprising qualities, such as initiative, innovation, creativity, and risk-taking into the work environment (either in self-employment or employment in small start-up firms), using the appropriate skills necessary for success in that environment and culture" (Schnurr & Newing, 1997). Furthermore, Chigunta (2002) explained the importance of promoting youth entrepreneurship lies in the following: 1) creating employment opportunities for both the self-employed youth and other young people; 2) bringing back the alienated and marginalized youth into the economic mainstream; 3) helping address some of the socio-psychological problems and delinquency that arise from joblessness; 4) promoting innovation and resilience in youth; 5) promoting the revitalization of the local community; 6) young entrepreneurs may be particularly responsive to new economic opportunities and trends; 7) give young people, especially marginalized youth, a sense of meaning and belonging, and 8) enterprise helps young women and men develop new skills and experiences that can be applied to many other challenges in life.

Having defined the term youth entrepreneurship, the emerging question then is, "What are the requirements to be a good entrepreneur?" Research has found the relationship between entrepreneurial traits, skill and situational specific motivation (Baum & Looke, 2004). The authors reported goals, self-efficacy, and communicated vision had direct effects on venture growth, and these factors mediated the effects of passion, tenacity, and new resource skill on subsequent growth. Furthermore, communicated vision and self-efficacy were related to goals, and tenacity was related to new resource skill. The common characteristics of entrepreneur are ability to oversee and assess opportunities; collecting resources needed to profitably operate; and do the right thing to achieve the goal. As such, entrepreneurs shall have managerial and human resources skill that include the ability to coordinate, organize, and control. In addition entrepreneur should be knowledgeable about business environment and can make decision on

it, managing capital and make profit. Apart from the managerial skills, the internal aspects of an entrepreneur are also essential, for example, braveness to face the uncertainty.

## **2.2 Motivation to become entrepreneurs**

Involvement in the area of entrepreneurship has been known to be motivated by several factors. According to Gray, et al., (1995), several motivations to become youth entrepreneur in America and Japan are the prestigious feeling of becoming the boss that has more control over own work and life; to obtain an alternative route for advancement from a dead-end job; to earn additional money; and to provide unique products that is not available elsewhere. Another study of youth motivation especially the graduates in the UK, is desires for independence and flexibility and not necessarily money (OECD, 2001).

Unlike the young entrepreneurs in developed countries such as America, Japan, and UK, in the developing countries, youth entrepreneurs are more likely to be driven by economic necessity or survival purpose and desire to accumulate wealth (Chigunta, 2001). Furthermore, similar reason is revealed in a study in Malawi in which, the majority of youth entrepreneurs are motivated by unemployment and poverty (Kambewa, et al., 2001).

Previous study (Chigunta, 2001) has also conducted to identify differences of motivation to become entrepreneur based on gender, although the results may not be intended to make general conclusion, due to they may not represent the all countries. A study in Zambia revealed that females are more motivated by the intention to supplement household income, whereas male entrepreneurs are more triggered by the unemployment factor. Understanding the various motivations of becoming young entrepreneur is essential to promote the youth entrepreneurship (Chigunta, 2002).

An individual who has motivation to do business and is ready to take risk have several reasons such as profit or benefit (Zimmerer & Scarborough, 2008). Other than that, freedom to self-actualization and opportunity to play certain role in the society are also influential factors to become entrepreneur. A motivation an individual has to be useful for himself and others and believe that what he does will become the best motivator in the entrepreneurship (Rusli, 2011).

## **2.3 Challenges and risks of entrepreneur**

In discussing the challenges facing youth entrepreneur, perhaps, it is better to classify them according to their age category or enterprise status (Chigunta, 2002). The challenging nature of entrepreneurship may be viewed from the characteristics of the entrepreneur. Youth or younger entrepreneur may not have the same challenges with more mature entrepreneurs. Indeed, a study comparing adult and young entrepreneur revealed that problems faced by youth entrepreneur compared to adults counterpart are related to access to resources such as capital; lower initial capital; lower market value; narrower range of activities; operations are more likely to be conducted from homes or stress (lack of access to space); more inexperienced, use simpler tools (Chigunta, 2002).

Another view of the challenges faced by young entrepreneurs is based on the stage of entrepreneurship. The stages are pre-entrepreneur or potential entrepreneur; budding entrepreneur; and emergent entrepreneur. White and Kenyon (2000) described that the success of an enterprise begins with the initiative of the youth. Thus, key challenge for being a probationer (pre-entrepreneurs stage) is choosing what to do. The Youth within this stage of entrepreneurship requires awareness and understanding about enterprise, how to own and manage a business as to arriving at the point where may consider self-employment realistically as a job or career option. Rabbior et al (1996) classified three pre-entrepreneur stages. First, the formative stage that relates several factors contributing to the development of desire to become an entrepreneur such as entrepreneurial skills, motivations, attitudes, attributes, behaviors, and value. Second, the development stage that relates to learning skills and strategic skills. Third, the start-up stage that relates to tactical skills for start-up. Based on the above references, Chigunta (2002) stressed that providing business development training, consultation, role models, and access to finance are key implications for youth entrepreneurship institutions and programmes.

Next, budding entrepreneurs are young people who are just starting their own business. White and Kenyon (2000) identified that the key challenges is to increase the survival rate and success in a new business. Chigunta (2002) explained that young entrepreneur in this stage requires tactical skills for growth, mentoring, and access to capital. Finally, challenges facing the emergent entrepreneurs to transform their enterprises into commercially viable and competitive small businesses. Thereby, they require tactical skills for growth and transformation, access to new technologies and equipment, and new product development and value addition (Chigunta, 2002).

A more general view directs the challenges facing entrepreneur to external factors such as economic growth and stability, fiscal environment, industrial factors including entrepreneurial development research, geographical factor such as to integrate the ownership of the business and coordinate activities (Shane, 2003). Similarly, Cuervo (2005) put forwarded that entrepreneurship also depends on business opportunity in the workplace besides the individual characteristics. Human Resources is also an essential factor such as inadequate and not professional employee or management (Terspra & Olson, 1993).

In brief, youths perceive lack of capital, lack of skill, lack of support, lack of market opportunities and risk as the main obstacles to entrepreneurial intention (Fatoki & Chindoga, 2011). Moreover, the most frequent risk associated with being entrepreneur underlined by Sitor (2005) is loss. Furthermore, several reasons of loss are failure during the product launching, design, incorrect distribution strategy, bad management, large amount of debt, the practice of nepotism, weak human resources and lack of team work (Karakaya & Kobu, 1994). Moreover, uncertain income, waste of time and resources are other risks of becoming entrepreneur (Fatoki & Chindoga, 2011). Risk can be predicted, but it cannot be avoided. Entrepreneurs should manage their business under the principle and high responsibility as well as to be persistent in order to lower the rate of having to encounter the associated risks.

## **2.4 Perceptions on entrepreneurship**

Scholarly research has revealed that perception has an important role toward people's intention to become an entrepreneur (eg. Linan, 2008). More specifically, based on Ajzen's theory of planned behavior, social values regarding entrepreneurship and personal skill perceptions are known to be influential to the entrepreneurial intentions. Furthermore, values and skills are also found significant in explaining intention, although, the role of perceived skills seems to be more relevant.

## **3. Research Methodology**

This study mainly aimed at understanding the challenges facing young entrepreneur. In line with the exploratory type the study, the methodology approach was qualitative. Using this method, the characteristic of the data are current and subjective (Mandilika, Tadarera, Nyikahadzoi, & Matamande, 2007) and the sample size is small. Attention was given to the qualitative aspect of the case and was not intended to draw a general conclusion. Thereby, data gathered were analysed qualitatively. An in depth interview was conducted with a primary source, which were students who involved in entrepreneurship. The rationale of recruiting students as respondent was because at the limited time of data collection, they operate business and were considered young. As such, data were collected using purposive sampling technique and snowball sampling. There were ten people participated, consisted of seven males and three female with their age ranging from 20 to 25 years.

The raw data were first transcribed. Then, three steps (open coding, axial coding, and reflective coding) of qualitative data analysis were conducted. First, data were tentatively labeled. That is, the key ideas were expressed in words or short phrase. In essence, this stage allows themes to surface. Next, themes were categorized depending on their similarity. Focus was given on the patterns emerged from the initial coding. Finally, a further examination of relationships among categories was performed. Comparison was conducted and differences were sought. In this phase the major themes were identified.

## **4. Results and Discussion**

This section presents and discusses the main results of the study.

### *Entrepreneurial Challenges*

Four themes were derived from the data analysis about challenges faced by respondents in operating their business. They are capital (financial aspect), time management, financial management, and human resources. With regard to capital, the majority of respondents reported that financial resources have become the primary obstacle. As an example, one respondent said, "The biggest challenge I encountered was capital or access to capital." The other respondent further explained that insufficient capital has potentially led to several operational problems such as the purchase of goods and delayed payment for employee. This part of finding



is consistent with the literature (eg. Chigunta, 2002) in which capital or access to capital is one of the challenges especially facing young entrepreneur.

The second theme, that is, time management is mostly stated by respondents who were also student (although in the final stage). This piece of finding may be justified in the lacking ability or maturity of young people to set priority. An example of expression is "I experienced difficulties to manage my time because I am also studying. That made me unable to focus." The majority of respondents explained that they often found difficulties in putting priority. One male respondent stated that he had to escape from class because they must go to the bank and handle payment from customers.

Next is entrepreneurial challenge in terms of human resources. This finding supports the literature (eg Tersptra & Olson, 1993; White & Kenyon, 2000). One respondent expressed this challenge, "I also found problems related to human resources. It is difficult to find a good and skillful worker." It was apparent that respondents found it challenging to recruit the right employee. That is, employee who is willing to work professionally. This challenge may be attributed to the characteristics of the labor in the local area.

The last theme gathered from respondents is capital or access to capital and financial management. This result is in line with the literature (Chigunta, 2002). All respondents brought this theme in their response during data collection. The respondents explained that to start a business, they need financial support. Although there are grants offered by government via university, the amount was said to be insufficient. Another case related to the financial management is that respondents experienced problem in professionally manage their business and personal money. An example of the expression is "I can't separate the money for my business and the ones for my personal. I put and use my personal money and the business money together."

#### *Motivation to become entrepreneur*

Managing own business in the young age is one of the key motivator to become entrepreneur. Respondents explained that they have more freedom to do anything compared to if they are employee. Other important motivator is economic situation. One respondent says, "I have to finance myself to continue my study. My parents are not rich." Moreover, respondents also stressed the importance of skills and knowledge about the chosen field of the business. This means that motivation alone would not help if one does not have skills and knowledge within the business area or field. Other considerable motivators emphasized by the subject of the study were opportunity, support from family, the role model or someone to follow which perhaps increase confidence. These aspects were said to create willingness to start operating business.

In brief, these findings are in line with the literature that says that entrepreneurship is about managing finance, managing operations, and human resources. One aspect of entrepreneurship that did not appear as one of the theme is marketing. On the other hand, time management seems to be personal aspect of entrepreneur rather than business. This aspect is probably arisen

because of the respondents who are also students. As such, internal or personal characteristic is important factor in the determination of perceived challenges of entrepreneurship.

#### *Perceived risk*

All respondents agreed that there is loss associated with becoming entrepreneur. An example of respondent answer is, "I encountered a lot of risk while operating my business. The biggest risk is to lose." Another respondent said that the risk in being entrepreneur is thinking all alone to sustain, having debt, bankruptcy, marketing strategy, insufficient human resources, damage of production tool, and the deepest lost is being stressed because of the lost and not run the business. Nevertheless, risks are depending upon how people respond in spite of the potential risks associated with becoming entrepreneur."

#### *Perception toward becoming an entrepreneur*

The study was also intended to understand how respondents perceive entrepreneurship. That is, whether they are willing to stay in the entrepreneurship or not. A variety of responses were obtained. One respondent commented that entrepreneur is an interesting job although the risk is high. Another respondent said, "Many times he felt discouraged and wanted to quit. I have no regular income compare to if I work as an employee. I earn monthly a certain amount of money."

There are two types of response with regard to the perceptions on entrepreneurship. They are positive and negative perceptions. A group of respondent reported that they would remain in the business despite the uncertainty of the business. They explained that when business is down and that is the risk that entrepreneur has to face such situation. Some of the respondents stressed that to be an entrepreneur, one need to be brave and become risk taker. One respondent added, "If business is managed well, it will also give benefit to other. This country (Indonesia) needs good entrepreneurs to help build the nation." Another participant explained, "If one runs the business well, persistently, confidently, and not easy to give up, it (the business) should be sustained." On the other hand, another group conveyed a more discouraging message toward entrepreneurship. This group convinced that if the risk is certain, there is no need to wait until the business loses. One respondent said, "I used to be a positive person when it comes to entrepreneurship. I feel excited and have courage when my business goes up. But, as soon as the business situation is down, I start to feel unmotivated. I am impatient. I simply cannot wait until situation gets better. I used to change to another business. In fact, I changed business many times. Then, it came to a point that I did not want to waste my energy, time, and other resources. So, I prefer to find a job and get regular salary without needing to think of how to sustain my own business."

#### *Limitation and Direction for Future Research*

There are limitations of the study that shall be acknowledged here. First, the nature of the exploratory study provides results which are not readily generalisable. Second, the respondents were fresh graduates who happened to involve in the entrepreneurship activity for up to one year. Their response may be different from those who are already in that field longer. Being inexperienced and young entrepreneur,

This study provides insights in understanding challenges facing young entrepreneur, perception, motivation, and risks associated with entrepreneurship. Future research may further examine the influential factors of each construct under (perception, motivation, challenges, and perceived risk) using quantitative study using larger sample size as to provide generalization of the study.

## 5. Conclusion and Implications

This study revealed four themes as challenges facing youth. They are capital or access to capital, time management, human resources, and financial management. However, the internal or personal characteristic is important factor in the determination of perceived challenges of entrepreneurship. Furthermore, it was also found what motivated young entrepreneur in their business. The key factors were the feeling of freedom and willingness to improve a not favorable economic situation. Next, perceived risk is mainly related to the loss of business which then may make entrepreneur depressed. There were two perceptions of entrepreneur obtained from data collection. They are positive and negative. These perceptions are seemingly not stable, depending on the business performance.

The implication of this study is particularly within the entrepreneurship education and development program. A more holistic entrepreneurship program may include building entrepreneurial skills especially within the area of time, financial, and human resources management. Furthermore, the implication of this study is also within the area of access to financial aids. Perhaps, government or financial firms could offer a special package to help finance youth entrepreneurs. Furthermore, young entrepreneurs may consider the four challenges found in this study prior to starting a new business.

## References

- Bobby, Elisabeth, Harnyono. (2012). *Faktor Individu Sebagai Salah Satu Tantangan Kewirausahaan Di Indonesia*. Jakarta: Sekolah Tinggi Ilmu Ekonomi Harapan Bangsa.
- Chigunta F(2001) *Youth Livelihoods and Enterprise Activities in Zambia*. Report to IDRC, Canada.
- Chigunta F (2002). The Socio-economic Situation of Youths in Africa: Problems, Prospects and Options. A Paper Presented at the Youth Employment Summit, Alexandria, Egypt. 1-13.
- Cuevro, Alvaro. (2005). Individual and Environment Determinants of Entrepreneurship. *The International Entrepreneurship and Management Journal*, 1(3), 293-311.
- Deeds, D.L., DeCarolis, D. and Coombs, J.E. (1997) The impact of firm specific capabilities on the amount of capital raised in an initial public offering: evidence from the biotechnology industry. *Journal of Business Venturing*, 12, 31-46.

- Drucker, P.F. (1985) “*The Practice of Innovation*”, *Innovation and Entrepreneurship Practice and Principles*, Harper & Row, New York,. 19-33
- Fatoki, Olawale; Chindoga Lynety. (2011). An investigation into the obstacles to youth entrepreneurship in South Africa, *International Business Research* 4(2), 161-169.
- Hisrich, R.D, Peters, M.P ., & Shepherd, D.A 2008. *Entrepreneurship*. Mc Graw Hill International edition.
- Karakaya, F. and Kobu, B. (1994) New product development process: an investigation of success and failure in high technology and non-high technology firms. *Journal of Business Venturing*, 9, 49–66.
- OECD (2001), Putting the Young in Business: Policy Challenges for Youth Entrepreneurship, The LEED Programme, Territorial Development Division, Paris
- Kambewa, P. et al., (2001), Youth Livelihoods and Enterprise Activities in Malawi. Report to IDRC, Canada.
- Linan, Francisco. (2008). Skill and value perceptions: how do they affect entrepreneurial intentions? *International Entrepreneurship and Management Journal*, 4(3), 257–272
- Mandilika, Tadarera, Nyikahadzoi, & Matamande. (2007). Corporate Social Responsibility in the tourism sector: The case in Zimbabwe, *Journal of Academic and Business Ethics*.
- Rabbior G., Lang J., Cranson, L., Smith, L. (1996). *Catching the wave: Framework for youth t=entrepreneurship success*. Canadian Foundation for Economic.
- Rusli (2011). *Membangun Usaha Sukses Sejak Usia Muda*. Jakarta: Empat Salemba.
- Schumpeter, Joseph A. (2000). Entrepreneurship as innovation, *Entrepreneurship: The Social Science View*, 51-75 Baum, J. Robert; Locke, Edwin A.(2004).The Relationship of Entrepreneurial Traits, Skill, and Motivation to Subsequent Venture Growth. *Journal of Applied Psychology*, 89(4), Aug, 587-598.
- Schnurr, J., Newing, A. 1997. *A conceptual and analytical framework for youth enterprice and livelihood skills development – Defining an IDRC nice*. Ottawa: International Development Research Centre
- Terpstra David E., and Philip D. Olson. (1993). Entrepreneurial start-up and growth: a classification of problems.” *Entrepreneurship: Theory and Practice*, Spring.
- White, Kenyon .(2000). “*Enterprise-Based Youth Employment Policies, Strategies and Programmes*”. Drat Report to ILO, Geneva. provide initial

Zimmerer, T. and Scarborough, N. (2008), *“Essentials of Entrepreneurship and Small Business Management”*.  
Upper Saddle River, NJ: Prentice-Hall.



## **STRATEGIC FOCUS DEVELOPMENT OF PT. TRIAS SENTOSA, Tbk.**

Felicia Bella Kurniawan, Universitas Ciputra Surabaya  
bella.kurniawan@ciputra.ac.id, +6281-7337555

### **ABSTRACT**

The purpose of this research is to develop the strategic focus of PT. Trias Sentosa Tbk., finding the most suitable strategy for the company to have better performance. It is a qualitative descriptive research using interview, by having two key respondents. The analyzing methods are EFAS-IFAS matrix, SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis and supported with Strategic Focus theory. The conclusion of the research is that the most suitable strategy for PT. Trias Sentosa Tbk. is to be aggressive.

**Keywords:** *SWOT analysis, EFAS-IFAS Matrix, Strategic Focus*

### **INTRODUCTION**

PT. Trias Sentosa is a plastic packaging company that has been established for thirty eight (38) years. For decades, the company has struggled with various challenges, whether it is internal or external. The biggest challenge is the rapid change in the environment. Therefore, Trias Sentosa must continue to develop the strategy.

To develop a strategy, first thing to do is to analyze the company first. Analyzing the company can be done using EFAS-IFAS Matrix which analyzes the company's internal and external factors using weighted scores to find its level of significance in the company's performance. After that SWOT analyzes can be used to formulate what strategies can be done by matching the internal and external positions. And to find the right strategy, strategic focus theory can be used, which suggests that there are four way the company can continue to run, aggressively, by diversification, turnaround and defensively.

### **PURPOSE OF THE RESEARCH**

The purposes of conducting this research regarding the strategic focus development of PT. Trias Sentosa Tbk. are:

1. To identify PT. Trias Sentosa Tbk.'s strengths, weaknesses, opportunities and threats
2. To analyze alternative actions that can be done with SWOT analysis
3. To formulate the most suitable strategic focus for PT. Trias Sentosa Tbk.

### **LITERATURE REVIEW**

EFAS IFAS Matrix

IFAS and EFAS matrix composed of weights, rating, and the total value is the product of the weight and rating columns. Weight and rating columns are filled in accordance with the value which is the result of internal and external factors grouping based on the level of importance.

According to David (2009: 229), states that the IFAS matrix is used to determine the factors associated with the company's internal strengths and weaknesses facing the company consists of aspects like human resources, marketing, production and operations, finance and accounting and information systems.

EFAS matrix used to evaluate external factors. External data collected to analyze matters concerning economic issues, politics and government, social, cultural, technological, environment, demographics, competition in the industrial market where the company is located, as well as other relevant external data. This is important because external factors impact directly or indirectly on the company.

#### SWOT Analysis

SWOT analysis is to identify the various factors systematically to formulate the company's strategy (Rangkuti, 2009: 18). SWOT matrix is an important matching tool to help develop four types of strategies, the strategies are as follows:

- SO Strategies (Strength-Opportunity), internal company strategy of using force to seize the opportunities that exist outside the company.
- WO Strategy (Weakness-Opportunity), this strategy aims to reduce vulnerabilities of internal enterprise by utilizing company opportunities.
- ST Strategies (Strength-Threat), through this strategy the company seeks to avoid or reduce the impact of external threats.
- WT Strategy (Weakness-Threat), this strategy is a tactic to survive by reducing internal weaknesses and avoid threats.

#### Strategic Focus

After doing a SWOT Analysis, strategic focus helps to decide which direction is most suitable for the company to do better; the direction is basically depends on how the internal factors matched with the external factors. There are four directions that strategic focus offers (Ferrell, 2011, 137):

- Aggressive  
Aggressive strategy should be chosen where there are many internal strengths and many external opportunities. By using its strengths, the company will be suggested to take as many opportunities as they can; like expansion, developing new products, and get into new markets. The up side of having many internal strengths and opportunities, means the company is very strong, and it has the ability to shift the market towards the direction they want it to go.
- Diversification  
Diversification strategy should be chosen where there are much internal strength and many external threats. This means that the company has very big potential, but restricted by the external factors. To offset this, the company can diversify its product portfolio, by making new product line, expand the business units, or even the market.
- Turnaround



Turnaround strategy should be chosen where there are many internal weaknesses and much external strength. This means the company is overwhelmed by its internal problems, not considering making use of the opportunities. What the company can do is to remove a product line to focus on more important and profitable product lines, to have more control on its internal factors and supposedly to reduce some issues.

- Defensive

Defensive strategy should be chosen where there are many internal weaknesses and many external threats. This usually shows that the company is in a brink of destruction. It is hard to cover up the threats without having a great deal of strengths, as both of its internal and external environment is not doing so well. What the company can do is to merge with other company, supposedly a stronger company; just for the company not to face bankruptcy. Merging with other company means two companies become one.

### **EMPIRICAL REVIEW**

There are two previous researches that were used to support this research. The first one is “Analisis Penerapan Strategi Pemasaran Dalam Upaya Meningkatkan Penjualan Batik Di Batik Putra Laweyan” by Giatno (2015). The second is “Analisis SWOT Sebagai Landasan Dalam Menentukan Strategi Pemasaran” by Ahmad Ramadhan (2013).

The first one is a qualitative descriptive study, where this research aims to find out what strategy suppose to be used by the company. By using SWOT analysis, this research is done by taking the individual company research subjects Batik Putra Laweyan in Kampung Batik Laweyan. The second one is a descriptive research using analysis matrix IFE, EFE, and the SWOT Matrix, obtaining the data by in-depth interviews, validated with triangulation

### **RESEARCH METHOD**

In this study, the researcher used a type of qualitative descriptive research that includes the collection of data to answer questions about the final status of the study subjects. Descriptive data were collected through a list of interview questions (Kuncoro, 2014).

The informants to be interviewed are two PT. Trias Sentosa Tbk. employees which holds a certain position in the company and have access to sensitive information regarding the company and its environment. The informants chosen are:

1. Sugeng Kurniawan (62), the president director
2. Yuni Kurniawati (43), the internal audit manager

The setting of the interview will be:

Place: Dharmahusada Indah Tengah IV, Surabaya

Date & time: 22 February 2017, 18.00 – 20.00

### **DATA ANALYSIS TECHNIQUE**

The data will be analyzed in three steps of analyzing techniques.

1. IE Matrix

IFAS and EFAS matrix is basically identifying the strengths, weaknesses, opportunity and threats of the company and its level of significance.

## 2. SWOT Analysis

SWOT then used to match the four factors and analyze what strategies can be used to develop or maximize the company's performance.

## 3. Deciding strategic focus

From the four strategic focus; aggressive, diversification, turnaround, and defensive method, the most suitable strategy is given to the company.

## FINDINGS

### 1. EFAS-IFAS Matrix

**Table 1. IFAS matrix**

<b>Strengths</b>		<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1	Competitive raw material price	0.1	4	0.4
2	Collaboration with raw material & machine supplier	0.08	3	0.24
3	More advanced and complete converting technology	0.2	5	1
4	Has R&D collaboration with external party/University.	0.06	4	0.24
5	Diversified and customized product offer	0.08	3	0.24
6	Wide customer base	0.07	3	0.21
7	Partnership with customers	0.05	3	0.15
<b>Sub total</b>		<b>0.64</b>		<b>2.48</b>
<b>Weaknesses</b>		<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1	Gap on professional competencies/expertise	0.07	2	0.14
2	Low margin for regular product	0.05	2	0.1
3	Regular product price is determined by market prices	0.07	2	0.14
4	High price sensitivity	0.03	2	0.06
5	Low customer loyalty for non innovative products	0.03	2	0.06

6	Complexity and improvement for waste management	0.06	2	0.12
7	Poor product quality consistency	0.05	2	0.1
<b>Sub total</b>		<b>0.36</b>		<b>0.72</b>
<b>Total</b>		<b>1</b>		<b>3.2</b>

**Table 2. EFAS Matrix**

<b>Opportunities</b>		<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1	Market growth potential	0.08	4	0.32
2	Customer focus	0.07	4	0.28
3	Operation integration with key customers	0.07	3	0.21
4	Quality reliability	0.06	2	0.12
5	Savings and simplification	0.2	3	0.6
6	Operational reliability & flexibility	0.1	4	0.4
7	Productivity and efficiency improvement	0.08	3	0.24
<b>Sub total</b>		<b>0.66</b>		<b>2.17</b>
<b>Threats</b>		<b>Weight</b>	<b>Rating</b>	<b>Weighted Score</b>
1	Commoditization	0.08	2	0.16
2	Compliance with environmental regulatory requirement	0.08	3	0.24
3	Supply market	0.06	2	0.12
4	High content of imported raw material	0.04	1	0.04
5	BI regulation on the use of Rupiah in domestic trading	0.02	1	0.02

6	Low economic growth	0.02	1	0.02
7	Stronger international competitors	0.04	1	0.04
<b>Sub total</b>		<b>0.34</b>		<b>0.64</b>
<b>Total</b>		<b>1</b>		<b>2.81</b>

The EFAS and IFAS matrix results show that there are 0.39 differences between internal and external position. Internally, the strength is bigger than weakness by 1.76 points, while externally, the opportunity is bigger than threats by 1.53 points.

### SWOT Analysis

**Table 3. SWOT Analysis**

	<b>STRENGTHS</b>	<b>WEAKNESSES</b>
	1. Competitive raw material price	1. Gap on professional competencies/expertise
	2. Collaboration with raw material & machine supplier	2. Low margin for regular product
	3. More advanced and complete converting technology	3. Regular product price is determined by market prices
	4. Has R&D collaboration with external party/University.	4. High price sensitivity
	5. Diversified and customized product offer	5. Low customer loyalty for non innovative products
	6. Wide customer base	6. Complexity and improvement for waste management
	7. Partnership with customers	7. Poor product quality consistency
<b>OPPORTUNITIES</b>	<b><u>SO strategy</u></b>	<b><u>WO strategy</u></b>
1. Market growth potential	- Competitive product - Innovative and value	- People ,internal and external organizational capability development to

2. Customer focus	added product	support business growth
3. Operation integration with key customers	- Collaboration with key customer	- Saving and simplified operation to improve margin
4. Quality reliability		- Operational reliability and flexibility to manage complexity
5. Savings and simplification		- Quality improvement and upgrading
6. Operational reliability & flexibility		
7. Productivity and efficiency improvement		

**THREATS****ST strategy****WT strategy**

1. Commoditization		
2. Compliance with environmental regulatory requirement	- Environmental compliance product - Value added product	- Develop and keep update with environmental issue and regulation - Customized product
3. Supply market		
4. High content of imported raw material		
5. BI regulation on the use of Rupiah in domestic trading		
6. Low economic growth		
7. Stronger international competitors		

**DISCUSSION**

Based on the data results, it can be concluded that strengths and opportunities dominates the influencing factors to the company's performance. Therefore, based on the theory of strategic focus, the most suitable strategy is to be aggressive.

To be aggressive, the SWOT analysis has formulated several strategies that can be done; competitive product, innovative and value added product, and collaboration with key customers.

First, competitive product. By competitive product means the company offers attractive value for the consumer. Trias Sentosa can achieve competitive product benefit by competitive sourcing, or finding cheaper raw material, supported by productive manufacturing (high efficiency, lower wastage, and high labor productivity).

Second, innovative and value added product. By this means that the company should focus more on the innovative and value added product, to be more advanced in Research & Development division, willing to invest more on the most updated machinery and technology, and collaboration with external parties like supplier and

Lastly, collaboration with key customers. Trias Sentosa's key customers are converters, which are key printing companies that sells to key FMCG players. Other key customers are brand owners and label makers.

This does not rule out the possibility that other strategies are bad, but based on the theories, the most efficient strategy to be done is to be aggressive, and by matching the strength and the opportunities, Trias Sentosa can start with these three things.

## **CONCLUSION**

After analyzing the strengths, weaknesses, opportunities and threats using EFAS-IFAS matrix, formulating the strategies by matching the external and internal positions using SWOT analysis and going through the strategic focus theory, this research shows that PT. Trias Sentosa Tbk. should be aggressive, by aggressive means that they should utilize its strengths to grab the opportunities. There are several things that the company can do; competitive product, innovative and value added products and collaboration with key customer.

## **SUGGESTIONS**

From the research that has been done and the results of the analysis that has been described, there are a few things that can be used as a suggestion:

1. To the company, to be able to manage and continually develop better on the factors to be the strength of the company, as well as organize and conduct the evaluation and improvement of the factors is the weakness of the company. Enhancing and skill as well as the response to external factors (opportunities and threats) that may be encountered, so any opportunities or threats can be detected early.
2. For other researchers that want to use this paper as a source or object of the same research, we recommend using an expanding company to get that research results that can be significantly be described as one of the reference companies to determine the strategy that it will impose.

## **REFERENCES**

1. David, R. Freid, 2009. **Manajemen Strategi Konsep**. Salemba empat, Jakarta.
2. Ferrell, O.C., 2011. **Marketing Strategy, Fifth Edition**. Mason, USA.

3. Giatno, 2015, **Analisis Penerapan Strategi Pemasaran Dalam Upaya Meningkatkan Penjualan Batik Di Batik Putra Laweyan** journal.
4. Kuncoro, Mudrajat, 2014. **Metode Riset Untuk Bisnis dan Ekonomi**. Erlangga, Jakarta.
5. Kurniawan, S. and Kurniawati, Y. (2017) Interviewed by Felicia Bella Kurniawan. Dharmahusada Indah Tengah 4/8. 22 February 2017. 18.00-20.00.
6. Ramadhan, Ahmad & Sofiyah, F.R., 2011, **Analisis SWOT sebagai landasan dalam menentukan strategi pemasaran** journal.
7. Rangkuti, Freddy. 2009. **Analisis SWOT Teknik Membedah kasus Bisnis**. Gramedia pustaka Utama, Jakarta.
8. PT Trias Sentosa, T. (2015). **Sustainability Through Innovation**. Jakarta: PT Trias Sentosa Tbk.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **PERCEIVED MANAGERIAL DISCRETION, ENTREPRENEURIAL LEADERSHIP AND FIRM PERFORMANCE**

**Riri Andriadi, Sari Wahyuni.**

Bank bjb, Depok Branch, Depok, Indonesia, ririandriadi@yahoo.com  
Universitas Indonesia, PPIM, FEB UI, Pascasarjana Building, 2<sup>nd</sup> Fl,  
Kampus UI, Depok.

---

### **Abstract**

*Managers faced uncertainty risk, threats, and opportunity as impact of environment's change. Banking, which high regulated industry, demands their managers to be more innovative and competitive in order to success in global market. In other hand, their important decision that determines organization outcomes, was limited by regulation and internal procedure. Freedom and control in making decision were needed by managers to deal with uncertainty environment. Organization need sustainable and involved some entrepreneurship to compete effectively in market. Managerial discretion emphasizes strategic approaches in entrepreneurship. Risk taking, proactive, innovativeness reflects level of discretion that manager held. Perceived managerial discretion is the latitude of action and choice or freedom to manage at his/her consider best.*

*We considered middle manager as crucial-decision maker and their choice related to performance and innovation in the business level. We aim to investigate the extent to which perceived managerial discretion affects organization and leadership performance, especially entrepreneurial leadership in middle manager. As unit analysis, middle manager plays important role. They responsible for outcome and integrated all resources meanwhile they have been supervised and monitored by top management. Therefore, managerial discretion which manager held affect manager's choices. In addition, Manager's interpretation and translation of objective environmental conditions and managerial characteristics (i.e. age, education, and experience) were examined. This study involves branch managers of big four national bank.*



**Keywords:** *Managerial discretion, entrepreneurial leadership, banking, firm performance.*

## 1. Introduction

Between an organization and its environment, the executives mediate the environmental demands and the internal organization through substantive and symbolic action and strategic decision making. There are many variables which influence the rules and the work environment, and affect the decision making, which is a process of interaction between the rules and a manager's experience (Fletcher, 1995). Bank managers make their decisions against a background of rules and head office instructions. The decision is made on complete use of own experience and attitude, and depends on the conviction of the value of the bank manager's own experience.

Managers have critical roles to play inside the organization and make decisions that affect organization outcomes. Although they are agents of the principals, they usually have considerable strategic discretion over the allocation of resources. How they exercise that discretion to achieve the goals of the organization is the central focus of the field of strategic management (Chandler, A. 1977).

Hambrick and Finkelstein (1987) introduced the notion of managerial discretion. They theorized that managerial discretion, which refers to executives' ability to affect important organizational outcomes, is a function of the task environment, the internal organization, and managerial characteristics. To date, empirical research has been limited to these first two categories. For example, Finkelstein and Hambrick (1990) reported that managerial discretion moderated the association between top management tenure and both strategic continuity and firm performance. More recently, Hambrick and Abrahamson (1995) developed a methodology to assess managerial discretion across multiple industries.

This paper focus with manager's effect on unit performance, the analysis concentrated on perceived managerial discretion as the best indicator of subsequent behaviour. In addition, we investigate relation perceived managerial discretion on branch performance and entrepreneurial leadership. Task environment and managerial characteristic which is age, education, and experience were include as antecedent of perceived managerial discretion.

In order to success in global competition, firms need to keep revising and improving product, service and their operation, and the way

they manage resources as well. Modern business operation and development includes continuous redefinition, reconstruction and modification of business models and strategies to achieve introduction of novel products and organizational practices in order to improve performance and growth (Kuratko, 2007); a function closely connected with the Schumpeterian concept of acting entrepreneurially (Schumpeter, 1934) to achieve competitive advantage (Ireland & Webb, 2007).

Many academics as well as practitioners have called for new leadership styles which are more adaptable, creative, and innovative (Boal 2004; Drath 2001; Jamrog, Vickers and Bear 2006; Martins and Terblanche 2003; Senge 1992; Van Knippenberg and Sitkin 2013). Two such styles have been offered: strategic leadership (Burgelman 2014; Hitt and Ireland 2002; Pisapia 2009), and entrepreneurial leadership (Dess et al. 2003; Fernald, Salomon, and Tarabishy 2005; Ireland, Kuratko, and Covin 2002; Kuratko 2007; Gupta, MacMillan, and Surie 2004).

Entrepreneurial leadership (EL) exists at the crossroads of leadership and entrepreneurship (Pisapia, 2009). Some would define it just as another form of leadership. For example, many suggest that EL is the process of creating an entrepreneurial vision and inspiring a team to enact the vision in high velocity and uncertain environments (Chen 2007; Covin and Slevin 2002; Ireland and Hitt 1999; Kuratko 2007; Surie and Ashley 2008). There are other interpretations. For Ireland, Kuratko, and Covin (2002), and Sharma and Chrisman (1999), EL is seen as the process whereby an individual or group of individuals create a new organization, or instigate renewal or innovation within an existing organization. For Dess et al. (2003), entrepreneurial leaders establish the conditions conducive to role performance and social exchange. Gupta et al. (2004) suggest that building commitment by forging the capacity in the organization for innovation, risk-taking, and proactiveness are important cultural features.

Hence, entrepreneurial leadership emphasizes the importance of creating visions and then accumulating the appropriate (tangible and intangible) resources in order to explore and exploit opportunities and gain competitive advantage, achieve growth and create value. On another side, entrepreneurial leadership is built on the premise that an individual leader accumulates and co-ordinates firm resources in order to explore and exploit new opportunities and to realize a specific vision (McGrath and MacMillan, 2000; Ireland et al., 2003, Gupta et al., 2004). The vision may include the generation of sustainable returns, increased market shares by building sustainable competitive advantages, internationalisation and

much more; results directly connected with the improvement of performance and growth (Rosenbusch, et. al, 2013). On the other hand, this process includes actions based on subjective decision making and judgement (Penrose, 1959; Kirzner, 1973; Casson; 1982, Mosakowski; 1998; Alvarez & Busenitz, 2001) and therefore requires the use of personal resources and capabilities.

The main objective of this study was to investigate the influence of perceived managerial discretion for the Entrepreneurial leadership that will also indirectly affect the firm performance. The context of this study was the Banking which middle manager as unit analysis with their characteristics and level discretion that affect decision making. In order to investigate further the interaction between perceived managerial discretion, entrepreneurial leader and branch performance, we propose some hypotheses.

## 2. Literature Review

Many researchers agree that organization success depend on fit between environment dynamic and development organization (Romanelli and Tushman. 1988). Manager has important role in determine outcome, only if they have enough discretion to make strategic choices. Manager with high discretion, fully consider all choices, using their values, skill, experiences that can be reflected by outcome.

### 2.1 Managerial Discretion

Managerial discretion acts as a bridge between two previously conflicting organizational theories: population ecology and strategic choice (Hambrick & Finkelstein, 1987). Population ecology theorists argue that organizations are inertial and limited by internal and external pressures (Hannan & Freeman, 1977). Conversely, strategic choice theorists argue that management's chosen strategies shape organizational outcomes (Andrews, 1971). Managers determine long-term goals and objectives and implement courses of action (such as diversifying or discontinuing current activities) to pursue these goals and objectives (Chandler, 1962). Decision makers (i.e., the dominant coalition) have a "strategic choice" to implement structural change, determine the environmental domain in which to compete, and alter performance standards (Child, 1972).

Managerial discretion is defined as the latitude of actions that are available to the top decision makers (Hambrick and Finkelstein, 1987).

Managers with a high degree of discretion are likely to exercise their full range of options. Thus, their own set of values, skills, and experiences would be reflected on the outcome. On the other hand, managers with low discretion are bound by constraints, and have little discretion over the course of strategic actions. Theories of managerial perception propose that organizational success depends on the ability of managers to perceive and interpret information from the environment. For the manager, the appropriateness of taking specific strategic actions, or any action at all, is therefore highly ambiguous. Managers must first determine which organizational issues are within their domain, or discretionary set, and which issues are beyond their latitude of action, before strategic choices can be made or strategic actions are taken (Hambrick and Finkelstein, 1987)

Hambrick and Finkelstein (1987) argued that environmental, organizational, and personal factors jointly influence top executives' latitude for action. Moreover, their linking of the three determinants of constraint (i.e., environmental, organizational, and personal) to measurable constructs paved the way for calculation of the amount of managerial discretion actually available to top executives. The degree of managerial discretion for an executive would be higher if he is aware of his options and is willing to make an attempt to expand them.

## 2.2 Task Environment

The task environment is characterized by factors in the organization's domain (e.g., industry) and how the organization functions within its domain. The task environment is expected to positively influence managerial discretion when product or service characteristics vary greatly across industry competitors, the market for the industry's products or services is growing, and demand for the industry's products or services is volatile. Conversely, the task environment may constrain discretion when an industry is highly concentrated, highly regulated, and powerful external forces, such as competitors, suppliers, and buyers, exist (Hambrick & Finkelstein, 1987; Pfeffer & Salancik, 1978; Porter, 1980; Thompson, 1967). Relatedly, Dess and Beard (1984) introduced munificence, dynamism, and complexity as dimensions of the task environment relevant to industry firms. Many of the managerial discretion task environment factors closely resemble these three dimensions (Boyd & Gove, 2006), and it is reasonable to conclude that industry munificence,

dynamism, and complexity all potentially increase a manager's latitude of action.

Environments afford managerial discretion in different ways with some supporting greater variety and change than others. Managers are literally constrained by external forces, or there is relatively little ambiguity in the business, so only a narrow range of options is plausible among the executive (Thompson 1967).

Hambrick and Finkelstein (1987) argued that environmental, organizational, and personal factors jointly influence top executives' latitude for action. Moreover, their linking of the three determinants of constraint (i.e., environmental, organizational, and personal) to measurable constructs paved the way for calculation of the amount of managerial discretion actually available to top executives.

Among the three sources of discretion, environmental, organizational, and individual, most of the existing research has focused on the environmental influence on discretion. This may be because among the three sets of determinants, the external environment has the greatest potential to allow executives variety and change, as well as restrict them, in their decision-making. Environment can be conceptualized as factors that affect survival and firm performance (Dess dan Beard, 1984; Starbuck, 1976). Dess and Beard proposed three dimension of task environment, which is based on a synthesis of previous work by Child (1972) namely munificence, dynamis, complexity.

Munificence refers to an environment's ability to support sustained growth of an organization (Aldrich, 1979; Dess and Beard, 1984). As Rajagopalan et al. (1993: 359) point out, 'uncertain environments that are also munificent (e.g., high growth industries in initial stages of industry evolution) are very different from uncertain environments which are far less munificent (e.g., mature industries with declining demand or increasing competition). Hence, the performance effects of comprehensiveness are likely to be different across these environments.' Munificence refers to an environment's ability to support sustained growth of an organization (Aldrich, 1979; Dess and Beard, 1984).

Dynamism means the rate of change and innovation in an industry. Dynamism measure in Dess and Beard was similar to stability/dynamism by Thompson (1967). Last, complexity refers to the variety of forces in an industry which are considered difficult to be identified with clarity. It refers to the level of complex knowledge that banks have to capture some understanding on the environment pressure (Sharfman dan Dean, 1991).

### 2.3 Managerial Characteristic

This paper chooses managers because they offered several advantages, managers promised to bridge the literatures that had already studied aspects of discretion. Middle managers are like workers, in that they have their own productive tasks to complete. At the same time, middle managers are also like senior executives, having subordinates and responsibility for directing them toward effective performance (Caza, 2007). Some research show relationship between demography managerial characteristic and behaviour or outcome. Age, education, and functional background/experience were individual characteristic that used in this study.

Inertial forces (e.g. age, size, capital intensity), resource scarcity/availability, powerful inside stakeholders and other internal organizational factors are considered the second loci of managerial discretion (Wangrow et al., 2015). Dearborn and Simon (1958) reported a relationship between managers' functional area work experience and constrained (functionally consistent) problem identifications in ill-structured decision situations.

Managers with differing histories of functional experiences are likely to differ in their attitudes, knowledge, and perspectives (Dearborn and Simon, 1958; Hambrick and Mason, 1984). Differences among managers from different functions may be due in part to differences in their educations, but work experiences in functional areas are likely to further shape cognitive and attitudinal perspectives

Middle manager's tenure in the organization influenced their ability to implement a strategic change program (Bower, 1970). It is reasonable the more experienced middle managers tend to need less support than less experience middle manager. Because more experience middle manager might have acquired more knowledge and might have achieved better ways of successfully executing a strategic initiative.

There are several reasons to expect younger managers to bring better cognitive resources to decision-making tasks. First, some cognitive abilities seem to diminish with age, including learning ability, reasoning, and memory (Botwinick, 1977; Burke and Light, 1981). Second, younger managers are likely to have received their education more recently than older managers, so their technical knowledge should be superior. Third, younger managers have been found to have more favorable attitudes toward risk-taking (Vroom and Pahl, 1971).

Age is expected to influence strategic decision-making perspectives and choices. Hitt and Tyler (1991), for example, found that

executives' ages had an influence on the strategic evaluation of acquisition candidates. Diversity of age is expected to increase the variety of perspectives on strategic issues facing a firm, thus stimulating the consideration of change. The benefits of increased age diversity will be greater at moderate levels and will taper off the more heterogeneous in age a top management team becomes (Wiersema and Bantel, 1992).

Assuming attained education level is correlated with cognitive ability, higher levels of education should be associated with a team's ability to generate (and implement) creative solutions to complex problems. Their ability to generate creative solutions may explain why people who are more educated have more receptive attitudes toward innovation (Kimberly and Evanisko, 1981; Rogers and Shoemaker, 1971). The association between education and both cognitive abilities and attitudes toward innovation suggests that more innovative firms should have more highly educated top management teams.

Further, high levels of education consistently been associated with receptivity to innovation. Bantel and Jackson (1989) found that top management teams with high levels of education headed innovative banks. We thus expected individuals with high levels education to be aware of and receptive to the need for change in corporate strategy.

#### 2.4 Entrepreneurial Leadership

The concept of entrepreneurial leadership derives from a fusion of the entrepreneurship, leadership and strategic management literatures and is associated with the notion that highly competitive circumstances require innovative leadership mind-sets capable of implementing rapid change (McGrath and MacMillan, 2000; Hitt et. al, 2001; Ireland et al., 2003; Gupta et. al, 2004). Studies of entrepreneurial leadership have progressively built a behavioural profile, emphasizing the entrepreneurial leader's strategic approach to entrepreneurship (Covin & Slevin, 2002); their focus on opportunity-seeking and advantage-seeking (McGrath and MacMillan, 2000; Ireland et al., 2003); their ability to articulate and realize a vision (Gupta et al., 2004; Cogliser and Brigham, 2004, Vecchio, 2003); and role as strategic managers (or leading others to strategically manage) of resources (McGrath and MacMillan, 2000; Ireland et al., 2003, Gupta et al., 2004).

Entrepreneurial leadership is built on the premise that an individual leader accumulates and co-ordinates firm resources in order to explore and exploit new opportunities and to realize a specific vision (McGrath and MacMillan, 2000; Ireland et al., 2003, Gupta et al., 2004). The vision may include the generation of sustainable returns, increased market share by building sustainable competitive advantages,

internationalisation and much more; results directly connected with the improvement of performance and growth (Rosenbusch, et. al, 2013). On the other hand, this process includes actions based on subjective decision making and judgement (Penrose, 1959; Kirzner, 1973; Casson; 1982, Mosakowski; 1998; Alvarez & Busenitz, 2001) and therefore requires the use of personal resources and capabilities. An entrepreneurial leader is himself a resource for a firm (Alvarez & Busenitz, 2001) because he possesses the ability to strategically structure a resource portfolio and then arrange these resources to form organizational capabilities for a firm (Teece et., al, 1997; Teece, 2007).

Entrepreneurial effort refers to key challenges managers face and is related to the “extent to which top managers are inclined to take business-related risks (the risk-taking dimension), to favour change and innovation to obtain a competitive advantage for their firm (the innovation dimension), and to compete aggressively with other firms (the proactiveness dimension)” (Covin and Slevin, 1988). However, balance is essential for effectiveness: while pursuing innovation, attention to containing risk is also necessary. Similarly, while proactive behaviour may enhance competitiveness, a collaborative orientation may be required to facilitate learning and speedy commercialization of innovations (Gupta, 2004). Thus, the challenge is to achieve growth and/or corporate renewal by fostering a culture of innovation (Brown, 1996) through strategic mandate and resource commitments (Burgelman, 1984).

## 2.5 Performance

Performance is an indicator of success for an organization or company. Performance can be described as a construct in measuring the success of a company's strategy implementation (Venkataraman, 1997). The performance measurements help monitor the implementation of the business strategy by comparing the actual results of the target with the goal of the strategy (Simon, Davila, dan Kaplan, 2000). Without referring to the performance, the manager is not able to assess the quality and strategic decisions (Chakravarthy, 1984). Managers cannot manage well what cannot be measured (Kaplan dan Norton, 2004).

Titko and Lace (2010) stated that the key performance indicator (KPI) comprise of four perspectives: 1) Financial perspective 2) Customer perspective 3) Internal Business Process 4) development. The bank uses the relevant criteria capturing the four perspective. Financial perspective contains 1) Profit growth and cost control 2) develop retail payment 3)



develop retail finance. Customer perspective cover 1) increase market share 2) support other unit. Perspective on internal business refers to improve work process, and development perspective refers to development organization capability.

### 3. Hypotheses

Environmental antecedents are factors that affect a manager's discretion and are common to all firms and managers in the environment. They correspond to the antecedents of the 'Task Environment' in Hambrick and Finkelstein (1987, pp. 378–389) for which they qualitatively suggest examples, such as product differentiability, market growth, and industry concentration (e.g. Lieberman and O'Connor 1972; Luce and Raiffa 1957; Porter 1980, p. 230). We can make hypothesis between environment and managerial discretion

H1: Task environment affected significantly perceived managerial discretion

A top manager's psychological characteristics and their relationship with the firm can also limit or enhance the degree to which the executive can envision and create multiple courses of action across various contexts (Hambrick & Finkelstein, 1987). In advancing strategic choice theory, Child (1997) argued that executives in the same environmental situation will set different levels of discretion for themselves on the basis of their interpersonal linkage to the environment.

Both theoretical and empirical research suggests that discretion varies among individuals and organizations, and that a number of individual variables and organizational demographics may affect discretionary behaviour (Montanari, 1978; Finkelstein and Hambrick, 1990; Hambrick and Finkelstein, 1987)

Thus, the specific individual demographics included in this study were age, education, and functional background/experience. These particular demographics were selected based on the empirical work regarding teams and CEO discretion, and discretionary environments (Finkelstein and Boyd, 1998; Finkelstein and Hambrick, 1990; Hambrick and Abrahamson, 1995). These relationships are expressed in the following research hypotheses:

H2: Managerial characteristic will predict perceived managerial discretion

Branch performance is measured by KPI. Leader who recognize the presence of managerial discretion means he/she has ideas, possible action, within his freedom authority. When he exercising his discretion optimally means that there are more idea to achieve the goal for instance increasing branch performance. Therefore, the more managerial discretion would result in higher performance in the branch:

H3 : Perceived managerial discretion significant increase branch performance.

According to Kouzes and Posner (2002), performance of higher level manager is indicated by five dimension 1) challenging the process, 2) inspiring shared vision, 3) enabling others to act, 4) modelling the way, 5) encouraging the heart. Entrepreneurial effort refers to key challenges managers face and is related to the “extent to which top managers are inclined to take business-related risks (the risk-taking dimension), to favour change and innovation to obtain a competitive advantage for their firm (the innovation dimension), and to compete aggressively with other firms (the proactiveness dimension)” (Covin and Slevin, 1988). Challenging the process may be relevant, it reflect the extent to which executives are innovatives and generating ideas. Manager with more discretion would bear to take risk and anticipate uncertainty conditions actively. Therefore, managerial discretion would increase entrepreneurial leadership.

H4: Perceived managerial discretion has positive impact entrepreneurial leadership.

Entrepreneurship can make a significant difference to a company’s ability to compete (Kozlowski, 2008). It can be used to improve competitive positioning and transform corporations, their markets, and industries when opportunities for value-creating innovations are developed and exploited (Miller, 1983).

Entrepreneurial leadership can generally be thought of as leading, through direct involvement, a process that creates value for organizational stakeholders by bringing together a unique innovation and package of resources to respond to a recognized opportunity (Darling, 2007). In fulfilling this process, entrepreneurs function within a paradigm of three dimensions: innovativeness, risk-taking, and proactiveness (Morris, Schindehutte and LaForge, 2004: 92). Innovativeness focuses on the search for creative and meaningful solutions to individual and operational

problems and needs. Risk-taking involves the willingness to commit resources to opportunities that have a reasonable possibility of failure. Proactiveness is concerned with implementation, and helping to make events happen through appropriate means, which typically include the efforts of others. This perspective takes into account the entrepreneur, the individuals with whom the entrepreneur is directly involved, and the broader "community" of supporters in which the entrepreneur is embedded (Stevenson, 2004: 3). Several empirical studies came to support that entrepreneurial orientation of the firm have indeed an important impact on business performance and growth (Lumpkin & Dess, 2001; Ireland et al., 2003, Gupta et al., 2004; Wiklund & Shepherd, 2005; Chen, 2007; Kuratko, 2007; Surie & Ashely, 2008). Therefore, those type of leadership can improve organization performance.

H5. Entrepreneurial Leadership has positive impact on branch performance

#### 4. Data collection and methodology

To test the proposed framework researchers adopted a quantitative research design. Further, a survey was conducted among branch managers at big four national banks. A set of five questionnaires each measuring environment, characteristic managerial, perceived managerial discretion, entrepreneurial leadership and organizational performance were administered personally by researchers to the branch managers of bank.

The primary data are qualitative in nature such as organization structure, annual report, topic relevant to KPI for branch, authority tables of the branch manager. This information is asked to ensure that the required information is available for quantitative research.

##### 4.1 Unit analysis, population ,and sample selection

The unit analysis of this study is branches of big four national bank with the target respondent branch manager/middle manager. The respondent has similar type and level of authority and responsibility within the bank in relation to unit performance of bank, and also has minimum year of service at branch manager at least 3 years as different branch.

The questionnaires on managerial discretion were developed from Hambrick & Finkelstein (1987), Noerhadi (2013) and Caza (2007) to reflect dimension and nature of managerial discretion that was being examined from target responden. Managers participating in the survey

were asked to self-evaluate managerial discretion relative to branch performance using a 5 point Likert scale. The mean value of these indicators was calculated and used as the proxy value of branch performance.

#### 4.2 Research Model

The model is constructed into two part of analysis: 1) factor causing perceived discretion and 2) impact of perceived discretion to performance. The research model shows the simultaneous effect of environment, managerial characteristic determine perceived managerial discretion.

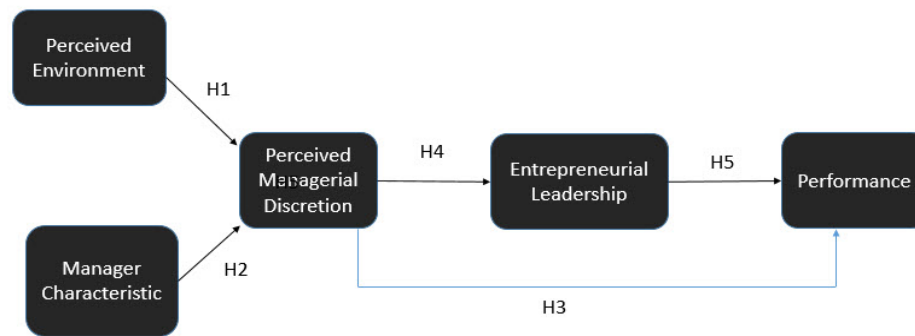


Figure 1. Research Model

#### 5. Conclusion

Managerial discretion is a concept of great potential significance, both as a theoretical construct and as a practitioner tool to improve organisational phenomena. However, discretion is a multifaceted, highly abstract concept that, by its very nature, cannot be directly observed (Hambrick & Abrahamson 1995). What this means is that in environments such as munificent, dynamism, and complexity where the linkages between actions and outcomes are often uncertain, the research design must be more explicit in an attempt to evaluate the role of managerial discretion and take into account heterogeneity in all dimensions of managerial discretion: individual, environmental and organizational.

The concept of entrepreneurial leadership has become increasingly important because organizations must be more entrepreneurial to enhance their performance, their capacity for adaptation and long-term survival (Gupta et al, 2004). Covin and Slevin (1988) emphasized that entrepreneurial effort refers to key challenges managers face and is related to the three interrelated behavior components: the risk-taking dimension (inclined to take business-related risks), the innovation dimension (favoring change and innovation to obtain a competitive advantage for the firm), and the proactive dimension (competing aggressively with other firms) (Chen, 2007).

Future research should also consider other possible moderating mechanisms involved in the proactive personality and entrepreneurial leadership relationship. It is possible that organizational climate, achievement goals, locus of control, and entrepreneurial self-efficacy moderate the relationship between proactive personality and entrepreneurial leadership (Kuratko, 2007).

Organizations of various sizes and types can benefit from the entrepreneurial leadership approach. This approach provides us with operationalization for entrepreneurial leadership scale, which in consequence should give directions for developing entrepreneurial leadership in organizations. Employees who perceive that their supervisors exhibit entrepreneurial leadership behavior are more satisfied with the companies they work for. Developing entrepreneurial leadership in a firm seems to have immediate benefits through employees' satisfaction. Leaders can improve overall firm's performance by constructing a culture centered on the entrepreneurial leadership dimensions (Kozłowski, 1995)

## 6. Recommendation

The identification of key relationships between the observable characteristics of managers and their choices and firm performance has provided clear support for the proposition that managers do matter. Our framework identifies perceived discretion as the pivotal concept in this explanation. We urge others to take on the challenge of developing this field and to ensure that the excellent work developed over more than two decades of upper echelons research is built upon as it moves into a further phase of development. For instance, prior research identifies five antecedents to middle-level manager entrepreneurial behaviour: (1) management support, (2) work discretion and autonomy, (3) rewards and reinforcement, (4) time availability, and (5) organizational boundaries (Kuratko, Ireland, Covin, & Hornsby, 2005). In short, research provides

evidence that organizations can promote behaviour by middle managers that leads to positive outcomes. Failure to provide discretion to managers hampers their ability to implement the strategy without effectively seeking approval and limits the speed at which strategy may be implemented (Wangrow, 2015). Future research should continue to further consider the role of discretion directly on internal strategy implementation and the role that middle managers play in implementing strategy. Future research should consider how such institutional pressures affect the discretion that is afforded to managers independent of the organization's immediate competitive task environment.

Then we encourage researchers to devote their creative energy towards methods that will give us a more complete assessment of the managerial discretion construct. Relatedly, we also encourage researchers to seek discretion measures that discriminate the construct from its closely related psychological (e.g., locus of control), organizational (e.g., inertia), and environmental (e.g., market growth) antecedents.

## References

- A.J. Caza (2007), Three papers on managerial discretion, School of Business, University of Michigan, Michigan, Dissertation Doctoral
- Aldrich, H. E. and Zimmer, C., (1986), *Entrepreneurship Through Social Networks*, University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship
- Aldrich, H. E. and Cliff, J. E. (2003), The pervasive effects of family on entrepreneurship: toward a family embeddedness perspective, *Journal of Business Venturing*, 18(5), 573–596
- Alvarez, S. A., & Barney, J. B. (2002), Resource-based theory and the entrepreneurial firm, In M. A. Hitt, R. D. Ireland, S. M. Camp, & D. L. Sexton (Eds.), *Strategic entrepreneurship: Creating a new mindset*: 89–105. Oxford: Blackwell Publishers
- Alvarez, S., & Busenitz, L. (2001), The entrepreneurship of resource-based theory, *Journal of Management*, 27: 755- 775
- Boal, K., and Hooijberg, R. (2000). 'Strategic leadership research: Moving on.' *Leadership Quarterly*, 11, 415–549.
- Burgelman, R.A., 1983. A process model of internal corporate venturing in the diversified major firm. *Adm. Sci.Q.* 28 (2), 223–243.
- Burgelman, R.A., 1984. Designs for corporate entrepreneurship. *Calif. Manage. Rev.* 26, 154–166.

- Chandler A. D. 1962. *Strategy and structure*. Cambridge, MA: MIT Press.
- Child J. 1972. Organizational structure, environment and performance: The role of strategic choice. *Sociology*, 6: 1-22.
- Child J. 1997. Strategic choice in the analysis of action, structure, organizations and environment: Retrospect and prospect. *Organization Studies*, 18: 43-76.
- Carter, N., Brush, C. B., Greene, P. G., Gatewood, E. and Hart, M. (2003), Women entrepreneurs who break through to equity financing: the influence of human, social and financial capital, *Venture Capital*, 5 (1), 1-28
- Casson, M. C., (1982), *The Entrepreneur: An Economic Theory*, Oxford; Martin Robertson, [2nd. ed., Edward Elgar, 2003]
- Chen, Ming- Huei, (2007), Entrepreneurial Leadership and new ventures: Creativity in Entrepreneurial Teams, *Creativity and Innovation Management* 16(3), 239-249
- Cogliser, C. C. and Brigman, K. H. (2004), The intersection of leadership and entrepreneurship: Mutual lessons to be learned, *The Leadership Quarterly*, 15, 771-799
- Cohen and Levinthal (1990), Absorptive capacity: A new perspective on learning and innovation, *Administrative Science Quarterly*, Volume 35, Issue 1 pg. 128-152
- Conner, K. R. (1991), A historical comparison of resource-based theory and five schools of thought within industrial organization economics: Do we have a new theory of the firm? *Journal of Management*, 17 (1), 121–154
- Covin, J.G. (1991), Entrepreneurial vs. conservative firms: A comparison of strategies and Performance, *Journal of Management Studies*, 25(5), 439-462
- Covin, J. G., & Slevin, D. P. (2002), The entrepreneurial imperatives of strategic leadership, In M. A. Hitt, R. D. Ireland, S. M. Camp, & D. L. Sexton (Eds.), *Strategic entrepreneurship: Creating a new mindset*: 309–327, Oxford: Blackwell Publishers
- David B. Wangrow, Donald J. Schepker and Vincent L. Barker III (2015), Managerial Discretion: An Empirical Review and Focus on Future Research Direction, *Journal of Management* 2015 41: 99 originally published online 14 October 2014
- Donald C. Hambrick and Eric Abrahamson (1995), Assessing Managerial Discretion across Industries: A Multimethod Approach, *The Academy of Management Journal* Vol. 38, No. 5, pp. 1427-1441

- Drath, W. (2001). *The deep blue sea: Rethinking the source of leadership*. San Francisco: Jossey-Bass.
- Margarethe F. *Wiersema* and Karen A. *Bantel* (1992) Top Management Team Demography and Corporate Strategic Change Source: The Academy of Management Journal, Vol. 35, No. 1, pp. 91-121.
- Fernald, L.W., Solomon, G.T., and Tarabishy, A. (2005). 'A new paradigm: Entrepreneurial leadership.' *Southern Business Review*, 30(2), 1-10.
- Finkelstein, 1988 Managerial orientations and organizational outcomes: the moderating role of managerial discretion and power, Doctor of Philosophy – Graduate School of Business, Columbia University, New York (1988)
- Finkelstein, B.K. Boyd (1998) How much does the CEO matter? The role of managerial discretion in the setting of CEO compensation, *Academy of Management Journal*, 41 (2) (1998), pp. 179-199
- Gupta, V., MacMillan, I. C. and Surrie, G. (2004), Entrepreneurial leadership: developing and measuring a cross-cultural construct, *Journal of Business Venturing*, 19, 241-260
- Guth, W.D & Ginsberg, A. 1990, Corporate entrepreneurship, *Strategic Management Journal*, 11, 5–15
- D.C. HambrickUpper (2007), Echelons theory: an update *The Academy of Management Review*, 32 (2) (2007), pp. 334-343
- Hambrick and Abrahamson, (1995), Assessing managerial discretion across industries: a multimethod approach *The Academy of Management Journal*, 38 (5) (1995), pp. 1427-1441
- Hambrick and Finkelstein, (1987) Managerial discretion: a bridge between polar view of organizational outcomes B.M. Staw, L.L. Cummings (Eds.), *Research in Organizational Behavior*, JAI Press, Greenwich, Ct (1987)
- Hitt and Tyler, (1991) Strategic decision models: integrating different perspectives *Strategic Management Journal*, 12 (5) (1991), pp. 327-351,
- Hanan, M. (1976), Venturing: Think small to stay strong, *Harvard Business Review*, 54(3): 139–148.
- Hill, R.M. and Hlavacek, J.D. (1972), The venture team: A new concept in marketing organizations. *Journal of Marketing*, 36: 44–50
- Hills, G. E., Singh, R., Lumpkin, G. T., (1997), Opportunity recognition: perceptions and behaviors of entrepreneurs, *Frontiers of entrepreneurship research* 17, 168-182



- Hitt, M. A., Bierman, L., Shimizu, K., & Kochhar, R. (2001), Direct and moderating effects of human capital on strategy and performance in professional service firms: A resource-based perspective, *Academy of Management Journal*, 44: 13–28
- Hitt, Michael A., R. Duane Ireland, S. Michael Camp and Donald L. Sexton (2002), *Strategic Entrepreneurship: Creating a New Mindset*, Oxford: Blackwell Publisher
- Hindle, K. (2004), Choosing qualitative methods for entrepreneurial cognition research: A canonical development approach, *Entrepreneurship Theory and Practice*, 28, 575-607
- Kouzes, J. M., & Posner, B. Z. (2002). *The leadership challenge*. San Francisco: Jossey-Bass
- Ireland, R. D., Hitt, M. A., Camp, S. M., & Sexton, D. L. (2001), Integrating entrepreneurship and strategic management action to create firm wealth, *Academy of Management Executive*, 15(1): 49–63
- Ireland, R. D. and Hitt, M. A. (1999), Achieving and maintaining strategic competitiveness in the twenty-first century: The role of strategic leadership. *Academy of Management Executive*, 13(1): 43–57
- Ireland, R.D., Hitt, M.A. and Sirmon, D.G., (2003), A Model of Strategic Entrepreneurship: The Construct and its Dimensions, *Journal of Management*, 29, 963-989
- Ireland RD, Webb JW (2007). Strategic entrepreneurship: creating competitive advantage through streams of innovation, *Business Horizons*, 50: 49–59
- Ireland, R.D., J.G. Covin & D.F. Kuratko (2009), Conceptualizing corporate entrepreneurship strategy, *Entrepreneurship: Theory & Practice*, 33(1): 19-46
- Jamrog, J., Vickers, M., and Bear, D. (2006). ‘Building and sustaining a culture that supports innovation.’ *Human Resource Planning*, 29(3), 9-19.
- Robert S. Kaplan and David P (1996), The balanced scorecard: Translating strategy into action, Harvard Business School Press, 322 pp., Long Range Planning, Volume 30, Issue 3, June 1997, Page 467**
- Kirzner, I., (1973), *Competition and Entrepreneurship*, Chicago: University of Chicago Press
- Kirzner, I.M. (1999), Creativity and/or Alertness: A reconsideration of the Schumpeterian Entrepreneur, *Review of Austrian Economics*, 11(1-2), 5-17
- Kotter, J. P., (2001), “What leaders really do?“, *Harvard Business Review*, Vol. 79 Issue 11, p.85-96

- Kozlowski, (2014), *Entrepreneurial Leadership As A Cognitive Construct For Effective Support In The Implementation Of Decision-Making Opportunities*, Series: Organization And Management, Nr kol. 1905, University of Economics in Katowice.
- Kuratko, D.F., Ireland, R.D., Covin, J.G. & Hornsby, J.S. (2005), A model of middle-level managers' entrepreneurial behaviour, *Entrepreneurship Theory & Practice*, 29(6)
- Kuratko, D. F., (2007), Entrepreneurial leadership in the 21st century, *Journal of Leadership & Organizational Studies*, 13(4), pp. 1-11
- Lam, W., E. Shaw, and S. Carter (2007), *Entrepreneurial Capital: Convertibility, Personal Reputation and Firm Performance*, paper presented at the 30th Institute for Small Business and Entrepreneurship Conference, Glasgow
- Leitch, C.M, McMullan, C., Harrison R.T. (2013), The Development of Entrepreneurial Leadership: The Role of Human, Social and Institutional Capital, *British Journal of Management*, 24, 3, 347–366
- Long, W., & McMullan W., (1984), Mapping the New Venture Opportunity Identification Process, in *Frontiers of Entrepreneurship Research*, Ed. J. Hornaday, F.Tarpley, Jr., J. Timmons, et al. Wellesley, MA
- Low, M. B., & MacMillan, I. C. (1988), Entrepreneurship: Past research and future challenges, *Journal of Management*, 14(2): 139-161
- Lumpkin, G. T. & Dess, G. G. (1996), Clarifying the entrepreneurial orientation construct and linking it to performance, *Academy of Management Review*, 21 (1): 135-172
- Lumpkin, G. T., & Dess, G. G. (2001), Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment and industry life cycle, *Journal of Business Venturing*, 16(5), 429–451
- Margaret Fletcher, (1995) "Decision making by Scottish bank managers", *International Journal of Entrepreneurial Behavior & Research*, Vol. 1 Issue: 2, pp.37-53
- McGrath, R. M. and MacMillan, I. C. (2000), *The entrepreneurial mindset*, Boston: Harvard Business School Press
- Mosakowski, E. (1998), Entrepreneurial resources, organizational choices, and competitive outcomes, *Organization Science*, 9(6), 625–643
- Noerhadi, Darwin Cyril. (2013). *Perceived managerial discretion and its impact on bank branch and leadership performance: evidence from Indonesian banking*, Universitas Indonesia, Dissertation Doctorals.
- Penrose, E. T. (1959), *The Theory of the Growth of the Firm*, New York: John Wiley

- Pisapia, J. (2009). *The strategic leader: New tactics for a globalizing world*. Charlotte, NC: Information Age Publishing.
- Rosenbusch, N., Rauch, A., Bausch, A., (2013), The mediating role of entrepreneurial orientation in the task environment–performance relationship: a meta-analysis, *Journal of Management*, 39, 3, 633–659
- Schumpeter, J. A. (1934), *The theory of economic development, An inquiry into profits, capital, credit, interest, and the business cycle*. Cambridge MA: Harvard University Press
- Surie, G. & Ashley, A., (2008), Integrating pragmatism and ethics in entrepreneurial leadership for sustainable value creation, *Journal of Business Ethics* 81, 235–246
- Teece, D., G. Pisano, and A. Shuen (1997), Dynamic capabilities and strategic management, *Strategic Management Journal*, 18, 509-533
- Teece, David J. (2007), Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance”, *Strategic Management Journal*, 28(13): 1319-1350
- Timmons, J.A. (1994), *New Venture Creation: Entrepreneurship for the 21st Century*, Irwin Press, Burr Ridge, IL (4th edition)
- Titko, J, and Lace, N, (2010), Customer Satisfaction And Loyalty In Latvian Retail Banking, *Economics And Management*: 2010. 15
- Vecchio, R. P. (2003), Entrepreneurship and leadership: common trends and common thread, *Human Resource Management Review*, 13, 303-327
- Venkataraman, S. (1997), The Distinctive Domain Of Entrepreneurship Research: An Editor's Perspective, In J. Katz & R. Brockhaus (Eds.), *Advances in entrepreneurship, firm emergence, and growth*, vol. 3:119-138.
- Wiklund, Johan and Dean Shepherd (2005), Entrepreneurial Orientation and Small Business Performance: a Configurational Approach, *Journal of Business Venturing* 20, 71-91



**SUPPLY CHAIN RISK MANAGEMENT EVALUATION  
ON UNCONTROLLABLE RISKS IN AUTOMOTIVE  
INDUSTRY OF PT. ASTRA INTERNATIONAL -HONDA  
SALES OPERATION**

**Ghilmansyah Amri<sup>1</sup>, Orlando R. Santos<sup>2</sup>**

<sup>1</sup>  
President University, Indonesia,

ghilmansyah@gmail.com <sup>2</sup> Technological Institute of the  
Philippines, Philippines, orlie\_santos@yahoo.com

---

***ABSTRACT***

*Supply chains have become more interdependent and complex since the globalization. Although it has given much advantages, at the same circumstances it also creates the company becomes defenseless to risk which can affect the adverse impact for the organization. The disruption on supply chain caused by the uncontrollable risks which happened several years ago have proven that a small ripple can cause major waves. When the disruption is not well-controlled by the company, it will impact the whole supply chain partners. This research objective is to discover the most effective mitigation strategy that is needed to minimize the impact of uncontrollable disruption towards the supply chain. The researcher uses a qualitative approach to achieve the objectives using a case study of the leading motorcycle automotive distributor and retailer in Indonesia which is PT. Astra International - Honda Sales Operation. The Miles and Huberman model theory and SWOT analysis theory is used by the researcher to do the data analysis and data verification. Analysis reveal that PT. Astra International - Honda Sales Operation combined risk mapping and financial impact mapping to identify and quantify the risk as a baseline to create the best mitigation strategies. They also use the combination of risk sharing, system integration, flexible transportation, and revenue management as their best mitigation strategies to reduce the impact of uncontrollable disruptions.*

**Keywords:** *Supply chain risk management, supply chain, motorcycle automotive industry, SWOT analysis, PT.Astra International-Honda Sales Operation*



**THE EFFECTS OF ENTREPRENEURIAL ORIENTATION  
AND TEAM REFLEXIVITY ON BUSINESS MODEL INNOVATION  
TO ACHIEVE SUPERIOR ORGANIZATIONAL PERFORMANCE  
( *Study of Entrepreneurship on Hospital Organizations in Indonesia* )**

**Sandra Dewi<sup>1</sup>, Anton Wachidin Widjaja<sup>2</sup>**

<sup>1</sup> Faculty of Economics and Business, Universitas Indonesia, Indonesia –  
sandramochtar@yahoo.com

<sup>2</sup> Faculty of Economics and Business, Universitas Bhayangkara Jakarta Raya, Indonesia –  
antonwachidinwidjaya@hotmail.com

---

**Abstract**

*Organizations are increasingly depending on teams to innovate and respond to the rapidly changing marketplace. The team reflexivity and entrepreneurial orientation as strategic orientation of the organization will play the main role by engaging the team to be risk-taking and more proactive in order to meet customers' needs as well as creating competitive advantage. The aim of the paper is to explore the effect of these two factors towards business model innovation, in the context of the healthcare industry, especially in the hospital industry in Indonesia, which are currently in a state of disruptive change due to policy reforms. On one hand, inter-profession teams in hospitals generally tend to be reflexive that is appropriate to the high-risk nature of their duty, but on the other hand requires a flexible attitude which constitute of the entrepreneurial orientation dimensions. This conceptual paper is expected to enrich the understanding regarding the importance of team reflexivity and entrepreneurial orientation as essential building blocks of the organizational innovation process, which will implicate hospital organizations to achieve competitive advantage through business model innovation.*

**Keywords** : Team reflexivity, Entrepreneurial orientation, Business model innovation, Hospital organizations

**1. Introduction**

Facing the dynamic external environment and the challenges of market competition, the organizational performance will be determined by its ability to develop new products or services

*Sandra Dewi, Anton Wachidin Widjaja*

(Teece et al., 1997), or innovate their business models (Casadesuss-Masanell & Ricart, 2010). The concept of strategic entrepreneurship is an appropriate approach to overcome that challenges, because it is argued that creativity is needed not only in the exploration stage, but also on the whole process within the company, including the exploitation phase of the entrepreneurial opportunities. In the process of finding these opportunities, the concept of creativity and innovation as the application of the entrepreneurial mindset become an important part, as the fundamental course for managing assets strategically or organizational resource orchestration to achieve competitive advantage of the firms (Ireland et al., 2003).

Innovation has been highlighted as a core competence for contemporary organizations to maintain or enhance effectiveness in rapidly changing and challenging environments (Bledow et al, 2009). Therefore, it was concluded that if a company wants to develop the innovation, the company is required to be able to demonstrate their creativity (Ireland et al., 2003).

Team-based organizations can respond quickly and effectively in the fast-changing environments, they enable organizations to develop and deliver products and services quickly and cost effectively, enable organizations to learn, and promote positive outcomes such as innovation (West et al., 2004). The team's role in organizational innovation attracted many researchers, because previous research showed a lot of inconsistency. The impact of the team can be facilitated or make a positive effect on creativity and innovation team (as a motivating factor); but also can indicate a negative influences or as a barrier to innovation (Anderson & West, 1998; Drach-Zahavy & Somech, 2001). The inconsistency aroused the interest to explore further especially with different contexts and different approaches theoretical basis (Fay et al., 2006).

Innovation as the output performance of the creative team can have an impact not only to the team itself, but also to the level of the individual, organization, or a combination of several levels at once or multilevel (Anderson et al, 2014), and even can also affect the wider society (Somech & Drach-Zahavy, 2013), depending on the type and level of innovation. With the power of a great impact, the authors feel the need to explore team determinant factor that will determine the effectiveness and innovation of the team, so the role of the team can provide a positive influence on the effectiveness of the organization, which in this case in the form of business model innovation. The determinant factors are divided into three categories which are team composition, social processes and cognitive factors, each of which is formed by several different elements (Reiter-Palmon et al., 2012).

In this paper, the author focused on the team reflexivity (as a cognitive factor) that will affect the rate of innovation (Reiter-Palmon et al., 2012). Team reflexivity is a mean or mechanism of the team and its members, in order to be aware constantly of the achievement of goals and strategies, which can produce more innovations than the teams that are non-reflexive (Schippers et al., 2015). Team reflexivity, the extent to which teams collectively reflect upon and adapt their working methods and functioning, is an important predictor of team outcomes, and most importantly innovation. (Schippers, 2012)

With the benefit of team reflexivity in maintaining the consistency and unity of team goals, then it is very essential position in the context of an organization that is dominated by a complex task, or organization with a level of uncertainty is high like the innovation process, or organization with the problem of excess workload of its members (Hoegel & Parboteeah, 2005; Labitzke, 2015). Those characteristics found in cross-functional teams that collaborate across many different professions within health care organizations such as hospitals (Labitzke, 2015; Schippers, 2012).



Simultaneously with the process of innovation and reflections by members of the team, the difficult work conditions while delivering the performance of an effective team completed its work, constantly does reflexivity in teams (Schippers et al., 2015). To summarise, reflexive practices enable the organisation to be more adaptive. Flexibility and reflexivity for innovation and responsive to external demands, generating discontinuous learning and employees' 'conceptual readiness' for innovation (West, 2002 )

Beside the team factor which can influence organizational innovation as mentioned above, an organizational factor which encouraging change is required to create innovation , namely entrepreneurial orientation. It was characterized as a company's strategic orientation formed by entrepreneurial dimensions (Covin, 1991; Kuratko et al., 2015), demonstrated through a flexible attitude, creative, and innovative, ongoing and encouraging reform (Ireland et al., 2003). Entrepreneurial-oriented perspective was considered the most appropriate to deal with an uncertain environment, due to the proactive characteristics that tend to innovate continuously, while other companies do not realize to have to do it (Covin & Lumpkin, 2011).

From strategic management perspective, entrepreneurship principles increasingly occupy important position, because both have the same focus which is wealth creation that achieved through the determinants of firm performance (Hitt et al., 2001). The concept of firm level entrepreneurship has been recognized as an integral part of strategic management (Burgelman, 1983; Barringer & Bluedorn, 1999), especially the concept of entrepreneurial orientation from Miller (1983) used in this study, as the perspective of the most dominant (Rauch et al., 2009) and most established (Wales, 2015).

Entrepreneurial orientation is considered very prominent and widespread so as to get the attention of scientific publications academics, exceeding the discussion of other entrepreneurial topics (Wales et al., 2013; Covin & Lumpkin, 2011 ). Entrepreneurial orientation is a strategic dimension of the organization, and show entrepreneurial behavior organization of time to time, which means it has an entrepreneurial pattern repeated or recurrent ( Wales, 2015).

It argued that entrepreneurial orientation triggered a business model innovation as a significant transformation in the way doing business is arranged and organized. ( Bouncken et al., 2016 ) . This requires a mode of explorative business model innovation focusing on increasing reflexive capacity, mobilizing networks and collaborations, and new organizational arrangements. ( Gorissen et al., 2016 ) .

Implementation of entrepreneurship related to the business model innovation in the context of the health care industry, especially hospital industry sector has not been widely known. Even to say there is a rejection of the innovation of several parties involved in the health care industry, including physicians (Herzlinger, 2014), whereas innovation is a key element of entrepreneurial principles (Covin, 1991 ). But in line with the development, it has now recognized the urgent need to use an entrepreneurial mindset in improving the health care system, which is considered a mistake in the competition so that the need for policy reforms related to the industry, which is now proceeding transition ( Porter & Tiesberg 2004; Porter & Lee, 2013, Christensen et al., 2009). It is still needed a lot of empirical evidence in implementing the concept entrepreneurship within a hospital organization ( Rauch, 2015 ) .

## **2. Literature Review**

## **2.1. Team Reflexivity**

Team reflexivity is defined as understanding between team members as a result of the self-reflection process on what the objectives, strategies and processes that have been implemented and used for the adjustment of the current step and anticipates the future under the conditions of internal and external teams and organizations (West, 1996). At high reflexivity in a team, the team will be better adapted to the conditions, uncertain, as a challenge to the process of innovation, especially in exploration opportunities or new product development (Hoegl & Parboteeah, 2004).

Members of a group bound to face many obstacles in the effort to coordinate, strengthen relationships with fellow members to unify thinking. Therefore, a team would require a mechanism in teams to manage and identify the frustration arising from the difference, as the prevention of disruption of team performance (Tjosvold et al., 2004). Management mechanism in this team called the team reflexivity, which describes the situation in the team, which allows its members to collectively reflect his perception of what has been and is being made by a team; and adjusted the objectives, strategies and processes that are running in the team, based on the results of these evaluations perception (West, 2002).

Some research showing that there is a direct effect of reflexivity towards innovation than a team that show lower level of reflexivity (Hulsheger et al., 2009; Schippers, 2012). It is argued that team reflexivity also directly affect team creativity and innovation (Tjosvold et al., 2004; Schippers et al., 2015) or support effective project teams on new product innovation (Hoegl & Parboteeah, 2006). Therefore team reflexivity have the role as antecedents of team creativity and innovation. Due to the reflection, the team can quickly change the strategy considered to be ineffective, as a result of studying the success or failure of the previous process (Schippers et al., 2007). It shows that the collective reflexivity based on the concept of team-focused learning (Cirella et al., 2014). Teams with high reflexivity will show activity continuously improve its performance (West et al., 2004)

The mechanism of team creativity and innovation with the team reflexivity is described in terms of the context of certain conditions. Team reflexivity is generally found in the complex team or dynamic tasks (Tjosvold et al., 2004), or in the form of high workload demands with the highly specific job characteristics (Schippers, 2012); or on conditions that require correction due to their very poor performance or declining (Widmer et al., 2009).

In the context of the conditions that indicate a high job pressure, then the team will examine and repeatedly questioned about the strategies and processes that are running at that time, and judge it as worth continuing or not. This means that reflexivity can be said to be related to changes in the environment, which requires adaptation of the organization, so it is argued that the team's ability to monitor and react to internal and external environment that is known as reflexivity (West, 2002). In these conditions, the activities of learning from past experience, considered to be a crucial factor and essential in reflexivity. It is said that naturally, the team reflexivity can occur in an environment of cooperative among its members (Tjosvold et al., 2004).

Judging from these mechanisms associated with team creativity and innovation, it can be understood that the reflexivity that produce learning of the achievement of the past, of course the team will be initiated to bring up new ideas are more creative, in contrast to the previous, with clearer plan. It is argued that the key indicators for the innovation is the team reflexivity (West et

al. 2004). Team reflexivity is proved actively formed by members of the team, to influence working conditions. This means that even though the team is working in a situation that does not overly support creativity and innovation, but with high reflexivity and purposeful team, otherwise can steer the situation to become more creative (Schippers et al., 2015).

With the benefit of reflexivity team in maintaining the consistency and unity of team goals, then reflexivity team is very essential position in the context of an organization that is dominated by a complex task, or organization with a level of uncertainty is high like the innovation process, or organization with the problem of excess workload of its members (Hoegel & Parboteeah, 2005; Labitzke, 2015) Characteristics like that found in cross-functional teams that collaborate across many different professions within health care organizations such as hospitals (Labitzke, 2015; Schippers, 2012). Team reflexivity resulted on the detail of planning, covering potential problems, and organizing the implementation of planning, whether it is long as well as short range planning, which is thought as an interactive process consisting of three components : reflection, planning and action (Widmer et al., 2009).

In summary it is argued that by enhancing team reflexivity, firms can make sure the uniqueness and newness of the new product with continuously improvement to the product lines (Lee, 2008), which also can occur through business model innovation (Chesbrough, 2010). The more innovative the business model of the organization, it will also increasing reflexive capacity (Gorissen et al., 2016).

**Proposition 1: The team reflexivity has a positive influence on business model innovation**

## 2.2. Entrepreneurial Orientation

Entrepreneurial orientation defined as the attitude of firm's behavior in order to pursue new opportunities through a combination of internal resources (Miller, 1983). Other definitions mentioned as a form of organizational decision-making, management philosophy, and strategic behavior, characterized by entrepreneurship. The importance of entrepreneurial orientation seen from studies showing significant influence on the superior performance of the organization, so that companies in the 21st century that are not behave entrepreneurially will certainly experience failure (Kuratko, 2009).

Entrepreneurial orientation expressed as the process of formation of corporate strategy (Miller, 2011) and is known as a strategic posture of the organization that exhibits innovative attitude, proactive and risk-takers, as a whole or unidimensional (Covin & Slevin, 1989, 1991; Wales, 2015)

The first dimension of entrepreneurial orientation is the innovativeness that reflects the tendency or propensity of companies to use or establish any new technology or way of working, making it necessary to change from routine jobs that existed before. Companies tend to form creativity and experimentation (Rauch et al., 2009). It can also be the emergence of creative new ideas, new breakthroughs and experimentation process that will encourage the emergence of novelty in technology, products and services (Wiklund & Shepherd, 2005).

The second dimension is proactiveness, which is described as anticipatory attitude and the pursuit of new opportunities and respond to the challenges ahead of competitors in the market of the newly formed (Rauch et al., 2009). Additionally a proactive stance can be considered to form the environment for example for their new products and technologies as well as new administrative processes, and not reactive face of a changing environment. Proactive is mentioned

*Sandra Dewi, Anton Wachidin Widjaja*

as the first initiation an attitude of innovation, so that there is an element of speed and act first when viewing opportunities (Miller, 1983).

The third dimension is the risk taking who is defined as the level of willingness to risk managers or resources committed to putting in a large amount in a risky position, calculable value of the loss in case of failure (Miller & Friesen, 1982). So we can conclude that entrepreneurial orientation is the orientation of the attitude of the organization towards entrepreneurial activity (Antoncic & Hisrich, 2003), and reflects the policy, implementation, and the process of formulating a strategy on which to base decision-making and entrepreneurial activity of the organization (Rauch et al., 2009)

Associated with the dimension of entrepreneurial orientation that support change (innovative and proactive) as well as the tendency in decision making with measurable risk, then it is mentioned that entrepreneurial orientation is as a trigger of business model innovation (Bouncken et al., 2016).

Entrepreneurial orientation affects business model innovation to prevent the status quo of the organization, which is due to inertia. This can occur because of the attitude of risk-taking, accept the existence of competition and proactive behavior by strengthening certain circumstances that is changing regarding the content, structure and governance of the organization's systems activities (Amit & Zott, 2010).

This explained that the selection of a company's activities, and how it is implemented, showing the interaction between activities and the mechanism for the governance of activities refer to the dynamics rules, can be changed rapidly caused by the firm's entrepreneurial orientation (Chesbrough; 2010; Amit & Zott, 2010). By encouraging entrepreneurial orientation endogenously, a firm represented experimental attitude and look for potential new business models, before the pressures of external changes are forcing changes in the business model (Chesbrough, 2010).

**Proposition 2: The entrepreneurial orientation has a positive influence on business model innovation**

### **2.3. Business Model Innovation**

In the face of the threat of disruptive change, then innovation is said to be the only solution to meet the challenges of competition, for the salvation of the organization (Kim & Maubourgne, 2005). As is known, the type of innovation implemented by the entrepreneurial company is an effort of adaptation reaction to the environment by creating new opportunities. For the disruptive change of external environment then the type of innovation needed as an answer for the organization's survival is likely to be revolutionary, rather than evolutionary (Assink, 2006) or with a high level of disruptiveness. That condition requires an innovation which is not only about products or services and methods alone but an innovation of the pattern of corporate thinking and new ways to create and capture value for stakeholders with new ways to earn income (Casadesuss-Masanell & Ricart, 2010), which is referred to as business model innovation.

Business model innovation is measured by the three-dimensional constituent. The first dimension is the value creation innovation which is defined as the ways and means used by companies to create value throughout the value chain, by utilizing the resources and capabilities within and

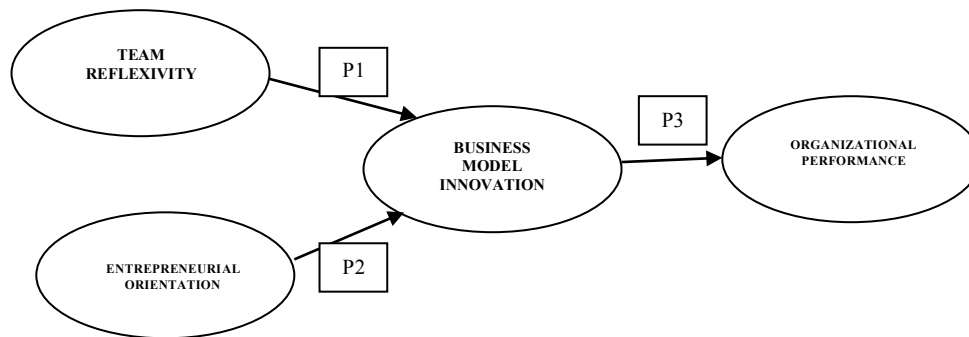
between organizations process (Clauss, 2015). The second dimension is value proposition innovation, which lists problem solving and how to do deals to clients (Clauss, 2015, Johnson et al., 2008). Finally, as the third dimension is value capture innovation which describes how value can be transformed into income (Clauss, 2015).

Innovation in the organization will require resources and bring uncertainty and the risk of an ignorance (Assink, 2006). Nonetheless expressed as a single solution - only to escape a hypercompetition (Kim & Maubourgne, 2005). Many studies have concluded that the effect of innovation on the performance depicted varied, inconclusive or contradictory, especially for small and medium-sized firms. Stated that this relationship will depend on the context, such as the age of the company and the type of innovation (Rosenbusch et al., 2010).

In this study it is argued that in the context of innovation in hospital organization, the more innovations that lead to market expansion and introduction of products services and processes are completely different to the one for this or facilitating access to reach new market segments. Business model innovation created the formation of value not only improve economic indicators, but also have an impact on social benefits in the form of the legitimacy of the organization of society and government (Hitt et al., 2011). It is argued that business model innovation will open the access of services for a growing number of community members who previously did not constitute service users in the organization ( Christensen et al., 2009 ), so that will improve hospital performance (Bouncken et al., 2016 ).

**Proposition 3: The business model innovation has a positive influence on organizational performance**

Based on the above explanation proposed research model as follows :



### 3. Research Method

The design of this study is a mix of quantitative and qualitative methods (mix-methods) (Terrell, 2012), which aims to explore and explain the relationship between variables and measure the strength of correlation and causal relationship between the independent variables and the dependent variable is described in the research model. Qualitative techniques are needed at an early stage, namely as an exploratory study in order to obtain a general understanding and to better understand construct and hypotheses that was built in the conceptual framework of the study (Wahyuni, 2015). Qualitative research techniques also performed at the end of the research

*Sandra Dewi, Anton Wachidin Widjaja*

phase, to validate the conclusions of statistical data processing, in order to obtain significant meaning for informants who earlier also participated in exploration studies (Terrell, 2012)

The study will be conducted by using private hospitals as unit analysis, located in Jakarta, Depok, Tangerang, South Tangerang, Bekasi and surrounding areas. Due account geographical area is associated with the density distribution of the number of hospitals that are considered sufficient to have a variation of the variables analyzed. Another reason of the selection of the city-level location, because the studies concerning entrepreneurial orientation, would be more appropriate for the organization headed by hospital managers with sufficient understanding of the hospital management, which while it is believed to be mostly found in urban area.

The data to be obtained is the perception of top managers and mid-level of the entire process associated with the condition, activities and processes related to entrepreneurial orientation, which is the strategic position of the hospital organization. This is related to the strategic role of top and middle management in the hospital organizations, which will determine the firm's strategic posture which exhibit a proactive, innovative and risk-taker with a full calculation behaviour (Ireland et al, 2009 ). For technical retrieval of data from the respondents of this study was based on purposive sampling, according to the list of the member of Indonesian Hospitals Federation or Perhimpunan Rumah Sakit Seluruh Indonesia ( PERSI ).

#### **Data Analysis**

The analysis of data to be collected in this study will be done by using Structural Equation Model (SEM). Therefore, the statistical process must follow criteria that are in SEM.

#### **References**

- Amit, R., & Zott, C. ( 2010 ) Business model innovation: Creating value in times of change. *Working paper- IESE Business Scholl, University of Navarra*, 1-15
- Anderson, N. R., & West, M. A. ( 1998 ) Measuring climate for work group innovation: Development and validation of the team climate inventory. *Journal of organizational Behavior*, 19, 235-258.
- Anderson, N., Potocnik, K., & Zhou, J. ( 2014 ) Innovation and creativity in organizations: A state-of-the science review, prospective commentary, and guiding framework. *Journal of Management*, 40(5), 1297-1333.
- Antoncic, B., Hisrich, R. D.( 2003 ) Clarifying the intrapreneurship concept. *Journal of small business and enterprise development*, 10(1), 7-24.
- Assink, M. ( 2006 ) Inhibitors of disruptive innovation capability. *European Journal of Innovation Management*, 9(2), 215-233
- Barringer, B.R., & Bluedorn, A. C. ( 1999 ) The relationship between corporate entrepreneurship and strategic management. *Strategic Management Journal*, 20(5), 421-444
- Bledow, R., Frese, M., Anderson, N., Erez, M., & Farr, J. ( 2009 ) A dialectic perspective on innovation: Conflicting demand, multiple pathways, and ambidexterity. *Industrial and Organizational Psychology*, 2, 305-337
- Bouncken, R.B., Lehmann, C., & Fellnhofer, K ( 2016 ) The role of entrepreneurial orientation and modularity for business model innovation in service company. *International Journal Entrepreneurial Venturing*, 8(3) 237-260.
- Burgelman, R. A. ( 1983 ) Corporate entrepreneurship and strategic management: Insight from process study. *Management Science*, 29(12), 1349-1364.

- Casadesus-Masanell, R., & Ricart, J. E. ( 2010 ) From strategy to business models on to tactics. *Long Range Planning*, 43, 195-215.
- Chesbrough, H. ( 2010 ) Business Model Innovation: Opportunity and barriers. *Long Range Planning*, 43, 354-363.
- Christensen, C. M., Grossman, J. H. and Hwang, J. (2009) *The innovator's prescription: A disruptive solution for health care*, New York: McGraw-Hill.
- Cirella, S., Radaelli, G., ( Rami ) Shani, A. B. ( 2014 ) Team creativity: A complex adaptive perspective. *Management Research Review*, 37(7), 590-614
- Claus, T. ( 2015 ) Measuring business model innovation: Conceptualization, scale development and proof of performance. *R & D Management*, October, 1-30.
- Covin, J.G. ( 1991 ) Entrepreneurial versus conservative firms: A comparative of strategies and performance. *Journal of Management Studies*, 28(5), 439-462
- Covin, J.G., & Lumpkin, G. T. (2011) Entrepreneurial orientation theory and research: Reflections on a needed construct. *Entrepreneurship: Theory & Practice* 35(5): 855–872.
- Covin, J.G., & Slevin, D.P. ( 1989 ) Strategic management on small firm and benign environment. *Strategic Management Journal*, 10 , 75-87
- Covin., J.G., & Slevin, D.P. ( 1991 ) A conceptual model of entrepreneurial as a firm behavior. *Entrepreneurial Theory and Practice*, 14(4 ), 35-50
- Drach-Zahavy, A., & Somech, A. 2001. Understanding team innovation: The role of team processes and structures. *Group Dynamic Theory*, 5: 111-123.
- Fay, D., Borril, C., Amir, Z., Haward, R., & West, M. A. ( 2006 ) Getting the most out of multidisciplinary teams: A multi-sampel study of team innovation in health care. *Jornal of Occupational and Organizational Psychology*, 79, 553-567.
- Gorissen, L., Vrancken, K., & Manshoven, S. ( 2016 ) Case report. Transition thinking and business model innovation- Towards a transformative business model and new role for the Reuse Centers of Limburg, Belgium. *Sustainability*, 8(12), 1-23.
- Hitt, M. A., Ireland, R. D., Camp, M., & Sexton, D. L. ( 2001 ) Guest Editors' introduction to special issue strategic entrepreneurship: Entrepreneurial strategies for wealth creation. *Strategic Management Journal*, 22, 479-491.
- Hitt, MA, Ireland, R. D., Sirmon, D. G., & Trahms, C.A. ( 2011 ) Strategic entrepreneurship: Creating value for individuals, organizations and society. *Academy of Management Executive*, 25(2), 57-75.
- Hoegl, M., & Parboteeah, K. P. ( 2006 ) Team reflexivity in innovative projects. *R & D Management*, 36(2), 113-125.
- Hulsegher, U. R., Anderson, N., & Salgado, J. F. ( 2009 ) Team level predictors of innovation at work: A comprehensive meta – analysis spanning three decades of research. *Journal of Applied Psychology*, 94(5), 1128-1145
- Ireland, R. D., Covin, J. G., Kuratko, D. F. ( 2009 ) Conceptualizing corporate entrepreneurship strategy. *Entrepreneurship Theory and Practice*, 33(1), 19-46.
- Ireland, R. D., Hitt, M. A & Sirmon, D. G. ( 2003 ) A model of strategic entrepreneurship: The construct and its dimensions. *Journal of Management*, 29(6), 963-989
- Johnson, M. W., Christensen, C. M., & Kagermann, H. ( 2008 ) Reinventing your business model. *Harvard Business review*, Desember, 58-67.
- Kim, W.C., & Maubourgne, R. ( 2005 ) Blue ocean strategy : from theory to practice. *California Management review*, 47(3), 105-121
- Kuratko, D.F. ( 2009 ) The entrepreneurial imperative of the 21<sup>st</sup> century. *Business Horizons*, 52(5), 421-428.
- Kuratko, D.F., Hornsby, J.S., & Hayton, J. ( 2015 ) Corporate entrepreneurship: the innovative challenge for a new global economic reality. *Small Business Economics*, 45(2), 1-9
- Labitzke, G. ( 2015) Managing cross-functional collaboration to improve innovativeness in hospitals: An Overview of hospital-specific characteritics and success factors. In Gurtner, S.,

Sandra Dewi, Anton Wachidin Widjaja

- & Soyez, K. *Challenges and Opportunities in Health Care* ( hal. 145-159), Switzerland: Springer International Publishing.
- Lee, L.T. ( 2008 ) The effects of team reflexivity and innovativeness on new product development performance. *Industrial Management & Data Systems*, 108(4), 548-569.
- Miller, D. (2011) Miller (1983) revisited: A reflection on EO research and some suggestions for the future. *Entrepreneurship: Theory & Practice* 35(5), 873–894
- Miller, D.( 1983 ) The correlates of entrepreneurial in three types of firms, *Management Science*, 26, 770-791.
- Miller, D., & Friesen, P.H. (1982) Innovation in conservative and entrepreneurial firms: Two models of strategic momentum. *Strategic Management Journal* 3(1), 1–25.
- Rauch A, Wiklund J., Lumpkin G.T., & Frese, M. (2009) Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future. *Entrepreneurship: Theory & Practice* 33(3), 761–787.
- Reiter-Palmon, R., Wigert, B., & de Vreede, T. ( 2012 ) Team creativity and innovation: The effect of group composition, social processes and cognition. In Mumford, M. D. *Handbook of Organizational Creativity* ( p.295 -320 ). Amsterdam : Elsevier Inc.
- Schippers, M. ( 2012 ) Why team reflexivity works. *RSM Insight Management Knowledge*, 4<sup>th</sup> quarter, 18-19.
- Schippers, M. C., West, M., & Dawson, J. ( 2015 ) Team reflexivity and innovation: the moderating role of team context. *Journal of Management*, 41(3), 769-788.
- Schippers, M., Den Hartog, D., & Koopman, P. (2007). Reflexivity in teams: A measure and correlates. *Applied Psychology: An International Review*, 56,189-211.
- Somech, A., & Drach-Zahavy, A. ( 2013 ) Translating team creativity to innovation implementation: The role of team composition and climate for innovation. *Journal of Management*, 39(3), 684-708
- Teece, D. J., Pisano, G., & Shuen, A. ( 1997 ) Dynamic capabilities of firms: An introduction. *Strategic Management Journal*, 18(7), 509-533
- Terrell, S. R. ( 2012 ) Mix-methods research methodologies. *The Qualitative Report*, 17(1), 254-280
- Tjosvold, D., Tang, M., & West, M. (2004). Reflexivity for team innovation in China: The contribution of goal interdependence. *Group & Organization Management*, 29, 540-559.
- Wahyuni, S. ( 2015 ) *Qualitative research method. Theory and practice* (2<sup>nd</sup> Ed) Jakarta, Indonesia : Penerbit Salemba Empat
- Wales, W. J. ( 2015 ) Entrepreneurial orientation : A review and synthesis of promising research direction. *International Small Business Journal*, 34(1), 3-15
- Wales, W. J., Patel, P.C., Parida, P., & Kreiser, P.M. ( 2013 ) Non linear effects of entrepreneurial orientation on small firm performance: The moderating role of resource orchestration capabilities. *Strategic Entrepreneurial Journal*, 7, 93-121.
- West, M. A. ( 2002 ) Sparkling fountains or stagnant ponds: An integrative model of creativity and innovation implementation in work groups. *Applied Psychology: An International Review*, 51(3), 355-424.
- West, M. A., Hirst, G., Richter, A., & Shipton, H. ( 2004 ) Twelve steps to heaven: Successfully managing change through developing innovative teams. *European Journal of Work and Organizational Psychology*, 13(2), 269-299.
- West, M. A., Hirst, G., Richter, A., & Shipton, H. ( 2004 ) Twelve steps to heaven: Successfully managing change through developing innovative teams. *European Journal of Work and Organizational Psychology*, 13(2), 269-299.
- West, M.A. (Ed). ( 1996) *The handbook of work group psychology*. Chichester, UK: Wiley.



- Widmer, P. S., Schippers, M. C., & West, M. A. ( 2009 ) Recent developments in reflexivity research: A review. *Psychology of Everyday Activity*, 2(2), 2-11.
- Wiklund, J., & Shepherd, D.(2005) Entrepreneurial Orientation and Small Business Performance: a Configurational Approach, *Journal of Business Venturing*, 20, 71-91.



**THE CAUSE OF STOCK PRICE FALLING BASED ON  
FINANCIAL ACCOUNTING PERSPECTIVE : STUDY  
CASE OF PT. GARDA TUJUH BUANA, TBK.****William Santoso, S.E, M.Ak. <sup>1</sup>, Hananiel M. Gunawan <sup>2</sup>**<sup>1</sup>*Universitas Pelita Harapan Surabaya, william.santoso@uph.edu*<sup>2</sup>*Universitas Pelita Harapan Surabaya, hananiel.gunawan@uph.edu***Abstract:**

*PT. Garda Tujuh Buana, Tbk. is one of the coal mining companies listed on Indonesia Stock Exchange which booked very high performance improvement when the commodity price was declining. The high performance improvement then followed by drastically performance dropped on the next year. This condition was questioned by investors and being controversy among the investors. It is because the company's stock price increase so high following the performance improvement and then dropped immediately on the next year due to performance dropped. There were so many investors bear losses on this case. This research analyze the financial report presentation of PT. Garda Tujuh Buana, Tbk. whether it had used correct accounting practice according to Indonesia prevailing financial accounting standards or not. Analysis method which is applied on this research is descriptive method to compare theory and reality to reveal the deviation, if any. Analysis result to the financial report presentation of PT. Garda Tujuh Buana, Tbk. shows that overall the company had composed its financial report consistently complied with Indonesia Statement of Financial Accounting Standards, but there are several notices on its financial reports. Company's revenue recognition for sales of marketing right can be considered to violate matching principle concept, because the company did not disclose the expenses which are directly related on revenue earned on the period. The company is recommended to recognize its revenue proportionally related to respective transaction period to reduce volatility in company's revenue.*

**Keywords:** *Financial Statement Analysis, Financial Accounting, Statement of Financial Accounting Standards*

---

## **1. Introduction**

Indonesia possesses abundant natural resources, including renewable and non-renewable resources. As one of the non-renewable energy source, coal is alternative energy source which is consumed to produce electricity power. According to BP Statistical Review of World Energy (2015), Indonesia is the third largest coal producer in the world on year 2014, and also owned the fifth largest coal reserves in the world. This potential can be shown by a lot of mining companies which are operated in Indonesia, including State owned enterprises, domestic private, and foreign private.

Commodity price booming on early 2000 is a stimulus for mining companies to increase their performance. Since the commodity price booming, there are a lot of companies turned their previous business to enter mining business, including coal mining. The rising period of global coal price are ended on early 2011 and enter the downtrend phase. On the era of coal price downtrend, there are several mining companies that can book performance above the industry average. One of them that can book excellent performance is PT. Garda Tujuh Buana, Tbk.

According to PT. Garda Tujuh Buana, Tbk. financial report on 2011, the company booked net income up 8,704% due to the significantly sales increase 1,147% higher than previous period on 2010. The significantly increase on net income and sales are then repeated on 2012. After year of 2012, the company booked drastically performance dropped on the next years. This condition is reflected also in company's market performance. The company's stock price increase 6,261% on its highest position since IPO. After the drastically performance dropped on 2013, the company's stock price slumped drastically. This price volatility is utilized by investors to earn profit, but most of them experienced losses because of suddenly performance dropped.

The accountability and credibility of PT. Garda Tujuh Buana, Tbk. financial report is questioned by investors and other stakeholders, even though company's financial report had been audited by public accountant who was approved by Financial Service Authority and earned the unqualified opinion. It means that the auditor's public accountant had made sure that the presentation of PT. Garda Tujuh Buana, Tbk. financial report

complied with the Indonesia Financial Accounting Standards and there was no material misstatement on its financial report. Based on those facts, there should be a review of PT. Garda Tujuh Buana, Tbk. financial report related to company's performance fluctuation. This research aims to describe accounting practice compliance of PT. Garda Tujuh Buana, Tbk. financial report to Indonesia Financial Accounting Standards.

## **2. Literature Review**

### **2.1.Previous Study**

Previous research exhibits various finding about financial report compliance analysis. According to Nuswandari (2011), information by company gives signal that reflect company's quality. Information disclosure considers cost and benefit which are hard to be measured, especially the benefit measurement. Information which is disclosed need to be considered to minimize too much noise and prevent financial report user's misleading. According to Darmawan *et. al .* (2013), financial report presentation of PT. Multisarana Bahtera Mandiri is not fully complied with Statement of Financial Accounting Standards (PSAK), especially for Number 1 and Number 2.

According to Marsdenia (2015), the two public entities which are the research samples had not applied Statement of Financial Accounting Standards Number 45 on their financial report. Entity "A" recorded its financial report based on cash basis,. The entity "B" had applied accrual basis. The factor that deter the two entities on Statement of Financial Accounting Standards Number 45 implementation is because there was no public pressure and management's lack of knowledge about Statement of Financial Accounting Standards.

According Langelo *et. al.* (2015), Belitung City Government as the reported entity still applied Government Regulation Number 24 Year 2005 based on cash toward accrual to compose its financial report. The constraints on Government Regulation Number 71 Year 2010 are lack of human resources quantity, unreliable supporting device, lack of socialization, lack of training, and hard to change mindset of related finance official.

**2.2.PT. Garda Tujuh Buana, Tbk.**

PT. Garda Tujuh Buana, Tbk. is a coal mining company established on 1996. The company operates thermal coal mining and performs low calories coal trading. The company owns mining concession in Bulungan, East Kalimantan. The company owns a subsidiary named GTBO International FZE which is located in United Arab Emirates. The business activity of GTBO International FZE is to trade energy products like coal, metal concentrate, and fuel. As at December 31<sup>st</sup>, 2014, the ultimate shareholders of PT. Garda Tujuh Buana, Tbk. are DBS Bank Ltd SG-PB Clients (33,71%) and PT. Garda Minerals (26,21%).

**2.3.Financial Report**

According to Statement of Financial Accounting Standard Number 1 Year 2009, financial statement is a structured presentation of financial position and financial performance of a company. The purpose of financial report is to give information about financial position, financial performance, and cash flow of entity which is used for the users to make economic decisions. A complete financial report consists of several components, such as:

- a. Statement of financial position on the period.
- b. Comprehensive income statement during the period.
- c. Statement of changes in equity during the period.
- d. Statement of cash flow during the period.
- e. Notes to financial statement.

According to Indonesia Institute of Accountants (2012), stated that the financial report has several characteristics:

- a. Financial report is based on history.
- b. Financial report is not designed to fulfill certain purpose.
- c. Composing of financial report uses estimation and other considerations.
- d. Financial report is conservative to face uncertainty.
- e. Financial report highlights on economic value from a transaction or event.
- f. Financial report uses accounting terms for reported information.

**2.4.Financial Report Presentation**

Statement of Financial Accounting Standard Number 1 stipulates several general characteristics of financial report presentation such as:

- a. Presentation is performed fair and complied with Indonesia Financial Accounting Standards.
- b. Complied with going concern principle.
- c. Complied with accounting accrual basis.
- d. Financial report should be presented consistently.
- e. Comparative information presentation.

f. Financial report frequency.

According to Indonesia Institute of Accountants (2012), the purposes of Financial Accounting Standard Number 1 implementation are to manage:

- a. Full consideration of financial report presentation.
- b. Guidelines for financial report structure.
- c. Required financial report contents.

### **3. Research Method**

This research is a qualitative research which uses descriptive analysis to analyze the compliance of financial report presentation of PT. Garda Tujuh Buana, Tbk and its relation to the event of company's stock price dropped. The analysis result is presented on description form. The population on this research is the financial report of PT. Garda Tujuh Buana, Tbk. and three years financial report (financial report year 2011, 2012, and 2013) are picked as samples.

Data source for this research is secondary data, which is earned from financial report and annual report published by PT. Garda Tujuh Buana, Tbk. This research collected data and used literature study. Data analysis method which is used on this research is qualitative analysis with descriptive analysis method that compares theory and accounting practice so that the difference can be identified.

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

#### **4.1.Statement of Financial Accounting Standards Regarding General Mining**

Mining business has several business activities and transaction that is specifically regulated on Statement of Financial Accounting Standards Number 33 (2011 Revision) and Statement of Financial Accounting Standards Number 64 which stipulates regarding exploration activity and mining mineral resources evaluation. Statement of Financial Accounting Standards Number 33 stipulates general mining business activity, including exploration activity, development activity, construction activity, production activity, and living environment preservation. Beside of several special Statement of Financial Accounting Standards, mining business financial reporting should follow general Statement of Financial Accounting Standards just like other companies, such as Statement of Financial Accounting Standards Regarding Financial Reporting (Statement of Financial Accounting Standards Number 1, SFAS Number 2, SFAS Number 3, SFAS Number 4, SFAS Number 5, SFAS Number 65) and Statement of Financial Accounting Standards related to recognition, measurement, presentation, and disclosure for each item on financial report (SFAS Number 23, SFAS Number 24, SFAS Number 30, SFAS Number 46, SFAS Number 50, SFAS Number 55, SFAS Number 60).

On 2013, Interpretation of Statement of Financial Accounting Standards is published to stipulate regarding cost of subsoil paring on production phase on open mining. Especially for living environment preservation activity, is stipulated on Statement of Financial Accounting Standards Number 57 Regarding Provision, Contingency Liability, and Contingency Asset.

Statement of Financial Accounting Standards Number 33 explicitly stated that exploration asset and evaluation are measured on acquisition cost, where entity determines specific accounting policy to recognize expense as exploration asset and evaluation and implement it consistently. Several transactions and activities which are including on acquisition cost, such as:

- a. Acquisition for exploration.
- b. Topography, geology, and geochemical study.
- c. Exploration drilling.
- d. Trench
- e. Mining sample acquisition.
- f. Technical feasibility evaluation and commercial going concern of mining activity.

PT. Garda Tujuh Buana, Tbk. implemented Statement of Financial Accounting Standards Number 33 (2011 Revision) and SFAS Number 64 effectively since Januari 1<sup>st</sup>, 2012, where previously the company implemented Statement of Financial Accounting Standards Number 29 Regarding “ Accounting for Oil and Gas” and Statement of Financial Accounting Standards Number 33 (1994) Regarding “ Accounting for General Mining.” The implementation of SFAS Number 64 made account “Oil and Gas Assets” is merged with account “ Deferred Exploration Cost” to be new account “ Exploration and Evacuation Assets” which is presented on statement of financial position.

PT. Garda Tujuh Buana, Tbk. had recognized these expenses as part of exploration expense and deferred development which are presented on statement of financial position as the implementation of Statement of Financial Accounting Standards Number 33, including the expenses which are coming from activity:

- a. Mining preparation.
- b. Coal analysis.
- c. Geology survey.
- d. Feasibility study.
- e. Drilling.
- f. Construction mapping.
- g. Land dismissal.

From those activities, only land dismissal activity that is debatable to be included as part of exploration cost and deferred development. But, management disclosed on notes to financial statement that company’s coal production on 2009 is very low and even on 2010, there is no coal production at all. Coal production can be started on 2011, so the expenditure for deferred exploration should be used no more than four years, starting



from 2011 until 2014. The consequence is deferred expense will be paid partially in four years.

#### **4.2. Financial Report Presentation According to SFAS Number 1**

SFAS Number 1 stated that financial report reflects the management responsibility to company's resources management. For that reason, financial report should present information below:

- a. Assets.
- b. Liabilities
- c. Equities
- d. Revenues and expenses including profit and loss.
- e. Contribution from and distribution to owner.
- f. Cash flow.

Entity obligates to present all components on financial report on the same priority. In composing financial report, management should based on going concern principle, except the management is willing to liquidate the company or do not any other alternatives to perform liquidation. If there is event that can cause significant doubt for company's going concern ability, it should be disclosed on financial report.

PT. Garda Tujuh Buana, Tbk. has implemented SFAS Number 1 well where financial report structure has been presented completely, which consists of statement of financial position, comprehensive income statement, statement of changes in owner;s equity. Statement of cash flow, and notes to financial statement. The financial report is presented comparatively with previous period for all reported account. For all presented financial report, it is followed by clear information presentation related to entity's name, final date on reported date, currency used on the report. The company had attached statement of compliance to Financial Accounting Standards on notes to financial statement.

Management had disclosed possible risk related to going concern principle, which is that the company had agreement with Agrocom Ltd. where this transaction equals to 47% of total revenue of PT. Garda Tujuh Buana, Tbk. on 2012. The management had disclosed that the company still had enough cash to cover the risk if the risk really happened.

Even though the presentation of PT. Garda Tujuh Buana, Tbk. financial report had complied with SFAS Number 1, but there were several items that should be added. SFAS Number 1 stipulates the minimum account requirement on income statement. There were several items which is not presented on PT. Garda Tujuh Buana, Tbk income statement which are "every component from other comprehensive income which is classified according to its nature" and "component of other comprehensive income from association entities which is recorded with equity method"

**4.3.Statement of Cash Flow According to SFAS Number 2**

In terms of statement of cash flow presentation, PT. Garda Tujuh Buana, Tbk. had complied and referred to SFAS Number 2. The company had composed and reported its cash flow to three main activities, which are operational activity, investing activity, and financing activity. It had complied to SFAS Number 2.

**4.4.Consolidated Report According to SFAS Number 4**

SFAS Number 4 states that consolidated financial report includes all subsidiary entities which are controlled by and from parent entity. Controlling on this term is when the parent entity:

- a. Owns directly or indirectly through subsidiary entities more than 50% of vote power of an entity.
- b. Can be showed clearly that the ownership is not followed by controlling.

PT. Garda Tujuh Buana, Tbk. consolidated its financial report of subsidiary entities of a subsidiary entity where the company controlled 100% ownership of the subsidiary entity, which is GTB International FZE located in United Arab Emirates. The company still consolidated the financial report of subsidiary entity even though the subsidiary entity had not been operated.

**4.5.Operation Segment Report According to SFAS Number 5**

SFAS Number 5 stated that operation segment is component of entity that:

- a. Involve in business activity to earn revenue and inflict expense.
- b. The operation is evaluated periodically by decision maker in terms of performance assessment.
- c. Own separated financial information.

Criteria of segment that can be reported according to SFAS Number 5 are as follow:

- a. Has been identified as an operation segment which is coming from aggregation of two or more segments.
- b. Revenue earned more than 10% of total external and internal revenue, or
- c. Income more than 10% of income segment composite, or
- d. Assets more than 10% of operation segment composite.
- e. Management believe that there is material information and useful for financial report users.
- f. Other operation segment which is not reported can be combined and disclosed on "all other segment" category.

The entity obligates to disclose all information that can be evaluated by financial report users in terms of financial effect and business activity where the entity involved on that operation economic environment.

PT. Garda Tujuh Buana, Tbk. had not reported operation segment on its financial report, even though there was coal trading activity which contributed significantly and fulfilled the SFAS Number 5 criteria to be reported as operation segment report. Through coal trading activity, PT. Garda Tujuh Buana, Tbk, established agreement marketing right sales for coal product, where this transaction should not been the company's main business activity. Until the end of year 2015, on its financial report, PT. Garda Tujuh Buana, Tbk. had not composed this operation segment.

#### **4.6.Revenue Disclosure According to SFAS Number 23 (2010 Revision)**

SFAS Number 23 is implemented on revenue accounting which is emerged from these transactions:

- a. Goods sales
- b. Service sales
- c. Entity's asset utilization by other party that produce interest, royalty, and dividend.

SFAS Number 23 does not stipulate revenue from:

- a. Leasing agreement which is stipulated on SFAS Number 30 (2007 Revision)
- b. Dividend from investment which is recorded with equity method stipulated on SFAS Number 15 (2009 Revision)
- c. Insurance contract, including SFAS Number 28 Regarding Insurance Accounting.
- d. Fair value change from assets and liabilities which are stipulated on SFAS Number 55 (2006 Revision)
- e. Other current asset change.

PT. Garda Tujuh Buana, Tbk. Recognized revenue which is coming from coal sales and coal trading activity. The condition requirement which are stipulated to recognized a transaction as revenue for company are as follow:

- a. The company has transferred risk and benefit of goods ownership from company to buyer.
- b. The company does not continue its involvement on managing and controlling effectively of goods which are transferred to buyer.
- c. Revenue can be measured reliably.
- d. Economic benefit of sales transaction will not flow to company.
- e. The expenses which are emerged or will be emerged related to sales can be measured reliably.

According to those criteria, the term revenue which is referred by PT. Garda Tujuh Buana, Tbk. is the activity which is recognized as goods and service sales on SFAS Number 23.

On income statement, beside there was sales account, the company also recognize other revenue. The other revenue was significant and was coming from sales of marketing right as printed on agreement with Agrocom Ltd. Management believed that this transaction can be recognized as revenue because when the company received cash from the buyer, the asset and equity increased without any contribution from shareholders and can not be

withdrawn by buyer for any kind of reasons, except the condition which is not related to company performance.

The total sales of marketing right worth 10 million metric ton, which consists to 3 phases with total value USD 250 million which is started from 2012 and ended on 2015. On first phase, the company had received payment worth USD 75 million (equal to Rp 711.15 billion). From that payment, the buyer can not withdraw back payment. On the second phase and three respectively, the company will receive USD 87.5 million. During the agreement period, PT. Garda Tujuh Buana, Tbk. is not permitted to sell its coal to other party except Agrocom Ltd without any permission from Agrocom Ltd.

On notes to financial statement, it is mentioned that the marketing right is giving priority for buyer to buy or look and decide the buyer of company's product. On the agreement, it is indicated that PT. Garda Tujuh Buana, Tbk. actually lease its mining to Agrocom Ltd. where Agrocom Ltd. as the party who possessed full right as mining production from PT. Garda Tujuh Buana, Tbk. If this transaction is really a mining leasing transaction, it should be recognized according to SFAS Number 30 Regarding Leasing.

#### **4.7. Leasing Transaction According to SFAS Number 30**

According to SFAS Number 30, definition of leasing is an agreement where lessor give right to lessee to use a particular asset on certain period, where the lessor earned payment as reward from lessee. The leasing transaction is differed as financial leasing and operation leasing. Financial leasing is leasing that transfer substantially all risk and benefit related to asset ownership. Operational leasing is leasing except of financial leasing. In case of PT. Garda Tujuh Buana, Tbk., it can not be categorized as financial leasing because PT. Garda Tujuh Buana, Tbk. only transferred right of marketing the product, not transfer all risk and benefit from the mine.

Furthermore, the leasing transaction which is performed between PT. Garda Tujuh Buana, Tbk. and Agrocom Ltd. had not these clauses:

- a. Transfer the asset ownership from lessee at the end of leasing period.
- b. Lessee has option to purchase asset on price lower than fair value when the option is executed.
- c. Leasing period is most of asset economic age.

The transaction between PT. Garda Tujuh Buana, Tbk. and Agrocom Ltd. can be categorized as operational leasing. Furthermore, SFAS Number 30 stipulated for all leasing transaction, except transaction:

- a. Leasing regarding exploration or mining of mineral, oil, natural gas, and other non renewable natural resources.
- b. License agreement regarding film, recording, video, manuscript, and patent.

According to SFAS Number 30, the transaction between PT. Garda Tujuh Buana, Tbk. and Agrocom Ltd. can not be categorized as leasing transaction which is stipulated by SFAS Number 30. Thus, the sales of marketing right transaction can be categorized as revenue according to SFAS Number 23 (2010 Revision).

#### **4.8. Income Tax According to SFAS Number 46**

According to SFAS Number 46 Regarding Income Tax, all taxable temporary difference is recognized as deferred tax liability, except taxable temporary difference which is coming from:

- a. Goodwill early disclosure
- b. Early disclosure of asset or liability from transaction which is not business combination and do not influence accounting income and taxable income.

Financial report of PT. Garda Tujuh Buana, Tbk. presented taxable temporary difference account which is recognized as deferred tax liability:

- a. Depreciation
- b. Amortization of exploration and development expense

The two taxable temporary difference can be recognized as deferred tax liability. Thus, PT. Garda Tujuh Buana, Tbk, had implemented SFAS Number 46.

#### **4.9. Financial Instrument Presentation According to SFAS Number 50**

SFAS Number 50 explains about financial instrument presentation, except inclusion on subsidiary entity, association entity, or joint venture. Financial instrument consists as follow:

- a. Financial Asset
- b. Financial Liability
- c. Equity instrument
- d. Derivative instrument
- e. Hedging instrument

PT. Garda Tujuh Buana, Tbk. disclosed that the adjustment effect from SFAS implementation is fully imposed to beginning balance of year 2010. Because the company had not financial instrument in significant value, the effect of implementation SFAS adjustment to the company also not significant.

#### **4.10. Living Environment Preservation Activity According to SFAS Number**

57

SFAS Number 57 (2009 Revision) states that an entity recognize every liabilities to transfer and restore all things happened on certain period as consequence from exploration and evaluation of mineral resources. According to SFAS Number 57, the liability is entity's latest liability that is emerged from past event, but the accomplishment is expected to cause entity's resources expenditure. According to SFAS Number 57, the entity obligates to recognize estimated liability when several conditions happened:

- a. Entity owns latest liability (legally and constructively) that is coming from past event.
- b. The accomplishment of the liability is most likely to caused resources outflow.
- c. Reliable estimation regarding number of liability can be made.

If those conditions are not fulfilled, the estimated liability can not be recognized.

Mining activity which is performed for now has living environment damage risk that should be company's responsibility in the future and cause to company's resources outflow. By this requirement, SFAS Number 57 is fulfilled. PT. Garda Tujuh Buana, Tbk. recognize living environment preservation cost to account "allowance for mine rehabilitation" where consist of costs related on mining reclamation, mining termination, facility transferring and other termination activities. Law regulation which is used by company is Government Regulation Number 78 Year 2010 regarding reclamation activity and post mining activity. PT. Garda Tujuh Buana, Tbk. had prepared allowance until fiscal year 2012 in number of Rp 26.6 billion as allowance for reclamation which is calculated based on production estimate and it is recognized as allowance for mining reclamation.

#### **4.11. Indication of Matching Principle Violatio**

According to Belkaoui (2004), matching principle on accounting means the all kind of expenses should be rcognized on the same period with revenue related on the expenses. The relation is the causal effect relation caused by expenses and revenue that happened on the period.

Revenue recognition for marketing right sales to Agrocom, Ltd. by PT. Garda Tujuh Buana, Tbk. is indicated to violate matching principle on accounting because the revenue that is received by PT. Garda Tujuh Buana, Tbk. had not had relation with any expenses on the same period. PT. Garda Tujuh Buana, Tbk. did not disclose specific expense related to revenue which is received from marketing right sales.

Besides that, the revenue received by PT. Garda Tujuh Buana, Tbk. actually consists of three phases payment. PT. Garda Tujuh Buana, Tbk. recognize the first payment fully on book year 2012, even though agreement disclosed that period schedule for marketing right for first payment is for July 2012 until June 2013. Thus, the transaction should be categorized as unearned revenue, where the disclosure of revenue can be

performed proportionally according to period of right sales contract execution. This made the revenue of PT. Garda Tujuh Buana, Tbk. increase drastically and then decrease drastically in short period after the end of agreement period with Agrocom, Ltd. If the revenue recognition is performed proportionally, PT. Garda Tujuh Buana, Tbk. revenue may not fluctuate too high.

## **5. Conclusion and Implications**

The analysis result for PT. Garda Tujuh Buana, Tbk. financial report presentation shows that the company had composed its financial report complied with Indonesia Financial Accounting Standards. The main problem of company's income fluctuation which caused company's stock price fluctuation is on the company's revenue recognition. On 2012, the company signed agreement of marketing right sales of company's mining product to Agrocom Ltd. Company recognize sales as other income and presented on comprehensive income statement. The company argued that the recognition had complied SFAS Number 23 and not part of leasing recognition (SFAS Number 30).

Analysis results show the company's argument can be accepted under SFAS Number 30 that the leasing transaction of exploration or mineral, oil, natural gas, and other natural resources mining is an exception so it can be categorized to SFAS Number 23. The problem is when the company recognize revenue of right marketing sales, it violated the matching principle in accounting, because the company did not disclosed direct expense related to respective revenue on the period. Besides that, the company recognize the revenue received fully on year 2012, even though the accomplishment process of marketing right sales liability happened on July 2012 until June 2013. The company did not recognize it as unearned revenue, where the revenue should be recognized proportionally according to the sales contract execution period. It made the fluctuation on PT. Garda Tujuh Buana, Tbk. income and influenced the fluctuation of company's stock prices. The company should recognized the revenue proportionally according to the transaction period so that the company's income did not fluctuate. The capital market investor is suggested to be more careful on performing fundamental analysis, not only focus on short term performance improvement, but should look for long term performance trend. Investor is suggested to analyze the accounting policy which is implemented by company before performing financial statement analysis to earn accurate information before taking investment decision.

### **References**

- Belkaoui, Ahmad Riahi. (2004). *Accounting Theory : Fifth Edition*. London : Thomson Learning.
- BP Statistical Review of World Energy 64<sup>th</sup> edition Year of 2015
- Darmawan, Mizaco Ofayda, Agus Toni Poputra, dan Winston Pontoh. (2013). Analisis Penyajian Laporan Keuangan Pada PT. Multisarana Bahteramandiri Berdasarkan PSAK No. 1 dan No. 2. *Accounting Research Journal Going Concern Vol. 8 No.4, page. 12 – 23*
- Harrison, Walter T., Charles T. Horngren, C. William Thomas, dan Themin Suwardy. (2014). *Financial Accounting International Financial Reporting Standards*. England : Pearson.
- Ikatan Akuntan Indonesia. (2012). *Standar Akuntansi Keuangan*. Salemba Empat. Jakarta.
- Ikatan Akuntan Indonesia. (2014). *Standar Akuntansi Keuangan*. Jakarta : Salemba Empat.
- Lam and Lau. (2012). *Intermediate Financial Reporting : An IFRS Perspective*. Singapore : McGraw Hill.
- Langelo, Friska, Saerang, dan Alexander. (2015). Analisis Penerapan Standar Akuntansi Pemerintahan Berbasis Akrua dalam Penyajian Laporan Keuangan Pada Pemerintah Kota Bitung. *EMBA Journal Vol. 3 No. 1 page. 1-8*.
- Marsdenia. (2015). Akuntabilitas Sektor Publik Melalui Implementasi PSAK 45 : Sebuah Tinjauan Kritis Pada Entitas A dan B. *Regional Accounting Conference II Malang Kucecwara*.
- Nuswandari. (2011). Pengungkapan Pelaporan Keuangan Dalam Perspektif Signalling Theory. *Accounting Study Journal page. 48 – 57*.
- PT. Garda Tujuh Buana, Tbk. (2014). *Annual Report Tahun 2014*. Jakarta : PT. Garda Tujuh Buana, Tbk.
- Suwadjono. (2005). *Teori Akuntansi: Perekayasa Pelaporan Keuangan*. Yogyakarta: BPFU UGM



Weygandt, Jerry J., Donald. E. Kieso, dan Paul D. Kimmel. (2013).  
*Financial Accounting 9<sup>th</sup> edition*. USA : Wiley.





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**THE STUDY OF THE INFLUENCE OF LEADERSHIP TO  
THE BUSINESS SUSTAINABILITY ON SMALL MEDIUM  
ENTERPRISES USING FINANCIAL MANAGEMENT  
APPROACH**

**Ani Nuraini<sup>1</sup>, Nurminingsih<sup>2</sup>**

<sup>1</sup>*Universitas Respati Indonesia, ani@urindo.ac.id*

<sup>2</sup>*Universitas Respati Indonesia, nings\_fia@yahoo.co.id*

---

**Abstract**

*The characteristic of Small Business Enterprise (SME) in Indonesia is mostly a family business which starts from the bottom and has family connection to one another. The sustainability of the business is not because the company has a lot of capital, many labors or the resource used, but the good leadership that the family business owner has. Therefore, family business ownership cannot be separated from the one who manage the business. The role of the leader in handling the company professionally is needed so that the family needs and business needs are not overlapping. The research purpose is to discover the impact of participant leadership, supportive leadership and instrument leadership to the sustainability of SME through financial management approach. The research method used is quantitative correlation and qualitative descriptive. The study population is business owner of SME Pulogadung from convenience sample of 37 correspondents. The analysis method used is multiple linear regression and descriptive analysis of financial management. Based on criteria of correlation coefficient interpretation, the magnitude of relationship is included in the category of a very strong relationship. The result of coefficient of determination analysis shows that, mostly, the fluctuation of the SME sustainability is affected by participant leadership, supportive leadership and instrument leadership simultaneously. The rest is affected by another factor which analyzed through financial management which purpose is to evaluate the accomplishment of family business performance.*

**Keywords:** *Leadership, Family Business, Sustainability, Small Medium Enterprises, Financial Management*

## **1. Introduction**

Family business has a huge contribution for socioeconomic welfare of a country by providing jobs and lowering the number of unemployment. In India, seventy percent of net income of 250 private companies comes from family business (Sharman and Rao, 2000). According to R. Beckhard and W. Gibb Dyer, as written by The Jakarta Consulting Group, in developed country such as United States, ninety percent of big companies are family business. However, Naisbitt and Arbudene state that only thirty percent of second generation family business will survive without its founder. Meanwhile, SME, which is family based business, in Indonesia has proven to have a good durability and survives in national economic crisis. One of the reasons why SME has a good durability to face economic crisis is 97 percent of modal structure of SME comes from owner's equity, 4 percent comes from private bank, 11 percent comes from state bank, and 3 percent comes from suppliers, according to Limberg (1990) in Kharisma Perdana Putra study. Family companies in Indonesia start from close-circle family or immediate family. Most of the respondents represented in one third, state that their family business starts with a single fighter. The rest of the respondents engage business partners who are still related to the close-circle family, likely to be their husband or wife, or relatives. The common phenomenon in family business is the owner who is focusing on how the company can develop and survive. Study related to SME in 27 countries finds that 75 percent family business is managed by the founder, 30 percent is likely managed by second generation, and only 10 percent is inherited to third generation (Sreih et al., 2008). According to Le Breton Miler et al. (2004), when the business owner is retired, the business is likely to be not profitable as it is inherited to the next generation. This finding show that family business is hardly to survive for long term. Study related to family business states that the major key often becomes obstacles to maintain family business (Yong, 2002; Sharma, 2003; Chua, 2003; Pyromalis et al., 2006; Lam, 2009; Moha Asri et al., 2011; Brenes et al., 2011). According to Casrud (1994), policymaking and owning family business are dominated by family members. Harian and Dollinger (1991) are in the same boat with Casrud (1994) about the significant characteristic of family business, which is the one who owns the business and at the same time runs the business is the same person. Ibrahim et al. (2003) states that one of the characteristic of family who own business is the family will be wary concerning on business inheritance. Based on that phenomenon, leadership is important to obtain success and to keep business going. A good leader will be able to lead his or her employees, taking advices from the employees, and let the employees take part in solving the problems. The

trend of leadership will include participant leadership, supportive leadership, and instrumental leadership (Robin and Coulter, 2002). As the characteristic of family business, it is important to be concerned about the business inheritance. Commonly, some family business can manage to succeed until second or third generation, although it is risky. Family business failure and the ability to success is an important process of succession which happening in Malawi. To make sure the success and give contribution is the family effort of establishing socioeconomic growth in Malawi so it is important to learn, understand the problem, and factors which influence the succession of second or third generation (Stan Kaunda and Allans Nkhoma, 2013, in their study in Malawi). Leadership trend has role in influencing the family business durability which is shown in business achievement through sales volume obtained and customer satisfaction (Ferdinand 2000; 23). Business achievement will affect good financial performance for business sustainability through its ability to profit continuously, pay obligation and cost efficiency Dilling 2009, Belkaoui A.R.et.al 1989, Jensen and Mecking 1976). Various studies and literatures find that a small company to be less liquid so the pattern of short-term cash flow is crucial to determine the success of the company which depends on short-term loans because access to capital market and banking market is limited. When the profit fluctuates, it can lead to greater business risk and financial risk. (Walker-Petty, p449, "Dasar-dasar Manajemen Keuangan", 2<sup>nd</sup> ed, John D Martin). According to American Express Study of New Business in "Factors for Small Business Survival: Profiles of Success", the key to small business resilience is in starting business, with considerable efforts, the bigger the stability fund, the bigger the number of workers, the more the business is likely to succeed. Some in-depth interviews have been done with family business owners of SME. Success and business sustainability do not come from bigger equity or the number of workers or the resources owned, but the leadership that the family business owner has. A good leader will know how to optimize limited fund and resource, to be just towards the employees and family members, having a good mental endurance when it comes to failure, and make effort to develop the business. Leadership style can affect business performance. Transformational leadership significantly related to business performance rather than transactional leadership and passive aggressive leadership. Business orientation is positively related to performance. Transformational leadership with higher business orientation can contribute higher to business performance. (Chung-Wen Yang: The Relationships among Leadership Styles, Entrepreneurial Orientation, and Business Performance, Managing Global Transitions, 2008). Based on the background problem, the paper will be titled, **"THE STUDY OF THE INFLUENCE OF LEADERSHIP TO THE BUSINESS SUSTAINABILITY ON SMALL MEDIUM ENTERPRISES USING FINANCIAL MANAGEMENT APPROACH"**.

## **2. Literature Review**

### **Leadership**

In organization, leadership business is an important factor to determine objection which has been decided by organization and also the central point of policymakers of activity that will be done by organization. Leadership is an activity to affect people's attitude so they will be directed to achieve goals (Thoha, 1983: 123). According to Robbins and Coulter (2002), democratic leadership style defines leader as someone who will let the co-workers to take part in decision making, delegating authority, motivating the employees to participate in deciding work method and goals, and also to value feedbacks as chances to be better (p. 460). Jerris (1999) says that leadership style that values the employees ability to distribute knowledge and creativity to upgrade service, develop business, and result huge profit, can motivate the employees to perform better in work (p.203). Bass (1985) states that there are two leadership style Transactional Leadership and Transformational Leadership. Transactional Leadership is leadership style which tries to affect the co-workers through bargaining and discussion to reach objection. Transformational Leadership is way of lead which is trying to motivate the co-workers through development, intellectual stimulation, and inspiration (Ogbonna, 2001). Company Market Orientation is related to leadership style that the company has. They state that leadership has three styles; participant leadership, supportive leadership and instrumental leadership. Related to these matters, leader has to have ability to explain the tasks, manage the schedule, make decisions, and decide work procedure for the employees.

### **Family Business**

Family business is a business which deliberates family company to build various businesses that obtain significant impact from businessman, successor, or family members. The impact towards the company is given through the participation of leadership council and managerial, ownership control, shareholders' preference strategies, and moral value and culture held by the shareholders' family (Poza, 2010:5). In business terminology, family company is divided into two. The first is Family Owned Enterprise (FOE) which a company owned by a family and managed by professional who is not in the family's inner circle. The family acts as the owner and doesn't get involved in field operations. The company is the advanced form of the business which is used to be managed by the family. The

second is Family Business Enterprise (FBE) which a company owned and managed by the family. The characteristic of the company is the important roles in the company are occupied by the family members. This kind of company is numerous in Indonesia. According to John L. Ward's study of family business, he states that there are three things that should be considered by family owners and successors, 1) to be aware that success is not a coincidence; prosperity is accomplished through the hard work of the owners, 2) a successful company makes plans for the future of business and family, 3) they can anticipate the problems that often faced by the business through making plans and they make policy to resolve the problems (Susanto, 2002:29).

### **Sustainability**

According to Moores and Barrett (2002), sustainability of Family Business depends on success of succession. Therefore, the future of the company depends on the success of succession. Moores and Barrett (2002) defines succession as family business ownership transition of the former owner to the successor. Family company often faces succession management problem as the founder or the former owner has ran the company for a long time and retirement is yet to come. When the new successor takes over the company, there is a possibility of disparity between the ownership and the ability to run the business which needs skills and hard work in maintaining and the family company. On the other hand, the elders hardly accept the fact that aging and patriarchal domination is no longer suitable to today's economic condition. When the founder and former owner are retired, two separate issues emerge, retired from running the business or retired from leading the company.

### **Small Medium Enterprises**

Central Bureau Statistics in Indonesia classifies Micro Small and Medium Enterprises (MSME) based on the number of workers. Business that has less than 4 workers is called micro enterprise, business that has less than 5-19 workers is called small enterprise, business that has 20-99 workers is called medium enterprise and business that has more than 100 workers is called big enterprise (Wismiarso, 2008:6). MSME is a business activity that is able to expand the employment, give economic service widely to the society, play a role in income equalization and household income rise, encourage economic growth, and play a role in creating national stability (Iman and Adi, 2009). MSME is an independent

productive economic business running by individual or business entity fulfilling the criteria of small enterprise as mentioned in Laws of the Republic Indonesia (UU RI) Number 20 of 2008 concerning MSME, which is not a subsidiary or a branch company owned, managed, or became part of, directly or indirectly, medium enterprise or big enterprise. According to Dwi Winarno (2008, as in Haryadi, 2010), there are some factors that inhibit the development of SMSE, which are capital shortage and poor managerial ability. The demand is not fulfilled because of funding constraint, although the demand increases. It is due to the limited ability to gather information about how to get fund and limited ability in finding the solution to get fund. Most MSME runs the business without plan, control, and evaluation of their business activity so the intention to earn profit is not optimal due to the lack of plan and management.

### **Financial Management**

Management is a set of activities in the form of planning and decision making, organizing, directing and controlling that is directed to organization resources (workers, fund, equipment, and information) with the intention of achieving organization purpose by means of efficient and effective (Stoner, 2009). Management functions which need to be carried out are planning function, organizing function, directing function and controlling function so that the company can optimize all resources owned and the purpose of the company is achieved. Management perspective of small enterprise is slightly different from the big enterprise. In a big enterprise, the function and duty of manager is sorted in such a way so that it is convenient to strategy and structure of organization. In a small enterprise, the resources are limited so the function and the duty of manager are not clear due to the lack of resources. The manager in a small enterprise, most of time, is also the owner and the founder. Financial management is financial activity in an organization which includes planning activity, analyzing, and controlling to financial management (Brigham and Houston, 2012). Financial management can also be interpreted as company activity that is related to the effort to earn the fund companies by minimizing the cost and the effort to use and allocate the fund efficiently in maximizing the value of the company. The main functions of financial management are (1) obtain of fund which intended to investment decisions that makes profit (2) allocation of fund, and (3) the activity to distribute the profit as the result of operation. In order to make the right financial decisions, financial manager is obligated to understand the objectives. Normatively, the aim of company's financial decisions is to maximize the

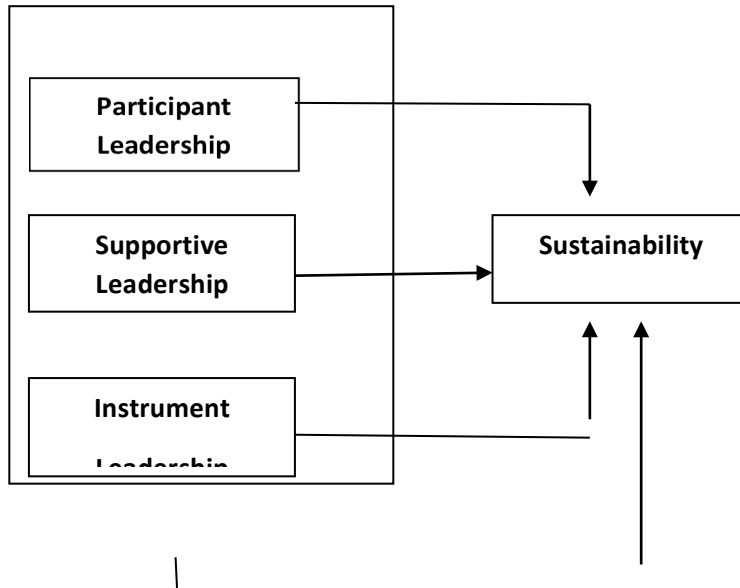


company value. The aim is identical to minimize capital costs which must be spent by the company.

### 3. Research Method

The research method used is quantitative correlation and qualitative descriptive. The research purpose is to discover the correlation and the magnitude (size) of the relationship between participant leadership (X1), supportive leadership (X2), instrument leadership (X3) and sustainability and to analyze through financial management. The study population is business owner of SME Pulogadung from convenience sample of 37 correspondents.

**Gambar 1. Framework**



## 6. Result and Discussion

To discover how strong the relationship between free variable and dependent variable, the result of correlation analysis is correlation coefficient between participant leadership (X1), supportive leadership (X2), instrumental leadership (X3) and sustainability (Y) is 0.926. The positive correlation indicates the unidirectional relationship between free variable and dependent variable.

**Table 1. The relationship between Participant Leadership (X1), Supportive Leadership (X2), Instrumental Leadership (X3) and Sustainability of SME (Y).**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,926 <sup>a</sup>	,858	,845	4,75062

Based on criteria of correlation coefficient interpretation, correlation value of 0,926 is categorized as a strong relationship, which is at the interval of 0.80-1.00.

**Table 2. Coefficient of Determination**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,926 <sup>a</sup>	,858	,845	4,75062

To discover the effect of each free variable to dependent variable, the calculation is done by using the formula Beta x Zero Order. By applying Statistical Package

for the Social Science (SPSS), the value of Beta and Zero Order is acquired as follows:

### Table 3. Partial Regression Coefficients Test

By applying SPSS, partial hypothesis test results are listed in the following table:

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

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,066	1,444		-,046	,964
Participant Leadership	,202	,432	,111	,468	,643
<sup>1</sup> Supportive Leadership	,026	,355	,017	,573	,942
Instrumen Leadership	1,245	,099	,877	12,601	,000

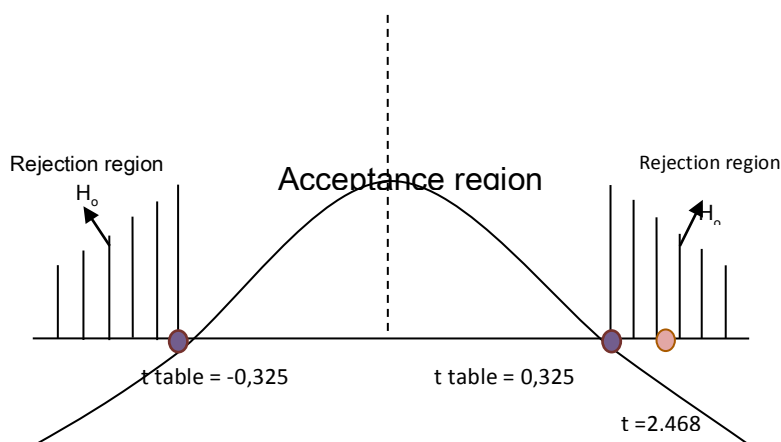
a. Dependent Variable: Sustainability of SME

### Partial Hypothesis Participant Leadership $X_1$ Test

From the table above, it can be seen that the t-value of Participant Leadership ( $X_1$ ) variable acquired is 0.468. The t-value will be compared to the value of  $t_{table}$  in t distribution table. With the value of  $\alpha$  is 0.05,  $df=n-k-1=37-2-1=34$ ,  $t_{table}$  of 0.325 is acquired for testing two variables. From the values above, the Participant Leadership ( $X_1$ ) t-value of  $0.468 > t_{table}$  of 0.325, the condition is in accordance with the criteria of hypothesis test that null hypothesis ( $H_0$ ) is rejected and alternative hypothesis ( $H_1$ ) is accepted. Participant Leadership ( $X_1$ ) partially has significant correlation with Sustainability of SME (Y). Based on the hypothesis

test, the rejection region and acceptance of  $H_0$  in partial test can be illustrated as follows:

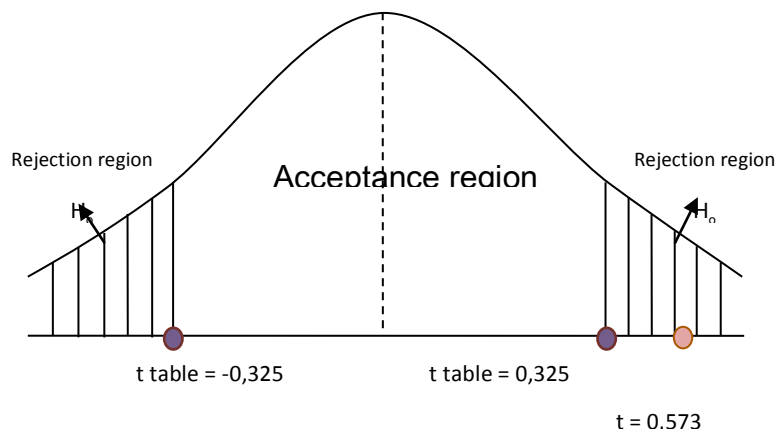
**Graphic 1. Rejection and Acceptance of Null Hypothesis ( $H_0$ ) Participant Leadership to Sustainability of SME (Y)**



### Partial Hypothesis Supportive Leadership $X_2$ Test

From the table above, it can be seen that the t-value of Supportive Leadership ( $X_2$ ) variable acquired is 0.573. The t-value will be compared to the value of  $t_{table}$  in t distribution table. With the value of  $\alpha$  is 0.05,  $df=n-k-1=37-2-1=34$ ,  $t_{table}$  of 0.325 is acquired for testing two variables. From the values above, the Supportive Leadership ( $X_2$ ) t-value of  $0.573 > t_{table}$  of 0.325, the condition is in accordance with the criteria of hypothesis test that null hypothesis ( $H_0$ ) is rejected and alternative hypothesis ( $H_1$ ) is accepted. Supportive Leadership ( $X_2$ ) partially has significant correlation with Sustainability of SME (Y). Based on the hypothesis test, the rejection region and acceptance of  $H_0$  in partial test can be illustrated as follows:

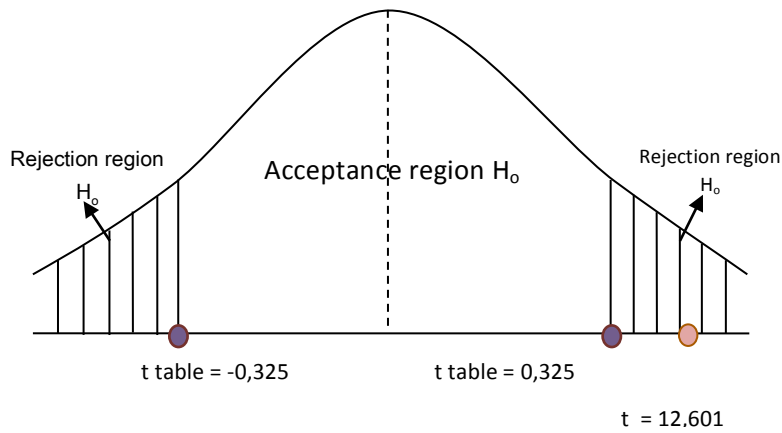
**Graphic 2. Rejection and Acceptance of Null Hypothesis ( $H_0$ ) Supportive Leadership to Sustainability of SME (Y)**



### **Partial Hypothesis Instrumental Leadership $X_3$ Test**

From the table above, it can be seen that the t-value of Instrumental Leadership ( $X_3$ ) variable acquired is 12.601. The t-value will be compared to the value of  $t_{table}$  in t distribution table. With the value of  $\alpha$  is 0.05,  $df=n-k-1=37-2-1=34$ ,  $t_{table}$  of 0.325 is acquired for testing two variables. From the values above, the Instrumental Leadership ( $X_3$ ) t-value of  $12.601 > t_{table}$  of 0.325, the condition is in accordance with the criteria of hypothesis test that null hypothesis ( $H_0$ ) is rejected and alternative hypothesis ( $H_1$ ) is accepted. Instrumental Leadership ( $X_3$ ) partially has significant correlation with Sustainability of SME (Y). Based on the hypothesis test, the rejection region and acceptance of  $H_0$  in partial test can be illustrated as follows:

**Graphic 3. Rejection and Acceptance of Null Hypothesis Instrumental Leadership to Sustainability of SME (Y)**



**Simultaneous Hypothesis Test (F-test)**

Hypothesis test is done to verify whether participant leadership, supportive leadership, and instrumental leadership simultaneously have significant correlation to sustainability of SME, applying F-test statistics acquired through ANOVA table as listed below:

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

Model	Sum of Squares	df	Mean Square	F	Sig.
-------	----------------	----	-------------	---	------

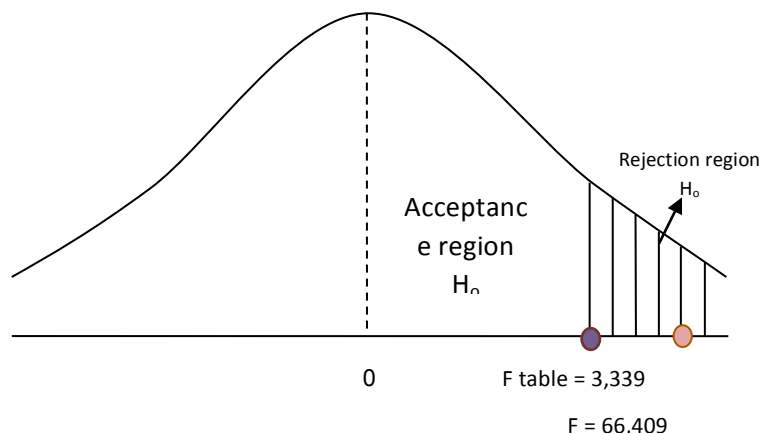
	Regression	4496,217	3	1498,739	66,409	,000 <sup>b</sup>
1	Residual	744,756	33	22,568		
	Total	5240,973	36			

a. Dependent Variable: Sustainability of SME

b. Predictors: (Constant), Instrumen Leadership, Supportive Leadership, Participant Leadership

Based on the table, the value of F is 66.409 with significant value of 0.000. The test statistics value will be compared to the value of F from the table in which table F,  $\alpha = 0.05$  and  $df_1: 2$  and  $df_2: n-k-1 (37-2-1) = 34$ , the value of  $F_{table}$  acquired is 3.339. The value of F is 66.409 > the value of  $F_{table}$  is 3.339. Therefore, the error rate is 5% ( $\alpha=0.05$ ), null hypothesis ( $H_0$ ) is rejected and alternative hypothesis ( $H_i$ ) is accepted. Based on hypothesis test, the rejection region and acceptance of  $H_0$  in simultaneous test can be illustrated as follows:

**Graphic 4. Rejection and Acceptance of  $H_0$  in Simultaneous Test of Participant Leadership, Supportive Leadership and Instrumental Leadership to Sustainability of SME**



## 7. Conclusion and Implications

Based on criteria of correlation coefficient interpretation, correlation value of 0,926 is categorized as a strong relationship, which is at interval of 0.80-1.00. The

result of coefficient of determination analysis indicates the fluctuation of 85.8% variance is affected by Participant Leadership, Supportive Leadership, and Instrumental Leadership simultaneously, the rest of 14.5% is affected by other factors which not included in model. The result of Simultaneous Hypothesis Test (F-test) is the value of F is 66.409 with significant value of 0.000. It can be concluded that Participant Leadership, Supportive Leadership, and Instrumental Leadership have significant correlation to the sustainability of SME. The other factors which are analyzed through financial management, which the result is financial report drafted by the business family, can be used further to evaluate company performance achievement. The evaluation is done by calculating financial ratio, knowing the financial position of the family business within a specific period (including assets, duty, capital, or business result achieved), knowing the company weakness, knowing improvement measures in the future concerning financial position of the family business, and assessing performance management in the future.

### ***References***

- Bass, B.M. (1985). *Leadership and Performance beyond Expectations*. New York: The Free Press
- Brigham, Eugene F., dan Joel F. Houston, (2012). *Dasar-dasar Manajemen Keuangan*. Buku 1, Salemba Empat, Jakarta.
- Carsrud, A. (1994). *Lessons learned in creating a family business program*. University of California, Los Angeles. Unpublished manuscript.
- Dilling. (2009). "Sustainability Reporting In A Global Context: What Are The Characteristics Of Corporations That Provide High Quality Sustainability Reports – An Empirical Analysis", dalam *International Business & Economics Research Journal* . Vol. 9, No. 1. New York Institute of Technology. Canada.
- Dwi Winarno. (2006). *Paradigma Baru Pendidikan Kewarganegaraan* . Jakarta: Bumi Aksara
- Endarti, E. (2004). *Menggunakan SPSS 12 Untuk Mengolah Data Statistik*. Yogyakarta:Anindya



- Ferdinand, Augusty. (2000). *Manajemen Pemasaran: Sebuah Pendekatan Stratejik*. Program Magister Manajemen Universitas Diponegoro Semarang
- Gade, Muhammad. (2002). *Akuntansi Pemerintahan*. Jakarta:Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia.
- Harris, L.C. and Ogbonna, E. (2001), Leadership Style and Market Orientation: An Empirical Study, *European Journal of Marketing*, Vol.35, No.5/6, pp.744-764.
- <http://www.jakartaconsulting.com/publications/articles/family-business/family-business-3>
- <https://www.bps.go.id/subjek/view/id/9>
- Ibrahim et al. (2003). *American Journal of Public Health* mVol 93, No. 10
- James A.F.Stoner. (2009). *Management Education for Global Sustainability*. United States of America: Information Age Publishing
- Jerris, (1999). *Kepemimpinan dan Organisasi*. (Terj.T.Hermaya). Jakarta: PT.Gramedia Pustaka Utama
- Le Breton-Miller, I., Miller, D., &Steier, L. P. (2004). Toward an integrative model of effective FOB succession. *Entrepreneurship Theory and Practice*, 28, 305–328.
- MiftahThoha, (1983). *Perilaku Organisasi* , Rajawali, Jakarta
- Moore, Ken and Mary Barrett. (2002). *Learning Family Business, Paradoxes and Pathways*. Aldeshot, Hampshire: Ashgate Publishing Limited.
- Perdana Putra, Kharisma (2014). *Analisis Pengaruh Gaya Kepemimpinan Terhadap Prestasi Usaha Kecil Menengah (UKM) Di Sumatera Barat*. Other thesis, Universitas Andalas
- Poza, E.,(2010). *Family business*. 3rd ed. Mason, Ohio: South-Western College Pub, vii-xiii, 5-6

- Robbins, Stephen. P. dan Mary Coulter. (2002). *Manajemen*. PT INDEKS Kelompok Gramedia. Jakarta
- Sharma, P & Rao, A. S. (2000). Successor Attributes in Indian and Canadian Family Firms: A Comparative Study. *Family Business Review*. 13 (4): 313–22.
- Sharma, P., Chrisman, J. J., & Chua, J. H. (2003). Succession Planning as Planned Behavior: Some Empirical Results. *Family Business Review*, 16 (1), 1-15.v
- Susanto, et al. (2008). *The Jakarta Consulting Group on Family Business*. Jakarta: The Jakarta Consulting Group.
- Undang-Undang Republik Indonesia Nomor 20 Tahun 2008 tentang Usaha Mikro, Kecil dan Menengah.
- Wang, Yong. (2012). Pass The Baton Within The Family – A Case Study on Succession Issues. Post Doctoral Researcher University of Wolverhampton, UK ISSN 1363-6839.
- Wisniarsari, Tri. (2008). *Hambatan Ekspor UKM Indonesia*: Penerbit Buku Kompas.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## THE INFLUENCE OF RETAIL MARKETING MIX TOWARDS CONSUMER BUYING DECISION (A CASE OF U.D SUMBER LANCARSTORE IN MALANG)

Kevin Rana Sidharta<sup>1</sup> ; Suresh Kumar<sup>2</sup>

<sup>1</sup>President University, mr.kevinsidharta@gmail.com

<sup>2</sup>President University, sureshkumar@president.ac.id

---

### Abstract

*The role of traditional market is very central in Indonesia, since consumers can find almost all of their needs with reasonable price available in there. But the emergence of modern market slowly shifts the consumer preferences from shopping at traditional market to modern market and later on it affects the consumer buying decision towards it. This research objective is to analyze the influence of retail marketing mix towards consumer buying decision in U.D Sumber Lancar Store Malang. The criteria set by the researcher were consumer with the range age of 21-60 years old who shop in U.D Sumber Lancar Store Malang during the period of April until June 2016 and the range of income starts from IDR 2,000,000.00. Quantitative research was applied using Purposive sampling technique with all consumers of U.D Sumber Lancar Store Malang as the population. There were 301 respondents as samples. The data were processed to check the construct validity through factor analysis and found it valid ranging*

*0.564 up to 0.945. As for the reliability Cronbach's Alpha was used and the result was ranging from 0.645 to 0.841. Furthermore, the data was analyzed using Multiple Regression Method. It can be concluded that from 7 variables of Retail Marketing Mix, 2 of them (product and physical evidence) were not significantly influence towards consumer buying decision, while the rest 4 variables (price, place, process, and personnel) were significantly influence towards consumer buying decision. As for promotion was removed because the store did not do for promotion at all.*

**Keywords:** *traditional market, modern market, retail marketing mix, consumer preferences, consumer buying decision*

## 1. Introduction

---

The role of traditional market in Indonesia has been very important for local inhabitant for the purchase of their daily needs for a long time (Kawet, Shiratake, & Tumbuan, 2006). Even though the role of traditional market is very central, but the emergences of modern market make another challenges for them. Based on Hanani, N., Kiatmathomchai, S., & Kusuma, B. A. (2016), in retail sector itself, East Java contributes 28.3% which is higher than West Java (14.4%), and Jakarta (19.1%) and one of the highest contributor cities in East Java is Malang. One of the influential factors behind the high percentage number of retail sector in Malang is due to the increasing number of modern market itself. The proof comes from the data which shows in 2006 the number of minimarket is only two outlets, but only within five years the number of minimarket has increased into 144 outlets in Malang. The research that has been done by Deloitte (2015) also indicates that the shifting of consumer preferences from shopping in traditional market to modern market as seen from Figure 1.1 and 1.2, the higher income level, the more people prefer to shop in modern market rather than traditional market. Traditional market should know what makes modern retail market could significantly increase their number of consumers during the last 5 years. Without the comprehending what consumers need and want, the traditional market will not survive in the future (Chaipradermsak, 2007).

Therefore, it is reasonable that the competition between modern market and traditional market is getting tighter and it has been experiencing by one of traditional marketis in Malang which is U.D Sumber Lancar Store. As one of the 3,549 stores which has been established approximately 30 years ago, U.D Sumber Lancar has an important role in terms of fulfilling every consumer's needs, especially consumers which come from around

Malang. Categorized as traditional store, the existence of U.D Sumber Lancar Store is in danger since data from A.C Nielsen revealed that overall modern market in Indonesia grew 31.4% per year, while the traditional market shrunk to 8% per year. If this condition keeps happening, it is possible many people who own the traditional store will lose their source of livelihoods (Susilowati, 2014). This situation will damage the economic stability of the country itself and in more comprehensive situation it would affect to the level of criminalism due to lots of people have lost their only livelihoods and they would do anything to stay survive

The threat of modern market have been directly felt by U.D Sumber Lancar Store as the representative of traditional market. The existence of new modern market

around them slowly affect the average sales of U.D Sumber Lancar Store every month. From Table 1.1 shows the amount of sales of U.D Sumber Lancar Store was getting lower during the past one year. The total sales on October 2014 was about IDR 410 million and it decreased up to 9.75% to IDR 370 million on October 2015. Even though the total sales on December 2015 and on January 2016 had slightly increased, but there is no guarantee that it would decrease again in the following month. According to Chaipradernsak (2007), consumer buying decision is influenced by retail marketing mix based on his research in pet retailing businesses in Bangkok. In addition, based on Lin (2011) which has conducted research in western fast food industry in Taiwan, retail marketing mix has significant influence through decision making which made by the consumer. Besides that, in Indonesia itself, particularly in Manado, the same research has been done by Rompis (2015) proof that there is significant influence between elements of retail marketing mix towards consumer buying decision. Thus, this research is applying the retail marketing mix as the factor influencing consumer buying decision, excluded promotion since U.D Sumber Lancar Store Malang does not use any promotional tools, except for the brand name itself.

This research is divided into 5 components which complete the whole part of the research itself. The first component which is introduction consist of the background of the study as well as the research aim. The second component which is literature review consist of the literatures and explanation of the hypothesis as well. Next is the third component which is discussing the research method that is used along with the demographic profiles and finalize with validity and reliability result as well as the multiple regression result. The fourth component which is result and discussion, The results are being interpreted and discussed properly. Last but not least, the fifth component which is conclusion and implication. In this section consist of the summarize of the result and together with the future recommendation for certain parties.

## **2. Literature Review**

In this section, a review on a relevant literature study is presented. The following variables are (a) Consumer Buying Decision and (b) Retail Marketing Mix which consist of: (1) product, (2) price, (3) place, (4) promotion, (5) personnel, (6) physical evidence, and (7) process

### *2.1 Consumer Buying Decision*

The meaning of consumer buying decision process is a series of choices made by consumers before making a purchase after they have the willing to buy (Destriani, Kumar, Putri & Sagala, 2014). Companies and store try and implement many strategies and options in order to attract consumers to come, visit, and finally buy their product.

Therefore, if they could understand what consumers needs and wants, they could make consumer buy certain goods in their store.

## *2.2 Retail Marketing Mix*

The initial study of marketing mix was done by Harvard University in 1929 and the ideas itself was developed by McCarty and he introduced 4P's for the first time in 1964 (Vahid & Yasanallah, 2012). However, based on Rafiq and Ahmed as cited in Goi (2009) recommended that there is a significant degree of dissatisfaction with the 4P's framework. The research that has been done by Lin (2011) enhanced the dimension of 4P's by adding process, physical evidence, and personnel to reflect service industry. Later on this concept has gained wide accepted from the society (Mohammad, 2015). This 7P's are the most suitable for retail store and hence it is named as Retail Marketing Mix.

Products are things that sold or offered to the customers in the market with value added and function contain inside it. Every product is made of a set of tangible and intangible characteristics and if it is categorized, product can be divided into two. It can be defined as goods and services that fill consumers' needs (Pharanond, 2006). Therefore, in short word product is anything that is capable of satisfying consumer needs (Kombenjas & Lertrattananon, 2011). According to Kotler, Armstrong, Wong & Saunders as cited in Muala (2012), price is the amount of money charged for a product or service, or the total values that consumers exchange for the benefits of having or using the product or service. Price is seen as revenue oriented been the only marketing mix element that produces revenue (Mohammad, 2015). Therefore, it is important to set the most reasonable price to maximize business profit (Pharanond, 2006). Place also plays a critical role into success of marketing objective. An easy access of place for consumer can influence consumer buying decision which directly will lead to success of marketing objective. Place refers to having the right product or service in the right location at the right time (Thongplean, 2012). According to Mohammad (2015) place is also called as distribution and is considered to cover distributional activities of organization. According to CIM (2009), promotion is the way a company communicates what it does and what it can offer to consumer. Besides offering, promotion is including persuading communication between a business and its target consumers (Pharanond, 2006). According to Nour (2014) marketing mix includes an effective set of balanced and consistent components and elements to get the promotional objectives, including advertising, personnal selling, sales promotion, publicity, and public relation

Personnel refer to those involved in service delivery (Mohammad, 2015). Because of that, the role of personnel in busines process is very important since they are keys to delivery of service to consumers. If service personnel are rude and do not serve their consumers well, they might be disabling to attract consumers to buy their product and service. If the company could find the exact employees, it would give significant contribution on a service quality of the company itself (Viet, 2015). According to

Thongplean (2012), physical evidence is a way to present the aspect of place and product that are particular to service purchases. Physical evidence is important due to consumers use tangible clues to assess the quality of service provided (Kombenjas & Lertrattananon, 2011).

Companies realize the importance of gaining consumers' behavioral intentions and their testimony is credible and also trustworthy due to their views do not come from the company (CIM, 2009). Process is a particular activity of operations or sequence of actions which the organization uses when delivering the service (Thongplean, 2012). The process could starts from the office hour of the store itself. Some of the consumers who feel disappointed with the office hour of the store would affect to the impression of the store as well. Therefore, any store should create a good service and process to maintain satisfied and potential consumers.

Hence, the hypothesis are made into:

H1 : There is a partial influence between Product towards Consumer Buying Decision  
 H2 : There is a partial influence between Price towards Consumer Buying Decision  
 H3 : There is a partial influence between Place towards Consumer Buying Decision

H4 : There is a partial influence between Personnel towards Consumer Buying Decision

H5 : There is a partial influence between Physical Evidence towards Consumer Buying Decision  
 H6 : There is a partial influence between Process towards Consumer Buying Decision

H7 : There is a significant influence between Retail Marketing Mix towards Consumer Buying Decision

### **3. Research Method**

Tool that was used in this study was statistical tool of SPSS version 16.0. this study adopted quantitative approach to analyze the influence of retail marketing mix towards consumer buying decision in U.D Sumber Lancar Store Malang. This study used primary data which was gathered by using questionnaire and spreaded out manually to consumer who came and bought in U.D Sumber Lancar Store during the period of April until June 2016. For the Sampling Technique, the researcher used non-probability

sampling and the sampling method used purposive sampling. Other information stated in this research was also collected from existing literature such as books, journals, and articles.

#### 4. Result and Discussion

Respondents who responded the questionnaire are about 301 respondents and majority are female (55,10%). For the range of age, the majority of the respondents are in the range of age 31-35 years old which are 76 respondents (25,20%). Besides that, from the recapitulation, most of the respondents are living in Malang Regency (62,10%). The latest education of the respondents is senior high school graduated which are 93 respondents (30,90%). Last nut not least, for the range of income, most of the respondents (29,90%) earn IDR 4,000,001.00 – IDR 5,000,000.00 per month.

##### 4.1 Validity and Reliability Test

The result of validity and reliability test of 5 independent variables which is listed in Table 4.1 and consist of Product, Price, Place, Personnel, and Process are accepted while the rest one independent variable which is

Physical Evidence is not accepted due to the result is not fulfilling the minimum value of KMO and Bartlett's Test which is 0,5.

Table 4.1 Validity and Reliability Test Result

Variables	Qs	Validity	Reliability
Product	pro1	.639	.702
	pro3	.681	
	pro4	.564	
Price	pri1	.820	.703
	pri3	.549	

	pri4	.454	
Place	pla3	.670	.645
	pla4	.664	
	per1	.646	
Personnel	per3	.719	.717



	per4	.671	
Process	pro1	.581	.688
	pro3	.765	
	pro4	.599	
Consumer Buying Decision	cbd1	.589	.841
	cbd3	.567	
	cbd4	.669	
	cbd5	.564	
	cbd6	.612	

#### 4.2 Multiple Regression Model

From the result of Multiple Regression on Table 4.2, the value of product is greater than 0,05. It means the variable itself is not significantly influence towards consumer buying decision.

Table 4.2 Multiple Regression Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.350	.219		6.176	.000		
	Product	.056	.053	.059	1.048	.295	.481	2.079
	Price	.125	.053	.132	2.366	.019	.485	2.061
	Place	.091	.040	.119	2.284	.023	.557	1.795
	Personnel	.190	.049	.222	3.870	.000	.459	2.180
	Process	.342	.052	.361	6.598	.000	.503	1.986

a. Dependent Variable: ConsumerDecision

#### 4.3 Interpretation of Result

From the Table 4.2 above, Product had no significant influence towards Consumer Buying Decision. This finding is in line with research conducted by Akmal et al (2013) which entitled, "The Analysis of Product, Price, Place, Promotion, and Service Quality on Customers' Buying Decision of Convenience Store: A Survey of Young Adult in Bekasi, West Java, Indonesia". Besides that, it is also in line with research that conducted by Chaipradermsak (2007) which entitled, "The Influential Factors on Consumers' Purchasing Decision in Bangkok Pet Retailing Business". Price affects significantly Consumer Buying Decision to buy in U.D Sumber Lancar Store Malang.

This finding is in line with research conducted by Destriani et al (2014) which entitled, “Influence of Promotional Mix and Price on Customer Buying Decision toward Fast Food Sector: A Survey on University Students in Jabodetabek (Jakarta, Bogor, Depok, Tangerang, Bekasi) Indonesia” and also in line with other research conducted by Pharanond (2006) which entitled, “Marketing Mix Factors affecting Consumer Buying

Decision of Single Detached House: A Case Study of Northeast Zone of Sansiri PLC”. Place affects significantly Consumer Buying Decision to buy in U.D Sumber Lancar Store Malang. This finding is in line with research conducted by Tongplean (2013) which entitled, “Service Marketing Mix Factors Affecting Customers’ Decision on Choosing A Beauty Salon”. Besides that, it is also in line with research that conducted by Chairpradersak

(2007) which entitled, “The Influential Factors on Consumers’ Purchasing Decision in Bangkok Pet Retailing Business”. Promotion does not affect significantly Consumer Buying Decision to buy in U.D Sumber Lancar Store Malang. This finding is in line with research conducted by Chin et al (2012) which entitled, “The Relationship between Marketing Mix and Customer Decision Making over Travel Agents: An Empirical Study”. In addition, this finding is also in line with research conducted by Rompis (2015) which entitled, “Analysis Comparison of The 7P’s Elements on Consumer Purchasing Decision between Aqua and Aki Mineral Water in Manado”. From the Table 4.2 above, Personnel has significant influence toward Consumer Buying Decision. This finding is in line with the research conducted by Rompis (2015) which entitled, “Analysis Comparison of The 7P’s Elements on Consumer Purchasing Decision between Aqua and Aki Mineral Water in Manado” and also in line with research that conducted by Lin (2011) which entitled, “Marketing Mix (7P) and Performance Assessment of Western Fast

Food Industry in Taiwan: An Application by Associating DEMATEL and ANP”. Physical Evidence does not affect significantly Consumer Buying Decision to buy in U.D Sumber Lancar Store Malang. This finding is in line with research conducted by Viet (2015) which entitled, “The Influence of Marketing Mix (7P) towards Customer

Satisfaction (A Case of Viettel Company in Ha Noi City)”. Besides that, this finding is also in line with research conducted by Rompis (2015) which entitled, “Analysis Comparison of The 7P’s Elements on Consumer

Purchasing Decision between Aqua and Aki Mineral Water in Manado”. Process affects significantly Consumer Buying Decision to buy in U.D Sumber Lancar Store Malang. This finding is in line with the research conducted by Rompis (2015) which entitled, “Analysis Comparison of The 7P’s Elements on Consumer Purchasing Decision between Aqua and Aki Mineral Water in Manado”. In addition this finding is also in line with the research conducted by Emami, M., Nazari, K., & Pour, B. S. (2012) which entitled, “The Effect of Marketing Mix in Attracting Customers: Case Study of Saderat Bank in Kermanshah Province”.

Table 4.3 Hypothesis Result

Hypothesis	$\beta$	P	Conclusion
H1	.059	> 0,05	Not Supported
H2	.132	< 0,05	Supported
H3	.119	< 0,05	Supported
H4	.222	< 0,05	Supported
H5	Not Valid	Not Valid	Not Valid
H6	.361	< 0,05	Supported
H7	.000	< 0,05	Supported

## 5. Conclusion and Implication

### 5.1 Conclusion

The objectives of this research were to analyze the influence of retail marketing mix (7P's) elements towards consumer buying decision in U.D Sumber Lancar Store Malang. From the result of the research it can be concluded that five out of seven hypothesis are supported and influence towards consumer buying decision except the H1 (Product) which is not supported and H5 (Physical Evidence) which did not pass the Validity and Reliability Test.

### 5.2 Recommendation

From the conclusion above, so the researcher gives recommendation for the reader, the company, and for the future study that is being done by the researcher in the future.

1. This research is mainly conducted for the readers, so that the readers can have more understanding on the importance of retail marketing mix in increasing the chance for customers to take decision in buying a product. This research's independent variables are the product, price, place, promotion, personnel, physical evidence, and process. Therefore, the most important thing that the researcher wants to emphasize is that the reader must improve and increase their retail marketing mix skill in order to perform better with consumer buying decision

2. Recognizing the influence of retail marketing mix towards consumer buying decision, U.D Sumber Lancar Malang should consider every factor that influence consumer buying decision when they are going to buy a product. They should be able to understand the market's needs and wants and optimize certain factors that influence significantly the consumer buying decision's process and by doing that they could maintain their existence in the market and sustain to fulfil their consumer's orders.

3. Last but not least, it would be better if the independent variable is being added such like service quality variable and WOM (Words of Mouth) variable in order to ensure more what aspect that will attract consumer to come and buy to the store. Since the concern of the store nowadays not only based on the quality of their product but also based on the quality of their service that is given to the consumer, so it will be better if service quality variable is also be included in the future research.

### **References**

- Akmal, S., Andreti, J., Kumar, S., & Shafira, N. (2013). The Analysis of Product, Price, Place, Promotion, and Service Quality on Customers' Buying Decision of Convenience Store: A Survey of Young Adult in Bekasi, West Java, Indonesia. *International Journal Of Advances In Management And Economics*, 2(6).
- Chaipradernsak, T. (2007). The Influential Factors on Consumers' Purchasing Decision in Bangkok Pet Retailing Business. Shinawatra University.
- Chin, T., Rasli, A., Satit, R., & Tat, H. (2012). The Relationship between Marketing Mix and Customer Decision-Making over Travel Agents: An Empirical Study. *International Journal of Academic Rresearch in Business And Social Sciences*, 2(6).
- CIM. (2009). Marketing and The 7P's. UK: The Chartered Institute of Marketing.
- Deloitte. (2015). Capturing Indonesia's Latest Market. Deloitte Consumer Insign
- Destriani, M., Kumar, S., Putri, U., & Sagala, C. (2014). Influence of Promotional Mix and Price on Customer Buying Decision toward Fast Food Sector: A Survey on University Students in Jabodetabek (Jakarta, Bogor, Depok, Tangerang, Bekasi) Indonesia. *International Journal Of Scientific And Research Publication*, 4(1).
- Emami, M., Nazari, K., & Pour, B. S. (2012). The Effect of Marketing Mix in Attracting Customers: Case Study of Saderat Bank in Kermanshah Province. *African Journal of Business Management*, 7(34).

- Goi, C. (2009). A Review of Marketing Mix: 4P's or More?. *International Journal Of Marketing Studies*, 1(1). Hanani, N., Kiatmathomchai, S., & Kusuma, B. A. (2016). The Economic Impact of Minimart on Traditional Shop In Malang, East Java. *RJOAS*, 1(49).
- Kawet, L., Shiratake, Y., & Tumbuan, A. (2006). Significance of Traditional Market and Supermarket Functions for Local Farmers and Consumers: A Case Study on Marketing of Vegetables in Manado, North Sulawesi, Indonesia. *Bull. Fac. Agr.*, 92 (2006).
- Kombenjasmas, W. & Lertrattananon, N. (2011). Services Marketing Mix of Foreign Coffee Franchiser in Bangkok. Malardalem University Sweden.
- Lin, S. M. (2011). Marketing Mix (7P) and Performance Assessment of Western Fast Food Industry in Taiwan: An Application by Associating DEMATEL and ANP. *African Journal of Business Management*, 5(26).
- Mohammad, H. (2015). 7Ps Marketing Mix and Retail Bank Customer Satisfaction in Northeast Nigeria. *British Journal Of Marketing Studies*, 3(3).
- Muala, A. (2012). Assesing The Relationship between Marketing Mix and Loyalty through Tourists Satisfaction in Jordan Curative Tourism. *American Academic And Scholarly Research Journal*, 4(2).
- Nour, M., Almahirah, M. S., Said, S. M., & Freihat, S. (2014). The Impact of Promotional Mix Elements on Consumer Purchasing Decisions. *International Business and Management*, 8(2).
- Pharanond, K. (2016). Marketing Mix Factors Affecting Consumer Buying Decision of Single Detached House: A Case Study of Northeast Zone of Sansiri PLC. Kasetsart University.
- Rompis, R. (2015). Analysis Comparison of The 7Ps Elements or Consumer Purchasing Decision Between Aqua and Ake mineral Water in Manado. *Jurnal Berkala Ilmiah Efisiensi*, 15(05).
- Susilowati, K. D. (2014). The Impacts of Modern Market to Traditional Traders (A Case in Malang City - Indonesia). *International Journal of Technical Research and Application*, 2(8).
- Thongplean, P. (2012). Service Marketing Mix Factors Affecting Customers' Decision on Choosing A Beauty Salon. Srinakharinwirot University.

Vahid, B., & Yasanallah, P. (2012). Studying The Status of Marketing Mix (7P's) in Consumer Cooperatives at Ilam Province from Members' Perspectives. *American Journal of Industrial and Business Management*, 2(4).

Viet, L. (2015). The Influence of Marketing Mix toward Customer Satisfaction (A Case of Viettel Company in Ha Noi City). President University.

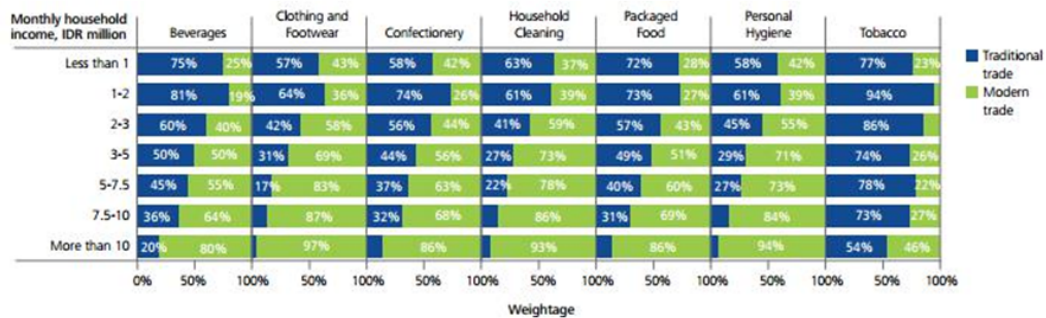
**Appendices**

Figure 1.1 Consumer Preference per Income Level and per Product Category in 2013



Source: Deloitte (2015)

Figure 1.2 Consumer Preference per Income Level and per Product Category in 2015



Source: Deloitte (2015)

Table 1.1 Total Sales of U.D Sumber Lancar Store Malang (October 2014 – January 2016)

Year	Month	Sales (Rp. million)
2014	October	410
	November	405
	December	403
2015	January	390
	February	395
	March	387
	April	370
	May	362
	June	388
	July	394
	August	380
	September	366
	October	370
	November	360
	December	365
2016	January	370

Source.: U.D Sumber Lancar Store (2016)









The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**COMPREHENSIVE FEASIBILITY STUDY FOR BUSINESS  
DEVELOPMENT (STUDY CASE FOR PT. INDO MITRA NIAGA)**

**Hananiel M Gunawan, BA, MBA<sup>1</sup>, Wiliam Santoso<sup>2</sup>,**  
<sup>1</sup>UPH Surabaya, hananiel.gunawan@uph.edu  
<sup>2</sup>Wiliam Santoso, William.santoso@uph.edu

---

**Abstract:**

*In the last several years, the global community is starting to realize the importance of environmental sustainability. It is accordance with the "go green" concept and it has been initiated by several environmental activists. Environmental problems are very complex, from forest damage, environmental damage, to the litter issues. Littering issues are often found in big cities. This study aims to test the feasibility of the PT Indo Mitra Niaga business development in developing business in waste management. Feasibility testing is conducted based on marketing, operations, human resources, and finance aspects. This study uses business plan development methodology. The results of this study indicate that the feasibility study on PT Indo Mitra Niaga business development is eligible based on marketing, operational, human resources, and finance aspects.*

**Keywords:** business feasibility study, business development, entrepreneurship

---

**1. Introduction**

In the last several years, the global community is starting to realize the importance of environmental sustainability. It is accordance with the "go green" concept and it has been initiated by several environmental activists. Environmental problems are very complex, from forest damage, environmental damage, to the litter issues. Littering issues are often found in big cities and it is often times becomes the main cause of floods. During floods, the economy of the affected area will be paralyzed. This will cause severe harm for so many business owners. Therefore, overcoming the problem of litter which causes flooding should be a serious attention. One of the factors that cause the flood is the lack of public awareness to dispose of waste garbage in proper places. The view of garbage scattered throughout the streets and roadsides is still easily found in major cities in Indonesia. Throwing litters and garbage into trash bin is not enough. It needs a proper sorting before the trash is disposed. Moreover, there are several kinds of waste that can be further processed into a product that can be useful for the community needs. Thus, we need a solid integrated waste management in order to ensure that a waste can be managed well.

As a form of business that provide solutions, PT. Indo Mitra Niaga provide answers to several common known problems. Since its establishment in 2013, PT. Indo Mitra Niaga focused on janitorial or cleaning service outsourcing services. It has dozens of clients in Surabaya. PT. Indo Mitra Niaga is committed to make cleanliness and environmental sustainability, especially to the negative impact of improper garbage disposal, as a top priority in carrying out all of the operational activities. PT. Indo Mitra Niaga became a trusted partner in terms of waste management. PT. Indo Mitra Niaga conduct its business in a wider scope. One of the examples is sorting of waste into four categories, namely plastic waste, paper waste, metal waste, and organic waste. The garbage that has been sorted is transported to a processing site that had been prepared by the company. Then the company will be processing the garbage. PT. Indo Mitra Niaga also provides consulting services for each client regarding garbage disposal issues. Each client PT. Indo Mitra Niaga will not only be served a waste management solution, but will also be invited to discuss in how to reduce the amount of excessive clients' waste.

Each client in PT. Indo Mitra Niaga will also receive a report containing the number of waste produced by each clients every months. PT. Indo Mitra Niaga viewed its clients as partners who work together in protecting the environment. Based on the opportunity to increase performance through a business development plan that will be carried out by PT. Indo Mitra Niaga is the main reason why the writer is interested in studying the plan, whether it is feasible or not to be conducted.

## **2. Literature Review**

Based on Morison (2011), the purpose is to test the feasibility of the investment in the robotic use in the hospital for physical therapy patients due to financial issues. The method used is the break-even point analysis for the use of two robots and one nonrobotic locomotor training. The results of these studies is the time to break even for nonrobotic device is around 1,6 years and for the robotic device is 2,36 years. The conclusion of this study is based on the financial aspects of the investment is feasible.

Based on Susanti (2012), the research's aim is to test the feasibility of production facilities improvement, which is replacing the traditional cutting blades with new cutting machines to increase production. Seing from the marketing aspect, the investment is considered feasible because the data shows that today's demand tend to increase significantly. Seing from the technical aspects, this investment is considered feasible because the output generated from the new cutting machines is much higher than the conventional cutting knives. While the financial aspect, this investment is considered feasible because it produces NPV 514,604,751; IRR of 65,88%; DPP 2 years and 11 months; and ROI 1,44. This can be concluded that the production tool replacement is eligible to be conducted. This research becomes the basis for the author in terms of analyzing marketing aspects. This research is also the basis for the financial aspect calculation, namely NPV, IRR, and the DPP.

According to Recker's research (1969) it can be concluded that if the income levels of the community are so low and the construction costs are so high, so none of the amount of

calculation can make the project feasible. But, the company can identify several marginal situations that may actually be feasible and might otherwise be written off by investors, simply because they have overlooked the true potential.

### **2.1. Business Feasibility Study**

According to Suliyanto (2010), the feasibility study is a research that aims to determine whether a business idea is feasible or not to be conducted. A business is said to fulfil the required eligibility to be conducted, if the positive impacts created would outweigh the negative impacts.

According to Kashmir and Jafar (2010), there are some studies the role of business development, among others:

1. Earn profits.
2. Creating jobs.
3. The economic benefit: increase the number of goods and services, enhance the product qualities, and increase the foreign exchange earnings.
4. The availability of facilities and infrastructures.

According to Umar (2009), there are six aspects that must be considered in the feasibility study, namely, the Market aspects which includes consumer and producer market; internal aspects of the company, covering the marketing aspects; and technical aspects, management aspects, aspects of human resources, and financial aspects

### **2.2. Marketing Aspects**

According to Kertajaya (2009), marketing is the soul which drives a company. The marketing aspects that will be discussed in this research is SWOT analysis, STP, and Marketing Mix. According to Kashmir and Jafar (2009: 46), a market group is divided into four types. Namely, consumer markets, industrial markets, reseller markets and government markets. According Suliyanto (2010), there are four variables in the marketing mix, namely:

#### 1. Product

Product is something that can be offered to the market to meet customer needs.

#### 2. Price

Price is the sum of money it takes to get a product or service.

There are three ways to set the product's price:

- a. Based on cost.
- b. Based on the value.
- c. Based on competition.

#### 3. Promotion

Promotion is the company's activities to communicate the product's value to the targeted market.

#### 4. Place

Distribution is the activity conducted to distribute the product so that it reaches the consumers

### **2.3. Technical Aspects**

According to Suliyanto (2010), the discussion of the technical and technologies aspects include:

#### 1. Volume of production.

The amount of goods that will be produced by the company during the period should be well planned. To calculate the volume of production per period, things that should be considered include:

- a. Limited market demand for the product.
- b. Limited availability of raw materials that can be obtained.
- c. The limited number and ability of labor to production.
- d. Limited production capacity of the production machine.
- e. Limited capital to undertake production activities.
- f. Limited factors - other factors of production.

#### 2. Selection of technology and the use of the machine.

Selection of a less precise machine will have an impact on productivity and production quality is not good. Some important factors in choosing a production machine include:

- a. Technology.
- b. Price.
- c. Production capacity.
- d. Their engine supplier.
- e. Spare parts.
- f. Quality.
- g. Economic age.

### **2.4. Human Resource Aspects**

According to Suliyanto (2010), there are several things that needed to be analyzed in reviewing the management and human resource aspects, namely:

#### 1. Job analysis.

Before starting a business, it is necessary to identify what activities are currently being worked on and also how many position to run the required activities.

#### 2. Job description.

A job description describes the functions of certain position, tasks that need to be carried out, rights, obligations, and responsibilities of the position.

3. Job Specification.

Job specification is a list of requirements needed to be fulfilled and this can be used to find a suitable candidate to fill that position. Job specification may include age, gender, education, work experience, skills, competencies, and etc.

4. Projected manpower requirements.

The required labor can be determined after the company learned the projected sales per period.

5. Recruitment.

Recruitment is the activities of the company to look and sort several people who meet the requirements to fill the available positions.

## 2.5.Financial Aspects

In this research, there are three calculation methods in reviewing the investment feasibility. Namely:

1. Payback period (PP)

According to Suliyanto (2010), the payback period is the method used to calculate how long it takes to return the initial investment through annual cash inflows.

According to Frensidy (2010), the formula for calculating the payback period is:

$$PP = \frac{\text{Beginning Investment}}{\text{Annual Cash Inflow}}$$

Payback period is feasible if the time period needed to restore the initial investment is shorter than the number of years of assessment methods

2. Net Present Value (NPV)

According to Frensidy (2010), the net present value is the difference between the present value of a certain cash amount generated from investment projects and the present value of the needed investment.

The formula for calculating NPV is:

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+k)^t} - I_0$$

Description:  $CF_t$  = Cash Flow Year to  $i$

$I_0$  = Initial Investment

$k$  = Expected Discount Rate

According to Suliyanto (2010), NPV investment feasibility criteria would be possible if the NPV result are positive, then the investment is worth doing or feasible. If the NPV result is negative, the investment should not be executed or not feasible. If the NPV calculation results is less than zero, it indicates that all revenues received by the businesses will not be able to cover all the costs incurred.

### 3. Internal Rate of Return (IRR)

According to Suliyanto (2010), the IRR method, as an analytical tool in business development study has advantages in finding out the level of profits generated from investments made.

According to Frensidy (2010) formula to calculate the IRR is as follows:

$$I_0 = \frac{CF_1}{(1 + IRR)^1} + \frac{CF_2}{(1 + IRR)^2} + \frac{CF_3}{(1 + IRR)^3} + \dots + \frac{CF_n}{(1 + IRR)^n}$$

Description

n = n year

CF<sub>N</sub> = Cash Flow Year-to-n

I<sub>0</sub> = Initial Investment

CF<sub>T</sub> = Net Cash Flow

IRR = Internal Return Rate

According to Suliyanto (2010), the feasibility criteria for IRR is = an investment will be considered worth doing and feasible if the IRR calculation result is greater than the expected profit rate. Vice versa, if the IRR calculation result is less than the profit rate, the investment is not feasible to be conducted.

## 3. Research Methods

The methodology used on this research relies on the business plan development methodology, which include marketing analysis, operational analysis, human resources analysis, and financial analysis. The data processing for the marketing aspect will be done by determining the SWOT analysis quadrant. The qualitative analysis will also be conducted to describe the operational aspects of the marketing data. The data processing for operational aspect will be conducted by observation that will be used to search proper production equipment and production location. This will be formulated into a correct and proper production process. The data processing for financial aspects will be done by calculating formulas.

## **4.Result and Discussion**

### **4.1.Marketing Aspects**

PT. Indo Mitra Niaga focused on industrial and government markets as the target market segment. In order to support the determination of both the target segments, then the targeting clients who were targeted by PT. Indo Mitra Niaga, namely:

- Based on geographic segmentation, target market PT. Indo Mitra Niaga is the region is a regency (kabupaten) as minimum area. For the first year, PT. Indo Mitra Niaga only placed the city of Surabaya as a single target market to be served, but as the current period, PT. Indo Mitra Niaga market will expand to the rest of Indonesia through service to other cities in Indonesia
- Based on demographic segmentation, the target market PT. Indo Mitra Niaga is in the education industries, hotels, and shopping centers. The targeted education industry is the formal educational institutions such as schools and universities as well as non-formal educational institutions such as institutes, and private courses institutions. The targeted hospitality industries are all, ranging from budget hotels to five star hotels. The targeted shopping center are the traditional markets, modern markets, malls, and shopping centers.
- Based on psychographic segmentation, the targeted market of PT. Indo Mitra Niaga is the organization or management in the organization that has a culture or lifestyle that has concerns for environmental cleanliness.
- Based on behavioral segmentation, the targeted market from PT. Indo Mitra Niaga is a client who wants a long-term contract, such as minimum contract for 1 year.

Based on the segmentation and targeting of PT. Indo Mitra Niaga, PT. Indo Mitra Niaga itself as "Your Trusted Partner in Waste Management." It also becomes the tagline for PT. Indo Mitra Niaga. PT. Indo Mitra Niaga positions itself as a true partner - completely trustworthy in terms of waste management. When a potential client requires waste management services, then only PT. Indo Mitra Niaga with whom that can be trusted to provide solutions.

Marketing mix analysis conducted as follows:

- Product

The products offered from PT. Indo Mitra Niaga is an integrated waste management service. This starts from garbage collection process, waste sorting, waste transporting, to waste processing. More detailed explanation, PT. Indo Mitra Niaga products can be divided into the following:

- Core product, namely, clients' environmental cleanliness



- Actual product, which is environment oriented waste management service and also uphold the customer needs and satisfactions.
- Augment product, which is waste activities report, consultation, and also recommendation to the clients. Thus, PT Indo Mitra Niaga also provide environment cleanliness warranty. If there is still garbage found, PT. Indo Mitra Niaga will come and re-clean the area, free of charge. PT. Indo Mitra Niaga also sell services to clients in the form of set points. Each points comprises four garbage disposal bins and it is arranged by a survey team from PT. Indo Mitra Niaga.
- Price
  - PT. Indo Mitra Niaga will set the price with the following criterias
    1. The main purpose of PT. Indo Mitra Niaga is to provide premium quality, maximize profit to reach the break even point and also increase the number of long term contracts. Thus, there will be price differences for several clients in different time periods. Longer contract periods will let the clients get lower prices.
    2. Based on a short survey on 20 clients, there were eighteen clients who are interested in the services provided by PT. Indo Mitra Niaga.
    3. Based on the calculation, the variable cost needed to provide services to the clients would need around IDR 200,000 to IDR 500,000 for each waste point. This price range is based on the clients' location and the amount of the clients' waste.
    4. There is no competitor for PT. Indo Mitra Niaga in Surabaya. There is no price comparison to be compared with.
    5. The pricing method chosen by PT. Indo Mitra Niaga is a value-based pricing because PT. Indo Mitra Niaga offers more value than just managing the waste, but until the end process.
    6. Based on the stated steps, PT. Indo Mitra Niaga decided to set the price based on the units of waste point where a single waste point consists of four bins are placed at one place in the client's location. The more waste point used, the price per waste point will be lower. In addition, the longer duration of the contract, the price will be more affordable. To ease the process of determining the number of waste points, the sales team will conduct a survey to determine how many waste points are required.
- Place
  - The marketing area for PT Indo Mitra Niaga is the entire area of the city of Surabaya. This will be broadened and widened over time
- Promotion
  - The promotion strategies that will be conducted by PT. Indo Mitra Niaga are as follows:
    - Advertising.
    - Sales promotion.

PT. Indo Mitra Niaga will conduct discount service programs and they will be held during 1st year opening at 50%.

- Event.

PT. Indo Mitra Niaga will participate the exhibition on environmental and cleanliness topic. The number of targeted exhibition participated is around 4 times a year.

Based on the market analysis, the development of PT. Indo Mitra Niaga has a clear market potential and feasible to be conducted.

#### 4.2.Operational Aspects

PT. Indo Mitra Niaga needs two business locations, namely locations for a main office and another location for the waste treatment facility. Factors to be considered by PT. Indo Mitra Niaga in choosing office locations are:

- Ease of access for clients.

The office location of PT Indo Mitra Niaga should be easily accessible to clients from all around of Surabaya, so the main office should be prioritized in Surabaya Center City.

- Corporate Reputation.

PT. Indo Mitra Niaga should maintain the company's image by choosing a premium office location.

Based on stated considerations, the main office of PT Indo Mitra Niaga will be located in Surabaya Center, which is in Bumi Mandiri Surabaya Building Tower 1, located at Jl Basuki Rahmat No. 129-137 Surabaya 60271. PT. Indo Mitra Niaga will rent a six meter long and three meter wide office space. The monthly rent per month for one square meter is IDR 285,000 (including service charge and VAT), or IDR 5,130,000per month.

In addition to an office need, PT. Indo Mitra Niaga also need a location for waste processing facility. Factors to be considered in choosing the location of waste management facility are:

- Ease of access for the garbage trucks.

Waste processing locations should have a road access that can be easily accessed by garbage trucks. In addition, the strategic location will ease the trucks to save the traveling distance. This wil mimized additional avoidable costs.

- Close to landfills.

The location of the waste treatment facility should be close to landfills.

- Distance to population centers.

Because the wasate treatment process usually cause very bad odor, then it should be away from residential areas, or that are in the sparsely populated region.

Based on these considerations, the chosen location is in West Surabaya, namely Jaya Bulu Raya, Puncak Sambisari, lakarsantri with an area of 1,550 m<sup>2</sup>. The access road to

those locations has a width of 12 meter wide. The location is close to the Benowo landfill, which is only three kilometers away. The rental price offered is IDR 80,000,000 per year and will be leased for 10 years. PT. Indo Mitra Niaga will build a semi-permanent waste processing building, and after 10 years of completion of the building, it will be given to the land owner. PT. Indo Mitra Niaga has consulted with a contractor who will build the facility and agreed that the estimated value of the contract to build a semi-permanent processing center is valued at USD 400,000,000 with CV. Oase as the appointed contractor.

The operational capacity of PT. Indo Mitra Niaga is divided into two, namely the capacity of transporting waste and the capacity of waste treatment. During the early stage of opening the business, PT Indo Mitra Niaga used only two garbage trucks. The garbage trucks were modified to accomodate a maximum of six cubic meter worth of waste. With two fleets of garbage trucks, the transport capacity of waste that can be taken is equal to twelve cubic meter per trip. In a single day, the garbage trucks can drive around for 4 times so that the total capacity of transporting waste PT. Indo Mitra Niaga in one day is equal to forty eight cubic meter of waste.

The waste processing capacity of PT. Indo Mitra Niaga varies depending on the engine's capacity and the waste management system for each waste category. The details are as follows:

- The plastic waste processing capacity is around twenty cubic meter per day.
- The organic waste processing capacity is around fourteen cubic meter per day.
- The processing capacity metal bins is around six cubic meter per day.
- The Waste paper processing capacity is around eighteen cubic meter per day.

When combined, the total capacity of waste treatment as a whole is around fifty eight cubic meter per day. The processing capacity exceeds the transportation capacity, which is around forty eight cubic meter per day. During the operational process, there should not be any bottleneck in waste treatment process.

The process of waste sorting operations are presented in the following flowchart.

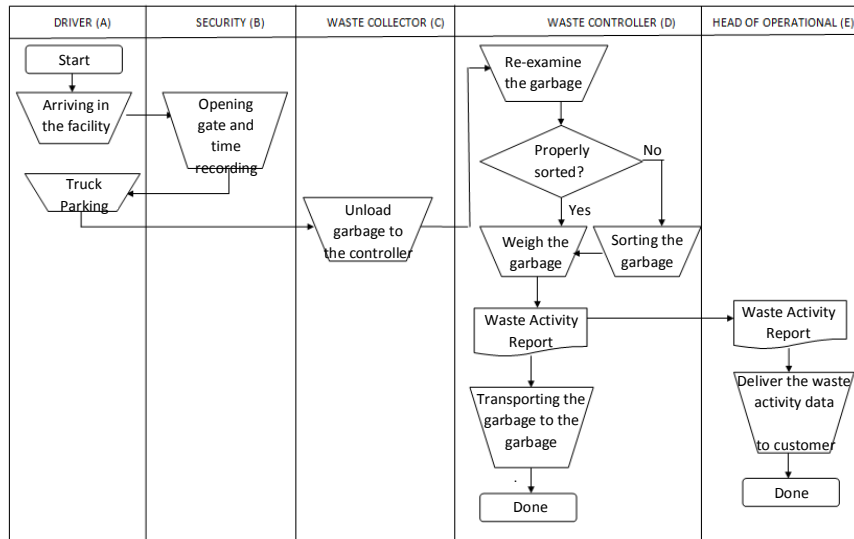


Figure 1. Waste sorting operational process

Based on the operational analysis, it is concluded that the development of PT. Indo Mitra Niaga is eligible to be conducted because it has a clear operational procedures.

#### 4.3.Human Resources Aspects

The organizational form of PT. Indo Mitra Niaga is a functional organization in which the organization of PT. Indo Mitra Niaga is divided into three functions that execute specific tasks in accordance with each duties and expertise. The decision making process is done in a decentralized manner, which each decision can be directly taken by every head of division without reporting directly to the director. The director then assess the performance of the subordinates based on the targets and key performance indicators. The staffing needs of the PT. Indo Mitra Niaga is as follows:

- The need for division of financial and accounting are:
  - One financial staff.
  - One accounting staff.
- The need for marketing divisions are:
  - Two sales persons.
  - One customer support.
- The need for operational divisions are:
  - Two drivers.
  - Four waste collectors.
  - Two waste controllers.
  - Four waste processing staff.

- One security person.

Below is the organizational structure of PT Indo Mitra Niaga

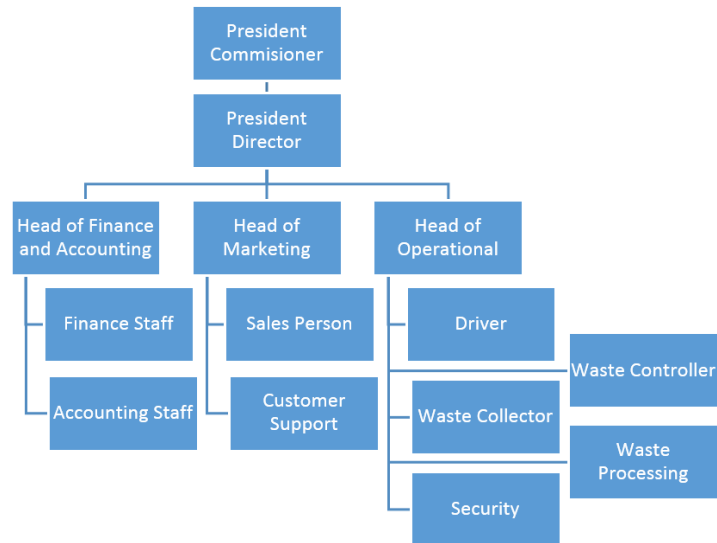


Figure 2. Organization Structure of PT. Indo Mitra Niaga

#### 4.4. Financial Aspect

The assumptions used in creating the sales projections, are as follows:

- Every year, the company managed to achieve the target in getting more new contracts.
- Over the past five years, the company did not raise the price of the service.
- The average deal value of the new contracts per year was IDR 166,700,000 million or IDR 14 million per month. (In accordance with the objectives of the company) or a minimum of four waste points per client.
- The average age of the contract obtained for the period 2018 - 2022 is the second year in which the payments will be made ahead for a period of 1 year and subsequent annual payments will be paid at the end of the first month of next year.

Other assumptions used in making cost projections include:

- The inflation rate used is the average rate for the past three years, which is six percent.

- The price of waste bins and plastic bags which become the vital products of this company is assumed stable for the past three years. The fourth year will increase ten percent and the fifth will stable.
- The employees' salaries are projected to rise in accordance with the average increase of minimum wage in Surabaya, averaging fifteen percent per year.
- The price of diesel fuel, which is an overhead cost for the company, is assumed to rise by ten percent per year.
- Projected cost for office rental is increased by ten percent per year, while the rent for the waste processing facility remained the same because of the ten year contract.
- The cost of utilities is assumed to rise with inflation of six percent.
- The salary for the marketing team, including head of marketing department, increased by 15% per year. (Holiday allowance is included in the salary)
- A bonus is given if the marketing team managed to achieve the sales target, which is around 1% of total company sales.
- The cost of the exhibition and website are assumed to rise by 10% per year.
- The cost of marketing kit will be doubled each year.
- The Corporate Social Responsibility and media coverage cost will be doubled each year.
- The price of maintenance is assumed to be stable for the next five years.
- The calculation of depreciation expense is using the straight-line method.

The projected sales of PT. Indo Mitra Niaga is created once in every five years. The sales of PT. Indo Mitra Niaga is assumed to reach the target set by the company. The projected sales of PT. Indo Mitra Niaga is as follows.

Tabel 1. Sales Projection of PT. Indo Mitra Niaga for 2016 - 2020

	2018*	2019**	2020***	2021****	2022*****
Sales Value	IDR 2,000,000,000	IDR 6,000,000,000	IDR 13,000,000,000	IDR 26,200,000,000	IDR 44,600,000,000

\*

In 2018, PT. Indo Mitra Niaga will organize 50% promotional discounts throughout the year of 2018. The value for the targeted contract is IDR 2,000,000,000 after discount. This means the actual contract value (before discounts) to be obtained is IDR 4,000,000,000. The contract duration average assumption is around two years.

\*\* In 2019, the company will get recurring income from clients' contracts in 2018 amounting to IDR 2,000,000,000 (Contracts' average duration is two 2 years). In 2019, the target of the new contracts obtained is IDR 4,000,000,000 per year for two years. From both revenue, the total sales of PT. Indo Mitra Niaga in 2019 is around IDR 6,000,000,000. In this year PT. Indo Mitra Niaga will attempt to expand the market in Surabaya so that the composition of the sale is 100% from Surabaya.

\*\*\* In 2020, the company will have received recurring income of client contracts in 2019 amounting to IDR 4,000,000,000. Client contracts in 2018 had expired. Projected percentage of clients that extend the life of the contract for one year following the year 2018 is 50%, so the company will receive additional recurring income amounting to IDR 1,000,000,000. The new contracts obtained in 2020 is projected to be IDR 8,000,000,000 so that the total value of sales in 2020 amounted to IDR 13,000,000,000. The value of sales will be helped by the expansion of the new marketing areas in Sidoarjo. The composition of sales in 2020 is projected to 90% contributed from Surabaya and 10% from Sidoarjo.

\*\*\*\* In 2021, the company will receive recurring income of client contracts in 2020 amounting to IDR 8,000,000,000. Client contracts in 2019 had expired. Projected percentage of clients that extend the life of the contract for 1 year following the year 2019 is 50%, so the company will receive additional recurring income amounting to IDR 2,000,000,000. Clients in 2018 who extend the contract in 2020 has also been out of contract this year. Loyal clients are the ones who continuously renew the contracts for several years, and it is projected at 10% of the total number of clients. The company still receives recurring income from these types of clients amounting to IDR 200,000,000. The new contract in 2021, successfully obtained is IDR 16,000,000,000 so that the overall value of the company's sales is  $\text{IDR IDR } 2,000,000,000 + 8,000,000,000 + \text{IDR } 200,000,000 + \text{IDR } 16,000,000,000 = \text{IDR } 26,200,000,000$ . The sale will be helped by the expansion of the new markets to Malang.

\*\*\*\*\* In 2022, the company will get recurring income of client contracts in 2018, 2019, 2020, and 2021 for the year 2022, the company will enter into Denpasar so it will be easier to achieve the sales target in Bali's market area is very large and potential.

**Projected gross profit of PT. Indo Mitra Niaga is as follows.**

Table 2. Gross Profit Calculation of PT. Indo Mitra Niaga

	2018	2019	2020	2021	2022
Sales Value	IDR 2,000,000,000	IDR 6,000,000,000	IDR 13,000,000,000	IDR 26,200,000,000	IDR 44,600,000,000
Cost of Goods Sold	(IDR 603,672,000)	(IDR 1,125,026,000)	(IDR 2,457,171,000)	(IDR 5,407,895,400)	(IDR 9,582,287,400)
Gross Profit	IDR 1,396,328,000	IDR 4,874,974,000	IDR 10,542,829,000	IDR 20,792,104,600	IDR 35,017,712,600

Rental Cost Projection for PT. Indo Mitra Niaga is as follows

Tabel 3. Rental Cost Projection for PT. Indo Mitra Niaga

	2018*	2019**	2020***	2021****	2022*****
Rental Costs	IDR 141,560,000	IDR 147,720,000	IDR 154,500,000	IDR 161,950,000	IDR 420,150,000

\* The cost of office rent (including service charge) of 12 x IDR 5,130,000 = IDR 61,560,000, the cost of renting a waste processing facility = \$ 80,000,000

\*\* The cost of office rents rose 10% to IDR 67,720,000, the cost of renting a waste processing center = IDR 80,000,000

\*\*\* The cost of office rents rose 10% to IDR 74,500,000, the cost of renting a waste processing center = IDR 80,000,000

\*\*\*\* The cost of office rents rose 10% to IDR 81,950,000, the cost of renting a waste processing center = IDR 80,000,000



\*\*\*\*\* The cost of office rents rose 10% to IDR 90,150,000, the cost of renting a waste processing center = IDR 80,000,000. Companies opening a branch in Singapore by opening a rented shophouse in Denpasar with a rental fee of £ 100 million per year and a waste processing center with a ground rent of £ 150 million per year for 10 years.

Some of the utility costs include the cost of electricity, telephone and water from the office and a waste processing center. Utility costs are projected to rise by 6% per year. Below is the projected cost of utility PT. Indo Mitra Niaga

Tabel 4. Projected Utility Costs of PT. Indo Mitra Niaga

	2018	2019	2020*	2021	2022**
Utility Costs	IDR 20,000,000	IDR 21,200,000	IDR 31,800,000	IDR 33,708,000	IDR 67,416,000

\*In 2020, 50% increase due to additional machine purchases.

\*\*In 2022, 100% increase due to a new branch and a new waste processing facility will be opened.

Projected marketing costs are as follows.

Table 5. Projected Cost Marketing

	2018	2019	2020	2021	2022
Marketing Team Salary	IDR 179,140,000	IDR 334,282,000	IDR 679,447,000	IDR 1,459,918,000	IDR 3,239,579,000
Marketing Team Bonus	IDR 20,000,000	IDR 40,000,000	IDR 80,000,000	IDR 160,000,000	IDR 240,000,000
Exhibitions costs	IDR 20,000,000	IDR 22,000,000	IDR 24,200,000	IDR 26,700,000	IDR 29,370,000
Website	IDR 2,500,000	IDR 2,750,000	IDR 3,025,000	IDR 3,328,000	IDR 3,660,000
Marketing kit	IDR 5,000,000	IDR 10,000,000	IDR 20,000,000	IDR 40,000,000	IDR 80,000,000
CSR and Media Coverage Funds	IDR 10,000,000	IDR 20,000,000	IDR 40,000,000	IDR 80,000,000	IDR 160,000,000
Total Marketing Costs	IDR 236,640,000	IDR 429,032,000	IDR 846,672,000	IDR 1,769,946,000	IDR 3,752,609,000

## Description:

- The number of recruited sales person and customer support are doubled each year.
- The salary of the marketing team, including the head of marketing department, rose 15% per year. (Holiday Allowance is included in the salary costs)
- A bonus is given if the marketing team managed to achieve the sales target, which amounted to 1% of total company sales.
- The cost of the exhibition and website are assumed to rise by 10% per year.
- The cost of the marketing kit has doubled each year.
- Corporate Social Responsibility and Media Coverage funding is more than doubled each year.

Depreciation is imposed on the company's fixed assets, which includes waste treatment facility building and company's equipments. The following is the depreciation cost calculation for each company's equipment.

Tabel 6. PT. Indo Mitra Niaga Depreciation Calculation.

No	Equipment	Acquisition Cost	Lifespan	Residual Value	Depreciation Cost
1	Waste treatment building facility	IDR 400,000,000	10 years	IDR 0	IDR 40,000,000
2	Garbage Trucks (Mitsubishi FE 74HD 125PS)	IDR 170,000,000	8 years	IDR 50,000,000	IDR 15,000,000
3	Waste containers	IDR 40,000,000	8 years	IDR 10,000,000	IDR 3,750,000
4	Plastic schredder machine	IDR 70,000,000	6 years	IDR 10,000,000	IDR 10,000,000
5	Plastic injection molding machine	IDR 90,000,000	6 years	IDR 15,000,000	IDR 12,500,000
6	Mixing and blending paper machine	IDR 55,000,000	6 years	IDR 10,000,000	IDR 7,500,000
7	Decomposition compost machine	IDR 20,000,000	6 years	IDR 2,000,000	IDR 3,000,000
8	Metal injection machine	IDR 95,000,000	6 years	IDR 20,000,000	IDR 12,500,000
9	Waste carts	IDR 2,000,000	3 years	IDR 200,000	IDR 600,000

Description:

- Depreciation expense is calculated using the straight-line method.
- The price of the residual value calculated according to the fair market price.

Taxes imposed on PT. Indo Mitra Niaga is the income tax income tax Article 21 of the business entity. Basic tax rules used are:

- Constitution no. 7 Year 1983 on Income Tax.
- Constitution no. 36 Year 2008 regarding Fourth Amendment Act No. 7 of 1983 on Income Tax.
- Government Regulation No. 46 Year 2013 regarding Income Tax from Business Income Received by taxpayers who have specific or certain gross circulation.

Under the stated regulation, there are three classifications of tariff.

Tabel 7. Income Tax Tarif for Enterprises

Gross Income (Gross Circulation)	Tax Rate
Less than IDR 4,800,000,000	50% x 25% x Taxable Employers
More than IDR 4,800,000,000 up to IDR 50,000,000,000	(50% x 25% x Taxable Employers from the gross circulation that received facilities) + (25% x Taxable Employers from the gross circulation that did not receive facilities)
More than IDR 50,000,000,000	25% x Taxable Employers

Based on the regulations and the tariff rate, the projected tax burden for PT. Indo MItra Niaga is as follows

Tabel 8. Tax Burden Projection of PT. Indo Mitra Niaga.

	2018*	2019**	2020***	2021****	2022*****
Tax Burden	IDR 40,713,500	IDR 525,035,850	IDR 1,743,467,000	IDR 4,006,688,500	IDR 6,917,545,000

\* The gross distribution in 2018 is under IDR 4,800,000 so the tariff rate is: 50% x 25% x Taxable Employers.

Taxable Employers 2018 = IDR 325,708,000. Income tax article 21 in 2018 = 50% x 25% x IDR 325,708,000 = IDR 40,713,500

\*\* Taxable Employer 2019 = IDR 3,500,239,000. Taxable Employer from the gross income that received facilities = IDR 4,800,000,000 / IDR 6,000,000 x IDR 3,500,239,000 = IDR 2,800,191,200

Taxable Employer from the gross income that is not facilitated: IDR 3,500,239,000 - IDR 2,800,191,200 = IDR 700,047,800. Income tax article 21 in 2019 = (50% x 25% x IDR 2,800,191,200) + (25% x IDR 700,047,800) = IDR 525,035,850.

\*\*\* Taxable Employer in 2020 = IDR 8,552,871,000. Taxable Employer from the gross income that received facilities:  $\text{IDR } 4,800,000,000 / \text{IDR } 13,000,000,000 \times \text{IDR } 8,552,871,000 = \text{IDR } 3,157,983,000$

Taxable Employer from the gross income that is not facilitated:  $\text{IDR } 8,552,871,000 - \text{IDR } 3,157,983,000 = \text{IDR } 5,394,888,000$ . Income tax article 21 in 2020 =  $(50\% \times 25\% \times \text{IDR } 3,157,983,000) + (25\% \times \text{IDR } 5,394,888,000) = \text{IDR } 1,743,467,000$

\*\*\*\* Taxable Employers in 2021 = IDR 17,642,901,600. Taxable Employer from the gross income that received facilities:  $\text{IDR } 4,800,000,000 / \text{IDR } 26,200,000,000 \times \text{IDR } 17,642,901,600 = \text{IDR } 3,232,287,000$ . Taxable Employer from the gross income that is not facilitated:  $\text{IDR } 17,642,901,600 - \text{IDR } 3,232,287,000 = \text{IDR } 14,410,614,600$   
Income tax in 2021 =  $21 (50\% \times 25\% \times \text{IDR } 3,232,287,000) + (25\% \times \text{IDR } 14,410,614,600) = \text{IDR } 4,006,688,500$

\*\*\*\*\* Taxable Employer in 2022 = IDR 29,243,837,600. Taxable Employer from the gross income that received facilities:  $\text{IDR } 4,800,000 / \text{IDR } 44,600,000 \times \text{IDR } 29,243,837,600 = \text{IDR } 3,147,319,000$ . Taxable Employer from the gross income that is not facilitated:  $\text{IDR } 29,243,837,600 - \text{IDR } 3,147,319,000 = \text{IDR } 26,096,518,600$ .  
Income tax article 21 in 2022 =  $(50\% \times 25\% \times \text{IDR } 3,147,319,000) + (25\% \times \text{IDR } 26,096,518,600) = \text{IDR } 6,917,545,000$

A full source of the company's funding derived from their own capital. It is obtained from paid-in capital by shareholders. The early source of PT. Indo Mitra Niaga's funding was really needed to meet the needs of the initial investment of PT. Indo Mitra Niaga. The initial investment requirements of PT. Indo Mitra Niaga is as follows.

Tabel 9. The Funding Needs of PT. Indo Mitra Niaga.

No.	Requirements	Investment Value
1	Machinery and equipment investment	IDR 783,500,000
2	Waste processing center construction	IDR 400,000,000
3	Working capital	IDR 300,000,000
Total Funding Needs		IDR 1,483,500,000

The financial feasibility analysis for PT. Indo Mitra Niaga under normal conditions is conducted using NPV indicators, payback period and IRR. The following is the net cash flow calculation table from the PT. Indo Mitra Niaga business with a five year projection.

Tabel 10. Operating Activities PV Net Cash Flows Calculation

Year	Operating Activities Net Cash Flows	Discount Factor (7,5%)	Operating Activities PV Net Cash Flows
2018	IDR 204,958,500	0,93	IDR 190,611,400
2019	IDR 2,891,661,150	0,87	IDR 2,515,745,200
2020	IDR 6,517,546,800	0,81	IDR 5,279,213,000
2021	IDR 13,292,967,100	0,75	IDR 9,969,725,300
2022	IDR 21,403,004,600	0,70	IDR 14,982,103,200
Total PV Arus Kas Bersih Aktivitas Operasional Operating Activities Total PV Net Cash Flows			IDR 32,937,398,100

$$\begin{aligned}
 \text{NPV} &= \text{Total PV net cash flow} - \text{Total PV investment} \\
 &= \text{IDR } 32,937,398,100 - \text{IDR } 1,500,000,000 \\
 &= \text{IDR } 31,437,398,100
 \end{aligned}$$

Based on the calculations, the NPV is positive or greater than zero ( $> 0$ ) means business PT. Indo Mitra Niaga business is feasible.

Below is the the calculation table of the payback period under normal conditions.

Tabel 11. Payback period calculation

Tahun	Net cash flow Operating Activities	Residual value of investment that have not been returned
2018	IDR 204,958,500	IDR 1,295,041,500
2019	IDR 2,891,661,150	(IDR 1,596,619,650)
2020	IDR 6,517,546,800	
2021	IDR 13,292,967,100	
2022	IDR 21,403,004,600	

$$\begin{aligned} \text{Payback period} &= 1 + \left( \frac{1.500.000.000 - 1.295.041.500}{2.891.661.150 - 1.295.041.500} \right) \times 1 \text{ year} \\ &= 1 + 0,13 \text{ year} \\ &= 1,13 \text{ year or 13 months and 17 days.} \end{aligned}$$

The payback period calculation is 1,13 years, which means the capital investment will be returned within 1,13 year period. Payback period feasibility indicators is <5 years, so PT. Indo Mitra Niaga business is feasible.

The following is the estimated IRR calculation table of PT. Indo Mitra Niaga under normal conditions.

Tabel 12. IRR Calculation Table

Year	Net Cash Flows Operating Activities	DF (150%)	Net Cash Flow PV	DF (155%)	PV Net Cash flow
2018	(IDR 1,500,000,000)	1	(IDR 1,500,000,000)	1	(IDR 1,500,000,000)
2019	IDR 204,958,500	0,4	IDR 81,983,400	0,3921	IDR 80,375,882
2020	IDR 2,891,661,150	0,16	IDR 462,665,784	0,1538	IDR 444,699,908
2021	IDR 6,517,546,800	0,064	IDR 417,122,995	0,0603	IDR 393,064,315
2022	IDR 13,292,967,100	0,0256	IDR 340,299,958	0,0236	IDR 314,384,559
2023	IDR 21,403,004,600	0,01024	IDR 219,166,767	0,0093	IDR 198,506,094
	Total Net Cash Flow PV		IDR 21,238,904		(IDR 68,969,242)

According on the table, the IRR value lies between 150% - 155%, then the interrelation showed the following results:

$$\begin{aligned} \text{IRR} &= 150\% + \left( \frac{\text{IDR } 21.238.904}{\text{IDR } 21.238.904 - (\text{IDR } 68.969.242)} \right) \times (155\% - 150\%) \\ &= 150\% + 1,18\% \\ &= 151,18\% \end{aligned}$$

The IRR result is greater than the BI Rate at 7,5%. So the project PT. Indo Mitra Niaga feasible and should be conducted.

## 5. Conclusion and Implications

The conclusion of this study is based on the assessment of the marketing analysis, operational analysis, human resources analysis, and financial analysis. It also can be concluded that the PT. Indo Mitra Niaga development project is feasible. It is suggested that the company should immediately conduct the business development project because the potential development of this business has a strong prospect in terms of the market aspects and yield benefits. Through the development of this business, it is expected to not only positively impact the company's financial performance, but also provide a wider multiplier effect to a cleaner and healthier environment. Cooperation and support by the government is expected in this business development project to be realized.

## References

- Frensidy, Budi. (2010). Matematika Keuangan. Jakarta : Salemba Empat.
- Kartajaya, H. (2009). Markplus Basics. Edisi Pertama. Jakarta : Erlangga
- Kasmir dan Jakfar. (2010). Studi Kelayakan Bisnis. Jakarta : Kencana
- Morrison, Sarah A. (2011). Financial Feasibility of Robotics in Neuro rehabilitation. Journal in Spinal Cord Injury Rehabilitation. pp. 77-81.
- Recker, Charles. E. (1969). Feasibility of Real Property Development. Financial Analysts Journal Vol. 25 No,4 pp. 138 - 142.
- Suliyanto. (2010). Studi Kelayakan Bisnis Pendekatan Praktis. Yogyakarta: Andi Offset.
- Susanti, Dyah Herdiana. 2012. Analisa Kelayakan Investasi Perbaikan Sarana Produksi pada Home Industry Kerupuk Bawang. Jurnal Teknik Industri Vol,13. No,1. hal 60-66
- Umar, H. (2009). Teknik Menganalisis Kelayakan Bisnis Secara Komprehensif, Studi Kelayakan Bisnis. Jakarta: Gramedia Pustaka Utama.







The 1<sup>st</sup> International Conference on Family Business  
**THE INFLUENCE OF WORKLOAD, JOB SATISFACTION AND WORKING  
ENVIRONMENT TOWARDS WOMAN WORK LIFE BALANCE**

**Paulina Hastayu Marsaditha <sup>1</sup>, Grace Amin <sup>2</sup>**

<sup>1</sup> Faculty of Business, President University, [phastayu@yahoo.co.id](mailto:phastayu@yahoo.co.id)  
<sup>2</sup> Faculty of Business, President University, [grace\\_amin@hotmail.com](mailto:grace_amin@hotmail.com)

---

**Abstract:**

*Work life balance is important to make equally in dual role in working and nonworking activities. Married women have role as wife and mother in the family but in this globalization era, the number of woman carrier is increase. This research purpose to determine the factors affecting woman work life balance in PT Hasta Ayu Nusantara, a family business that provide sales promotion girls for other companies. The independet variables in this research are workload, job satisfaction and working environment. The researchers used quantitative method and multiple regression by spread questioners to 78 respondents. In this research, workload, job satisfaction and working environment influence woman work life balance in PT Hasta Ayu Nusantara Jakarta. All independent variables explain 51.2 percent affecting woman work life balance in PT Hasta Ayu Nusantara.*

**Keywords:** *Woman work life balance, work load, job satisfaction, work environment*

---





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## Evaluating the Impact of CSR Programs on Community: The Case of PT. XYZ in Cikarang, Indonesia

Anggraeni Permatasari<sup>1</sup>, Kunthi Afrilinda Kusumawardani<sup>2</sup>,  
Vinda Octavianie<sup>3</sup> Sulaiman Jamin<sup>4</sup>

<sup>1</sup>President University, [anggraeni@president.ac.id](mailto:anggraeni@president.ac.id)

<sup>2</sup>President University, [kunthi.kusumawardani@president.ac.id](mailto:kunthi.kusumawardani@president.ac.id)

<sup>3</sup>President University, [vindaoctavianie@gmail.com](mailto:vindaoctavianie@gmail.com)

<sup>4</sup>President University, [ajochan24@gmail.com](mailto:ajochan24@gmail.com)

---

### Abstract

*Corporate social responsibility (CSR) is essentially posited to associates the relationship between company and stakeholders, one of the most important is communities. PT. XYZ has begun to implement CSR by coordinating with stakeholders and accommodating community needs during 2011-2015. But in the process, there were obstacles that prevent the sustainability of the project. This research aims to observe and evaluate existing CSR programs that already implemented by PT. XYZ in Cikarang, Indonesia. This research used qualitative method, which are data collected by doing observations and in-depth interviews. The interview is taken in four areas in surrounding Cikarang and the respondents are conducted by purposive sampling. The results discover that the program of education, health service and worship facilities have highest impact to brace company business strategy. In addition, the results reveal that the implementation of CSR by PT. XYZ stand in fair level of effectiveness, accounted 3.0 from 1-5 scale, but posited participation and impact of the program reach the level of goodness with the number 4.0 and 3.6. Then, this study successfully discovers the barriers in implementation of PT. XYZ CSR activities such as lack of socialization of the programs, uneven distribution of the services and lack of coordination and synergy between tenants CSR's program in Cikarang Industrial area.*

**Keywords:** *Corporate social responsibility, Company Business Strategy, Community, Cikarang Industrial Area*

### 1. Introduction

Nowadays, many companies in the world realized the importance of Corporate Social Responsibility (CSR) and classified it as an investment. Consequently, a CSR program at the present time is considered as one of company's strategies. In the business perspective, investors or shareholders want their investment to create profit as big as possible. "Concept of CSR promotes ethical concerns which are integrated into the strategic visions of corporations: it is

manifestation of effectively manage the impact of social and ethical issues in and out of business area” (Šarčević, 2016). For that reason, implementing CSR program is very crucial for developing company business strategy.

“CSR concept could be defined as the corporation way to integrate social, environmental and economic perspectives into their values, culture, decision making and strategy of transparency and responsibility” (Šarčević, 2016). Social responsibility can be stated as simply as the reciprocal of the company to integrate into society and the environment, because a lot of companies have taken advantage from them. Therefore, companies need to protect their business by building relations and trust in the society.

In Indonesia, CSR programs are directed in achieving the social-environmental goals that the company has revealed the vision and mission of the company in CSR. According to the characteristics of ISO 26000, Social Responsibility is the willingness of an organization to consider the social and environmental aspects on decision-making and responsible for the consequences of decisions and activities that affect society and the environment. (www.menlh.go.id, 2016). There are laws and regulations that oblige private (non) companies to commit in implementing Corporate Social Responsibility (CSR) programs (Table 1). Even though, there are still many companies refused to manage CSR activities.

The company perceived CSR is just an expense because it does not provide a financial result in the short term. Antara news (2007), through the article "Less than 50 Per cent of Companies Implement CSR" mentions that the implementation of corporate social responsibility in Indonesia is poor, because less than 50% of companies in Indonesia undertaking corporate social responsibility, especially in activities towards social and environmental issues. While in the process of making the profit, they were often causing environmental damage or other social issues. Balmer et al. (2014) define key insights from CSR conceptualisations and social orientated theories of business. They argue that “ethical identity potentially takes us beyond the personification of the corporation as agent”. In order to ensure environmental sustainability, company should be an agent in creating a synergy within its bodies and pay attention to vision and mission between the stakeholders, such as government, educational institutions and non-government organization (NGO).

Table 1. CSR (Corporate Social Responsibility) Laws and Regulations in Indonesia

No	Indonesia Laws and Regulations	Description
1	<i>Undang-Undang Dasar tahun 1945</i> <i>Pasal 33</i>	<i>“Bumi dan air dan kekayaan alam yang terkandung di dalamnya dikuasai oleh negara dan dipergunakan untuk sebesar-besar kemakmuran rakyat”.</i>

2	Undang-Undang No. 23 tahun 1997 tentang Pengelolaan Lingkungan Hidup	“Setiap orang mempunyai hak untuk berperan dalam rangka pengelolaan lingkungan hidup sesuai dengan peraturan perundang-undangan yang berlaku”.
3	Undang-Undang No. 39 tahun 1999 tentang Hak Asasi Manusia	Ayat (2) : “Setiap orang berhak hidup tenteram, aman, damai, bahagia, sejahtera lahir dan batin”. Ayat (3) : “Setiap orang berhak atas lingkungan hidup yang baik dan sehat”.
4	UU No. 22/2001 Tentang Minyak dan Gas Bumi	Pasal 3 (f): “menciptakan lapangan kerja, meningkatkan kesejahteraan dan kemakmuran rakyat yang adil dan merata, serta menjaga kelestarian lingkungan hidup”.
5	UU RI No. 19 Tahun 2003 Tentang Badan Usaha Milik Negara	Dalam UU BUMN dinyatakan bahwa selain mencari keuntungan, peran BUMN adalah juga memberikan bimbingan bantuan secara aktif kepada pengusaha golongan lemah, koperasi dan masyarakat. Selanjutnya, Permen Negara BUMN menjelaskan bahwa sumber dana PKBL berasal dari penyisihan laba bersih perusahaan sebesar 2 persen yang dapat digunakan untuk Program Kemitraan ataupun Bina Lingkungan.
6	Peraturan Menteri BUMN No. 5/2007 Tentang Program Kemitraan BUMN dengan Usaha Kecil dan Program Bina Lingkungan	Peraturan Menteri BUMN No. 5/2007 Tentang Program Kemitraan BUMN dengan Usaha Kecil dan Program Bina Lingkungan. Dalam berbagai peraturan ini, pada dasarnya telah tersirat berbagai an Program Bina Lingkungan. Dalam berbagai peraturan ini, pada dasarnya telah tersirat berbagai upaya yang harus dilakukan baik oleh pemerintah maupun korporasi untuk melakukan pengembangan masyarakat dan lingkungan, baik pada aspek sosial, pendidikan, ekonomi, kesehatan maupun lingkungan.
7	Undang-Undang No. 25 tahun 2007 tentang Penanaman Modal	Pasal 15 (b): “Setiap penanam modal berkewajiban melaksanakan tanggungjawab sosial perusahaan”.
		Ayat (1): “Perseroan yang menjalankan kegiatan usahanya di bidang dan/atau berkaitan dengan sumber daya alam wajib melaksanakan tanggungjawab sosial dan lingkungan”

8	<p><i>Undang-Undang No. 40 tahun 2007 pasal 74 tentang Perseroan Terbatas</i></p>	<p><i>Ayat (2): "Tanggungjawab sosial dan lingkungan sebagaimana dimaksud pada ayat (1) merupakan kewajiban perseroan yang dianggarkan &amp; diperhitungkan sebagai biaya perseroan yang pelaksanaannya dilakukan dengan memperhatikan kepatutan &amp; kewajaran".</i>  <i>Ayat (3): "Perseroan yang tidak melaksanakan kewajiban sebagaimana dimaksud pada ayat (1) dikenai sanksi sesuai dengan peraturan perundang-undangan".</i>  <i>Ayat (4): "Ketentuan lebih lanjut mengenai tanggungjawab sosial &amp; lingkungan diatur dengan Peraturan Pemerintah".</i></p>
---	---	--

Sources: Mulyadi et al., 2012

PT. XYZ as the first industrial estate developer has considered the significance CSR program in Indonesia. PT. XYZ has designed a very structured and well-coordinated plan to improve the condition of communities surrounding the industrial area during 2011-2016. PT. XYZ has 13 assisted villages, namely: Pasir Gombang, Pasir Sari, Setia Mekar, Tanjung Sari, Jatireja, Jayamukti, Simpangan, Mekar Mukti, Hegar Mukti, Harja Mekar, Sindang, Jatibaru, and Serta Jaya. In addition, PT. XYZ concentrated its CSR activities on five main platforms, namely education, health, economic empowerment, social welfare, and the environment. "In line with the development of its businesses, PT. XYZ is committed to play an active role in the CSR activities. Not merely a social responsibility, but CSR is part of the company's business processes in an effort to improve the welfare of the surrounding community" (Jababeka Annual Report, 2015). Through all of its inventive and sustainable CSR programs, in 2016, PT. XYZ is awarded by the Governor of West Java as the corporate social responsibility partner of West Java province (Prasetyo, 2016). Still, as an agent of change, the program has its limitations, particularly related to community needs and interests. This research, therefore, needs to evaluate the effectiveness of CSR activities of PT. XYZ that have implemented in assisted villages around Cikarang.

This study aims to evaluate the effectiveness of PT. XYZ CSR programs in Cikarang and to investigate any obstacle met by the company based on community perspectives. The results of this research describe the effectiveness of CSR programs to improve the welfare of the surrounding community in Cikarang, and obstacles faced by the company during the program implementation. This research originally contributes to the CSR monitoring and evaluation assessment model creation, including a reflection on CSR performances activities as part of the company's business strategy.

## 2. Literature Review

## **Corporate Social Responsibility**

The definition of Corporate Social Responsibility (CSR) is a continuous commitment in business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (World business council for sustainable development, 2004). Implementing CSR is very important to increase a good brand image for the company. “For companies, it is essential, not only to develop and implement socially responsible initiatives, but to promote them in effective way as well” (Šarčević, 2016).

At the beginning, the CSR idea is known as a sense of social obligation, in terms of social values for society. Then it extended with a model of different types of CSR, such as economic responsibility, legal and ethical responsibility, and philanthropic responsibility. (Bowen, 1953; Carroll, 1979; Balmer et al., 2014). In addition, Khoury, et al. (1999) defines CSR as the relationship between the company and all parties involved with the activities of the company. However, Maignan and Ferrell (2004) argue that “businesses are not responsible towards society as a whole but only towards those who directly or indirectly affect or are affected by the firm’s activities”. Also, CSR has been defined as “an extremely complex web of interaction between an organization and its stakeholders” (Sjoberg, 2003; Fukukawa and Moon, 2004; Gosh, 2014). Thus, those relationships involved with the company include customers, employees, communities, shareholders, regulators, suppliers, and including competitors.

In the end, company begins to conceptualise the corporation as intricately bound up in and with the community, so like the individual, is “neither an isolatable discrete element in, nor an atomic building block of, a community” (Buchholz and Rosenthal, 2005; Balmer et al., 2014). It also stated that “Corporate Social Responsibility (CSR) is about how companies manage the business process to produce an overall positive impact on society” (Nor Hadi, 2011; Mulyadi et al., 2012). The moral meaning of the firm is rooted in the community dynamics by which life thrives and in which the experience of value and its furtherance emerges (Buchholz and Rosenthal, 2005; Balmer et al., 2014).

Dahlsrud (2008) explains there are five dimensions of corporate social responsibility. The five dimensions include the dimensions of (1) environment, (2) social, (3) economic, (4) stakeholder, and (5) generosity value. Meanwhile, Suharto (2010) in Mulyadi et al. (2012) defined that CSR programs activities encompass five sectors which include (1) education, (2) health, (3) environment, (4) social equity, and (5) economic and entrepreneurship. Finally, Soepriadinata and Goestaman (2013) defined six indicators to measure the effectiveness of CSR program, specifically (1) effectiveness, (2) relativeness, (3) sustainability, (4) empowerment, and (5) participation.



### 3. Research Method

#### Research Design

This study is conducted using qualitative research method (Figure 1) with ethnographic strategy (non-quantitative ethnographic strategy). Qualitative research is used to explore methods and understand the meanings of some individual or people (Cresswell, 2009). This method was considered from social problems or management. Hence, It needs qualitative methods of observation and interviews to get deep analysis about real situation. The qualitative researcher must be alert as well as flexible. The mission includes multiple qualitative aspects involving recording interactions, verbal and non-verbal communication, attitudes, facial expressions, etc. The researchers formulate each question based on each individual respondent's personal experiences and willingness to answer (Dana and Dana, 2005). Hence, it needs qualitative methods of observation and interviews to get deep analysis about real situation.

#### Key Informants

This research uses a purposive informant technique which is the most common strategy to determine informant or group of participants who become informants according to selected criteria that is relevant to answer the research problem. Purposive procedure is used to find key informant. Key informant is chosen based on key figures that control the information of situation process (Cresswell, 2009). However, the next informant can be determined in conjunction with the development review and analysis of the results during the research data collection. The informants are people who work and stay in the village, e.g. headman, local village staff, teacher, school staff or people in the village that experienced and embroiled in PT. XYZ CSR programs. The target location of this research is in PT. XYZ-Assisted Villages in Cikarang Area. From the 13 villages, researchers choose four villages as the sampling area, namely Desa Mekar Mukti, Desa Simpangan, Desa Pasir Sari and Desa Pasir Gombang.

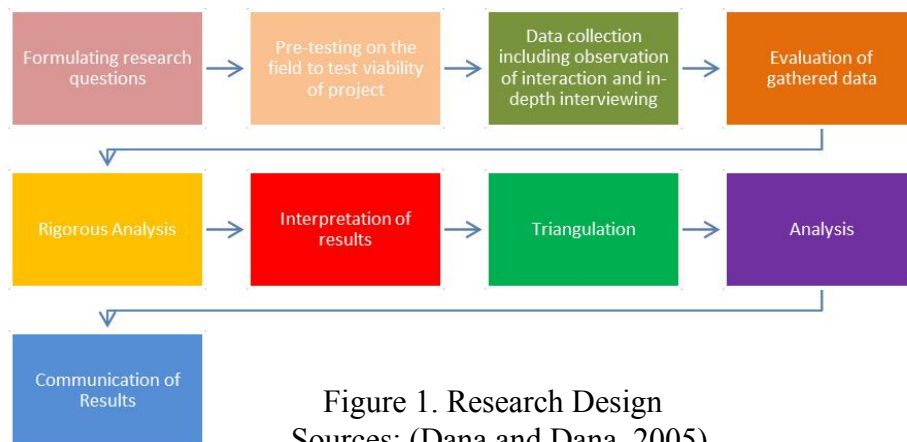


Figure 1. Research Design  
Sources: (Dana and Dana, 2005)

### **Data Collection and Analysis**

The techniques of data collection conducted with semi-structured interview, observation, and documentation. Moreover, this research is scheduled to start from July 2016 until February 2017 (Figure 1). Data validity is examined with triangulation technique. Triangulation is a technique used to check data validity by “utilizes the use of multiple sources, methods, investigators, and theories to ensure the credibility of the research” (Creswell, 2009). This triangulation study is done by comparing interviews with related documents and comparing organisation and also perspectives from key informant views from different backgrounds.

## **4. Result and Discussion**

### **PT.XYZ Corporate Social Responsibility Profiles**

PT. XYZ implemented corporate social responsibility activities around Cikarang area during 2011 until 2015 (see

Appendix). “The CSR programs focused on the needs of the society and were implemented with the supervision of the surrounding community. Ideas were obtained from the involved communities, especially from within the targeted community development, in order to ensure that maximum contribution could be directed effectively and efficiently” (Jababeka Annual Report, 2011). The Company’s CSR programs cover five main sectors: (1) education, (2) health services, (3) economic empowerment, (4) environment and (5) social welfare.

As we can see in Table 2 below, the education programs are focusing on providing infrastructure aid in School Renovation, scholarships, and school facilities such as computers, education tools, and sports equipment. Meanwhile, health programs is focusing to “improve the health of disadvantaged communities and to reach a wider public, free medical treatments, and health education on nutrition and food security (Jababeka Annual Report, 2015). “Economic empowerment prioritises the development of small businesses. To increase efficiency, the Company uses social mapping to find the strengths and potentials of the public. CSR programs that have been implemented in this way include programs for livestock, fishery, and food home industries”.

The benefits of economic empowerment CSR programs are increased business opportunities, employment, and clean water provision for the public. In environment programs, PT. XYZ initiated to plant trees, environmental education, and clean water and sanitary and distribution. The last sector is social welfare programs, wherein the company focused to support social religious activities such as renovating the mosques and other places of worship. The assistance is also provided at the Religious Celebration Days. As a result, a community-based development is created where the benefits can be enjoyed directly by the beneficiary or neighbouring society (Jababeka Annuals Report, 2011; 2012; 2013; 2014; 2015).

Table 2. Community Perspectives Level Scores of PT. XYZ CSR Programs

No	Jababeka CSR Programs	Effectivity	Relevance	Sustainability	Impact	Empowerment	Participation	Rating Score
1	Scholarships	4	3	2	4	4	4	3.5
2	School Facilities	4	3	1.8	3.8	4	4.2	3.4
3	Education Tools and Equipment	2.7	2.5	2	3.6	3.8	3.9	3.1
4	Free Medical Services	3.7	2.6	2.8	3.6	3.1	3.6	3.2
5	Medical Personnel Assistance	4	3.7	3.3	4.3	4	4.3	3.9
6	Fogging	2.4	2	2	3	3	4	2.7
7	Health Education : Nutrition & Food Security	2.7	2	2.7	4	3.7	4	3.2
8	Planting Trees (Go Green)	3.3	2.4	2.3	3.5	3	4.4	3.2
9	Clean Water and Sanitation	2	2	2.4	3.4	3.3	3.7	2.8
10	Distributing Staple Food Packages	2.5	2	2.8	3.2	2.8	3.8	2.9
11	Facilities and amenities for worshipping activities	3.7	3.7	3.3	3.7	3.7	4	3.7
12	Distributed Sacrificial Animals	2.2	2	2.8	3.2	2.8	3.6	2.8
13	Cultivation	2.5	2	4	3.5	4	4	3.3
14	Training and Mentoring	3	2.5	2.5	4	4	4	3.3
15	Economic Empowerment & Productivity	2	2	2	3	4	4	2.8
<b>Rating Score</b>		<b>3.0</b>	<b>2.5</b>	<b>2.6</b>	<b>3.6</b>	<b>3.5</b>	<b>4.0</b>	

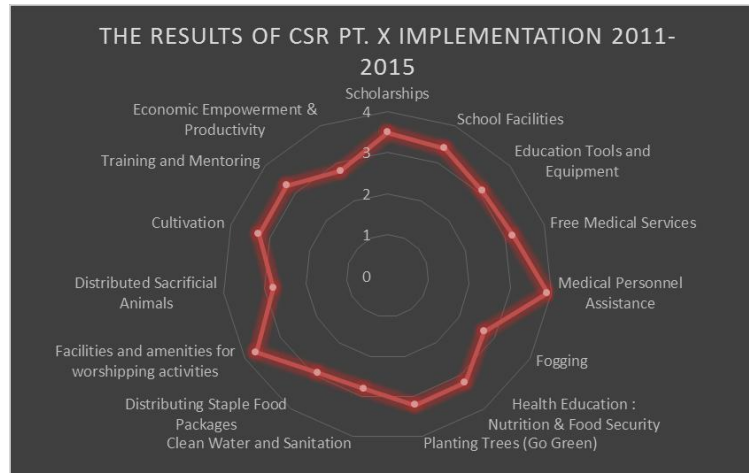
\*) Performance □ 1= Very low/poor; 2= Low/poor; 3= Fair; 4=Good; 5 = Excellent

Source: Interviews and Observations, framework proposed by Mulyadi et al. (2012) and Soepriadinata & Goestaman (2013)

### PT. XYZ Corporate Social Responsibility Evaluation Results

The relationship between CSR and Corporate Identity is opening up an important new area for this research. “The rapid development of PT. XYZ Industrial Estate continues to encourage the Company to bring welfare to the surrounding communities. The efforts to improve the welfare of these communities are reflected in the social responsibility programs implemented by the Company” (Jababeka Annual Result, 2014). Graph 1 below shows the level of CSR programs implementation for PT. XYZ in Cikarang as a whole, calculated as the average of the results of 4 villages, covering over 30 % of the total 13 villages. All scores for all 15 programs are calculated on a scale of 1 to 5, where 5 represents the excellent results of the PT. XYZ CSR programs based on community perspectives. As can be seen from Graph 1, five indicators show low or less effective CSR programs implemented by PT. XYZ, such as economic empowerment and productivity, clean water and sanitation, and distributing sacrificial animal programs, which have a score of 2.8 and the fogging program which has an even lower score of 2.7. Many programs show average results, with a score between 3 and 4. For example, health services program have progressed over the past five years, scoring 3.9 which is above community basic needs, education, social, environment, and community economic empowerment.

Graph 1. The Results of PT. XYZ CSR Implementation 2011-2015



Source: Interviews and Observations (2017)

## Education

### *Scholarship*

The scholarship has a score 3.5, which means the program given by PT. XYZ was effective, in which the assistance was provided as needed and met the needs of schools and students. However, this assistance was considered as infrequently implemented and the distribution was not spread evenly in all PT. XYZ – assisted villages. With the help of scholarships, it gave a positive impact on the development of students in terms of education and school. By the time when the scholarship assistance was given to students, the school and students showed good enthusiasm. Schools expect that PT. XYZ will increase the scholarship assistance in the future.

### *Developing School Facilities*

Developing school facilities has a score of 3.5. In terms of the establishment of educational facilities, PT. XYZ – assisted villages considered this assistance as sufficient. This assistance was done in several schools located in Desa Simpangan, Pasir Gembong, and Pasir Sari. The facilities establishment adequately met the needs of schools and students. The assistance need to be enhanced, hence it would be more beneficial in increasing the education quality for schools and students. The representatives from society felt that the assistance in the establishment of educational facilities positively impacted the schools and students.

By having more facilities such as classrooms, the school can now possibly have all students to take morning class. Before the assistance was provided, the school had to divide students' classes by morning and afternoon class.

Meanwhile, students in the afternoon class found it harder to concentrate in the learning process compared to the morning class students. When PT. XYZ provided this assistance to those schools, the response by schools and students were positive. The society looked forward to have more assistance from PT. XYZ, especially in establishing more educational support facilities such as laboratories, library, and others.

### *Education Tools and Equipment Supplies*

The assistance in education tools and equipment supplies was rated as “sufficiently effective” by the society. The score given by the community was 3.1. However, this assistance had to be improved, because the schools felt that the amount of educational equipment provided by PT. XYZ did not sufficiently fulfil the needs of schools and students. The number of supplies had to be increased and the period of CSR could be done in a yearly basis, or at least the supplies should be able to cover at least 50% of students’ needs. With the help of PT. XYZ in providing educational supplies for schools, it will positively impact the educational development. In the future, they hope that PT. XYZ will provide the schools with more beneficial education supplies.

## **Health Services**

### *Free Medical Services*

In health service sector, free medical treatment is one of the CSR programs offered by PT. XYZ. This free treatment was able to satisfy the society adequately, even though it still needs more improvement in providing a better health service to the society. The community has given a score of 3.1, which means it was moderately effective. On the other hand, the dissemination of information regarding the free medical treatment is needed, and the service has to be spread evenly in all areas. With free medical treatment, the society is able to have a better healthcare which results in a more productive life. As a result, this assistance was able to give a decent impact on society surrounding the PT. XYZ – assisted villages. People who actively participated in this event expected that in the future PT. XYZ would be able to conduct this service more frequently.

### *Healthcare Personnel Support*

The healthcare personnel support provided by PT. XYZ was effectively implemented, with the score of 3.9. The assistance met the needs of society and was quite often held by PT. XYZ. This program successfully provided a positive improvement toward societies’ health condition. The society actively participated in every healthcare services program conducted by PT. XYZ.

### *Fogging*

Fogging activity needs some improvements in several aspects, since the score is only 2.7. Based on the information obtained from respondents, fogging was rarely conducted in PT. XYZ – assisted villages, even though it is very important especially during the rainy season. At the moment, the program will only be conducted based on the request of the villagers. Therefore, it can be concluded that the fogging activity which was done by PT. XYZ was not really effective, because it was not distributed evenly and the frequency of this activity was implemented infrequently. This fact leads to another conclusion that the fogging activity was not able to fulfil society needs. The fogging activity was only effective in certain areas fortunate enough to receive the program. The villagers were generally enthusiastic when they heard that

the fogging activity will be held in their area. Therefore, they expect in the future PT. XYZ will conduct this activity more frequently.

#### *Health Education: Nutrition & Food Security*

Health Education was done in Desa Pasir Sari and Desa Mekar Mukti. Even though the score result was 3.2, but this particular education was not really effective because the society was not well informed regarding this activity. This resulted to a shortage of participants for this event. This program still was not able to satisfy the needs of society in terms of health knowledge, because the activity was not conducted periodically. The impact of this activity was considered adequate to those who participated. PT. XYZ needs to conduct more health education activities, since the society was actually enthusiastic to participate in this event.

### **Environment**

#### *Tree Plantation*

Tree Plantation is one of the programs which conducted periodically by PT. XYZ. This yearly basis program was well distributed in PT. XYZ – assisted villages. Tree plantation program considered as successfully effective with the score of 3.2, and it was able to cover the society needs in terms of environment, with the supportive fact that Cikarang is a hot area and need more plants to make it cooler. Hence, trees can help in reducing air pollution and heat. The society was very enthusiastic to participate in this program.

#### *Clean Water and Sanitation*

The installation of water piping networks was not effectively conducted, since the program is scored at 2.8 by respondents. This program is still unable to fulfil the society needs, since the program was not distributed evenly in PT. XYZ – assisted villages. It was done once in Desa Pasir Sari, and not conducted periodically. Indeed, the installation of water piping networks gave a positive result to the respective area, and the society has a positive response towards this program though it was only done once.

### **Social Welfare**

#### *Staple Food Supplies*

The staple food supplies were conducted mostly during the month of Ramadan. This program was classified as need for improvement due to the score which is only 2.9, since the supplies was not distributed evenly and was not able to cover the needs of society. This program was done twice in 2014 and 2015. Hence, it will need continuity to make this program be implemented every year. The staple food supplies gave a good impact on the society which got this assistance. The society actively participated in every staple food donation program.

#### *Facilities and Amenities for Worshipping Activities*

The donation of facilities and amenities of worship activities was concluded as sufficiently effective, this program was able to satisfy the needs of society in terms of religion with the

score of 3.7. PT. XYZ participated adequately on this aspect of CSR; by continuously maintain the mosque facilities in Pasir Gombang area. This program gave a positive outcome to the society, and the society participated actively to help maintaining the condition of their worship place.

#### *Distributed Sacrificial Animals*

Distributing sacrificial animals is one of the programs in society aspect which is quite often conducted by PT. XYZ. However, this program was considered as less effective, with the score of 2.8. The reason is because it was not conducted every year and the animals (goats and cows) were not able to cover the society needs. The people who were in the middle to the upper class still got the benefit of this program, while in fact, this assistance was intended for the people who were in needs. This program was able to create a positive outcome, which made people who were in needs able to get better food. The society was very actively participated in this program. Hence this program has to be conducted periodically and the committee has to be concerned on the distribution management.

### **Economy & Entrepreneurship**

#### *Utilization of Idle Land (Cultivation)*

The utilization of idle land happened in Desa Mekar Mukti. The society took an advantage of the idle land to crop some of the vegetables as their source of income. This program has 3.3 score, it means the program was considered as effective. However, the land is small and not fertile; hence plants that can be grown were limited. This land was still not able to fulfil the needs of society. PT. XYZ allowed the society to use this land until now, thus the society may grow their plants and get more income from there. Indeed, this land will give a positive outcome to the society especially in economy aspect. The society participated actively in utilizing this land. They hope that in the future PT. XYZ will provide them with a bigger land and assist them in the fertilization program.

#### *Mentoring & Training*

The mentoring & training program was conducted adequately effective with the score of 3.3. However, the training subject was limited and focused to women with brooches craftsmanship which was held in Desa Pasir Gombang. This training program was done infrequently, and was still not able to cover the needs of society. Indeed, with this training it was effectively influence the spirit of entrepreneurship. The housewives are able to generate income to have a better economic condition. Although the society was actively participated on this training, they expected that in the future there will be more training with the automotive subject. Hence, the men are able to expand their creativity and knowledge to open their own business later on.

#### *Economic Empowerment and Productivity*

This assistance was scoring at 2.8 and considered as not really effective, since the fund given was limited and not distributed well. This productive economy assistance was still not able to cover the society needs, and the program was held infrequently. The villages' representative

who got this assistance stated that this program created a positive outcome. The society was enthusiastic to engage in this program, and this program needs to be implemented to help the potential entrepreneurs who have a limited capital to run their business. Therefore, the economic condition of this area will be improved.

### **The Evaluation of CSR Programs and the Implication on PT. XYZ Business Strategy**

According to Dagiliene (2010), “implementation of responsible business practice may help company in creating competitive advantage, may have positive influence on its reputation, employee loyalty and employment, activity efficiency and sales volumes”. In order to survive the process, companies required innovation in business strategies. The focus on strategy content such as competitive position and its relation with performance (Hedman and Kalling, 2003; Dhewanto and Permatasari, 2013). Graph 2 shows the evaluation score of PT. XYZ CSR programs in a variety of level. Overall, participation level has a highest score of the evaluation; it reached the level of goodness. It means communities have a positive enthusiasm in implementing the program. The CSR programs are initiated ideas that are collected from the communities through PT. XYZ CSR mentoring, then developed with the participation of the communities. In average, the impact of CSR programs in Cikarang reached the number of 3.6. It means CSR Programs of PT. XYZ have a good impact to the community’s development. It is the same as;

CSR aims “to improve community’s living standards, both economically and socially as well as to help improve communication and friendship among people, consequently creating harmony and peace”. Besides, programs that implemented by the company have fair enough expectation in improving community needs, it shows in the score of empowerment, scoring at 3.5, Followed by the effectiveness in 3.0. Whereas, for the relevance and sustainability program have low scores which are 2.6 and 2.7 respectively, which is inconsistent with the statement publish in PT. XYZ Annual Report 2011-2014 that “The Corporate Social Responsibility (CSR) programs are implemented efficiently and sustainably in accordance with the needs of the communities”. Buchholz and Rosenthal (2005) in Balmer et al. (2014) also argue that “the company can begin to conceptualise the corporation as intricately bound up in and with community”. Therefore, it is important to state that PT. XYZ needs to develop its CSR programs to be not only as a business practice, but also as corporate identity. Consequently, the program will be more responsive to the community needs towards the competitive advantage of the company



Graph 2. The Effectiveness of CSR PT. XYZ 2011-2015



Source: Interviews and Observations (2017)

## 5. Conclusion and Implications

In conclusion, PT. XYZ has been successfully implemented CSR Programs in Cikarang. Overall, the programs have been implemented reached the level of fair enough to be effective. The most effective CSR programs in PT. XYZ were free health services, facilities and amenities for worshipping activities and education programs such as school facilities and scholarships. On the other hand, the least effective programs were fogging, drinking water and sanitation and economic empowerment. The performances of PT. XYZ corporate strategy responsibility in Cikarang have a positive direction of movement. The survey data and interview result showed that the company still needs more attention in implementing the principles of corporate social responsibility for the community, such as manage public relation and programs information dissemination, organize community needs, company's goals and target area of services. Furthermore, PT. XYZ needs to create synergy and collaboration with local stakeholders and the tenants in Cikarang to solve many problems in the community, environment and society.

## References

- Antara News (2007) Less than 50 Percent of Companies Implement CSR [online] <http://www.antaraneews.com> (accessed 10 February 2016).
- Balmer, J., Fukukawa, K., Gray, E.R. (2014) 'The nature and management of ethical corporate identity: Discussion paper on corporate identity, corporate social responsibility and ethics', *Journal of Business Ethics*, Volume 76, No.1, pp. 7-15.
- Buchholz, R.A. and Rosenthal, S.B. (2005) 'Toward a Contemporary Conceptual Framework for Stakeholder Theory' in *Journal of Business Ethics*, 58: 13-148.
- Creswell, John.W (2009) *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*, Sage Publications, Los Angeles.
- Dahlsrud, Alexander. (2008). How Corporate Social Responsibility is Defined: An Analysis of 37 Definition. *Corporate Social Responsibility and Environmental Management*. Vol. 15 pp.1-13.
- Dagiliene, L. (2010). The Research of Corporate Social Responsibility Disclosures in Annual Reports. *Inzinerine Ekonomika-Engineering Economics*(2), 197-204.
- Dana, L.P and Dana, T.E. (2005) 'Expanding the scope of methodologies used in entrepreneurship research', *International Journal Entrepreneurship and Small Business*, Vol. 2, No. 1, pp. 7-9.
- Dhewanto, W., and Permatasari, A (2013) 'Business Model Innovation towards Competitive Advantage: Case Study in Indonesian Cosmetics and Herbal Health Companies', *Information Management and Business Review*, Vol. 5, No. 8, pp. 385-393.
- Gosh, Sumona (2014) 'Is Corporate Social Responsibility in India Still in a Confused State?—A Study of the Participation of the Private Sector Companies of India in Corporate Social Responsibility Activities', *Global Business Review*, Vol. 16, No. 1, pp. 1–32.
- Jababeka Annual Report (2011) *Growing with Confidence* [online] [www.jababeka.go.id](http://www.jababeka.go.id) (accessed 14 February 2017)
- Jababeka Annual Report (2012) *Sustainable Township Developer* [online] [www.jababeka.go.id](http://www.jababeka.go.id) (accessed 14 February 2017)
- Jababeka Annual Report (2013) *Growth, Sustainability, Balance* [online] [www.jababeka.go.id](http://www.jababeka.go.id) (accessed 14 February 2017)
- Jababeka Annual Report (2014) *Creating Value for The Shareholders and The Nation* [online] [www.jababeka.go.id](http://www.jababeka.go.id) (accessed 14 February 2017)
- Jababeka Annual Report (2015) *Creating New Cities* [online] [www.jababeka.go.id](http://www.jababeka.go.id) (accessed 14 February 2017)
- Kementerian Lingkungan Hidup (2016) *Characteristics of the ISO 26000 Social Responsibility* [online]

- <http://www.menlh.go.id> (accessed 10 February 2016).
- Leimona, Beria& Fauzi, Aunul. (2008). CSR dan Pelestarian Lingkungan Mengelola Dampak: Positif dan negatif. Jakarta, IBL.
- Maignan, I. and Ferrell, O.C. (2004) 'Corporate Social Responsibility and Marketing: An Integrative Framework' in *Journal of the Academy of Marketing Science*, Vol. 32, No. 1, pp. 3-19.
- Mulyadi, D. Hersona, S and May L.D. (2005) 'Analisis Pelaksanaan Corporate Social Responsibility (CSR) pada PT Pertamina Gas Area JBB Distrik Cilamaya bagi Masyarakat. *Jurnal Manajemen*, Vol.09 No.4 Juli 2012, pp. 900-919.
- Mulyadi, D. Hersona, S and May L.D. (2005) 'Analisis Pelaksanaan Corporate Social Responsibility (CSR) pada PT Pertamina Gas Area JBB Distrik Cilamaya bagi Masyarakat. *Jurnal Manajemen*, Vol.09 No.4 Juli 2012, pp. 900-919.
- Mapisangka, andi. (2009). Implementasi CSR terhadap kesejahteraan hidup Masyarakat, *JESP* Vol. 1, No. 1, 2009 Prasetyo, W. B. (2016, March 7). *Ekonomi: Berita Satu*. Dipetik June 14, 2016, dari Berita Satu:  
<http://www.beritasatu.com/ekonomi/353576-jababeka-raih-penghargaan-mitra-csr-jabar-dari-aher.html>
- Rudito, Bambang& Budimanta, Arif & Prasetijo, Adi. (2004). *Corporate Social Responsibility: Jawaban Bagi Modal Pembangunan Indonesia Masa Kini*. Jakarta, ICSD
- Solihin, Ismail. (2009). *Corporate Social Responsibility; From Charity to Sustainability*. Jakarta: Salemba Empat
- Sauders, Mark and Lewis, Philip (2012) *Doing Research in Business and Management*, Pearson, Malaysia.
- Šarčević, D. (2014) 'The Role of Corporate Social Responsibility in Modern Business in the Republic of Serbia',  
 Conference: 5th International Conference on Governance, Fraud, Ethics & Social Responsibility, At Edirne, Turkey [online]  
[https://www.researchgate.net/publication/266208933\\_The\\_role\\_of\\_Corporate\\_Social\\_Responsibility\\_in\\_modern\\_business\\_in\\_the\\_Republic\\_of\\_Serbia](https://www.researchgate.net/publication/266208933_The_role_of_Corporate_Social_Responsibility_in_modern_business_in_the_Republic_of_Serbia) (accessed 10 February 2017).
- Supriadinata, W. and Goestama, I. (2013) 'Analisis Efektivitas Corporate Social Responsibility (CSR) dalam Menyelesaikan Masalah Sosial LingkunganPerusahaan; Studi Kasus PT.Pertamina (Persero) Unit Pemasaran TBBM Depot Ende', *Jurnal Ilmiah Mahasiswa Universitas Surabaya*, Vol. 2, No. 1, pp. 1-13



Varabel	Sub Variable	Indikator	2011	2012	2013	2014	2015	
Corporate Social Responsibility	Education	Scholarships			Scholarships to achieved and less fortunate students for one year and semi-periodically. Computer trainings to teachers of elementary schools at SDN Heja, Mejar 02.	Scholarships to all students (with PTA Products Indonesia)	Scholarship and school facilities (computers and sports equipment) at SDN Heja Mejar 02, Cikarang Utara and SMA Al-Amin Desa Paar Gombong, SMP Al-Chaidar SDN Tanjungreni Kecamatan Cikarang Utara	
		School Facilities	Construction of 5 new classrooms at SDN 03 Salsabir and SDN 11 Wanasari (with PT. Mela) SDN 03 Paar Gombong (with PT. Liked, Pancer Pradi Express) at SDN 03 Salsabir SDN 11 Wanasari SDN 03 Paar Gombong	Construction of 2 new classrooms at SDN 07 Smpangreni and 3 new classrooms at SDN 08 Salsabir (with PT. Mela) provided financing at SDN 03 Mejar Mejar (with FT. MAHE)	Renovated 5 classrooms (with PT. Mela) at SD Heja Mejar 02	Construction of 7 new classrooms at SDN Heja Mejar 02 (with FT. Mela). Bookshelves procurement at Sekolah Yayasan Al-Chaidar, Desa Tanjung Sari, Cikarang Utara	School renovation at SIB Turkish Kembang Cina, at Desa Sela Mejar, Turuk, Selaing. Construction of new classrooms at M.T. Hira, Desa Paar Sari, Cikarang	
		Education Tools and Equipment		Donated second-hand computers to SDN 01 Paar Gombong, SMP Islam Al-Iman, SMAKSN 1 Cikarang Selatan dan PAUD Yayasan AS Salam Paar Gombong	Donated second-hand computers at SDN Smpangreni 07 PAUD Rahmat. Kantor Karang Taruna Paar Gombong. Kantor BPD & FOKOM KORANAME, Cikarang Utara.	1 unit computer procurement at SDN Tanjung Sari 01, Cikarang Utara		
	Free Medical Services	Providing free medicine and affordable treatment through Klinik YSEK (Yayasan Swasta Pengobatan Kera) Jababeka	Providing free medication in villages surrounding Jababeka and affordable treatment through the Yayasan Meja Jababeka (Jababeka Pancer Foundation) for 2,447 patients. Free treatments of 5 patients for 512 patients (with PT. MAHE Indonesia) at Desa Paar Gombong	Providing free medication in villages surrounding Jababeka and affordable treatment through the Yayasan Meja Jababeka (Jababeka Pancer Foundation) for 2,447 patients. Free treatments of 5 patients for 512 patients (with PT. MAHE Indonesia) at Desa Paar Gombong	Providing free medication in villages surrounding Jababeka and affordable treatment through the Yayasan Meja Jababeka (Jababeka Pancer Foundation) for 2,447 patients. Free treatments of 5 patients for 512 patients (with PT. MAHE Indonesia) at Desa Paar Gombong	Free medical services for 1,000 patients at Desa Paar Gombong, Paar Sari, Tanjung Sari, Jurga dan Jyandadi		Free medical services for 1,500 patients at Desa Paar Gombong, Paar Sari, Tanjung Sari, Jurga dan Jyandadi
	Health Services	Medical Personnel Assistance		Assistance to the medical personnel around the area		Assistance to the medical personnel around the area		
Environment	Health Education: Nutrition & Food Security	Fogging		Fogging Program		Fogging Program at 13 villages in Cikarang		Health education on nutrition and food security to around 300 mothers at Desa Paar Gombong, Heja Mejar, Karang Ben, Smpangreni dan FKJ, Kecamatan Cikarang Utara.
		Planting Trees (Go Green)	planted 1,000 vertical rain trees (with Alhar dan Green Radio)	planting 1,000 treeless rain trees (with Alhar dan Green Radio and PT. Wartab)	Planting Organic Farm at Estate Garden.	Organic Rice Cultivation, Planting organic vegetables at Desa Jitben, Cikarang Timur	Planted 150 trees at Desa Paar Sari, Paar Gombong dan Heja Mejar.	
	Clean Water and Sanitation				Damage improvement and building control banks of waterways to slow the solid wastes that flow into the drains at Desa Paar Gombong	Installation of water piping networks in 26 points (2130 households), supplied clean water using water trucks at Desa Paar Sari Kecamatan Cikarang Selatan, Desa Smpangreni Kecamatan Cikarang Timur, Desa Mejar Mejar Cikarang Timur, Desa Mejar Mejar Kecamatan Cikarang Utara. Wigan Heja Desa Paar Gombong Desa Heja Mejar Kecamatan Cikarang Utara		

Appendix

Variable	Sub Variable	Indicator	2011	2012	2013	2014	2015	
<i>Corporate Social Responsibility</i>	Social	Distributing Staple Food Packages	-	-	-	Provide 700 packages of Staple Food (Sembako) at 31 Points around Kawasari	Provide 800 packages of Staple Food (Sembako), at 13 points around Kawasari, Babobda, Donobon to orphanages at 10 orphanages	
		Facilities and amenities for worshiping activities	-	-	-	assistance to the medical personnel around the area	Donation of facilities and amenities at Masjid Al-Gablon Desa Pejajaran, Kecamatan Cikarang Selatan, Masjid An-Nur Desa Tinjungsari, Masjid Nurul Islam Desa Pasir Gombang, Kecamatan Cikarang Utara, Masjid Nurul Imanah Desa Juteja, Kecamatan Cikarang Timur.	
		Distributed Sacrificial Animals	Distributed sacrificial animals on Islamic Holiday	-	-	Debitable 451 goats and 6 cows as the sacrificial animals	Debitable 439 goats and 7 cows as the sacrificial animals at Desa Ayuwatuli, Desa Hegermatuli, Desa Sindang, Desa Juharand Dewan, Kembarman Masjid (DKM) di desa sekitar	
	Economy & Entrepreneurship	Cultivation	-	-	-	140 plants procurement and provide assistance of experts for cultivation and making compost. At Desa Tinjang Baru, Cikarang Timur	-	-
		Training and Mentoring	-	Conducted entrepreneurship training for 600 high school and vocational school students in Bekasi	Training for Civilis Aquaculture and Tempe. Conducted entrepreneurship training for 120 students of high schools and vocational schools in the Bekasi Regency	Training and mentoring on craftsmanship of brooches and bags made from patchworks at Desa Pasir Gombang	-	-
		Economic Empowerment & Productivity	Assistance for 22 programs focusing on duck meat and duck farming	Assistance for 4 programs focusing on sewing, adding, growing new matrooms, production of cassava chips and duck hatching	-	-	Stainless Steel pans procurement for Tempe production at Desa Tinjang Sari	provides assistance to the members of a Fish Farming Group (building 4 brooder ponds, 5.000 catfish fingerlings, fish feed, enzymes and coaching) at desa Pasir Sari



## **Garware Paints: A Case Study of Family Business Failure**

**Prof Dr Ajay A Chauhan**

Dean, Faculty of Business

ajay@president.ac.id

### **Case Summary**

B.D. Garware, a 7th standard drop out, sailed to England from India at the age of 17 in 1920 due to poverty. Slowly, he became an entrepreneur dealing in second hand cars. He was an astute businessman and grew his business fast. Later, he went back to India and taking advantage of post-world war recession, he bought many companies and established Garware family business group. One of the companies, he bought was Blundell & Eomite Limited established in 1902 – a British company well established in Indian paint industry. The name was changed to Garware Paints and ownership was transferred to his third son Chandrakant in 1978-79. It enjoyed 3<sup>rd</sup> or 4<sup>th</sup> rank in the industry in 1979-80. However, in late 80's, it suddenly started suffering losses and within few years it was sold out for peanuts. The case is a narrative of what went wrong in the family business. The case may be a good example for teaching issues of professionalization of family business, mistakes in succession planning and consequent strategic planning and execution failures in family business.

### **Keywords**

Succession Planning, Strategy Planning and Execution, Professionalization, Family Business

**GARWARE PAINTS: A CASE STUDY OF FAMILY BUSINESS FAILURE**

Prof Dr Ajay A Chauhan

### **An Unnoticed Event**

Atif Arshad (name changed), a lecturer in a remote university in South East Asia, was surfing the net as usual on September 28, 2010. Normally, he sat on his laptop after dinner and was surfing the net for anything in the world. He was not fond of watching movies or TV unlike the rest of his family. His wife always watched serials in drawing room which he hated most. He put another TV in his bedroom but the game changed. His children took possession of the drawing room TV and wife declared ownership of bedroom TV. Therefore, Atif confined himself to his reading room to surf the net for variety of topics.

He, suddenly, came across a news item which put him in a very sad mood. The news item was very small. An unknown website belonging to a very small newspaper called Greater Kashmir published a “news in brief” on death of supposedly “noted industrialist” Mr. Chandrakant Garware on September 27, 2010. He immediately recalled his days with Garware Paints, where he worked during 1987-89. He was employed as EDP Manager. His job was to manage all electronic data processing. He found it funny but he was reporting to the Financial Controller Mr. Saldanha. As a result, he was invited to all the top management meetings and was aware of anything that happened in the company. He recalled the events since the time he joined to the time he resigned. He joined the company in 1987. Just after six months, he was introduced to a young debonair boy in his Managing Director Mr. Chandrakant Garware's cabin. Mr. Chandrakant was glowing with pride and happiness and could not stop praising his son, Jaideep Garware, who had just returned from US after finishing his graduation in



management. He declared that he was designating Jaideep as Vice President and, henceforth, and everyone should report to him.

Within one year the company lost its biggest customer Bajaj, which accounted for 40% of its sales, to a rival company Asian Paints. He knew what is going to happen in future and that it was time to change the job. But he had lot of affection and sympathy for his MD, Mr. Chandrakant and his wife Mrs. Anita Garware, a very graceful woman. He was sad when he heard in 1994 that the company was being sold to Mr. P. Rajarathinam. Again, he was sad now because of this news and because of the fact that, except this newspaper, no other source reported this information. Mr. Chandrakant and his company Garware Paints belonged to Thane area adjacent to Bombay, which is the financial and industrial hub of India but not a single website or newspaper from Bombay had any information about his death. Did he deserve such ignominy? He started writing down the whole story. He wanted to publish this case and wanted the world to know what happened. Also, he wanted to teach his students with the help of this story.

### **Indian Paint Industry**

The mankind loved to paint since the beginning of civilization. If someone has had the chance to go to Rajasthan state in India, especially the area which is full of deserts, there is a spectacular plain sand colour visible till the horizon. But on this plain sandy canvas, one can also see beautiful houses with very bright colour and the people are dressed in bright attire in variety of colours. In short, the paint brings life in this arid peace of planet where there is no greenery, flowers or colourful birds.

Now, the colours for painting got used, overtime, in two different ways. The paints used on fibre, cloths and in paintings and art works were classified in the realm of ink industry, but the paints used for houses, machinery, ships, cars and wood got classified under paint industry. Slowly, the paints became very complex with wide variety of applications and properties. The paint is actually a mixture of five elements - solvents, binders, pigments, additives and thinners (refer Appendix). The colour that we see comes from the pigments. Then, the solvents make the paint liquid enough for ease of spread and the binder binds it to the surface. Finally, additives are used to give it special resistance properties. These properties could be rust resistance, water repulsion, bacteria resistance, humidity resistance, etc. and make the paints not only colourful but extremely useful.

As of now, the industry consists of two segments, namely

1. Decorative segment - which caters to the housing sector and
2. Industrial segment - which consists of resistant coatings like powder coatings, floor coatings and other protective coatings catering to the automobile, marine and other industries.

In the Indian domestic market as of now, Decorative segment accounts for 70% of the total demand for paints whereas the industrial segment accounts for the remaining 30%.

The industry has been doing well, despite global economic slowdown in some of the years recently. India being a developing economy, the growth of infrastructure and housing has been more than the GDP growth. Secondly, the industry is performing well also because the current per capita consumption in India, which is much lower as compared to other developing economies. The per capita consumption of paints in India is 1.25 kg against 51.7 kg in Qatar, 38 kg in Singapore or 25.8 kg in the U.S. Even China has a per capita consumption of 2.5 kg and Sri Lanka 3.5 kg.

As per data available in 2010, Indian Paint industry's total market size was 1,400 million USD with a total volume of 600,000 metric ton per year. It is roughly 0.6% of the global market. The organized sector of the industry is 55%. The 45% unorganized sector has about

2500 units. The big players and their market share within the organized sector are given in Table 1.

**Table 1: Major Companies in the Indian Paint Industry in 2010**

Company	Market Share
Asian Paints	37.0%
Goodlass Nerolac	15.9%
Berger Paints	13.8%
ICI	11.0%
Jenson & Nicholson	5.7%
Shalimar	4.0%
Others	12%

Source: <http://www.india.com> (retrieved on October 17, 2010)

### Initial Players in the Industry

The origins of paint industry, in India, can be traced to about 108 years back when a factory was set up in 1902 by Shalimar Paints Ltd in Calcutta (which is called Kolkata now) in West Bengal province of India under the British rule. Not much is known about this industry before India's independence except that the industry was dominated by a few British Companies like ICI and British Paints. The rest of the industry consisted of small producers, which were mostly without factories and sophisticated marketing network. In fact a company such as Asian Paints, which was the 10th large producer of the decorative paints in the world in 2010, initially started with producing paint in a pit dug in the ground and using human feet as the mixing tool.

After the Second World War and India's independence in 1947, the imports were stopped. This led to setting up of factories by local entrepreneurs. Still, the foreign companies continued to dominate the market till 1970s. Initially British paint companies such as Goodlass Walls (later Goodlass Nerolac), ICI, British Paints (later Berger Paints), Jenson & Nicholson and Blundell & Eomite (later Garware Paints) dominated the market. Around 1980s, an Indian paint company called Asian Paints had overtaken all of these to become the number one paint company in India. The ranking of the companies in paint industry in India in 1980's is given in Table 2 (confirmatory data is not available for that period).

**Table 2: Major Companies in the Indian Paint Industry 1978-80**

Company Name	Industry Rank
Asian Paints	1 <sup>st</sup>
Goodlass Nerolac Paints (now Kansai Nerolac Paints)	2 <sup>nd</sup>
British Paints (now Berger Paints)	3 <sup>rd</sup>
Garware Paints (Later Deve Paints)	4 <sup>th</sup>

Source: An ex-employee of the company in the Marketing Dept

### Garware Paints – A Transgenerational Family Business

The Garware group was founded by Mr. B.D. Garware, a 7th standard drop out, who sailed to

in second hand cars. Due to the good quality of his services, his business grew and he established “Deccan Motor Agency” in Mumbai (then Bombay) after making some money in UK. Taking advantage of post-World War recession he bought many companies and established Garware family business group. The most famous companies of this group have been Garware Shipping and Garware Polyester. He distributed the ownership of these companies among his four sons – Sashikant, Chandrakant, Ashok and Ramesh, in the late seventies.

One of the companies acquired was Blundel & Eomite Paints Ltd (1946), whose owners wanted to leave India, in view of Indian independence. The name was changed to Garware Paints Ltd in 1978 and the ownership was transferred to his second son Chandrakant, in possibly 1979. At this point of time, it was ranked at 4th position in the industry and was a small company with a good potential to grow big (Table 2).

Mr. Chandrakant had two sons – Jaideep and Nihal, who were studying in US, when he took the charge of the company. When his sons returned after completing their graduation in 1988-89, he handed over the charge to his son Jaideep Garware by making him Vice President and transferring all the decision controls to Jaideep. Since the company is closed now, it is difficult to get the performance data. The only data available is through odd sources like court cases and the cached pages from Google Search engine. This data is summarized in Table 3.

**Table 3: Turnover of Garware Paints Ltd during 1<sup>st</sup> and 2<sup>nd</sup> Generation**

Period	Owner	Revenues (Million INR)	Revenues (Million USD)	Growth (% YoY)
1977-78	BD Garware	118.1	14.76	-
1978-79	BD Garware	157.0	19.63	33
1979-80	Chandrakant Garware	197.1	24.64	26
1988-89	Chandrakant Garware	354.6	44.33	9

Notes: 1 USD = 8 INR (average during this period)

Sources: 1. <http://www.indiankanoon.org/doc/847819/> (for 1977-80)

2. <http://www.indiaonline.com/Markets/Company/.../Deve-Paints-Ltd/509465>

It is noticeable that while Mr. B.D. Garware gave his son a company with a good growth (YoY growth was 33% and 26% just before the company got transferred to Mr. Chandrakant), the revenues of the company hardly grew during the control of Mr. Chandrakant Garware. The company size, in terms of revenues, grew by 80% in 10 years, between 1978-79 (when Mr. Chandrakant took the charge) and 1988-89 (when Mr. Chandrakant handed over the charge to Jaideep), resulting in YoY growth of 9%. This was about the same as the rate of inflation in India at that time. In short, the company did not make any progress in real terms. The progress was nominal. Still, it was sufficient to give Mr. Chandrakant a feeling of comfort.

### **The Competitive Advantage: Found and Lost**

Mr. B.D. Garware was a renowned automobile dealer. Garware Group acquired a paint company as a backward integration strategy and, also, because of the lack of competition in the automobile and shipping segments – the European companies were not interested in the dirty jobs and there were no serious Indian competitor for painting ships and vehicles. As per the government regulation in India, all the taxis (4-5 seat cars excluding driver), auto-rickshaws (2-3 seat automatic rickshaw excluding driver) and tempos (a 10-12 seat semi bus

called Garware Black was sold as an OEM product to manufacturers of taxis, auto-rickshaws and tempos. Garware Black became a monopoly product contributing as much as 60% of the company's revenues.

Since Garware Black was an industrial product, it was sold through rate contracts, which were signed yearly. Before 1988-89, it was sold at Rs 41 per litre. The largest buyer was a Pune based company called Bajaj. It should be noted that Mr. Chandrakant Garware lived in Pune, which must have facilitated the deal. In 1988, Asian Paints representatives gave a proposal to Bajaj just before the new rate contract was to be signed that it was ready to supply a product similar to Garware Black at Rs 21 per litre. It was a lucrative offer that could not be refused. The purchase department of Bajaj asked Garware Paints to explain or match the prices. Mr. Chandrakant, hurriedly, called a meeting of the top managers to have a recheck on the cost of production of Garware Black so that an appropriate quote could be given to Bajaj, in competition of Asian Paints. Atif was part of this meeting. He was given the task of finding the exact cost breakup. It was found that the basic cost of procurement per litre of final product was Rs 28. The product would contribute negative revenues, if sold below Rs 37 per litre. Naturally, Garware Paints could not match the Asian Paints offer and Bajaj did not renew the rate contract. The company slowly kept on losing the customers. Atif, slowly, started hunting for job openings. He got an offer from India's number one computer hardware company HCL Limited in Delhi. He packed his bags and slowly slipped out. No one noticed because other senior members of management were also doing the same.

Jaideep, who was in command now, was anyway not interested in paints and in going 40 kilo meters (approximately 30 miles) from his home in a very posh locality in Bombay to a dirty industrial area of Thane. Jaideep was considering opening up a new business in the name of Garware Retail, a chain of retail stores in Bombay and needed money. So, he advised his father to sell out the stakes in Garware Paints. On October 31, 1994, Mr. Chandrakant and Jaideep signed an MoU (memorandum of understanding) with P Rajarathinam & Associates to sell their stake (17.01%) for 35.65 million INR (1.11 million USD).

Rajarathinam changed the company name to Deve Paints Ltd. His purpose was to claim money from public sources. Accordingly, he applied for help from Bureau of Industrial Finance and Reconstruction (BIFR), India – a government of India body to help and revive sick industrial units in 1995 on behalf of Deve Paints. BIFR sanctioned a draft rehabilitation scheme of Rs 673.3 million (46.43 million MYR) to revive the ailing company. Deve Paints was declared sick in September 1995 and Industrial Development Bank of India (IDBI) was appointed as the operating agency to examine the viability of the company. It was found that, even though the company had an annual installed capacity to manufacture 6,000 tonnes of paints and enamels, 2000 kilo litres of varnish, 4267 tonnes of oils and 3500 tonnes of synthetic resins, the financial position was such that the company was beyond revival. Nothing is left in the company, as of 2010. The company went downhill despite having competitive advantages and a leading product, which was a cash cow.

It is also interesting to see the personal side of the owners, who made it front pages of newspapers very often.

### **Family of Celebrities**

Mr. Chandrakant had married a beautiful lady called Sheela Maluste, who lived in the same building, II Palazzo, in one of the most upscale area called Malabar Hills. The name of wife is changed after marriage in Maharashtrian community in India. So, Sheela Maluste became Anita Garware (Matin, 2009). She was not only beautiful but was, also, an efficient administrator as well as a socialite. She set up Indian Heritage Society and also Anita

Garware Institute of Vocational Training. Mr. Chandrakant was a simple person, who loved his family more than the business organization, he inherited. Obviously, importance of Anita as an opinion maker grew overtime. Atif recalled his briefing by some of the key employees, who had exposure to both Chandrakant and Anita.

When Atif joined the company, the senior employees of Garware Paints briefed him about Mr. Chandrakant Garware's management style. His management style was to trust some key senior executives and leave everything on them. He visited the factory only once in a week. For example, Malik, who was the Executive Director, was in control of the business totally. Mr. Chandrakant had left every aspect of the business on him. In fact, while the factory operations were in Thane area and company headquarters were in Bombay, Mr. Chandrakant spent most of the time in his home town Pune where he bought large properties. At least once a quarter, Anita and Chandrakant invited key employees to a sumptuous dinner at II Palazzo, a palatial residence in a posh locality of Bombay, having preparations cooked or personally supervised by Anita. In short, Garware Paints was managed as a pure family business, where there was no place for any professional values and commitments. The result was that most of the key employees became comfortable and had the total freedom to do whatever they wanted. Most of them paid more attention to their personal problems and business. Naturally, they did not focus on company progress.

When, the sons arrived from US, Anita was more worried about settling the elder son Jaideep then the business of Mr. Chandrakant. Being a socialite, she introduced Jaideep in to the party circles, where he became quite popular. He was handsome and had inherited his good features from the parents. He was touted as the most eligible bachelor during 1988-89 by magazines like Society, published from the financial and political capitals of India. As a natural consequence, he spent most of the time with celebrities, party girls and models. He also took to steroids for body shaping. He finally married Ramona, daughter of Ram and Mona Narang (hence, the name Ramona) owners of Amabassador Group of Hotels, who was even a bigger party animal and socialite. In short, the focus of Jaideep Garware was not business or professional but personal.

### **Exodus**

The key employees like Malik (Executive Director), Saldanha (CFO), Aroskar (GM Materials & Accounts) and Gupte (GM Production & Distribution) ensured that a nominal progress was maintained at a level, sufficient enough to keep Mr. Chandrakant quiet and happy. Anita did not question him and, in turn, he did not question the employees.

In this scenario, when Mr. Chandrakant introduced his 21 year old son Jaideep as Vice President, there was a disturbance in the personal-official balance created by key employees. Many problems were created by this change:

1. Mr. Chandrakant was regarded as good natured elder brother by employees. He addressed every one personally. In contrast, Jaideep was aloof, insolent and not of trusting nature. He started calling senior employees, at least twice his age, to his cabin and introduced them as his personal staff to his immature friends from US. Obviously, he was not liked. He was tolerated because no one wanted to hurt Mr. Chandrakant. No one had the guts to complain to Mr. Chandrakant.
2. Mr. Chandrakant stopped coming to work and urged everyone to meet Jaideep, who did not have any capability to make decisions; hardly any capability to understand financial figures; and no experience or understanding of paints business. To hide his incompetency, he scolded (mistreated) senior management employees.

This alienated key management employees, who started looking for alternate employment opportunities. Some requested for retirement. Garware Paints did not have any internal strength, in terms of good employees or financial resources, to face any crisis. The progress of the company during the reign of Mr. Jaideep Garware was dismal as can be seen from the reported figures (Table 4) for two years; 1988-89 (when he took over) and 1994-95 (when he sold his stake along with his father).

**Table 4: Summary Profit and Loss Statement of Garware Paints Ltd (1989 & 1995)**

Description	18 Months ending March 1995		12 Months ending March 1989	
	(million INR)	(million USD)	(million INR)	(million USD)
Net Sales	305.50	9.55	363.80	22.74
Stock Adjustments	(66.70)	(2.08)	7.80	0.49
TOTAL INCOME	238.80	7.46	371.60	23.23
Raw Materials	170.70	5.33	162.30	10.14
Power & Fuel Cost	4.50	0.14	2.20	0.14
Employee Cost	110.70	3.46	38.40	2.40
Other Manufacturing Exp	25.90	0.81	42.40	2.65
Selling and Admin Expenses	177.10	5.53	84.10	5.26
Miscellaneous Expenses	64.30	2.01	13.80	0.86
TOTAL EXPENDITURE	553.20	17.29	343.20	21.45
Operating Profit	(314.40)	(9.83)	28.40	1.78
Interest	138.90	4.34	21.10	1.32
Gross Profit	(453.30)	(14.17)	7.30	0.46
Depreciation	7.00	0.22	2.10	0.13
Profit Before Tax	(460.30)	(14.38)	5.20	0.33
Tax	-	-	1.90	0.12
REPORTED NET PROFIT	(460.30)	(14.38)	3.30	0.21
BOOK VALUE OF COMPANY	(295.60)	(9.24)	290.90	18.18

Note: The conversion to USD is based on average exchange rate i.e. 1 USD = 16 INR in 1989 and 1 USD = 32 INR in 1995

Source: <http://www.indiaonline.com/Markets/Company/Fundamentals/Profit-Loss/Deve-Paints-Ltd/509465>

Mr. Rajarathinam did not have a good reputation. Some stock brokers called him master of corporate scams. He came to Mumbai and set up his office on penthouse floor of posh Oberai Hotel and vanished after few of such deals. Garware Paints and owner's end stories are dismal.

### End Story

All the employees were retrenched. The employee union staked a claim on their benefits. As per the Indian law, the employees get the first right before any creditors are paid, in case of corporate liquidation. The company was declared sick in September, 1995 (after one year of takeover by Mr. Rajarathinam) and IDBI (Industrial Development Bank of India) was

Mr. Jaideep Garware committed suicide on December 4, 1998 after multiple failures. In addition, he had separated from his wife, two weeks earlier. Mr. Jaideep's wife Ramona and sister Sonia continued the party circuit and fighting each other. Sonia was married to Nawaz Singhania, a noted industrialist having a vast empire in textile business, and hated Ramona. She threw acid at Ramona's face and in return Ramona dug her nails in to Sonia. Sonia ensured that Ramona is out of Garware Business group and ensured that she could not even use Garware surname. So Ramona Garware became Ramona Narang. One of the Indian tabloids, Mumbai Mirror reported earlier in 2010 that she is pregnant from her third marriage to a Singapore based Italian Bruno Rodella.

Mr. Chandrakant died on September 26, 2010. No one reported about it except a small daily newspaper Greater Kashmir, published from Srinagar, state of Jammu & Kashmir. The reason was the fact that Mr Chandrakant's son Nihal was one of the Directors of the J&K Bank. Anita continued heading the Heritage Society of India. The buyer, Rajarathinam, was more interested in making money by taking advantage of the Indian government policy of helping the sick units. He bought the company for 35.65 million INR (1.11 million USD at the prevailing exchange rate in 1995) and applied for sick unit rehabilitation package of 673.3 million INR (21.04 million USD at the prevailing exchange rate in 1995). The cream of this package was the sale of assets for 414.6 million INR (12.96 million USD at the prevailing exchange rate in 1995). In the year 2000, BIFR admitted that Deve Paints owners were not responding to any of their communications (Misra, 2000).

Recently, it seems that company and logo, belonging to Garware Paints Ltd, has been bought by some unknown owners. A website [www.garwarepaint.com](http://www.garwarepaint.com) (the original company was Garware Paints, so the letter "s" is missing) has been put up but there are no clear details about the change of ownership. The websites says that Garware Paints was an initiative of Mr. Akhtar Ali and present CEO is Mr. Malay Dey. Further, it operates from Kanpur but has factory in Pawne in Maharashtra. However, the logo is similar to the logo of original Garware Paints Ltd.

## **CASE QUESTIONS**

1. What is the principle reason of the failure of this company (succession planning, professionalization, strategic management, or marketing)?
2. Who's responsible for the failure of Garware Paints – Grand Father, Father or Son?
3. Was succession planning essential for Chandrakant Garware? Or was he simply running away from responsibilities?
4. Was Garware Paints a professional company?
5. Is the hands-on experience a must for the entrepreneur? Is the business acumen hereditary? Or can be acquired during MBA?
6. Is entrepreneurial mind-set same as professional mind-set? What are the entrepreneurial skills? Is entrepreneurial skill same as entrepreneurial mindset? Did Garware family lack in entrepreneurial skill?
7. What's more important in a family business (trusted employees, trusted family members, or professional managers)?
8. What is the role of other stake holders of a business organization in cases like this? For example, why government, lending institutions and shareholders kept quiet and became party to this corporate downfall?

9. What systems, processes and control systems can be adopted to avoid such cases? What is the role of Sarbanes–Oxley Act?
10. What are different types of strategies? What is the difference between generic business strategies and situation specific strategies such as end-game strategies? What's kind of strategy (business or corporate) will be suitable for Garware after they loss Bajaj order?

### REFERENCES

This is an actual case. All the names are real. The students can use Google search engine to find more information. The students can start with the following stories:

- Deshpande, S. (2012). Jaideep Garware widow asked to vacate SoBo flat. *The Times of India, Mumbai, July 28, 2012*. (<http://timesofindia.indiatimes.com/city/mumbai/Jaideep-Garware-widow-asked-to-vacate-SoBo-flat/articleshow/15217700.cms> retrieved on September 14, 2014)
- News in Brief. (2010). JK Bank Director bereaved. *Greater Kashmir, Srinagar, September 27, 2010*. (<http://www.greaterkashmir.com/news/2010/sep/27/jk-bank-director-bereaved-23.asp> retrieved on December 1, 2012)
- News Bureau. (1998). Industrialist Jaideep Garware commits suicide. *Indian Express, December 5, 1998*. (<http://www.expressindia.com/fe/daily/19981205/33955424.html> retrieved on December 1, 2012)
- Kulkarni, V. (2010). Small Talk with Ramona Narang, Little Miss Sunshine. *Mumbai Mirror, March 28, 2010*. (<http://www.mumbaimirror.com/article/82/20100328201003280228589721f4ed20d/Little-Miss-Sunshine.html> retrieved on December 1, 2012)
- Masand. (2011). Superstar's SIL and Producer's Son affair. *India-Forum.com, Post no 15 dated April 21, 2011* ([http://www.india-forums.com/forum\\_posts.asp?TID=1666655&TPN=15](http://www.india-forums.com/forum_posts.asp?TID=1666655&TPN=15) retrieved on December 1, 2012)
- Matin, H. & Natu, N. (2009). Man abducts Step-Dad for Rs 3L. *Crime Line (Blogspot.com), July 16, 2009*. (<http://mateenhafeez.blogspot.com/2009/07/man-abducts-stepdad-for-rs-3l.html> retrieved on December 1, 2012).
- Misra, R. (2000). No steps taken to revive Deve Paints, says BIFR. *The Hindu Business Line, February 20, 2000*. ([www.thehindubusinessline.com/2000/02/20/stories/1420184d.htm](http://www.thehindubusinessline.com/2000/02/20/stories/1420184d.htm) retrieved on December 1, 2012)
- Subramaniam, N. (1994). Stringing successes. *India Today, November 30, 1994*. (<http://indiatoday.intoday.in/story/coimbatore-businessman-p.-rajarathinam-acquires-17-pc-controlling-stake-in-garware-paints/1/295060.html> retrieved on September 14, 2014)



**APPENDIX – Paint: A Basic Introduction**

Paint can be defined as a combination of different chemicals. This combination when spread on a surface, such as wood, metal or cement, makes a uniform film coating. This coating could be clear or opaque (that hides the original visible surface). This coating is used both for decorating as well as protecting the surface.

The paint consists of ingredients like pigments, resins, solvents, additives and thinner.

**Pigments:** The pigments provide colour. It also has filling properties. These are originally in powder forms. Some examples of colour pigments are titanium dioxide or red oxide.

**Resins:** These are sometimes called adhesives also. They bind the pigments to the surface. The resins give the paint the adhesion, gloss, hardness and durability.

**Solvent:** The solvents dissolve resin, mixes pigment and resin to form liquid paste. The liquidity is essential for spreading the paint on surface.

**Additive:** The additives are mainly for protective purposes e.g. anti-fungal additives.

**Thinner:** The thinner improves and assists in paint application.

In all, there are 300 odd raw materials. The raw materials cost constitutes about 70% of the total cost of production. Out of these, nearly half are imported petroleum products. The titanium dioxide, phthalic anhydride and pentaerythritol are major raw materials and contribute about 50 per cent of the total raw material cost. Then, there are other raw materials such as castor, linseed and soybean oils, turpentine. Any fluctuation in the prices of these raw materials affects paint prices.

## **ANALYSIS OF INFLUENCE FINANCIAL RATIO AND FIRM SIZE TOWARDS DIVIDEND PAYOUT RATIO AT MANUFACTURING COMPANIES**

Eunike Yuliana<sup>1</sup>, Purwanto<sup>2</sup>

<sup>1</sup>Faculty of Business, President University, Bekasi, Indonesia

<sup>2</sup>Faculty of Economic and Business, Padjajaran University, Bandung, Indonesia

### **ABSTRACT**

*The objective of this research finds out the influence of profitability, liquidity, firm size, and leverage ratio to dividend payout ratio. Profitability is represented by return on asset, liquidity is represented by current ratio, and leverage is represented by debt to equity ratio. Through purposive sampling, this research used financial report of 12 manufacturing companies in 4 years which fulfill the criteria. This research uses quantitative research, which using descriptive analysis and some data analysis classical assumption, multiple regression analysis, and hypothesis testing. Based on the result, it is concluded that in the case, return on asset and current ratio have positive significant to dividend payout ratio. Then, the result indicates that partially firm size has negative significant to dividend payout ratio. On the other hand, debt to equity ratio has no significant influences to dividend payout ratio. Simultaneously, those 4 (four) independent variables provide 46.1% influences to dependent variable. The rest, the 53.9%, is influenced by other factors outside this research.*

**Keywords:** *Return on Asset, Current Ratio, Firm Size, Debt to Equity Ratio, Dividend Payout Ratio*

### **INTRODUCTION**

People invest their money to some sectors. There are in agriculture, mining, manufacturing, property, infrastructure, finance, trade, services, and investment. An investor is the entities or individually who do investment on company have an objective to increase their prosperity. The prosperity which is expected by the investor can be obtained by investment return in the form of dividend or capital gain. In other side, there are many reasons that companies should pay or not to pay dividends. The dividend payout is important for investors because dividends provide certainty about the company's financial well-being, dividends are attractive for investors looking to secure current income, and dividends help maintain market price of the share (Gill, 2010). Company needs a proficient finance manager that can handle financial also make a strategy to earn profits.

The profits distributed into two, namely retained earnings and dividend. Retained earnings are very useful as a source of funds for the growth and continuity of the company. The profits earned by the company partly distributed to the shareholders. Those profits are called dividend. Higher dividend payout ratio means lower retained earnings (Qurrota, 2012). The percentage of profits that distributed to the shareholders as cash dividend called dividend payout ratio. Dividend policy is a decision whether the profits from the company will be distributed to shareholders as dividends or be detained in the form of retained earnings to finance future investment. If the company chooses to distribute profits as dividends it will reduce retained earnings and reduce the total internal resources or internal financing (Sartono, 2012). Vice versa, the low of dividend payout ratio will gives disadvantages for shareholders, but the internal financial of company will be stronger.

Some studies and cases found although they in the good conditions or profitable is not become their guarantee to share profits to the shareholders. There are some factors the company did not share the profits or dividend to their shareholders. The profitability was decreasing, their sales are decreasing, some debts, or some reasons for their development and continuance their company. Then, a company may not prefer to pay all its earnings as dividend as it would enable for investments, technically, and others. When decide dividend payout ratio, the firm must be consider to the long term financing, short term investments, and shareholders. Finance manager should act prudently to make decisions to appropriate the profit between dividend and earnings (Kumar & Vidya, 2014).

The reasons above manager who has authority to decide the dividend payout ratio. Based on that analysis, the researcher decides to make a research to find out the relationship between financial ratio and the dividend policy. Dividend payout decisions have effect on the firm's valuation. Moreover, cash dividend has a special position among the shareholders. However, the main problem is the reasons for adopting a policy of divided payout (Mehrani et al., 2011). Importance of dividend subject is reviewable in two dimensions, first in view of micro is to maximize shareholders' wealth and the second in view of macro is for economic effectiveness and optimization allocation of recourses in a country (Asif et al., 2011).

Not all companies that listed on the Indonesia Stock Exchange (IDX) share dividends to their shareholders. This was caused by the company's considerations in making decisions and dividend payments in each company. The manufacturing sector is the most number that listed in the IDX compared to other sectors. Manufacturing sector divided to three sub sectors. There are Basic Industry and Chemicals, Miscellaneous Industry, and Consumer Goods. The researcher choose manufacturing sector as the sample of this research. For supporting the data above, the figure below has showed that in the end of 2014 from IDX about the manufacturing companies in decline condition, there are Basic Industry in -35.85%, Miscellaneous Industry in -24.20%, and Consumer Goods in -11.76%.

The fact in manufacturing companies, profits become the most of company consideration whether they share their dividend or not to their shareholders. Then, liquidity describes the company's ability to meet short-term liabilities. Also, the level of liquidity may affect the company's dividend policy (Kasmir, 2009). Leverage has a significant also to dividend payout ratio (Asif et al, 2011). Also, there is a contradictive from the research by Arilaha (2009) and stated that leverage has no significant to dividend payout ratio. The last section in background of study, the researcher found that some of manufacturing companies has more liabilities than their profits. Also, firm size also the consideration of company in the amount of their dividend.

There are a lot of researches about dividend payout ratio. Prior studies show that profitability, size, capital structure and maturity of the firm, as well as other firm-level factors, are related to dividend payouts (Narman, 2015). Then, the researcher decides the sample of the research is manufacturing companies, they already exist in the market and whether they are sharing or not their dividend. Also, the researcher wants to found the influences of financial ratio to the dividend payout ratio. So, this research wants to see the influences of the financial performance and leverage related with the company's dividend payout ratio. This research tries to do some empirical study to analyze influence of financial ratio to dividend payout ratio. The researcher is using dividend payout ratio as dependent variable and ROA (return on asset), CR (current ratio), FS (firm size), and DER (debt to equity ratio) as independent variables. Then, the researcher wants to analyze the determinant of dividend payout ratio.

## LITERATURE REVIEW AND HYPOTHESES

### *Dividend*

Globalization of economics has opened up competitiveness in most fields of business activities, be it satisfying their customers with quality product at competitive prices or adding value to the shareholders wealth. Competitive among businesses are in terms of investments, technology adoption, new product development, financial inclusion, internationalization, mergers and acquisitions, and so on (Kumar and Vidya, 2014). Financial managers are actively engaged to take business and financial decision which results in long term value to their shareholders. Managers pursue this goal through their investment, financing, and dividend decisions.

- a. Investment decision involves commitment of funds for long term projects.
- b. Financing decision is concerned with selection of an appropriate capital structure that aims to minimize the cost of capital firm.

A financial decision which also includes dividend policy decision has assumed great importance in corporate finance that many studies have led to new theories and models to create value (Chowdury, 2005). Dividend is revenue that would be share to shareholders (Tampubolon, 2005). The dividend is one of motive that investors invest their money in capital market. Dividends are important for investors as dividends are considered to be a signal of company's financial wellbeing. Dividends also help in maintaining the market price of the corporation's share (Abdul and Haruto, 2012).

Dividend policy is a decision by financial manager whether the firm should distribute all profit or retain them or to distribute a portion and retain the balances. A study by Dhanani (2005) revealed that dividend policy is important in maximizing shareholder value. Dividend policy can be viewed as a result of the investment and financing decisions since the company needs to decide how to distribute wealth generated from these strategies. Dividend policy is the policy used by a company to decide how much it will pay out to shareholders in dividends (Simon Lee, 2009). Thus the dividend decisions in the form of dividend policy forms an important aspect of corporate financial management (Pandey, 2005).

Dividend policy by firm depends on various factors such as the age of the firm, stability of earnings, trade cycle, liquidity position, management philosophy and others. The pattern and payment of dividend reflects on the company's financial position and it is a valuable source of information for managers, and lenders. High payout ratio can attract investors and increase the demand for its share, but shareholders consider the dividend payout ratio as a crucial factor in determining the financial health of a company, in terms of its ability increase earnings and stock price in future (Kumar and Vidya, 2014).

### *Profitability*

Profitability defines the ability of company to get a profit (Alshabibi and Ramesh, 2011). Profitability indicators are the parameters used to access the financial viability in respect to gains made by profit oriented firms (Eric, 2015). Return on assets is the key indicators for assessing the profitability of a company (Ross, 2008). Return on total assets is ratio that measures the overall efficiency of the firm in managing its total investment in assets and in generating return to shareholders. Return on assets is net income over total assets (Van, 2008). It is used to control for profitability.

Mohamed, et al. (2008) explained that profitability is an important determinant of dividend payout and concluded that firms that are more profitable have higher chances of

announcing dividends. Firms with larger profits tend to pay more dividend, ones facing uncertainty about (expected) future profits adopt lower dividend payments (Kartal, 2015). Profitability has long been regarded as the primary indicator of a firm's capacity to pay dividends (Anil and Kapoor, 2008). Changes in dividend payout are likely to be influenced by fluctuations in the levels of the achieved annual profit. A corporation is therefore likely to increase its dividend payout alongside with rising profits. Therefore, profit is viewed as a major factor in formulating corporate dividend policy (Marwan, 2015). The relationship between dividend payout ratio and return on assets is predicted to be positive since firms with higher earnings tend to pay higher dividends than firms with relatively smaller earnings (Yordying, 2014). Profitable firms with more stable net earnings would pay higher dividends.

### ***Liquidity***

Liquidity is the ability for a company to pay its current liability in a timely manner (Fahmi, 2012). According to Griffin (2010), liquidity affects the attractiveness of the stock to investors. In this literature, stocks with higher liquidity levels trade at a premium and have lower expected returns relative to stocks with lower liquidity levels. Firms, however, can pay cash dividends, reduce investor dependence on the liquidity of the market, and therefore raise their valuations. An option more valuable for firms with higher discount rates due to lower liquidity levels (Ibrahim, 2014).

If the company able to make payments means that the company is liquid. Liquidity of the company is the first consideration on dividend decision because an outflow of cash. The larger liquidity of the company means the greater the company's ability to pay dividend. The liquidity or cash flows position is another important influence of dividend payouts. The firms with more liquidity are more likely to pay dividends as compared to the firms with a poor liquidity position. Dividend payments depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less generous dividends due to shortage of cash (Kanwal, 2008; Ahmed, 2009). Companies that smoothly settle maturing liabilities assure investors that the company would be able to pay dividends. The purpose of dividend distribution is expected as a company's performance is good and is able to face the economic shock and provide the results to investors.

### ***Firm Size***

Size has been viewed as a determinant of a firm's capital structure (Abor, 2005). Firm size has been taken as the natural logarithm of the total asset of selected non-financial firms. The use of natural logarithm enables us to get the real total asset of the firms due to its capabilities to normalized values (Eric, 2015). The settle company definitely has an access to enter the capital market easier, because it would influence the flexibility of company for get big funds then the company has higher dividend payout ratio.

Firm size is measured by the natural logarithm of total assets. The big size companies pay higher dividends and smaller size companies pay fewer dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends (Anupam, 2012). Since larger firms tend to be more mature and have higher free cash flow than smaller firms, it is expected that the relationship between DPR and firm size is positive (Yordying, 2014).

### **Leverage**

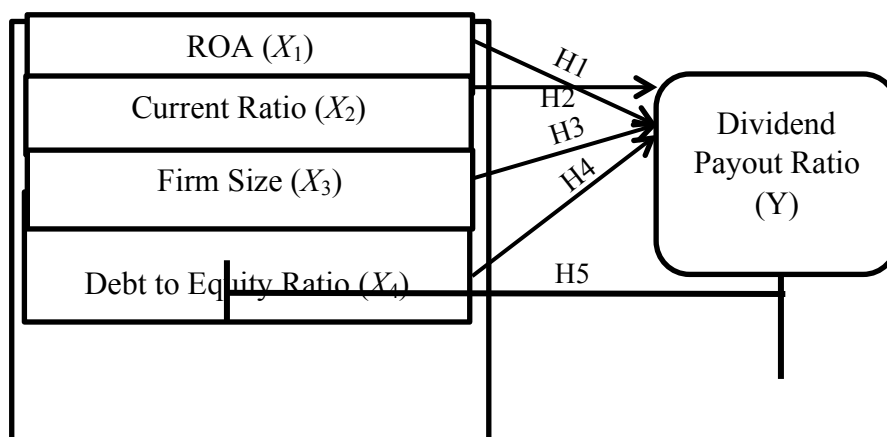
Leverage is crucial factor that influence dividend policy in the company. If the leverage ratio of company is high means that company more risk in their cash flow. To analyze the extent to which debt can affect dividend payouts, the ratio of deposits (both short-term and long term deposits) to total assets is used as a proxy for leverage (Christopher, 2014). The company that have high ratio of leverage would give low rate to pay dividend to increase their external capital (John and Muthusamy, 2010).

The higher leverage of the firm the lower is the dividend payout. This couldbe because of the debt covenants (Anupam, 2012). Prihantoro (2003) states that the debt equity ratio reflects the company's ability to fulfill all its liabilities, which is shown by how much a part of their equity is used to pay the debt. Therefore, the lower the debt to equity ratio means higher the company's ability to pay its liabilities. If the high debt burden, the company's ability to distribute dividends will be lower, Since firms with more debt should be more cash constrained and have lower ability to pay dividends, the relationship between dividend payout ratio and leverage is predicted to be negative (Yordying, 2014).

### **Theoretical Framework**

This research is mainly to find out that influence of financial ratio and firm size to dividend payout ratio. According to Christopher (2014), profitable ( $X_1$ ) firms are willing to pay higher amounts of dividends to convey their good financial performance (Aivazian et al., 2003). Large companies ( $X_3$ ) tend to be more competitive, with access to capital, better credit rating, and more customers, which will enhance their profitability and increase their ability to pay higher dividends (Dickens et al., 2002). Liquidity ( $X_2$ ) is an essential factor that affects the dividend policy. Firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Ho, 2003). To analyze the extent to which debt can affect dividend payouts, the ratio of deposits (both short-term and long term deposits) to equity is used as a proxy for leverage ( $X_4$ ). Firms with high debt ratios are willing to pay fewer dividends (Al-Malkawi, 2005).

The theoretical framework applied in **figure 1**:



**Figure 1. Theoretical Framework**

### ***Hypotheses***

“An hypotheses (H) can be defined as a testable prediction about what you expect to happen in your study” (Ajith & Shalini, 2001). Given the theoretical background as discussed above, this study attempts to hypothesize (H) the following:

Hypotheses 1: There is significance influence of return on assets to dividend payout ratio.

Hypotheses 2: There is significance influence of current ratio to dividend payout ratio.

Hypotheses 3: There is significance influence of firm size to dividend payout ratio.

Hypotheses 4: There is significance influence of debt to equity ratio to dividend payout ratio.

Hypotheses 5: There is simultaneous significance influence of return on assets, current ratio, firm size, and debt to equity ratio to dividend payout ratio.

## **RESEARCH DESIGN**

### ***Research Method***

In this study, the researcher is using quantitative method the researcher can analyze the influences financial ratio and firm size to dividend payout ratio in manufacturing companies period 2011 – 2014. The reason why the researcher chooses this method is because this study will calculate the collection of numerical data in order to explain. The process of measurement in quantitative research can help the researcher to observe the influences financial ratio and firm size to dividend payout ratio. Then, the researcher will describe the result with numbers.

### ***Population and Sample***

Population is the whole of object to be researched. Individuals of the population could be alive object as well as inanimate object, in which its properties can be measured or observed. Researcher chooses the manufacturing companies as the population of this study. The researcher decides to choose the company members which have been go public and listed in IDX.

In this research the researcher will use purposive sampling in which the researcher exerts some effort in selecting a sample that seems to be most appropriate for the research. The sampling is chosen based on knowledge of a population and purpose of the research. The researcher got the companies based on criteria and purposes of the research. These are following criteria which made by researcher:

- a. Companies which have been go public and listed in IDX
- b. Companies which publish their financial report continuity during 2011 – 2014
- c. Companies which have given the dividend payout ratio continuity during 2011 – 2014.

Based on those criteria, there are 12 out of 144 companies in manufacturing companies which have selected. They are:

**Table 1. List of Companies**

No	Company Name	Product
1.	PT. Indocement Tunggul Prakarsa, Tbk.	Cement
2.	PT. Semen Indonesia, Tbk.	Cement
3.	PT. Astra International, Tbk.	Automotive & Components
4.	PT. Astra Otoparts, Tbk.	Automotive & Components
5.	PT. SelamatSempurna, Tbk.	Automotive & Components
6.	PT. Indospring, Tbk.	Automotive &

7.	PT. Delta Djakarta, Tbk.	Beverages
8.	PT. Indofood CBP SuksesMakmur, Tbk.	Food & Beverages
9.	PT. Indofood SuksesMakmur, Tbk.	Food & Beverages
10.	PT. Multi Bintang Indonesia, Tbk.	Beverages
11.	PT. GudangGaram, Tbk.	Tobacco
12.	PT. Unilever Indonesia, Tbk.	Cosmetics

The researcher will analyze their financial statement period 2011 – 2014 in annually.

### **Multiple Regressions Model**

Multiple regressions is an interpretations of partial regression coefficient for every unit (increase/decrease) in the value of  $X_i$ , predict a  $\beta_i$  change in  $Y$ , and controlling for the effect of the others (Salam, 2008). In this research, the dependent variable is dividend payout ratio, while independent variables are return on asset, current ratio, firm size, and debt to equity ratio. The relationship model of dependent variable with independent variable can be arranged in linear regression equation as follow:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

$Y$  = Dividend payout ratio

$\alpha$  = Constants

$X_1$  = Return on asset

$X_2$  = Current ratio

$X_3$  = Firm size

$X_4$  = Debt to equity ratio

$\beta_1, \dots, \beta_4$  = Regression Coefficient

$e$  = error

The regression coefficient value in this study plays a very important role as a basic of analysis. If  $\beta$  coefficient value is positive (+), it can be concluded that there is a direct effect between independent variable and the dependent variable. An increment of independent variable score will give a result in raising the value of dependent variable. Vice versa, when  $\beta$  coefficient value is negative (-), it shows the negative effect where the increment of independent variable will result to decrease the dependent variable value.

## **RESULT AND DISCUSSION**

### **Descriptive Statistics**

#### **Descriptive Statistic**

**Table 2. Descriptive Statistic**

	DPR	ROA	CR	FS	DER
<b>Mean</b>	0.581943	0.198316	2.405931	6.994114	0.785104
<b>Maximum</b>	1.214128	0.715164	6.985000	10.06912	3.030000
<b>Minimum</b>	0.210000	0.044022	0.510000	4.243004	0.150000
<b>Std. Dev.</b>	0.242422	0.145712	1.610795	1.600206	0.647121



<b>Observations</b>	48	48	48	48	48
---------------------	----	----	----	----	----

Source : Output of Analysis from EViews 9

Based on the descriptive statistic table, the information of dependent and independents are described as follows:

1. Return on assets : minimum percentage of return on asset ratio was 0.04 or 4% that was happened from PT. Indofood SuksesMakmur, Tbk. in 2013 means that PT. Indofood SuksesMakmur just gain the net profit 4% from its total assets. On the other hand, the maximum amount of return on asset was caught up by PT. Unilever Indonesia, Tbk. with 0.715 or 71.5% in 2013 means that PT. Unilever Indonesia is able to gain the net profit 71.5% from its total assets. The mean of this ratio was 0.198 or 19.8% means that the average of samples is able to gain the net profit of 19.8% from their total assets. The standard deviation was 0.146 or 14.6%. It indicates, that most data of return on asset around 0.052 to 0.344 (0.198 - 0.146 to 0.198 + 0.146).
2. Current ratio : minimum percentage of current ratio was 0.51 or 51% that was happened from PT. Multi Bintang Indonesia, Tbk. in 2014 means that PT. Multi Bintang Indonesia is able to pay their short term liabilities just 51%. On the other hand, the maximum amount of current ratio was caught up by PT. Indocement Tunggak Prakasa, Tbk. with 6.98 or 698% in 2011 means PT. Indocement Tunggak Prakarsa is very liquid because they are able to pay their short term liabilities 698%. The mean of this ratio was 2.405 or 240.5% means that the average of sample is able to pay the short term liabilities 240.5% from their assets. The standard deviation was 1.619 or 161.9%. It indicates, that most data of current ratio around 0.786 to 4.024 (2.405 - 1.619 to 2.405 + 1.619).
3. Firm size : minimum percentage of firm size was 4.24 that was happened from PT. Delta Djakarta, Tbk. in 2011. On the other hand, the maximum amount of firm size was caught up by PT. Astra International, Tbk. with 10.06 in 2014. The mean of this ratio was 6.99 means that the average of samples' firm size is 6.99. The standard deviation was 1.69. It indicates, that most data of firm size around 5.3 to 8.68 (6.99 - 1.69 to 6.99+1.69). Expectations with the larger firm size, the more many investors who invest in the company. This will encourage companies to always work effectively and efficiently so as to sharing the dividend stable.
4. Debt to equity ratio : minimum percentage of debt to equity ratio was 0.15 or 15% that was happened from PT. Indocement Tunggak Prakarsa, Tbk. in 2011 means that PT. Indocement Tunggak Prakarsa just have debts 15% from its equity. On the other hand, the maximum amount of debt to equity ratio was caught up by PT. Multi Bintang Indonesia, Tbk. with 3.03 or 303% in 2014 means that they have debts 303% from its equity. The mean of this ratio was 0.785 or 78.5% means that the average of sample has a debt of 0,785 times bigger than the equity. The standard deviation was 0.647 or 64.7%. It indicates, that most data of debt to equity ratio around 0.138 to 1.432 (0.785 - 0.647 to 0.785 + 0.647).
5. Dividend payout ratio : minimum amount if dividend payout ratio was given by PT. Indospring, Tbk in 2011 with the amount 0.21 or 21%. The maximum amount of dividend payout ratio was given by PT. Delta Djakarta, Tbk. in 2011 with the amount 1,21 or 121%. The mean of this ratio was 0.58 or 58% this means that the average of samples' dividend policy is 58 % of earnings per share. The standard deviation was 0.24 or 24%. It indicates, that most data of dividend payout ratio around 0.34 to 0.82 (0.58 -

**Multiple Regression Analysis****Table 3. Multiple Regression (for t-test)**

<b>C</b>	0.519484	0.116115	4.473871	0.0001
<b>ROA</b>	0.802059	0.132593	6.049024	0.0000
<b>CR</b>	0.034329	0.010884	3.154213	0.0029
<b>FS</b>	-0.034160	0.016514	-2.068528	0.0446
<b>DER</b>	0.0765075	0.054135	1.405283	0.1671

Source : Eviews9 (proceed data)

Based on table above the multiple regressions can be arranged as follow:

$$\text{DPR} = 0.519483675188 + 0.802059068769 \cdot \text{ROA} + 0.0343290434255 \cdot \text{CR} \\ - 0.0341604210205 \cdot \text{FS} + 0.0760752060751 \cdot \text{DER}$$

**Interpretation of Results****a. The Influence of Return on Assets to Dividend Payout Ratio**

The return on assets has positive significant influences to dividend payout ratio. In value of coefficient regression is 0.802059 with the significant value is 0.0000 lower than 0.05. It means that the increment of 1 percent return on asset with the assumption other variable are constant will increase the dividend payout ratio 0.802059 or 80.2%. It could be concluded  $H_{01}$  was rejected and  $H_{a1}$  was accepted.

Mohamed, et al. (2008) explained that profitability is an important determinant of dividend payout and concluded that firms that are more profitable have higher chances of announcing dividends. Firms with larger profits tend to pay more dividend, in the other hand facing uncertainty about (expected) future profits adopt lower dividend payments (Kartal, 2015). Profitability has long been regarded as the primary indicator of a firm's capacity to pay dividends (Anil and Kapoor, 2008). This result shows that return on asset of manufacturing companies period 2011 – 2014 has positive significant to dividend payout ratio. This result of research meets the research done by Gill, Biger, & Tibrewala in their research paper found a positive relationship between profitability and dividend payout (Gill, 2010). Then, this result meets the research done by Sandri (2012) and Liza (2013). Conversely, researches done by Yoga (2013), Marta (2012), Ochtara (2013), Ikhsan (2014), and Tita (2009) that found that ROA has no significant to dividend payout ratio.

**b. The Influence of Current Ratio to Dividend Payout Ratio**

The current ratio has positive significant influences to dividend payout ratio. In value of coefficient regression is 0.034329 with the significant value is 0.0029 lower than 0.05. It means that the increment of 1 percent current ratio with the assumption other variable are constant will increase the dividend payout ratio 0.034329 or 3.4%. It could be concluded  $H_{02}$  was rejected and  $H_{a2}$  was accepted.

Current ratio is calculating the total current assets divided by current liabilities. This ratio indicates the company's ability to pay its current liabilities using its current assets. The higher the level of liquidity of a company, the level of dividends received by investors are also getting bigger (Nor, 2012). The firms with more liquidity are more likely to pay dividends as compared to the firms with a poor liquidity position. A poor liquidity position

Companies that have good liquidity, the ability to pay dividends is also good. This result shows that current ratio of manufacturing companies period 2011 – 2014 has positive significant to dividend payout ratio. This research found that current ratio has positive significant to dividend payout ratio. Then, this result meets the research done by Agus (2013) that current ratio has positive significant to dividend payout ratio on manufacturing companies listed in the IDX. Also, this result has contradiction with the research done by Rizka (2013) and Tita(2009) that found current ratio has no significant to dividend payout ratio.

#### **c. The Influence of Firm Size to Dividend Payout Ratio**

The firm size has negative significant influences to dividend payout ratio. In value of coefficient regression of firm size is  $-0.034160$  with the significant value is  $0.0446$  lower than  $0.05$ . It means that the increment of 1 percent firm size with the assumption other variable are constant will decrease the dividend payout ratio  $0.034160$  or  $3.4\%$ . It could be concluded  $H_0_3$  was rejected and  $H_a_3$  was accepted.

The big size companies pay higher dividends and smaller size companies pay fewer dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends (Anupam, 2012). Since larger firms tend to be more mature and have higher free cash flow than smaller firms (Yordying, 2014). In this research, the researcher found that firm size of manufacturing companies period 2011 – 2014 has negative significant to dividend payout ratio in manufacturing companies that listed in IDX period 2011 – 2014. Then, this result meets the research done by Novianti (2014) that firm size has negative significant to dividend payout ratio in the manufacturing companies listed on the IDX. Also, there is a negative significant to dividend payout ratio in the research done by Anggit (2012).

#### **d. The Influence of Debt to Equity Ratio to Dividend Payout Ratio**

The debt to equity ratio with the significant value  $0.1671 > 0.05$  with the coefficient regression  $0.0765075$ . If there is an increment of 1 percent debt to total equity with the assumption other variable are constant, the dividend payout ratio will increase  $0.0765075$  or  $7.65\%$ . It defines that there is no significant influences from debt to total equity to dividend payout ratio. It is concluding that the  $H_0_4$  was accepted and  $H_a_4$  was rejected.

Van Horne and Wachowicz (2005) state that debt to equity ratio means that lenders provide finance. The company that have high ratio of leverage would give low rate to pay dividend to increase their external capital (John & Muthusamy, 2010). The higher leverage of the firm the lower is the dividend payout. This could be because of the debt covenants (Anupam, 2012). These results indicate that partially debt to equity ratio has no significant to dividend payout ratio. Companies that distribute dividends in large amounts will require additional funds to its investment. Cash requirements were encourage an increasing in the loan, which means the debt to equity ratio will increase as well. Some companies in this research have increased their debt to equity ratio and it will affect the profitability of the company. The higher of debt to equity ratio also can result in increasing of the interest to be paid by the company. This will affect the decrease in net profit obtained by the company, because the dividend is part of the company's net profit.

This research found that debt to equity ratio of manufacturing companies period 2011 – 2014 has no significant to dividend payout ratio. This result is supported the research done by Yoga (2013), Marta (2012), Ochtara (2013), Rizka (2013), and Tita (2009). Also,

that has a result debt to equity ratio have no a partial effect on the dividend payout ratio to the manufacturing companies listed in the IDX.

**e. The Impact of Return on Assets, Current Ratio, Firm Size, Debt to Equity Ratio to Dividend Payout Ratio**

Simultaneously, those 4 independent variables have significant influences to dividend payout ratio with the significant value 0.000003 lower than 0.05. There are many other researches which use financial ratio as the tool to analyze and asses the company performance. Financial ratio is one of accurate tools which can help in analyzing for future investment and knowing the financial performance of one company. Investor uses these tools as their fundamental analysis before they invest in capital market. Moreover, investor should not only consider in micro economics only, but they have to combine with macro-economic analysis. Macro-economic analysis which comes from outside company, such as gross domestic product, unemployment rate, exchange rate, income per capita, and others.

**CONCLUSION**

- a. Return on assets has positive significant influences to dividend payout ratio with the significant value 0.0000 and coefficient beta 0.802059. Return on assets in manufacturing companies that listed in IDX has positive significant to dividend payout ratio. Profitability is an important determinant of dividend payout and concluded that firms that are more profitable have higher chances of announcing dividends.
- b. Current ratio has positive significant influences to dividend payout ratio with the significant value 0.0029 and coefficient beta 0.034329. The firms with more liquidity are more likely to pay dividends as compared to the firms with a poor liquidity position. This result shows that current ratio of manufacturing companies that listed in IDX has positive significant to dividend payout ratio.
- c. Firm size has negative significant influences to dividend payout ratio with the significant value 0.0446 and coefficient beta -0.034160. The big size companies pay higher dividends and smaller size companies pay fewer dividends, In this research, firm size of manufacturing companies that listed in IDX has negative significant to dividend payout ratio in manufacturing companies.
- d. Debt to equity ratio has no significant influences to dividend payout ratio with the significant value 0.1671 and coefficient beta 0.0765075. The higher leverage of the firm the lower is the dividend payout. This could be because of the debt covenants. This research found that debt to equity ratio of manufacturing companies that listed in IDX has no significant to dividend payout ratio.
- e. Based on multiple regression analysis which uses F-test, independent variable return on asset, current ratio, firm size, and debt to equity ratio have simultaneous significant value less than 0.05. It means that those 4 independent variables have simultaneous significant influences to dependent variable. The value of Adjusted R-square 0.461 or 46.1% means dividend payout ratio as dependent variable explained 46.1% by return on asset, current ratio, firm size and debt to equity ratio as the independent variables. The rest 53.9% is influenced by other factors outside this research.

## REFERENCES

- Abdul, & Haruto. (2012). Determinants of Dividend Payout Ratio : Evidence from Karachi Stock Exchange (KSE). *Journal of Contemporary Issues in Business Research*, Volume 1, No.1, 20 - 27.
- Abor. (2005). Determinants of Dividend Payout Ratios in Ghana. *Journal of Risk Finance*, 7(2), 136 - 145.
- Ahmed. (2009). Financial Performance Analysis of the Jordanian Arab Bank by Using the DuPont System of Financial Analysis. *International Journal of Economics and Finance : Financial Performance Analysis of the Jordanian Arab Bank by Using the DuPont System of Financial Analysis*, Vol.4, No.4.
- Aivazian, V., Booth, L., & Cleary, S. (2003). Do Emerging Market Firms Follow Different Dividend Policies from US Firms? *Journal of Financial Research*, 26(3), 371–387
- Agung. (2012). Analisis Faktor-Faktor yang Mempengaruhi Dividend Payout Ratio Pada Perusahaan Manufaktur Yang Terdaftar Di BEI Tahun 2009-2010. *Diponegoro Journal Of Management*, 1 - 11.
- Anggit. (2012). Analisis Pengaruh Cash Position, Firm Size, Growth Opportunity, Ownership, dan Return On Asset Terhadap Dividend Payout Ratio. *Diponegoro Journal Of Management*, 212-211.
- Anupam. (2012). An Empirical Analysis of Determinants of Dividend Policy : Evidence from the UAE Companies. *Global Review of Accounting and Finance*, Vol.3, No.1, 18 - 31.
- Asif. (2011). Impact of Financial Leverage on Dividend Policy : Empirical Evidence from Karachi Stock Exchange Listed Companies, Afrika. *Journal Business Management*, 5(4): 1312 - 1324.
- Bradford. (2013). Cash Dividend Policy, Corporate Pyramids, and Ownership Structure : Evidence from China. *International Review of Economics and Finance*, 27, 445 - 464.
- Christopher. (2014). Determinants of the Dividend Policy: An Empirical Study on the Lebanese Listed Banks. *International Journal of Economics and Finance*, Vol 6, No 4.
- Chowdhury. (2005). Stock Markets Behavior in Bangladesh. *Journal of Business Studies, Bangladesh Open University (BOU)*.
- Chusnul. (2015). Analisis Pengaruh Cash Position, Debt To Equity Ratio, Dan Return On Assets Terhadap Dividend Payout Ratio Pada Perusahaan Manufaktur yang Terdaftar Di PT. Bursa Efek Indonesia Periode : 2010 -2013. *Jurnal Bisnis dan Ekonomi*, 30 - 46.
- Dhanani. (2005). Corporate Dividend Policy : The Views of British Financial Managers. *Journal of Business Finance & Accounting*, 37(7)&(8), 1625 - 1672.
- Dickens, R. N., Casey, M., & Newman, J. (2002). Bank dividend policy: Explanatory factors. *Journal of Business and Economics*, 41, 3–12.
- Eric. (2015). An Empirical Analysis of Leverage and Financial Performance of Listed Non Financial Firms in Ghana. *International Journal of Economics and Finance*, Vol 7, No.9.
- Gill, A., Biger, N., & Tibrewala, R. (2010). Determinants of Dividend Payout Ratios : Evidence from United States. *The Open Business Journal*, 8 - 14.
- Gordon, M. J. (1963). Optimal Investment and Financing Policy. *Journal of Finance*, 18(2), 264-272.
- Ho, H. (2003). Dividend policies in Australia and Japan. *International Advances in Economic Research*, 9(2), 91–100.
- Ibrahim. (2014, April 7-8). The Impact of Liquidity on the Dividends Policy. *Proceedings of 26th International Business Research Conference*

- Jensen. (1976). The Theory of the Firm : Managerial Behaviour, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, 3(4), pp 305 - 360.
- John. (2010). Leverage, Growth, and Profitability as Determinants of Dividend Payout Ratio : Evidence from Indian Paper Industry. *Journal of Business Management*, 26 - 30.
- Kappor, A. &. (2008). Determinants of Dividend Payout Ratios : A Study of Indian Information Technology Sector. *International Research Journal of Finance and Economics*, 15(2), 64 - 71.
- Kartal. (2015). Determinants of Target Dividend Payout Ratio : A Panel Autoregressive Distributed Lag Analysis. *International Journal of Economics and Financial Issue*, 5(2), 418 - 426.
- K, Narman. (2015). Determinants of Dividend Policy : A Panel Data Analysis for Turkish Listed Firms. *International Journal of Business and Management Volume 10*.
- Kumar, & Vidya. (2014). Financial Management Analysis of Dividend Policy Pursued by Selected Indian Manufacturing Companies. *Journal of Financial Management and Analysis*.
- Lintner, J. (1956). Distribution of Incomes of Corporationnot Among Dividends, Retained Earnings and Texas. *The American Riview*, May, 97-113
- Litzenberger, Robert H., & Krishna Ramaswamy. (1979). The Effect of Personal Taxes and Dividends on Capital Asset Prices: Theory and empirical vidence. *Journal of Financial Economics*, 7(2), 163–95.
- Liza. (2013). Analisis Pengaruh Cash Position, Debt To Equity Ratio (DER),Retrun On Asset (ROA), Cash Ratio, Asset Growth, Dan Firm Size Terhadap Dividen Payout Ratio (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di BEI Periode 2009-2012). *Jurnal Manajemen dan Bisnis* .
- Malkawi, A. (2010). Dividend Policy : A Review of Theories and Empirical Evidence. *International Bulletin of Business and Administration*, 9(2), 171 - 200.
- Maman. (2005). Data Entry dan EViews Application. *Pelatihan Penelitian FE Universitas Padjadjaran*, 17.
- Marwan. (2015). Determinants of Corporate Dividends Policy : Evidence from an Emerging Economy. *International Journal of Economics and Finance*, Vol 7, No 7.
- McCusker. (2015). Research Using Qualitative, Quantitative, or Mixed Methods and Choice Based on the Research. *Original Paper*, Vol 30(7), 537 - 542.
- Mehrani, Moradi, & Eskandar. (2011). Ownership Structure and Dividend Policy : Evidence from Iran. *Journal of Business Management*, 5(17):7516-7525.
- Mohamed. (2008). Empirical Analysis of Determinants of Dividend Payment : Profitability and Liquidity.
- Modigliani. (1963). The Cost of Capital, Corporation Finance, and The Theory of Investment. *The American Economic Review*, 53(3), pp 433 - 443.
- Myers. (1998). The Paradox of Liquidity, Quarterly. *Journal of Economics*, 113(3), pp 733.
- Najjar, A. (2009). Dividend Behavior and Smoothing New Evidence from Jordanian Panel Data. *Studies in Economics and Finance*, 26(3), 182 - 197.
- Novianti. (2014). Analisis Pengaruh Cash Position, Return On Assets, Debt To Equity Ratio, Firm Size, Dan Growthterhadapdividend Payout Ratio Pada Perusahaan Sektormanufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2009-2013. *Jurnal Bisnis*.
- Prihantoro. (2003). Estimasi Pengaruh Dividen Payout Ratio Pada Perusahaan Publik di Indonesia. *Jurnal Ekonomi dan Bisnis (Online)*, 1 (8): 7-14.
- Ross. (1977). The Determinants of Financial Structure: The Incentive Signaling Approach. *The Bell Journal of Economics*, 23 - 40.

- Salam. (2008). Interpreting Multiple Regression : A Short Overview. *Laboratory for Interdisciplinary Statistical Analysis*, 14.
- Shabibi, A. (2011). An Empirical Study on the Determinants of Dividend Policy in the UK. *Journal of Finance and Economics* .
- Shubiri, A. (2011). Determinants of Change, Dividend Behavior Policy : Evidence from the Amman Stock Exchange. *Far East Journal of Psychology and Business*, 4(2), 1 - 15.
- Tita. (2009). Faktor-Faktor yang Mempengaruhi Kebijakan Pembayaran Dividen Kas. *Jurnal Bisnis dan Akuntansi*, Vol 11, No. 1, 57 - 64.
- Yordying. (2014). Ownership Structure and Dividend Policy : Evidence from China . *International Journal of Economics and Finance*, Vol.6, No.8.
- Agus. (2013). *Faktor-Faktor Yang Mempengaruhi Dividend Payout Ratio*. Yogyakarta: Skripsi.
- Marta. (2012). *Pengaruh Cash Ratio, Debt To Equity Ratio, Dan Return On Assets Terhadap Kebijakan Dividen Payout Ratio Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2005-2009*. Medan: Skripsi.
- Octhara. (2013). *Analisis Faktor-Faktor Yang Mempengaruhi Dividend Payout Ratio Terhadap Perusahaan Manufaktur Yang Terdaftar Di BEI*. Medan: Skripsi .
- Rizka. (2013). *Pengaruh Likuiditas, Leverage, Profitabilitas Dan Ukuran Perusahaan Terhadap Kebijakan Dividen Pada Perusahaan Manufaktur Yang Terdaftar*. Jakarta: Skripsi.
- Sandri. (2012). *Analisis Profitabilitas, Likuiditas, Leverage Terhadap Dividend Payout Ratio Pada Perusahaan Manufaktur Yang Terdaftar Di Bei Periode 2007-2010*. Medan: Skripsi.
- Yoga. (2013). *Analisis Pengaruh Return On Asset, Size, Debt To Equity Ratio Dan Cash Ratio Terhadap Dividend Payout Ratio Pada Perusahaan Manufaktur Yang Tercatat Di Bursa Efek Indonesia*. Medan: Skripsi.
- Qurrota, A. (2012). *The Influence of Liquidity, Profitability, and Leverage Ratio on Dividend Payout Ratio (Empirical Study on Manufacturing Companies Listed in the Indonesia Stock Exchange on the Period of 2009 - 2011)*. Skripsi.
- Charles, & Gibson. (2011). *Financial Statement Analysis. Twelve Edition*. South Western Australia: Cengage Learning.
- Cooper. (2006). *Marketing Research*. New York: Mc Graw Hill.
- Damodar. (2003). *Basic Econometrics, 4th Edition* . New York: McGraw-Hill.
- Gall, Meredith D., Joyce P. Gall, & Walter R. Borg Educational Research: An Introduction, 8/e. Published by Allyn and Bacon, Boston, MA. © 2007 by Pearson Education.
- Houston, B. &. (2011). *DASAR-DASAR MANAJEMEN KEUANGAN BUKU 2 Edisi 11*. Jakarta: Salemba empat.
- Julie. (2013). *A Guide to Useful Ratios for Understanding Your Social Enterprise's Financial Performance*. Demonstrating Value.
- Kasmir. (2009). *Analisis Laporan Keuangan*. Jakarta: PT. Raja Grafindo Persada.
- Penyusun, T. (2011). *Modul EViews*. Yogyakarta: Unit Pengembangan Fakultas Ekonomika Universitas Diponegoro.
- Ross. (2008). *Essentials of Corporate Finance*. New York: Mc Graw-Hill / Irwin.
- Schewrt, User Guide of EViews. 2015
- Tampubolon. (2005). *Manajemen Keuangan : Konseptual, Problem & Studi Kasus*. Bogor: Ghalia Indonesia.
- Annual Report 2011 - 2014*. Retrieved October 2015, [www.idx.co.id](http://www.idx.co.id)
- Arilaha. (2009). *Leverage*. Retrieved February 17, 2016, <https://jurkubank.files.wordpress.com/2012/01/pdf-januari-2009.pdf>

- Astra International ASII Bagikan Dividen Interim Rp 25 Triliun.* (2015). Retrieved February 17, 2016, Bisnis Indonesia: <http://market.bisnis.com/read/20150921/192/474386/astra-international-asii-bagikan-dividen-interim-rp25-triliun>
- Determinants Dividend Payout Ratio.* Retrieved February 17, 2016, <http://connection.ebscohost.com/c/articles/32926485/determinants-dividend-payout-ratios-study-indian-information-technology-sector>
- Dividen Indospring Dibagikan Rp 475 per Saham.* (2013). Retrieved February 17, 2016, Bisnis Indonesia: <https://market.bisnis.com/read/20130626/dividen-indospring-dibagikan-rp-475-per-saham>
- Gudang Garam Bagikan Dividen Rp 800 per Saham.* (2013). Retrieved February 17, 2016, Tempo Indonesia : <https://bisnis.tempo.co/read/news/2013/07/01/088492645/gudang-garam-bagikan-dividen-rp-800-per-saham>
- Indocement Bagi Dividen Rp 900 Per Saham.* (2013). Retrieved February 17, 2016, Liputan 6: <http://bisnis.liputan6.com/read/2049357/indocement-bagi-dividen-rp-900-per-saham>
- Laba Turun Astra Otoparts Tetap Bagi Dividen Rp 347 Miliar.* (2015). Retrieved February 17, 2016, CNN Indonesia: <http://www.cnnindonesia.com/ekonomi/20150420163047-78-47927/laba-turun-astra-otoparts-tetap-bagi-dividen-rp-347-miliar/>
- Manufacture Process.* Retrieved February 17, 2016, <http://www.bbc.co.uk/schools/gcsebitesize/design/graphics/productionssystemrev1.shtm>
- Meko. (2013). *Autocorrelation Test.* Retrieved February 17, 2016, <http://www.ltrr.arizona.edu/~dmeko/geos585a.html>
- Omzet Naik 15 Indofood Sebar Dividen Rp 125 Triliun.* (2013). Retrieved February 17, 2016, Liputan 6: <http://bisnis.liputan6.com/read/2050680/omzet-naik-15-indofood-sebar-dividen-rp-125-triliun>
- Produsen Bir Anker Bagi Dividen Rp 192 Miliar.* (2013). Retrieved February 17, 2016, Liputan 6: <http://bisnis.liputan6.com/read/2049397/produsen-bir-anker-bagi-dividen-rp-192-miliar>
- Qualitative Versus Quantitative Research.* (2012). Retrieved February 17, 2016, <http://wilderdom.com/researchQualitativeVesusuQuantitativeresearch.html>
- Sektor Manufaktur Indonesia.* (2013). Retrieved February 17, 2016, Badan Pusat Statistik: <https://bps.go.id>
- Seluruh Laba Unilever Dijadikan Dividen.* (2014). Retrieved February 17, 2016, Kata Data: <http://katadata.co.id/berita/2014/06/04/seluruh-laba-unilever-dijadikan-dividen>
- Semen Gresik Konsisten Bagikan Dividen.* (2014). Retrieved February 17, 2016, SWA: <http://swa.co.id/ceo-interview/semen-gresik-konsisten-bagikan-dividen>
- Sektor Ekonomi Indonesia.* Retrieved February 17, 2016, Indo Progress: <http://indoprogress.com/2014/12/dua-rambu-peringatan-di-gerbang-jalan-perubahan-kenaikan-harga-bbm-dan-ekonomi-politik-industri-manufaktur-indonesia/>



**INNOVATION TO SUPPORT FAMILY BUSINESS IN CREATIVE ECONOMY ERA  
(STUDY CASE ON SMALL MEDIUM ENTERPRISES IN PALEMBANG)**

**Pandu Adi Cakranegara, Ety Susilowati, Dedi Rianto Rahadi**

**Email : pandu.cakranegara@president.ac.id, dedi1968@president.ac.id,  
ettysslwt@gmail.com**

**Faculty of Business, Management Major  
University President, Jababeka, Indonesia**

**Abstract**

Big firms in Indonesia have humble beginning. They start from a small business that is run successfully, becomes big, and then becomes conglomerates. There are many examples of these firms such as Astra, Indofood, Wings, Gudang Garam and Sampoerna. Though there are few family businesses that become big and successful, there are many other family businesses that stay on small scale. Our research object is 80 Small Medium Enterprise in Palembang from various businesses. Research method is done with descriptive qualitative analysis. Research shows that revenues of family business are in average around 100 million rupiah/month. A Family business in average operates under two years. Managements of the family businesses mostly are run under first generation. Challenges faced by this SME family business are competition, market condition and price of raw material. Our suggestion is that family business can use creativity to build innovation in the creative economy era in order to increase the sustainability of SME family business.

Keywords: Family Business, Creative Economy, Small Medium Enterprises

**1. Introduction**

**1.1.SME Sector in Palembang**

The declining of Indonesian Rupiah exchange rate with US Dollar seemingly did not affect the growth of Small Medium Enterprise (SME) in Palembang. Our data shows that SME growth increase 3,66%. Number of SME in 2013 increase from 31.344 to 32.706 in 2014.

SMES is crucial to people who live in the cities. This business could act as a shield to face social problems that arise due to increasing city population. SME mostly operate in household sector and local trades. These family businesses did not grow and became middle or big scale firms due to multiple factors. Such factors are lack of intergeneration training, lack of managerial skill and increasing competition.

## **1.2. Malay Heritage Family Business**

In area with Malay heritage, family business is started with families that are connected with blood. Every single part of business is headed by children of the same parents. Hendler and Lansberg, found that it is very rare Malay business lasted for generations. Though there are Malay businesses that are able to survive for generations such as songket producer such as Fikri Collection, Cek Ipah, Ceh and Zainal songket, these are only a small number. Zainal Songket for example is the third generation from Cek Ipah that continue to sell Songket.

## **1.3. Family Business Characteristics**

Family Business contains two main elements. They are family and business. Each of the elements has their own characteristics. Family is an institution that consists of children and parents. The families' children could also make their own family and becomes an extended family. Family nature tends to be more conservative. They want to maintain the current condition and minimize changes. In other words, family orientation is inward looking. However, there are families who have market orientation and take every chance from the change of market condition. This condition is called outward looking. Business utilizes resources to earn profit especially measure in monetary term. With two characteristics, of course, it is not easy to unite the two points of view. According to Ward and Aronoff (2002), a firm is categorized as family business if it consists at least of two or more family members that oversee firm financial decision. While Donnelley (2002), in his book *The Family Business*, an organization is categorized as family business if there is involvement at least of two generations in the family, and they could influence the decision making inside the firm. In business terminology there are two kinds of family business. The first is business that is owned by family but managed by professional outside family. The second is family business that is owned and managed by family member (Susanto, 2005).

In running their business, often there are conflict between the family and business interest. Ideally, there is balance between the two. Often what happen is that family interest is mainly chosen instead of business interest. The family members have more inward looking than outward looking. They spend more time in family issues to resolve differences in opinion. Internal conflict inside family consumes much energy and ends with no solution, even marginalizes business function. This tendency also makes family business adverse to change. There are many reasons, such as respecting family tradition and maintaining family unity. Ideally, business should be able to adapt with changing market condition.

The problem behind it is that family business has little innovation to develop its business. Innovation is hard to be done because lack of information, no commercial value added, and high development cost. This research wants to know and analyzes how innovation in family business could support creative economy. Innovation needs to be in line with market need and expectation without losing traditional value. Hopefully by actively doing innovation, it could prevent family business from stagnancy and could help family business to compete in creative economic era.

## **2. Literature Review**

Creative economic depends on human capital and intellectual capital, which is also called creative capital. Creative economy needs human capital which has creativity with various ideas that can be converted to product and service with high economy value. According (Simatupang, 2008) "Creative industries is based on talent, craftsmanship, and talent that is able to increase welfare through offering of intellectual product. The UK's definition of creative industries is an industry based on individual creativity, ability and talent with the future opportunity to create jobs and wealth through intellectual capital. There are thirteen sectors that include: advertisement, architecture, art and antique good, craft, design, fashion, movie, software, music, performance art, publication, interactive games, television and radio. We can summarize that creative economy is based on user creativity to develop product and service to become unique by using information technology and ability to compete.

### **2.1. Family Business**

According to PWC (Cooper, 2016), family business in Indonesia experienced high growth compare to global average in 2013. Meanwhile with the intensity of competition, family business needs to adapt faster by developing innovatioan and putting professionalism first in operating their business. Examples of successful family businesses are Maspion, Ciputra, Nyonya Meneer, Sido Muncul, Lippo. SME toolkit defineS family business as a firm where majority of its votes are in the hand of the founders and their descendants. PWC defines family business as a firm where the majority's votes are in the founders hand or in the people who acquire firm stock such as children, parent, or spouse and at least there is one family member involved in firm decsion making.

According to (Craig E Aronoff. Stephen McClure, John L Ward, 2002) in business terminology, family business is divided into two categories. First is family owned entreprise. This is a family business that is run by professional outside the family members. Family acts as owners and does not involve in management of the firm. This type of family firm is a

family business is family business that is fully run by family members. The characteristic of this family business is that the management are held closely by family members.

In 2014, PWC did a survey of family business in Indonesia. The result shows that more than 95% of Indonesia firms are family owned business. Surveys also shows that more than 40.000 of rich people in Indonesia or about 0,2% from total population run family owned business. Their total wealth are around 134 trillion or about 25% from Gross Domestic Product of Indonesia. In Indonesia capital market, public firms that begin with family business still maintain their grip. The family still own around 25% of share and put one of family member in the board of director. The other result shows that more than 60% of family business last from two up to three generations. In term of key position hold, family business put their family members on Chief Executive Officer (47%), Chief Financial Officer (23%) and other strategic position. Board of Director consist of 52% family member and 48% non-family member. In total around 87% of family members are owners and managers of the firm and only 13% of owners do not enter into management. Survey shows that 50% of business owners plan to pass down their business to next generation under profesional managers. The other 25% will fully pass down the business to family members and maintain family members as management.

## **2.2. Micro and Small Medium Family Business**

Micro and Small Medium Enterprises have big economy role in Indonesia economy. MSME are accounted for 99.99% of Indonesian firms or 56.54 million units. MSME have proven their importance in supporting Indonesian economy (LPPI & Bank Indonesia). There are many questions about family business that operate in MSME level. Those questions are: can MSME follow their predecessor? How to manage family business in MSME level? In general, MSME could be categorized into two types: family owned and non family owned (J Gabrielsson, M huse, 2015). MSME family business can further be categorized into MSME firms with family involvement and non family involvement and how many shares that are owned by families (Dhewanto, 2012). In general, MSME family business is a firm where ownership or management is owned and run by one or more family members (Corbetta)

In Indonesia, MSME are regulated with the law number 20 year 2008. In this law, MSME are defined as “a Micro and Small Medium Enterprise that is run and owned by a person or a group of people with certain limitation of assets and income.” By using this definition, we can find many firms in Palembang that fit into MSME especially firms that produce Songket. According to (Dinas Perindustrian, 2011), currently there are 150 Songket producers in

Palembang. Each firm employs 5 up to 10 people. These artisans are mostly housewives who live near the firms. Most of these firms are family owned and run for generations.

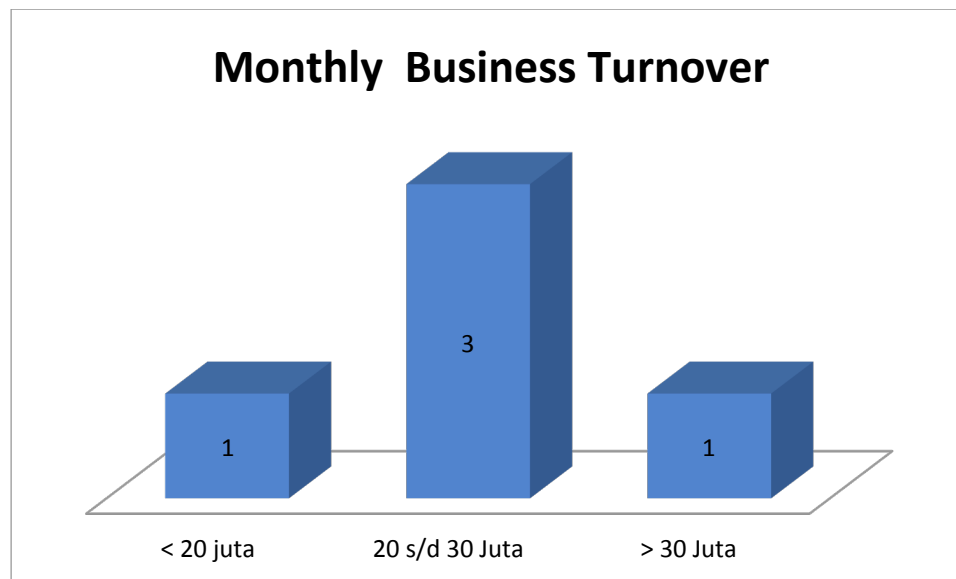
### 3. Research Methodology

Research methods are rules, activities and procedure that used by researcher of a discipline. Methodology also theoretical analysis of a procedure or method. While research is a systematic investigation to develop knowledge, and is also organized in a systematic way to investigate a problem that is need to be answered. (Wirartha, 2006) states that qualitative description is an act of analysing, describe, and summarize multiple condition, situation and data collected from interviews or observations in the field. Object of this research is 5 second generation MSME family business in Palembang. Firms in our research are already managed by second generation though first generation is still alive and doing well. Interviewees are first and second generation owners. This research result reveals and analyzes family business phenomena in Palembang.

### 4. Result and Discussion

4.1. From questionnaire given to all five family businesses we have this profile.

#### a. Monthly Income

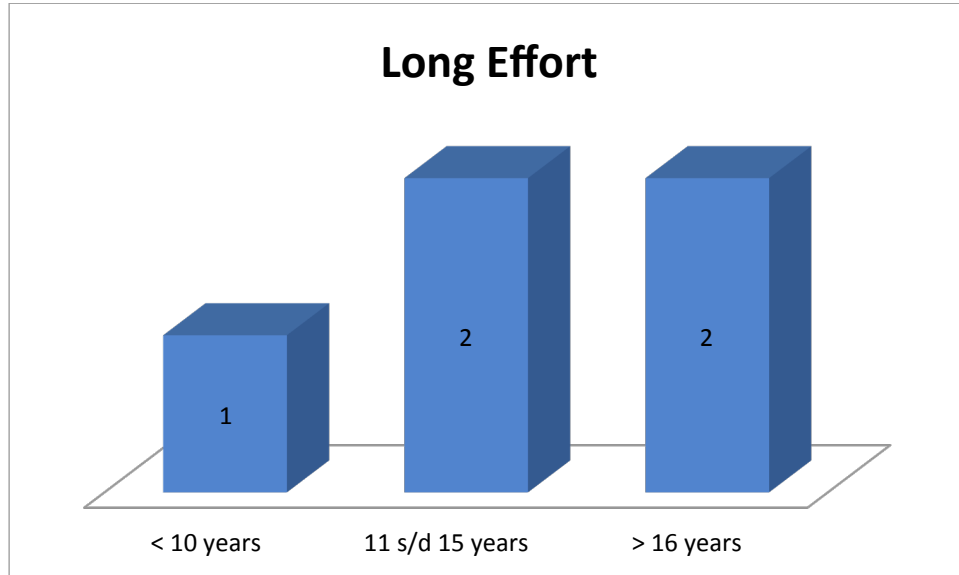


**Gambar 1. Monthly Business Turnover**

Research shows that there are 3 business owners who have monthly revenue between 20 and 30 millions (*juta*) per month. Other respondents have revenue below 20 millions and one above 30 millions. This shows that revenue from businesses that are managed by families is relatively low, and needs to increase from Micro level to Small and Medium level. Family business can use innovation especially related to creative economy which can be used in each

sector. MSME family business can develop unique desing, widening marketing channel to increase monthly revenue

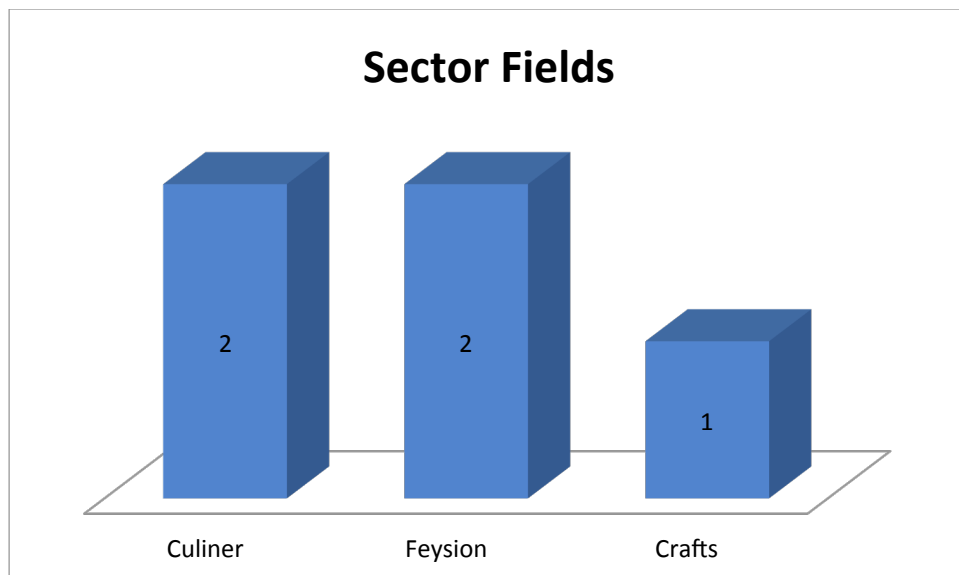
#### b. Firm Age



**Picture 2. Long Effort**

Picture number 2 shows firms age variation. There are 4 firms that have age between 11 to 15 years and one more than 16 years and only one company is less than one year. This shows that firms have been operating for quite long time and surely have passed some difficulties in doing business. For example, there are respondents who have been operating in culinary sector since 1947.

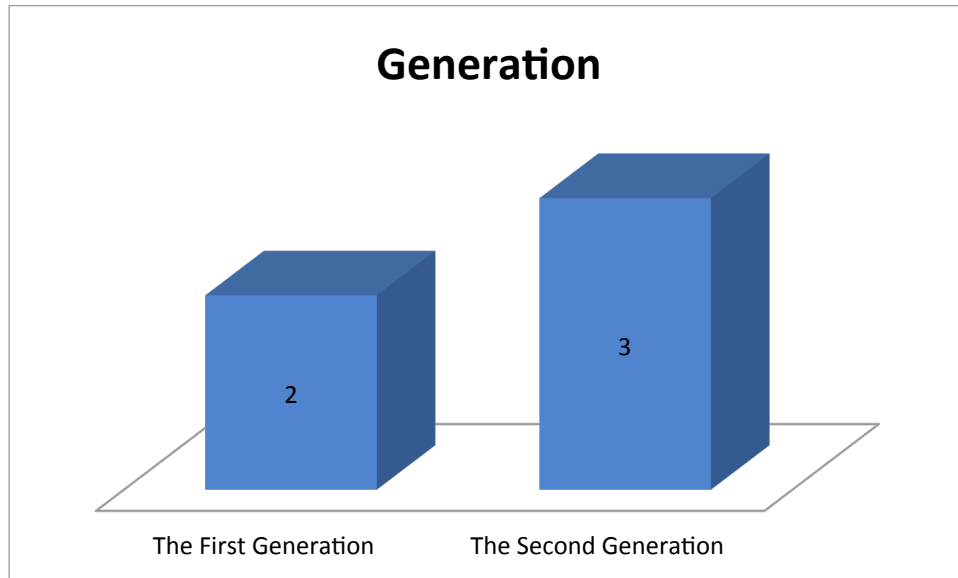
#### C. Business Sector



**Picture 3. Business Sector**

Most of MSME family businesses are culinary with traditional food that identical with Palembang such as pempek and martabak.

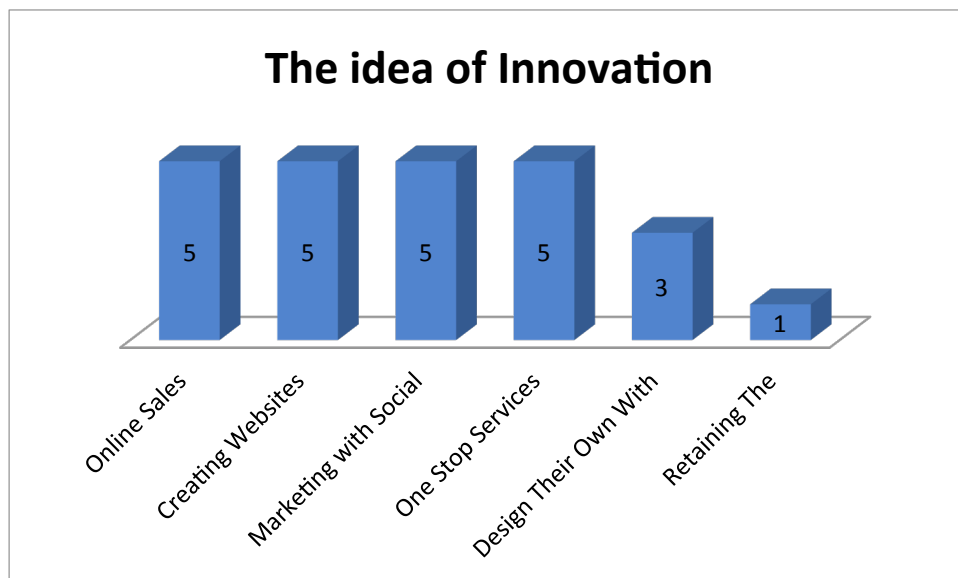
#### d. Family Business Generations



**Picture 4. Intergeneration**

Picture number 4 shows that most family businesses are run by second generations and only few are still in the founder hand. A second generation consists of children and relatives of the first generation.

#### e. Innovation Done



**Picture 5. Innovation Idea**

Picture 5 shows innovations that have been done by respondents. They are online selling, bulid websites, social media marketing, product customization. These improvements

done while maintain traditional model. These firms already harness aspect of creative economy in broadening their business.

#### **4.2. Discussion**

Family businesses especially in MSME are more vulnerable toward competition. Family business' success is enjoyed only by the first generation in relatively short time. Though it faces complex challenges, family business has to survive because it is the source of income for the family. There are basic differences between family business and non family business:

**Table 1. Differences between Family Business and Non Family Business**

<b>Family Business</b>	<b>Non Family Business</b>
Main goal is firm sustainability	Management goal is short term share price appreciation
Management is managing assets of family.	Management wants to meet investor expectations represented by Board of Director and Board of Commissioner
Management believe that by taking low risk approach it can maintain the current firm profitability.	Management believes that there is correlation between risk and return taken.
Strategy orientated to adaptation.	Strategy toward constant growth.
Management focus on basic improvement	Management focus on innovation.
Most important stakeholders are employees and customers.	Most important stakeholder is investor.
Firms considered to have social responsibility toward the neighbourhood.	Firms considered as asset that can be sold anytime when it is profitable to do so.
Leadership as service	Leadership is about personal charisma of the leader.

From survey and depth interview we find that though there are less professional managed businesses, there are some family businesses that are managed as or even more professional than non family business firms. Many factors determine the level of professionalism such as business strategy, family culture and firm management style. Observation result shows that most big firms in Indonesia are owned by families. These big firms started as sole propretiorships that continuously grow to become small and then middle

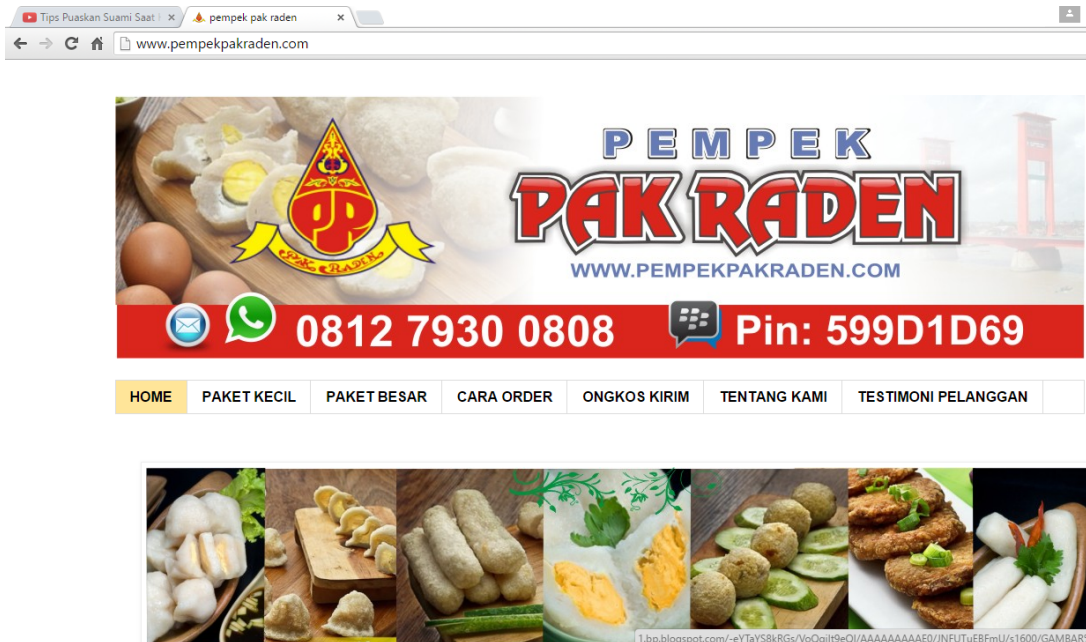


handled by family members. Every family member helps the business to make firm continue to operate. There are values such as cultural values, religion and philosophy that pass through from first generation to second generation.

Challenges start to rise when family business is growing, but cannot be handled anymore by family members. People from outside are recruited to become employees. Firms operation now becomes dependent on help of these people. People outside family members bring their culture, and it could clash with existing culture inside the family firm. In one side, family values are priority, but in the other side there are also business needs that force family to act professionally. This condition need to be settled by respected family members and also founders of the family business to safeguarding firm sustainability.

Innovation must be done by family to support sustainability of family business. Economy creative could be an option to develop family business in MSME sectors. Example of this is done by Pempek Pak Raden that is using website as a mean of promotion. They also make different taste of Pempek Palembang to meet different taste of various Indonesia people, from many places in Indonesia. Songket crafts also use information technology to develop their business to introduce the business not only nationally but also internationally.

Family business put a strong emphasis on their family brand name. It is used to differentiate with other family business and other non family business. It seems that family business are proud of their name and does not hesitate to put it into their business brand. These family identity is promoted toward other stakeholders such as suppliers, employees, future employees and of course customers. Other reason is that family identity also helps the former generation to grow family values to second generation. These values are commitment, integrity, trust, orientation toward quality, and care for customers. Picture 6 shows innovation of creative economy that is already done by family members.

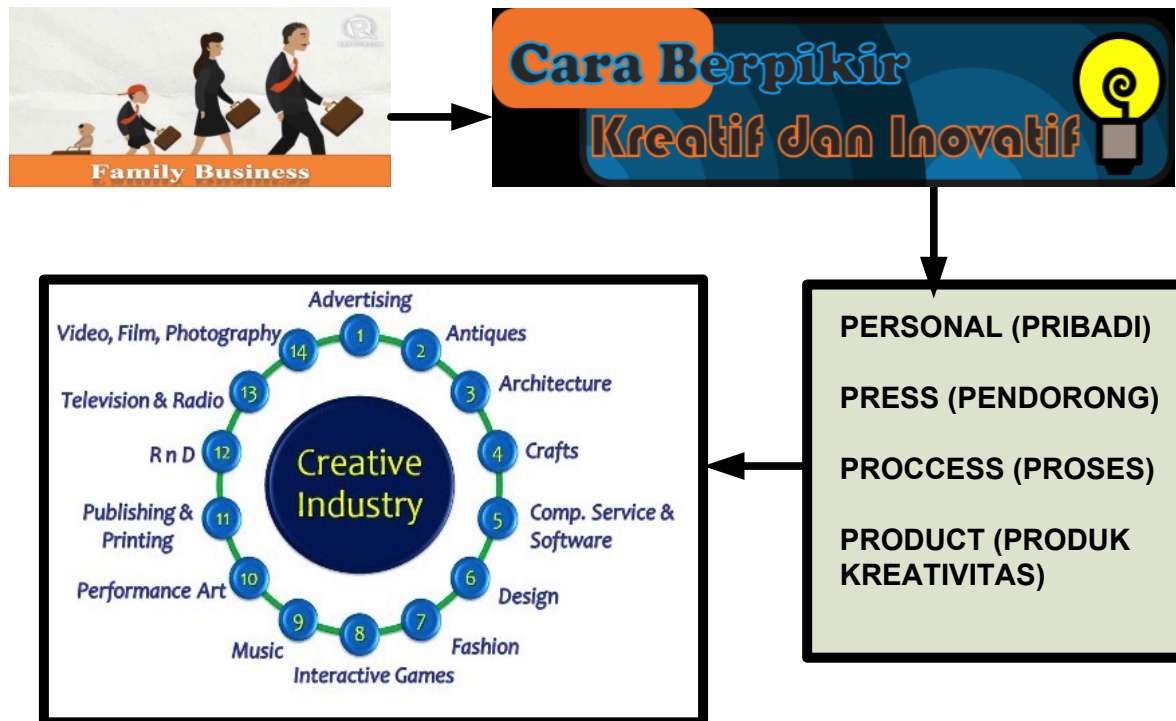


**Picture 6. The use of Creative Economy in Developing Family Business**

Picture 7 shows process that can be done in thinking creatively and innovatively. The goal of this process is to make product that can be beneficial toward customers. Of course it takes courage to make changes especially when family members feel that their business already have a well established products. However, this changes need to be made in order to keep it with the changing market especially if family firms want to serve the new generation of customers.

Every member of the family is an unique individual. Each of them has unique personalities. The uniqueness enables each of them to think creatively. The challenge takes a pressure to force a person to became creative sometimes. Every person has his or her own drivers depend on the characteristics. Some persons make jobs enviroment as their driver, other person make their friends as their dirivers. It takes process to take something and it also goes for creative economy ways of thinking. It takes time to develop innovation mindset. In some occassion it could also be stressful due to the trials and errors. Family business explores a new frontier that gives a land of opportunity and threat in other parts. Innovation should be a habit. In the end, having an innovative products is rewarding not only for the bottom line of family firms but also for customers and surrounding people.

## Innovative And Creative Thinking Process



### 5. Conclusion and Suggestion

MSME family business needs to be maintained because it is the source of income for the family and main sector that reduce poverty and unemployment rate. It is important to build understanding to family business that they build not-temporal but last-for-generations business. Creativity and innovation need to be developed to reduce internal and external challenges. Creative economy is one of the solution that can be applied with the support of local government and innovation spirit of the family to increase MSME family business competitiveness. Second generations family members who have acquired up to date skills and knowledge can develop business in creative economy era. Professionality also needs to be maintained by safeguarding the transfer knowledge from first generation to the next generations.

### References

- Cooper, P. W. (2016, 11 1). *www.pwc.com/id/en/publications*. Diambil kembali dari *www.pwc.com*: <http://www.pwc.com/id/en/publications/assets/Family-Business-Survey-2014-Country-Report-Indonesia.pdf>
- Craig E Aronoff, Stephen McClure, John L Ward. (2002). *The Family Business*. Merietta: Family Enterprise Publishers.

- Dhewanto. (2012). *Family Preneurship: Konsep bisnis Keluarga*. Bandung: Alfabeta.
- Dinas Perindustrian, P. d. (2011). *Laporan UMKM Palembang*. Palembang: Dinas Perindustrian, Perdagangan, dan Koperasi Palembang.
- Handler, W. (1994). Succession in Family Business: A Review of the Research. *Family Business Review Vol. VII*, 133-157.
- J Gabrielson, M huse. (2015). "Outside" Directors in SME Boards: A call for theoretical reflections, *Corporate Board. Role, Duties & Composition*, 28-38.
- Lansberg, I. (1986). *Program for the Sutdy of Family Firms: Survey on Succession Continuity.*". Connecticut: Yale University School of Organization and Management.
- Simatupang, T. M. (2008). *Industri Kreatif Jawa Barat*. Bandung: Sekolah Bisnis dan Manajemen ITB.
- Susanto, A. (2005). *World Class Family Business*. Jakarta: Quantum Bisnis & Manajemen.
- Wirartha, I. M. (2006). *Metodologi Penelitian Sosial Ekonomi*. Yogyakarta: CV Andi Offset.

**REACH SUSTAINABILITY THROUGH CORPORATE  
SOCIAL RESPONSIBILITY (CSR)****Yunita Ismail***President University, yunitaismail@president.ac.id*

---

**ABSTRACT**

*Utilization of natural resources and the environment to improve the welfare of the community is an unavoidable choice. The environment used should still protecting the environment. This study aims to provide an overview of the company's efforts to implement its obligation to preserve the environment using different type of Corporate Social Responsibility (CSR) program, which is community development and green marketing. The method used was survey by taking the population at two different places, the people of Jakarta and Pangkal Pinang. Sampling was done by using purposive method, in order to obtain samples that meet the criteria of the company's CSR receiver. Data analysis was done using simple and multiple linear regression. The results obtained showed that the implementation of CSR had a significant impact on the development of education, health and poverty reduction. CSR activity by the company was accepted by society activities directly in the form of counseling and mentoring. For CSR activities conducted on marketing activities by implementing Green Marketing, found that pricing and promotion of environmentally sound positive impact on consumers' willingness to buy back the product, while the product is not significantly influent.*

**Keywords:** *Corporate Social Responsibility, Sustainability, Green Marketing.*

---



**EFFORTS TO INSTILL THE SPIRIT OF  
ENTREPRENEURSHIP INTO STUDENTS  
(A STUDY ON AKBID DELIMA PERSADA EDUCATIONAL  
INSTITUTION, GRESIK)**

Eka Srirahayu Ariestiningsih  
STIKES Delima Persada Gresik, eka.ariesty@yahoo.com

**Abstract**

*Building the spirit of entrepreneurship to midwife candidates is important with the rule enactment from Midwifery Profession Organization or IBI (Ikatan Bidan Indonesia), internship certificate of graduates for 2 years is one of the requirements to create her own midwifery practice. This research was conducted in Delima Persada Gresik Midwifery Academy. The method used in this research was descriptive qualitative method. Entrepreneurship provision, such as baby spa and massage or organic additional food for baby business, are the alternative to create an independent business which can shorten the waiting time or to fasten the graduates of Delima Persada Gresik Midwifery Academy to get a job.*

Keywords: Entrepreneur, graduates, Job Vacancy.

**1. INTRODUCTION**

Central Statistic Agency (BPS, 2014) stated that the number of jobless people of Indonesia rise to 6,8 percent or 8,1 million in 2011. The highest percentage was from university graduates of 21,5 percent (9,9 % Bachelor Degree and 11,6% Diploma graduates). Every year, these jobless people become the problem which needed to be solved. Besides, there was also another problem exists, such as the high number of workers that do not work at full time (jobless and freelancer) at 34,19 percent.

The Condition above is supported by the fact that the majority of university graduates tend to look for jobs than to be a job field creator. This is caused by the education system created in many universities that still focusing on how to make the students ready to graduate fast and get a job, not graduates who are ready to make job field. Besides that, low entrepreneurial activity is also one of the reasons. Entrepreneurial activity means an active person that curious to start a new business and can be stated in total percentage of citizens who actively working. Meanwhile the higher Entrepreneurial activity index means a higher level of Entrepreneurship of a nation. Higher education institution should grow and develop the spirit of entrepreneurship and its activity of students to make them become graduates with a sense of creating job field.

From the description above, there must be efforts from the AKBID Delima Persada Gresik in planting and growing the spirit of entrepreneurship so that the graduates can develop and possess competitiveness, competitive advantage, and not needing much time to get a job. One of the efforts that can be done is by

planting the spirit of entrepreneurship to students because in a time like this, educational institutions are required to actualize the long-term vision, which is creating independent, creative, and innovative graduates

## **2. LITERATURE REVIEW**

### **a. Insight Entrepreneurship**

The Entrepreneurship term, according to Raymond (1995) and quoted from Lupiyoadi and Wacik (1998) said that entrepreneurship is a creation process of something new or an innovation to achieve prosperity or individual eligibility and obtaining plus score for the people. Prosperity and plus score for the people which is a purpose of entrepreneurship are done through the disclosure of new ideas, resource extraction, and realizing the idea to become a beneficial reality. Supangkat (2004) stated that basically Entrepreneur is making something usual and transforming it into something valuable and useful for many parties. Furthermore, Agus Suprpto (2005) summarized that someone that has the spirit of entrepreneurship if they are trying to create something valuable and useful from nothing. That condition not only became monopoly for merchants only, but to human resource as well, especially those who get involved in an organization.

From the entrepreneurship definition above, it can be concluded that in education continuous effort is important especially in education, in order to make its institution more prestigious. The concept of the entrepreneurship includes:

- Efforts to read opportunity carefully
- See something new and innovative in the education institute
- Digging up resources realistically and can be used for something useful
- Controlling risk
- Achieving prosperity
- Bringing in financial benefits

### **b. Strategy Of Entrepreneurship An Educational Institution**

Johar Permana and Dharma Kesuma (2009) stated that Entrepreneurship strategy is the main step that has to be taken by the Institution leader in order to make his/her institution an organization which has the Entrepreneurship quality. Lupiyadi and Wacik (1998) stated that the strategy of entrepreneurship includes vision development, innovation, and Entrepreneurship climate structuration.

The first step to entrepreneurship an educational institution is by formulating vision/mission. Vision/mission is a description of the institution's dream and will that can be realized in a certain period. Until now, many educational institutions have not set a strong vision, therefore they can not force or unravel the mission of entrepreneurship. Educational Institution's Vision must be formulated as clear, simple as possible. It also must contain real support to create change or innovation.

The second step is the force for innovation related to the spirit of entrepreneurship educational institution. This strategy means growing, fertilizing, and developing the original and innovative ideas.



The third step is structuring the entrepreneurial climate which is a process to create the elements and atmosphere that can support the innovation agenda, management commitment educational institution leadership and also professionalism of the teachers.

Brazeal, cited from Lupiyoadi and Wacik (1998), defined this strategy as a corporate venturing, which means main internal organization process to develop products, process and technology. These three steps must be institutionalized for the long-term prosperity. With managing the educational institution which oriented in products, process, and technology, the structuralization of the entrepreneurial climate will be formed over time. Therefore, the main purpose of developing the managerial strategy of educational institution that contains entrepreneurial baggage is educational institution's imagery.

### **c. Characteristics of the entrepreneur**

Agus Suparpto (2005: 569) wrote that the characteristics of the entrepreneur owned and animated by every person who desires to grow and progress. If they have the entrepreneurial spirit, the way to solve the problem will always be ahead of him. The characteristics of an entrepreneur are: (1) Want to reach the best performance; (2) The ability to observe the opportunities; (3) Sensitive to the environment; (4) The ability to work diligently and independently; (5) Creative and Innovative; (6) Ability to manage and drive change; (7) the ability to organize activities; (8) Responsible; (9) skills in analyzing problems; (10) Stamina and endurance are excellent; (11) The ability to socialize and communicate with people of all levels; (12) Ready to compete healthily; (13) and positive-minded and who view failure as a valuable experience; (14) able to work in a team; (15) willing to take risks; (15) Patient; (16) Honest.

As stated by David Mc Clelland in Tasmara (2006), that the results of a study of successful executives, it turns out they who are successful are those which have a high need for achievement. Someone who does not have the passion or drive for progress may not be successfully reached the peak of his career. Therefore, AKBID Delima Persada prepares and motivates students to have entrepreneurial spirit.

## **3. RESEARCH METHODS**

### **a. Research Design**

This research was field study, which used descriptive qualitative research methods. Descriptive study was to explain a phenomenon / problem that can be used as the basis for decision-making in solving business problems. Qualitative method was used to reveal the strategy of AKBID Delima Persada Gresik cultivation in pursuing entrepreneurial spirit for students deeply, so that graduates have the competence independence.

### **b. Data Collection**

Data was collected by interviewing the respondents as follows:

- AKBID Delima Persada Gresik Leadership
- Lecturer of Entrepreneurship
- Students

The data was collected by three techniques, which are:

- Interviews using a questionnaire with open and closed questions to all informants.
- In-depth interviews (Depth Interview) done to the informant was selected to be interviewed further and also to the Leadership and Entrepreneurship lecturers Akbid Delima Persada Gresik.
- Observation and Study Documentation

**c. Data Analysis**

The data were analyzed using the method of Miles and Huberman (1992: 16) that includes three (3) activities that took place continuously during the field research data reduction, data presentation and conclusions.

Checking the validity of data used triangulation method using a source and investigators as described Dezin (Moeleong, 1991: 178-179). In this study, the triangulations that used were triangulation of sources and investigators. Triangulation of the source, among others by comparing the observations with the results of interviews. While the investigator triangulation is achieved by utilizing other researchers.

#### **4. RESULT AND DISCUSSION**

##### **a. Result**

AKBID Delima Persada was located in Jalan Proklamasi number 54, Gresik with operational permission obtained from the Ministry of Education and Culture's decree and the SK from *Dirjen Dikti Depdiknas* number 092/D/0/2007 dating July 3<sup>rd</sup> 2007 regarding the operational permission of D3 Study Program of Midwifery. The midwifery study program of AKBID Delima Persada Gresik has been accredited by the decree number 20/BAN-PT/AK-VIII/Dipl/IX/2010 with the score of a C. Furthermore, in 2014, proposed the re-accreditation to the Accreditation Agency and the Government-appointed Independent passed rated Good or B, by the decree number 0071/LAM-PT Kes/Akr-Dipl/IX/2015. have the 15 (fifteen) Lecturer stick with competence in accordance with the science of Studies, 20 (twenty) people, divided into personnel, personnel Administration, laboratory and Allied Workers. Since graduating in 2010 there were 854 (eight hundred and fifty-four) alumni, and all of them have passed the Midwife Competency Test.

Based on interviews with the Director of AKBID Delima Persada, on Main Competencies to be possessed Midwives are 9 Main Competencies Indonesian Midwives issued by the Minister of Health number 369 / Menkes / SK / III / 2009 / on competency standards midwife Indonesia must-have for graduates, namely: ( 1) Possess knowledge and skills from the social sciences, public health and ethics that form the basis of high-quality care in accordance with the culture, for women,

newborn babies and their families; (2) Ability to provide high-quality care, health education that responds to cultural and comprehensive services in the community in order to raise a healthy family life, pregnancy planning and readiness to become parents; (3) Ability to provide high quality antenatal care to optimize health during pregnancy include: early detection, treatment or referral of selected complications; (4) Be able to provide high-quality care, responsiveness to local culture during labor, during labor led a clean and safe to handle certain emergency situations to optimize the health of women and newborns; (5) Be able to provide care in the postpartum and breastfeeding mothers of high quality and responsive to the local culture; (6) Being able to provide high-quality care, a comprehensive on healthy newborns up to one month; (7) Ability to provide high-quality care, a comprehensive on healthy infants and young children (ages one month to five years); (8) Ability to provide high-quality care and comprehensively on the family, society and the public in accordance with the local culture; (9) Ability to implement midwifery care to women / mothers with reproductive system disorders.

Supporting competence must be owned by Midwives are: ..... (5) Applying the science of entrepreneurship in the field of obstetrics carry Independent Midwife Practice.

Regarding with efforts to instill the entrepreneurial spirit to the students in accordance with the vision that has been set AKBID Delima Persada Gresik, and competency Supporting a must-have Bidan Indonesia, the leaders set the courses supporting the successful realization of the vision, which is passed Bisan independent one is Course kewirausahaan by 2 (two) credits which consist of Theory and Practice Course. Entrepreneurship courses taught by lecturers who are competent, senior midwife, and have Independent Practice Clinic. In addition to providing health care for mothers and infants, lecturers also have health care support business. In the learning process, guest lectures from practitioners and academics in the field of entrepreneurship are also conducted. Likewise, the Student Activity Unit Lecturer Entrepreneurship Trustees is Midwife Practitioner, Nutritionist and Entrepreneurs.

## **b. Discussion**

Most people think that the entrepreneurial spirit is only necessary for employers. As mentioned by Sutanto, that the entrepreneurial spirit needs to have people who are eager to move forward. Students are learners who after going through the process of education, graduation and will be job seekers. AKBID Delima Persada Gresik has to prepare and equip graduates with Obstetrics as Main and science competence Entrepreneurship as an Additional Competency / other.

Students who have the traits of entrepreneurs will be profitable for institutions as well as them, for such graduates are those who are able to create jobs and welfare of themselves and the surrounding communities

Based on literature review there are three strategies of entrepreneuring an educational institution, as follows :

- By formulating vision/mission

Midwifery Academy (AKBID) Delima Persada Gresik is the educational institution that has a vision: “....Able to graduate competent midwives in the field of public service, obstetrics emergency, and independent as well....”. With this vision AKBID Delima Persada Gresik believes that an entrepreneur can be created or trained, the head of the institution can be an entrepreneur, who served growth entrepreneurship in educational institution. The vision outlined that : Independent Midwives, refers to midwives who have additional competencies besides the core competencies, such as establishing Independent Midwife Practice or having another bussiness. However, since there are rules issued by Midwife Professional Organizations, the Indonesian Midwives Association (IBI), which requires a Certificate Internship for two years legalised by IBI before getting Independent Midwife Practice License. As a result AKBID provides supporting competencies for its students. So that the graduates not only focus to work on public and private hospital, but also utilize other skills that she owned while having internship program. Thus, the graduates do not need to wait for so long to get a job.

To pursue the vision above, the institution should consider to develop curriculum wich provide supporting competency in accordance with the vision and mission that has been assigned.

- The force for innovation

Every leader of an educational institution must have an innovation agenda which used for the specific and main tool in order to entrepreneuring his/her educational institution. The Innovation agenda refers to the quality tools that reflects the needs and hopes of education in Educational Institution from all parties. In formulating the innovation agenda there are two important elements, Internal and External.

The Internal elements include:

- Learning Process
- Curriculum Development
- Teaching System Development and Professional Educational Competence
- Infrastructure and Developpent
- Education Financing
- School culture development
- Management Habit

External elements include:

- Parents and People’s participation
- Environment Condition
- Structuring the entrepreneurial climate

The pressure of structuring climate of entrepreneurship comes from the effort to perfecting businesses for the implementation of innovation projects

which is businesses that is conducted by the side of educational institution in stabilizing its management system.

Instilling the entrepreneurial spirit in students is a series of processes involving many parties. Based on data taken from interviews with the leaders of the Academy of Midwifery (AKBID) Delima Persada Gresik of setting curriculum to include courses in entrepreneurship, Learning Achievement entrepreneurship courses at AKBID Delima Persada Gresik, means that after the study, subject students will have the soul of an entrepreneur that is always observing the environment, working with a variety of methods in order to identify potential opportunities. Entrepreneurship is also given extra curricular defined as the Student Activity Unit (SMEs). Supervisors of SME Entrepreneurship divide students into work groups that will practice the theory that has already obtained. They are diligent workers who always put creativity and innovation. An entrepreneur must have a strong personality, always looking for opportunities. Minded and positive attitude will make a person can go in all walks of life, because if one can communicate well, thus will make one easily work together in a team.

In an effort to achieve the goal of an entrepreneur must be patient and sincere. Attitude of patience to deal with the condition, it is often the goal is not achieved as it calls for further principle of patient is described in detail by Tim Multimedia Communication in Agus Suprpto (2006: 570) as follows: (1) In carrying out the tasks that have been determined, addressed optimally, tough, and do not despair; (2) If you're experiencing success does not become lost himself, but thankful for the success obtained; (3) when challenged, open to criticism and not get discouraged, even dared to correct themselves and strive to not make the same mistake; (4) Each competing, racing to always strive to be better with a foundation of faith and science. While the principle of sincere as illustrated by Ciputra in Pujantiyo (2006: 43) that essentially, if based on the obligation to God and for serving fellow human being, an entrepreneur will be able to be successful as long as it has a persistent, honest, professional and innovative principle.

The role of AKBID Delima Persada Gresik, is to create academic atmosphere that represents entrepreneurship in all of education aspect, including lecture process, and practical process. Therefore, the students can practice the entrepreneurship concept. Practical concept was implemented from lecture process in the case of entrepreneurship. While entrepreneurship knowledge is a concept regarding start up business and environment. Additionally, the students were also taught about responsibility and organization management as well (Suryana, 2001).

Production is the creation of goods and service, production management is an activity related to the creation of goods and services through changes in input / factor of production (input) into results (output). Activities require planning; organizing; briefing; coordination; and supervision. Management is required so that the system of production can be achieved effectively and efficiently.

The institution provides students with the skills to create additional food (MT) for baby and porridge and organic food for infants and toddlers, while for services the students acquire skills infant baby massage and spa, according to its supporting competence for graduates of AKBID Delima Persada Gresik. Therefore, students are equipped with theories about the competence of the above-mentioned supporting and supported by practicing the theory that competence is achieved. According to the Supervisor of SMEs that these three skills are interrelated, so that a third of the business can be done simultaneously, the explanation was a toddler after at the massage, will usually become hungry and need food, massage / spa baby manager can prepare porridge as the children needed.

With the provision of after completed the process of education, the graduates do not need to wait a long time to obtain a job.

From interviews with lecturers Subjects Entrepreneurship Entrepreneurship and SME Advisor Student Activity Unit (UKM) students divided into several groups, each group produces Food Supplement (MT) of breast milk and porridge / organic team for babies and toddlers as well as nuggets of vegetables. Such products are a lot of flavors, including chicken, beef, and tuna.

According to the energy and nutrient needs based on the recommended dietary allowance is as listed in the table below

**table 1: energy needs and vitamins based on the recommended nutritional adequacy.**

Num	Age	Needs	Nutritional Rate	Adequacy
1	6 – 11 Months	Energy	725 kcal	
		Protein	18 g	
		Fat	36 g	
		Carbohydrate	58 g	
2	1 – 3 Years	Energy	725 kcal	
		Protein	26 g	
		Fat	44 g	
		Carbohydrate	155 g	
3	4 – 6 Years	Energy	1600 kcal	
		Protein	35 g	
		Fat	62 g	
		Carbohydrate	220 g	

While MT breast milk formula and food for infants, according to records of nutrition is as follows:

**table 2 : mtasi formula and baby food**

Num	Age	Formula	Composition	Percentage
1	6 – 11 Months	Porridge 1	Rice Flour	30 %
			Red Bean Flour	20 %

				Green Bean Flour	20 %
				Carrot Flour	15 %
			Porridge 2	Tuna Fish Flour	15 %
				Wheat Flour	20 %
				Red Bean Flour	15 %
				Green Bean Flour	15 %
				Brown Rice Flour	15 %
				Summer Squash Flour	10 %
				Carrot Flour	10 %
			Porridge 3	Meat Flour	15 %
				Wheat Flour	20 %
				Red Bean Flour	15 %
				Green Bean Flour	15 %
				Brown Rice Flour	15 %
				Carrot Flour	10 %
				Chicken Flour	10 %
				Eggs	15 %
2	1 – 3 Years	Organic Team		Organic Rice	
				Meat/Chicken/Tuna	
				Carrot	
				Green Vegetables	

**Table 2: Baby food formula**

Num	Age	Formula	Composition	Percentage
1	6 – 9 months	ASI Additional Food	Ripe Papaya	30 %
		(Porridge 1)	Carrot	35 %
			Formulated Milk	20 %
			Water	15 %
		Porridge 2	Apple	30 %
			Banana	35 %
			Formulated Milk	20 %
			Water	15 %
1	9 – 12 months	Solid and smooth Food	Rice Flour	30 %
			Red Beans Flour	20 %
			Green Beans Flour	20 %
			Carrot Flour	15 %
			Tuna Fish Flour	15 %
		Porridge 2	Wheat Flour	20 %
			Red Beans Flour	15 %

			Green Beans Flour	15 %
			Red Rice Flour	15 %
			Spinach Flour	10 %
			Carror Flour	10 %
			Formulated Milk and Water	15 %
		Porridge 3	Wheat Flour	20 %
			Red Beans Flour	15 %
			Green Beans Flour	15 %
			Red Rice Flour	15 %
			Carrot Flour	10 %
			Chicken	15 %
			Eggs	10 %
2	12 – 24 months	Steamed Meat Rice	Rice	40 %
			Meat	20%
			Chicken Egg	10 %
			Broccoli	15 %
			Wortel	10%
			Kacang merah	5 %
		Steamed Chicken Rice	Beras	40 %
			Daging ayam	20 %
			Telur ayam	10 %
			Spinach	15 %
			Carrot	10 %
			Tofu	5 %

**Table 3: production cost and the estimated depreciation of equipment**

Num	Item's Name	Estimate of Goods	Price Unit in Rupiah	Operational Cost	
				per in	Divider Depreciation in Rupiah
Fixed Cost					
1	Wagon	5 years	1.750.000	60	29.167
2	Blender	5 years	450,000	60	7.500
3	Pan	5 years	150,000	60	2,500
4	Pot	5 years	175.000	60	2.917
5	Knife	5 years	50.000	60	833
6	Stove	5 years	390.000	60	6.500
7	Fridge	5 years	1.900.000	60	31.667
8	Tupperware	5 years	741,000	60	12.350
9	Napkin	5 years	30.000	60	500
Total					93.934



Fixed Cost Estimate	15 days	93.934	1.409.010
Variable Cost			
1 Green Bean	15 days	16.500	247.500
2 Carrot	15 days	8.000	120.000
3 Spinach	15 days	5.000	75.000
4 Papaya	15 days	7.000	105.000
5 Sweet Orange	15 days	12.000	180.000
6 Banana	15 days	16.000	240.000
7 Apple	15 days	25.000	375.000
8 Leek	15 days	5.000	75.000
9 Broccoli	15 days	7.000	105.000
10 Rice	15 days	27.500	412.500
11 Red Rice	15 days	32.500	487.500
12 Chicken Meat	15 days	25.000	375.000
13 Beef	15 days	40.000	600.000
14 Formulated Milk	15 days	130.000	1.950.000
15 Red Beans	15 days	17.500	262.500
16 Eggs	15 days	5.500	82.500
17 Cups	15 days	17.500	262.500
18 Bags	15 days	12.500	187.500
19 LPG Gas	15 days	9.000	135.000
21 Retribution	8 days	10.000	80.000
22 Water and Electricity	15 days	10.000	159.000
23 Students Salary	8 days	100.000	800.000
Total			7.307.000
Production Cost Total			8.716.510
Production Cost per day			581.100

The cost of the product from an average of 120 (Hundred and Twenty) portion, with a selling price of Rp. 6,000,00 (six thousand) per cup, so the income of the UKM is Rp.720.000,00 (Seven hundred thousand and twenty thousand Rupiah)

Documentation that the students obtained are:

Selling Price of Rp. 6.000,00 x 120 = Rp. 720.000.00

Production Cost of 120 cups = Rp. 581.100.00

Income = Rp. 138,900,00 (per day)

For 15 effective days = Rp. 2.083.500,00

Calculation of Return of Capital is Rp. 5.636.040,00 : Rp. 2.083.500 = 2,7 months

The product was marketed at Posyandu management on every Posyandu activity around campus and also on some Kindergarten school every Friday. AKBID Delima Persada is also doing cooperation with the Posyandu management and School side for the benefit of the business. Every Saturday and Sunday the

product is marketed in Car Free Day area. The income of the UKM of AKBID Delima Persada Gresik is not much, but will grow through time.

By having experience in entrepreneurship in UKM, it is expected that graduates possess additional skills beyond his competence as a midwife. From the results of tracer studies done by spreading questionnaire on graduates who totaled 854 (eight hundred and fifty-four) graduates there are some 60% have an independent business either Midwife Practice Mandiri (BPM), the manager of the spa and massage baby, and employers MTASI and Porridge / Tim Organic for toddlers.

## 5. CONCLUSION

Good practices of entrepreneurship will be a provision for graduates who wish to work independently. If each party in this case is an institution and learners carry out his role properly, then the characteristics of the entrepreneur will be able imbued by students. By having the ability to manage an organization and entrepreneurial spirit, the students upon graduation will create jobs independently. A job created is to open a Independent Midwife Practice despite having to carry out an internship at the senior midwife for two years, it is perceived rather difficult for graduates to open the Independent Practice. With the skills of baby massage, spa baby and make weaning food, so graduates can open a business in accordance with their skills. The venture will develop well, considering Gresik is a growing industrial city that baby massage, baby spa is a new business that will grow in line with the development of the town of Gresik with the needs for the community. For baby massage and spa manager gives a good service will have a place in people's hearts. Loyal customers will be happy to keep in touch with those businesses, even those willing to promote, to tell others. As Spreng statement (1995) that a satisfied customer will express his satisfaction by word of mouth. In the end, it could be concluded that the addition of entrepreneurship courses will increase the competence of graduates and providing job opportunities.

## Bibliography

- Arikunto, S. (1998). *Prosedur Penelitian : Suatu Pendekatan Praktek*. Jakarta : PT Riineka Cipta.
- Agus Suprpto. (2005), Analisis tentang Upaya Memberdayakan Karyawan dengan Menanamkan Jiwa Entreprenuer. *Makalah dalam Jurnal Manajemen, Akuntansi Dan Bisnis*. Fakultas Ekonomi Widyagama Malang , Malang : Fakultas Ekonomi Universitas Widyagama, Vol 4, Nomor 3 hlm. 568 - 572
- Badan Pusat Statistik Kabupaten Gresik, (2015).
- Brazeal. (1993). yang dikutip Lupiyoadi Rambat ; dan Wacik, Jero. (1998). *Wawasan Kewirausahaan : Cara Mudah Menjadi Menjadi Wirausaha*. Jakarta : Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia

- Dezin dalam Moeleong, (1991). *Metodologi Penelitian Kualitatif*. Bandung : Remaja Rosdakarya.
- Kao, Raymod W.Y.(1995). dalam Lupiyoadi dan wacik (1998). *An Entrepreneurial Approach to Corporate Management*, Singapore : Prentice Hall
- Miles, M.B.dan Huberman, M.B.,(1992). *Qualitative Data Analysis : A Source Of New Method*. London : Sage Publication.
- Pujantiyo, B.S,(2006), Kiat Sukses Pengusaha Inovatif Prinsip Proses, Inovasi dan Pengembangan, Technopreneur Series, Timpani Publishing Jakarta MMVI
- Rambat Lupiyoadi dan Jero Wacik, (1998). *Wawasan Kewirausahaan, Cara Mudah menjadi Wirausaha*. Jakarta : Fakultas Ekonomi Universitas Indonesia.
- Spreng, R.A., and Gilberd D Harrel, Robert D Mackoy, (1995). *Service Recovery Impact On Satisfaction and Intentions*, *The Journal Of Service Marketing*. Vol 9 No.1 Hlm 30 -57
- Supangkat, S.H. dan Purwanto,S. Yuslianto, P. Priyanto,M.(2004). *New Entrepise berbasis Inovasi dari Kampus Dalam kerangka Entrepreneurial Economic Development Strategy*, Pusat Inkubator Bisnis Institut Teknologi Bandung.
- Suryana,(2003). *Kewirausahaan. Pedoman Praktis, Kiat dan Proses Menuju Sukses*, Jakarta : Salemba Empat.
- Tasmara, T (2006), *Spiritual Centered Leadership (Kepemimpina Berbasis Spiritual)*. Jakarta Penerbit Gema Insani

**BIG CITIES IN INDONESIA: A DIGITAL SNAPSHOT****Christian Wibisono<sup>1</sup>, Arvinda Tripradopo<sup>2</sup>**<sup>1</sup>*Parahyangan Catholic University, christian.wibisono@unpar.ac.id*<sup>2</sup>*Parahyangan Catholic University, arvinda.tripradopo@unpar.ac.id***Abstract:**

*Digital era has bring paramount changes in the way we socialize, communicate, and searching for information. Companies need to cope with this new way of interaction with customers in order to succeed in communicating their values. They need a digital presence. One of the most important parameter in digital media presence is content. The combination of the right content format and content channel is key to great digital marketing strategy. This paper aims to give a snapshot on Facebook users' content format sensitivity. Facebook is the largest and most active social media in Indonesia. The paper analyze the engagement rate from Facebook users in four big cities in Indonesia: Jakarta, Surabaya, Bandung, and Medan. Three content formats are being compared: video, article, and infographic. 124,777 respondents was gathered over a nine days period through Boost Post mechanism. The results shows video is the content format with highest engagement rate over four cities. In general, female has higher engagement rate towards video than male. While male has higher engagement rate towards article than female. As for devices, the trend is shifting towards more mobile devices than desktop computer. The results shows that in general, respondents that are using smartphone and laptops has higher engagement rate than the one that uses desktop.*

**Keywords:** *Digital, Consumer Behavior, Engagement, Facebook, Content Format*

**1. Introduction**

The emergence of social media and other digital platforms has reshape the way consumer interacts with brands (Hamilton, Kaltcheva, & Rohm, 2016). The way we look for information about the brand, purchase the brand, and even the way we recommend the brand to others. It also has shifted the way we interact with friends and families. These changes comes in way that we never imagined could have happened before. We used to do shopping by searching directly for the things that we like in stores or shopping malls. Now, shopping is just one click away from our smartphones or laptops or tablets. We share things we like on social media, tweet about the news we think is important or funny or interesting, we post pictures of the new places we've been to on Instagram, and we cannot watch the whole concert without taking a single pictures or without snapchatting it to our Snapchat account.

This new digital era bring about paramount changes especially in the way information shared among us. An excellent example for this is the famous Ellen DeGeneres 2014 Oscar selfie. Her selfie viewed around 26 million times across the web. It was retweeted as much as 3 million times. It took years for printed traditional version of a newspaper to reach the same amount of exposure. It took only 12 hours for Ellen's selfie.

According to internetlivestats.com in 2016 there are approximately 3.5 billion internet users in the world. Indonesia, a country with fourth largest population in the world with over 260 million population, has 132.7 million active internet users based on Indonesian Internet Service Provider Association (Asosiasi Penyelenggara Jasa Internet Indonesia) latest survey released on November 2016. This means over 50% of the population is an active internet user- an individual who can access the internet at home via any device type and connection. From the 132.7 million people that are using the internet in Indonesia, around 70 million people is 25-44 years old. A staggering 62% or 82.2 million are employee / entrepreneur.

Acknowledging the growing importance of this phenomena, previous research focus on how brand-customer interaction on social media: how it will differ according to social media platform being used and demographics of the respondents (Hamilton, Kaltcheva, & Rohm, 2016; Cabosky, 2016; Steinbank & Gurr, 2016). There are still very few research about which content format should marketer use in order to better reach their audience.

Regardless of the business we are in, whether we are running an ice cream shop, a strategic management consulting firm, or even a university, creating the right content needs to be a top objective in our digital marketing strategy.

Creating a continuous stream of content will certainly not happen overnight, but the bigger effort we put in it, the greater the potential return will be. Slowly but sure, our content will become better, more contextual, and even more educational, making our brand's presence on the internet the go-to place for relevant knowledge within our industry.

Content is widely regarded as one of the most critical aspects of any digital strategy for two simple reasons:

4. Content is the only thing consumed by any internet users, and
5. Content acts as part of our digital footprint, something that our brand leave behind to be found by other people (most importantly our customers)

Just with any other marketing strategies in an integrated marketing approach, using the right content strategy is essential for our digital success. This strategy is usually build around the customer journey, a process where our potential customers consult several content sources.

One thing is for sure the customer journey has changed and will always keep changing. The combination of the right content format and the right content channel, is more important than even ever if we want to approach digital marketing the correct way

Right now, the customer journey has become much more ‘social’ in the sense that more and more people are using social medias than before.

For instance, the biggest social media in the world, Facebook, estimated that 88 millions Indonesians are actively using Facebook every single month. In other words, the majority of Indonesian internet users are using Facebook (Yusuf, 2016).

This paper aims to give a digital snapshot on which content format (video, article, and infographic) will be the most engaging for Indonesian Facebook users in four big cities in Indonesia: Jakarta, Bandung, Medan, and Surabaya. This research will also shows whether there will be difference in engagement rate for each content format between gender (for example: will female be more interested in reading article than male?). This research will also examine what are the devices used by the digital audiences in those four big cities and what time each cities will be most engaged with each of the content format.

## **2. Literature Review**

### The importance of digital presence of a brand

In this era of digitalization, it is very important for a brand to be presence in the digital environment. The way customers interacting with brand are evolving. With the advancement in internet, customers are gaining more power because now reviews of good or bad product or services can spread from one customers to another in an easy way and quickly. Customers are having more choices in their fingertips and therefor they are expecting more and more personalized experience (Baumol, Holebeek, & Jung, 2016).

Companies are also realizing the importance of having their brand presence in the internet. Now, almost all company goes online. The fact that every companies are going online and trying to have their digital presence online is making the digital world becoming more and more crowded. Consumers are becoming more adapt in seeking information, evaluating, and deciding what brand they prefer using online media (Hamilton, Kaltcheva, & Rohm, 2016). They are becoming more adapt to distinguish between content in digital media that they will perceive as information and noise for them. Because of this, it is not enough for company to have presence in digital world, company must engage with their consumer in the digital world (Cabosky, 2016).

Company’s presence in digital platform, such as social medias, websites, or any other digital forms should complement one another. It is not enough for company to have just one social media that will be able to reach to all of the company’s audience. This is true because consumers use multiple platform to communicate and interact with brand (Hamilton, Kaltcheva, & Rohm, 2016). It is also true to say that not all consumers are exist in all digital channels. Research also shows that approximately most consumers are only actively using two social media at the same time. This behavior explained by the theory developed by Newell & Rosenbloom (1981) called the power law of practice and the cognitive lock-in.

### The power law of practice

Newell & Rosenbloom stated that the power law of practice means when individuals practice a certain task, repetition create higher efficiency. Higher efficiency creates higher familiarity, and because higher familiarity individual tends to become lock-in to the environment (Newell & Rosenbloom, 1981).

This means when faced with choice of performing a task; for example: using a social media to interact with friends and families, the person performing the task is learning by trial and error about which social media is the most comfortable for him or her. Overtime, that person will be familiar (because of frequent usage) of one or two social media. This explains why not all people use all social media, but restrict their choice to just one or two media (Johnson, Bellman, & Lohse, 2003).

### Content Format Effectiveness

While company have to make sure they are maintaining a good presence in all digital communication channel, it requires a vast amount of resources for company to produce all of the content that fits to all kind of digital communication channel. This is true because each digital channel has its own characteristics, therefore the type of content and format of content should fit with the characteristics of the digital channel and the audience of that digital channel. For example: Facebook is a social media where content in a format of video will receive the highest kind of reach and engagement. A Content in the form of article, for example, will not give the same effect. Keegan and Rowley (2017) in their latest research on measuring social media content effectiveness mention content sourcing and transparency, reach and impressions, engagement and conversation, opinion and advocacy, influence, and impact and value as the key measurement metrics of a social media content effectiveness (Keegan & Rowley, 2017).

Cabosky (2016) also argues that the effectiveness of social media content can be measure through its reach, impressions, and engagement rate. Although this reach, impressions, and engagement rate will be highly influenced by the demographic of the audience (gender, race), social media platform being used, and audience relationship with the product (Cabosky, 2016).

With that in mind, this research is trying to answer these several questions:

*RQ 1: what is the type of content in Facebook that will give higher engagement rate in four big cities in Indonesia? RQ 2: is there any difference in content format engagement rate across gender in Facebook?*

*RQ3: Is there any difference in content format engagement rate across device in Facebook?*

### **3. Research Method**

This paper is a descriptive cross sectional research. According to Neuman (2006) descriptive research presents a picture of the specific details of a situation, social setting, or relationship. The primary purpose of this type of research is to “paint a picture” using words and numbers to

present a profile. The study will give a snapshot on profile of Facebook users especially their sensitivity towards content format in Facebook.

The population of this research is Facebook users in four big cities: Jakarta, Surabaya, Bandung, and Medan. We chose these cities because according to newest survey from Asosiasi Penyelenggara Jasa Internet Indonesia (APJII) or Indonesian Internet Service Provider Association, out of the 132.7 million internet users in Indonesia, 65% or 83 million people is located in Java. Followed by 20.7 million people in Sumatera. Jakarta, Surabaya, and Bandung are cities in Java. While Medan, is one of the big cities in Sumatera Island.

The Facebook population is not perfect by any means, especially because its users tend to be younger and better educated than the broader population. Nevertheless, Facebook offers access to large and diverse samples, which could help to address a major challenge in management researches: reliance on relatively small samples.

The target respondent of this research is Facebook users who are exposed to our Boost Post content. The target number is to have 30,000 respondents in each cities so in the end of the data gathering process, this research will have 120,000 respondents.

This research used Facebook's advertising platform as a mechanism to track Indonesia's Facebook behavior in 4 cities: Jakarta, Surabaya, Bandung, and Medan, over the course of one week. By using Facebook's Boost Post mechanism, which essentially can make a Facebook post appears in a targeted user's timeline, as long as the user falls into the targeted demographical characteristics, or in this case, the city they live in.

The Boost Post mechanism used to amplify three types of Facebook content format: an infographic, a video, and an article. One of the most important things in using Boost Post mechanism is understanding that Facebook uses a personalized content algorithm, ensuring that boosted posts are appearing only if the topic is in line with a user's interest.

To optimize the overall reach, the research used a particularly popular, and sometimes controversial, food in Indonesia: instant noodles. The topic was chosen to minimize gender and age bias, ensuring that anyone that saw the content was able to clearly understand what the content was all about. The research then tracked how Facebook users are responding to these content formats. As the results, 124,777 respondents are gathered in 9 days period: from 10<sup>th</sup> to 18<sup>th</sup> of February 2017.

#### 4. Result and Discussion

Table 1. Reach & Engagement Rate

		Video	Article	Infographic
JAKARTA	Reach	10,280	10,128	10,135
	Engagement	25.64	20.62%	14.71%



SURABAYA	Rate	%		
	Reach	10,164	10,146	11,693
BANDUNG	Engagement Rate	20.58%	17.74%	14.46%
	Reach	10,933	10,200	10,092
MEDAN	Engagement Rate	24.21%	16.38%	13.49%
	Reach	10,715	10,256	10,053
	Engagement Rate	21.36%	16.77%	12.94%
<b>Audience</b>		<b>124,777</b>		

Table 1 shows the reach and engagement rate of each content in each cities. With a total of 124,777 audience exposed to the format with different contents, we can see that in all cities video is the content format that score highest in engagement rate. While in all cities, infographic has the lowest engagement rate. This is an important finding because even until the end of 2016, companies in these big cities based on their past experiences still thought that infographics (simplified charts or diagram used to represent information or data) are the most engaging one.

Table 2. Engagement Rate Based on Gender in Jakarta

		Video			Article			Infographic		
		Reach	Engagement	Engagement Rate	Reach	Engagement	Engagement Rate	Reach	Engagement	Engagement Rate
Male	13-17	0	0		1	1	100%	0	0	
	18-24	1,079	167	15%	5,971	1,706	29%	1,537	168	11%
	25-34	876	166	19%	617	71	12%	520	78	15%
	35-44	740	154	21%	168	8	5%	62	4	6%
	45-54	515	93	18%	42	3	7%	42	10	24%
	55-64	307	93	30%	32	7	22%	48	8	17%
	65+	906	147	16%	499	86	17%	666	69	10%
Female	13-17	0	0					1	0	
	18-24	1,820	575	32%	2,193	470	21%	4,371	749	17%
	25-34	1,105	369	33%	234	9	4%	1,393	274	20%
	35-44	974	333	34%	126	4	3%	221	36	16%
	45-54	763	247	32%	32	5	16%	76	12	16%
	55-64	411	169	41%	20	0		106	13	12%
	65+	644	204	32%	184	12	7%	1,068	172	16%
Unknown	13-17	0	0					0	0	
	18-24	0	0		2	1	50%	0	0	
	25-34	4	2	50%	3	0		4	1	25%
	35-44	12	3	25%				0	0	
	45-54	8	4	50%				0	0	
	55-64	2	1	50%				0	0	
65+	6	0					5	0		
<b>TOTAL/AVG</b>		<b>10,172</b>	<b>2,727</b>	<b>31%</b>	<b>10,124</b>	<b>2,383</b>	<b>22%</b>	<b>10,120</b>	<b>1,594</b>	<b>16%</b>

Table 2 shows engagement rate of each content format based on gender in Jakarta. We can see that in average, video is the content format that has the most engagement compared to other content format with 31% of engagement. Article has the second highest engagement with 22%, and infographic received the least engagement with 16%.

Content with video format shows highest engagement rate for male and female aged 55-64 y.o in Jakarta. With 30% and 41% engagement simultaneously. But we need to look deeper and realize that the number of reach are very low in both category, 307 for male and 411 for female. The highest reach for video content goes to male aged 18-24 with 1,079 and female at the same age with 1,820 people.

For content with article format in Jakarta, the highest engagement rate for male respondent comes from 18-24 y.o age group with 29%. Engagement rate from female of 18-24 y.o age group also is the highest from any other female age group with 21% engagement rate.

For content with infographic format, the highest engagement rate for male respondent comes from 45-54 y.o age group with 24%. Meanwhile for female, the highest engagement rate for infographic format comes from 25-34 y.o age group with 20%.

Table 3. Engagement Rate Based on Gender in Bandung

	Reach	Video		Reach	Article		Reach	Infographic		Engagement Rate
		Engagement Rate	Engagement Rate		Engagement Rate	Engagement Rate				
	13-17	0	0	1	0	0	0	0		
Male	18-24	1,693	312	18%	5,059	1,125	22%	1,775	172	10%
	25-34	1,001	156	16%	815	153	19%	319	19	6%
	35-44	609	94	15%	144	17	12%	185	21	11%
	45-54	411	92	22%	74	8	11%	34	1	3%
	55-64	212	69	33%	44	6	14%	12	1	8%
	65+	739	94	13%	955	183	19%	213	9	4%
Female	13-17	0	0	0	0	0	1	0		
	18-24	2,344	767	33%	2,312	409	18%	5,778	918	16%
	25-34	1,202	416	35%	278	50	18%	850	165	19%
	35-44	894	266	30%	73	2	3%	307	51	17%
	45-54	759	291	38%	38	4	11%	102	10	10%
	55-64	475	210	44%	10	3	30%	46	4	9%
65+	527	171	32%	392	37	9%	418	58	14%	
Unknown	13-17	0	0	0	0	0	0	0		
	18-24	0	0		2	0	3	2		67%
	25-34	11	1	9%	0	0	4	1		25%
	35-44	6	3	50%	0	0	0	1		#DIV/0!
	45-54	0	0		0	0	0	0		0
	55-64	4	4	100%	0	0	0	0		0
65+	0	0		0	0	0	0		0	
TOTAL	10887	2946	33%	10,197	1,997	15%	10,047	1,433	#DIV/0!	

Table 3 shows engagement rate difference between gender in Bandung. Video is also the content format with highest engagement rate with 33%. Article comes second and infographic comes last. Also consistent with the results in Jakarta, male and female aged 55-64 are the highest engaged age group with 33% and 44% engagement rate respectively for content with video format. Just like in Jakarta though, both has the least reach among any other age group. The highest reach for video content is again in male aged 18-24 and female of the same age.

For content with article format, highest engagement rate in male respondent comes from 18-24 y.o age group with 22%. Meanwhile for female respondent, highest engagement rate for article format comes from 55-64 y.o age group.

For content with infographic format, the highest engagement rate in male respondent comes from 35-44 y.o age group with 11%. While female aged 35-44 y.o age group has the highest engagement rate with 19% for infographic format.

Table 4. Engagement Based on Gender in Medan

	Reach	Video		Reach	Article		Reach	Infographic	
		Engagement	Engagement Rate		Engagement	Engagement Rate		Engagement	Engagement Rate
13-17	0	0		2	2	100%	0	0	
18-24	1,006	142	14%	4,289	988	23%	1,760	226	13%
25-34	1,062	159	15%	645	118	18%	375	47	13%
Male 35-44	467	98	21%	110	23	21%	153	14	9%
45-54	296	57	19%	50	4	8%	96	8	8%
55-64	168	43	26%	14	0		32	1	3%
65+	415	49	12%	232	43	19%	265	32	12%
13-17	0	0		3	2	67%	0	0	
18-24	2,800	743	27%	4,367	780	18%	5,888	827	14%
25-34	2,113	632	30%	326	29	9%	817	141	17%
Female 35-44	815	233	29%	84	7	8%	251	19	8%
45-54	799	218	27%	20	1	5%	169	26	15%
55-64	371	123	33%	6	0		37	4	11%
65+	383	88	23%	102	9	9%	197	35	18%
13-17	0	0		0	0		0	0	0%
18-24	1	0		0	0		0	0	
25-34	8	2	25%	1	0		4	0	
Unknown 35-44	3	1	33%	0	0		0	0	
45-54	0	0		0	0		0	0	
55-64	0	0		0	0		0	0	
65+	2	0		1	0		1	1	100%
TOTAL									
L	10709	2588	24%	10,252	2,006	25%	10,045	1,381	17%

Table 4 shows engagement rate based on gender in Medan. Here, content with article format is the one with highest engagement rate average with 25%. Meanwhile video format comes slightly second with 24% of engagement rate. Infographic format comes last with average of 17% engagement rate.

For video format content, consistent with previous cities results, both male and female respondent in 55-64 y.o age group has the highest engagement rate with 26% and 33% respectively.

For article format content, male and female aged 18-24 y.o age group respondent has the highest engagement rate with 23% and 18%. Meanwhile for infographic format content, highest engagement rate from male respondent comes from 18-24 age group with 13%. For female respondent, highest engagement rate for infographic content comes from respondent aged 65+ with 18%.

Table 5. Engagement Based on Gender in Surabaya

		Video			Article			Infographic		
		Reach	Engagement	Engagement Rate	Reach	Engagement	Engagement Rate	Reach	Engagement	Engagement Rate
Male	13-17	0	0					0	0	
	18-24	1,447	256	18%	4276	1167	27%	2,146	205	10%
	25-34	1,620	270	17%	1320	270	20%	897	124	14%
	35-44	903	141	16%	305	47	15%	295	25	8%
	45-54	408	93	23%	72	16	22%	108	10	9%
	55-64	152	32	21%	22	5	23%	30	2	7%
	65+	533	68	13%	360	82	23%	459	33	7%
Female	13-17	1	0					0	0	
	18-24	1,722	494	29%	2755	639	23%	4,514	757	17%
	25-34	1,556	484	31%	586	68	12%	1,878	435	23%
	35-44	803	254	32%	191	14	7%	434	92	21%
	45-54	511	157	31%	34	6	18%	177	20	11%
	55-64	181	61	34%	10	0		91	8	9%
	65+	294	92	31%	209	37	18%	610	109	18%
Unknown	13-17	0	0					0	0	
	18-24	0	3	#DIV/0!				3	0	
	25-34	2	0		1	0		0	7	#DIV/0!
	35-44	2	2	100%				0	1	#DIV/0!
	45-54	3	0					0	0	
TOTAL	55-64	1	0					0	0	
	65+	0	0					0	0	
TOTAL		10139	2407	#DIV/0!	10141	2351	19%	11,642	1,828	#DIV/0!

Table 5 shows engagement based on gender in Surabaya. Video is the format our respondent in Surabaya most engaged with average engagement rate of 30%. Article comes in second place with 19% and infographic comes third with 13%.

For content with video format, male aged 45-54 y.o is the most engaged with 23% engagement rate. While female from 55-64 y.o has the highest engagement rate with 34%.

For content with article format, 18-24 y.o age group male respondent has the highest engagement rate. 1,167 engagement from 4,276 reach resulting in a 27% engagement rate. Higher from any other age group. For female, highest engagement rate also comes from 18-24 y.o age group with 23%.

For content with infographic format the highest engagement rate for male respondent comes from 15-34 y.o age group with 14%. While for female respondent, the highest engagement rate comes from 35-44 y.o age group with 23 %.

Table 6. Engagement Difference Based on Devices

	Video			Article			Infographic			
	Reach	Engagement Rate	Engagement Rate	Reach	Engagement Rate	Engagement Rate	Reach	Engagement Rate	Engagement Rate	
Jakarta	iPhone	794	267	34%	50	5	10%	241	50	21%
	Android smartphon	8,920	2,304	26%	8,366	1,991	24%	9,332	1,464	16%
	iPad	18	3	17%	10	3	30%	3	1	33%
	Android tablet	419	129	31%	213	49	23%	253	25	10%
	Desktop	103	22	21%	16	0		7	8	114%
	iPod	2	2	100%	0	0		1	0	
	Other	4	0		1,473	335	23%	290	46	16%
	TOTAL	10260	2727	38%	10128	2383	22%	10127	1594	35%
	iPhone	581	172	30%	18	1	6%	150	22	15%
	Android smartphon	9,020	2,412	27%	8,172	1,653	20%	9,187	1,326	14%
Bandung	iPad	8	1	13%	4		8	1	13%	
	Android tablet	716	230	32%	297	49	16%	249	40	16%
	Desktop	583	128	22%	11	2	18%	4		
	iPod	1	1	100%						
	Other	12	3		1,694	292	17%	493	44	9%
	TOTAL	10921	2947	37%	10196	1997	16%	10091	1433	13%
	iPhone	650	188	29%	54	1	2%	243	36	15%
	Android smartphon	8,996	2,111	23%	7,893	1,618	20%	8,945	1,236	14%
	iPad	16	4	25%	11			8	2	25%
	Android tablet	746	216	29%	321	57	18%	452	58	13%
Medan	Desktop	271	67	25%	6	1	17%	9		
	iPod	4	0							
	Other	20	3	15%	1,968	329	17%	395	49	12%
	TOTAL	10703	2589	24%	10253	2006	15%	10052	1381	16%
	iPhone	549	156	28%	34	2	6%	187	23	12%
	Android smartphon	8,481	1,986	23%	8746	2047	23%	10,756	1,685	16%
	iPad	12	0		3	0		0	0	
	Android tablet	715	172	24%	365	68	19%	395	73	18%
	Desktop	363	102	28%	4	0		2	0	
	iPod	2	1	50%	0	0		0	0	
Surabaya	Other	24	2	8%	993	234	24%	351	46	13%
	TOTAL	10146	2419	27%	10145	2351	18%	11691	1827	15%

Table 6 shows engagement difference among cities based on device usage.

As we can see, in Jakarta, iPhone users are the most engaged with content with video format with 34% engagement rate. iPhone users in Jakarta also has the highest engagement rate for content with infographic format with 21% engagement rate. Android smartphone users are the most engaged with content with article format with 24%.

In Bandung, video format are the most engaging format for respondents who are using android tablet with 34% engagement rate. Android tablet users are also has the highest engagement rate for content with infographic format with 16% engagement rate. Meanwhile for content with article format, android smartphone users are the most engaged with 20% engagement rate.

iPhone users and also Android tablet users in Medan are the most engaged towards content with video format with 29% engagement rate. iPhone users are also the most engaged one towards content with infographic format with 15% engagement rate. For content with article format, android smartphone users are the most engaged one with 20 engagement rate.

In Surabaya, again iPhone users are the most engaged for content with video format with 28% engagement rate. A unique finding in Surabaya, for content with video format is also having high engagement rate (28%) for desktop users. For content with article format, respondent in Surabaya who are using other devices has the highest engagement rate with 24%. Android tablet users has the highest engagement rate for infographic format content with 18 engagement rate.

## **5. Conclusion and Implications**

This research is descriptive in nature and hoping to give a digital snapshot on customer sensitivity towards different content format in Facebook. The research gathers data from 124 thousand Facebook users who exposed towards the same content: information about instant noodles with three different format: video, article, and infographic. We conducted the research in four big cities in Indonesia: Jakarta, Surabaya, Bandung, and Medan.

The results shows that in all cities, content about instant noodles in video format is the one with highest engagement rate, while infographic is the one with the lowest engagement rate.

Interestingly, in all cities, the highest engagement rate for content with video format comes from respondent aged between 45-64 years old. This is an interesting phenomena because usually respondent with younger age would be more sensitive with videos and engaged in content from social media such as Facebook.

Articles are popular among respondents aged 18-24 years old in all cities, except for female respondents in Bandung, articles format content are popular in respondents aged 55-64 years old. Meanwhile for infographic, who are the least popular format of all content format has no special age group in each city whose engagement rate are the highest for content with infographic format.

For engagement rate based on device used by respondents, in almost all cities engagement are the highest when users are using smartphone (android or iPhone) and tablet. This is showing that consumers are becoming more mobile and mobile oriented. They are becoming less dependent towards their desktop. This is a very important shift in behavior. This means that every company should make sure their presence also felt when consumers are browsing through their gadgets. This means for example: making sure that your website has a mobile

friendly version, it has to give seamless experience for consumers while accessing it both via desktop or smartphone.

## References

- Baumol, U., Holebeek, L., & Jung, R. (2016). Dynamics of Customer Interaction on Social Media Platforms. *Journal of Electronic Markets*, 199-202.
- Cabosky, J. (2016). Social Media Opinion Sharing: Beyond Volume. *Journal of Consumer Marketing*, 172-181.
- Hamilton, M., Kaltcheva, V. D., & Rohm, A. J. (2016). Hastags and Handshakes: consumer motives and platform use in brand-consumer interactions. *Journal of Consumer Marketing*, 135-144.
- Johnson, E. J., Bellman, S., & Lohse, G. L. (2003). Cognitive Lock-In and the Power of Law of Practice. *Journal of Marketing*, 62-75.
- Keegan, B. J., & Rowley, J. (2017). Evaluation and decision making in social media marketing. *Journal of Management Decision*, 15-31.
- Neuman, W. L. (2006). *Social Research Methods: Qualitative and Quantitative Approaches*. Boston: Pearson Education.
- Newell, A., & Rosenbloom, P. (1981). Mechanism of skill acquisition and the law of practice. *Anderson, J.R. (Ed.) Cognitive Skills and Their Acquisition*, 1-55.
- Steinbank, L., & Gurr, K. L. (2016). The Use of Social Media Platforms in a First Year Accounting Course: An Exploratory Study. *Meditari Accountancy Research*, 318-340.
- Yusuf, O. (2016, October 20). *tekno.kompas.com*. Retrieved from [tekno.kompas.com](http://tekno.kompas.com/read/2016/10/20/17062397/jumlah.pengguna.facebook.di.indonesia.terus.bertam.bah):





**DETERMINANTS OF AUDIT REPORT DELAY IN NON-FINANCIAL  
LQ 45 COMPANIES - INDONESIA****Yulia Abidin<sup>1</sup>, Setyarini Santosa<sup>2</sup>**<sup>1</sup>President University, [yul.abidin25@gmail.com](mailto:yul.abidin25@gmail.com)<sup>2</sup>President University, [setyarinis@president.ac.id](mailto:setyarinis@president.ac.id)

---

**Abstract**

*Audit Report Delay is a length of time between financial report date and audit report date which give impact to the timeliness of that financial report for decision making. Audit report delay depends on many factors. This research will analyse several variables which are Audit Firm Type, Profitability, Leverage, Audit Effort, Absolute Level of Accrual, and Client Business Size. The sample of this research is the non-financial LQ-45 companies in Indonesia for the period of 2012 – 2015. The method used is Ordinary Least Squared (OLS) Regression model. This research found that only Audit Effort variable has significant influence to Audit Report Delay, whereas Audit Firm Type, Profitability, Leverage, Absolute Level of Accrual, and Client Business Size do not have significant influence to the Audit Report Delay in non-financial LQ 45 Companies in Indonesia for the period of 2012 – 2015.*

**Keywords:** *Audit Report Delay, Audit Firm Type, Profitability, Leverage, Audit Effort, Absolute Level of Accrual, and Client Business Size*

---



## **INVESTIGATING THE FACTORS AFFECTING CONSUMERS' GREEN PURCHASE BEHAVIOR ON NATURAL COSMETICS**

**<sup>1</sup>Tran Thi Huyen, <sup>2</sup>Genoveva**

<sup>1,2</sup>School of Management, Faculty of Business, President University, Indonesia E-mail: <sup>1</sup>senlatran@gmail.com, <sup>2</sup>genoveva@president.ac.id

---

**Abstract:** *The objective of this research is to investigate the impact of Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence and Attitude on Green Purchase Behavior by using a case study of The Body Shop natural cosmetics. This is quantitative research and uses primary data through questionnaire of 180 respondents. Respondents for this research were the students of President University, Cikarang, Bekasi who have ever purchased The body shop beauty natural cosmetics. The data in this research were analyzed by Statistical Package for the Social Sciences (SPSS) and used Multiple Regression Model in answer the hypothesis. The results of this research have been shown that all independent variables which are: Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence and Attitude have partial as well as simultaneous significant influence on dependent variable Green Purchase Behavior. Besides, through the value of adjusted  $R^2$  indicated that 75.4% of Green Purchase Behavior is influenced by combination from all independent variables.*

**Keywords:** *Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, Attitude, Green Purchase Behavior.*

---

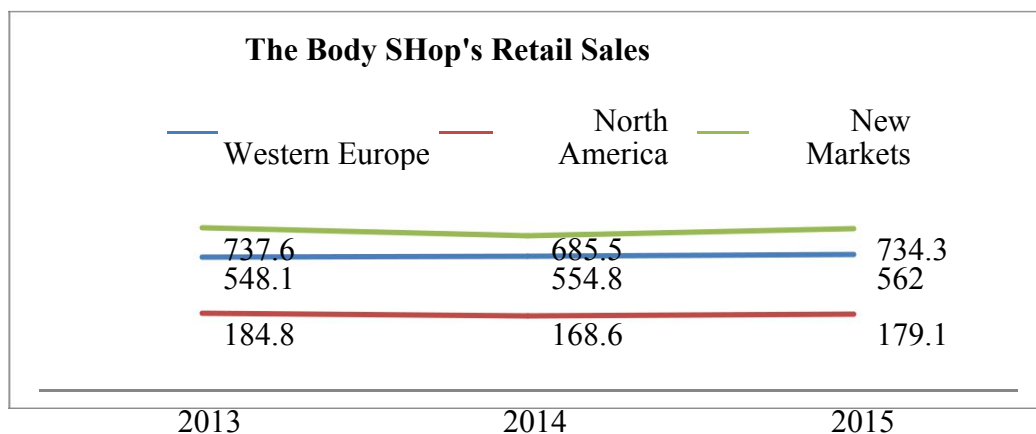
### **1. INTRODUCTION**

#### **1.1 Background**

The beauty industry has traditionally developed with safe materials, meets rigorous scrutiny standards of formulation and production process in order to become a truth brand. Numerous researches show that consumers are asking more questions about sustainability and putting ethical concern into purchasing criteria when they decide to buy (cosmeticsbusiness.com, 2017). According to a recent study published by researcher Rajput (2014), the increasing trend of using natural ingredients in cosmetic products is observed among various beauty manufacturers. This trend serves the growing demand of customer for natural or organic products because they believe use natural cosmetic can reduces the risk of any side effects rather than chemical product. Moreover, the usage of natural cosmetics has grown in recent years, nowadays consumers have become more concern about youthful appearance, safe ingredients, and as well as its effect to the environment of cosmetics. Also, with a better understanding of consumers' attitudes and behavior towards natural products, better conditions and development for the natural cosmetics market will be provided (Matic & Puh, 2015).

The Body Shop was established in 1976 by British environmental and human rights activist called Dame Anita Roddick, who began life of The Body Shop with a small outfit in Brighton that sold only 25 products (Butler & Sarah, 2016). From the very

created using the finest ingredients that sourced from the four corners of the globe, which are not tested on animals and are 100% vegetarian. Now the company has positioned their rank with more than 1,200 products and 2,800 stores in over 60 countries (loreal.com, 2017). Having strong position in beauty industry today, could not forget to mention about the contribution of customer purchasing in each product. However, the biggest questions which have to discover is what made customer purchase The Body Shop's products every days? What factors made them prefer to purchase The Body Shop rather than other brands? By gathering information from existed research, there are several reasons affecting consumer behavior have been submitted, a large portion falling into five broad categories Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, Attitude are among elements related to Green Purchase Behavior. The chart below can show the increasing in number revenue of The Body Shop that consists of all channels, including franchisees and e-commerce.



**Figure 1.1 The Body Shop's retail sales (in million USD)**  
(Source: loreal-finance.com, 2016)

From the information provided from above, the researchers have found out that The Body Shop which represents for one of natural cosmetic brand is impressive increased amount of purchasing since the years it was introduced in global beautiful industry. In addition, most researches have focused on shaping green purchasing behavior according to demographic characteristics without exploring the other factors. Furthermore, based on the results of the pre-survey among 20 students who have used several different natural cosmetics brand, the researchers found that most them decided to purchase those product not only because of brand itself, price, quality or design, but beyond they still put much their consider in environmental, health, appearance, also have been influenced by social influence, and attitude. Since there were few researches about green behavior related with those factors which were mentioned above, the searchers used specific case of The Body Shop natural cosmetics to examine how Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, Attitude can influence consumers' purchase on their Green Behavior.

## 1.2 Problem identification

Along with an increasing in global natural beauty industry, The Body Shop has started to be one of the only ethical brands in the market and it has had a rapidly development with more than 2,800 stores in 66 global markets to selling over 1,200 products. With years of experience, The Body Shop has become a leading company in the field of

L'Occitane, nevertheless, all of them are having strong and branded either. Furthermore, as show on figure 1.1 indicates that the total of sale in 2014 was declined since missed estimates amid the weakest performance of inventory management systems (Andrew, 2017). Despite those obvious competitors in global market and the cautioning about the slowdown in sales growth in 2014, The Body Shop still after then keep attract customer purchase and strengthen the position of its brand as an international Green Company that was presented by increasing sales following years. In this regard, the researchers decided to conduct a study to get a deeper understanding of the factors that can affect green purchase on natural cosmetics to determine which are the most important factors that influence the Green Purchase behavior on natural cosmetic of The Body Shop.

### **1.3 Research objectives**

This research aims to investigate whether Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, and Attitude have significant influence on Green Purchase Behavior of The Body Shop natural cosmetics. The Specific objectives of this study are listed below:

6. To find out there is any partial significant influence of Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, Attitude on Green Purchase Behavior of The Body Shop?
7. To find out there is any simultaneous significant influence of Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, and Attitude on Green Purchase Behavior of The Body Shop?

## **2. LITERATURE REVIEW**

### **2.1 Green Purchase Behavior**

According to Yoshi and Rahman (2015) Green purchasing refers to the acts of finding, buying, and using environmental friendly products, avoiding products that caused environmental pollution and the warming of the climate. Green purchasing is most often measured as green purchase intention and behavior. Green purchase behavior represents a complex form to express the culture and morality of people in society that ensure a balance between human and nature - the decisive factor for people's survival and future generations. Purchasers have understanding about the effects of their behavior on environment issue are moving towards green purchasing even willing to pay more for green products (Anvar & Venter, 2014). Green purchase behavior can be taken by consumers that reflect high sense of their concern about environment, health, attitudes and their responsibility towards social for the sustainable development of the earth, Humanity.

### **2.2 Environmental Consciousness**

Environmental consciousness represents the positive consumption of green products to reduce the environmental waste. Environmentally conscious people are often make buying decisions that are more eco- Friendly in order to improve the environment (Maria, 2015). Individuals turn out to be more awareness and mindfulness towards environment issues has prompted to purchase green product. Shoppers who buy those eco- friendly believe that their action will have beneficial outcome on the earth. Those consumers who worry about the environment damage are known as green purchasers. Typically, those buyers will process their purchasing behavior by purchase green products that can minimize effect to environment (Mun, 2014).

social health (Kibret, 2016). One of the considerable reason for purchasing natural products is come from a higher awareness about self-protection, health and as well as the sense for protect environment (Irianto, 2015). In his study, Irianto (2015) has already showed that health consciousness Positively influence the purchaser's attitude to buy natural products and happens because they believe the natural products is seem as healthier, secure and good for environment than the conventional one. Furthermore, cited by Achchuthan and Velnampy (2016), stated that people who have health consciousness are not only want to use good quality products but also want to be safe and environmentally friendly. As the result, consumers have health consciousness are willing to spend more money on a product that can protect to their own health. In addition, a healthy lifestyle is generally characterized as a balanced life in which one makes the decisions towards green product. Besides, the studies above demonstrated that there are positive connection between health consciousness and green purchase behavior.

#### **2.4 Appearance Consciousness**

According to a study conducted by Maria (2015) has discovered that Consumption of personal care products which compositions mainly extracted from many natural nutrients as a source of both therapeutic and nourishing ingredients believe will support for their appearance in natural look. In her study also shown that the customer will continue to purchase if they feel satisfies for appearance. Besides, person who have desire to remain youthful will often come ask for natural products. In a quantitative study of Organic Personal care products among German female consumer, Recker and Saleem (2014) investigated that appearance consciousness has an impact on consumers' attitudes towards organic and natural personal care products.

#### **2.5 Social Influence**

Apart from the elements above, Green purchase behavior is also governed by social factors such as reference groups, social roles, and social norms generally called social influence. Social influence is simply defined as a psychology of individuals that is influenced by interaction of a person or group's people and become a guide for his/her behavior. Besides of that, lasuin and Ching (2014) stated that Consumers often purchase goods which reflect their role in society as well as often follow to consume same with the people they admire. Social influence can be characterized as the adjustment in an individual's considerations to results in interaction when they decide to purchase green products.

#### **2.6 Attitude**

Attitude is the key expression of green purchase behavior in the positive consumption of green products to reduce the environmental waste and participate in environmental protection activities. The Green consumer are often have positive attitude towards eco-friendly products; actively support relatives and others around to take part in green consumer behavior and often feel honored to be contributed a small part to environmental protection. Furthermore, Attitude toward a behavior can be characterized as combination of feeling, behavioral and psychological responses toward an object of the individual, leads them have a positive or negative feelings to perform their reactions. If consumer has positive attitude to a product, they probably intend to purchase such the behavior (Irianto, 2015). Referring to Anvar and Vener (2014) it is stated that Attitudes are better predictors of pro-environmental behavior than other variables also inform purchase behavior of green products. Furthermore, Aman, Harun and Hussein (2012)

Focus on this study, the research has mentioned 5 categories to find out influence of Green Purchase Behavior on natural cosmetic. When referring to previous researchers, there are several dimension has been discovered such as social norm, self-images, environmental label, knowledge, ecological affect, environmental attitude, environmental concern, demographic variable was conducted by Shyan (2013). Beside, Rehman and Khyzer (2013) has conducted a research to defines connection between elements that influence the green purchase intension of buyers by used conceptual model of four major independent variables derived from literature including self-image, environmental concern, nature orientation and social influence. In addition, Yoshi and Rahman (2015) has discovered the significant of individual factors ( emotion, value, personality), habit, perceived consumer effectiveness toward Green purchase behavior; and so on. However, in this study, the researchers limited and focused only on the most common dimensions which are Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, Attitude and Green Purchase Behavior on Natural cosmetics.

### **3. METHODOLOGY**

#### **3.1 Data analysis method**

Defining an Appropriate method will ensure the success of the researchers and a fundamental condition for the decisions to complete the research. Understand that, the researchers has decided to conduct the study by using the properly methods called quantitative. This method helps researchers to get results from questionnaires based on respondents' perception.

#### **3.2 Collection data method**

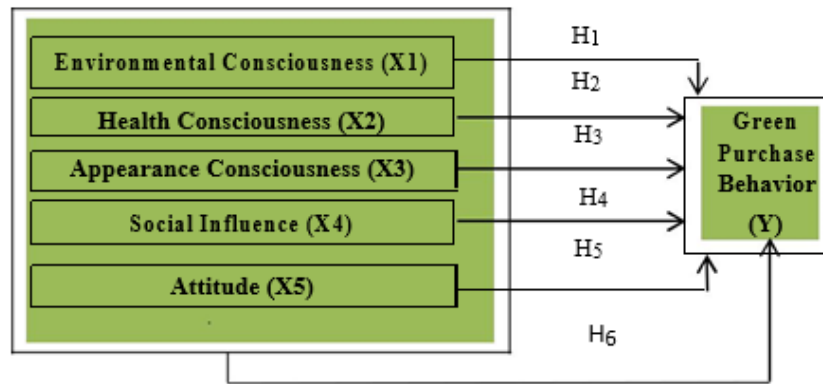
In order to collect the data the researchers used kind of finding data that called primary data. In this research, the researchers got primary data from the questionnaires which were distributed to the respondents among People in President University.

#### **3.3 Sampling method**

During the research, there were several unrelated factors that affect the quality as well as might waste time. Therefore, In order to keep the research on the right track and avoid those factors, the research is not free from limitations, but is defined population focus on the purchasers of The Body Shop in President University. Beside, since the members of population are unknown, therefore, the researcher used Supranto theory and simple random sample to determine the size of sample was 180 respondents. According to Sekaran (2010) stated that a number of sample should be among 30 to 500 element, so that, the number of 180 is very applicable.

#### **3.4 Theoretical Framework**

The theoretical framework that used in this research was constructed by the researchers. The figure below shows there are five classifications of factors (Environmental Consciousness, Health Consciousness, Appearance consciousness, Social influence, Attitude) that could give influence to the consumers' green purchase behavior. The theoretical framework is presented in figure 3.1.



**Figure 3.1: Theoretical Framework**  
(Sources: Developed by researchers)

Figure 3.1 illustrated the process of Green Purchase Behavior, in which the researchers uses five variables: Environmental Consciousness (X1), Health Consciousness (X2), Appearance consciousness (X3), Social influence (X4), Attitude (X5) as independent variables and Green Purchase Behavior (Y) as dependent variable.

### 3.5 Hypothesis

On the basis of theoretical framework, the researchers has developed hypotheses to reflect whether there is any relationship between Environmental Consciousness, Health Consciousness, Appearance consciousness, Social influence, Attitude and Green Purchase Behavior. The hypothesis in this research is stated detail as following:

51.  $H_0: \beta_i = 0$ , it means that there is no partial significant influence of each independent variable

(Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, Attitude) on the dependent variable (Green Purchase Behavior).

$H_a: \beta_i \neq 0$ , it means that there is partial significant influence of each independent variable

(Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, and Attitude) on the dependent variable (Green Purchase Behavior).  $H_0: \beta_i = 0$ . It means that there is no simultaneous significant influence between Environmental

Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, Attitude and Green Purchase Behavior.

$H_a: \beta_i \neq 0$ . It means that there is simultaneous significant influence between Environmental Consciousness, Health Consciousness, Appearance Consciousness, Social Influence, Attitude and Green Purchase Behavior.

## 4. RESULTS AND DISCUSTIONS

### 4.1 Data of Respondents

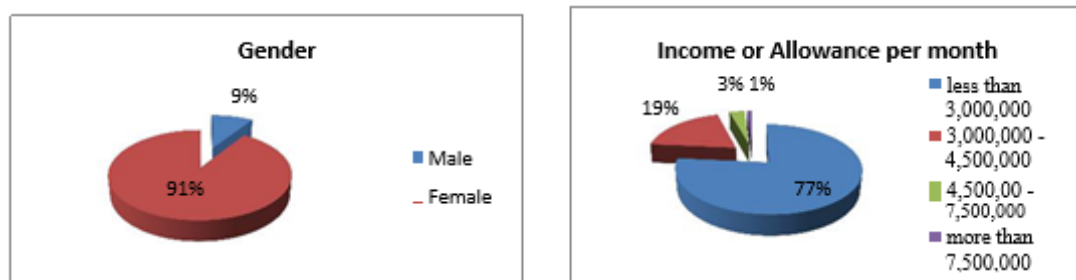
The section discusses the personal data of 180 respondents that have purchased The Body Shop natural cosmetics. The profile covers gender and income or allowance per month.

#### 4.1.1 Gender and allowance per month

Based on figure 4.1 it shows that 164 respondents or 91% were females and 16 or 9%



respondents or 1% had more than 7,5 million. Therefore, the majority of the respondents were having salary less than 3 million.



**Figure 4.1: Respondents' Gender and allowance per month**  
(Sources: SPSS v16.0 output)

## 4.2 Validity and Reliability

### 4.2.1 Validity Test

This research used the correlation's coefficient of Pearson Product Moment to test the validity of questionnaires. Based on the critical values of the Linear Correlation Coefficient required ( $r > 0.361$ ), all the statements in questionnaire are valid since the r computed value of every statement is greater than 0.361.

**Table 4.1: The Results of Validity Test**

Variable	No. of Question	No. of Valid Question
Environmental consciousness	6	6
Health Consciousness	6	6
Appearance consciousness	6	6
Social Influence	6	6
Attitude	6	6
Green Purchase Behavior	6	6

(Sources: SPSS v16.0 output)

### 4.2.2 Reliability Test

The researchers used SPSS v16.0 to check reliability test. According to Cooper & Schindler (2011), if the reliability value is less than 0.6 means not so good, 0.7 is acceptable and if the reliability with Alpha

Cronbach is 0.8 or above, it is good. The result of reliability test of each variable in this research can be shown as follow:

**Table 4.2 The results of reliability test**

Variable	N of items	Cronbach's Alpha standard	Cronbach's Alpha Result	Results
EC	6	0.6	.897	Reliable
HC	6	0.6	.871	Reliable
AC	6	0.6	.877	Reliable
SI	6	0.6	.851	Reliable
AT	6	0.6	.869	Reliable
GP	6	0.6	.878	Reliable

(Sources: SPSS v16.0 output)

## 4.3 Descriptive

ECT	180	2.00	5.00	3.4472	.68083
HCT	180	2.17	5.00	3.7750	.63090
ACT	180	1.67	5.00	3.6278	.59615
SIT	180	2.17	5.00	3.6898	.61780
ATT	180	1.67	5.00	3.7074	.59237
GPT	180	2.00	5.00	3.6750	.61868
Valid N (listwise)	180				

(Sources: SPSS v16.0 output)

The table 4.3 above shows the respondents' responds to the statements about ECT, HCT, ACT, SIT, ATT, and GPT. The most dominant variable in term of independent is HCT, where the minimum value is 2.17, while the maximum value is 5.00. Refer to mean value of HCT is 3.7750, it can be concluded that most of respondent were agree to statements on Health consciousness.

#### Exemplification:

ECT: The average of the numbers of Environmental Consciousness

HCT: The average of the numbers of Health Consciousness

ACT: The average of the numbers of Appearance Consciousness

SIT: The average of the numbers of Social Influence

ATT: The average of the numbers of Attitude

GPT: The average of the numbers of Green Purchase Behavior

#### 4.4 Multiple Regression Analysis

Multiple linear regression analysis was used in this study to examine whether there is influence of independent variable on dependent variable

**Table 4.4: Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	-.267	.172		.122
ECT	.110	.041	.121	.008
HCT	.423	.050	.432	.000
ACT	.156	.056	.151	.006
SIT	.226	.052	.226	.000
ATT	.151	.062	.145	.015

(Sources: SPSS v16.0 output)

The underlying equation is constructed by the multiple linear regression model concepts to examine the influence of six variables: five independent variables and one dependent variable.

Where:

Y = Green Purchase Behavior (dependent variable)

$\beta_1X_1$  = Environmental Consciousness

$\beta_2X_2$  = Health Consciousness

$\beta_3X_3$  = Appearance Consciousness

$\beta_4X_4$  = Social Influence

$\beta_5X_5$  = Attitude

$\epsilon$  = Standard Error

Based on table 4.4, the multiple regression formula becomes as below:

$$Y = - 0.267 + 0.110ECT + 0.423HCT + 0.156ACT + 0.226SIT + 0.151ATT$$

From the data above, the multiple regressions can be explained as following:

5. Coefficient variable ECT = .110 means that in every 1 unit increase of ECT will cause the increase of Y = .110

6. Coefficient variable HCT = .423 means that in every 1 unit increase of HCT will cause the increase of Y = .423

7. Coefficient variable ACT = .156 means that in every 1 unit increase of ACT will cause the increase of Y = .156

8. Coefficient variable SIT = .226 means that in every 1 unit increase of SIT will cause the increase of Y = .226

9. Coefficient variable ATT = .151 means that in every 1 unit increase of ATT will cause the increase of Y = .151

#### 4.4.1 T-Test

In order to measure how influence of each independent variable on the dependent variable, T-test has been used. If the significance value is less 0.05 then  $H_a$  will be accepted. However, if the level significant is more than 0.05 then  $H_0$  will be accepted. Based on profitable value, if the level of significant lower than 0.05 or 5% so the hypothesis is accepted, in contrast, if the value of significantly higher than 0.05 or 5% so the hypothesis will be rejected or does not significant.

The results show in table 4.4, the independent variables (ECT, HCT, ACT, SIT, ATT) significantly influence on the dependent variable (GPT) that is stated as the following:

(7) ECT is significance at level  $\alpha = .008$  is less than 0.05

(8) HCT is significance at level  $\alpha = .000$  is less than 0.05

1. ACT is significance at level  $\alpha = .006$  is less than 0.05

1. SIT is significance at level  $\alpha = .000$  is less than 0.05

1. ECT is significance at level  $\alpha = .015$  is less than 0.05

#### 4.4.2 F-Test

This test is used to discover whether the independent variables are altogether affecting the dependent variable or not. In this study, if the significant level F computed is less than or equal to critical value  $\alpha$ , is considered statistically significant ( $\alpha = 0.05$ ).

**Table 4.5 ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1	50.100	5	10.020	110.151	.000 <sup>a</sup>

6. Dependent Variable: GPT

(Sources: SPSS v16.0 output)

According to the result of F-test in table 4.5 above, the significant value of model F-test is 0.000, which is lower than the significant level Alpha (0.05). Therefore, it can be stated that there is a simultaneous significant influence of five independent variables on dependent variable.

**4.4.3 Adjusted Coefficient of Determination (Adjusted R<sup>2</sup>)**

This test is used to measure how fit the model's ability to interpret variation in the dependent variable, where R<sup>2</sup> values ranges between 0<R<sup>2</sup><1, the greater R<sup>2</sup> is, the stronger independent variable will influence on dependent variable.

**Table 4.6 Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.872 <sup>a</sup>	.760	.754	.30715

- Predictors: (Constant), ATT, ECT, HCT, SIT, ACT
- Dependent Variable: GPT

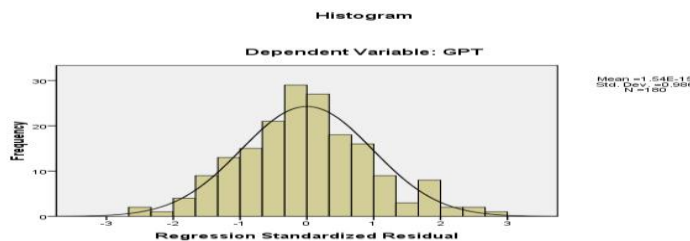
(Sources: SPSS v16.0 output)

In this study, the value of adjusted R<sup>2</sup> is 0.754; it means that 75.4% of dependent variable GPT is influenced by combination from independent variables which are: ECT, HCT, ACT, SIT, and ATT. The rest which is 24.6% (100%- 75.4) will be explained by other factors that were not being discussed in this study.

**4.5 Classical assumption test**

**4.5.1 Normality Test**

In analysis relation of the independent variables (X) and the dependent variable (Y), most statistical tests can only be performed with variables that are normality distributed. Thus, the researchers used the p-p lots and histogram to test whether the data are normally distributed or not normally distributed.



**Figure 4.2: Histogram of Regression Standardized Residual**  
(Sources: SPSS v16.0 output)

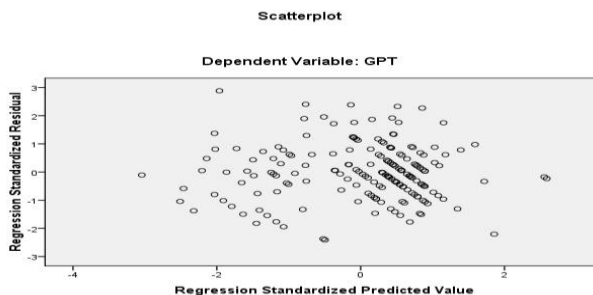
Figure 4.2 shows the curve was form a proper bell shape in the center, it either skewed to the left or the right which means the data has normally distribution.



**Figure 4.3 Normal P-P plot of regression Standard Residual**  
(Sources: SPSS v16.0 output)

Figure 4.3 represents the normal P-P plot of Regression Standardized Residual includes a central linear with dots of data distributed around. The plots appear to be spread around and follow up the direction of the diagonal line telling the data are normally distributed and the data in regression model fulfill assumption normality.

**4.5.2 Heteroscedasticity Test**



**Figure 4.4: Scatter Plot of Heroscedasticity Test**  
(Sources: SPSS v16.0 output)

The figure 4.4 above shows that the pattern of the plots is spread randomly without any systematic pattern between the variables. Moreover, the points are ranged on the left and right sign of number 0 (zero) on Y axis. Hence, it can be reasoned that there is no heteroscedasticity.

**4.5.3 Multicollinearity Test**

**Table 4.7 Tolerance and VIF**

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ECT	.663	1.508
HCT	.533	1.875
ACT	.470	2.126
SIT	.504	1.983
ATT	.395	2.530

a. Dependent Variable: GPT

(Sources: SPSS v16.0 output)

From the table 4.7 above, it shows that all the variance inflation factor (VIF) values are greater than 1.0 but less than 10. Therefore, it can be concluded that the data is not facing with multicollinearity and the researchers can use the Multiple Regression Model to analyze the data.

**4.6 Discussion**

**4.6.1 Influence of Environmental Consciousness on Green Purchase Behavior**

Conformed the result of T-test, there is partial significant influence of Environmental Consciousness on Green Purchase Behavior where the significance level is .008. This result is similar to Mun (2014) research’s result. Besides, the results one again proved

person will tend to purchase Green products such as The Body Shop natural cosmetics if she or he has a positive concern about environment.

#### **4.6.2. Influence of Health Consciousness on Green Purchase Behavior**

Conformed to the result of T-test, there is partial significant influence of Health Consciousness on Green Purchase Behavior where the significance level is .000 which is less than 0.05. The result is similar with Maria (2015), Achuthan and Velnampy (2016) research's result. The findings show that Health Consciousness has positive affect on Green Purchase Behavior.

#### **4.6.3. Influence of Appearance consciousness on Green Purchase Behavior**

Conformed to the result of T-test, there is partial significant influence of Appearance Consciousness on Green Purchase Behavior where the significance level is .006 which is less than 0.05. The result is similar with Maria (2015) research's result and Vongmahadlek (2012). The finding has supported that Appearance consciousness positive affect on Green Purchase Behavior.

#### **4.6.4. Influence of Social Influence on Green Purchase Behavior**

Conformed to the result of T-test, there is partial significant influence of Social Influence on Green Purchase Behavior where the significance level is .000 which is less than 0.05. the result is similar with Maria (2015) research's result. The finding has supported that Social Influence positive affect on Green Purchase Behavior.

#### **4.6.5. Influence of Attitude on Green Purchase Behavior**

Conformed the result of T-test, there is partial significant influence of Attitude on Green Purchase Behavior where the significance level is .015 which is less than 0.05. the result is similar with Maria (2015), Larsson and Khan (2012) research's result. The finding has supported that Altitude positive affect on Green Purchase Behavior.

#### **4.6.6 Influence of Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, and Attitude on Green Purchase Behavior.**

The results of research that expressed through F-Test with a level significant is 0.000 shows Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, and Attitude have simultaneous significant influence on Green Purchase Behavior. In addition, the adjusted  $R^2$  value which is shown in table 4.7 demonstrated how critical impact of all independents towards Green Purchase Behavior. In other words, 75, 4% Green Purchase Behavior is explain by the simultaneous effect from Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, and Attitude.

## **5. CONCLUSION**

### **5.1 Hypothesis answer**

This result is completed to investigate the significant influence of five factors that impact on Green purchases Behavior, the case of The Body Shop user in President University. The Hypothesis is answered as following:

- Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, Attitude has partial significant influence on Green Purchase

- Environmental consciousness, Health Consciousness, Appearance consciousness, Social Influence, and Attitude have simultaneous significant influence on Green Purchase Behavior of The Body Shop.

## 5.2 Recommendations

After conduct this study, the researchers have several recommendations that can be useful for both The Body Shop Company and the future research; the recommendations are mentioned as follows:

### 5.2.1 For the body shop

The result of this study shows that all the five independent variables which are Health Consciousness, Appearance consciousness, Social Influence, and Attitude has positive impact on Green Purchase Behavior of The Body Shop. In this regard, The Body Shop Company should focus more on continuous improvement in those areas. In addition, based on the results from questionnaire, it shows that most of respondents tend to purchase The Body Shop because some particular reason such as concern about safety ingredient, safe to their health. Therefore, the company might need to continuously improve and leverage this purchase behavior to prepare a good strategy in order to attract customer and increase market share.

The company might use advertising that show the benefit the products for customer's health through social media, social networks.

### 5.2.2 For future research

From the limitation of this study, the researchers have a few suggestions as follow:

4. The researchers recommend to the future researcher to conduct further research with other variables to examine that beside of Health Consciousness, Appearance consciousness, Social Influence, and Attitude, is there any still another factors might effect to Green purchase behavior.
5. Since in this study, the researcher focus on The Body shop Brand. Therefore, future studies are additionally recommended to examine the same variables but use other brands to determine whether among of Health Consciousness, Appearance consciousness, Social Influence, and Attitude, which variable will have a same result.
6. The researcher also recommend to the future researcher to conduct the same study (independent variable and dependent variable) but different location side and also different population in order to discover a wider scope and more accurately.

## REFERENCE

- Achchuthan, S., & Velnampy, T. (2016). Enhancing Purchase Intentions towards Sustainability: The Influence of Environmental Attitude, Perceived Consumer Effectiveness, Health Consciousness and Social Influence. *Global Journal of Management and Business Research*. Vol. 1(30), pp.84-85.
- Aman, L., Harun, A., & Hussein, Z. (2012). The Influence of Knowledge and Environmental Concern on Green Purchase Intention Role of Attitude as a Mediating Variable. *British Journal of Arts and Social Sciences*. Vol. 7(2), pp. 148-149.
- Andrew. (2017). L'Oréal Struggles in U.S. as Sales Slowdown. *Cosmetics Design.com* USA. Accessed February 7, 2017. <http://www.cosmeticsdesign.com/Business->

- Anvar, M., & Venter, M. (2014). Attitudes and Purchase Behavior of Green Products among Generation Y Consumers in South Africa. *Mediterranean Journal of Social Sciences*. Vol. 5(21), pp. 186-187.
- Butler, J., & Sarah. (2016). Body Shop Boss Goes back to the Rainforest. *The Guardian Business*. Accessed February 13, 2017. <https://www.theguardian.com/business/2016/feb/13/body-shop-boss-back-to-rainforest-jeremy-schwartz-anita-roddick>
- Cooper, D., & Schindler, P. (2011). *Business Research Method*, New York: McGraw-Hill Education.
- cosmeticsbusiness. (2017). Organic Beauty Evolution in 2016. Accessed January 26, 2017. [http://www.cosmeticsbusiness.com/technical/article\\_page/Organic\\_beauty\\_evolution\\_in\\_2016/14941](http://www.cosmeticsbusiness.com/technical/article_page/Organic_beauty_evolution_in_2016/14941).
- franchise.thebodyshop.com. (2017). HOME. The Body Shop – Franchise Opportunities. Accessed January 25, 2017. <http://franchise.thebodyshop.com/>.
- Irianto, H. (2015). Consumers' Attitude and Intention towards Organic Food Purchase: An Extension of Theory of Planned Behavior in Gender Perspective. *International Journal of Management, Economics and Social Sciences* 2015. Vol. 4(1), pp. 17–31.
- Yoshi, Y., & Rahman, Z. (2015). Factors Affecting Green Purchase Behavior and Future Research Directions. *International Strategic Management Review*, Vol.3 (1–2), pp. 128–143.
- Kibret, T. (2016). Health-Related Behaviors, Health Consciousness and Psychological Wellbeing among Teaching Faculty in Jimma University, Ethiopia. *Clinical and Experimental Psychology journal*. Vol. 2 (1), pp. 182-184.
- Larsson, S., & Khan, M. A. (2012). *A Study of Factors That Influence Green Purchase*. UMEA universiry, Umeå.
- Lasuin, C.A., & Ching, M. Y. (2014). Factors Influencing Green Purchase Intention among University Malaysian. *Journal of Business and Economics*. Vol. 1(2), pp. 3-5.
- loreal.com. (2017). The Body Shop: Ethical and Natural Beauty Products - L'Oréal Group. Accessed January 29, 2017. <http://www.loreal.com/brand/the-body-shop/the-body-shop>.



- Levine, D. M., Krehbiel, T. C., & Berenson, M. L. (2009). *Business Statistics - A First Course*, 6th Edition. Pearson.
- Maria, K. (2015). Attitudes and Intention toward Organic Cosmetics in Greece. *An Exploratory Journal*. pp. 15-17.
- Matic, M., & Puh, B. (2015). Consumer's Purchase Intention towards Natural Cosmetics. University of Dubrovnik, Croatia.
- Memar, N., & Ahmed, S. A. (2012). Determinants which Influence the Consumers' Purchasing Intention: an empirical study of consumers' buying intention toward eco-friendly printers in the Swedish market. Mälardalen University, Sweden.
- Mun, T. S. (2014). Factors That Influence Green Purchase Behavior of an Malaysi Consumers. Universiti Tunku Abdul Rahman, Malaysia.
- Rajput, N. (2014) *Cosmetics Market by Category (Skin & n Care , Hair Care Products, Deodorants, Makeup & Color Cosmetics, Fragrances) and by Channel Distribution (General departmental store, Supermarkets, Drug stores, Brand outlets)*. *Global Opportunity Analysis and Forecast, 2014- 2022*. Vol. 1(2), pp. 4-6.
- Recker, A., & Saleem, B. (2014). The Effects of Consumer Knowledge Attitude and Values on Purchase Intentions. A Quantitative study of Organic Product Amon German Personal Care Female Consumers. UMEA University, Germany.
- Rehman, Z., & Khyzer, M. (2013). Conceptualizing Green Purchase Intention in Emerging Markets: An Empirical Analysis on Pakistan. *The 2013 WEI International Academic Conference Proceedings*. Vol. 1, pp. 101-102.
- Sekaran, U. (2010). *Research Method for Business* 5th edition. Springer. Saddle River, New Jersey, USA: Prentice Hall.
- Shyan, T. S. (2013). Factors Influencing The Green Purchase Behavior of Environmental Related Volunteers In Penang. Uiversiti Sains Malaysia, Malaysia.
- Supranto, J. (2010). *Teknik Sampling Untuck Survey dan Eksperimen*. Jakarta: PT Rineka Cipta.
- Vongmahadlek, J. (2012). An empirical study on organic product purchasing behavior: A case study of Thailand. *Martin de Tours School of Manangement and Economics*, Assumption University, Thailand

The 1<sup>st</sup> International Conference on Family Business  
**LOW UPSIDE BETA & LOW DOWNSIDE BETA  
OF LIQUID STOCKS IN INDONESIA**

*Ika Pratiwi Simbolon  
Universitas Presiden*

**Abstract**

*The purpose of this paper is to investigate the new model in exploring the determinants of low downside and low upside beta in Indonesia from liquid stocks in Indonesia. This paper is also the first research that uses the conventional beta itself as the factor that determines the low upside beta and low downside beta. The paper uses monthly data of LQ45 stocks listed at the Indonesia Stock Exchange period January 2011 to December 2016. The methodology is using the two-pass regression. This research follows Estrada's (2002) suggestions to estimate upside and downside beta. This research finds that the conventional beta itself significantly explaining both low upside beta and low downside beta.*

**Keywords:** *beta, dividend, earning per share, low downside beta, low upside beta, trading volume*

---

**1. Introduction**

The classical Capital Asset Pricing Model (CAPM) suggests a positive linear relationship between the return of any stock and its beta (Sharpe, 1964). Successful investment not only focus on profit, but also on appropriate risk management. The theory in portfolio suggests that unsystematic risk can be diversified away while systematic risk not. As the investors, we have to know how to control systematic risk through proper identification of its factors is interesting for organizing the risk well to gain the appealing tradeoff between risk and return.

Beta, also known as market risk, is a measure of the sensitivity of a stock's returns to the returns of the market. Beta can measure the volatility from the stocks in the market. Systematic risk and its determinants have been widely investigated in financial literature and are considered as one of the most interesting issues in financial research. This research did prasuvey in advance to know whether the systematic risk for liquid stocks in Indonesia high, average or low. The systematic risk for the liquid stocks in Indonesia is less volatile than the market.

The earlier research has investigated the determinant of systematic risk. Lev (1974) found that operating leverage has a positive effect on systematic risk. There were so many prior research that has different perspective in explaining the determinants of systematic risk, called dividend. Jahankhani and Lynge (1980) found that market risk can be explained by accounting variables and dividend payout ratio. Beside dividend, Rosenberg and Perry (1981) also found that size, equity capitalization, and asset to long term liability ratio have significant effect for predicting beta in U.S. banks. Chiou and Su (2007) has several conditions, they found when book value has positive effect to stock price, earnings has positive effect on stock price, and the effect of

dividend on stock price is also positive, then the dividend also has positive effect on systematic risk.

Mensah (1992) points out that the operating, financing and strategic decisions of a firm are related to its systematic risk. Templeton and Severiens (1992) said that diversification has opposite relation with market risk, but did not have strong effect to systematic risk. Furthermore, Delcours and Dickens (2004) found business risk has negative relation to beta, while betas has positive relation to agency costs. They said systematic risk is sensitive to financial leverage and financing form. Eldomaity, Al Dhaheri and Al Shukri (2009) found that key determinants for systematic risk in banking are asset to equity ratio, book value per share, and both have negative correlation with systematic risk.

Chee-Wooi (2010) found that only size and operating efficiency are positive and significant related to systematic risk. Al-Qaisi (2011) found that only company size that has significant effect in determining beta. The result in this research was contrary to the previous research, the relationship was found positive.

Di Biase and D'Apolito (2012) found no evidence in supporting the lower leveraged banks that may be exposed to lower systematic risk. Lee and Hooy (2012) found that size is the most important systematic risk determinant for Asian airlines. The operating leverage is not significant while earnings growth is significant only for government owned airlines. Alaghi (2013) found financial variables do play significant role in determining systematic risk. They found that liquidity has significant effect to systematic risk. Besides that, leverage, operating efficiency and profitability have significant effect to systematic risk. Only firm size that has no significant effect to systematic risk.

The previous research has investigated the determinant of beta, but none of them investigated the determinants of beta with distinguishing between low downside beta and low upside beta. Therefore, this paper has the comprehensive investigation about systematic risk, by extending the investigation about systematic risk by analyzing the determinants of low downside beta and low upside beta for liquid stocks in Indonesia. This research also uses conventional beta itself as one of the determinant of low downside beta and low upside beta. Dividend, trading volume and earning per share also as the determinants of the low downside beta and low upside beta.

## **2. Literature Review**

Capital Asset Pricing Model was developed by Sharpe (1964). That theory explained about the systematic risk. It stated that there is only one factor that can effect the return of an asset, namely beta. An asset is more risky and more volatile if the asset has a higher level of beta, vice versa. There were so many prior research that has different perspective in explaining the determinants of systematic risk, one of them called dividend. Jahankhani and Lynge (1980) analyze by using sample of U.S. commercial banks and bank holding companies from the period 1972 to 1976. Their results indicate that market risk can be explained by dividend pay-out ratio, the coefficient of variation of deposits, and the loan to deposits ratio. Beside dividend, Rosenberg and Perry (1981) also found that size, equity capitalization, and asset to long term liability ratio have significant effect for predicting beta in U.S. banks. The research specifically to the banking sector period 1969 and 1977. Chiou and Su (2007) found when book value has positive effect to

stock price, earnings has positive effect on stock price, and the effect of dividend on stock price is also positive, then the dividend also has positive effect on systematic risk.

Furthermore, Delcoure and Dickens (2004) investigated the different systematic risk levels on Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). It seemed to have different systematic risk levels. For REITs, business risk is negatively related to beta, but betas are positively related to agency costs for REOCs. The sensitivity of REITs' systematic risk depends on financial leverage and financing form. Eldomaity, Al Dhaheri and Al Shukri (2009) examined the association between firm's fundamental financial information and systematic risk in the DFM General Index. The data are classified into three categories: Banking, Insurance and non-financial firms. They found out that the financial reports of the DFM Index are not transparent to shareholders which offers little help in controlling and managing the firm's systematic risk. Eldomaity, Al Dhaheri and Al Shukri (2009) found that key determinants for systematic risk in banking are asset to equity ratio, book value per share, and both have negative correlation with systematic risk.

Hooy and Lee (2010) found a gap in understanding the sources of systematic risk exposure for East Asia airline industry. Their study aimed to fill in this gap using a panel regression of seven long established listed airline companies in the region. They found that only size and operating efficiency which have positive and significant effect to systematic risk. They also documented that East Asia airline's systematic risk are not significantly affected by the 1997 Asian financial crisis or the 2008 subprime crisis.

Al-Qaisi (2011) investigated beta coefficients for total of 43 listed industrial companies period 2005–2009. The financial variables (financial leverage measures, operating leverage, company size and dividend yield) was investigated for the relationship to beta. In this part, based on both correlation analysis and cross section regressions analysis, it was found that company size is the only significant factor in determining the beta. However, and contrary to international evidence and other Amman stock Exchange previous studies, this relationship is found to be positive. Furthermore, they estimated beta coefficients for total of 28 listed industrial companies. Following this, the estimated betas are then related to the financial variables (financial leverage measures, operating leverage, company size and dividend yield) and also macroeconomics variables (inflation, market capitalization and government deficit). By employing this methodology, based on pooled time series and cross section data analysis, it was found that not only size is the significant factor with beta, but there are many other factors which are highly significant in determining the beta's value. Size has positive relationship with beta. Financial leverage has negative relationship with beta. Government deficit and inflation and have positive relationship to beta.

Di Biase and D'Apolito (2012) investigated the determination of systematic risk for Italian commercial banks and bank-holding companies which were listed on the Milan Stock Exchange from 1992 to 2011. They found no evidence in supporting the lower leveraged banks that may be exposed to lower systematic risk. They also found that bank equity beta correlates positively with bank size and with the relative volume of loans and intangible assets, and negatively with bank profitability, liquidity levels and loan loss provisions. Lee and Hooy (2012) was using a five-factor asset-pricing model to estimate the systematic financial risk in North America,

Europe and Asia between 1990 and 2010. Their panel data revealed that the risk to North America airlines is positively related to operating leverage and profitability. European and Asian airlines also have risk positively related to operating leverage, their risks are significant negative related to earnings growth. The most important systematic risk determinant for Asian airlines is size. Alaghi (2013) investigated the determination of systematic risk for 457 non-financial companies in Tehran Stock Exchange. Alaghi (2013) found financial variables do play significant role in determining systematic risk. They found that liquidity has significant effect to systematic risk. Besides that, leverage, operating efficiency and profitability have significant effect to systematic risk. Only firm size that has no significant effect to systematic risk.

### 3. Methodology

In testing the conventional beta on individual stock returns, this research follows Fama and MacBeth (1973). This approach involves two steps: risk estimation and testing. In a first pass, beta, is estimated using time series regression of asset returns on market portfolio returns. Furthermore, assets' returns obtained from the first pass for each month are regressed on the underlying assets' betas. Dependent variable in this paper is return of stock, calculated as:

$$R_{i(t)} = \frac{P_{i(t)} - P_{i(t-1)}}{P_{i(t-1)}}$$

Where:

$R_{i(t)}$  = return of stock i time t;

$P_{i(t)}$  = price of stock i time t;

$P_{i(t-1)}$  = price of stock i time t – 1

### CAPM

The CAPM (Capital Asset Pricing Model) states that in equilibrium, only the systematic risk is priced, and not the total risk. In finding the beta coefficients for each security, this paper uses regression analysis between monthly return and market index return as shown below:

$$r_{it} = \alpha_i + \beta_i r_{mt} + \varepsilon_{it}$$

Where:

$r_{it}$  = return of stock i time t

$\alpha_{it}$  = intercept of stock i

$\beta_i$  = beta stock i

$r_{mt}$  = return of market time t

$\varepsilon_{it}$  = error stock i time t

### Upside and Downside CAPM

The estimation of downside and upside beta is different from the estimation of the conventional beta. For downside systematic risk, Estrada (2002) splits the negative asset returns and negative market returns. For upside systematic risk, Estrada (2002) splits the positive asset returns and positive market returns. Herefore, Estrada (2002) suggested that to estimate correct downside risk beta, is estimated using the equation below:

$$r_{it}^- = \beta_i^D r_{mt}^- + \varepsilon_{it}$$

where  $\beta_i^D = E[r_{it}^-, r_{mt}^-] / E[(r_{mt}^-)]^2$ ,  $r_{mt}^- = \min(R_{mt} - \mu_m, 0)$ ,  $r_{it}^- = \min(R_{it} - \mu_i, 0)$   
 $\mu_i$  is average of  $R_i$ , and  $\mu_m$  is average of  $R_m$ . Furthermore, the upside beta is estimated by using the equation below (Estrada, 2002):

$$r_{it}^+ = \beta_i^U r_{mt}^+ + \varepsilon_{it}$$

where  $\beta_i^U = E[r_{it}^+, r_{mt}^+] / E[(r_{mt}^+)]^2$ ,  $r_{mt}^+ = \max(R_{mt} - \mu_m, 0)$ ,  $r_{it}^+ = \max(R_{it} - \mu_i, 0)$   
 Finally, to test the hypothesis of the effect of trading volume, dividend and earning per share to downside and upside systematic risk, this research has the following cross-section models are estimated:

$$\beta_i^D = \lambda_0 + \lambda_1\beta + \lambda_2TV + \lambda_3D + \lambda_4EPS + \varepsilon_{it} \quad (1)$$

$$\beta_i^U = \lambda_0 + \lambda_1\beta + \lambda_2TV + \lambda_3D + \lambda_4EPS + \varepsilon_{it} \quad (2)$$

#### Data and Sample

Monthly data of closing prices of shares is used in calculating returns on stocks for the period of January 2011 to December 2016. The empirical analysis is for 45 companies listed in LQ-45 index as on the recent period, January 2017. These selected companies are the highest market capitalization and highest transaction value in a regular market in the last 12 months, and also have been listed in the Indonesia Stock Exchange for at least 3 months. These companies also have good financial conditions, prospect of growth, high transaction value and frequency. The proxy for a market portfolio is by using Jakarta Composite Index (JKSE).

#### 4. Result

Following the two-pass regression analysis of Fama and MacBeth (1973), first, we estimate systematic risk for conventional beta, downside beta and upside beta. The results indicate that there is inconsistency beta estimation for different approach both from the value and from the coefficient. As we can see from the table 1, downside beta and upside beta represent the low systematic risk because the coefficient is less than 1. This means the volatility from the stocks is less volatile than the market.

**Table 1.**  
**Beta, Downside Beta, Upside Beta for LQ45 Stocks Period 2011-2016**

Beta ( $\beta_i$ )	Downside Beta ( $\beta_i^D$ )	Upside Beta ( $\beta_i^U$ )
0.596	0.075	0.031
-0.051	-0.046	0.080
0.772	0.090	0.084
0.251	0.005	0.046
-0.124	-0.082	-0.226
0.549	0.202	0.014
0.064	-0.025	0.024
-0.317	0.005	-0.013
-0.024	0.024	-0.017
-0.045	0.027	0.003
0.639	0.030	0.062

<b>Beta(<math>\beta_i</math>)</b>	<b>Downside Beta (<math>\beta_i^D</math>)</b>	<b>Upside Beta (<math>\beta_i^U</math>)</b>
0.294	0.018	0.031
-0.151	-0.073	0.003
0.339	0.053	0.045
-0.026	0.014	0.015
-0.204	0.004	-0.045
0.018	-0.001	0.016
-0.116	-0.052	-0.009
-0.042	-0.029	0.000
0.532	0.115	0.092
0.517	0.036	-0.010
-0.099	-0.004	-0.007
0.069	-0.019	0.005
-0.054	-0.028	0.056
-0.138	-0.037	-0.016
0.026	-0.013	-0.016
0.428	0.199	0.040
0.383	0.050	0.056
0.062	0.015	-0.023
-0.230	-0.057	-0.035
0.147	0.000	0.018
0.679	0.096	0.051
-0.002	0.025	0.023
0.341	0.169	0.022
-0.057	-0.050	0.048
0.005	-0.040	-0.038
0.055	-0.003	0.008
-0.149	-0.001	0.007
-0.099	-0.080	-0.041
0.148	-0.015	-0.035
-0.393	-0.009	0.049
0.153	0.051	-0.004
-1.249	-0.035	-0.029
-0.207	-0.020	0.012
-0.594	-0.022	-0.061

In Panel A from the table 2 presents the results of Model 1 when the CAPM includes only conventional beta as an explanatory variable. The coefficient of beta ( $\lambda_1$ ) in model 1 is negative. The results indicate that the effect of conventional beta to liquid stock return is significant at the level 1% for period 2011-2016.

In panel B from the table 2, trading volume is added to the model, as an additional regressor, to check for linearity of the systematic risk and liquidity-return relationship. The coefficient of beta ( $\lambda_1$ ) in model 2 is negative. The coefficient of trading volume ( $\lambda_2$ ) in model 2 is negative. The results indicate that the effect of conventional beta and trading volume to liquid

stock return is significant at the level 1% for period 2011-2016 with the value of  $R^2$  is 6.2 percent and adjusted  $R^2$  is 4 percent.

**Table 2.**  
**Regressions between Trading Volume, Dividend, Earning per Share and Conventional Beta to Upside Beta of LQ45 Stocks Period 2011-2016**

Model 1: $\beta_i^U = \lambda_0 + \lambda_1 TV + \lambda_2 D_i + \lambda_3 EPS_i + \lambda_4 \beta_i + \varepsilon_{it}$	Coefficients
$\lambda_0$	.005
$\lambda_1$	-4.830E-011
$\lambda_2$	1.336E-005
$\lambda_3$	-4.422E-006
$\lambda_4$	.061**
$R^2$	0.211
Adj $R^2$	0.132
$F_{statistics}$	2.671**

Notes: Value of each coefficient is followed by its t-value. \*, \*\*, \*\*\* significant at 1, 5, and 10 percent levels, respectively

In Model 1 from the table 2 presents the results that trading volume, dividend, earning per share and conventional beta as the explanatory variables to low upside beta. The coefficient of beta ( $\lambda_4$ ) in model 1 is positive. The results indicate that the effect of conventional beta to low upside beta is significant at the level 5% for period 2011-2016. The value of  $R^2$  is 21.1 percent and adjusted  $R^2$  is 13.2 percent.

**Table 3.**  
**Regressions between Trading Volume, Dividend, Earning per Share and Conventional Beta to Downside Beta of LQ45 Stocks Period 2011-2016**

Model 1: $\beta_i^D = \lambda_0 + \lambda_1 TV + \lambda_2 D_i + \lambda_3 EPS_i + \lambda_4 \beta_i + \varepsilon_{it}$	Coefficients
$\lambda_0$	.002
$\lambda_1$	-4.893E-011
$\lambda_2$	.000
$\lambda_3$	4.353E-005
$\lambda_4$	.133*
$R^2$	0.447
Adj $R^2$	0.391
$F_{statistics}$	8.076*

Notes: Value of each coefficient is followed by its t-value. \*, \*\*, \*\*\* significant at 1, 5, and 10 percent levels, respectively

In Model 2 from the table 3 presents the results that trading volume, dividend, earning per share and conventional beta as the explanatory variables to low downside beta. The coefficient of beta ( $\lambda_4$ ) in model 1 is positive. The results indicate that the effect of conventional beta to low downside beta is significant at the level 1% for period 2011-2016. The value of  $R^2$  is 44.7 percent and adjusted  $R^2$  is 39.1 percent.



## 5. Conclusion

This research found that downside beta and upside beta represent the low systematic risk because the coefficient is less than 1. The volatility from the liquid stocks in Indonesia is less volatile than the market. This research also found that only conventional beta that has positive significant effect to low upside beta at the level 5% for period 2011-2016. The value of  $R^2$  is 21.1 percent and adjusted  $R^2$  is 13.2 percent. Trading volume, dividend and earning per share unfortunately have no significant effect to low upside beta. The same finding from low upside beta, in determining the factor that affecting the low downside beta, this research also found only conventional beta that has positive significant effect at the level 1% for period 2011-2016. The value of  $R^2$  is 44.7 percent and adjusted  $R^2$  is 39.1 percent.

This research gives the new perspective for the investor's perception in systematic risk both upside and downside beta. They're sensitive to the conventional beta itself in determining both upside and downside beta. Since the liquid stocks in Indonesia have low systematic risk, that means the liquid stocks in Indonesia is less riskier. So this condition is suitable for investor that risk averse. This research also has several limitations. Future research can extend this research by expanding the period of investigation and investigate all of the stocks in Indonesia, not only limited to the liquid stocks. Therefore, we can see the consistency of the findings from this research and might be the new findings according to systematic risk in Indonesia.

## References

- Alaghi, K. (2013). Determinants of Systematic Risk of the Listed Companies in Tehran Stock Exchange. *Journal of Basic and Applied Scientific Research*
- Al-Qaisi. (2011). The Economic Determinants of Systematic Risk in the Jordanian Capital Market. *International Journal of Business and Social Science*. Vol. 2 No. 20
- Chiou, C. C. and Su, R. K. (2007). On the Relation of Systematic Risk and Accounting Variables. *Managerial Finance*. Vol. 33. No. 8
- Delcoure, N. and Dickens R. (2004). REIT and REOC Systematic Risk Sensitivity. *JRER*. Vol. 26
- Di Biase, P. and D'Apollito, E. (2012). The Determinants of Systematic Risk in the Italian Banking System: A Cross-Sectional Time Series Analysis. *International Journal of Economics and Finance*. Vol. 4, No. 11
- Eldomaity, T. I., Al Dhaheri, M. H., & Al Shukri, M. (2009). The Fundamental Determinants of Systematic Risk and Financial Transparency in the DFM General Index. *Middle Eastern Finance and Economics*. 5. 49-61
- Fama, Eugene F.; MacBeth, James D. (1973). Risk, Return, and Equilibrium: Empirical Tests. Journal of Political Economy*
- Hooy, C. W. and Lee, C. H. (2010). The Determinants of Systematic Risk Exposures of Airline Industry in East Asia. *World Applied Sciences Journal* 10 (Special Issue of Tourism & Hospitality)

- Hung, J.H., Liu, Y.C. (2005). An Examination of Factors Influencing Airline Beta Values. *Journal of Air Transport Management* 11, 291e296.
- Jahankhani, A., & Lyng, M. J. (1980). Commercial Bank Financial Policies and Their Impact on Market-Determined Measures of Risk. *Journal of Bank Research*. 11 (3). 169-178
- Lee, J.S., Jang, S.C.S., (2007). The Systematic-Risk Determinants of the US Airline Industry. *Tourism Management* 28
- Lee, C. H and Hooy, C. W. (2012). Determinants of Systematic Financial Risk Exposures of airlines in North America, Europe and Asia. *Journal of Air Transport Management*
- Lev, B. (1974). On the Association between Operating Leverage and Risk. *Journal of Financial and Quantitative Analysis*. Vol. 9. September. pp. 627-41
- Mensah, Y.M. (1992). Adjusted Accounting Beta, Operating Leverage and Financial Leverage as Determinants of Market Beta: a Synthesis and Empirical Evaluation. *Review of Quantitative Finance and Accounting*. Vol. 2. June. pp. 187-203
- Templeton, W. K., & Severiens, J. T. (1992). The Effect of Nonbank Diversification on Bank Holding Company Risk. *Quarterly Journal of Business and Economics*. 3-17
- Rosenberg, B., & Perry, P. (1981). The Fundamental Determinants of Risk in Banking. *Risk and Capital Adequacy in Commercial Banks*. pp. 367-423

**THE INFLUENCE OF FUNCTIONAL VALUE AND  
SOCIAL VALUE TOWARDS  
CONSUMER RELATION MANAGEMENT  
IN JABABEKA GOLF & COUNTRY CLUB**

**Author 1,****I Putu Adi Golviana**

Tangerang, 17 November 1994

President University, [adhi.golviana@gmail.com](mailto:adhi.golviana@gmail.com)**Author 2,****Ihsan Hadiansah**

Tasikmalaya, 24 October 1987

President University, [hadiansah@president.ac.id](mailto:hadiansah@president.ac.id)

---

*Service based business nowadays has becoming one of the most attractive areas of business in Indonesia. There are so many companies that offer a variety of services for customer convenience in any specific fields of business. In the service based business, we must ensure the customer satisfaction and the loyalty through out of all customers. One of the service based business that struggling in the sports sector is Jababeka Golf & Country Club which attract 3500-4000 guests every month. Hence, researcher Hence, researcher interested to have the research on The Influence of Functional Value of Installation, Professionalism and Price and Social Value Towards Consumer Relation Management Performance in Jababeka Golf & Country Club. This study used the theories to support the research by giving the definition of Functional Value, Social Value and Consumer Relation Management. This study used the non-probability sampling with purposive sampling, 452 respondents were taken part, and the data was tested by using multiple regression with SPSS 23. The result of the findings showed that Functional Value of Installation and Price has significant influence towards Customer Relation*

*Management Performance, Functional Value of Professionalism has no significant influence towards Customer Relation Management Performance and Social Value has significant influence towards Customer Relation Management Performance.*

**Keywords:** *Installation, Professionalism, Price, Social Value, Consumer Relation Management.*

---

## **8. Introduction**

Functional value is one of the diemontion of the customer service value which is one of the essential result of marketing activities of a company. According to (Oh, 2003 MSI, 2001 and Dumond, 2000), Perceived value also is one of the firs-order element in relationship marketing that marketers should take part in increasing the attention of customer. Several aspect as stated by Sanchez (2006) that perceived value has differs to installation, professionalism and price, these will be affecting the attention of guest of Jababeka Golf. With a good instalment of membership will satisfied more guest. Professionalism is one aspect of perceived functional value that makes all the staffs know what to do with guest, and price is one of the vital things in the perceived value to comparing the expected service to the expected cost.

Social value has been found as one of the aspect of the creating the good consumer relation management. According to De Dreu & Boles, (1998), It comes to the behaviour across range of interpersonal decision making contexts specifically in the domain of negotiation settings. Social value also trigger the loyalty and satisfaction towards the guest. Social value has also been identified as the perception of a group towards a person if doing or using some services or products.

Consumer relation management is one of the complicated question of how to evaluate performance remains a significant challenge. Which makes it much more difficult for managers to make a deep understanding of the practical implications of different performance measures. The evaluation of CRM performance is discussed on the basis of models of customer behaviour, customer equity/customer asset (Rust et al., 2000; Blattberg et al., 2001), and relationship quality.

Service based business nowadays has becoming one of the most attractive areas of business in Indonesia. There are so many companies that offer a variety of services for customer

convenience in any specific fields of business. According to Sukmana (2017) as an author of Kompas.com, stated that, "Service based business is able to grow 7.36% during period of January until December 2016.". That is why many company run the service based business in any sector of life such as; fashions, finance, insurance, sports-club, etc.

In the service based business, we must ensure the customer satisfaction and the loyalty through out of all customers. One of the service based business that struggling in the sports sector is Jababeka Golf & Country Club. It is a golf courses located in Jababeka, Cikarang Barat which already have many number of member joining to the courses from 2012. According to Jababeka.com (2015), this field has an area of 67 hectares with 18 hole facility and is able to attract 3500-4000 guests every month from Korea, Japan and Europe. Jababeka Golf & Country Club provides another several facilities and services such as, floodlit driving range, massage & spa, outbound field, swimming pool, tennis courts and room rental for reservation.

The number of the guest come to the Jababeka golf & Country Club was trigger with several aspect that influencing the result of the guests such as functional value and social value that the company offer to the customer and how well the company maintain the relations towards customer or what we called as consumer relation management system. According to Sanchez (2006), there are several indicator from functional value such as; Installations, Professionalism and Price, that can influence the consumer relation management.

Based on the phenomenon, the objective of this research is to determine how much the influence of Service Quality and Guest Perceived Value Towards Guest Satisfaction on Guest Loyalty. Therefore, the researcher is interested to do the research about **The Influence of Functional Value and Social Value Towards Consumer Relation Management Performance (A study Case of Jababeka Golf & Country Club)**.

## **9. Literature Review**

### **Consumer Relation Management Performance**

The fundamental objectives of CRM is to ensure steady streams of revenue and maximisation of customer lifetime value or customer equity, customer behaviours that might bring revenue streams become strategically significant (Grant and Schlesinger, 1995; Bolton et al., 2002). According to the study of Mazumdar (1993), customers are becoming more value-oriented and are not simply influenced by high quality or lower price to be loyal towards a brand

or services. Rather, they tend to make a reasonable trade-off between the perceived benefits and perceived sacrifices in the process of obtaining and consuming products or services. However, not all the customers value the same potential benefits and care for the same sacrifices at any given time.

Besides customer behaviour-based CRM performance we defined and emphasized above, many researchers have emphasized the role of relationship quality as an intangible aspect of CRM performance, and dimensions such as satisfaction, commitment, and trust have been used to measure the complicated concept “relationship quality” (Crosby et al., 1990; Dorsch et al., 1998). It is believed that CRM performance should be measured ultimately in terms of customer behaviours since they are the underlying sources of value of current customers of a firm and have the potential to increase the future revenue streams associated with them and those prospective customers. Because the fundamental objective of CRM is to ensure steady streams of revenue and maximisation of customer lifetime value or customer equity, customer behaviours that might bring revenue streams become strategically significant (Grant and Schlesinger, 1995; Bolton et al., 2002). CRM could be affecting on consumer perception towards the services or products without even caring the price, same theories according to the study of Mazumdar (1993), customers are becoming more value-oriented and are not simply influenced by high quality or lower price.

### **Consumer Perceived Value**

Although the significance of customer value is widely recognised, research about customer value is quite fragmented and there is no clear definition of the concept. Early studies on the profit impact of market strategies (PIMS) argued that value is determined by product quality, relative price, and customer expectations. Zeithaml (1988) considered value to be the customer’s overall assessment of the utility of a product based on the perception of what is received and what is given. Woodruff (1997) defined customer value as a customer-perceived preference for, and evaluation of, product attributes, attribute performances, and consequences in terms of the customer’s goals and purposes. Although these approaches differ, it is clear that there are some areas of consensus among the different concepts. Customer value is inherent in (or linked to) the use of certain products or services, and customer value is perceived by customers (rather than being objectively determined by sellers or other stakeholders).

\_\_\_\_\_ On the one hand, perceived value is understood as a construct configured by two parts, one of benefits received (economic, social and relationship) and another of sacrifices made (price, time, effort, risk and convenience) by the customer (Dodds, Monroe, & Grewal et al., 1991). In recent years perceived value has been the object of attention by researchers in tourism. Some studies take the first approach (Murphy, Pritchard, & Smith, 2000; Oh & Jeong, 2003; Dumand & Mattila, 2004). Other studies adopt a wider view. For example, Petrick (2002) identifies five dimensions: quality, emotional response, monetary price, behavioural price and reputation. Since perceived value is a dynamic variable that is also experienced after consumption, it is necessary to include subjective or emotional reactions that are generated in the consumer (Sweeney & Soutar, 2001).

### **Functional Value**

Functional value dimension refers to the rational and economic valuations made by individuals. The quality of the product and of the service would form part of this dimension. The affective dimension is less developed, but captures the feelings or emotions generated by the products or services. There seems to be a growing consensus to separate it into an emotional dimension (relating to internal emotions or feelings) and a social dimension (relating to the social impact of the purchase made) (Anderson & Narus, 1990; Gassenheimer, Houston, & Davis, 1998; Lapierre, 2000; Sweeney & Soutar, 2001; Palmer & Ponsonby, 2002).

According to Sanchez et al., (2006), Before building a model that will consider all the dimensions of value together, it is important to highlight, from a methodological point of view, that individualised analyses of each of those dimensions will be made, the dimensions are functional values are; installation, professionalism, price and social value, with these dimension, a customer surely looking to a company that provide a good functional value in terms of installation, professionalism, price and social value. Installation is the system or the media to the consumer to favoured the needs and expectation of the consumer, professionalism is an aspects related to the staff's duty to serve the guests and price is the indicator to measure the customer expectation to the cost that customer should spent. Functional value in aspect of installation will trigger the comfortable to the consumer which can distribute more influence to the consumer relation management, with the good installation and the great professionalism combines the

perfect match in order to create the good perception of consumer relation. Price is one of many special value which manipulate the customer's perception on their expectation.

Previous research did by Sanchez et al., (2006) shows that the dimension of functional value of which installation, professionalism and price will affect the consumer relation management. Therefore, author make the hypothesis that there is a significant influence between the dimension value towards the consumer relation management.

***H1: Functional Value Dimension of Installation has a positive influence on consumer relation management.***

***H2 : Functional Value Dimension of Professionalism has a positive influence on consumer relation management.***

***H3 : Functional Value Dimension of Price has a positive influence on consumer relation management.***

### **Social Value**

The last of the dimensions considered refers to social value. You will recall that as a result of the exploratory study, it was found that tourists do not differentiate between the social value of the travel agency and that of the tourism package. Therefore, they make an overall valuation of the social value of the purchase. Social value has become one of the indicator that will affect the relation between the guest or consumer to the service provider. It is proven by previous research made by Sanchez et al., (2006) stated a tourist's behaviour should not be seen from a purely rational point of view. The experiential view provides new keys to the valuation made by tourists and therefore to the most important attributes that will later affect variables such as satisfaction and loyalty. Cognitive elements such as quality and price play a fundamental role, especially the latter, but it would not be possible to understand the behaviour of tourists without incorporating affective components, especially social value, into the study. The Cognition–Affect–Behaviour paradigm offers conceptual support for the experiential view in this case is social value. The Cognition level corresponds to information processing activities and is the rational component of consumption decisions. Cognitive responses are about the mental structures and the processes involved in thinking about, understanding and interpreting the stimuli and events of the environment. Cognitive processes lead to knowledge, meanings or beliefs that the consumer has developed from his/her own experiences and has stored in his/her



memory ( Foxall& Goldsmith, 1994). Emotional value is the utility derived from the feelings or affective states that a product/service generates (Sweeney and Soutar, 2001). Social value is the utility derived from the product's or service's ability to enhance social selfconcept (Sweeney and Soutar, 2001).

Rather, they tend to make a reasonable trade-off between the perceived benefits and perceived sacrifices in the process of obtaining and consuming products or services. Rhee and Ryu (2012) empirically found that the social value of social enterprise products affects identification, consumers' attitude and purchase intention. Previous research conducted by Choi, et al., (2012) stated that, Factors such as high social value that leads consumers to purchase products. It means that the purchase behavior of social enterprise consumers is different from that of private enterprise consumers, which leads to the necessity of studies on social enterprises, compared with previous studies that proved positive relationships between quality-value of products, services and satisfaction. Therefore, author make the hypothesis that there is a significant influence between social value towards the consumer relation management.

***H3: Social Value Dimension has a positive influence on consumer relation management.***

## 10. Research Method

The object of this research is the functional value and social value on consumer relation management a study case of Jababeka Golf & Country Club. This research subject are the people that play and ever use the Jababeka Golf services. The data to be used are the primary data, collected by distributing the questionnaires in person and via online by the *Google Docs*. The population of this research are the people who live at Jababeka, Cikarang Barat. The sample of this research is the student, housewife, businessman, employee and others that live in Jababeka, Cikarang Barat area. Methods to be used is the *nonprobability sampling - the judgmental sampling*. According to Copper and Schindler (2011), judgmental sampling is a sampling technique with certain considerations. In this study, respondents selected are respondents who meet the following criteria: 1) Male of Female with age 17-70 years old. 2) ever played or used Jababeka Golf & Country Club services. The number of sample taken was 500 respondents from several group of guess in Jababeka Golf & Country club. The primary data comes from the original source by its own question. This research is using *Multiple Regression Analysis* methods. Questionnaire instrument to be used is the *Likert Scale 7-points*,

The author has conducted pre-test questionnaire to 30 respondents to see the validity and reliability of each of the indicators that will be used as a statement in the questionnaire. According to Hair et al.,(2010), an indicator is declared valid if the value if *corrected item-total correlation*  $\geq 0,361$  and declared reliable if the value of Cronbach's Alpha  $> 0,6$ . The data obtained from the questionnaires will be analyzed using *Multiple Regression Analysis* method with SPSS16.

## 4. RESULT AND DISCUSSION

### Validity and Reliability Test

To measure the quality of data used in the quantitative study, there are two concepts used by performing validity and reliability test. Reliability is a tool for measure an indicator in a questionnaire which is come from a construct or variable, and its measured to find out the consistency of data. this quantitative study used test Cronbach Alpha ( $\alpha$ ) statistic for reliability testing.

**Table1. Output From Cronbach Alpha ( $\alpha$ ) Statistic Test**

No.	Variable	Cronbach Alpha ( $\alpha$ ) Statistic Test	Reliability Information
1	Functional Value (Installation)	0.685	Reliable
2	Functional Value (Professionalism)	0.691	Reliable
3	Functional Value (Price)	0.633	Reliable
4	Social Value	0.715	Reliable
5	Customer Relation Management.	0.696	Reliable

Source : Primary Data (2017)

The SPSS output from table 1 show that all variable in this research have Cornbach Alpha ( $\alpha$ ) value more than 0.60. So, Based on Nunnaly, 1967 in Ghozali, 2005 criteria , the values of Cornbach Alpha more than 0.60 are Reliable. Validity test was conducted in order to determine that information that given is whether it can be trusted or beleived. the quantitative study used confirmatory factor analysis testing. confirmatory factor analysis is used for test whether a construct has undimensional of those indicators could confirm a construct or variable. Barlett's test Sphericity could determine the correlation between variables. the other team is using Kaiser-Meyer-Olkin measure of sampling adequacy (KMO, MSA), the value of KMO must more than 0.50 in order to continuing the factor analysis.

**Table2. Output From Cronbach Alpha ( $\alpha$ ) Statistic Test**

No.	Variable	KMO	Bartlett's Test of Sphericity	Sig	Created Factor	Extracted of Variance	Validity Information
1	Functional Value (Installation)	0.649	191.461	0			Valid
2	Functional Value (Professionalism)	0.680	196.198	0			Valid
3	Functional Value (Price)	0.636	131.027	0			Valid
4	Social Value	0.690	253.993	0			Valid
5	Customer Relation Management.	0.649	162.934	0			Valid

Source : Primary Data (2017)

The SPSS output from table 2 show that the KMO for all variables are more than 0.50, so they are valid and possible to continuing this factor analysis. From the Barlett's test, it is valid for all variables because all variables are significant.

Based on the results SPSS there are some questions in a variable that has a value lower than 0.05 in the table communalities, variable that has a value communalities under 0.05 is Functional Value of Professionalism and Social Value

**Table3. Table of Communalities of Functional Value (Professionalism)**

Communalities		
	Initial	Extractio n
FVP1	1,000	,566
FVP2	1,000	,364
FVP3	1,000	,450
FVP4	1,000	,490

Extraction Method:  
Principal Component  
Analysis.

*Source : Primary Data (2017)*

Based on the Table communalities of Functional Value (Professionalism) there is value extraction from question no 2 = 0.364, no 3 = 0.450, and no 4 = 0.490, because these values are less than 0.5 then the removal of the data before input to hypothesis testing.

**Table 4. Table of Communalities of Social Value**

**Communalities**

	Initial	Extraction
SV1	1,000	,511

SV2	1,000	,543
SV3	1,000	,394
SV4	1,000	,555

*Source : Primary Data (2017)*

Based on the table there communalities of Social Value Extraction value of question number 3 = 0.394, because the value is less than 0.5 then the removal of the data on the no input before going to hypothesis testing.

#### **4.2 Respondents Profile**

This research is focusing on Golfer of Jababeka Golf & Country Club.

Total respondents collected are 452 respondents.

##### **a. Address**

The respondents who are Participated in this research consists of domestic and international guest. International guests consists of Korea (153 respondents or 33.849%), Japanese (68 respondents or 15.044%), Malaysia (9 respondents or 1.991%), Singapore (7 respondents or 1.548%), India (3 respondents or 0.663%), China (3 respondents or 0.663%). for domestic guest consist of several cities in Indonesia with a total of 209 respondents or 46.238%).

##### **b. Gender**

Most of the respondents participated in this research are Male (379 respondents or 83.849%) but only a few Female (73 respondents or 16.150%).

##### **c. Age**

The respondents who are participated in this research are golfer which age between 31 and 40 years old are 177 respondents (39.159%), the golfer between 41 and 50 years old are 138 respondents (30.530%), the senior golfer above 50 years old are 69 respondents (15.265%), the golfer between 20 and 30 years old are 61 respondents (13.495%) and the rest are the young golfer under 20 years old are 7 respondents (1.548%).

#### d. Duration of Abonnement

Most of the golfer in Jababeka Golf & Country Club are the loyal guest. 265 respondents or 58.628% are the golfer who played more than 4 years, 77 respondents or 17.035% are the golfer who played between 3 and 4 years, 48 respondents or 10.619% are the golfer who played between 2 and 3 years, 34 respondent or 7.522% are the new comer guest under 1 year, and the rest are the golfer who played between 1 and 2 years are 28 respondents or 6.194%.

#### e. Frequency

Most of the guest in Jababeka Golf are the golfer who played Frequently. more than 24 times a year are 260 respondents (57.522%), golfer who played between 18 and 24 times a year are 65 respondents(14.380%), between 13 and 18 times a year are 49 respondents (10.840%), between 6 and 12 times a year are 41 respondents(9.070%), and for the golfer who are played less than 6 times a year are 37 respondents (8.185%).

### 4.3 Descriptive Analysis

#### 4.3.1 Functional Value

##### A. Installation

##### FUNCTIONAL VALUE (INSTALLATIONS)

QUESTION	1	2	3	4	5	6	7
	F	F	F	F	F	F	F
	%	%	%	%	%	%	%
Installation, interior, or a spacious building, modern and clean	0 0%	0 0%	1 0.221%	24 5.309%	105 23.230%	225 49.778 %	97 21.460%

Installation, interior, or neat and orderly building	0 0%	0 0%	2 0.442%	30 6.637%	124 27.433%	187 41.371%	109 24.115%
Installation, interior, or a more privacy protection building	0 0%	0 0%	2 0.442%	38 8.407%	138 30.530%	180 39.823%	94 20.796%

Table 4.1 Functional Value (Installation) Data Summary

Source : Primary Data (2017)

Table 4.1 presents the answer of each respondent data summary towards Functional Value (Installation) questions. based on the data, There are 49 778% or 225 respondents who answered 6 for moderately agree in Installation, Interior, or a spacious building, modern and clean. But only 1 respondents or 0.221% choose 3 for slightly disagree. For the Installation, Interior or neat and orderly building are 187 respondents or 41.371% choose 6 for moderate agree and 2 respondents or 0.442% choose 3 for slightly disagree. for the last question in this variable, Installation, interior, or a more privacy protection building 180 respondents (39.823%) choose 6 for slightly agree and only 2 respondents (0.442%) choose 3 for slightly disagree.

### **B. Professionalism**

#### **FUNCTIONAL VALUE (PROFESSIONALISM)**

QUESTION	1	2	3	4	5	6	7
	F	F	F	F	F	F	F
	%	%	%	%	%	%	%
Staff/employees know their job well	0 0%	0 0%	1 0.221%	39 8.628%	123 27.212%	234 51.769%	55 12.168%
Staff/employees provide valuable advice for	1 0.221%	0 0%	0 0%	41 9.070%	139 30.752%	198 43.805%	73 16.150%

consumers							
Staff/employees is an expert and professional	1 0.221%	0 0%	0 0%	20 4.424%	126 27.876%	213 47.123%	92 20.353%
Staff/employees understand the importance of the service or services	0 0%	0 0%	1 0.221%	30 6.637%	130 28.761%	206 45.575%	85 18.805%

Table 4.2 Functional Value (Professionalism) Data Summary

Source : Primary Data (2017)

Table 4.2 presents the answer of each respondent data summary towards Functional Value (Professionalism) questions. Based on the data, for the first question in this variable there are 234 respondents (51.769%) choose 6 for moderately agree and 1 respondents (0.221%) choose 3 for slightly disagree. Second question, there are 198 respondents choose 6 for moderately agree but there is 1 (0.221%) respondents who choose 1 for strongly disagree. third question in this variable, respondents who choose 6 for moderately agree are 213 respondents(47.123%) but there is 1 respondents (0.221%) choose 1 for strongly disagree. for the last question in Professionalism variable, most of the respondents (206 respondents or 45.575%) choose 6 for moderately agree, and only 1 respondents (0.221%) choose 3 for slightly disagree.

### C. Price

#### FUNCTIONAL VALUE (PRICE)

QUESTION	1	2	3	4	5	6	7
	F	F	F	F	F	F	F
	%	%	%	%	%	%	%
Installation, interior, or a spacious building, modern and	0 0%	0 0%	16 3.539%	31 6.858%	138 30.530%	198 43.805%	69 15.265%



clean							
Installation, interior, or neat and orderly building	0 0%	0 0%	0 0%	53 11.725%	139 30.752%	180 39.823%	80 17.699%
Installation, interior, or a more privacy protection building	0 0%	0 0%	0 0%	26 5.752%	148 32.743%	184 40.707%	94 20.796%

Table 4.3 Functional Value (Price) Data Summary

Source : Primary Data (2017)

Table 4.3 presents the answer of each respondent data summary towards Functional Value (Price) questions. Based on the data, the most respondents moderately agree to the service offered worth with the money they spend (198 respondents or 43.805%). the respondents moderately agree the price offered is affordable (180 respondents or 39.823%). And the respondents moderately agree that Jababeka Golf & Country Club give the service offered are good compared to the price(184 respondents or 40.707%).

### 4.3.2 Social Value

#### SOCIAL VALUE

QUESTION	1	2	3	4	5	6	7
	F	F	F	F	F	F	F
	%	%	%	%	%	%	%
Using the services offered, make me	0 0%	0 0%	1 0.221%	27 5.973%	114 31.858%	211 46.681	99 21.902

well received in my social circle/environment						%	%
Using the services offered, improved the perception others have about me	0 0%	1 0.221%	1 0.221%	31 6.858%	130 28.761%	205 45.353%	84 18.584%
Using the services offered, building a good impression for me in the eyes of others	0 0%	0 0%	0 0%	17 3.761%	131 28.982%	198 43.805%	106 23.451%
Using the services offered, give a good respond in my neighborhood	0 0%	0 0%	1 0.221%	25 5.530%	110 24.336%	214 47.345%	102 22.566%

Table 4.4 Social Value Data Summary

Source : Primary Data (2017)

Table 4.4 presents the answer of each respondent data summary towards Social Value question. based on the data, for the first question in this variable, there are 46.681% or 211 respondents choose 6 for moderately agree, and only 0.221% or 1 respondents choose 3 for slightly disagree. for the second question, there are 45.353% or 205 respondents choose 6 for moderately agree, but there is 0.221% or 1 respondents choose 2 for moderately disagree. Third question in this variable, there are 198 respondents or 43.805% choose 6 for moderately agree, and 17 respondents or 3.761% choose 4 for neither agree or disagree. last question in this variable, there are 214 respondents or 47.345% choose 6 for moderately agree, but there is one respondents (0.221%) choose 3 for slightly disagree.

### 4.3.3 Customer Relation Management

#### Customer Relation Management Value

QUESTION	1	2	3	4	5	6	7
	F	F	F	F	F	F	F
	%	%	%	%	%	%	%
I would buy again the services offered to me by Jababeka Golf	0 0%	0 0%	0 0%	23 5.088%	112 24.778%	203 44.911%	114 25.221%
I would recommend the service offered by Jababeka Golf to others	0 0%	0 0%	0 0%	13 2.876%	105 23.230%	195 43.141%	139 30.752%
As a customer I would maintain a good relations with the Jababeka Golf for a long period of time	0 0%	0 0%	0 0%	15 3.318%	92 20.353%	192 42.477%	153 33.849%

Table 4.5 CRM Data Summary

Source : Primary Data (2017)

Table 4,5 presents the answer of each respondent data summary towards Customer Relation Management question. Based on the data summary, most of the respondents said that they will buy again the service that offered by Jababeka Golf & Country Club (203 respondents or 44.911%). most of the respondents said will recommend Jababeka Golf & Country Club to others (195 respondents or 43.141%). And 192 respondents (42.477%) said they moderately agree to maintain a good relations with Jababeka Golf & Country Club.

### 4.4 Hypothesis testing

Regression analysis is used analyze the data in this descriptive study. Especially this study used the Regression Analysis with Simultan Significant Test (test of F statistic) and Individual Parameter significant test (test of t statistic).

#### 4.4.1 Regression Analysis with Simultaneous Significant Test (test of F statistic) & Partial Significant Test (test of T statistic)

The result of Regression Analysis with Simultan Significant Test (test of F statistic) for  $H_1$  in this descriptive study in the table

Table Output from Simultan Significant Test (test of F statistic)

Variable						
No.	Independent	Dependent	Hypothesis	F	Sig.	Information
1	Functional Value (Installation, Professionalism, Price), and Social Value	Customer Relation Management	$H_1$	46.704	0.000	$H_1$ is Accepted

The SPSS output from table show that F value is 46.640 bigger than 4 (number of independent variable) and the value of significant is 0.000 lower than 0.05; So all Independent variable such as Functional Value of Installation, Functional Value of Professionalism, Functional Value of Price and Social value simultaneously give significant effects toward dependent variable which is Customer Relation Management in Jababeka Golf & Country Club.

the hypothesis testing for  $H_2$ ,  $H_3$ ,  $H_4$  and  $H_5$  are using Partial significant test (test of t statistic). Partial t test in the regression analysis conducted to test the significance of the independent variable (X) partially toward the dependent variable (Y).

**The criteria used are:**

If Sig. value  $> 0.05$ ; there is no significant effect between independent variable and dependent variable. which  $H_0$  is **accepted**.

Sig. value  $< 0.05$ ; there is a significant effect between independent variable and dependent variable. which refers to hypothesis alternative ( $H_2, H_3, H_4,$  and  $H_5$ ) is **rejected** (Ghozali)

Table 4 Output from Individual Parameter Significant Test (test of t statistic)

No	Variable Independent	Value Dependent	Hypothesis	Beta	Sig.	Information
1	Functional (Installations)	Value CRM	$H_2$	0,128	0.005	$H_2$ is Accepted
2	Functional (Professionalism)	Value CRM	$H_3$	0.076	0.087	$H_3$ is Rejected
3	Functional (Price)	Value CRM	$H_4$	0.196	0.000	$H_4$ is Accepted
4	Social Value	CRM	$H_5$	0.358	0.000	$H_5$ is Accepted

#### A. Functional Value of Installation (X1)

the test using SPSS for variable X1 obtained the t value = 2.824 with significance (Sig.) value of 0.005. By using the 0.05 for  $\alpha$  value, the significance value is lower than 0.05 and the t value  $>$  t table (1.965) with  $df = 447$  which means that  $H_0$  is rejected and  $H_a$  is accepted. So, the first hypothesis is accepted that there is significant influence of Functional Value of Installation towards Customer Relation Management.

### **B. Functional Value of Professionalism (X2)**

The test using SPSS for variable X2 obtained the t value = 1.715 with significance (Sig.) value of 0.087. By using the 0.05 for  $\alpha$  value, the significance value is bigger than 0.05 and the t value < t table (1.965) with df = 447 which means that  $H_0$  Accepted and  $H_a$  is Rejected. So, the first hypothesis is rejected that there is no significance influence of Functional Value of Professionalism towards Customer Relation Management.

### **C. Functional Value of Price (X3)**

The test using SPSS for variable X3 obtained the t valued = 4.408 with significance (Sig.) value of 0.000. By using the 0.05 for  $\alpha$  value, the significance value is lower than 0.05 and the t value > t table (1.965) with df = 447 which means that  $H_0$  rejected and  $H_a$  is Accepted. So, the first hypothesis is accepted that there is significance influence of Functional Value of Price towards Customer Relation Management.

### **D. Social Value (X4)**

The test using SPSS for variable X2 obtained the t value = 8.344 with significance (Sig.) value of 0.000. By using the 0.05 for  $\alpha$  value, the significance value is lower than 0.05 and the t value > t table (1.965) with df = 447 which means that  $H_0$  rejected and  $H_a$  is Accepted. So, the first hypothesis is accepted that there is significance influence of Social Value towards Customer Relation Management.

After conducted the analysis using SPSS and Microsoft Excel, the result confirms that all of independents variable such as Functional Value of Installation, Functional Value of Professionalism, Functional Value of Price and Social Value has a significant influence towards Customer Relation Management ( $H_1$  is Accepted) by using Regression Analysis with Simultan Significant Test (test of F statistic). The analysis of regression analysis with Partial significant test (test of t statistic), the result confirms that of functional value of Professionalism have no significant influence towards Customer Relation Management ( $H_3$  is Rejected).  $H_3$  is Rejected, because the number of t value = 1.715 is lower than t table (1.965) and also the Sig. value = 0.081 is bigger than the 0.05. Functional value of Installation, Functional Value of Price and Social Value has a significant influence towards Customer Relation Management ( $H_2$ ,  $H_4$ , and  $H_5$  are Accepted).

## **5. Conclusion and implications**

## **Conclusion**

This research is conducted to find the influence of Functional Value of Installation, Functional Value of Professionalism, Functional Value of Price and Social Value towards Customer Relation Management. The survey was conducted by printed questionnaire to Guest of Jababeka Golf & Country Club. This research used SPSS to test the hypothesis. After conducting the analysis process in order to accomplish research objective, the result are:

1. This research found that Functional Value of Installation has significant influence towards Customer Relation Management Performance in Jababeka Golf & Country Club.
2. This research found that Functional Value of Professionalism has no significant influence towards Customer Relation Management Performance in Jababeka Golf & Country Club.
3. This research found that Functional Value of Price has significant influence towards Customer Relation Management Performance in Jababeka Golf & Country Club.
4. This research found that Social Value has significant influence towards Customer Relation Management Performance in Jababeka Golf & Country Club.

## **Recommendations**

### **1. For Jababeka Golf & Country Club**

By doing research on guest satisfaction, company to find out how satisfied customers with the service that company provide. company will make a change in the service that has value and will do little satisfaction to the development of service that has been pretty good value. of changes in both provided to customers will have a good impact to customers and will have a significant influence to good Customer Relation in Jababeka Golf & Country Club. questions in each variable can be changed or added if the company wants to hear from other customers regarding the service aspect of the company or product is given.

### **2. For the Future Research**

It is needed doing a further research in order factors besides graphic design, structure design, and surface design towards impulsive buying in packaging design. Future researchers are expected to get more information in determining the factors that affecting Consumer Relation Management in Jababeka Golf & Country Club such as add other variable like Locations, Promotions, etc.

**WHEN PERCEIVED CHARACTERISTICS OF INNOVATION AFFECT  
THE BRAND IMAGE  
(A CASE STUDY OF BLANJA.COM)**

Siska Purnama Manurung, President University, [siskapurnama@president.ac.id](mailto:siskapurnama@president.ac.id)  
Luqman Gandy Dewanto, President University, [luqman.gandy@gmail.com](mailto:luqman.gandy@gmail.com)

---

**Abstract**

Nowadays, e-commerce market in Indonesia are growing fast with the demand of consumers. Industry e-commerce in Indonesia now is developing well because of internet users in Indonesia and new startup e-commerce are compete each other's. The objectives of this study is to determine and increase blanja.com brand image to a strong position in the market while determine how variables perceived characteristics influence Blanja.com brand image. The researcher conducted a quantitative research using non-probability sampling which is convenience sampling and the researcher using 130 respondents. In order to retrieve the result, SPSS 20 is utilized to test the relationship between variables and multiple linear regression. The result using multiple regression analysis indicates perceived characteristics Compatibility (X2) and Complexity (X3) variables has no significant influence toward blanja.com brand image. The Relative Advantages (X1) and Observability (X4) variables has significant influence toward Blanja.com brand image, and Observability variable is the dominant factor in this research. Overall, this study may inform the effect of perceived characteristics of innovation on Blanja.com brand image, that the researcher hopes may people who read the research will learn.

**Keywords:** *E-commerce, Relative Advantages, Compatibility, Complexity, Observability*

---



**ANALYSIS THE INFLUENCE OF ASYMMETRIC INFORMATION  
AND CORPORATE SOCIAL RESPONSIBILITY  
TOWARD EARNINGS MANAGEMENT**

**Gitavani Putri Paramitha**

*Fakultas Bisnis Universitas Presiden*  
[gitavanipt@gmail.com](mailto:gitavanipt@gmail.com)

**Marika Suma Raya Sembiring**

*Fakultas Bisnis Universitas Presiden*  
[marikasumaraya@president.ac.id](mailto:marikasumaraya@president.ac.id)

---

**Abstract**

*The aim of this research is to examine the influence of asymmetric information and Corporate Social Responsibility on earnings management. Corporate reputation is used as mediating variable between Corporate Social Responsibility and earnings management. The sample is manufacturing company listed on Indonesia Stock Exchange for period 2011 – 2015. The hypotheses are tested using multiple regression with least square and binary logit model. From research model one, this research finds that asymmetric information and Corporate Social Responsibility has significant influence on earnings management. This research also finds significant influence of Corporate Social Responsibility on earnings management with corporate reputation as mediating variables. Meanwhile, research model two results there is no significant influence of Corporate Social Responsibility toward corporate reputation.*

***Keywords: Earnings management, Asymmetric Information, Corporate Social Responsibility, Corporate reputation***

---

**THE AFTER EFFECT OF READINESS PROGRAM FOR  
INSTRUMENTING TQM IN INDONESIA IT-STARTUP COMPANY.  
CASE STUDY OF SELECTED 5 IT-STARTUP COMPANIES.**

**Daud Novel Leonardo<sup>1</sup>, Debby Mei Ekawati<sup>2</sup>, Ni Made Dian Ramayani<sup>3</sup>, Genoveva<sup>4</sup>**

<sup>1</sup>*President University, leonardonovel@gmail.com*

<sup>4</sup>*President University, genoveva@president.ac.id*

---

**ABSTRACT:**

By 2013-2016, Indonesia got a very surprising economic growth in the SME Industry. Note that the condition of this growth contributed by the people which build their own Startup which mostly has its IT-Basis. Typically, the Startup will be able to bring up the economic condition in the micro level of industry, besides, the durability of the Startup itself commonly very volatile because of competitors, macroeconomic-factors and other external and internal threats as well. (Stanciuc, 2013) That is why this research offers the related industry to reflect on the “experienced-company” as they applied what it called as Total Quality Management (TQM) which enhance the tenacity of the company to keep exist year by year through challenges which they faced in early. By collaborating T&D and Strategic Management approach the framework of theory of this research will be nearly focus on the Total Quality Management implementation. The researchers did triangulation method to test the reliability of the research itself. Then, limit the research geographical coverage area into Indonesia and its own existing company with the classification of minimum 2 years’ existence as the requirement to be called as Startup Company, moreover it should indicate IT-basis. Actually, the outcome of the research, employee need to understand the Standard Operation Procedure (SOP) which should be standardized well and known by every people even it has cross division function-used. Therefore, Startup need to be ready in terms of employee retention as their employee indicates millennials-gen which typically has “the job-jumper” behaviour.

***Keywords: TQM, T&D, Strategic Management, Startup***

---

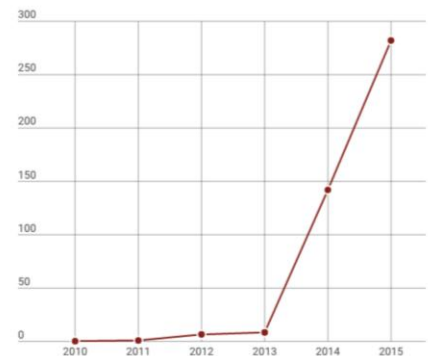
## 1. INTRODUCTION

### 1.1 Background

Indonesia got surprising economic growth in small – medium enterprises industry. This industry somehow called as a Startup Industry. By two until three years after 2010 some of them established their Initial Public Offering (IPO), then out from startup classification which entering the higher level of enterprise scope – even turn into Multi National

Company (MNC).

TechInAsia shows; Startup was slightly impacting nation from 2010 – 2013 but it comes to 2014 – 2015, note that from less than \$50 million funding in 2013 startup funding raises until almost \$250 million in 2015 (Figure 1.0). Meaning, it is a significant growth in terms of the productivity and also the quantity of startup companies in Indonesia by 2013- 2015.



In reassuring the Startup can sustain themselves and able to compete with other MNCs, this research will discuss systematically what can Total Quality Management (TQM) does for Startup to sustain. Simply because TQM will concern on company

sustainability while Startup always consume many issues that they can be collapsed in short term period of business. (Chen & Jang, 2011)

In relation with that phenomena explained, researchers will analyze that in implementing TQM needs a mature company, high quality of human capital and understanding from each department. Researchers believe TQM will help startup unless the readiness program itself will fail the TQM system.

### 1.2 Problem Statement

This research will focus on what is actually happening in the Startup companies nowadays. What makes it significant comes from the sustainability of particular of new company which classified as the small-medium enterprise or some other called them Startup company. In essence Startup might be good but the huge amount of competitor will

actually be watching on them. It tends those Startup to be dynamic and constructively change to makes sure they will not be beaten by the rivals or even beaten by the market automatically.

Startup basically a company which still in the born-phase of lifecycle and it is having less experience. Consequently, this industry is very volatile, somehow easy to overcome. In terms of financial they still need a more funding which depend on the investor. In terms of human quality people within still need a lot of experience to be learned.

### **1.3. Objective of Research**

As the recommendation for Startup company in Indonesia to be sustained with the threats ahead.

As the used of TQM for particular sector of Startup – T&D

As the revealing research that Startup is actually volatile esp. in their employee which indicates Millennials behaviour.

As the applied theory of Human Resource Management sector with the organizational design perspective of learning.

## **2. LITERATURE REVIEW**

### **2.1. Total Quality Management**

TQM, in the form of statistical quality control, was invented by Walter A. Shewhart. It was initially implemented at Western Electric Company, in the form developed by Joseph Juran who had worked there with the method. TQM was demonstrated on a grand scale by Japanese industry through the intervention of W. Edwards Deming.

Total Quality Management (TQM) refers to management methods used to enhance quality and productivity in business organizations. TQM is a comprehensive management approach that works horizontally across an organization, involving all departments and employees and extending backward and forward to include both suppliers and clients/customers. (Gallear, 2011)

TQM is only one of many acronyms used to label management systems that focus on quality. Other acronyms include CQI (continuous quality improvement), SQC (statistical quality control), QFD (quality function deployment), QIDW (quality in daily work), TQC (total quality control), etc. Like many of these other systems, TQM provides a framework for implementing effective quality and productivity initiatives that can increase the profitability and competitiveness of organizations. (Vedln, 2014) The importance of TQM is clearly stated for improving the performance of each human capital in the particular organization.

## **2.2. Training and Development**

The term of **training** refers to a learning process that involves the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. (Barbosa, 2011) Training is widely recognized by organizational development experts as an important component in successful planned change efforts.

The training structure must be top-down, starting with the top team and cascading down the organization. The golden rule to successful implementation is to ensure managers train their own people. This is necessary to show management commitment and to ensure managers actually understand the TQM principles and methods. For TQM training and education to be effective, the responsibility for such training and education must be vested in one manager, preferably with the TQM manager himself or one of the members of the steering committee. (Matsuno, Mentzer & Ozsomer, 2012)

Responsibility for the training and education of employees in quality rests with management at all levels, and, in particular, the person nominated for the co-ordination of the organization's quality effort. If nobody is actually tasked to coordinate the quality training and education efforts, the possibility that TQM training and education will not be effective is rather good.

(Barbosa, 2011) identify four characteristic-features to ensure successful training:

Training must be viewed as a continuous process.

Training must be focused, people receive appropriate courses at the appropriate level

Training must be planned for the future to include the development of total quality skills

Training materials must be made customized to suit the particular organisation.

#### **4 Startup Company**

A startup is a company that is in the first stage of its operations. These companies are often initially bankrolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand. Due to limited revenue or high costs, most of these small-scale operations are not sustainable in the long term without additional funding from the particular venture capitalists in related coverage area. That is what the Startup struggles for. Startups need to invest time and money into research. Market research helps determine the demand of a product or service. A startup requires a comprehensive business plan outlining mission statement, future visions and goals as well as management and marketing strategies. (Chen & Jang, 2011)

Startups must decide whether their business is conducted online, in an office/home office or store; this depends on the product or service being offered. For example, a technology startup selling virtual reality hardware may need a physical storefront to give customers a face-to-face demonstration of the product's complex features.

#### **2.4. Strategic Management in TQM**

Strategic management is a comprehensive management approach incorporating numerous elements of the theory of management science, which has developed after years of evolution. In the beginning, it was defined as long-term planning, then it has evolved to strategic planning, and eventually it was called strategic management. (Chen & Jang, 2011)

Besides in the professional business sector, TQM is widely used in the public sector in many countries of the world, notably in developed countries. In 1988, the US President Reagan, with a Presidency Communiqué, mandated the use of TQM as the mandatory management model in all Federal Agencies. Studies indict that in the United States, TQM is widely practiced both at local and federal level. TQM is also used in public administration in many European countries, mainly the United Kingdom. (Stanciuc & Branzas, 2013)

#### **2.5. Previous Research**

No	Author	Journal Title	Result of Journal
1	Ana Maria Stanciuc & Benjamin Viorel Branzas (2013)	Knowledge Management and Total Quality Management Integration: Impact on Youth Strategy	The TQM can be applied effectively with particular variable of components in the related organizations. It takes continuous improvement and positive changes within it.
2	Barbosa, E (2011)	Organizational Culture Oriented for Innovation: Influencing Variables	The culture of the organization itself will actually affect the productivity of the organization. It proves by the data interpretation from the 16 particular local companies.
3	Chi-Kuang Chen & Jiun Yi Jang. (2011)	A Comprehensive Business Excellence Model	Business excellence model can be applied by several concepts of the strategic management. The significant one would be Kaizen strategy.
4	Gallear, A. G. (2011)	TQM implementation: an empirical examination and proposed generic model	The generic model which used by the corporation can be not reflect the effectiveness and efficiency of an organization. In this particular view, the researcher agreed that the organization needs

to be dynamic in terms of their evaluation and strategy implementation.

---

5	Ken Matsuno, John T. Mentzer & Aysegul Ozsomer (2012)	The Effect of Entrepreneurial Proclivity & Market Orientation on Business Performance.	The productivity of the organization will affect the result culture of the organization. It takes qualitative proves in this research.
6	Richards, J (2012)	Total Quality Management Distribution in Macrothink Institute	The Distribution in a particular startup will be the standardization that Startup somehow not ready with TQM.
7	Vedln, B. A (2014)	TQM On the Quality of Failure	The TQM can be detected its successfulness based on the failures error and any negative aspect of what the organization wrongly doing.

---



### **3. RESEARCH METHOD**

#### **3.1. Type of Research & Tools**

Qualitative method research will be involved with descriptive analysis in here. Many startups which being analyzed make the researcher should consider there will be a flexible answer or response from each sample. This research also realized that there will be a different condition of response in different source of sample, that is why descriptive research will support its aspect. It refers to research that provides an accurate portrayal of characteristic of a particular individual, situation or group, descriptive research will help to determine the frequency with which something occur and categorizing information.

##### **3.1.1. Spider-Web Method**

Spider-Web Method is made in purpose of evaluate each component or indicator of the companies-observed. By the time the indicator constructed, those would be placed into the web. And by the time the indicator with other indicators connected it will show the area which wider the area means better in terms of their quality of component. This method does not always show that the widest area of company means best compared to the other, there will be an indicator which indicates another company better in that particular indicator. But to generalized, the widest one has bigger rank to be classified into better quality of company.

The company can be best at one or more indicators. And simply, this method not showing the reader to see which one is the best company, but more to the how we can identify better company in its particular indicator which provided based on data-gathering.

#### **3.2. Theoretical Framework**

Training and Development will actually involve significantly in this research. T&D will help the reassurance of the readiness condition of the organization (which is startup) which going to be analyzed.

In this particular concept, startup itself commonly does not want to invest on the T&D cost. Well, to revise again, training and development nowadays is more than just a technical stuff but attitudes will be above all else. Furthermore, in TQM there will be a change which commonly resisted by many employees. With attitude that excel, the employee will actually

Organization Development would be the best concept which relate to this research. It takes the force of change and routine activities which should be evolved to make the organization not saturated. TQM will be the sustainability areas which brings the organization to enter the new level of thinking and culture. In this phase means the organization adopt the change essence and they are doing what things actually new, that is why there are a lot of projects in the big company as they have to do the new things to make sure that their productivity is following the trend and what they are doing cannot be predicted by competitor even by the market. (Stanciuc & Branzas, 2013)

TQM also represent itself as a micro inside macro aspect, it focuses on everything inside the particular company which classified into micro perspective for the advancement of entire company – which means macro orientation is existed within it.

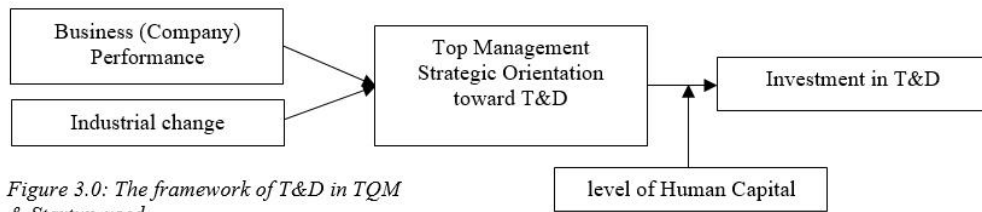


Figure 3.0: The framework of T&D in TQM & Startup-used

### 3.3. Population & Sampling

The population will be depending on the condition of the company. What we search here will be 5 startups company that typically in online sector;

- RuangGuru
- BukaLapak

- Tokopedia
- Go-Jek

#### 10. Traveloka

So, their location cannot be depending on geographical area. We also specify the sample with exact number, and this amount of sample will be supported by cluster method of this research which will prevent the bias info from small-amount of sample. The researchers consider 3 levels only (Staff, Supervisory, Manager or BOD – each company got at least 3 respondents from each level) as Startup that have narrow organization structure in the beginning period.

### 3.4. Collection of Data

The collection of data will be using qualitative techniques with descriptive analysis. This technique will be contributed to the assemble of data collection as well. There should be primary data as the gathered-information. It cannot be secondary as it should be the most updated and the response should be coming from the real-time respondent as our particular sample. The method would be two methods of collection data;

- (9) Direct & Online Interview – (Open Ended Question)
- (10) FGD method

As the qualitative essence, it should be primary data by interview, not by secondary data from various sources. The interview question for the qualitative research should be expecting for the detail explanation of the respondent. The researcher used the two key question words which are how and what. In this extend the researcher believes the response from each sample will be explanatory and detail picture will be captured easily without any interference of the discussion with the respondents.

## 4. RESULT AND DISCUSSION

### 4.1. Validity and Reliability Test – Triangulation Technique

In the qualitative research method, the data should be collected in form of sentences, statement of explanations, the discussion of behaviour or event which should be generated

in details, systematic and dynamic. And those characteristics of data should be tested its level of accuracy through each question which will be thrown up to the respondents. The researchers try to test the accuracy using triangulation technique in order to re-checking and comparing the level of excellency of data gathered later.

The Triangulation technique indicates 3 main components of testing the accuracy of question in data gathering of the research, which are;

1. Sources (Previous Research) of theory
2. Expert Assessment towards the reliability of the research data gathering questions
3. Users of the research or the subject of the research object.

Through this technique each of component will test the reliability of the questions. The theory will actually strengthen the question foundation, followed by the expert assessment either the question would be match with what the research purposed for, and at the end the user will assess whether the question relevant or not.

#### 4.2. Data Result – Spider-Web Model

The spider web model shows that Bukalapak has the widest area which represent they are excellence in every area of indicator. Followed by the Go-Jek and Tokopedia which competitively good enough for RuangGuru it has an excellence Training and Development program but weak in their sales and other two indicators. In this Web-spider analysis we can see that only 2 out of 5 Startups which indicate good Training and Development and 1 out of 5 startups has good Training and Development which impact to their good sales as well. Which means does not mean if a Startup has good Training and Development

program will impact to the sales positively.

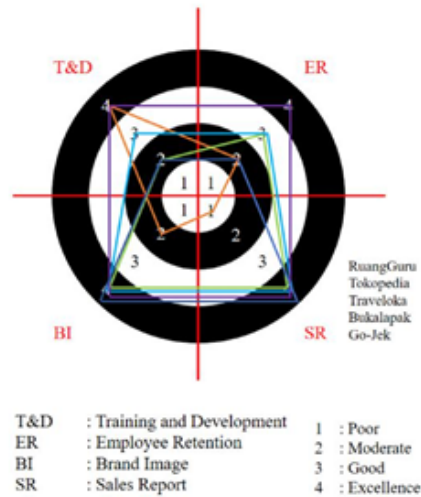


Figure 4.0: Spider-Web Analysis of 5 Startup Companies which being researched

#### 4.2.1

#### Training & Development of Startup Company

The actual T&D which conducted based on the standardized set was in Orientation Program or the first or second week of their working period. Startup still see the Training

and Development as a cost instead of good investment for their human capital. In terms of its used, Startup believe that self-assignment or self-learning can be applied as it Training and Development Program as the behavior of their employees indicate Millennials people which can be said as dynamic and extremely aim for flexibility.

The Training and Development System made is not as procedural as what Total Quality Management approach applies. It more to the actual self-learning process which can be applied individually instead of group-program or work.

#### **4.2.2. Behavioral of Employee**

Startup Company will normally hire the youngster as their IT based industry will obligate the used of IT tools which in average youngster mastered it compared with the number of people who born in 90s. In terms of behavioural change, Startup employee is very aiming for their flexibility of working and its truly applied as long as the Key Performance Indicator completed well. The actual problem is that sometimes the Standard of Procedure of particular program or project is really hard to meets its deadline as the member in charge within the project is not ON the place. Even though they use the online system such as software which can connect them without borders of location, the effectiveness of internal meeting can be met in the same room and place instead of using online software because it indicates many biases of stuffs, such as internet connection, the used of the word which make the interpretation of meaning can be wrong and Etc.

#### **4.2.3. Reaction to Changes**

As it sees, the change of industry trend and behaviour is extremely fast. Even in the IT industry itself we no longer see the change happened there monthly or weekly, it happens daily even by hours the application we used request to be upgraded. The changes which make in this industry need to adjust in terms of everything of their detail to be able to compete on the market competition. But there is a problem which the employee which indicates millennials is not adapt well with the changes. At this point, Millennials are typically stand for their comfort zone. In terms of SOP, it is not something which can be durable for 3-4 years. It takes to be updated and once it is updated the changes will happen in several even many part of the company.

In the perspective of attitude, the employee turnover will be quite big as it happens of their “discomfort period” when the change happens. Some will resign even some will rebel with the change.

#### **4.2.4. Adjustment with TQM**

Startup need to learn a lot how the TQM companies can sustain through many changes and many innovation which impact the company negatively or positively. In this order, the TQM will help Startup not just doing the existing trend of product but how to sustain the business itself.

The researcher shows its benefit to the Startup people as the subject of interview and those ones agreed that the behaviour of Startup movement is simply to enhance the dynamic of their business capability without seeing the risk of 5 – 10 years later.

#### **Interpretation**

##### **= Training and Development adjustment with TQM approach**

Basically, the TQM approach is focus on the Training and Development as the investment of their human capital instead seeing it as the expense or cost. The actual event where TQM approach of Training and development implied is where the employee loyalty level will increase as the company invest a lot in the right person which need to be trained. It is very often we see the big company does T&D in the form of huge amount of people not individual. It called seminar or conference instead of personal development. Nowadays a company which implied TQM (mostly Japanese manufacture company) does the Training and Development in different format. It will be differed with the Startup as it comes from the demand of the related employee which might be wrong investment if the company agree with the training demanded. The TQM company does differently. The used of supervisor of manager is becoming its paternalistic which act like “the father” which now best and the system of approval will be east with its SOP system.

As what this happens the company no need to worry either the Training and Development applies would be wrong or not because the related employee and the supervisor has discussed earlier what need to be improved towards Training and Development program.

#### **4.3.2. Behavioral of Employee to the Dynamicity of Industry**

This is extremely burden the company (Especially Human Resource) if in every change happens the level of turnover increase or the level of productivity will decrease. The Millennials within the company might have different behavioral perspective about this but more to the function of the result of change will be useful for company profitability that is why the employee which indicates Millennials should know as well that the change happens for the betterment of the company. This might work in terms of the materials used to the vision and mission introduction. Old company might just ask the employee to read but these days the such a program like that must be dynamic, showing its Milestone and how the values inside work by suffer in many ways and failed in many steps until the company can stand stronger. This way will increase the sense of belongings in the employee even though like what Millennials thought.

#### **4.3.3. Where TQM functioned best in Startup T&D**

The program itself must be flexible not to be stiff as it generalized for average number of people. In this term, TQM will help how the application of T&D will met its procedural of work. Nor like what today's Startup does which focus on the individual competency and assume its own individual strength improvement will help the performance of the team itself. It is particularly will unbalance the performance of the team as well as one is getting stronger and others keep run in the place. That is why through TQM the Training and Development will actually see how it suits the company and the specific working team itself.

#### **4.3.4. How it affects the productivity and profitability of Startup**

This Training and Development which proposed to be implemented is actually more than giving the profitability of the company. It is sustaining the company and how it will work to the future condition of company itself. To make sure the change will not destruct the company. this Training and Development of TQM approach will increase the level of sustainability of the Startup company and seeing it as a good investment for the future of the company.

## **5. CONCLUSION AND IMPLICATION**

## **Conclusion**

In this research, the researchers objectively attach the TQM to the particular Startup T&D program to make sure the sustainability of the Startup can be improved. The volatility of the Startup also will be a big question mark for the key stakeholders as well as their shareholder in the future. In this perspective, Startup needs to reflect their Training and Development in the TQM approach. How the Training and Development implies as the good investment not as a cost.

The good investment itself has to be in the several components of analysis before it goes to the execution of program. Demanding the Training and Development Materials is actually not enough to ensure that program paid is a good investment for the company. It takes the role of Supervisor or Managerial level which needs to approve either the program will be suitable or not. This basic stuff will increase the level of loyalty of the employee which become the object of Training and Development. As he or she can apply best his or her result of Training and Development it also becomes their motivation to work as they are challenged to do work which conquer their limit of capability.

The behavior of employee needs to be improved as well in terms of TQM capacity. As the change come the TQM will see it as the opportunity and reduce the probability of threat instead. In today's Startup, the employee reacted differently. Some did resign in the perspective the company will fail to overcome the threat, well actually he or she is the part of the company which being paid to solve those threats. In this position, there is inefficiency of work. More to the perspective of capability in the Startup. Youngster might be good in terms of their dynamicity of thinking and the creativity which their produce. But instead of lifting the skill Startup needs to focus on the attitude as well. Job-jumper as what Millennials do is absolutely not good and in this position more attitude inside a person there is more possibility that the person will improve because skill can be trained easier compared with attitude.

The design of startup organization might be very good in terms its flexibility and dynamicity of working. But Startup needs to be take a look on what mature or experienced company does, especially those who applied TQM already. It is more dynamic in terms of their Human Resource Development. The company manage it not only to "use" them but to collaborate and how to retain the company by setting their

Employee Satisfaction Level measurement. Startup need to learn this to make sure they can overcome the Millennials effect in their industry.

## **5.2. Recommendation**



- a. The researchers absolutely recommend the Startup to take a look on how Total Quality Management prepare its own Training and Development system. In this phase, Startup will increase their sustainability and especially in the employee retention. Employee retention is actually one of component where the shareholder see the stability of the company which is not volatile and has lower risk to invest. In this position, the company will receive more than just profitability which increase but more to the company sustainability.
- b. The researchers also believe that, in every move of Startup is becoming the research object of the big company especially ones who do TQM. Their Research and Development is even so dynamic and they have what it called as data center. In this phase, Startup need to be ready not only preparing their business system but more to the readiness of their employee in knowing the fact that they are more than facing with the change of industry itself but they become the object of the industry itself which in often one who make the industry change. That is why from now on, in having a good Standard Operation Procedure will be crucial. Off work style might be good, but there are too many times where all employees need to be standby in one place and in the same time which to make the program or project discuss compatible and meet the dynamic change of industry, because it is extremely fast startup should not be left behind.
- c. Employee behavior should be change as the way they see the change is typically wrong. It seems they cannot loyal to the company who has paid them and invest on them so much. That is why recruitment and selection is very crucial, but instead of Human Resource will be getting tired in recruiting and firing better the company focus on the employee retention. But simply just don't forget this condition can be happening where the recruitment phase done well, recruiting the right person instead of best person and lift attitude instead experience will help the company more.

## REFERENCE

- Ana Maria Stanciuc & Beniamin Viorel Branzas. (2013). Knowledge Management & Total Quality Management Integration: Impact on National Youth Strategy *Jel Classification*, 1-5.
- Barbosa, E. (2011). Organizational Culture Oriented for Innovation: Influencing Variables. 10-14.

- Chi-Kuang Chen & Jiun Yi Jang. (2011). A Comprehensive Business Excellence Model. *BEM Model* , 4-10.
- Gallear, A. G. (2011). TQM implementation: an empirical examination and proposed generic model. *Omega – International Journal of Management Science*, 1-23.
- Ken Matsuno, John T. Mentzer & Aysegul Ozsomer. (2012). The Effect of Entrepreneurial Proclivity & Market Orientation on Business Performance. *TQM in Business*, 1-13.
- Richards, J. (2012). Total Quality Management Distribution in Macrothink Institute. *Macrothink Institute*, 1-14.
- Vedln, B. A. (2014). TQM On the Quality of Failure. 1-17.
- Janet Mohun - DK London, Anna Hall & Duncan Turner. (2012). *The Economics Book*. Great Britain, London: Dorling Kindersley Limited, Penguin Group (UK).
- R. Glen Hubbard & Anthony Patrick O'brien. (2010). *Second Edition of Micro Economics*. Upper Saddle River, New Jersey: Pearson International Edition.
- Deeb, G. (2014, October 22). *Forbes*. Retrieved from The Top 5 Traits Needed For A Startup Management Team:  
<https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/sites/george-deeb/2014/10/22/the-top-5-traits-needed-for-a-startup-management-team/&refURL=https://www.google.co.id/&referrer=https://www.google.co.id/>
- Freischlad, N. (2016, Jan 5). *TechInAsia*. Retrieved from 5 years in review: Indonesia's growth in startup funding since 2011: <https://www.techinasia.com/ndonesia-startup-funding-up-to-2015>
- Freischlad, N. (2016, March 8). *TechInAsia*. Retrieved from A breakthrough year: Indonesia's startup landscape in 2015 (INFOGRAPHIC): <https://www.techinasia.com/profile/nadine>
- Petch, N. (2016, April 19). *Entrepreneur Middle East*. Retrieved from The How-To: Building (And Managing) A Team For Your Startup:  
<https://www.entrepreneur.com/article/274235>

**THE INFLUENCE OF PACKAGING DESIGN ON IMPULSIVE BUYING  
AT CHATIME CIKARANG CITY****Kristian Alfredo Jonathan <sup>1</sup>, Filda Rahmiati <sup>2</sup>**<sup>1</sup>President University, [filda.rahmiati@president.ac.id](mailto:filda.rahmiati@president.ac.id)<sup>2</sup>President University, [kristianalfredo1@gmail.com](mailto:kristianalfredo1@gmail.com)**Abstract:**

*This research entitled “Influence of Packaging Design Factors Towards Impulsive Buying at Cikarang City” was conducted with 115 respondents who were a consumer of Chatime in Cikarang especially Mall Lippo Cikarang. There were three independent variables being studied, these are graphic design, structure design, and surface design, the dependent variable is impulsive buying towards Chatime Mall Cikarang. Data analysis technique used were multiple linear regression coefficients T statistic and F-statistic testing to test the influence stick with a significance level of 5% (0.05). It also tested the classical assumptions that included test of normality, multicollinearity test, test of heteroscedasticity and autocorrelation test. This shows the available data has been qualified for further analysis using multiple linear regression equation model. The result of Structure Design (X2) & Surface Design (X3) have no significant influence towards Impulsive Buying in Chatime Mall Lippo Cikarang. Hence, only the variable of Graphic Design (X1) has significant influence towards Impulsive Buying in Chatime Mall Lippo Cikarang. The predictive ability of three variables Impulsive Buying towards Chatime in Mall Lippo Cikarang. In this study was accounted for 33.4% while the remaining 66.6% were affected by other factors not included in the research model being studied.*

**Keywords:** *Food and Beverage, Impulsive Buying, Graphic Design, Structure Design, Surface Design*

**1. Introduction**

Food and beverage (F&B) industry has always been the most important and contributed sector in Indonesia. Last year, this sector contributed as much as 7% to the GDP and 28% to total industrial manufacturing output. It is accounted as the biggest contribution towards GDP for

non-oil sector. F&B sector's business prospect seems promising, since it grew significantly. For instance it grew with 13.6% in 2013. Due to the large Muslim majority, Indonesian beverage industry is dominated by the non-alcoholic beverages. It was estimated to gain F&B 8.5 billion USD with growth rate of 10 percent in 2013 (Sidjabat, 2015). Beverages fall under non-essential items and are available in a variety of retail outlets like restaurants, bakeries, etc. apart from organized retail stores. Even though it is not an important item, but many people are attracted by certain factors that make them to do impulsive buying (Gandhi, Vajpayee, and Gautam, 2015).

According to Alauddin (2014) almost everybody makes impulse buying at one time or another; this is relatively simple phenomenon. A consumer sees something, find it appealing, although he or she had not planned its purchase before entering the stores. Another researchers, Gandhi, Vajpayee, and Gautam (2015) added impulse purchases can also be planned as in, if a shopper decides that apart from the planned purchases, he/she would pick up products on which schemes, discounts or promotions and the like are on. Packaging design one of main point to be a company decision to do a promotion. That is why, it was suspected if packaging design could make an impulsive buying. According to Christy & Ellywati (2014), a company should be creative to make a packaging design, because interesting packaging design and unique could trigger behavior of impulsive buying. The strategy to make an attractive packaging design also carried out by Chatime bubble tea. To make more attractive in the eyes of their consumers, Chatime have a website whereby consumers can create their own cup to be customized. Nowadays, many F&B businesses are competitors of Chatime. Especially in Mall Lippo Cikarang, competitors of Chatime such as: Hop-hop, Metime, and Dum-dum which engaged in F&B concentrate with bubble milk tea products. So, for that, Chatime should innovate its product that creates attractiveness which could attract consumer to buy the product. As mentioned above that the packaging design can attract consumer.

There are many studies regarding impulsive buying, which influenced by demographic factors (Bashar et al., 2012; Gandhi, Vajpayee, and Gautam (2015), In-store shopping environment (Tendai and Crispen, 2009), Supermarket shelving (Zac et al., 2012); Store size (Gupta et al., 2009), Displays (Wakefield et al., 2008; Thornton et al., 2011) and Packaging (Christy and Ellyawati, 2015). Therefore, follow the previous study of Christy and Ellyawati (2015) which appropriate for the purpose of this study, is to know if packaging design (graphic design, structure design and surface design) of Chatime could influence the impulsive buying of consumer in Mall Lippo Cikarang.

## **2. Literature Review**

### ***Impulsive Buying***

Many people have been ever felt like want to buy a product but unfortunately, they realized that they buy more product than they planned. All the product which not plan before the purchase are unplanned when shopping. This situation called impulsive buying, which is an unplanned purchase decision. The purchase decision happened because the consumers are stimulated by many factors. It is therefore, important for retailers to understand impulsive buying behavior as it can aid in enhancing the sales of the product. As a conclusion, impulse purchase is an unplanned decision to buy a product (Inman et al., 2009). For example, if a customer walks into a store to pick up bread and ends up buying a cold drink, then this can be termed as an impulsive purchase or buying. There are many factors which can trigger impulse purchase like age of shopper, gender, time spent at the store, packaging, engaging displays, creative advertising and alluring promotional offers. Those factors can trigger unrecognized needs and desires and entire consumer to purchase unintended goods, in turn act impulsively, Inman (2009) added. Christy and Ellywati (2015) stated that impulsive buying as a trend of consumers to spontaneous, purchasing, reflex, suddenly and automatically. Impulsive buying happened because there is a strong feeling where affective situation directly to buying behavior, without building a trust and think hard to buying the thing.

### ***Packaging***

Kotler (2015) mentioned that packaging as all the activities of designing and producing the container for a product with the main function of packaging itself is to protect the product to keep the product still have a good quality. Additionally, Talitha (2012) added that the function of packaging just to protect the things or make easier took the thing. As time goes by, everything became more complex, and there were additional function values and role of packaging in marketing start recognize the main power inside market competition. Back to the year 1950s, many supermarket, minimarket, hypermarket where packaging have “could sell” the product at the shelves. But at that moment function of packaging still only for giving the information and told consumers about the content of the product such as the ingredients inside the packaging. At 1980’s where the competition in business straighter and group of producers compete to attract the consumers, which shape and model of packaging felt so important role in marketing strategy. In this case, packaging should attract, describe the benefit of product, and “persuade” consumers. At that time that the packaging takes up the role of sales when the sale and purchase occurred. Therefore, Talitha (2012) concluded that packaging can be defined as over all the physic and include design, color, shape, and material of packaging.

The role of packaging is more important in business or marketing strategy which is not only for protect the product quality but also to show the quality of the product through the packaging. Hence, packaging become part of where the producers should innovative to design the packaging to attract consumers. On previous studies, many researchers discussed packaging design that influence on impulsive buying. The combination between physical packaging and written communication regarding product content are the basics of current packaging designs.

Klimchuk & Krasovec, 2007). Nilson & Ostrom (2005) state that packaging design contains three constitutive elements: shape, color, and graphic. Later Ampuero & Vila (2006) stated that packaging design has two dimensions: graphic and structure. Lastly, Cahyorini & Rusfian (2011) studied the packaging design variable as graphic design, structure design and product information. In this study, researchers follow the variables of packaging design by Cahyorini & Rusfian (2011). Hence, in this study researchers not using the variable of product design since the Chatime has not mentioning the product information in their packaging. Therefore, researchers added surface design which is fit to this study of Chatime. Studied done by Talitha (2012) was concluded that surface design has the biggest opportunities encourages purchases on product.

### ***Graphic Design***

According to Cahyorini & Rusfian (2011), graphic design is a visual decoration on the surface of the packaging and consists of four sub-dimensions, namely: brand name, color, typography, and images. Graphic design is one of the strategy of contributing causes purchasing behavior. For this study, the brand name “Chatime “will be more emphasis than the other sub-dimensions to fit with the study analyze.

### ***Structure Design***

In Talitha (2012) mentioned structure design is packaging design that have a relation with shape display from the packaging to make the structure design that should looked up is packaging functional aspect. Structure design also show many things related with personality of a product. Elements under structure design are shape and size. Shape have an important role for some product such as drink, cosmetic, etc. For another product, shape is an identity, extra value for some function even though just a standardization from distributors. Simple shape more likely by consumers because the simple shape is easy to carry also easy to safe compare with complicated shape. There are four options of packaging size: small pack, medium pack, big pack and family pack. Companies decide for the packaging based on research. They need to match the product suitable with consumer’s needs. Packaging size become a factor to push the packaging as a walk advertisement. Like drink company, if they don’t have the suitable size of packaging will hard for consumer to carry the drink. Therefore, packaging size could become communication to be function of product and could push the consumers to purchase.

### ***Surface Design***

Surface design is visual image that delivered from packaging (Blythe, 2000). Surface design packaging focuses on engagement of the sense of point of view target consumers. Nilsson & Ostrom (2005) mentioned that surface design has biggest opportunities to push purchasing

product. The first element of surface design is color. Color is used for specific aims. In packaging design, the main point of color is to be eye-catching. Moriarty (1999) stated that color is used to build a mood, attract attention, push and make a strong memory. The second element is brand name. According to Kotler (2013) a brand name is a name, term, sign, symbol, or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of the competitor. Lastly, the third element is picture or image. A product image demonstrates what the product is, and should have the capacity to appeal to the passionate side. Furthermore, the pictures on the packaging can also pull attention of consumers such as packaging of drink of milk.

Figure 1 illustrates the component of the theoretical framework which consists of dependent and independent variables. During the research study, the researchers use three variables which are graphic design (X1), structure design (X2), and surface design (X3) as independent measurements to influence impulsive buying (Y) partially as well as simultaneously. Based on the above literature review, this paper proposes the following hypotheses:

H1: There is a significant influence of graphic design towards impulsive buying of Chatime in Mall Lippo

Cikarang

H2: There is a significant influence of structure design towards impulsive buying of Chatime in Mall Lippo

Cikarang.

H3: There is a significant influence of surface design towards impulsive buying of Chatime in Mall Lippo

Cikarang.

H4: There is a simultaneous significant influence of graphic design, structure design, and surface design toward impulsive buying of Chatime in Mall Lippo Cikarang.

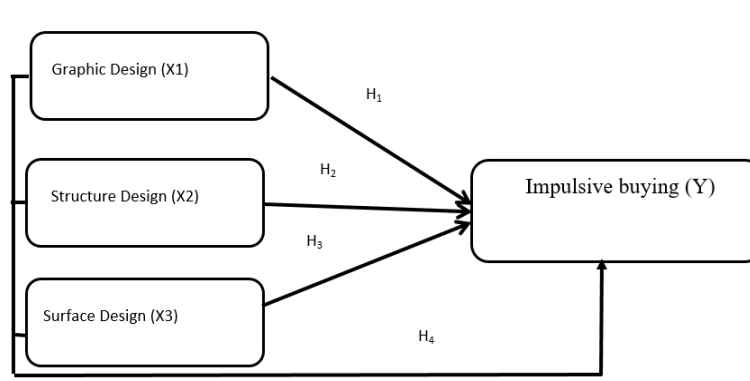


Figure 1: Theoretical framework  
Awan (2016)

### 3. Research Method

#### *Data Collection*

Data was collected from 115 consumers of Chatime who live in Cikarang who ever bought Chatime in Mall Lippo Cikarang using a structured questionnaire which was derived from the literature. The questionnaire consists of 4 sections. The first section is the filtering question which consists of two questions, second section are demographic questions consist of five questions, the third section consists of all independent variables such as seven questions from graphic design, seven questions from structure design, and seven question from surface design. Last section is from dependent variable which is impulsive buying consists of four questions. Since there was unknown population, non-probability convenient sampling method was used.

#### *Measurement*

This study is a quantitative analysis where the result analyzes using numbers. This study used primary data directly from questionnaire. The measurement was all adapted from published literatures. The measure for graphic design was from Cahyorini & Rusfian (2011), structure design and surface design were from Talitha (2012), and impulsive buying was from Hamilton (2010) in which questions have been modified by the researchers to fit with the research objective of this study. Likert scale was used to measure the variable of interest. For this study, 5-point scale from 1-strongly disagree to 5 – strongly agree was considered sufficient. Data analysis processed by using SPSS 23.0 software. Multiple regression used to test hypotheses that is complemented with t-test, f-test and the coefficient of determination ( $R^2$ ).

### 4. Result and Discussion

The demographics of the respondents tabulated in Table 1 were derived from descriptive analysis. Females (59%) outnumber males (41%) in this study which somewhat reflect the gender ratio which influence impulsive buying. About 96% of the respondents are about the age of 16- 25 years old. More than 50% (71%) are having bachelor degree on their education. And most of the respondents are students (87%) which having income around Rp. 1500,000 – Rp. 2,499,999.

Table 1: Demographics of respondents

Gender	Frequency	Percent
Male	39	41
Female	69	59
Age		
< 16 years old	4	3
16 – 25 years old	110	96
26 – 35 years old	1	1
36 – 45 years old	0	0
>45 years old	0	0
Education		
Senior High School	28	24
Diploma	5	4
Bachelor	81	71
Master	1	1
Doctorate	0	0



Occupation		
Student	100	87
Employee	14	12
Entrepreneur	0	0
Others	1	1
Income per month		
≤ Rp 1,499,999	31	27
≥ Rp 1,500,000 – Rp 2,499,999	46	40
≥ Rp 2,500,000 – Rp 3,499,999	22	19
≥ Rp 3,500,000 – Rp 4,499,999	9	8
≥ Rp 5,000,000	7	6

SPSS version 23.0 was used to analyze the hypotheses generated. Before test hypotheses, researchers need to meet the requirement of classical assumptions. And in this research the classical assumptions were met.

Table 2 Graphic Design, Structure Design, and Surface Design Influence Impulsive Buying

Dependent Variable	Independent Variables	R <sup>2</sup>	Adj R <sup>2</sup>	Std Error	t-value	Sig
Impulsive Buying (Y)		.352	.334			
	Graphic Design (X1)			.125	5.305	.000
	Structure Design (X2)			.140	-.051	.959
	Surface Design (X3)			.157	1.248	.215

As seen from regression result presented in Table 2, result indicate the only Graphic Design (X1) has significant influence toward Impulsive Buying (Y) with the significant value of .000 less than  $p = 0.05$  whereas Structure Design (X2) and Surface Design (X3) were not significant. The study was similar with previous study done by Christy & Ellyawati (2015) which resulted that graphic design has a significant influence to increase consumers impulsive buying. Chatime is the pioneer of Buble Milk tea drink under F&B product in Indonesia that is why people already recognized the brand name “Chatime” to its quality drink which can generate impulsive buying. Whereas, regarding structure design such as size and shape, it does not make consumer become impulsive buying because Chatime use standardize size and shape of ordinary F&B product. Same goes to surface design, regarding the color it is only transparent color of packaging since most of F&B product colorize the packaging depends on what drink the consumers order so there is no uniqueness based on color.

The adjusted R<sup>2</sup> is 0.334 or 33.4%. This mean, there is 33.4% independent variable of Graphic Design, Structure Design, and Surface Design that influence the dependent variable impulsive buying. Whereas, the other 66.6% is explained by other factors that are exclude from the model. Based on the result, it can conclude that this study accepting H1 and rejecting H2 and H3.

Additionally, ANOVA is used in order to know whether all independent variables have a significant influence into dependent variable. The result we can get through ANOVA test in F value. Based on Table 3 we can see that the value of significant is .000 less than  $p = 0.05$  we can conclude that all independent variables: Graphic Design (X1), Structure Design (X2) and

Surface Design (X3) have significant influence toward dependent variable which is Impulsive Buying of Chatime in Mall Lippo Cikarang. Therefore, H4 is accepted.

Table 3: ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	27.705	3	9.235	20.072	.000 <sup>b</sup>
Residual	51.069	111	.460		
Total	78.774	114			

a. Dependent Variable: IBT

b. Predictors: (Constant), SDNT, SDT, GDT

## 5. Conclusion and Implications

In this chapter, researchers draw the conclusion and recommendation developed from the wholly integrated quantitative analysis, specifically the multiple regression analysis about the influence of packaging design toward impulsive buying in Chatime Lippo Cikarang. The analysis is conducted to discover the specific influence of graphic design, structure design, and surface design toward impulsive buying. Based on the analysis result Hypotheses which accepted are H1 and H4 whereby, H2 and H3 are rejected.

A recommendation from researchers are: Chatime should maintain its competitive advantage in terms of their design innovation to attract more consumers. As the brand name under graphic design is already effective therefore Chatime must maintain which already established. Another recommendation it might be study more variables which is more related to impulsive buying on F&B product such as promotion strategies (discount, buy one free one, etc.)

## References

- Alauddin, Md, Hosain, Md.M , Ibrahim, Md, & Hoque, Md. A (2015). Perceptions of Consumer Impulse Buying Behavior in the Super Store: A Case Study of Some Selected Super Store in Bangladesh.
- Ampuero, Olga & Villa, Natalia. (2006). Consumer Perceptions of Product Packaging. *Journal of Consumer Marketing*.
- Bashar, A., Ahmad, I. and Wasi, M. (2012) "A Study of influence of demographic factors on consumer impulse buying behavior", *International Journal of Management and Strategy*, Vol. 3, No. 5, pp. 1-18
- Cahyorini,A. & Rusfian,E.Z. (2011). The Effect of Packaging Design on Impulsive Buying. Department of Administration Science, *Faculty of Social and Political Science, Universitas Indonesia*.
- Christy, P & Ellyawati, J. (2015). Pengaruh Desain Kemasan (Packaging) Pada Impulsive Buying. Program Studi Manajemen, Fakultas Ekonom, *Universitas Atma Jaya Yogyakarta*, Yogyakarta.

- Gandhi, A & Vajpayee, A & Gautam, D. (2015). A Study of Impulse Buying Behavior and Factors Influencing it with reference to Beverage Products in Retail Stores.
- Inman, J.J.; Winer, R.S. and Ferraro, R. (2009). "The interplay among category characteristics, customer characteristics, and customer activities on in-store decision making", *Journal of Marketing*, 73, pp. 19-29.
- Klimchuk, Marianne R., & Krasovec, Sandra A. (2007). *Desain Kemasan: Perencanaan Merek Produk yang Berhasil Mulai dari Konsep sampai Penjualan* (Bob Sabran, Penerjemah.). Jakarta : Erlangga.
- Nilsson, Johan & Ostrom, Tobias. (2005). *Packaging as a Brand Communication Vehicle*. Thesis of Lulea University of Technology.
- Philip Kotler (2015) *Marketing Management*, 15<sup>th</sup> edition.
- Sidjabat, C.A. (2015) *Development of Indonesian Food and Beverages Industry*.
- Talitha, M.I (2012). Analisis Desain Kemasan Dilihat dari Perceived Quality (Study Case: Kemasan Pouch Susu Kental Manis Frisian Flag Gold di Jakarta). *Fakultas Ilmu Sosial dan Ilmu Politik Program Studi Ilmu Administrasi Niaga*, Depok.
- Tendai, M & Crispen, C. (2009) "In-store shopping environment and impulsive buying", *African Journal of Marketing Management* Vol. 1(4) pp. 102-108
- Thornton, L.E., Cameron, A.J., McNaughton, S.A., Worsley, A. and Crawford, D.A. (2012) The availability of snack food displays that may trigger impulse purchases in Melbourne supermarkets, *BMC Public Health*, Vol. 12, No. 1
- Wakefield, M., Germain, D. and Henriksen, L. (2008) The effect of retail cigarette pack displays on impulse purchase, *Addiction*, Vol. 103, No. 2



The 1<sup>st</sup> International Conference on Family Business

## **FAMILY BUSINESS AND WEALTH CREATION: ETHICAL ISSUE?**

**Dr. Bruno Rumyar, MA (Author 1)**

President University, brunorumyaru@president.ac.id

President University, brunorumyaru@yahoo.com

---

### **Abstract**

*Family business is defined as a single family or two and more families that either have control and ownership for a significant and clear majority of all private enterprises in the global business. As the common business family business was driven for getting profit as wealth creation. This presentation has come to stand for an ethic point of view with some related questions. Are family Business & entrepreneurship impacts amoral? Is there any ethical issue related to wealth creation done by either family business or entrepreneurship? What is 'wealth' or 'wealth creation'? What motivation for wealth creation? What makes the difference in family business? What is sustainability of wealth creation as meant by global business include family business? A sustainable corporation should stand for the integrated P's such as Product, People and Planet. The corporation is not just about to possessing wealth or acquiring wealth (by legal or illegal means). Rather, the creation of wealth means to make something new and better for people life. The process of wealth creation is not simply the production of wealth, which, afterwards, is to be distributed. Rather, it includes a productive and a distributive dimension, which influence each other. The corporation either keep caring and promoting human rights and so developing a secure and good environment for all the life existences.*

**Key words :** *Family business, wealth creation, sustainability, triple P's.*

---

### **1. Introduction**

This writing is coming on the time of "A new era of Meaning". A new search for the new paradigm of life in varieties activities are propelled on value systems concerning for all parties. Consumerism driven wealth and status are being replaced by identity, belonging, and a strong desire to contribute and do something "meaningful" rather than just acquire things. With capitalism in not only an economic but also a moral crisis. The Authors and scholars are

constructing visions of a more sustainable, social business as recalled by Tim Leberecht in “The Meaning of Business” (2012). A management consultant John Hagel has declared, “The job of leadership today is not just to make money. It’s to make meaning”, while Umair Haque, the economist contended the need to reboot capitalism. Haque promoted a redefinition of “capital”: “20<sup>th</sup> century capitalism...marginally valued pure financial capital to highly, while marginally valuing human, natural, social, and cultural capital at zero –or, at the limit negatively. Neither Family business and any enterprises are in the need of getting meaning for a sustainable development.

## **2. Literature Review**

The activity of business both in private and corporation style is not out of the sphere of ethics or morality. “Business Ethics” (Richard DeGeorge, 2012) has become an applied ethics because it tries to express the meaning of moral duty, rights and justice both personally and socially, the responsibility of self and others, the responsibility for the environment and social life. Furthermore, what do we mean by the “creation” of wealth? Obviously, wealth creation is more than possessing wealth and is only one form of increasing wealth as to create is to make something new and better for an inclusive life (George Enderle, 2016). With capitalism term is not only an economic but also a moral crisis as to put marginally human, nature and environment (Tim Leberecht, 2012). All the points suggested stand for the paradigm of life where an existence of life is ontologically lays in the new path of “Trias Entitas” towards the ideal of human existence as needed in his relationship with God, environment and creatures (Bruno, 2016).

## **3. Research Method**

Hermeneutic-phenomenological approach has been coming as the philosophical method to describe qualitatively on the reality of family business both literally and in practice. Otherwise it is the way to get answer for the certain questions related such as are family business and entrepreneurship impacts amoral? Is there any ethical issue related to wealth creation done by either family business or entrepreneurship? What is ‘wealth’ or ‘wealth creation’? What motivation for wealth creation? What makes the difference in family business? What is sustainability of wealth creation as meant by global business include family business? “Understanding Management Research” (Phil Johnson and Joanne Duberley, 2000) explored that research methods in the field of management are inseparable from the reflection of the philosophy of knowledge (epistemology). Research in the field of management rests on certain epistemological assumptions, which can not be separated from the way they understand the essence of managerial and organizational practice such as family business or business in general. This approach comes critically to put the reality of the activity of business objectively with the certain notification. In other ways, the reality comes independently and concretely without any other interests.

## **4. Result and Discussion**

Henry Lefebvre (1991) put “Critique of Everyday Life” as the title of the volume of his writing. Human being has been coming as either object and subject for the time. The reality is about human lives in the modern time. What have been changed? It should be said for the first that modernity creates advantages and bane as explained below.

### **Modernity creates advantages and bane**

Modernity happened not only to Western World. The modernity has attached Eastern civilization. It is the name given to the series of spectacular transformations of life that are very stuff of any interpretation of our contemporary situation: from local and traditional economic system to free-market industrialized economies, from natural science as primarily classification and description to an internationally coordinated quest for progressive, experimentally supported theories that enable prediction and control; some people in the village left candles and ox-down plows and try for a panoply of technological marvels that have transformed the average standard of living and the way we relate to the world around us; from widespread loyalty on the authority for the superstition and credulity, to an equally widespread spirit of criticism that has given birth to free speech and the free press, to social and political institutions with an elementary capacity to criticize and correct themselves.

Modernity, however, has proved to be both boon and bane. These transformations are so powerful and pervasive that it is scarcely possible to escape their influence, no matter where in the world one lives; the modern life seems to sweep all before it, or under it, capturing or breaking the imagination of many people in their local cultures, and transforming life for better or worse. For one way, human life should be supported by the modernity. People come easier, for instance, in communicating the other just by using phone, electronic mail, internet. *Multi-media* or *On line system* just has been the model for modern business. People, in the other hand, find themselves changing rapidly under the influence of modernity, but with little capacity to assess, assimilate, control, or resist what is happening. For that, the realities should be bane for human lives.

Currently, globalization backdrops us in the social, cultural, political, information technology, and economical dimensions. Any change in the world will avoidably affect and be linked to societal life in all dimensions, especially the economical one which has an impact on people’s living. Our main income comes from the export and service sectors, for instance, oil export, agricultural and industrial products export, and hotel and tourism industries.

### **What is “Wealth” or “Wealth Creation”? “Sustainability” of wealth creation?**

Let’s have for the first the terminology of ‘wealth’ that literally meant “a large amount of something good” (Cambridge Advanced Dictionary, 2003). It could be everything that either promote in single or simultaneously with the other aspects for the well being of people. Human being personally and communally develop the ways to meet their need. Stuff of the need put the wealth and benefit for the owner while a way to make the stuff commonly becoming wealth creation. Historically, people individually and communally have the wealth by taking benefit

assets or properties from the other part or by winning and dominating them. Gathered commonly recognized as the ownership of money or having financial assets. People in my village start doing everything on their ways due to keep survive and earn to meet the need of modern style as the way of wealth creation. Other references use wealth as the net value for any marketable assets as areal of land, building, houses and some financial assets. People have tendency to develop well being characterized by economic performance, such as 'intangible wealth beyond measurable physical, financial and natural assets (John Pender, 2012). These are referred to everything that may contribute to the well being of people. People use all the goods that develop welfare physically consisting of house building, household furniture, , tools of music and recreation, tools of transportation and communication. All the materials that determine people's welfare under their control. All of these materials being used to determine the **economic capital**. Nevertheless the term welfare is to express also everything that beyond people's control such as energy of sun, fresh air, good temperature, beautiful view. These are the examples of **natural capital**. Nor do we assert that wealth includes all factors that determine well-being, since some factors that determine people's well-being are beyond their control—such as the amount of energy provided by the sun—and because investments in wealth do not necessarily improve anyone's well-being. Improvements in well-being depend on how the wealth is used and how the costs and benefits are distributed.

Both economic and natural capital come together as needed by people personally and communally. 'UNICEF Indonesia Summary Assessment "(October, 2012) noted some issues such as clean water, sanitation and hygiene. A person or community do not have a good habit to dispose of waste, dirty water drainage ditch and clogged canal, the location and type of housing is not worth living. The practice of heaping forest for illegal lodging, illegal fishing as well as various forms of indiscriminate exploitation of nature. Humans no longer seek other benefits from the natural environment unless the exploitation and destruction. Nature is beautiful and all its potentials (natural resources) should be a gift that can be cultivated for the sake of life, has been exploited not by a willingness to maintain its sustainability (Indonesia Report, 2012).

The first principle in the fulfillment of our existential existence is the realization that we live and inhabit this realm. Humans become one of the organisms inhabiting the nature - earth. Existential existence of man becomes an integral part of the ecosystem of this life (Jackson Gail: 2011, p.50). Reality and life intertwined with each other even determine a good basis for taking a stand against the threat of global crisis in all its aspects. Then the human existence find the fulfillment (self), among others through the recognition and efforts to build unity with the natural reality in one ecosystem as well. Balance, unity and harmony with nature and the environment of existing life became an 'integral ecology' in the entire existence of the existential (Francis Pope, 2015, p. 115).

Human lives even are different each other they are not separated. Human relationship create **human capital** and **social capital**. Human being ontologically grow up and mastering both his potencies and capability and so his attitude and behavior in order to contribute to the other (UNESCO, 2011). Life is naturally growing up and to producing the fruit as meaningful and contribute to the others. The life is being developed in relationship with the other such as parents, family and society. There is no single human life that comes from himself. Life

naturally explain the primal truth that the human existence does not escape from the presence of the other on how to build the 'environment'. Life presupposes the existence of living organisms as related and bound to each other. Relational human existence becomes a personal encounter terrain in the presence of each other. Then the existence of existential relational and personal bring men to an overrun of self (self transcendence). The existence such an existential as well as a way of self-fulfillment. This existential self-fulfillment is never a personal conception of an exclusive but always a form of existence of life "I - Thou" or a single encounter (Buber: 1974, p.86). This encounter gave birth to a life of fraternity or brotherhood. The style of life is not solely based on blood bound - biological factors; even though the relationship and biological descent is not a guarantee of the existence of existential relational shaped this fraternity. Some issues on human capital could be identified. Life and changes in contemporary society affect also the paradigm and human lifestyle. The high spirit of consumerism has justified the quality and achievements of humanity measured only by the nominal amount of money. The practice of misuse profession for personal and group interests based on uncommendable grounds; paradigm of profession and employment merely as a stage for a living, the practice of structural and systematic crimes have impact on the increasing number of detainees, as reported by the Central Statistical Bureau of Indonesia (2012). Life and interpersonal relationships have been transformed into a functional relationship. A man becomes an object for other human beings. in other words, people manipulate each other to pursue his objectives.

For the sense on integrated capital of life then wealth creation will consider everything either for the single one or totally as the main parts of human lives and human being. People come and do their best on the integrated capitals due to create the wealth orderly or disorderly. The last point has contributed to increase differential wealth even gap between the people in the society.

### **Sustainable Development – New Concept of Wealth Creation**

Everyone is talking about future development. People develop their way to meet the future life, but we may question about what are the sustainable development goals as well? There should be three components of sustainable development such as economic progress, social development, and environment (Enderle, 2016). The economic progress deals with all the ways that accumulate economic and social, quantitative and, specifically, qualitative changes, which causes the national economy to cumulatively and durably increase its real national product. For the other side, economic growth is determined by the number on income per capita nationally that come more for a Gross Domestic Product (GDP) versus Gross National Product (GNP) to meet National Income (NI). Social development content is about the increase of human lives in relationship each other. It is a way of social interaction guided and led by social behavior, consciousness and cognition (Frank, 2013). It was initiated from family life where the children were customized with good and polite relationship. Social humanization and interaction then being developed during the school age for each level where students keep develop and make mature of his social skill within a hard and soft skill technically and normally



as well. The community life is consisting of people who are contributing to social development for the field related. Enderly (2016) then rose question, “*Can there be any truly sustainable development? Will it be possible to deliver economic progress, social development, and environmental improvement?*” Although the current harsh economic challenge and pressures, we remain totally committed to a strategy that develop profits that affecting to the creation of well-being of the planet and its people. People need to evaluate the effect the business makes on society and ensure that we balance the economic, environmental and social aspects everything people do. And we urge our peers in the world of industry and commerce to think and act in the same ways (Mark Moody-Stuart, 2010).

Sustainable development is the consideration of well-being over time requiring the perseverance of different types of capital as economic capital, natural capital, human capital, social capital (OECD 2013; see also Stiglitz-Sen-Fitoussi Commission Report 2009). This consideration has rose up the question on the need of new concept formulation of wealth creation. Why do we need a new concept of wealth creation? We need to have the correct purpose of economics, business activity and all the ways of business organization. Is there any ontological purpose for doing business? What is the philosophy of business or economic activities? What is the term using for profits creation? Some questions for issue related bring the need for proposing the new concept on wealth creation as well in the modern business.

Wealth is a term fully interpreted on the well being of an existence. It is dealt both in single and concurrently with the realities such as natural, economic, human, social, and capital source in varieties. All the realities are either integrated and inseparable creating an order system as ecosystem. Nature is consisting of living organism in unification with the others as nonliving things such as air, water and mineral soil. The realities come as a community that interrelated and interacting each other as a system. Both biotic and abiotic things are regarded as the gift for human life. People therefore initially do a responsible living with the environment for the need of the fresh air, clean water and the supporting mineral soil and so for the others of biotic organism. All the interrelated and interacting realities are no exception creating an economic life circle. Everything is either created and developed so that be enable to do the best of the other. The existence of one organism comes for the others ontologically. The economic life circle is constructing either the way of giving and taking as well. Economic activities are consisting in balance between producing and consuming vice versa. “Economic behavior over the life cycle can be summarized by the amount consumed at each age and by the amount produced through labor at each age. One sort of economic dependency occurs when consumption exceeds labor earnings, a condition that marks off periods in childhood and old age. From this point of view, an older person is economically dependent even if she has accumulated claims on output that more than offset her consumption, claims that could take the form of entitlements to transfers or ownership of assets” (Ronald Lee, et.al., 2006). People ontologically do present the other existences both those who we got our best and so we do represent the others people to whom we should do our best. Life circle put people economically in take and give in harmony and balance.

### **Concerning of Triple P’s**

Wealth sustainability then is a way to stand for the integrated capital or prosperity in triple P's such as, **Product, People, and Planet**. Sustainable development keeps do considering the integrated components on economic progress, social development, and environment improvement. The economic progress will determine the quality of product as the social development should stand for a good human capital considering by the corporation as the moral actor, meanwhile environment improvement should come for natural and social capital in a good atmosphere of the environment to support the life. Therefore it should be still a need for renewing the concepts considered.

Family business and entrepreneurship first of all should have classified and do prevent the blurred boundaries between family, ownership and business. This clarification will lead the business in family stile where everyone has recognized well his inseparable responsibility to promote the corporation in totally. This considering will either create a good ownership and implementing good job description for every single person.

Wealth creation in this point of view is not just about possessing wealth or acquiring a lot of products (by legal or illegal means). Rather, producing the product means to make something new and better. Production process is not simply the production of wealth, which, afterwards, is to be distributed. Rather, it includes a productive and a distributive dimension which influence each other. Productivity means all the process legally to create something new and better for an integrated life of the existences.

Integrated life has put human lives for the first point. Human activities should be conducted firstly to support human life personally and socially. Human life can never be a means or merely as an experiment for certain purposes. All the activities are to support the securing of human rights that comprehend all the rights such as civil, political, economic, social, and cultural rights, including the rights to development.

Environment is not merely about everything around us. An integrated life has put the environment as the "place where we live together" (Francis, Pope, 2015). Human being are not separated with the other being in this planet. The tendency and incentive either to maintain and keep a good balance and harmony with nature and the environment has become the ontological tendency of human existence. "What happens to our house" as asked by the Pope (2015). Human life was faced by so many problems in this planet, such as clean water, sanitation, People and society do not have the good to dispose of waste, disposal of waste water by industrial and dirty and clogged ditch, forest destruction, illegal logging, illegal fishing and various forms of natural exploitation as happened (UNICEF, 2012). All the activities finally should develop a good environment where all the existences may have good way to stay without any irresponsible behavior.

## **5. Conclusion and Implication**

Some principles are to be underlined as the result of this research as followed. Ethics is about morality of human attitudes for the certain purpose both individually and communally. The

activities are ontologically are becoming the integrated essence of human being to support the recognized capitals as well.

Proposing capitals of human lives has been coming on the paradigm of wealth creation for a sustainable development. Human potentialities are being empowered to create the meaningful of an inclusive and integrated life for all existences.

The paradigm of activities of life for any level both indoor and outdoor have got implicated for any kind of decision making. People may choose any way to promote the meaning of life as two surfaces of coin. For one, people should realize the best service of the other direct and indirectly. For the other part, people are top realize themselves to do their best for the other well being. Every one comes in this dignity.

---

## **References**

Enderle George, (2016), *Business Ethics and Wealth Creation*, University of St. Thomas, USA.

George de Richard, (2012), *Business Ethics*, University of Kansas, USA.

Jimmy Antonsson, et.al. (2012), *Ethics in Family Business and Venture Capital Firms*, Umea, Swedia.

Leberecht Tm, (2012) , “The Meaning of Business”, Frog Publisher, India.

Henri Lefebvre (1991), *Critique of Every day Life*, Vol.1, Bristol.

Rummyaru Bruno, (2016), *Pemenuhan Ontologi Eksistensi Manusia*, Disertasi Filsafat UI Depok.

Rummyaru Bruno, (2017), *Ethics and Global Business*, International Seminar, UBM Jakarta.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**THE INFLUENCE OF FUNCTIONAL VALUE AND  
EMOTIONAL VALUE TOWARDS  
CUSTOMER RELATION MANAGEMENT  
IN JABABEKA GOLF & COUNTRY CLUB**

**Author 1,**

**Kevin Togu**

Cimahi, 16 August 1994

*President University, kevintogum@gmail.com*

**Author 2,**

**Ihsan Hadiansah**

Tasikmalaya, 24 October 1987

*President University, hadiansah@president.ac.id*

*The golf industry is in great demand right now, and many people in Asia love to playing golf. It's obvious if Indonesia also has its own golf industry, and this journal examines the golf industry in Jababeka located in Cikarang, Indonesia. Hence this research focuses on the perspective of the customer of Jababeka Golf about how the influence of the perceived value toward customer relation management. And the concentration of the perceived value itself is about the functional value and emotional value. The sample of this research consisted of 452 customers for nonprobability sampling.*

***Keywords: golf industry, functional value, social value, customer relationship management (CRM), perceived value***

## **1. Introduction**

According to Sanchez (2006), the essential result of marketing activities and the first-order element in relationship marketing is perceived value. So, by understanding perceived value, understand also marketing activities. The understanding of perceived value itself is divided by two according to sanchez (2006). First, perspective of percieved value as a cognitive variable is partial, second, preserving percieved value concept between “giving” and “getting”.

Perceived value itself divided into three values, they are functional value, social value, emotional value. According to Choi (2012), social firm customers are fanatic in social issues, take attention on social value including the benefit of society and on experiential value. *“Emotional benefits may also affect choices between instrumental alternatives that are functionally equivalent in other aspects”*<sup>†</sup>

The researcher wants to emphasize perspective of perceived value by implementing it for Jababeka Golf customer, as well as the researcher curious about how worth Jababeka Golf from the perspective of their customers, are they unaware of the true cost of service for the service they bought, are they simply have an emotion or internal feeling for how much certain services are worth to the customers, value of the price has become not a big deal since the services are worth it for the customers.

The topic of this research is perspective of perceived value towards Customer Relation Management (the study of Jababeka Golf). The researcher chose this topic because the evaluation/research investigates the value that affect customer by Jababeka Golf itself.

Based on leadingcourses.com site, who has a role as an intermediary for the golfers around the world that serve to exchange information that convenient for golfers, Jababeka golf has a rating of 7.1 out of 10, with 18 holes and one golf course, green fee weekdays Rp. 575,000.00, and weekends green fee Rp. 1,750,000.00, this is out of the event held in Jababeka Golf.<sup>‡</sup>

From the information above, the researcher getting curious about how Jababeka golf achieved 4,500 up to 5,000 visitors, 4,500 aren't small number, there must be any strategies from Jababeka Golf, what kind of relation were made, and now by evaluating the perspective of Jababeka Golf customer the researcher hope to find the answer, both perceived value and customer relation management had a big role for Jababeka Golf.

Following the issues that have been elaborated above, the problem of this thesis would be defines as follows:

1. Is perception of value has a significant influence toward the CRM performance of Jababeka Golf?
2. Is there a significant influence of functional value toward CRM performance of Jababeka golf's services?
3. Is there a significant influence of emotional value toward CRM performance of Jababeka golf's services?

The research objectives in this thesis are classified on the type of this thesis research; quantitative data research. The aims of this research are followings:

- 1) To explain the significant influence of perceived value toward CRM performance of Jababeka Golf.

---

<sup>†</sup> Havlena & Holbrook, 1986, p. 394

<sup>‡</sup> <https://en.leadingcourses.com/asia+indonesia+java+west-java/jababeka-golf-country-club/detail.html> Accessed at March 21, 2017

- 2) To explain the significant influence of functional value toward CRM performance of Jababeka Golf's services.
- 3) To explain the significant influence of emotional value toward purchase intention of Jababeka Golf's services.

The scope and limitation of this study only focus on Customer loyalty of Jababeka Golf. This study also limited to the variable its uses, Perceived values, Emotional Value, and social value as an independent variable, and CRM or customer loyalty as the dependent variable.

## **2. Literature Review**

### *2.1. Customer Relationship Management (CRM)*

According to Choi (2013), customer relation management was spread-out in the mid-1990s as a new term, CRM is one of the marketing technique and an investment approach, so a company can identify customer, by understanding the customer company could influence customer behavior. By providing customized services for each level of customer and a significant relationship, company could achieve more customers, retain customers, increase customer loyalty, and improve customer profitability.

So, many businesses nowadays try to build effective communication with the aim to satisfying their needs, from research by doing effective communication the predecessor found out that attracting new customer is harder than maintaining current customers, so customer relationship management used in many cases.

The fundamental objectives of CRM is to ensure steady streams of revenue and maximisation of customer lifetime value or customer equity, customer behaviours that might bring revenue streams become strategically significant (Grant and Schlesinger, 1995; Bolton et al., 2002). According to the study of Mazumdar (1993), customers are becoming more value-oriented and are not simply influenced by high quality or lower price to be loyal towards a brand or services. Rather, they tend to make a reasonable trade-off between the perceived benefits and perceived sacrifices in the process of obtaining and consuming products or services. However, not all the customers value the same potential benefits and care for the same sacrifices at any given time.

Besides customer behaviour-based CRM performance we defined and emphasized above, many researchers have emphasized the role of relationship quality as an intangible aspect of CRM performance, and dimensions such as satisfaction, commitment, and trust have been used to measure the complicated concept "relationship quality" (Crosby et al., 1990; Dorsch et al., 1998).

It is believed that CRM performance should be measured ultimately in terms of customer behaviours since they are the underlying sources of value of current customers of a firm and have the potential to increase the future revenue streams associated with them and

those prospective customers. Because the fundamental objective of CRM is to ensure steady streams of revenue and maximisation of customer lifetime value or customer equity, customer behaviours that might bring revenue streams become strategically significant (Grant and Schlesinger, 1995; Bolton et al., 2002). CRM could be affecting on consumer perception towards the services or products without even caring the price, same theories according to the study of Mazumdar (1993), customers are becoming more value-oriented and are not simply influenced by high quality or lower price.

## 2.2. Perceived Value

From the studies of Choi (2013), customer satisfaction and repurchase intention are the positive effects of perceived value in the future, the positive relationships of quality, value, customer satisfaction, and repurchase intention are exists in social enterprises context. Perceived values are core elements of marketing activities. From the previous study perceived value has been practiced in marketing relations. There are factors that influencing perceived quality, which are separated into perceived price fairness, external factor, and internal factor. Therefore, both perceived value and perceived quality are truly related, in other words perceived quality advance to high perceived value.

On the other hand, there are another studies produced different result of perceived value, that's negative effect of the expensiveness on perceived value. Explained that the effect of perspective of price on perceived value by demonstrating the feedback among mediating variables, that is, perceived sacrifice and perceived value, Dodds, et al., (1991).

Based on a combination of values, consumption activity is often complex. Generally it's separated into two different concepts, both are benefit received by the customer and sacrifice made by the customer. For the benefit received by the customer it's subdivided into *social, economic, and relationship (emotional)*; for sacrifice made by the customer subdivided into *time, effort, risk, price, and convenience* (Lai 1995). Further, these two different concepts combined and become three dimensions of values which are *economic, social and relationship/emotional* (Sweeney and Soutar 2001). In this research, researcher just uses only two dimensions to be applied, both are emotional value and functional value.

### 2.2.1. Emotional Value

It came from the emotion and feelings that the product or service produces in customer, that's what called as emotional value. "Emotional benefits may also affect choices between instrumental alternatives that are functionally equivalent in other aspects." (Havlena & Holbrok, 1986, p. 394). Further to describe emotional value is to generate affective states or feelings, the perceived purpose acquired from an alternative's capacity. Emotion value also applied in ads, especially in advertisement strategies that needs a donation for foundation, such as animal foundation and orphanage foundation.

*“We define emotional value as that part of willingness to accept unexplained by the financial value of the ownership stake and the private financial benefits of control accruing to the owner.”* Thomas Zellweger, Joseph H. Astrachan<sup>§</sup>. When he or she is willing to sell at minimum price, emotional value can be seen as the residual between financial flows to the owner<sup>\*\*</sup>.

### 2.2.2. Functional Value

Good value of the price and good quality of product, describe the functional value. Hence it refers to the economic valuations and rational made by individuals (Sweeney Soutar 2001). From a methodological perspective, functional value is subdivided into four dimensions of values, which are price, social value, installation, and professionalism. It's true that customer looking for the best service and product, so they are searching for company with good quality of functional value.

The dimension of functional value which are installment, price, professionalism, and social value has it owns definition. For the professionalism focused on how well the staff and employee works or serves the customers, are they satisfy the customer or not. Installation is the media for the customer to satisfy the customer expectation and needs. Price is a measurement for how worth the service or product is, it's the indicator how much the customers must spent from their investment.

### 2.3. Previous Research

There are some previous research that could be look up to understand further of this study research. In the previous research, researchers overall uses attitude, price-value, functional value, behavioural intention and satisfaction as their variables in completed with purchase intention, meanwhile the researcher of this study will only focus in uses two dimension of perceived value rather that all four dimension as the researcher see as the relevant dimension used for characteristic of Jababeka Golf customer. When the previous researchers used Canada, China and other region as their coverage sample area, the researcher of this study used Jababeka Golf's customer as his study sample.

## 3. Research Methods

### 3.1. Theoretical Framework

Below is the sketch that will describe connection between variables, it's focused on some parts of perceived value towards customer relation management.

---

<sup>§</sup> [https://www.alexandria.unisg.ch/45908/1/Emotional%20Value\\_%20Zellweger\\_Astrachan.pdf](https://www.alexandria.unisg.ch/45908/1/Emotional%20Value_%20Zellweger_Astrachan.pdf) FAMILY BUSINESS REVIEW, vol. XXI, no. 3, September 2008 © Family Firm Institute, Inc. page 347

<sup>\*\*</sup> FAMILY BUSINESS REVIEW, vol. XXI, no. 3, September 2008 © Family Firm Institute, Inc.



Figure 3.1. Theoretical Framework

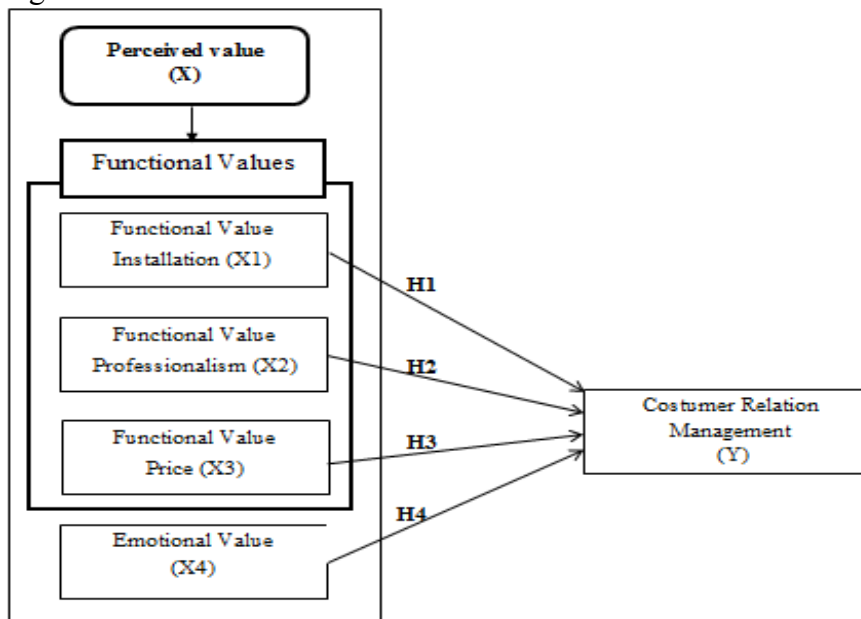


Figure 3.1 describe two parts of perceived value (X) towards customer relation management (Y), as the illustration above, the perceived value divided into two elements, they are functional value and emotional value (X4), functional value subdivided into installation (X1), professionalism (X2), and price (X3). So, inside all of the framework that made by the researcher, it's clear consist of five variables, four independent variables (X), and one dependent variable (Y).

### 3.3 Hypothesis

From theoretical framework above the researcher assume that as hypothesis below.

**H1** : There's significant influence of Functional Value of Installation toward Customer Relation Management.

**H2** : There's significant influence of Functional Value of Professionalism Installation toward Customer Relation Management.

**H3** : There's significant influence of Functional Value of Price toward Customer Relation Management.

**H4** : There's significant influence of Emotional Value towards Customer Relation Management.

### 3.5 Instrument

To understand the dimension of the research, the examples of dimension are questionnaire, test, survey, etc; that's what instrument is.

### 3.5.3 Questionnaire

The researcher using questionnaire as the instrument, hence this research is quantitative research, who needs many respondent to measure how good the services. The questionnaire divided into two parts, the first part is for the respondent simple background, in this first part the questionnaire will show how old is the respondent, how many times the respondent play in Jababeka Golf in a year, where the respondent come from, and how many years the respondent playing in Jababeka Golf. The second part will ask about the researcher variables.

This questionnaire shown in Likert Scale format, so there will be 7 scales in a range of 1-7. Each number has its own meaning, 1 for strongly disagree, 4 for neutral, and 7 for strongly agree.

Before the researcher spread all of the questionnaire, the researcher doing the pilot test to the 30 respondent for checking the validity of the question.

### 3.6 Sampling

To represent whole population, it needs some sample from every different background of the objects itself. This research leads to non-probability sampling, where this technique isn't providing an equal opportunity, and the population aimed to golfers who use Jababeka Golf industry. As mentioned before, the researcher using pilot test for the validity of the question before spread to the entire golfer, it takes 30 respondents to answer the questionnaire also test validity and the reliability of the question, and then matching the question that suitable for the respondent for the next spread into the population. The samples of the research that takes by the respondents are about 500 respondents.

## 4. Analysis and Discussion

### 4.1. *Descriptive Study*

In this study the researcher gather analysis and explain the study through the data that gather from the form of survey with questionnaire as the instrument, and analyzed the data by using reliability, validity, and hypothesis testing. Collecting information through survey according to Suparmoko (1999), are one method where the researcher questioning the group of individual who had direct relationship with the objective of the topic we studied. This method could be done through various forms, such as interview, filling in questionnaire, etc.

#### 4.1.1. *Reliability and validity*

Commonly in quantitative research, the researcher used validity and reliability test, hence this research is quantitative research, so the researcher using validity and reliability test to strengthen the research. Collected data is biased if the data are less from the limit of the reliability and validity test.

*Reliability Test*

The computed values for alpha values for the research variables are shown in Table 4.1 as follows:

*Table 4.1 Reliability Test*

No.	Variable	Cronbach Alpha ( $\alpha$ ) Statistic Test	Reliability Information
1	Functional Value (Installation)	0.685	Reliable
2	Functional Value (Professionalism)	0.691	Reliable
3	Functional Value (Price)	0.633	Reliable
4	Emotional Value	0.638	Reliable
5	Customer Relation Management.	0.696	Reliable

In this reliability test aims to measure the consistency of data, the gauge of this measurement is Cronbach Alpha Test. when the alpha is below 0.5 it means the data are unacceptable, if alpha between 0.5 and 0.6 means the data are poor, if alpha between 0.6 and 0.7 means acceptable, and last if the data is between 0.7 and 0.9 it means the data are good.

Based on the Table 4.1, shows that functional value of installation is 0.685; functional value of professionalism is 0.691; functional value of price is 0.633; emotional value is 0.638; and last customer relation management shows 0.696. From table above researcher made conclusion that every data are acceptable because it were between 0.6 and 0.7, obviously reliable.

*Validity Test*

To test data are valid or not, researcher commonly used Bartlett's Test to determine every single variables correlation. Keiser-Meyer-Olkin (KMO) for testing sample adequacy must be over than 0.5. Result of the test explained below.

Table 4.2 - Validity Test

No.	Variable	KMO	Bartlett's Test of Sphericity	Sig	Validity Information
1	Functional Value (Installation)	0.649	191.461	0	Valid
2	Functional Value (Professionalism)	0.680	196.198	0	Valid
3	Functional Value (Price)	0.636	131.027	0	Valid
4	Emotional Value	0.703	207.258	0	Valid
5	Customer Relation Management.	0.649	162.934	0	Valid

Table 4.2 determined functional values of installation, professionalism, price, emotional value, and customer relation management are valid. All of the variables are above 0.5, the outstanding one is emotional value for 0.7.

#### 4.1.2. Hypothesis Testing

##### 4.1.2.1. F-Test

The result of Regression Analysis with Simultan Significant Test (test of F statistic) for  $H_1$  in this descriptive study in the table

Table Output from Simultan Significant Test (test of F statistic)

No.	Independent Variable	Dependent Variable	Hypothesis	F	Sig.	Information
1	Functional Value (Installation, Professionalism, Price), and Emotional Value	Customer Relation Management	$H_1$	46.704	0.000	$H_1$ is Accpeted

The spss output from table show that F value is 46.640 bigger than 4 (number of independent variable) and the value of significant is 0.000 lower than 0.05; So all Independent variable such

as Functional Value of Installation, Functional Value of Professionalism, Functional Value of Price and Social value simultaneously give significant effects toward dependent variable which is Customer Relation Management in Jababeka Golf & Country Club.

the hypothesis testing for  $H_2$ ,  $H_3$ ,  $H_4$  and  $H_5$  are using Partial significant test (test of t statistic). uji t parsial dalam analisis regresi dilakukan untuk menguji signifikansi independent variable (X) secara parsial toward dependent variable (Y).

**The criteria used are:**

If Sig. value  $> 0.05$ ; there is no significant effect between independent variable and dependent variable. which  $H_0$  is accepted. Sig. value  $< 0.05$ ; there is a significant effect between independent variable and dependent variable. which refers to hypothesis alternative ( $H_2, H_3, H_4$ , and  $H_5$ ) is rejected (Ghozali)

4.1.2.2. T-Test

**Table 4 Output from Individual Parameter Significant Test  
(test of t statistic)**

No	Variable		Hypothesis	Beta	Sig.	Information
	Independent	Dependent				
1	Functional Value (Installations)	CRM	$H_2$	0,128	0.005	$H_2$ is Accepted
2	Functional Value (Professionalism)	CRM	$H_3$	0.076	0.087	$H_3$ is Rejected
3	Functional Value (Price)	CRM	$H_4$	0.196	0.000	$H_4$ is Accepted
4	Emotional Value	CRM	$H_5$	0.302	0.000	$H_5$ is Accepted

Source : Primary Data (2017)

**a. Functional Value of Installation (X1)**

The test using SPSS for variable X1 obtained the t value = 2.824 with significance (Sig.) value of 0.005. By using the 0.05 for  $\alpha$  value, the significance value is lower than 0.05 and the t value  $> t$  table (1.965) with  $df = 447$  which means that  $H_0$  is rejected and  $H_a$  is accepted. So, the first hypothesis is accepted that there is significant influence of Functional Value of Installation towards Customer Relation Management.

**b. Functional Value of Professionalism (X2)**

The test using SPSS for variable X2 obtained the t value = 1.715 with significance (Sig.) value of 0.087. By using the 0.05 for  $\alpha$  value, the significance value is bigger than 0.05 and the t value  $< t$  table (1.965) with  $df = 447$  which means that  $H_0$  Accepted and  $H_a$  is Rejected. So, the

first hypothesis is rejected that there is no significance influence of Functional Value of Professionalism towards Customer Relation Management.

#### **c. Functional Value of Price (X3)**

The test using SPSS for variable X3 obtained the t valued = 4.408 with significance (Sig.) value of 0.000. By using the 0.05 for  $\alpha$  value, the significance value is lower than 0.05 and the t value > t table (1.965) with df = 447 which means that  $H_0$  rejected and  $H_a$  is Accepted. So, the first hypothesis is accepted that there is significance influence of Functional Value of Price towards Customer Relation Management.

#### **d. Emotional Value (X4)**

significance level of emotional value is 0.000 which is lower than  $\alpha$  (0.05). It means that on partially, emotional value has significantly affects on CRM. Thus, it can conclude to reject the Null Hypothesis ( $H_{01}$ ) and accept the Alternate Hypothesis ( $H_{A1}$ ) which states there is a significant effect of emotional value to CRM and also emotional value has a positive impact towards CRM which means if the emotional value is high, the performance of CRM is high.

### *4.2. Discussions*

For this analysis found that functional value (price, installation, and professionalism) and emotional value has significant impact towards CRM, but after using regression analysis (F-test) the functional value of professionalism have no significant impact towards CRM..

## **5. Conclusion**

This research is conducted to find the influence of Functional Value of Installation, Funtional Value of Proffessionalism, Functional Value of Price and Social Value towards Customer Relation Management. The survey was conducted by printed questionnaire to Guest of Jababeka Golf & Country Club. This research used SPSS to test the hypothesis. After conducting the analysis process in order to accomplish research objective, the result are:

1. There is a significant impact of Funtional Value of Installation Customer Relation Management Performance in Jababeka Golf & Country Club.
2. There is no significant impact of Funtional Value of Professionalism towards Customer Relation Management Performance in Jababeka Golf & Country Club.
3. There is a significant impact of Funtional Value of Price towards Customer Relation Management Performance in Jababeka Golf & Country Club.
4. There is a significant impact of Emotional Value towards Customer Relation Management Performance in Jababeka Golf & Country Club.

## **5.2 Recommendation**

According to the testing result of this research, only 31.9% of the dependent variable can be explained by the independent variable. That means there are many other factors that could influence customer satisfaction as well. Such as reputation, service quality etc. just like how Artinah Zainal (2016) put it in the research: customer satisfaction not only influenced by perceived value, where monetary price was seen to be the best predictor of customer satisfaction. By understanding customer behavior in business, so it can help the company operator to achieve their marketing objectives at the same time accomplish organizational goals. This is because customer satisfaction will lead to determinant of repeat sales, positive word of mouth, and customer loyalty.



# **BUILD STRONG CUSTOMERS RELATIONSHIP MANAGEMENT (CRM): SOCIAL VALUE AND EMOTIONAL VALUE THAT PERCEIVED BY THE CUSTOMERS**

**I Gede Rian Prasetiawan Giri, Ihsan Hadiansah**

*President University, riangiri20@gmail.com*

*President University, hadiansah@president.ac.id*

## **Abstract**

*The industry of golf business have not just dominate America nor Europe anymore, but have started spread throughout Asia, which included Indonesia, which have increase the number of competition within golf industry and Jababeka Golf have develop as one prominent name in Indonesia. Thus, this study's objective is to find the influence between two dimension of perceived value; emotional value and social value towards customer relationship management in the Jababeka Golf. Data was collected using questionnaire distributed in Jababeka Golf. Ultimately, the research sample consisted of 452 customers that selected by nonprobability sampling. The primary data were analyzed by using multiple regression analysis. Based on the result, both dimension of emotional value and social value have a significant effect toward customer relationship management.*

***Keywords: golf industry, emotional value, social value, customer relationship management (CRM), perceived value***

## **2. Introduction**

Before understanding perception of value, is it important to understand what value itself is. According to Woo (1992), there are four-general meanings of value for people, but in this thesis the researcher will only focus on two definition that identify by Woo which are; (1) “...what a society collectively sees as important ... regardless of whether or not such highly valued objects of consumption really contribute to his/her well-being.” The second definition of value referring to the point of “...what the individual holds to be worthwhile to possess, to strives or exchange for.”<sup>††</sup> Both this definitions are from two different perspectives where this second definition is lean into individual and subjective rather than objective interpretation of value.

From the definitions above, it will more easily to understand the perception of value. Like any other research, there are many scholars whose used different terms to define/interpreted of perceived value. According to Woodruff 1997, he listed the definition that stand out and commonly used among all the terms in varied literatures, which are: (1) Perceived value is essentially linked through a use of products, service or object; (2) define as the consumer individually perception rather than being objectively determine; (3) involves an exchange, there of what he/she acquires are initiation from what he/she have to spend of.

In the same context, purchase intentions closely influence by the perception of value. Purchase intention is will always related with individual/consumer's behavior and perception. According to Ghosh (1990), purchase intention becomes an effective tool that use to determine and calculate the purchasing process. For instance how once the consumers decide to purchase a products, it will always drive by their intention. However this intention might be transformed by the perception of values.



The topic of this research is the perception of value toward purchase intention (the study of Jababeka Golf). The researcher choosing this topic is because the evaluation/research not just focuses on the consumption experience but as well focusing on the purchase experience as the important variable in this research which focus on Indonesian consumer that have a different behavior in perceiving values.

As it is have been explain in the background of study of how it is important to understand what is value before further discussion of this study. The term value is commonly confounded especially between the areas of strategic marketing and consumer behavior. Customer value, from marketing perspective, refers to product evaluation in purchase situation. Consumer values, however, focus on how consumers value the possession of products. When referring to personal values, the term value is often described as a belief that leads to actions and is in accordance with personal preferences and behavior is the main consequence of values (Homer & Kahle 1988).

Golf today is a sport that transcends entertainment, lifestyle, health and community. It is a multi-billion dollar industry that is experiencing some of its most tumultuous times. Geographically, too, changes are afoot. The traditional heartlands of golf, North America and Europe, remain at the top of the rankings in terms of viewers, interest and, at mass participation level, even number of golf courses, but other markets, primarily Asia, are joining the party. Hence, Indonesia golf industry is also started its development growth within the industry as it is stated by the Tourism and Creative Economy Ministry that golf will be added in the special tourism category that will be further develop and promoted to attract more foreign golfer.

Golf industry central Australia reported that Indonesia are potentially will develop 50 more golf course within the next view years in the country and Jababeka Golf and Country Club become one of prominent name in the Indonesia Golf Industry. Jababeka Golf located in Jababeka industry area in the district of Bekasi as a Leisure area in the middle of elites around Jababeka industry. Jababeka Golf opened back in 2012. The club have draws 4,500 to 5,000 golfers and guests every month, which the costumer mostly Koreans, Japanese and Europeans. Since it is first opened, Jababeka Golf and Country Club initiate as a semi-private facilities which given a more easy access rather than others that provide the same services. The services that provided by Jababeka Golf included private restaurant, store which provides varies golf utilities as well as Room and Banqueting which could be used as meeting room, hosting a party and hosting varied ceremonies. The Jababeka Golf Course have offers varied price for its costumer.

Efforts were made by the Jababeka Golf management with aims to maintain its consumers. But that does not constitute an easy thing, because of some changer happen all the time, both the business and to customers itself.

Following the issues that have been elaborated above, the problem of this thesis would be defines as follows:

1. Is perception of value has a significant influence toward the CRM performance of Jababeka Golf?
2. Is there a significant influence of emotional value toward CRM performance of Jababeka golf's services?
3. Is there a significant influence of social value toward CRM performance of Jababeka golf's services?

The research objectives in this thesis are classified on the type of this thesis research; quantitative data research. The aims of this research are followings:

- 4) To explain the significant influence of perceived valued toward purchase intention of Jababeka Golf.
- 5) To explain the significant influence of emotional value toward purchase intention of Jababeka Golf's services.
- 6) To explain the significant influence of social value toward purchase intention of Jababeka Golf's services.

The scope and limitation of this study only focus on Customer royalty of Jababeka Golf. This study also limited to the variable its uses, Perceived values, Emotional Value, and social value as an independent variable, and CRM or customer royalty as the dependent variable.

## **6. Literature Review**

In the trend of globalization, a business competition have intensely increased, the role of customer have changing which have not only become a mere-customer anymore but they also have a diverse roles; involve as consumer, cooperater, co-producer, co-creator of value, and co-developer of knowledge and competencies, which showed/conclude customer have much more important roles than ever. And as the result, it has affecting the

substantial increase in the interest to create and deliver the value to customers and the effective management of customer relationship. In which, it is important to understand in depth of CRM and as well perceived value.

### *6.1. Customer Relationship Management (CRM)*

Customer Relationship Management (CRM) is a widely known of its importance in driving the competitiveness of varied industries. Before we discuss in depth of CRM, the researcher ought to explain what CRM is. A general view of CRM is database marketing design which focusing on how the promotional marketing is closely linked toward database management tools and an initiative that belongs to all the areas of organization and businesses. CRM referring to its application of technology that utilizes to maximize the relationships with the customers which prospect to maintain customer royalty and growth. Customer Relationship Management (CRM) is the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers for the company as well as maximizing satisfaction for customers (Rajagopal, Sanchez and Romulo Sanchez, 2005).

CRM used coordination in between the common view that shared by the customer for their base operation (Eckerson and Watson, 2000). Furthermore, as the business gets larger and customer relationship significantly increase in number, the collaboration will started to involve the integration between different departments within the business, which provide the better customer service. From the definition above, the details explanation whereas, CRM is a business strategy that designed comprehensively to enhance an internal function of an organization/businesses with its aims to identify, acquire, deliver, develop and retain customers. These aims are to ensure to effectiveness and efficiency of the organization/businesses in long term run.

As the objective of CRM performance is to ensure the steady growth of the business revenue and enhance of the customer lifetime loyalty/value, it is important to understand the customer behavior as the core source of value itself. Defining CRM solely based on the customer behavior measurement, as it is strongly believe how the customer behaviors as the sources of current customer value and potential growth of the future revenues of the businesses. The current phenomena, the customer not anymore rely solely on the price nor high-quality rather leaning more toward value-oriented. As the research of customer behavior by Mazumdar (1993) explain as there are larger range of factors that influence the customer beyond purchasing, which included the need of recognition, information search, evaluation of an alternative choices, constructing the purchase intention and the consumption.

### *6.2. Perceived Value*

People whose involve within marketing, retails or other business industries have familiar with the term of perceived value, this term first received interest by the researcher in early 1990s and until today have still become an interesting topic to be discuss by many researcher as proofed by 'perceived value' have been added within top priority list for 2006-2008 research by The Marketing Science Institute. Although, there are many term can be used to describe perceived value, but Sweeney & Soutar (2004, pp. 204) are the simplest to explain further of perceived value. Referring to it, perceived value is interactive, because the development of value is dependent on two parties, or simply where a firm and its stakeholder, coming together.

According to Khalifa (2004), as this being establish that loyalty and profit are strongly being enhance by the value that created by the customers which establish 'customer value' becoming the basic fundamental issue that need to be discuss around and within the marketing activities. In spite of wide interest surrounding the issue of customer value, many still misunderstood 'value' with 'values' when their meaning are distinguish different. Where 'value' is ". . . the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given", meanwhile the concept of 'values' referring more into standards, rules, criteria, norms, criteria or goals which clearly distinctly different concept with value within the 'perceive value'.

Perceived values are an important result of marketing activities, in the recent studies, perceived value have been closely practice in the element of marketing relations. According to Zeithaml (1988, pp. 14) perceived value is “consumer’s overall assessment of the utility of a product (or service) based on perceptions of what is received and what is given”. Some consumers reason the value of a product through an affordable price, while others might weight value with more diverse and complex set of components. In brief, consumption values represent subjective beliefs about desirable ways to achieve personal values (Sweeney & Soutar 2001, 204).

Consumers may evaluate products on a basis of various different personal values, and therefore consumption activity is often complex and based on a combination of values (Lai 1995). It is commonly divide into two separate concepts which are benefit received by the customer; economic, social and relationship (emotional). And sacrifice made by the customer; price, time, effort, risk and convenience. According to Sweeney and Soutar (2001), which as well adopted by Wang (2004), from both concept that divide above the three values dimension (economic, social and relationship/emotional) chosen as the most relevant to purchase experience which use to measure the scale of value that perceived by the customers of the permanent goods. Hence, in this study the researcher will only uses two dimension as the relevant variables to be applied as following;

### 2.2.1. *Emotional Value*

Emotional value refers to the utility derived from the feelings, or affective states that a product generates. Emotional value represents “the perceived utility acquired from an alternative’s capacity to arouse feelings or affective states”. Indeed, several types of goods and services are associated with emotions. Certainly, many of us have acknowledged the widespread exploitation of feelings in advertising, as many companies utilize associations aroused by feelings of comfort in their marketing strategies.

### 2.2.2. *Social Value*

According to Green & Peloza (2011, pp. 50) social value is defined as “the perceived social utility acquired from an alternative’s association with one or more specific social groups”. The social value of the product or service is obtained through association with positively or negatively stereotyped socioeconomic, demographic and cultural-ethnic groups. Therefore the consumption of highly visible products, such as clothing, is often driven by social values.

### 6.3. *Previous Research*

There are some previous research that could be look up to understand further of this study research. In the previous research, researchers overall uses attitude, price-value, functional value, behavioural intention and satisfaction as their variables in completed with purchase intention, meanwhile the researcher of this study will only focus in uses two dimension of perceived value rather than all four dimension as the researcher see as the relevant dimension used for characteristic of Jababeka Golf customer. When the previous researchers used Canada, China and other region as their coverage sample area, the researcher of this study used Jababeka Golf’s customer as his study sample.

Table 2.1. Previous Research

No	Research Title	Variables	Research Design	Research Result
1	Influence of perceived value and attitude toward consumer purchase intention to billy coffe house customer at mega smart area manado (Jessica Patricia Ondang, 2015)	Perceived value, attitude, purchase intention	Method: Quantitative Sampling: 50 Population: customer in Billy Coffee House at Mega Smart Area Manado Instrument: Questionnaire	-Perceived value, and attitude have a positive influence on consumer purchase intention -Perceived value has positive and significant effect. Also based on this test that perceived

				value become second dominant variable influenced to purchase intention compare to other variable.
2.	Consumer Purchase Intention for Skin-care Products (Hsin-Fan Chen,	Functional value, emotional value, social value, purchase intention	Method: Quantitative Sampling: 632 Population: Undergraduate student Instrument: Questionnaire	- The results showed that the consumer's perceived value positively influences purchase intention - Four dimensions of perceived value have significant impacts on consumer's purchase intention toward skin-care products.
3	An examination of the effects of perceived quality, price-value and satisfaction on golf tourists' behavioural intentions: a structural model (Hennessey, Sean; Yun, Dongkoo; MacEachern, Melissa; MacDonald, Roberta)	Perceived quality, Price value, Overall satisfaction, Behavioural intention	Method: Quantitative Samples: Prince Edward Island's "Golf Experience Survey" (3,397 completed surveys) Population: Prince Edward Island's golfer (June – October 2005) Instrument: Questionnaire	-Customer price value, perceived quality has a positive impact on customer overall satisfaction - Customer perceived quality of performance has a positive effect on overall satisfaction and on price-value - Customer perception of price-value has a positive effect on overall satisfaction
4	The effects of consumer perceived value on purchase intention in e-commerce platform: a time-limited	Time pressure, Price value, Functional value, Emotional value, social value, Purchase	Method: Quantitative Samples: 220 Population: Xiamen University Graduate students	- Subjective time pressure has a significant positive impact on consumers' perceived value

	promotion perspective (Lifang, Peng; Shuyi, Liang)	Intention	Instrument: Questionnaire Validity: confirmatory factor analysis (CFA)	dimensions - From all four perceived value dimension only emotional value has a significant positive influence on consumers' purchase intention
5	An Integrate Framework for Customer Value and Customer-Relationship-Management Performance: a Customer-base Perspective from China (Yonggui Wang, Hing Po Lo, Renyong Chi and Yongheng Yang, 2004)	Customer Value, Brand Loyalty, Customer Satisfaction, and Performance of CRM	Method: Quantitative Samples: 320 questionnaire Population: Two large Chinese Security Firms in Beijing and Shenzhen Instrument: Questionnaire Validity: confirmatory factor analysis (CFA)	- The influences of brand loyalty toward customer behaviour-based CRM performance were statistically significant. - The influences of Customer satisfaction toward customer behaviour-based CRM performance were statistically significant. - The influences of functional value toward customer behaviour-based CRM performance were statistically significant.
6	Perceived value of purchase of tourism product (Javier Sánchez; Luis Callarisa, Rosa M. Rodriguez; Miguel A. Moliner (2004)	Perceived value, functional value (price, installation, professionalism, quality, price), social value, and emotional value	Method: Quantitative and Qualitative Samples: 402 Population: Quantitaves – Madrid, Valencia, La Coruna Qualitative – Madrid Spain Instrument: Questionnaire Interview	(Qualitative) -Both of Fuctional value of the travel agency (installment) and functional value of the tourism package purchased (quality) have an significant influence in tourist post-purchase evaluation (Quantitative) - Fuctional value of the travel agency (installment) have an significant

				influence toward tourist purchased - functional value of the tourism package purchased (quality) have significant influence toward tourist purchased - Fuctional value of the contact personnel of the travel agency (professional) have significant influence toward tourist purchased - functional value price have significant influence toward tourist purchased - emotional value have significant influence toward tourist purchased - social value have significant influence toward tourist purchased
--	--	--	--	---

## 7. Research Methods

### 7.1. Theoretical Framework

Based on the objectives of the research, the variables which influence customer purchase intention can be described as follows:

Figure 3.1. Theoretical Framework

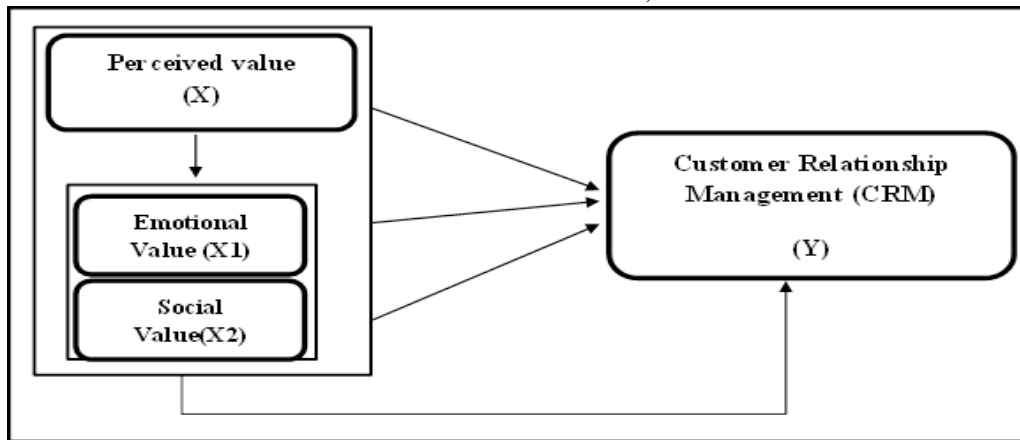


Figure 3.1. Illustrates the process of emotional value and social value as the two dimensions of perceived value which giving the influences on customer relationship management in Jababeka Golf. The researcher uses one variable as independent variables (X) which is perceived value which divide into two important variables such as emotional value and social value, and one variable as dependent variable (Y) customer relationship management (CRM). From the description above, the hypothesis from this research could be drawn as follows:

- a) Hypothesis 1: there is Emotional value has significant influence toward CRM
- b) Hypothesis 2: there is Social Value has significant influence toward CRM
- c) Hypothesis 3: Emotional value, Social Value have simultaneous influence toward CRM

## 7.2. Sampling and Data Collection

### 3.2.1. Instruments

Questionnaire is a widely used and useful instrument for collecting survey information, providing structured, often numerical data, being able to be administered without the presence of the researcher, and often being comparatively straight forward to analyze (Cohen et al, 2007). The researcher uses questionnaire as the procedures and tools to collect data and analyze data. According to Cohen et al, 2007, there are several types of questionnaire items, however the researcher will used the Closed-ended questions or familiarly known as *Likert scale*; Closed-ended question prescribe the range of response from which the respondent may choose. A closed-ended question limits respondents with a list of answer choices from which they must choose to answer the question. Closed-ended questions can be in the form of multiple choice, scale format, rank ordering, and rating scales.

According to Cohen et al (2007) if a closed and structured questionnaire is used, enabling patterns to be observed and comparisons to be made, then the questionnaire will need to be piloted and refined so that the final version contains as full a range of possible responses as can be reasonably foreseen. Likert scale is designed to examine how strongly subjects agree or disagree with statements on a five-point scale.

### 3.2.2. Sampling

The sampling method in this study was nonprobability sampling. Especially judgment (purposive) sampling which is selects the sample based on personal judgment about some appropriate characteristic of the sample member. Sample selected from people who has experienced with the service that offered by Jababeka Golf at Jababeka City. The number of the sample in this study was targeted to be more than 400 respondents. There were almost 500 questionnaires disseminated and finally there are 452 people that participated as the respondents of this study.

### 3.2.3. Data Collection

The data in this study especially for the descriptive study was collected from questionnaires disseminated by more than one person in Jababeka Golf. Questionnaire is a list that containing a set of statements to obtain primary data

in the form of answers, which were filled solely by the customer who already has an experience of using Jababeka Golf services. And the location of collecting the questionnaires for this study was in Jababeka Country Club and Golf. 500 questionnaires were disseminated through two different ways which are first through online questionnaires via email and the second directly to the people. Finally this study obtains 312 respondents, which are 32 respondent answered it through online questionnaires and 280 respondents directly or face to face filled by the respondents.

## 8. Analysis and Discussion

### 8.1. Descriptive Study

In this study the researcher gather analysis and explain the study through the data that gather from the form of survey with questionnaire as the instrument, and analyzed the data by using reliability, validity, and hypothesis testing. Collecting information through survey according to Suparmoko (1999), are one method where the researcher questioning the group of individual who had direct relationship with the objective of the topic we studied. This method could be done through various forms, such as interview, filling in questionnaire, etc.

#### 4.1.1. Reliability and validity

There are two concepts that commonly used to measure the quality of data in quantitative study which are reliability and validity test. According to Cooper and Emory (1995), if the data are less than reliable and valid its mean the result of the investigation that done are biased. Reliability used to measure the consistency of data. In this study the researcher used Test Cronbach Alpha ( $\alpha$ ) Statistic for the reliability testing. According to Nunnaly, (1967) the lower limit for Cronbach's alpha is 0.60. The computed values for alpha values for the research variables are shown in Table 4.1 as follows:

**Table 4.1 Reliability Test**

No	Variable	Cronbach's Alpha	Reliability
1.	Emotion Value	0.638	Reliable
2.	Social Value	0.715	Reliable
3.	CRM	0.696	Reliable

Source: Statistical Software Output

Based on the Table 4.1, shows that emotional value have cronbach's alpha 0.638, social value 0.715 and CRM 0.696. According Nunnaly (1967) the lower limit for cronbach's alpha is 0.60 and each variable in the dependent and independent variables have reliability more than or equal with the standard (0.60). Therefore, all variables above in this research are reliable. For the validity test, in this quantitative study the researcher used confirmatory factor analysis. Through this analysis researcher know whether a construct are undimensional that will determine either those indicators later could confirm a variable. To determine the each variables correlation, it used Bartlett's Test of Sphericity. The value of KMO >0.50 to continuing with the analysis of factor involves. The result can be seen on Table 4.2.

**Table 4.2 - Validity Test**

No	Variable	KMO	Bartlett's	Sig	Created	Validity
----	----------	-----	------------	-----	---------	----------



		Test of Sphericity			Factor	Information
1	Emotional Value	0.703	207.258	0.000	1	Valid
2	Social Value	0.690	253.993	0.000	1	Valid
3	CRM	0.649	162.934	0.000	1	Valid

Source: Statistical Software Output

Based on the Table 4.2, the SPSS output shows that the KMO of all variables  $< 0.50$ , which conclude that it is valid and it is possible to continuing this analysis. All variable are significantly affecting, which mean all variables are valid.

#### 4.1.2. Hypothesis Testing

##### 4.1.2.1. F-Test

F-test is used to determine the influence of emotional value and social value to CRM. If Significance level  $< \alpha$  (0.05), then  $H_0$  rejected and  $H_A$  accepted. Oppositely, if, Significance level  $> \alpha$  (0.05),  $H_0$  is accepted and  $H_A$  is rejected. The result of f-test (ANOVA) is shown in Table 4.3 below,

**Table 4.3. Regression Analysis: F-Test (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.643	2	11.321	40.678	.000 <sup>b</sup>
	Residual	46.479	167	.278		
	Total	69.122	169			

a. Dependent Variable: crmt

b. Predictors: (Constant), ST, ET

Source: statistical software analysis (2017)

According to the result of f-test in Table 4.3 above, F value is 40.678 with the significance level of 0.000. It means, the significance level of F-test (0.000) is lower than the significance level of  $\alpha$  (0.05). Overall, the Null Hypothesis ( $H_0$ ) is rejected and Alternate Hypothesis ( $H_A$ ) is accepted which states emotional value and social value altogether have significant influence to CRM. In conclusion, based on the result of F-test, it can be stated that there is altogether significant influence of emotional value and social value toward CRM at Jababeka Golf.

##### 4.1.2.2. T-Test

T-test for the partial regression coefficient is intended to determine how the influence of one independent variable (emotional value and social value) individually in explaining the dependent variable (CRM). The result of t-test can be shown in Table 4.12.

**Table 4.4 Multiple Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.024	.457		4.426	.000
	ET	.275	.065	.302	4.221	.000
	ST	.407	.080	.365	5.102	.000

a. Dependent Variable: crmt

Source: *Statistical Software Analysis (2017)*

#### 1. Emotional Value

According to the result of t-test in Table 4.12 above, significance level of emotional value is 0.000 which is lower than  $\alpha$  (0.05). It means that on partially, emotional value has significantly affects on CRM. Thus, it can conclude to reject the Null Hypothesis ( $H_{01}$ ) and accept the Alternate Hypothesis ( $H_{A1}$ ) which states there is a significant effect of emotional value to CRM and also emotional value has a positive impact towards CRM which means if the emotional value is high, the performance of CRM is high.

#### 2. Social Value

According to the result of t-test in Table 4.12 above, significance level of social value is 0.000 which is lower than  $\alpha$  (0.05). It means that on partially, social value significantly affects on CRM. Therefore, it can conclude to reject the Null Hypothesis ( $H_{02}$ ) and accept the Alternate Hypothesis ( $H_{A2}$ ) which states there is a significant effect of social value to CRM and also social value has positive impact toward CRM, thus, if social value is high, the performance of CRM is high.

#### 4.2. Discussions

After conducted the analysis using SPSS, the result confirm that Emotional Value has significant influence toward CRM ( $H_1$  is accepted). The result also confirm that Social Value has significant influence toward CRM ( $H_2$  is accepted). Thus, both dimensions of perceived value; emotional value and social value were found to have a significant effect on CRM partially and altogether emotional value and social value have significant effect toward CRM. This finding are similar with previous research that done by Javier Sánchez, *et al* 2004 about perceived value of purchase of tourism product, which emotional value and social value; two dimension of perceived value have significant and positive impact toward CRM (Tourist purchased).

#### 9. Conclusion

In recent years people started to realize factor that significantly affecting the company operation are include all the values proposition to support the increasing performance of their service and operation. to fulfill these, a firm have to develop their own skills to satisfied the customer and survive the competition within and outside their industry. Based on the finding from this study of Jababeka Golf, the result shows, the value proposition that aims by

Jababeka Golf is to try providing their customer a comfortable place and brand that could fulfill their emotional as well fit their social circle/environment more proudly. Based on the finding on this study the result shows that both emotional and social value have significant influence factor toward customer relationship management, this two dimension of perceived value, positively influence performance. Majority of the customers/respondents that participated in this study has agreed that it is important to fill their emotional and social value through using this service that provide by Jababeka.

### *5.1. Recommendation*

As the researcher have tried to do its best in analyze and provide the best result in this study, however there are still some limitation that could be utilize for future study, such as;

- a. As the time limit which the researcher has to completed the study, the researcher only have a limited time to conduct the survey in which the researcher focus on questionnaire filling rather that interviewed the company directly.
- b. In this study research, the researcher limit the variables, which only uses three different variables, which are emotional value, social value as independent variables and CRM as dependent variable. Emotional and social value is only the two dimension of many dimension from perceived value. Further the future researcher may use different dimension of perceived value as independent variables to influence the CRM in Golf industry.

## References

### Books:

Cooper, Donald R., and Emory C. William. (1995). *Business Research Methods*. Irwin, 5th ed., pp. 681

Ghosh, A. (1990). *Retail management*. Chicago: Drydden press.

Kothari, C.R. (2004). *Research Methodology: Method and Techniques (2nd Revised Edition)*. New Delhi: New Age of International ltd. Pp.2-3.

Ghozali, I. (2005). Bab IV: Uji Reliabilitas dan Validitas Suatu Konstruk atau Konsep. In I. Ghozali, *Aplikasi Analisis Multivariate Dengan Program SPSS* (pp. 39-45). Semarang: Badan Penerbit Universitas Dipenogoro.

### Journals:

Broekhuizen, T. L. J. (2006). *Understanding channel purchase intentions: Measuring online and offline shopping value perceptions* s.n. Retrieved from <http://www.rug.nl/research/portal/files/13174564/c3.pdf>

Sanchez, Javier; Callarisa, Luis; Rodriguez, Rosa M; Moliner, Miguel A. (2004). *Perceived Value of the Purchase of Tourism Product*. *Tourism Management* 27. Pp. 394-409. Retrieved from <http://www.sciencedirect.com/>

Saunders, M., & Lewis, P. (2012). Collecting Data. In M. Saunders, & P. Lewis, *Doing Research in Business & Management* (pp. 131-162). London: Pearson Education Limited.

Sekaran, U. J. W. (1992). *Research Methods for Business*. New York: Wiley & Sons.

Sweeney, J. C., & Soutar, G. N. (2001). Consumer perceived value: The development of a multiple item scale. *Journal of Retailing* , 203-220.

Yonggui Wang; Hing Po Lo; Renyong Chi; Yongheng Yang. (2004). *An integrated framework for customer value and customer-relationshipmanagement performance: a customer-based perspective from China*. *Managing Service Quality*. Volume 4. Number 2/3. Pp. 169-182. Emerald Group Publishing Limited.

### Articles:

Osman, Nurfika. (August 2013). "Indonesia wants to become major gold destination in Asia". The Jakarta Post. Jakarta. Retrieved from

<http://www.thejakartapost.com/news/2013/08/26/indonesia-wants-become-major-golf-destination-asia.html>

<https://www.jababeka.com/cikarang-jababeka-golf-country-club.html>





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## ANALYSIS OF FACTORS INFLUENCING ADOPTION OF REVERSE LOGISTICS AMONG MANUFACTURING COMPANIES

Mohammad Jalal<sup>1</sup> Ono Supriadi<sup>2</sup>

<sup>1</sup>President University, amirijalal16@gmail.com

<sup>2</sup>President University, ono.supriadi@president.edu.au

---

**ABSTRACT:** *Reverse logistics has become a managerial priority for most of the manufacturing companies for achieving sustainable development and as well as increasing productivity. However, companies can be influenced to adopt reverse logistics program by various factors. This study sought to examine the influence of four factors: financial/competitive, customer/stakeholder, regulatory, and corporate citizenship among manufacturing companies located in Jababeka, Cikarang. The quantitative research method was used to do the research. Data were gathered from 135 manufacturing firms through the distribution of questionnaires and the respondents had managerial positions. Collected data were analysed using SPSS 20.0 software. The result revealed that only regulatory and corporate citizenship factors have a significant influence on adoption of reverse logistics among manufacturing firms. The study concluded that manufacturing firms are adopting reverse logistics because of regulatory and corporate citizenship aspects and another two factors (Financial/Competitive, Customer/Stakeholder) don't have significant influence on reverse logistics. Therefore, recommended for the government to either improve the current environmental regulatory or make new tougher regulatory for manufacturing companies as well as make awareness campaign among people.*

**Keywords:** *reverse logistics, manufacturing firm, sustainable development, managerial priority, productivity*

---





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## AN EVALUATION OF FIRST AND SECOND GENERATION FAMILY BUSINESS OWNERS ON BUSINESS PERFORMANCE

Genoveva

Management Study Program, School of Business, President University

genoveva@president.ac.id

---

**ABSTRACT** : *The growth of SMEs in Indonesia to contribute significantly to Indonesia GDP (Gross Domestic Product). In 2016 the contribution of SMEs to GDP amounted to 58.92% and absorb 97.3% of the workforce (lisubisnis, 2016). Due to the high role of SMEs Indonesian government needs to give serious attention. In general, SMEs in Indonesia is managed by a family business passed on to the next. Generational differences in dealing with business can affect the performance of the company (Westhuizen, 2014). The purpose of this study is to evaluate the differences in first and second generation in leadership style, motivation, communication style and family values to the business performance on a Yamaha motorcycle dealers in Indonesia. The collecting data using questionnaires distributed to 100 dealers, but only 34 dealers who had been run by second generation. The data were processed using SPSS version 20 by comparing the results of the first and second generation SPSS. The results showed that the discrepancy in the first and second generation in leadership style, business motivation, communication style and family values.*

**Keywords:** *family business, first and second generation, leadership style, motivation, communication style, family value, company performance.*

---



**SEARCH ENGINE MARKETING: HOW EFFECTIVE IS GOOGLE'S  
SEARCH ENGINE OPTIMIZATION (SEO) FOR SMES?**Randy Azhary Pahlevi<sup>1</sup>, V. Jajat Kristanto<sup>2</sup>, Hanif A. Widyanto<sup>3</sup><sup>1</sup>President University, Indonesia, rap@president.ac.id<sup>2</sup>President University, Indonesia, vjkristanto@president.ac.id<sup>3</sup>President University, Indonesia, hanif@president.ac.id

---

**Abstract:** *The rapid advancement of the information and communication technology (ICT) has significantly affected the way we do business. This is also the case for Small and Medium Enterprises (SMEs) in Indonesia which establish an online presence to sell their products. At the same time, SMEs have to deal with an increasingly ever-changing world to be competitive and sustainable by developing the most efficient marketing strategy. In this regard, this research aims to analyze the difference of marketing strategy between the business success indicators of Google's Search Engine Optimization (SEO) users and non-SEO users. The data was collected by interviewing 2 SEO users and 2 non-SEO users which run clothing business. A cross-case analysis was used to find out both similarities and differences and the effectiveness level of SEO on Google as a marketing tool. Subsequently, the researchers found that SEO on Google was an effective marketing tool for clothing SMEs.*

**Keywords:** *SEO, SME, SEM, marketing strategy*

---

**TO STUDY THE EFFECT OF EMPLOYEE TRAINING FOR NEW  
FRANCHISE EMPLOYEES AT  
BODY SHOP IN INFLUENCING ENVIRONMENTALLY  
SUSTAINABLE STRATEGIES**

Dr. Aparna Goyal

Dr. Sanjeev Bansal

Associate Professor

Professor

ABS, Amity University

ABS, Amity University

**Abstract**

A fundamental premise of sociological approaches to entrepreneurship is that social context shapes the likelihood of entrepreneurial activity, beyond any effects of individual characteristics. This paper presents the systematic study of the effects of environmentally sustainable eco-green strategies used by entrepreneurship by today's online digital as well as offline in-store marketers that have become "Greenpreneurs" and have led to transitions in New business ventures at a mammoth level, thereby proving it to be a Win-Win-Win (W.W.W.) : Greenpreneur. Customer. Society (G.C.S) for Ecologically Responsible Relationship Strategy minimizing the environmental degradation and understand factors that can be perceived as entrepreneurial opportunities, to pursue them in existing as well as new venture as well. This research study tries to find out the improvements in reducing pollution, opening up promising new paths by entrepreneurship community to address vital questions. For example, by combining a particular green friendly marketing strategy for a new product, which is yet to be launched, and educating the society or spreading awareness through their promotions and working to contribute methodologically to the field of entrepreneurship by becoming "Greenpreneur". Alternatively, strategy can be to use the education of an entrepreneur (individual level) to infer the awareness and perception of internal and external customers. The possibilities to provide analyses on entrepreneurs and non-entrepreneurs with similar skills and experiences over time help to pinpoint the elusive concept of "Societal costs", which is often put forward in the theoretical and empirical work as well as in

documents. Although societal cost is frequently mentioned, as a possible explanation for empirical findings, there has been little research to date that explicitly investigate the existence, magnitude, and effects of ecologically sound and environmentally safe strategies in marketing for chosen product categories and brands by Entrepreneur in adapting and adopting for the business ventures.

**Keywords:** Environment Sustainability, Ecological balance, Organic, Green, Eco-marketing, Strategies, Entrepreneurs, Business Ventures, Product categories, Green Brands, The Body Shop, Consumer Behaviour

### **Contextual Background**

Sustainable Environmental Choice is India's official environmental label, initiated and endorsed by the Indian Government, although independently operated, and 'recognizes the increasing effort of Entrepreneurs to reduce the environmental impact' of their products. The foundation of Environmental Choice is the stringent technical specifications it develops, which products must meet to be licensed to use the distinctive and well-recognized "Environmental Choice Green Logo". Environmental Choice operates to internationally recognized standards and principles, and is a member of the Global Ecolabelling Network, which links a world of environmentally preferable products and services. As Aldrich (2012) noted: "Given the increasing number of entrepreneurial set ups in the country, and the openness of governments and some private firms to make their production and manufacturing processes available, the low rise of new ventures based upon the globally accepted fundamental product or service strategy of being a partner to the Sustainable Ecological balance and minimize the means of eco-degradation is somewhat surprising", (p.201). However, the past couple of years have seen a greater usage of CSR activities

– predominantly the Start-ups and new-ventures, followed by existing entrepreneurs, as not taking Green Strategy as its Primary objective. This research study tries to find out the improvements in reducing pollution, opening up promising new paths by entrepreneurship community to address vital questions. For example, by combining a particular green friendly

marketing strategy on new product to be launched, educating the society, spreading awareness through their promotions and hence working to contribute methodologically to the field of entrepreneurship by becoming “Greenpreneur”. If we assume that the state of affairs is somewhere between this “ideal” put forward by Davidson and that of not letting more exploitation of our environment, answering issues like what kinds of problems are we likely to encounter, and what can be done to handle them?. It is recommendable to go back to the drawing board to reconsider the strategy and contribute the bit to Mother Nature. Frost and Stablein (2012) argue that immersing in the eco-strategies is a fundamental requirement for conducting exemplary research. Greenpreneurs – can they explore alternative paths via product and brand strategies! Is it possible to change the level of positive participation by Entrepreneurs? Did you unsuccessfully look for approximations of behavior variables but instead found data more suitable as sociodemographic variables? Theories other than the one(s) you originally relied on might prove useful. By being “immersed” in the eco, you might actually discover some. For example, instead of using the education of an entrepreneur (individual level) to infer the better eco-safe performance of their firm (firm level), one should use the total amount of human capital in the firm (firm level) to infer ecological performance (firm level). Alternatively, strategy can be to use the education of an entrepreneur (individual level) to infer the awareness and perception of internal and external customers. The possibilities to provide analyses on entrepreneurs and non-entrepreneurs with similar skills and experiences over time help to pinpoint the elusive concept of “Societal costs” , which is often put forward in theoretical and empirical work as well as in documents. Although societal cost is frequently mentioned, as a possible explanation for empirical findings, there has been little research to date that explicitly investigate the existence, magnitude, and effects of “society costs” of engaging in entrepreneurship as ‘Greenpreneurship’. The studies in existence (notably Amit, Muller, and Cockburn 2015) have been relying on somewhat crude proxies, such as prior trends in various product categories before engaging in green methods and strategies of entrepreneurship, and after applying the Green Marketing Mix Strategies to businesses and new ventures. This research paper investigates what promising environmental activities and processes are most advantageous with regard to successful entrepreneurs. Knowing how successful entrepreneurs learn can help budding entrepreneurs in their start-up period, in order to increase their participation towards a sustainable environment. Results show that applying the eco-friendly strategies in a product or brand or service, the

business venture is more successful and contributes in ethical, social “Greenpreneurship” based strategies. For example, a long tradition in organizational theory holds that leading business via less hierarchical organization boosts rates of entrepreneurship strategy but to execution. Establishing such contextual effects empirically, however, is complicated by the possibility that “unobserved individual traits” cause people to use the green product strategies more as a business gimmick, than a genuine effort towards working and giving back to the society and Environment. This paper presents the systematic study of the effects of environmentally sustainable eco-green strategies used by entrepreneurship by today’s online digital as well as offline in-store marketers that have become “Greenpreneurs” and have led to transitions in New business ventures at a mammoth level, thereby proving it to be a Win-Win-Win (W.W.W.) : Greenpreneur. Customer. Society (G.C.S) for Ecologically Responsible Relationship Strategy minimizing the environmental degradation and understand factors that can be perceived as entrepreneurial opportunities, to pursue them in existing as well as new venture as well. A central concern of entrepreneurship is to understand the factors that lead some individuals both to (Aldrich 1999; Shane 2003; Parker 2004). Sociological interest in this question has blossomed in recent years. A fundamental premise of sociological approaches to entrepreneurship is that features of a position in social structure encourage or retard entrepreneurial activity independent of the characteristics of the position’s occupants. This contextual approach is exemplified by the growing body of work on how established organizations shape entrepreneurial activity. Because the vast majority of entrepreneurs launch new ventures following a period of employment with established firms, many scholars focus on the idea that “entrepreneurship is an organizational product” (Freeman 1986: 34). These scholars have argued that existing firms play an important role in structuring the exposure of individuals to entrepreneurial opportunities, and in shaping their desire and willingness to engage in entrepreneurship (Freeman 1986; Carroll and Mosakowski 1987; Romanelli 1989; Thornton 1999; Shane 2000; Romanelli and Schoonhoven 2001). Several recent studies have made progress in documenting the importance of organizational context by focusing on the hypothesis that bureaucratic work conditions suppress rates of entrepreneurship. This idea has deep roots in organizational theory, reaching back to the idea in the classic studies of socially responsible behaviour of

the 1950s that the growth of the modern bureaucratic organization led to the creation of workers.

## **Introduction**

The expected success rate of new ventures is higher than 80% (Sarasvathy, 2001) and the biggest fear of start-up entrepreneurs is the possibility to go bankrupt (EUCommission, 2011). In the economy entrepreneurs have an important function, entrepreneurship influences job creation and incomes. Entrepreneurial activity contributes to health and employment, increases competition and evokes the personal development (of the entrepreneur) (Hegarty, 2006). Cardon, Stevens and Potter (2011) describe that success occurs whether by individual or environmental factors. For example, an individual factor is mistakes of entrepreneurs, e.g. in decision making or the entrepreneur “pursued a reactive, rather than detailed, long-term, planning strategy” (Cordon et al., 2011). Other success reasons can be submissive goal setting or a low degree of human capital or generally formulated, lacking skills (Cordon et al., 2011). Environmental factors like the inappropriate financial, legal, political or economic environment also can be a reason for success (Carter & Wilton, 2006 in Cordon et al., 2011). Adapting to the changing, complex and competitive business environment of a young firm is a challenging task (Van Gelderen, van de Sluis & Jansen, 2005). To this environment, the entrepreneur must respond dynamically (Deakins & Freel, 1998).

### **1.1 Successful Entrepreneurship**

Shane and Venkatarman (2000) argue that engaging in entrepreneurial behaviour or not depends on the “tendency of certain people to respond to the situational cues of opportunities” (p. 219). Social relations might influence the identification of entrepreneurial opportunities (Hytti, Stenholm, Heinonen, and Seikkula-Leino, 2010). Opportunity recognition can be seen as a prerequisite for entrepreneurship, it is the first step of new venture creation (Bhave, 1994, Gartner, 1985). The second step is to exploit the opportunity and introduce the business idea to the market (Bhave, 1994, Gartner, 1985). In this phase there are two important factors to the

success of the entrepreneur, first the influences of the environment which sometimes can be unstable and unpredictable and second the feedback from the market. “Successful entrepreneurs are defined as those whose enterprises have survived some period of time, perhaps two years” (Carland, Hoy, Boulton & Carland, 1984). In the research of Bosma, van Praag and de Wit (2000) the mean duration of survival in month is 33.6, equivalent to 2.8 years. Next to duration Bosma et al. (2000) adds two more variables indicating success: profit and employment. In this paper, we adopt the mean duration of survival by Bosma et al. (2000) as successful entrepreneurship. We assume that if an entrepreneur passes the mean survival time of about 3 years, he is successful. Left behind will be the variables profit and employment because those variables would indicate growth, which is irrelevant to this study. Prior research has demonstrated that successful entrepreneurs have inherent personality characteristics (e.g. Deakins & Freel, 1998). The most commonly understood characteristics are taking risks and readiness to take tough decisions, optimism, self-confidence with a locus of control, autonomy and independence, achievement needing, pro.active, able to value and trust others, informal, not per se high educated, but skilled in learning from experience (Bush, 1992 in Fenwick, 2003, Deakins & Freel, 1998, Gartner, 1985, Gibb, 2009, Pittaway, Missing, Hudson, & Maragh, 2009, Rae & Carswell, 2000, Shane & Venkatarman, 2001, van Praag, 1999 in Bosma et al., 2000).

## **1.2 Entrepreneurial Continuous Learning**

During mid 1990’s period new businesses, especially ‘green’ micro organisations (start-ups) were encouraged to create more sustainable business models, with their processes reflecting greater concern for environmental and, and latterly more social issues (Cohen, 2006; Larson, 2000, cited in Holt, 2010). Escalating costs, regulations, the Corporate Social Responsibility (CSR) agenda, economic instruments and organisations enhanced efficiency were all key drivers affecting the adaptive push towards global sustainability (Balabanis et al., 1998; Bansal & Roth, 2000, cited in Dixon & Clifford, 2007). Learning is important to entrepreneurial practice. This is what literature commonly agrees on (Deakins & Freel, 1998, Higgins & Elliot, 2011, Rae & Carswell, 2000, van Gelderen et al., 2005). Capabilities that are needed for the process of identifying opportunities and forming ventures need to be learned (Rae & Carswell, 2000). “Learning and the

opportunities to learn are at the centre of entrepreneurial practice”. (Higgins & Elliott, 2011, p. 345). Learning is so important to entrepreneurship because it has positive effects on business performance (van Gelderen et al., 2005, Rae & Carswell, 2000). The growth process of a company is influenced by the ability to learn (Deakins & Freel, 1998). According to van Gelderen et al. (2005) learning not only increases the current and the future performance of a business and also serves the function of improvement of individual competences. In the field of entrepreneurship there are different learning theories. In order to inventory what is already known about entrepreneurial learning, the three most accepted theories in the field, experiential, social and action learning theory are being integrated. Action and experience are the most important factors in the different theories. Learning “is the process whereby knowledge is created through the transformation of experience” (Kolb 1984, p.38). Experiential learning is based on the belief that entrepreneurs learn from experiences (Gibb, 2009). Similar to experiential learning is action learning. Action learning is situated in the system of on-going practice, rooted in a context of social interaction and is acquired through participation (Higgins & Elliot, 2011). “Learning can only take place through the attempt to solve a problem (however mundane) and, therefore, only takes place during activity” (Arrow 1962, p.155). Critical events are crucial for experiential learning (Higgins & Elliot, 2011). The social aspect of action learning is the guideline for the social learning theory. “Entrepreneurial practice operates within a social reality [that] is constructed and shaped by their actions and that of others in response to their actions” (Higgins & Elliott, 2011, p. 347). Support and frequent involvement with external parties have a positive effect on small business success (van Gelderen et al., 2005, Gibb, 2009). Action learning “is not solely concerned with learning by doing or learning by participation and peer exchange but with leading the learner towards reflection, the acquisition of new knowledge and, most importantly, the conceptualisation of experience” (Gibb, 2009, p. 223). In this research entrepreneurial learning is defined as process where learning outcomes derive from (informal) learning activities.

### **1.3 Learning to be Green-Entrepreneur (Greenpreneur)**

According to the learning theories, learning is the outcome of activity. Some examples are being examined in this paragraph. In the theories described above different learning activities can be



identified: experience, action, critical events, interaction and reflection. There is a predominant opinion in the entrepreneurship literature that an entrepreneur learns from experience: Entrepreneurs' thinking is directed to believe in what worked in the past (Gibb, 2009). Related to experience are the concepts of action and critical event. Arrow (1992) argues that "learning can only take place [...] during activity" (p.155). Pittaway et al. (2009) meanwhile argue that the learning process of an entrepreneur starts with an uncertain or ambiguous situation. Experience is gained by carry out actions and dealing with critical events. Though experience is the sum of more than one activity. "Due to the dynamic nature of the entrepreneurial process the entrepreneur's stock of experience changes constantly and, thus, to learn, they must take time to reflect" (Pittaway et al., 2009, p.267). Reflection is a cognitive activity that translates an experience into learning. Learning also derives from interacting with the physical and social environment (Donald, 1991 in Higgins & Elliot 2011). Meirink (2007) distinguishes between learning from others and learning with others.

#### **1.4 Strategic outcomes**

In this part of the paper we will explore what learning outcomes are discovered in prior research. For that reason the literature on entrepreneurship and in the field of educational science is considered. "Traditionally, learning is an important variable in entrepreneurship, representing the acquisition or alteration of skills, knowledge, habits and attitudes necessary to deal with all aspects of running a business" (Gibb, 1997 in van Gelderen et al., 2005, p. 98). The acquisition or alteration of skills, knowledge, habits and attitudes necessary to deal with all aspects of running a business" (Gibb, 1997 in van Gelderen et al., 2005, p. 98). In educational science it is distinguished between knowledge, skills and insights (van Berkel & Bax, 2006). Endedijk (2010) researching self-regulated learning distinguishes between rule of thumb (heuristics), knowing that (knowledge), knowing how (skills), knowing about myself (change in identity) and knowing why (insights). In the entrepreneur literature one more variable appear as learning outcomes,

next to the educational outcomes: changed behaviour. Harkema and Schout 2008) argue that changed behaviour is the manifestation of learning outcomes. From an educational

theoretical point of view this variable is not a learning outcome, but an indication for the learning to be effective.

### **1.5 Eco-Green Start-ups**

In prior research on entrepreneurial learning different relations between learning activities and outcomes are explored. In this paragraph these relations are revealed and translated into the variables as explained above. According to these relations, propositions are prepared to introduce the variables and express concrete possible relations. In the literature three different relations are identified leading to knowledge and insights. Kolb (1984), Higgins and Elliot (2011) state that knowledge can be gained through the transformation of experience (relation 1: experience leads to knowledge). Donald (1991 in Higgins & Elliot 2011) describes that knowledge derives directly from learning by doing, which can be defined as the interaction with the physical and social environment (relation 2: action and interaction lead to experience). Corbett (2005) also includes insights in his concepts, he argues that entrepreneurs gain knowledge through a combination of experience and prior knowledge and insight (relation 3: experience, insights and knowledge lead to new knowledge and insights). In all three relations a standard pattern can be identified, where a learning activity leads to a learning outcome.

### **1.6 Environmental Sustainability**

Over the past two centuries, the global industrial transformation has led to a rapid increase in ecological scarcities. Growth in the global economy is transforming the character of the planet and especially of human life (Mebratu, 1998, p. 496). 'Vital signs' are becoming evident, a signal that the natural environment has reached a limit (Brown et al. 1996). A sustainable shift in societies living conditions, work practices, technology development and the consumption of resources is required to ensure a capacity to endure with greater responsibility regarding environmental, economic and social dimensions. It took the Brundtland Commission to conceptualise sustainable development . a publicising effort toward sustainability . and engage human development interfaces with economic activity. We note that sustainable development is critical to not only the environments long.term well

being, but also a necessity to curve the ultimate slow demise of the human race. Sustainable development meets at the confluence of three constituent parts . environmental sustainability, economic sustainability and socio-political sustainability. It will take a special individual that will enact a holistic approach to a venture start.up that will embed these environmental, economic and social sustainability dimensions and cause disruption among traditional, unsustainable market offerings. Sustainability minded individuals will introduce processes, products and service innovations that are often radical and disruptive, ultimately causing a market shift with their objective to change consumers mindsets and unsustainable, irresponsible consumption. These innovations are turnaround events that mark the beginning of an industry's transformation towards sustainability. shifting the sustainable paradigm to Sustainable Entrepreneurship.

## **2. LITERATURE REVIEW**

Chanaka Jayawardhena and Andrew M. Farrell (2009) conducted a research, the purpose of which was to test a conceptual model of the effects of customer and service orientation behaviours of individual retail employees on individual customers' perceptions of service encounter quality, service quality, value, satisfaction, and behavioural intentions. The sample (n = 271) was customers of a Eco-Store - The Body Shop in Central India, and they completed questionnaires following mall intercept. To test the hypothesis, the structural equation modelling using LISREL 8.7 was employed. The findings were: 1) Service and customer orientation behaviours are positively related to service encounter quality and service quality; 2) Service encounter quality is positively related to service quality and customer satisfaction; 3) Service quality is positively related to value perceptions and customer satisfaction; and 4) Customer satisfaction is positively related to retail customers' behavioural intentions . However, value is not related to customer satisfaction. The paper showed that the retail managers need to train or select retail personnel who are able to perform their roles in a service oriented and customer oriented way, and value does not appear to be as important to Indian retail customers as it is to Western retail customers.

Hammad Hassan, Maryam Saeed Hashmi and Zahoor Sarwar (2014) conducted a quantitative field survey study that examined the relationship between Service quality,

Corporate Social Responsibility (CSR), and Customer Purchase Intentions in the context of multinational Quick Service Restaurant (QSR) chains in India. The objectives of this study were to investigate the impact of Service Quality on Purchase Intention with the moderating role of CSR. Based on convenience sampling due to the lack of a sampling frame, data was collected from 276 walk-in respondents at three major well-known multinational fast food stores in Faisalabad and Lahore in India. The results of this study showed that firstly, service quality has a significant and direct impact on the purchase intention. Secondly, CSR moderates between Service Quality and Purchase Intentions in the Quick Service Restaurant Industry in such a way so as to strengthen the relationship between them. It can be argued that this study could contribute a lot to the retail business community through understanding the drivers of Customer Purchase Intention and the role of CSR in impacting the purchase intention. The firm manifesting the CSR role must clearly communicate and promote their activities to the community to get a positive response. Furthermore, these activities must not give a manipulative reflection or an impression to increase the prices of the product due to the cost incurred by the CSR activities. Lastly, this study is helpful for marketers and retailers to apprehend the service quality from the customer's perspective. In the future, there is a need to identify the particular activities among the set of CSR activities, which are most likely to affect the purchase intentions of customers. Dhreeraj's (2014) paper explores the perceptions of service quality in the convenience store (c-store) industry. The study applies the extant SERVQUAL models (Parasuraman, Berry, and Zeithmal, 1988; Dabholkar, Thorpe, and Rentz, 1996) in a c-store context. The study examines the reliability and validity of the service quality measures in the c-store context and additionally, models the implication of the perceived service quality on customer satisfaction and patronage intentions therein. This study also examines the most important dimensions of service in the c-store context. The results suggest that the perceived service quality positively influences customer satisfaction and patronage intentions in the convenience store industry. Further, the availability of merchandise and courtesy are the strongest determinants of patronage intentions and customer satisfaction. According to G.Raghu and Dr.Radha.S, Consumer behaviour is the one of the significant areas to be focused in today's modern business where there is a need to study the consumption habits. Due to the change in the way the consumer responds to the retail marketing activities there is a challenge for marketers to meet their new expectations. The result shows that most of the respondents are female. The customers of *Cuppa* mostly belong to the age group of 20-30 years. The appearance of the

employee is the most important factor among the tangible factors followed by the visual appearance of the outlet. The problem-solving tendency of the employees is also among the most important factors. The café takes care of customer service by operating at convenient hours. The services at the café exceed the customers' expectations. Among the SERVQUAL dimensions, the employee responsiveness contributes maximum to the overall satisfaction of the customer along with quality assurance. Beatson, Amanda T., Lings, Ian, and Gudergan, Siegfried (2008) examined relationship quality as a multidimensional metaconstruct comprising three dimensions: satisfaction, trust, and commitment. The role of relationship quality in its nomological network with service orientation as an antecedent construct and consumers' positive behavioural intentions, perceived switching costs, and activism as the consequences was also explored. Survey data from 728 travellers were used employing structural equations modelling to test this conceptualization. One finds that service orientation affects relationship satisfaction and trust, and that the latter influences satisfaction and commitment. In turn, satisfaction, trust, and commitment have a positive impact on positive behavioural intentions; trust has a negative one on activism; and commitment has a positive impact on perceived switching costs. The implications of this conceptual and empirical understanding of relationship quality were discussed and directions for future research were presented. Aashish Shashikant Jani (2012) "identify relative important factors affecting the areas of strength and weaknesses of public and private sector banks in terms of different technologies offered to customers and future growth of e-channels in retail banking. Parameters like money transactions, efficiency, financial services, reliability and motivation were used to find the above. The empirical data from 100 respondents of customers of bank were selected using a survey questionnaire and hypothesis were framed and tools like Mean, Standard Deviation, Coefficient of Variation, Correlation Analysis and Z test were used. The result reveals that use of technology inferred a positive perception of customers of public sector and private sector banks. Dharmalingam et al., (2012) examined to identify and evaluate the gap existing between expected and perceived services and the areas that need to be improved to deliver superior quality of service in selected new private sector banks. Service quality dimensions like tangible, reliability, responsiveness, assurance, empathy, access, security and price and product variety were considered for customer service quality expectations and perception. 8 hypotheses were taken for the study and a sample of 780 respondents were selected and paired t-test measurement results indicates that customer's highest expectations are in the security and accessibility dimensions and customer's lowest expectations in responsiveness dimensions, largest service gap exists in reliability and price and product variety and smallest

service gap exists in empathy and tangible dimensions. Mohammad Hosein Moshref Javadi et al., (2012) in their study to evaluate the quality of private banks services provided to the customers and to measure the customer's satisfaction. Servqual six dimensions scale to be measured are tangible, reliability, responsiveness, assurance, empathy and accessibility the ability to access private banks easily and conveniently. A pilot survey was conducted for the questionnaire and reliability and validity test satisfies and the final questionnaire was distributed to the 390 convenience respondent. Six hypotheses were framed for the above and tools like mean and t test were analyzed and the result indicates that assurance, reliability seems to be most important dimensions and accessibility and tangibility are the most serious problem and private bank have to improve actions in mentioned dimensions." Yasir Shafiq(2013)the main purpose of their paper was to evaluate the hotels' service quality through customer satisfaction. Theory tells us that if the customers are satisfied then the hotels are providing higher service quality. And also check that which dimensions of Servperf is need to be focused more in India. For this purpose Servperf tool was adopted and administrative to customers who stayed in the hotels of Faisalabad, India. The results indicates that in India among the five dimensions of SERFPERF the dimension tangible and empathy needed to be focused more. Mark Munoz (2006) his study examines small/medium enterprises (SMEs) management and employee perceptions of customer service on a number of dimensions. As the Philippine market becomes more involved with global business, the importance of service quality increases. The results can be valuable in the formulation of training, sales and marketing, business development, human resources management, and strategic planning. Implications for practice are discussed. Ishfaq Ahmed (2010) the study examines the service quality of the mobile service providers and satisfaction of the customers with this quality. The study focuses only the SMS service provided by telecom organizations. Service quality is measured using 5 dimensions and its relationship is determined with customer satisfaction. The data was collected from 331 youngsters who use the SMS service of any company. Correlation and regression analysis are used to analyze the data. The scores indicate that customers are slightly satisfied from the service quality of SMS service providers where tangibles and assurance score more than other dimensions and empathy has the lowest score. Dr. Abdelmo'ti Suleiman Abu Alroub(2012) research aims to identify the impact of service quality on customers satisfaction in the tourist restaurants in the city of Amman. The researcher developed a questionnaire and distributed them to customers on a sample of tourist restaurants in the city of Amman, amounted to (120) Single statistically. The results revealed that there is a significant relation between tangibility, assertion, and empathy and customer satisfaction in the tourist

restaurants in the city of Amman. Geetika (2010) study identifies components of service quality of Indian Railways at railway platforms. The study is exploratory in nature and uses factor analysis to identify the most important factors of customer satisfaction with service quality. The research methodology is empirical, and a survey of passengers (customers) was conducted. The findings reveal that five factors are considered important for determining satisfaction with railway platforms, the most important of which are refreshments and behavioral factors. Vibha(2011) paper investigates the various dimensions of service quality and how these dimensions determine customer satisfaction in Indian banking sector. Using Service performance (Servperf) model, the survey was undertaken in Delhi with a sample size of 318 respondents. Reliability and service interaction were found to be significant variables to customer satisfaction in India. I-Ming Wang(2006) The study explores overall user satisfaction. A questionnaire survey is conducted to reveal users' perspectives on service quality. A questionnaire survey is conducted to reveal users' perspectives on service quality. Based on literature, service quality has five dimensions, which are tangibles, responsiveness, reliability, assurance, and empathy. The result indicated that the overall service quality has significantly a positive effect on the overall user satisfaction. G.S. Sureshchandar(2002) presents study to adopt a different approach and views customer satisfaction as a multi-dimensional construct just as service quality, but argues that customer satisfaction should be operationalized along the same factors (and the corresponding items) on which service quality is operationalized. Based on this approach, the link between service quality and customer satisfaction has been investigated. The results have indicated that the two constructs are indeed independent but are closely related, implying that an increase in one is likely to lead to an increase in another. Krishna (2010) research results showed that services offered by retail units have positive impact and are significant in building customer satisfaction. Findings of this empirical research reiterate the point of view that Service Quality dimensions are crucial for customer satisfaction in retailing – a burgeoning sector with high growth potential and opportunities in fast growing economies like India's. Panchapakesan(2010) Patients and attendants treat the interpersonal aspect of care as the most important one, as they cannot fully evaluate the technical quality of healthcare services. The study also revealed that the hospital service providers have to understand the needs of both patients and attendants in order to gather a holistic view of their services. Hamad Saleem(2014) study is to look at the association between services quality of Indiai hotel and to scrutinize cause on customer satisfaction, brand image and customer loyalty. The primary data was collected from 5 and 8 star hotels of India. The findings suggested that high quality of services boost up the customer satisfaction and then

afterward this satisfaction will strengthen the customer loyalty. Ram Mohan (2013) study aims to identify the main factors that lead to customer satisfaction in food retail Eco-Store - The Body Shops. The main factors are extracted from the independent variables using factor analysis. Then regression analysis is done taking the extracted factors as independent variables and customer satisfaction as dependent variable. Likert scale and multiple choice questions are used in the questionnaire. There are 17 independent variables which by factor analysis are reduced to 5 main factors which are found to significantly impact customer satisfaction in food retail Eco-Store - The Body Shops.

### **3. Research Methodology**

The data was collected by a self-made well developed Questionnaire; the five point Likert Scale questions were made. All of the questionnaires were distributed among the respondents in The Body Shop stores in Delhi/NCR. The data was collected by 136 responded in a period of 15 days and the responses were fed into the Statistical Package for Social Science (SPSS) for analysis and evaluation. The main objective of my study was to investigate the relationship between employee behavior and consumer purchase intention and to assess the service quality of The Body Shop stores in Delhi/NCR.

#### **Hypotheses**

H1<sub>0</sub>: Customers are not satisfied by eco-trained Body Shop (franchise) Employees' behaviour.

H1<sub>0</sub>: Customers are satisfied by eco-trained Body Shop (franchise) Employees' behaviour.

H2<sub>0</sub>: Customers are not overall satisfied by eco-trained Body Shop (franchise) service quality.

H2<sub>a</sub>: Customers are overall satisfied by eco-trained Body Shop (franchise) service quality.

H3<sub>0</sub>: Customers are not willing to come back to Eco- sustainable Body Shop (franchise) Store

products.



H3a: Customers are willing to come back to Eco- sustainable Body Shop (franchise) Store

products.

H4o: There is no statistical difference between male and female regarding the satisfaction level of

Eco-trained Body Shop (franchise) Employees' behaviour.

H4a: There is statistical difference between male and female regarding the satisfaction level of

Eco-trained Body Shop (franchise) Employees' behaviour.

#### 4. Data Analysis

**Table 1: Respondent Profile**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Gender				
Female	80	58.8	58.8	58.8
Male	56	41.2	41.2	100.0
Total	136	100.0	100.0	
Age Group				
18-25	20	14.7	14.7	14.7
25-35	52	38.2	38.2	52.9

35-45	36	26.5	26.5	79.4
>50	28	20.6	20.6	100.0
Total	136	100.0	100.0	
Personal Income(Annual)				
<5Lacs	24	17.6	17.6	17.6
5-10Lacs	56	41.2	41.2	58.8
10-15Lacs	56	41.2	41.2	100.0
Total	136	100.0	100.0	
Family Income(Annual)				
5-10Lacs	4	2.9	2.9	2.9
10-15Lacs	92	67.6	67.6	70.6
>25Lacs	40	29.4	29.4	100.0
Total	136	100.0	100.0	
Occupation				
Student	8	5.9	5.9	5.9
Homemaker	36	26.5	26.5	32.4
Service	36	26.5	26.5	58.8
Business	56	41.2	41.2	100.0
Total	8	100.0	100.0	

---

**Interpretation:**

Out of 136 respondents 58.8% were male and 41.2% were female, which shows are almost equal distribution of respondent selection. On age parameter 14.7 % were between 18-25, 38.2% were between 25-35, 26.5% were between 35-45 and 20.6% were above 50. This distribution shows that maximum shoppers were between 25-35 age groups. Respondents income wise distribution shows 24% were having <5 Lacs annual income, followed by the other groups having more than 5 Lac salary, since respondents were store visitors we can say that higher income customers visit The Body Shop stores more as compare to others. The same trend was seen in family income. Out of 136 respondents more than 97 % customers were having more than 10 Lac family income. The maximum visitors were from Business background followed by Service class and Homemakers.

H1<sub>0</sub>: Customers are not satisfied by Eco-trained Body Shop (franchise) Employees' behaviour.

H1<sub>0</sub>: Customers are satisfied by Eco-trained Body Shop (franchise) Employees' behaviour.

H2<sub>0</sub>: Customers are not overall satisfied by Eco-trained Body Shop (franchise) eco-service quality.

H2<sub>a</sub>: Customers are overall satisfied by Eco-trained Body Shop (franchise) eco-service quality.

H3<sub>0</sub>: Customers are not willing to come back to Eco-trained Body Shop (franchise) Store.

H3a: Customers are willing to come back to Eco-trained Body Shop (franchise) Store.

**Table 2: One Statistics**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
I am satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour.	136	3.1471	1.54215	.13224
I will come gain to Eco-trained Body Shop (franchise).	136	2.8235	1.25245	.10740
I am satisfied by Eco-trained Body Shop (franchise) service quality.	136	3.3824	1.21752	.10440

**Table 3: One Sample Test**

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I am satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour	-4.100	135	.000	-.47059	-.6976	-.2436
I will come gain to Eco-trained Body Shop (franchise).	-3.643	135	.003	-.17647	-.5889	.0359
I am satisfied by Eco-trained Body Shop (franchise) service quality	3.662	135	.000	.38235	.1759	.5888

**One Sample t-test was conducted to test the first 3 hypothesis.**

Hypothesis 1: The p-value in the above table is .000 which is less than significant value .05, so we reject the null hypothesis in favour of alternate hypothesis and conclude that Customers are satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour.

Hypothesis 2 :The p value in the above table is .00 which is less than significant value .05, so we reject the null hypothesis in favour of alternate hypothesis and conclude that Customers are will to come gain to Eco-trained Body Shop (franchise) .

Hypothesis 3: The p value in the above table is .000 which is less than significant value .05, so we reject the null hypothesis in favour of alternate hypothesis and conclude that Eco-trained Body Shop (franchise) Customers are satisfied with the Eco-trained Body Shop (franchise) service quality.

H40: There is no statically any difference between male and female regarding the Satisfaction level of Eco-trained Body Shop (franchise) Employees' behaviour.

There is statically any difference between male and female regarding the satisfaction level of Eco-trained Body Shop (franchise) Employees' behaviour.

**Table 4: Group Statistics**

Group Statistics					
	Gender	N	Mean	Std. Deviation	Std. Error Mean
I am satisfied with the service I receive from this organisation	Male	80	2.8500	1.50190	.16792
	Female	56	3.5714	1.51186	.20203

**Table 5: Independent Sample Test**

Independent Samples Test											
		Levene's Test for Equality of Variances		t-test for Equality of Means							
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
									Lower	Upper	
I am satisfied by Eco-trained Body Shop (franchise) service quality	Equal variances assumed	.011	.918	-2.749	134	.007	-.72143	.26239	-1.24040	-.20246	
	Equal variances not assumed			-2.746	118.024	.007	-.72143	.26270	-1.24165	-.20121	

Independent Sample t-test was conducted to see the “I am satisfied by Eco-trained Body Shop (franchise) eco-service quality” satisfaction level among male and female. The p value in the above table is .007 which is less than significant value .05, so we reject the null hypothesis in favour of alternate hypothesis and conclude that Eco-trained Body Shop (franchise) Male and Female Customers differ with reference to their satisfaction level by Eco-trained Body Shop (franchise) Service quality. The mean score shows females are more satisfied as compared to male.

## Regression

**Table 6: Model Summary**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923 <sup>a</sup>	.853	.849	.48632

a. Predictors: (Constant), Eco-trained Body Shop (franchise) 's services meets my expectations, I am satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour, I am satisfied by Eco-trained Body Shop (franchise) service quality

**Table 7: ANOVA**

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	180.545	3	60.182	254.459	.000 <sup>b</sup>
	Residual	31.219	132	.237		
	Total	211.765	135			

52. Dependent Variable: I will come again to Eco-trained Body Shop (franchise)

Predictors: (Constant), Eco-trained Body Shop (franchise) 's services meets my expectations, I am satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour, I am satisfied by Eco-trained Body Shop (franchise) eco-service quality

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	4.275	.166	25.754	.000
	I am satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour	-.688	.028	-.847	.000
	I am satisfied by Eco-trained Body Shop (franchise) service quality	.331	.046	.257	.000
	Eco-trained Body Shop (franchise) 's services meets my expectations	-.118	.035	-.126	.001

a. Dependent Variable: I will come gain to Eco-trained Body Shop (franchise)

### Interpretation:

Multiple Regression analyses was conducted to examine the relationship between revisit of Customer and various potential predictors. The multiple regression model



with all three predictors produced  $R^2 = .853$ , which shows that there is 85% of impact of independent variables on dependent variables.

### **Conclusion**

The objective of the research was to investigate the relationship between a trained and environmentally aware Body Shop employee behaviour and its effect consumer purchase intention and to assess the service quality of The Body Shop stores in Delhi/NCR. The results show that there is 85% of impact of ecologically engaged employee behaviour and consumer purchase intention as they would like to visit the store again to buy organic and green products. Also overall, the customers are satisfied with the Body Shop stores because of the Entrepreneurial effort made by the Brand towards building environment sustainability in Delhi/NCR. As we have seen Customers are satisfied with the Eco-trained Body Shop (franchise) Employees' behaviour, they are satisfied with the Eco-trained Body Shop (franchise) service quality they are will to come gain to Eco-trained Body Shop (franchise). This is indeed a good indicator for Entrepreneurs who are inclined towards the ecologically safe products and understand the importance of Eco-trained Body Shop (franchise) employees in boosting this objective. Based on these findings, it is recommended to The Body Shop that the number of trips that customers make is the most important & significant aspect in profiling & differentiating loyal shoppers from non-loyal shoppers. This means that retailers need to ensure that the customers make repeat visits to their stores. Retailers must ensure that they maintain some novelty through new eco-products, new schemes etc. which motivates customers to make repeat visits and generate eco-loyalty.

**Reference**

1. Arrow, K. J. (1962), The economic implications of learning by doing, *The review of economic studies*, 29(3), 155-173.
2. Beatson, Amanda T. and Lings, Ian and Gudergan, Siegfried (2008), Employee behaviour and relationship quality: impact on customers, *The Service Industries Journal*, 28(2). pp. 211-223.
3. Bhave, M. P. (1994)., A process model of entrepreneurial venture creation. *Journal of Business Venturing*, 9(3), 223-242. DOI: 10.1016/0883-9026(94)90031-0
4. Bosma, N., van Praag, M., & De Wit, G. (2000)., Determinants of successful entrepreneurship - Zoetermeer: EIM Small Business Research and Consultancy.
5. Cardon, M. S., Stevens, C. E., & Potter, D. R. (2011)., Misfortunes or mistakes?: Cultural sense-making of entrepreneurial failure. *Journal of Business Venturing*, 26(1), 79-92. doi: 10.1016/j.jbusvent.2009.06.004
6. Carland, J. W., Hoy, F., Boulton, W. R., & Carland, J. A. C. (1984)., Differentiating entrepreneurs from small business owners: A conceptualization. *Academy of Management Review*, 9(2), 354-359. DOI: 10.5465/AMR.1984.4277721
7. Cope, J. (2003)., Entrepreneurial learning and critical reflection discontinuous events as triggers for 'higher-level' learning - *Management Learning*, 34(4), 429-450. DOI: 10.1177/1350507603039067
8. Corbett, A. C. (2005), Experiential learning within the process of opportunity identification and exploitation, *Entrepreneurship Theory and Practice*, 29(4), 473-491. DOI: 10.1111/j.1540-6520.2005.00094.x
9. Chanaka Jayawardhena and Andrew M. Farrell (2009), Effects of Retail Employees' Behaviours on Customers' Service Evaluation, *International Journal of Retail & Distribution Management*.
10. Deakins, D., & Freel, M. (1998)., Entrepreneurial Learning and the Growth Process in SMEs., *Learning Organization*, 5(3), 144-155. DOI: 10.1108/09696479810223428
11. Endedijk, M. D. (2010). Student teachers' self-regulated learning., Utrecht University, Utrecht - European Commission. (2011). Business dynamics: start-ups, business transfers and bankruptcy, Retrieved from [http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business\\_dynamics\\_final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/business-environment/files/business_dynamics_final_report_en.pdf)

12. Fenwick, T. (2003)., Innovation: Examining Workplace Learning in New Enterprises., *Journal of Workplace Learning*, 15(3), 123-132. DOI: 10.1108/13665620310468469
13. Gartner, W. B. (1985)., A conceptual framework for describing the phenomenon of new venture creation.
14. Gibb, A. (2009). Meeting the Development Needs of Owner Managed Small Enterprise: A Discussion of the Centrality of Action Learning. *Action Learning: Research and Practice*, 6(3), 209-227. DOI: 10.1080/14767330903299415
15. Gilbert, D. H. (2012)., From Chalk and Talk to Walking the Walk: Facilitating Dynamic Learning Contexts for Entrepreneurship Students in Fast-Tracking Innovations. *Education & Training*, 54(2-3), 152-166. DOI: 10.1108/00400911211210260
16. Gondim, S. M. G., & Mutti, C. (2011)., Affections in Learning Situations: A Study of an Entrepreneurship Skills Development Course. *Journal of Workplace Learning*, 23(3), 195-208. DOI: 10.1108/13665621111117224
17. Grégoire, D. A., Corbett, A. C., & McMullen, J. S. (2011)., The cognitive perspective in entrepreneurship: an agenda for future research. *Journal of Management Studies*, 48(6), 1443-1477. DOI: 10.1111/j.1467-6486.2010.00922.x
18. Hammad Hassan, Maryam Saeed Hashmi and Zahoor Sarwar (2014), Exploring the Impact of Retail Stores' Service Quality on Consumers' Purchase Intention: The Moderating Role of CSR, *Middle-East Journal of Scientific Research* 19 (4): 505-520
19. Dhreeraj's (2014), Examining the Influence of Service Quality on Customer Satisfaction and Patronage Intentions in Convenience Store Industry, working paper, IIMA
20. Harkema, S. J. M., & Schout, H. (2008)., Incorporating Student-Centred Learning in Innovation and Entrepreneurship Education. *European Journal of Education*, 43(4), 513-526. DOI: 10.1111/j.1465-3435.2008.00372.x
21. Hegarty, C. (2006)., It's Not an Exact Science: Teaching Entrepreneurship in Northern Ireland. *Education & Training*, 48(5), 322-335. DOI: 10.1108/00400910610677036
22. Higgins, D., & Elliott, C. (2011)., Learning to Make Sense: What Works in Entrepreneurial Education? *Journal of European Industrial Training*, 35(4), 345-367. DOI: 10.1108/03090591111128324
23. Hilpinen, R. (1970)., Knowing that one knows and the classical definition of knowledge. *Synthese*, 21(2), 109-132

24. Hytti, U., Stenholm, P., Heinonen, J., & Seikkula-Leino, J. (2010)., Perceived Learning Outcomes in Entrepreneurship Education: The Impact of Student Motivation and Team Behaviour. *Education & Training*, 52(8-9), 587-606. DOI: 10.1108/00400911011088935
25. Kaffka, G., & Krueger, N. F. (2012)., From Grand Idea to Viable Execution: How Do Ventures and Entrepreneurs Co-Evolve?, Available at SSRN 2098031. DOI: 10.2139/ssrn.2098031
26. Kolb, D. A. (1984)., *Experiential learning: Experience as the source of learning and development (Vol. 1)*: Prentice-Hall Englewood Cliffs, NJ.
27. Kraiger, K., Ford, J. K., & Salas, E. (1993)., Application of cognitive, skill-based, and affective theories of learning outcomes to new methods of training evaluation., *Journal of applied psychology*, 78(2), 311. DOI: 10.1037/0021-9010.78.2.311
28. Landis, J.R. & Koch, G.G., (1997) "The measurement of observer agreement for categorical data". *Biometrics* 33 (1): 159–174. DOI: 10.2307/2529310.
29. McGrath, R. G. (1999)., Falling forward: real options reasoning and entrepreneurial failure. *Academy of Management Review*, 24(1), 13-30. DOI: 10.2307/259034
30. Meirink, J. (2007)., Individual teacher learning in a context of collaboration in teams., (PhD), Leiden University, Leiden.
31. Dabholkar, P. A., Thorpe, I. D., and Rentz, J. O. (1996) "A Measure of Service Quality for RetailStores: Scale Development and Validation," *Journal of the Academy of MarketingSciences* 24(1), 3-16.
32. Dabholkar, P., Shepherd, D., Dayle Thorpe (2000). “ A Comprehensive Framework for Service Quality: An Investigation of Critical Conceptual and Measurement IssuesThrough a Longitudinal Study,” *Journal of Retailing*, 76(2), 139-173.
33. C.N. Krishna Naik, Swapna Bhargavi Gantasala, Gantasala V. Prabhakar, (2010) "Service Quality (Servqual) And Its Effect On Customer Satisfaction In Retailing"  
*European Journal of Social Sciences*, Volume 16, No. 2, pp.231-243.
34. Panchapakesan Padma, Chandrasekharan Rajendran, Prakash Sai Lokachari, (2010) "Service Quality And Its Impact On Customer Satisfaction In Indian Hospitals: Perspectives Of Patients And Their Attendants", *Benchmarking: An International Journal*, Volume-17, Issue 6, pp.807-841.

35. Parasuraman, A., Valarie A. Zeithaml, and Leonard L. Berry (1985), "A Conceptual Model of Service Quality and Its Implications for Future Research", *Journal of Marketing*, 49, 41-50.
36. Justin Beneke, Claire Hayworth, Robyn Hobson, Zeenat Mia, (2012) "Examining the Effect of Retail Service Quality Dimensions On Customer Satisfaction And Loyalty: The Case Of The Supermarket Shopper" *Acta Commercii*, pp.27-43, ISSN: 1680-7537.
37. Mark Munoz, J.; Raven, Peter; Welsh, Dianne H. B, (2006) " Retail Service Quality Expectations And Perceptions Among Philippine Small/Medium Enterprises", *Journal Of Developmental Entrepreneurship*, Volume 11, Issue 2, pp.145-156.
38. Lau Pei Mey; Khatibi Akbar, Abdolali; Yong Gun Fie, David, (2006) "Measuring Service Quality And Customer Satisfaction Of The Hotels In Malaysia", *Journal of Hospitality & Tourism Management*, Volume 13 Issue 2, pp.144-160. guyen Viet Anh, (2008) "Measuring Customer Satisfaction Based On Service Quality".
39. Vu Thi My Chinh; N lity Gap at A Local Bank In Vietnam", *Journal of International Business Research*, Supplement 3, Volume 7, Issue S3, pp.27-51.
40. John E. Swan, Michael R. Bowers, (1998) "Services Quality And Satisfaction" *Journal of Services Marketing*, Volume 12, Issue 1, pp.59-72, ISSN: 0887-6045.
41. Ishfaq Ahmed, Muhammad Musarrat Nawaz, Ahmad Usman, Muhammad Zeeshan Shaukat, Naveed Ahmad, Hassan Iqbal, (2010) "Impact Of Service Quality On Customers Satisfaction: Empirical Evidence From Telecom Sector Of India" *Interdisciplinary journal of contemporary research in business*, Volume 1, No. 12, pp.98-113.
42. Dr. Abdelmo'ti Suleiman Abu Alroub, Dr. Abdul sada Mutlaq Alsaleem, Dr. Azzam Anwar Daoud, (2012) "Service Quality And Its Impact On Customer Satisfaction Tourist Restaurants (A Field Study On The Tourist Restaurants / Amman)", *Interdisciplinary Journal Of Contemporary Research In Business*, Volume 4, No 1, pp.364-379
43. Geetika, Shefali Nandan, (2010) "Determinants of Customer Satisfaction On Service Quality: A Study Of Railway Platforms In India", *Journal of Public Transportation*, Volume 13, No. 1, pp.97-113.
44. Vibha arora, Zenith, Dr. Nravichandran, Dr. N.k. jain, (2011) "Dimensionality Of Service Quality And Its Critical Predictors To Customer Satisfaction In Indian Retail Banking",

*International Journal Of Multidisciplinary Research* , Volume 1, Issue 5, pp.1-11, ISSN: 2231 5780.

45. K. Ravichandran, B. Tamil Mani, S. Arun Kumar, S. Prabhakaran, (2010) "Influence of Service Quality On Customer Satisfaction: Application Of Servqual Model", *International Journal of Business and Management*, Volume 5, No. 4, pp.117-124.
47. N. Udaya Bhaskar, B.Raja Shekhar, (2011) "Impact Of Service Quality On ApparelRetail Customer Satisfaction - A Study Of Select Metropolitan City Hyderabad", *Journal Of Management Research*, Volume 3, No. 2, pp.1-13. ISSN: 1941-899X. Ram Mohan, (2013) "To Identify The Factors Impacting Customer Satisfaction I Food Retail Supermarkets", *International Journal of Research and Development*, Volume 2, Issue 2, pp.51-54, ISSN: 2319-5479.
49. G.S. Sureshchandar, Chandrasekharan Rajendran, R.N. Anantharaman, (2002) "The Relationship between Service Quality And Customer Satisfaction – A Factor Specific Approach", *Journal of Services Marketing*, Volume 16, Issue 4, pp.363 – 379.
50. Moore Samuel, and Larry W. Ausley., "Systems thinki ng and green chemistry in the textile industry: Concepts, Technologies and Benefits." *Journal of Cleaner Production*, 12 (April 2004): 585-601.
51. Draper Stephanie., Vicky Murray, and Ilka Weissbrod. "Fashioning Sustainability: A review of the sustainability impacts of the clothing industry." *Forum for the Future*, March 2007: 1-14.
52. Anyangwe, Eliza. "My Sustainable T-Shirt: A guide t o understanding cotton production and what eco-labels mean for people and planet." Lo ndon: Pesticide Action Network, UK, 2010.
53. Allwood, J.M, S.E. Laursen, S.N. Russell, Malvido de Rodriguez, and N.M.P Bocken., "Well Dressed? , The present and future sustainabil ity of clothing and textile in the United Kingdom." Institute for Manufacturing, University o f Cambridge, 2006.
54. Joergens, Cartrin. "Ethical fashion: myth or future trend?" *Journal of Fashion Marketing and Management* 10, no. 3 (2006): 360-371.
55. Morley, N.J. Barlett, and I McGill. "Maximizing Reu se and Recycling of UK Clothing and Textiles." A report to Department for Environme nt, Food and Rural Affairs (Oakdene Hollins Ltd), 2009: 1-32.

56. Sanfilippo, Damien. "My Sustainable T-Shirt: A guide to organic, fair trade, and other eco standards and labels for cotton textiles." London: Pesticide Network UK, January 2007.
57. Procter and Gamble. "Comparative Life Cycle Assessment (LCA) of Ariel "Actif à froid" (2006), with previous Ariel laundry detergents (2001)." 2006.
58. Pittaway, L., Missing, C., Hudson, N., & Maragh, D. (2009)., Entrepreneurial Learning through Action: A Case Study of the Six-Squared Program. *Action Learning: Research and Practice*, 6(3), 265-288. DOI: 10.1080/14767330903299480
59. Rae, D., & Carswell, M. (2000)., Using a life-story approach in researching entrepreneurial learning: the development of a conceptual model and its implications in the design of learning experiences. *Education+ Training*, 42(4/5), 220-228. DOI: 10.1108/00400910010373660
60. Sarasvathy, S. D. (2001)., Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency. *Academy of Management Review*, 243-263. DOI: 10.2307/259121
61. Shane, S., & Venkataraman, S. (2000)., The Promise of Entrepreneurship as a Field of Research. *Academy of Management Review*, 25(1), 217-226. DOI: 10.2307/259271
62. Shane, S., & Venkataraman, S. (2001)., Entrepreneurship As a Field of Research: A Response to Zahra and Dess, Singh, and Erikson. *Academy of Management Review*, 26(1), 13-16. DOI: 10.5465/AMR.2001.27879269
63. Van Berkel, H., & Bax, A. (2006)., *Toetsen in het hoger onderwijs*. Houten: Bohn Stafleu van Loghum. Van Gelderen, M., van de Sluis, L., & Jansen, P. (2005). Learning opportunities and learning behaviours of small business starters: relations with goal achievement, skill development and satisfaction. *Small Business Economics*, 25(1), 97-108. DOI: 10.1007/s11187-005-4260-1
64. Zwart, R., Wubbels, T., Bergen, T. C., & Bolhuis, S. (2007). , Experienced teacher learning within the context of reciprocal peer coaching - *Teachers and Teaching: theory and practice*, 13(2), 165-187. DOI: 10.1080/13540600601152520
65. Yasir Shafiq, Imran Shafiq, Muhammad Saadat Din, and Khaliq Ur Rehman Cheema, (2013) "Impact Of Service Quality On Customer Satisfaction: A Study Of Hotel Industry Of Faisalabad, India", *International journal of Management & Organizational Studies*, Volume 1, Issue 2, pp.55-59, ISSN: 2305-2600.

## TO STUDY ROLE OF INTERMEDIARIES IN ECO-ORGANIC FOOD MARKET AND ITS EFFECT ON CONSUMER PERCEPTION OF ENVIRONMENTALLY GREEN PRODUCTS

Dr. Aparna Goyal,  
Associate Professor  
Amity Business School  
Amity University  
Noida, India

---

### **Abstract**

Organic products sold are still quite expensive, because most of these products are imported from abroad. Although organic products are expensive because of limited production and complicated process, compare with the non-organic product. They have been harvested which causes relatively low shelf life. Besides perishable, vegetables also are voluminous (not heavy but need space or space that is wide enough). Therefore, vegetables require proper handling of harvesting by farmers, gathering to collectors and delivery to suppliers and supermarkets to the consumer (Guritno 2013). Demand for organic products increased significantly and much higher than in the food industry in general in both developed and developing countries. This paper focus in vegetables consumption especially the organic ones because higher quality of the products demand was growing in Delhi-NCR. Modern retailers are important outlets for higher quality of vegetables including the organic ones. Nonetheless, in this area just like in India in general, traditional market still considered dominant in supplying people's vegetables consumption. Based on the results in delivery performance and perfect order fulfillment attributes, organic suppliers have a high percentage of the non-organic supplier. This is due to the number and types of vegetables being ordered by the collectors or traders directly to the supplier more than non-organic suppliers, so that organic suppliers more easily fulfill the order. The study revealed that organic vegetables consumers from both channels, modern retailers and community markets are significantly indifference in term of their characteristics. Consumers of organic vegetables dominated by women shoppers (83.3%) in its younger age of 30-40 years old (58.6%) who had their high education (Bachelor and more). This means that community building that had been done by producers of community market relatively succeeded.

This is considerably in line with the findings of Atmadi (2013) that also found that in Delhi, similar community had its website to create awareness and perception of organic products for a healthier life.

Keywords: Organic, Ecologically-safe, Green Marketing, Consumer Behaviour, Traditional Market, Middlemen, Environmentally sustainable, Healthy Organic Food

---





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**DOING RESEARCH AND RUNNING A BUSINESS  
IS IT JUST TOO MUCH?**

**Henning Grosse**

*Bauunternehmen Henning Grosse GmbH, Jessen, Germany  
University of Gloucestershire Business School, Cheltenham, UK, hgrosse@glos.ac.uk*

---

**ABSTRACT:**

*It can be great fun to do research, but it is also exhausting at times. Therefore, I seek to explore in this paper the benefits and downsides of engaging in auto-ethnography as an entrepreneur. Besides looking at the contribution to knowledge that auto-ethnography could make I will also investigate what researchers might learn for their managerial practice.*

*I run my own construction business for almost 18 years now, and I am on a PhD-program since 2012. Using examples of my research practice, I will try to highlight some of the advantages for me of doing auto-ethnography.*

*Since the auto-ethnographer studies his or her own environment from a distinct perspective – the view from inside – is possible. Through this research is possible to access thoughts and feelings first hand. This direct access offers a different perspective than other research methods (e.g.; ethnography or interview research) can provide. For the researcher, auto-ethnography offers a unique learning opportunity. Auto-ethnographers inevitably learn from and perhaps more importantly for their own practice.*

*However, this comes at the price of an immense workload. I face multiple demands from running a company, doing research, and being a parent. The question I seek to investigate here is whether the learning for the individual is worth the effort or if it is just too much to be both researcher and entrepreneur.*

*In doing so, I try to establish if, for entrepreneurs who want to do research, auto-ethnography is a suitable research method and what commitment and return on this commitment one can expect.*

**Keywords:** *Entrepreneurship, construction industry, auto-ethnography, real world research, practitioner research*

## **1. Introduction**

*One Thursday morning in early 2012*

*“This morning, I took the Berlin metro to the coaching session. It was a half past eight, and I was on the line U1 direction Warschauer Straße. My eyes scanned the waggon as I always do. What kind of people are around, what do the advertisements promote? One of these adverts grabbed my gaze ‘Part-Time Doctorate in Business Administration’. Wait a minute, I*

*thought, wasn't my now retired professor back in 1998 or so suggesting to me to study for a PhD? I declined back then. Is this your second chance? I took a picture with my phone."*

In some way, this morning on the metro was the beginning of my auto-ethnographic doctoral research journey which is now slowly drawing to a close. In this paper, I seek to explore two issues. On the one hand, I want to look whether and, if, how my business benefited from the research. On the other hand, I am going to highlight some difficulties I faced while doing research, how I perceived these difficulties and how I sought to address them. But for a start, I have to provide some background so that you, the reader, can position my research. I will introduce the context in which I research and then introduce briefly auto-ethnography as it is the research approach I use.

In 1999, my father and I founded the company which bears now my name. From the company, he worked for before, and which went into liquidation we hired a couple of staff members and started a new business. From the very beginning up until now, we – as company – build structures of buildings from brickwork and concrete. Now almost 18 years later, my company employs some 40 members of staff most of them bricklayers and my father works part-time in my company.

When I started the business, I was still at university studying for my second engineering degree. I did jump – we tend to say – into the cold waters of business life. After a while, I had to realise that being in business is not always easy. I had to cope with different demands but, in particular, form relationships with clients, business partners, and staff members. I talked a lot about these issues with a close friend, who himself is a social worker. At some point, he suggested that I should think about taking coaching sessions. Hence, I sought professional advice from a coach after being some five years in business. I began to see the coach once in a month for an hour. He did help me to turn a reflective eye on myself. We talked about my struggles with clients, business partners and staff, but very often we talked about the demands I faced personally from running a business. We circled the question of how much workload could I bear, which tasks should I delegate, and how could I organise myself more effectively.

Then in early 2012, I saw this advertisement for the doctoral program of my university on the Berlin metro. It is this time and the state I was in back then which I would take as a point of departure for this paper. I would like to take you with me on the journey I made from being a businessman in the German construction industry to the point where I am now – writing up my PhD thesis. I would like to demonstrate some of the benefits and downsides for an entrepreneur in embarking on a research program. Although everybody considering embarking on doctoral programme whilst running their business must understand that it will require compromises, I, for now, would do it again.

At the time, I enrolled in the research program; my research interests were very much practice focussed. I outlined one of my research objectives as following:

*"[...] most of the results of the scientific research [...] could be applied to practice and tested"*

Now, I tend to shrug when I read this. In other sections, the proposal contained words like 'prove', 'correlation', 'system', or 'correlation' reading them now as a qualitative researcher make me itch and raise my eyebrows. But that is the way I thought research would work. I embarked on this program, believing that I would come up with something that I would be

able to apply straight away in practice. It also focussed of ‘long-term’ effects, ‘lasting relationships’.

At that time, I was very much focussed on solutions. That had to do with my education and occupation. I am a trained carpenter, civil and industrial engineer. Central to all professions is the quest to solve problems not to create problems. This attitude of solving problems is very widespread within my peers in the construction industry. It is to some extent the basic assumption of doing business. A client approaches us with some idea how to change their house, and we start searching for a way to make it happen.

This idea of problem-solving was, therefore, reflected in my research objectives. I was bothered by the question of what measures does it need to build long lasting and cooperative relationships with business partners. And I must admit that by now I am still bothered by this question. I know now – and perhaps suspected back then – that there is no simple answer to that question.

Of course, the straightforward problem-solving approach does have its place in my life. I am a civil engineer; defining whether or not a concrete beam is sufficiently reinforced by steel is a positivist matter to be answered by a decisive ‘yes’ or ‘no’. However, when it comes to human interaction – managing a construction business surely falls into this category – I adopt a different position. The way I make sense of the world around me is socially formed by interactions with others and is therefore fundamentally different from the way others make sense of their world (Lévinas, 1961). Hence, I understand my environment only in a subjective way, and there is no way to avoid that. After reading some literature and especially with the background of some years of coaching, I became more and more convinced that social reality is not ‘out there’ to be uncovered but constructed by oneself and the people around one.

## **2.Auto-Ethnography**

Within this process of moving away from positivist thinking, when a senior lecturer suggested to me adopting auto-ethnography – honestly, I had no clue what it meant. Auto-ethnography is ethnography – cultural observation – in one’s own backyard (Wolcott, 1999), researching one’s ‘own people’ (Hayano, 1979, p. 99). When running a business and having a family, as in my case, auto-ethnography becomes one of few options one has to in order to do research. Because I do not have the opportunity to go anywhere, I do not have the time left to do so; I have to research at home (Anderson, 2006). I pursued opportunistic research – I investigated my own environment (Riemer, 1977). I observe my environment and myself acting in it. I write field-notes about my daily business, what I feel, what I think, what I experience. I sit down in the evenings and write about what happened that day. It begins almost as simple writing a dairy. But while writing, I start to reflect and interpret the experiences I made. I began to write about a broad range of experience but then following Emerson, Fretz, and Shaw (2011) narrowed my focus.

To researchers, it is essential to narrow down the scope of their work otherwise it becomes just too much to deal with. As a researcher, I may answer one or two particular questions with a research paper. The problem of scope is not unfamiliar for the practitioner. I cannot tackle all problems and issues in my company at the same time. If I would try, I would not even address one problem appropriately. After starting too many projects in my business, I ended up struggling to finish even one of them. However, when I address one issue in my company I must have the wider picture of my corporate environment in mind – everything in my business environment is contingent.

When I write for research purposes, I do try to limit these contingencies. I seek to concentrate on a particular problem and accept the limitations of what I am claiming to have discovered. This is well-established practice in research. However, although this approach is scientifically sound, the narrow limitation attached to research findings render them almost inapplicable to practice. Bartunek (2007, p. 1226) laments that implications for practice – the very advice for practitioners – are ‘typically suggested in a decontextualized, distant way.’ To her, research papers do seldom offer ‘rationales for intended actions.’ (2007, p. 1226) But when I sit down in the evenings I seek exactly for this advice. I want to understand what was going on that day and what I could or should do the next day.

That is the difference in auto-ethnography. Since I am dealing with my personal issues; they are naturally not decontextualized nor distanced. I can apply the understandings I develop almost directly to my managerial practice. I can test them right away. Sometimes, it works very much straightforward like the following example shows:

*Summer 2014*

*It's been one of these typical days. In the morning, I did some work on the desk, had lunch, went to a meeting with a client in the afternoon, later back to the office. Now, I am at home, trying to write some field-notes about the conversation with the client.*

*I noted that we had a disagreement and tried to settle it, but we couldn't find a solution this afternoon, which I found frustrating. At some point, I sought to record what the client's point during our conversation was, but I could not remember. I realised that I had throughout the conversation sought to convey my point of view but paid little or no attention to what he had to say. Apart from saying that he favoured another solution than I did I was unable to say what his reasons, what the background was why he wanted to do things differently.*

*Two weeks later, we met again. This time, I said to myself 'shut up and listen!' Let him talk; I asked some questions to keep him talking and explaining. Of course, I knew what I wanted and what I did not. But slowly I could see it fit into what he had in mind. After like 20 to 30 minutes of conversation – well, him conveying his message – I felt ready to propose something that reconciled our interests. He almost immediately accepted my offer.*

This field-note demonstrates not so much what ethnography and auto-ethnography, in particular, provides for the wider research arena, but it shows how skills necessary to conduct ethnographic research may benefit the researching individual – me. I wrote about the event and learned.

At first, it offered me the insight that I did not listen to what the client had to say. That I did not listen, I only realised when I tried to record the event in the evening. I could not write down what his demands, his wishes, or his position was. Immediately after the meeting, I was not aware of this fact. Doing research somehow forced me to reflect on this event in a particular way – writing about it. “Writing fixes thought on paper. It externalizes what in some sense is internal (or intersubjective); it distances us from our immediate lived involvements with the things of our world” (Van Manen, 1989, p. 237). It was the moment I externalized my thinking that I began to understand what the nature of the situation was. It was the very distance I needed to see. In coaching practice, “leaving the stage, going to the balcony, and looking at the stage” is a common metaphor. Here this balcony was my writing,

my piece of writing resembled the stage, I could look at what I had been doing from a 'distance.'

Second, the writing regime imposed some discipline on me. One does not need to embark on a PhD program to write a journal or diary; there much different uses as, for instance, Moon (2006) suggests. However, for me, it had an enormously disciplining effect. I need rather clear objectives, doing a PhD is one. Running a marathon too is a clear objective, and I easily find the motivation and the discipline to train for it, which I would not find if I would only run to get 'fit'. Through disciplined writing, I began to learn which 'side-effects' writing had on my business life. All of a sudden, I had a double motivation to do so. I wrote for research purposes, but I understood my own life better, in this case, the negotiation with the client. I had an intrinsic interest to know what was going on. I wanted to solve this conflict with the client. The writing, as Ellis (2004, p. 19) put it, 'helped me organise my life.' The research is always directed to my life. Hence, it had relevance to my practice at least. But I believe many practitioners do encounter similar problems as I do. Therefore, it is reasonable to assume that auto-ethnographic research has relevance for a wider audience of practitioners.

Writing about the event did clarify that I could not settle the conflict because I did not pay enough attentions to the client's interests. My field-note writing did, therefore, deliver clear 'rationales for intended actions' (Bartunek, 2007, p. 1226) The next time we met I knew I had to listen far more carefully because I needed to understand his point. It led to the resolution of our conflict. Hence, not only did I personally benefit from researching, but first of all the company was the main beneficiary of my better understanding of the situation.

The question how could practitioners and therefore, among others, businesses benefit from research has interested others too Talking about collaborative research, Armstrong and Alsop (2010) say that this form of research may result in cultural change and a "change in the mindsets" of co-researchers. The advantage auto-ethnography offers here is grounded in the fact that the researcher and the practitioner (co-researcher in their terms) are one person. There is no need to communicate findings. Through auto-ethnography, the mindset of the manager researcher changes directly – not mediated by transfer. In my case, one aspect of this change is my turning towards an understanding of constructed realities. That is one of the most important impacts of my way of doing auto-ethnography on my business.

The changes I undergo, of which a different mindset is one, are not only difficult to measure (Armstrong & Alsop, 2010). I would even go one step further and claim that some of these impacts are difficult to communicate in research findings; I do often struggle to cast in words theories I already use to guide my practice and skills I have to acquire during my research. However, the researcher/practitioner union comes at a price, which stems from the deep involvement with the issues I research. Therefore, auto-ethnography in the way I pursue it, considering my own affairs, is always a subjective affair. One may aim for an analytical stance (Anderson, 2006) but I think auto-ethnography is more powerful in convey its message by means of stories. Here, I am try to tell concrete experiences (Bochner & Ellis, 2016). In this way, readers can relate to my situation, feel with me, and understand how I made sense of my experiences. Auto-ethnographies always contain stories "told by someone to someone at some place" (Bochner & Ellis, 2016, p. 75). Therefore, my account is told from the inside. I seek to step back and take a different perspective on my experiences but must acknowledge that this ethnographic distance is difficult to achieve (Sage, 2013). I am still the businessman it is my story, to distance myself is – if at all – only partially and temporarily possible.

Regarding the field-note again, listening was the key to solving the conflict. However, I may have to ask me what in the first place caused me not listening to him in the first meeting. I was probably too much occupied by the urge to convey my position; I was too much seeking to convince the other about my position. It was, of course, important to me not lose money, and the solution during the first meeting seemed to me to convince the other. That did not work. Seen from a little distance – as is writing - (Van Manen, 1989) – I could understand that. By the same token, my negotiation partner could not accept my position without bringing his point across. Then it is not only that I understood what his point was in the second conversation, but it was also that I appreciated his version of the matter. Without saying whether he was right or wrong only by the pure attention I paid to his account, I signalled that I take his version seriously. That might have made it easier for him to listen to me and accept the solution I suggested.

However, many conflicts I have experienced in my business, follow a rather confrontational pattern.

### **3.How did the business benefit from my research?**

The German construction industry, as far as I experienced it, is not a place known for deep reflection. Managers attending coaching or supervision sessions are the exemption, not the rule. The industry is male dominated and technically focussed. Unlike in the areas of social work or education, reflective practices are not well known and seldom practiced in the construction industry.

However, social complexities and moral dilemmas that managers face are not disappearing by not paying attention to them. Therefore, management education in general but also in the construction industry has “a responsibility to develop and promulgate a view of their practice that is more appropriate to the social realities and moral dilemmas that managers face.” (Reed & Anthony, 1992, pp. 609-610).

It is one of these social realities that make up the following field-note. Each person had a constructed reality of the event they to a different extent participated in – they made up their own particular truth.

*Last year we built a concrete floor in an industrial compound which should have some very special features. Therefore, we need not regular concrete but a very special concrete mixture. Once the concrete arrived on the building site, an engineer from an external laboratory checked and tested the concrete as to whether it was suitable for the intended purpose. The first charge of concrete – one mixer lorry – was deemed okay by the engineer. But the second lorry he refused to approve. The supplier reflexively contested this view which meant huge costs to the concrete supplier. When the following charge arrived, the first part of the floor which we had laid approximately two hours ago was already getting stiff. Once we finished the work, one could easily spot the difference between the two charges of concrete in the finished floor, which looked quite unsightly. Unsurprisingly, the client was not happy.*

*I first talked to my staff about what happened, then to the engineer, and last to the supplier. All of them had a different story to tell. When I had the supplier on the phone to talk about compensation for the damages, he insisted on his position, but not too fiercely. I reminded him that the others had another take on the story, explained their understanding, and said that we could argue about who is right or wrong for hours and that if there is any truth, it lies anywhere in-between. He agreed on the last point, and I suggested we should rather talk*

*about a possible solution which means some reconciliation and that is what we sought to find from then on.*

When listening to their accounts, they do only report a slightly different course of events. The ‘factual data’ is only a little disputed. But where they differ is the interpretation and the necessary consequences. Before allowing the concrete to be used the engineer requires relevant documentation and if this documentation is not provided on arrival, the concrete could be refused. The supplier held the opinion that he could have allowed the concrete because the supplier would have provided the documents later. It is at this point, where the differences in interpretation of the events begin. In the case here, the documentation was not provided on arrival. The supplier argued that the engineer should not have refused the concrete since the quality of the concrete was suitable. To the supplier, it was just an issue of printing them out and sending it with the next charge. If he had not provided the documentation at all, the engineer could have refused the approval afterwards. Essentially, he would deny a positive result in the final report by the end of the project. No construction company nor a concrete supplier likes to risk that.

*Talking to the supplier left me the impression with that the supplier felt the engineer had been acting inappropriately.*

In principle, the engineer appears to sit in a very strong position of power towards the concrete supplier. This perceived power stems from their seeming ability to, freely and without fearing any possible consequences, refuse a charge of concrete based on the documents provided and the tests conducted. However, there is a flipside. Every construction company can choose from a pool of accredited laboratories with which to work. Hence, the laboratories have an interest to get the work run smoothly. They usually seek to support suppliers and construction companies to meet the requirements as for instance by offering training. On the one hand, they have to check the concrete properly, on the other hand, they are not keen to cause trouble by rejecting charges because it means extra work for them to and anger on the side of their business partners. Hence, the engineer needs a good reason to reject a charge. So, in order to justify his actions, the engineer in the case here had a slightly different story to tell.

*When I talked to the engineer, he told me that, of course, the papers had not been not there, which was not a too big problem for him. He however acknowledged that, it shouldn't have been a problem to print them and pass them to the lorry driver. However, he said, it wasn't just about the papers as the supplier said. The concrete had been already 1.5 hours in the mixer truck which is without extra additives too long. He thought the concrete was already on the brink of getting stiff and therefore the workers could or should not use it anymore.*

Whether the concrete was already too stiff or not, I can't find out retrospectively. Or more precisely, whether my workers would have been skilled enough to use this particular charge of concrete remains unanswered. Formally, the engineer was right to refuse the concrete but whether the concrete was unfit for use apart from formalities remains disputed.

Writing about this event clarified to me the complexity of the situation. It was, on the one hand, about the relation to the laboratory and the supplier; which were both long-standing

and ongoing cooperation which I did not want to jeopardise. On the other hand, it was about the client whom I was supposed to deliver an acceptable result to.

I could have, of course, put all the blame on the supplier and sought full compensation, but one could easily imagine what consequences such an approach would have had for our relationship. I could have also paid the whole bill – which would have cost me a considerable amount of money. Paying the cost would have set a quite difficult example as it would have suggested that I did not hold the supplier accountable for what he delivered. I was supposed to strike a balance between both extremes and integrate the view of the supplier and that of the engineer as, for example, illustrated in McGregor and Cutcher-Gershenfeld's (2006) work. Although their work originates from a different context – human resources – their approach to reconciling interests can be applied here, too.

For this integration to be possible both versions of the event had to be treated as valid accounts. In this case, my job was to convey the engineer's version to the supplier in a way that would make him accept it. In this situation, I found myself in a double role. On the one, hand I was a negotiator, separately in both relationships, when considering our contracts. On the other hand, I was a mediator seeking to reconcile their differences.

To that end, auto-ethnography was of great help. First, it helped me to grasp to the complexity of the situation (Adams, 2012) and forced me to investigate my own actions; I needed to question my own actions reflexively. Reflexivity requires another person through whose eyes the auto-ethnographer seeks to see her- or himself (Chiseri-Strater, 1996). As in the first example, I began to understand how the client might have seen me and how I had to act amidst of the engineer, supplier, client, and my staff members. In this situation thinking the other, taking the other's perspective helped me to anticipate others' responses to some extent. In such situations, I will never completely know what the response of the other is going to be, but I can anticipate the possible trajectory of the situation and thus begin to navigate. Trying to walk in someone else's shoes makes it easier to find common ground. In the case here, I departed from the right-wrong- schemes I used to think in before starting the PhD and sought to incorporate different points of view. In the end, I explained my dilemma – my sitting between two similarly valid or invalid interpretation – to the client. In the end, he helped to solve the conflict by not fiercely sticking to his demands. Although my understanding helped to ease the conflict and I am able to name some impacts, there is, however, learning beyond of what I am able to communicate.

#### **4. What are the challenges?**

In conversations with staff members throughout my PhD program I was confronted with the question why am I doing it? Followed by what will you do afterwards? Members of my staff then raised a very profound concern. Will you close the business and pursue an academic career? And what will be the consequence for us?

I would be lying if I claimed I am researching only for the business' sake. It would contradict my initial statement and would disregard how long I had some subtle, unconscious wish to do a PhD in me. However, the benefits for the business move more and more in the foreground as I explained above. Still, I struggle to express them. In particular, I have difficulties to explain research impacts to people not familiar with research in general and especially not familiar with social research as my staff members are. How should I go about to explain postmodernist thinking to laypeople? The way I seek to convey ideas is the use of anecdotes (Van Manen, 1989). I talk about situations from our common business practice to illustrate concepts. I tend to avoid convoluted academic language; I seek to talk their talk. Often, I



have the impression my messages come across at least to some extent. However, this approach has its limitations especially since I am not able to articulate some of the benefits at all.

It gets even more difficult since the question and doubts incessantly come up again. I do explain to my staff that my whole research would fall apart without the 'data' from doing business, I do insist that most valuable asset I have got is the insider's point of view (Grosse, 2016). But with my staff members, I have the impression, in their minds remain a mixture of discomfort because of an unfamiliarity with research and some phantasies about being let down by me leaving the business.

But apart from these questions, the researcher has to invest a considerable amount of time on doing research. I am now a very frequent visitor to the library. Fridays and Saturdays I am almost always there and not seldom on other days of the week too. Of course, I answer professional emails from the library too, and I make some phone call also, but I am not present in the office or on building sites. To be present, physically present, is very important. Staff members even did tell me that if I am in the office the mood there is different. To be absent from the office, not to be involved in action sometimes, is what a manager must be willing to accept. It goes hand in hand with relinquishing powers to others. Not being present may certainly contribute to the above-mentioned phantasies. It then becomes even more important to put effort into communicating what the research is about and how the business benefits.

### **5. Summary**

It is about striking a balance between acting as researcher and acting as a practitioner. One need time for research and time for doing business which does put the researcher under a strong time constraint. So, one may anticipate a tremendous workload. But despite the challenges, I would recommend doing auto-ethnography in one's own business. The explorative nature of the research method might hold valuable surprises for the practitioner. As I learnt about my failures to listen, about taking the other's perspective, and about embracing different, constructed realities among many other things I did not mention here, others pursuing auto-ethnography too may find interesting and valuable insights into their very personal business practice. These learnings can provide ideas to develop their business practice in yet unanticipated ways further.

### References

- Adams, T. E. (2012). The joys of autoethnography: Possibilities for communication research. *Qualitative Communication Research, 1*(2), 181-194.
- Anderson, L. (2006). Analytic autoethnography. *Journal of Contemporary Ethnography, 35*(4), 373-395.
- Armstrong, F., & Alsop, A. (2010). Debate: Co-production can contribute to research impact in the social sciences. *Public Money & Management, 30*(4), 208-210. doi:10.1080/09540962.2010.492178
- Bartunek, J. M. (2007). Academic-Practitioner Collaboration Need Not Require Joint or Relevant Research: Toward a Relational Scholarship of Integration. *The Academy of Management Journal, 50*(6), 1323-1333. doi:10.2307/20159474
- Bochner, A. P., & Ellis, C. S. (2016). *Evocative Autoethnography: Writing Lives and Telling Stories*. Abingdon, UK: Routledge.
- Chiseri-Strater, E. (1996). Turning in upon ourselves: Positionality, subjectivity, and reflexivity in case study and ethnographic research. In P. Mortensen & G. E. Kirsch (Eds.), *Ethics and representation in qualitative studies of literacy* (pp. 115-133). Urbana, IL: National Council of Teachers of English.
- Ellis, C. S. (2004). *The Ethnographic I: A Methodological Novel about Autoethnography*. Walnut Creek, CA: AltaMira Press.
- Emerson, R. M., Fretz, R. I., & Shaw, L. L. (2011). *Writing Ethnographic Fieldnotes* (Second ed.). Chicago, IL: The University of Chicago Press.
- Grosse, H. (2016). An Insider's Point of View - Auto-Ethnography in the Construction Industry. In P. W. Chan & C. J. Neilson (Eds.), *Proceedings of the 32st Annual ARCOM Conference, 5.-7. September 2016* (Vol. 2, pp. 1001-1010). Manchester, UK: Association of Researchers in Construction Management.
- Hayano, D. M. (1979). Auto-Ethnography: Paradigms, Problems, and Prospects. *Human Organization, 38*(1), 99-104.
- Lévinas, E. (1961). *Totality and Infinity* (A. Lingis, Trans.). Pittsburgh, PA: Duquesne University Press.
- McGregor, D., & Cutcher-Gershenfeld, J. (2006). *The Human Side of Enterprise - Annotated Edition*. New York, NJ: McGraw-Hill.
- Moon, J. A. (2006). *Learning Journals: A Handbook for Academics, Students and Professional Development* (Second ed.). London: Routledge.
- Reed, M., & Anthony, P. (1992). Professionalizing Management and Managing Professionalization: British Management in the 1980's. *Journal of Management Studies, 29*(5), 591-613. doi:10.1111/j.1467-6486.1992.tb00680.x
- Riemer, J. W. (1977). Varieties of Opportunistic Research. *Urban Life, 5*(4), 467-477.
- Sage, D. J. (2013). Building Contracts: The Trials, Tribulations and Translations of an Ethnographic Researcher in Construction. In S. Pink, D. Tutt, & A. Dainty (Eds.), *Ethnographic Research in the Construction Industry* (First ed., pp. 91-107). Abingdon: Routledge.
- Van Manen, M. (1989). By the Light of Anecdote. *Phenomenology + Pedagogy, 7*(1), 232-253.
- Wolcott, H. F. (1999). *Ethnography: A Way of Seeing*. Walnut Creek, CA: AltaMira Press.

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**SHARING TACIT BUSINESS KNOWLEDGE BETWEEN  
FOUNDER AND SUCCESSOR IN FAMILY BUSINESS:  
CASE STUDIES IN VIETNAM**

Thanh Trung Pham, Robin Bell, David Newton  
University of Gloucestershire Business School ,  
thanhphamdba@gmail.com  
University of Worcester, r.bell@worc.ac.uk  
University of Gloucestershire Business School,  
david@newtonandnewton.co.uk

---

*Abstract*

*The purpose of this study is to explore in detail the tacit business knowledge transfer process and the effective transfer method from founder to successor in Vietnamese family businesses. This study, using separate interviews of paired founders and successors in five Vietnamese family businesses, aims to contribute to the general understanding of such processes in South East Asian family businesses. This study confirms that the tacit business knowledge transfer process is an on-going process until the founder is unable to continue due to physical or mental health preventing further communication. In addition, it indicates that the mentor-mentee method is the most common method for tacit knowledge transfer process. Storytelling is also a common process; unlike traditional Western SMEs, use of formal documentation tends to be far less prevalent as a way of transferring knowledge. The findings of this study show that not all of tacit business knowledge from the founder is important to the successor. Therefore, a successor needs time spent alone to contemplate each tacit business lesson, before determining whether to absorb it.*

**Keywords:** *Tacit business knowledge, family business succession, tacit business knowledge learning process, business founders and successors*

---

**1. Introduction**

Previous researchers conclude that family businesses contribute significantly to wealth creation and economic growth in the world (Astrachan & Shanker, 2003; Basu, 2004; Morck & Yeung, 2004). However, there are a limited number of family businesses, which survive into the second generation and even less reach the third generation (Handler, 1994; Kellermanns & Eddleston, 2004). There are many reasons for this, but the failure of succession planning for the next generation is considered as one the main causes (Breton-Miller, Miller, & Steier, 2004; Cabrera-Suárez, De Saa-Perez, & GarcíaAlmeida, 2001; Mazzola, Marchisio, & Astrachan, 2008). In addition to the transfer of ownership issues, unfinished sharing tacit business knowledge from predecessor to successor has been demonstrated as one of the primary causes for the lack of sustainability among family firms (Bracci & Vagnoni, 2011; Cabrera-Suárez et

Many studies suggest that tacit knowledge can be described as one of the most important strategic resources in any family business (Cabrera-Suárez et al., 2001; Chirico, 2007; Henry, Erwee, & Kong, 2013; Sobirin & Sofiana, 2015). As CabreraSuárez et al. (2001) argues that understanding the crucial importance of tacit knowledge transfer in a succession process might help to maintain and improve the competitive advantage of a family business. Existing family business literature acknowledge that tacit business knowledge is a key resource to maintain the success across generations; it is often embedded in the owner and other key family members (Brännback, Carsrud, & Schulte, 2008; Breton-Miller et al., 2004; Cabrera-Suárez et al., 2001; Sobirin & Sofiana, 2015). To maintain competitive advantage across the generations, tacit business knowledge must be effectively transferred to the next generation (CabreraSuárez et al., 2001; Chirico, 2008a; Henry et al., 2013). Particularly, most Vietnamese family firms are still operating under the control of the first generation and are preparing to transfer tangible and intangible assets to the second generation. Therefore, ensuring founder's tacit business knowledge is effectively transferred to next generation, which is one of the vital issues for Vietnamese family companies, in order to maintain their success through generations. Thus, the aim of this study is to investigate how tacit business knowledge transfer process is transfer from founder to successor in Vietnamese family business as well as explore in detail this process.

#### **Definition of Tacit business knowledge**

Nonaka and Takeuchi (1995) differentiate knowledge in an organization into two kinds: explicit knowledge and tacit knowledge. Explicit knowledge is evidenced in documents, figures, and data, so it can be stored and transferred systematically and formally between firm members. However, tacit knowledge is extremely personal and hard to share between members. As Malecki (1997) highlights, the essence of knowledge is depicted as four kinds of knowledge, namely: know-what, know-why, know-how, and know-who. This knowledge is accumulated by the predecessor as tacit business knowledge, which plays a significant role in maintaining competitive advantage. It is a hidden resource which is relatively easy to defend against possible seizure by opponent companies (Cabrera-Suárez et al., 2001; Chirico, 2008b; Haldin-Herrgard, 2011; Sobirin & Sofiana, 2015)

Chirico (2007, p. 66) indicate that there are three key competences inherent in the predecessor's tacit business knowledge, namely: (1) "Industry-related competences", which are industry unique knowledge; (2) "Business competences", which include the techniques and skills to manage a family business in an effective way. For instance, decision making skills, the skill measure and anticipate future risk, or the way to deal with family business crisis; and finally (3) "Ownership competences", which is related to the predecessor's capacity to be active owner. For example: the skills to handle a reasonable balance between firm's profit and social responsibilities; balancing life and work, etc. As the result, Chirico's (2007) definition was employed as the main definition to this study because it highlights the crucial knowledge that need to be transferred to the successor.

## 2. Literature review

### 2.1 Tacit business knowledge transfer process

Szulanski (2000) introduced The Process of Knowledge Transfer Model in business organizations and located 4 stages: initiation, implementation, ramp-up and integration. The initiation phase begins as soon as a gap and knowledge to address the gap are found within the firm. The second stage is implementation of knowledge transfer, which follows the decision to transfer knowledge. Ramp-up stage begins once the recipient starts using the knowledge that he/she has accumulated. Lastly, the integration stage starts when satisfactory results are initially obtained and the use of new knowledge becomes gradually routinized.

However, Szulanski 's model (2000) may not be appropriate for a family business. This maybe linked to the fact that the process of knowledge transfer happens during the successors' childhood (Haldin-Herrgard, 2011; Sobirin & Sofiana, 2015). Thus, it is difficult to identify the precise point when the predecessor decides to transfer (the end point of the initiation stage) or the first day that a successor tries to apply tacit business knowledge (the end point of the implementation stage).

Further research by Varamäki, Pihkala, and Routamaa (2003) has described three stages of transferring knowledge in a case study about family business succession. The first stage is: "Getting to know the field (growing into entrepreneurship)", the second stage is: "Familiarization (actual stage of transferring knowledge)", and the final stage is: "The stage of independent development of the business (creating of new explicit and tacit knowledge)" (Varamäki et al., 2003, p. 12). Importantly, they argue that the key knowledge is transferred after the successor has joined the family business and acknowledge that it is difficult to identify the moment when the knowledge transfer process has been completed.

In the recent research, Sobirin and Sofiana (2015) suggest that there are five stages in knowledge transfer process in family business. First phase is the transfer of philosophical knowledge, the second phase is the transfer of the knowledge of products, the third phase is the transfer of finance management, the forth phase is the transfer of marketing management, and final is the being the leader. However, the problem with all this research is the difficulty of identifying the length of time involved in the whole process of tacit business knowledge transfer.

#### [Tacit business knowledge transfer methods in family business](#)

Nonaka and Takeuchi (1995) proposed a pattern to the transfer of tacit knowledge between individuals, which they say occurs through observation and continuous use and reuse. Bracci and Vagnoni (2011) support this idea by asserting that most knowledge is tacit knowledge and could be transferred and acquired only through observations, application and use. Furthermore, observation and tracking the predecessor's work practices is a key facet of tacit business knowledge transfer process, which leads to, and often triggers the second phase of this process, which is learning-by-doing. (Bracci & Vagnoni, 2011; Cabrera-Suárez et al., 2001). Henry et al. (2013) argue that the knowledge transfer process in a family business is more informal and unstructured, whereas it is more structured and formal in non-family businesses. According to a study by Letonja and Duh (2015), it is really beneficial to let the successor observe the

negotiations with partners and to let them find solutions by themselves, thus taking responsibility for their decisions. They also found that it is significantly important to let the next generation be involved early and start integrating them into the family business, in order to develop their business competence (Letonja & Duh, 2015).

In addition, Sabri, Haron, Jamil, and Ibrahim (2014) assert that there are three ways to transfer knowledge in a family business, which are: storytelling, mentor-mentee, and process documents. Storytelling conveys knowledge through verbal language. It is usually informal and unstructured, and it is difficult to forecast the references due to the fact that all of the information is based on individual wisdom. It will involve the explanation of what, why and how something occurred in a particular set of business circumstances (Duh, 2015; Sabri et al., 2014; Simões, Antunes, & Cranefield, 2016). The Mentor-mentee method means that the predecessor acts as a mentor who has the knowledge, experience and/or expertise and will counsel the successor as a mentee. The successor is the person who will absorb and capture all of the knowledge from the predecessor. Normally, a predecessor will advise what and how to do something, explain why it is done and amend if there is any mistake done by the successor (Rothwell, 2004; Sabri et al., 2014). Lastly, process documents is a method that explains how an issue or business needs to be done or performed through detailed, written instructions (Rothwell, 2004; Sabri et al., 2014).

Overall, although some scholars have done research into how tacit business knowledge is transferred in family businesses, the knowledge they provided is still limited and does not always take into account cultural differences.

### **3. Research Method**

#### **3.1 Research Design**

This research was conducted by using multiple case studies, using semi-structured interviews and designed to look for deeper comprehension of the tacit business knowledge transfer process (TBKTP) from founder to successor in Vietnamese family businesses. As a result, it is crucial to ensure that all of the participants have experiences about TBKTP. Therefore, each case study was selected when they met two requirements. Firstly, a family firm has to be implicated in the TBKTP, and secondly, the succession process should be well advanced, which means that the successor has achieved an important role in the family business.

This study researched the relationship experience between founder and successor in family businesses. However, in Vietnamese culture (collectivism culture) people often want to avoid discussing their family relationship experience with a stranger. Therefore, it is difficult to get the full commitment from participants that is required to ensure a sampling process, which is the best and most reliable for this study. Therefore, there are only seven case studies, which were selected through the researcher's own friendship networks. Access to participants, without the trust between participants and the author, is extremely difficult; therefore, using friendship networks is often the only way to make contact with the participant and gain reliable data for this research. Because of the limitation in personal network, the choice of different gender between participants was not available. Thus, all participants were male. Although none of the founders have a bachelor degree, all successors, excepted one, had at least a bachelor degree and two of

them have a master's degree. In addition, the entire of case studies establish over 15 years and operate in different industries such as construction, agriculture and farming, manufacturing, transportation and trading.

However, in only one out of the seven cases was the business managed totally by a second generation successor. The remaining cases were well-advanced in their own succession process, meaning that the successor had achieved a key position in their family firm. Despite the fact that seven cases were chosen for this research, two out of seven cases were incomplete as two owners of the firm did not want to be involved in this study, even though the interview with both of their successors had been completed. Overall, there are five case studies with complete interviews. Both owners and successors in five case family firms were interviewed separately. The names of firms and participants were hidden by coding their name, for example, F1 and S1, F2 and S2, F3 and S3, F4 and S4, and lastly F5 and S5 respectively.

*Table 1. Case profiles*

	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5
<b>Firm Info</b>					
Industry	Construction	Manufacturing	Agriculture	Transportation	Farming
Date firm established	The late 1990s	The early 2000s	The early 1990s	The early 1990	The early 2000s
Location	North of Vietnam	North of Vietnam	North of Vietnam	South of Vietnam	South of Vietnam
<b>Founder Demographics</b>					
Gender	Male	Male	Male	Male	Male
Age	The early 50s	The early 50s	The early 60s	The early 50s	The early 50s
Education	High school	High school	High school	High school	High school
<b>Successor Demographics</b>					
Gender	Male	Male	Male	Male	Male
Age	The late 20s	The early 30s	The middle 30s	The middle 30s	The late 20s
Education	MBA	2 Master's degrees	Bachelor degree	High school	2 Bachelor degrees

External working experience	Part-time jobs	None	Yes	None	Yes
-----------------------------	----------------	------	-----	------	-----

#### Data preparation and data analysis

All interviews were recorded in Vietnamese. The transcription was done after the interview and sent to a professional translating firm to interpret them into English to avoid personal bias on behalf of the author and minimize the level of distortion.

The English transcript was used for data presentation, while the Vietnamese transcript was used for the data analysis process due to avoiding the distortion between two versions. The Thematic Analysis Approach was applied in the data analysis process. As the first step, the authors underlined everything from the transcripts, which related to the research questions. Next, they grouped this information into key themes and sub-themes. The similarities and differences between the cases were investigated and used to identify the themes and their meanings.

### 4. Results and Discussion

#### 4.1 Tacit business knowledge transfer process

Researchers conclude that successors may gain tacit business knowledge before they join the family business (Haldin-Herrgard, 2011) and it is difficult to identify when this process ends (Varamäki et al., 2003). In terms of the first tacit business knowledge successors gain from founders, typical responses were that they were not aware of their first tacit knowledge lesson, because it had been absorbed naturally when they were children, and used to play around their father's workplace. For example, S1 revealed that:

*“Scolding employees to push them to work is the most memorable lesson I learned as a child. I used to play around the construction site where my father worked. My father explained that business could not be done without pushing employees to work hard.”*

In addition, all the founders' comments regarding this issue were similar to the successors' responses. They agreed that the process of knowledge transfer happened a long time ago during the successors' childhood. This outcome strongly supports the research of Haldin-Herrgard (2011) who suggests that the process of transferring tacit business knowledge happens over a long period of time, even before the successor joins the family business. In addition, it is consistent with the findings of Varamäki et al.'s study (2003), who indicate that successors are involved in the family business from childhood. Therefore, a part of the founder's tacit business knowledge will be transferred automatically to the successor through the family context, for example at meals, or during leisure times. As a result, the successor may have access to tacit business knowledge on a daily basis, even if they do not intend to learn it.

Interestingly, there was only one family business, case number four, which was being run completely by the second generation. Both S4 and F4 strongly agreed that the knowledge transfer process only finishes when the founder faces health problems. For



example, F4 confirmed that he would continue to transfer his experience into the business and its life, as long as he remained fit, healthy and of sound mind.

*“I think as long as we live, we have experience to transfer to the next generation. This means, a 70-year-old man still has something to learn from a 71 year old man. In addition, my son is still young, so I need to help him to gain as much knowledge as possible”.*

S4 admitted that he did not know when the process of transferring tacit knowledge would be finished, because he still needed his father’s experience in supporting the stable development of the firm. Furthermore, S4 compared the TBKTP and the process of succession in family business, concluding that:

*“Overall, the process of transfer of ownership and tangible assets can be finished at the right time, but the process of transfer of tacit knowledge may not ever finish, unless there’s an unexpected problem like a health problem.”*

Although the process of succession had not been completed in the remaining four cases, all successors and founders strongly agreed that the process of tacit knowledge transfer would not finish at the point control passed from founder to successor. This is because tacit knowledge from the founder is critical to the second generation in maintaining the stable development of the firm after the end of the succession process. Interestingly, S3 explained that he believed the end point of this process would only happen when the relationship between father and son ended. S3 elucidated this:

*“I suggest that the ‘end’ means when two people end their relationship and there are no more connections. It won’t happen in a family business, because the founder and successor are father and son. The connection between them is a bloodline relationship.”*

The remaining founders responded with similar idea that the process of transferring ownership and tangible assets should end while the founder was still capable and of sound mind; however, he would still be able to support his successor to run the family business properly. They suggested that the tacit knowledge transfer process only ends when the founder is unable to continue. This is because the founder’s experience is valuable, as it has been accumulated from failures. Thus, successors can avoid the same failures by considering the founder’s advice before making any critical decision.

The outcome of this study shows that the TBKTP is an on-going process. It starts in childhood, long before the successor joins the family business. This result is consistent with research by Higginson (2010) and Varamäki et al. (2003), who argue that successors are involved in the family business from early on in their lives. All interviewees agreed that the valuable experience of the founder comprise not only purely business experience, but also includes experience of life, society, and important social network. Furthermore, the role of the founder, after the succession process has been completed, is described as advisory; the founder is always available to support the successor when they need advice to solve business issues or overcome obstacles in their life. In other words, the role of the founder in sustaining the stable development of the family business after the succession process is emphasized in this research; it is

#### **4.2.2 Tacit business knowledge transfer methods**

The second aspect of the tacit knowledge transfer process investigated was the methods used within a family business. It is crucial to identify which method is relevant in Vietnamese family businesses. There are three common ways to transfer tacit knowledge, which have been discussed in existing literature, namely: mentor-mentee (Bracci & Vagnoni, 2011; Cabrera-Suárez et al., 2001; Letonja, Duh, & Ženko, 2012; Sabri et al., 2014), story telling (Denning, 2001; Sabri et al., 2014; Swap, Leonard, & Mimi Shields, 2001), and process documents (Sabri et al., 2014; Urgan, 2006).

However, the result from this study contests that there are only two common ways to transfer tacit knowledge in Vietnamese family businesses, which are: the mentormentee approach, and the storytelling. Additionally, participants recommended that the process documents method should be avoided as a way of tacit business knowledge transfer in family businesses, because it is considered as boring and confusing by the successor.

With regard to the mentor-mentee method, all founders agreed that the successor has to be involved in all of the daily business issues related to a family business. It means that the successor needs to observe the founder at work, get involved in daily operations, sit in meetings and negotiations with partners, find out solutions by themselves and also take responsibility for decisions. For instance, F1 explained that the main difference between the succession process in a family business and a non-family business is the successor's business competence. In a non-family business, the succession process may happen smoothly, in a short time because there is little difference in the level of business competence between predecessor and successor. However, there is usually a gap in a family business. The successor often lacks business experience, as well as having little business competence. Thus, the succession process may not happen in a short time, but over a long period. The successor needs to be involved in all the daily business operations, in order to improve business competence. Furthermore, the founder needs to oversee the successor and help them to fix unexpected problems.

F2 revealed that he was playing a mentor role, who instructed his successor (mentee role) about how to run the business properly, why things were done and fixed any mistakes made by his successor. Thus, the successor may accumulate tacit business knowledge through learning by doing (Bracci & Vagnoni, 2011; Sabri et al., 2014; Varamäki et al., 2003), and this will help to increase the confidence of the successor. F2 commented that

*At present, I am transferring my business gradually and always backing him up, like singing a duet with him. If he meets difficulties at high tones, I am always ready there to help him. The successor can only grow fast if he does business tasks by himself.*

F5 also stressed that the founder should let his successor do business assignments by himself. It is good for the successor to make some mistakes (under the founder's control) and learn from his failures, which could help the successor improve his business competences. From that, the successor may comprehend the tacit business knowledge that the founder wants to transfer to him. F5 discussed that:

*Young people tend to be hasty and think they are capable of doing anything. So, if you try to tell them they are wrong, they may not listen to you. Thus, the founder should let the successor make some mistakes, then they will listen and the tacit knowledge transfer process will become much easier.*

In addition, all five successors agreed strongly that mentor-mentee method was the most common way used to transfer tacit business knowledge from founder to successor. For instance, S2 reflected that he has gained a lot of tacit business knowledge through the way the founder trusted him, gave him business tasks and let him take full responsibility for his decisions. However, the founder always offered timely support if the successor was faced with a serious business problems, and explained why the problem happened.

S3 underlined that gaining tacit business knowledge was a process that takes time. He was new to the family business field, thus he needed to learn step by step during the process of working together with the founder. Key tacit business knowledge was often gained after discussing, with his father, mistakes from real situations, which had failed.

In addition to the key method of mentor-mentee, the storytelling method was used to some extent in family businesses to transfer tacit knowledge through generations.

However, there were different perspective between founders and successors. Typical comments from successors were that it is easy to understand tacit business knowledge through story-telling approach, but applying this knowledge to specific business situations to resolve problems was difficult. Furthermore, this kind of knowledge was just the founder's judgment and had not been verified. Conversely, a common opinion from founders was that it is a good method to transfer tacit knowledge to successors.

For example, F1 recalled that he used to accumulate business experience through stories that were told by other people. Thus, he also tried to apply this method to his successor by telling him business stories. Overall, they all agree that stories are employed as a method to transfer tacit business knowledge in family business, but

Although the mentor-mentee and the story telling methods are common, the process document method was not used in any case study. The main reason given was that tacit knowledge transfer is difficult to understand through papers and the successor may get bored. As S2 argued that:

*People communicate mostly through verbal language. When we can't talk to each other, how can knowledge be transferred? It is boring and difficult to digest knowledge from paper, especially if it is tacit business knowledge.*

Overall, this outcome is consistent with previous research (Bracci & Vagnoni, 2011; Cabrera-Suárez et al., 2001; Letonja et al., 2012). They suggest that tacit business knowledge can be transferred through observations, application and use. The role of the founder is like a mentor who has the tacit business experience and will advise the successor, as a mentee, what and how to do, why it is done and fix any mistakes made by the successor. In addition, the successors prefer to absorb tacit business knowledge from the founder through real business situations, rather than the storytelling method. Importantly, the process document method or the paper writing method should be avoided in the transfer of tacit knowledge.

#### **4.3 Successor reflection.**

In terms of reflection, Higginson (2010) states that reflection is the ability to allow people to acknowledge new knowledge. In other words, the predecessor and successor need to spend quality time together to create a shared understanding, then the successor needs “alone time” to contemplate the new tacit business knowledge that has been gained from the predecessor (Higginson, 2010, p. 10). Although all successors agreed that founder’s tacit business knowledge was really important to them, they also believed that not all tacit business knowledge was appropriate to their generation. Thus, they had to spend alone time to think and refine it before accepting it. For example S1 argued that: *“I take only what’s [tacit business knowledge from founder] appropriate to myself, and reject what’s not suitable to my character”*. In addition, the TBKTP would be less productive without the reflective step. As S4 said: *“if I do not reflect on what I have discussed with my father, the knowledge I gained from the discussion will soon go into oblivion.”*

To sum up, the ability to reflect is a significantly important factor in the TBKTP. It is obvious that spending time alone is of paramount importance in supporting the reflective process. The reflective stage, after discussing business issues with the founder, helps the successor to refine, to consider, and select the most appropriate tacit business knowledge from the founder that matches the successor’s character. In other words, the process of tacit business knowledge transfer between founder and successor may not be effective without the reflective process.

### **5. Conclusion and Implications**

This research contributes to the understanding about the process around the transfer of tacit business knowledge in several ways. First, there is a gap in knowledge about the endpoint of the tacit business knowledge transfer process in family business literature. Researchers argue that it is extremely difficult to identify when the process finishes (Sobirin & Sofiana, 2015; Varamäki et al., 2003). However, the findings from this

research indicate that the tacit business knowledge transfer process is a continuing process until the founder is physically unable to continue.

Secondly, the tacit business knowledge of the founder plays an important role in supporting the succession process in Vietnamese family businesses. However, the findings of this study indicate that not all of this knowledge is important to the successor. Therefore, successors should spend more time alone to consider each of the founder's tacit business knowledge lessons, in order to decide which lesson is relevant or irrelevant to the way they work or their general characteristics. This process may help the successor gain tacit business knowledge from the founder more productively.

Thirdly, this research suggests that practitioners should employ a mentor-mentee relationship as the best method of supporting the tacit business knowledge transfer process. Storytelling is also common method to transfer tacit knowledge in Vietnamese family businesses. However, the founders should avoid using process documents as a way of transferring knowledge.

In common with any research, this research has its limitations and it is important to address them. Firstly, the gender issue is one of the research limitations. All participants were male, therefore, this research result may not be relevant to family companies, where founder and successor's gender are different. As a consequence, future research may expand this research by choosing different case studies with different genders. The second limitation is sample size. Although the sample is small, it provides a foundation of knowledge for future studies about the TBKTP in Vietnamese family companies. Further research needs to extend this research by employing quantitative or mixed methods to deal with this limitation.

The third limitation is that the outcomes are heavily dependent on the experience of two key actors in the TBKTP (the founder and the successor). Therefore, it may not represent all aspects of this process in family firms. Future studies may overcome this limitation by considering other family members' perspective, instead of only concentrating on the perspective of the founder and the successor. The fourth limitation is that this study is only interested in the knowledge flow from founder to successor. Therefore, future studies may consider the knowledge transfer process from successor to founder or between other important family members, rather than only focussing on the TBKTP from the founder to the successor.

## Reference

- Astrachan, J. H., & Shanker, M. C. (2003). Family businesses' contribution to the US economy: A closer look. *Family Business Review*, 16(3), 211-219.
- Basu, A. (2004). Entrepreneurial aspirations among family business owners: an analysis of ethnic business owners in the UK. *International Journal of Entrepreneurial Behavior & Research*, 10(1/2), 12-33.
- Bracci, E., & Vagnoni, E. (2011). Understanding small family business succession in a knowledge management perspective. *IUP Journal of Knowledge Management*, 9(1), 7-36.
- Brännback, M., Carsrud, A., & Schulte, W. D. (2008). Exploring the role of Ba in family business context. *Vine*, 38(1), 104-117.
- Breton-Miller, I. L., Miller, D., & Steier, L. P. (2004). Toward an integrative model of effective FOB succession. *Entrepreneurship theory and practice*, 28(4), 305328.
- Cabrera-Suárez, K., De Saa-Perez, P., & García-Almeida, D. (2001). The succession process from a resource-and knowledge-based view of the family firm. *Family Business Review*, 14(1), 37-46.
- Chirico, F. (2007). The accumulation process of knowledge in family firms. *Electronic Journal of Family Business Studies*, 1(1), 62-90.
- Chirico, F. (2008a). The creation, sharing and transfer of knowledge in family business. *Journal of Small Business & Entrepreneurship*, 21(4), 413-433.
- Chirico, F. (2008b). Knowledge Accumulation in Family Firms Evidence from Four Case Studies. *International Small Business Journal*, 26(4), 433-462.
- Denning, S. (2001). *The springboard: How storytelling ignites action in knowledge-era organizations*: Routledge.
- Duh, M. (2015). Succession Process: A Chance for Rebirth or Failure of a Family Business. *International Journal of Business and Management*, 10(3), 45.
- Haldin-Herrgard, P. T. (2011). Tacit Knowledge Diffusion in Family Business Succession. *Swedish school of Economics and Business Administration in Vaasa. Downloaded*, 3.
- Handler, W., C. (1994). Succession in family business: A review of the research. *Family Business Review*, 7(2), 133-157.
- Henry, M., Erwee, R., & Kong, E. (2013). *Insights from Canadian case studies on succession and knowledge transfer in family firms*. Paper presented at the Third Annual International Conference on Engaged Management Scholarship, Atlanta, Georgia.
- Higginson, N. (2010). Preparing the next generation for the family business: relational factors and knowledge transfer in mother-to-daughter succession. *Journal of Management & Marketing Research*, 4(1), 1-18.
- Kellermanns, F. W., & Eddleston, K. A. (2004). Feuding families: When conflict does a family firm good. *Entrepreneurship theory and practice*, 28(3), 209-228.
- Letonja, M., & Duh, M. (2015). Successors' Innovativeness as a Crucial Succession Challenge of Family Businesses in Transition Economies: The Case of Slovenia *Family Businesses in Transition Economies* (pp. 157-174): Springer.
- Letonja, M., Duh, M., & Ženko, Z. (2012). *Importance of Transferring Tacit and Experiential Knowledge as well as Social Capital of Founders for Innovativeness of Successors in Smaller Family Firms*. Paper presented at the 10

- th International Conference on Management, Enterprise and Benchmarking (MEB 2012).
- Malecki, E. J. (1997). *Technology and economic development: the dynamics of local, regional, and national change* (2nd Ed.). London: Addison Wesley Longman.
- Mazzola, P., Marchisio, G., & Astrachan, J. (2008). Strategic planning in family business: A powerful developmental tool for the next generation. *Family Business Review*, 21(3), 239-258.
- Morck, R., & Yeung, B. (2004). Family control and the rent-seeking society. *Entrepreneurship theory and practice*, 28(4), 391-409.
- Nonaka, I., & Takeuchi, H. (1995). *The knowledge-creating company: How Japanese companies create the dynamics of innovation*: Oxford university press.
- Rothwell, W. (2004). Knowledge transfer: 12 strategies for succession management. *IPM-HR NEWS*.
- Sabri, S. M., Haron, H., Jamil, N., & Ibrahim, E. N. M. (2014). *Intergenerational Knowledge Transfer Strategy Framework For Family Firm*. Paper presented at the Regional Conference on Science, Technology & Social Sciences At Copthorne Hotel Cameron Highlands, Pahang, Malaysia.
- Simões, D., Antunes, P., & Cranefield, J. (2016). Enriching knowledge in business process modelling: a storytelling approach *Innovations in Knowledge Management* (pp. 241-267): Springer.
- Sobirin, A., & Sofiana, A. (2015). Tacit and idiosyncratic knowledge transfer in the family firm. *International Journal of Family Business*, 13(9), 6913-6936.
- Swap, W., Leonard, D., & Mimi Shields, L. A. (2001). Using mentoring and storytelling to transfer knowledge in the workplace. *Journal of management information systems*, 18(1), 95-114.
- Szulanski, G. (2000). The process of knowledge transfer: A diachronic analysis of stickiness. *Organizational behavior and human decision processes*, 82(1), 9-27.
- Ungan, M. (2006). Towards a better understanding of process documentation. *The TQM Magazine*, 18(4), 400-409.
- Varamäki, E., Pihkala, T., & Routamaa, V. (2003). *Stages of transferring knowledge in small family business successions*. Paper presented at the Proceedings of Family Business Network 14th Annual World Conference.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**TACIT KNOWLEDGE TRIGGERS:  
WHEN KNOWLEDGE SURFACES – AN INDUCTIVE APPROACH**

**Hanna Dreyer, Dr. Robin Bown**

*University of Gloucestershire Business School, dreyer.hanna@gmail.com*

*University of Gloucestershire Business School, brown@glos.ac.uk*

---

**ABSTRACT:**

*Tacit knowledge is a key component to a successful organization. The importance of tacit knowledge is widely acknowledged by researchers however few have explored it through an in-depth, inductive approach. This study explores how tacit knowledge surfaces through the concept of knowledge triggers. The data was collected through a software development project during the testing phase of the product. The triggers are created through the interplay of a project team in weekly meetings. During this phase the software was tested, analyzed and altered in accordance to the customer's needs. Utilizing tacit knowledge from the project members as well as group, tacit knowledge surfaces and spirals which allows it to build over time. Five triggers surfaced during the research generated through explicit stimuli, these allowed project members to share knowledge. These triggers aim to support managers in the creation of dynamic environments where explicit stimuli allow knowledge to surface.*

**Keywords:** *Tacit Knowledge, Inductive Research, Software Development, Project Management;*

---

**1. Introduction**

Knowledge sharing is at the core of software development projects and is a key component to ensure project success (Clancy, 2006). In particular, tacit knowledge transfer is of great interest when focusing



on the knowledge a group gains during a project. Ryan & O’Conner (2012) state “individuals draw from the team tacit knowledge and create their own tacit knowledge. This is a background process which is dynamic and reciprocal relying on constructivist situated learning.” Tacit knowledge is difficult to articulate however it is the root of all knowledge (Polanyi, 1966). This article seeks to find what makes tacit knowledge surface in a software development project. Through an inductive approach unstructured interviews are analyzed and used to understand external factors, which influence tacit knowledge acquisition and sharing. Furthermore, the aim is to provide insight into which triggers allow tacit knowledge to surface to aid teams achieve project success.

White & Perry (2016) argue that there has not been enough focus on expert knowledge of developers and its influence on the development of an information system. Expert knowledge being mainly tacit (Ryan & O’Conner, 2013) the importance of studying tacit knowledge within a software environment is of great interest. During the software development process many parties are involved, all being experts within their field, which makes knowledge exchange and its acquisition crucial for project success. Being able to manage different knowledge sources through coordination and integration is a great challenge during such a project (de Souza et al., 2006).

The paper consists of five sections. First, the relevant theories used to evaluate the data are addressed. Followed by the methodology used to combine theory and data. In the fourth section the data evaluation is presented and finally a conclusion is presented pulling together the main aspects of the research.

## **2.Literature Review**

The focus of the research lies in exploring tacit knowledge exchange in software development projects and shed light on how tacit knowledge surfaces. This is aimed to help researchers further understand the impact tacit knowledge has on project success. Knowledge sharing is a key process in the development of software and therefore significantly impacts on the process. (Ryan & O’Conner, 2012). Through the analysis of tacit knowledge triggers and the creation of a framework the group as well as the individual knowledge sources are assessed. This analysis is based on existing theories, which were used to understand and extract tacit knowledge; these will be discussed in the following section.

Knowledge can be shared through different channels, however a shared space reinforces the relationship between colleagues allowing knowledge creation to take place (Dreyer & Wynn, 2017). These spaces are formed in different ways, such as informal discussions during a break, emails or meetings. The environment where knowledge is exchanged and is able to build up is called ‘Ba’. This concept developed by Nonaka and Teece (2001) gives a basis for knowledge to be shared and created. Nonaka and Konno (1998) identify as ‘Ba’, a mental flexibility and ongoing dynamic process, that allows for new insight to be constantly generated.

The space of ‘Ba’ allows a continuous flow of knowledge exchange, where the knowledge is able to transform and change. Knowledge is not tangible, however it is able to evolve and build up tacitly through its self-transcendence. Knowledge is a shared space where relationships can emerge (Nonaka & Teece, 2009). It is not tangible, but is a fluid continuum wherein there is constant change and

transformation resulting in new levels of knowledge. It is a self-transcending and ever-spiraling evolution. A shared reality and face-to-face interactions is the root to knowledge creation (Berger & Luckmann, 1967). Knowledge is thus not a set of facts and figures; it is not a set of statistics or applied conceits, but a “space”. Embracing the concept of ‘Ba’ is essentially arguing for a learning culture in which processes are constantly iterative, marked by close communication, marked by modelling, by mentoring, and by incessant experiential inputs that lead to outputs, which bolster and build knowledge. Knowledge is really a process and not a terminal result.

The process of ‘Ba’ gives way to the theory of SECI, socialization, externalization, combination and internalization, seen in figure 3. There are several channels, which allow tacit knowledge to form into explicit knowledge. Nonaka and Teece (2009) show the SECI as a way to analyze tacit knowledge with an environment of ‘Ba’. These allow a categorization of different ways in which tacit knowledge to be shown. To begin, the process of socialization is the conversion of tacit to tacit through shared experiences. Found in apprenticeships, learning by doing is at the core rather than a theoretical approach. Self-transcendence is vital for socialization to work, since it can only be shared through direct experiences. Interaction with customers is therefore at the forefront for companies to take advantage of tacit knowledge transfer. Following, externalization is the process of converting tacit to explicit knowledge, where a person articulates knowledge and shares it with others in order to create a basis of new knowledge for a group. A successful conversion of tacit to explicit knowledge greatly depends on cohesive metaphors, analogies or models to be understood by a group of people committed to understand and internalize knowledge. The explicit to explicit conversion is called combination, where explicit knowledge is set into more complex explicit knowledge. Gathering explicit knowledge from in- or outside of the organization, editing or processing allows new, more complex, knowledge to be created, which can then be transferred to co-workers. Finally, the process of internalization is integrating explicit knowledge to make it one’s own tacit knowledge. This internal knowledge base in a person can set off a new spiral of knowledge, where tacit knowledge can be converted to tacit, explicit and combined with more complex knowledge. When assessing a face-to-face conversation, knowledge is internalized via socialization and experience, it is then externalized and combined with other externalized forms of knowledge, interaction with others and the environment, and the spiraling process proceeds anew (Nonaka & Konno 1998). The SECI spiral enables a systematic analysis of knowledge creation and the search for tacit knowledge within the meetings.

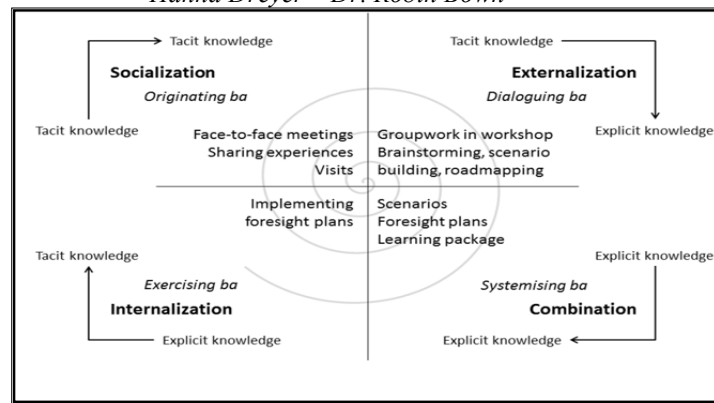


Figure 1

(Nonaka &amp; Teece, 2001)

Knowledge creation and its process allow the analysis of the general process of knowledge sharing and internalization. Using 'Ba' and the SECI model enables a broader view on knowledge acquisition. Group tacit knowledge is the focus of Ryan and O'Conner's (2013) theoretical model for the acquisition and sharing of Tacit Knowledge in Teams (TMTKT). Looking at knowledge flow, their approach allows the analysis of knowledge movement within a group. The model was built through a qualitative approach and its main focus is the measurement of team tacit knowledge. The flow of the model begins with the current state of knowledge within the team; starting at this point socialization begins within the group through constructive learning. As previously mentioned learning is an essential part of knowledge creation and sharing and greatly impacts individual knowledge. The gained individual knowledge, expert knowledge, can then be shared with the team, allowing 'transactive memory' to build up, which in its essence is team tacit knowledge. In more detail, transactive memory is the combination of specialization, credibility and coordination of knowledge within the group (Ryan & O'Conner, 2012). Once the team has established common team tacit knowledge, which can be influenced by other human factors, the spiral begins anew. Team tacit knowledge and its flow allows the social analysis of the project group during the meetings.

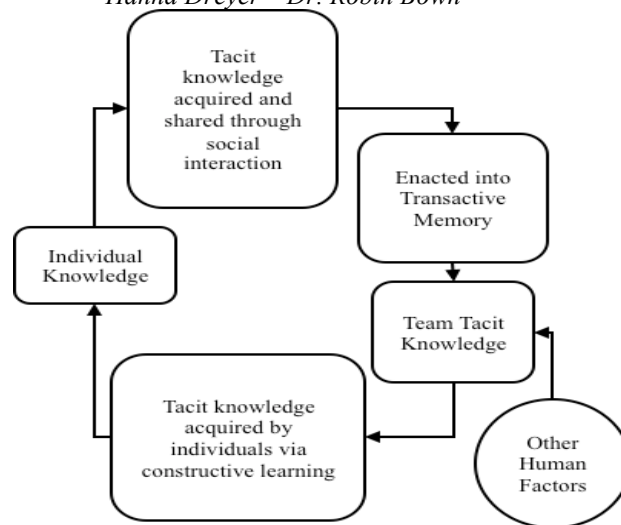


Figure 2

(Ryan &amp; O'Conner, 2012)

Having looked at the environment of knowledge creation, the way it is created and exchanged, the final assessment lies within the individual. Clarke (2010) proposes a model to evaluate tacit knowledge from an individual point of view. Here the process of knowledge acquisition within an individual is presented. Knowledge input begins the process; tacit knowledge is then created through reflection and different elements. Triggers, such as group discussions and breakdowns, influence reflecting on the newly gained knowledge. Separating this process through a tacit and explicit element new knowledge is created within the individual. Clarke's model allows a detailed view of knowledge acquisition within an individual. The elements produced by Clarke are the foundation of the tacit knowledge triggers found during the research.

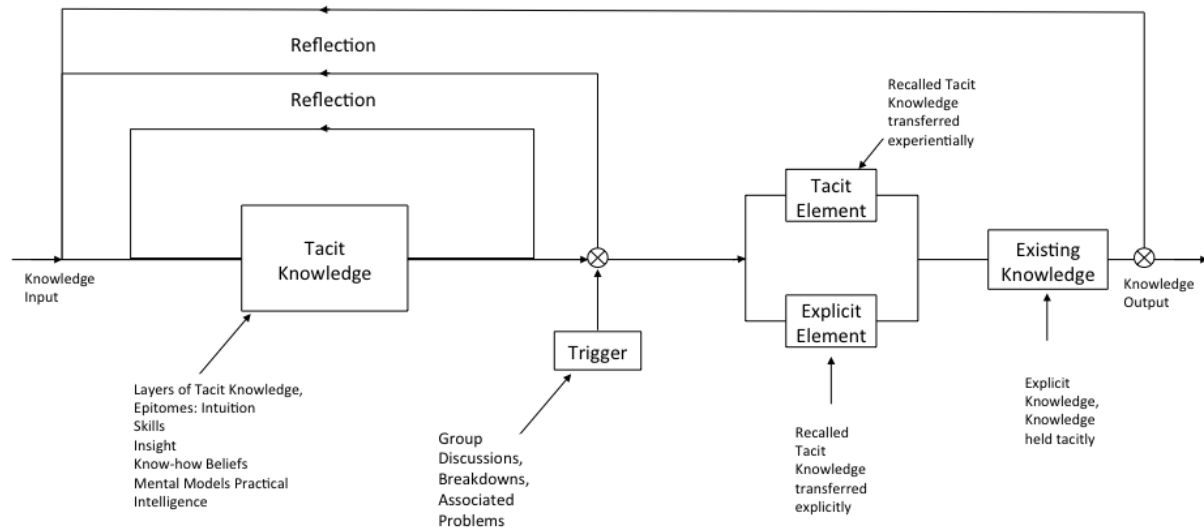


Figure 3

(Clarke 2010)

The proposed literature is the basis of the analysis for the research. They provide the means for the analysis tacit knowledge within teams as well as the flow of tacit knowledge and its environment. Nonaka & Teece (2009) establish an environment 'Ba' for tacit knowledge exchange. Through the SECI, knowledge exchange can be evaluated and the spiral of knowledge gives way to the learning process. Ryan and O'Conner (2012) then allow a team view of tacit knowledge exchange, ending with Clarke's individual perspective of tacit knowledge. In the flowing section the usage of these theories relating to data will be discussed.

### 3. Research Method

The research examines tacit knowledge in a software development project and what makes it surface. Understanding which external factors make tacit knowledge surface can help create an environment where tacit knowledge can spiral and grow. Retrieving data through a case study, the qualitative research is inductive and exploratory. Different tacit knowledge theories help extract tacit knowledge and further understand the flow of tacit knowledge within the project. Interpretivism is the epistemological base and subjectivism is the philosophical understanding.

The goal of the research is to show what influenced tacit knowledge to surface and the interaction surrounding the trigger. One specific case was used to collect data and then systematically coded. The data was collected through unstructured interviews, where the participants were able to freely interact with each other. A narrative approach was therefore needed in order to interpret the collected data (Langford & Potat, 1968). These sessions were project meetings, which took place several times a week. The meetings were recorded and assessed, which allowed tacit knowledge to be evaluated over time knowledge. As previously stated, knowledge is intangible, and therefore a qualitative, textual analysis helps to understand and interpret the transcribed meetings. Having several groups of experts' influences the flow of knowledge greatly and developing a shared understanding is essential as it is a group effort to develop software (Fischer & Ostwald, 2001). Current models discussed help evaluate the flow of

knowledge and at what point knowledge surfaces. The data has helped further investigation of tacit knowledge exchange.

A narrative evaluation was needed in order to decode and understand the gathered data as well as participant observation for context and personal reflection (Langford & Poteat, 1968).

The research was conducted over a three-month period, focusing on approximately 30 hours of recorded meetings, with ten team members involved. Four of the team members were core, attending most of the meetings and therefore had the most influence on the project. According to Valente & Davies (1999) key actors play a central role in groups through the creation of new ideas and their understanding. The core team consisted of human resource consultants, later referred to as HR A and HR B, as well as software developers, SD A and SD B. In addition, the end user or client was involved in the process, CL A. Other experts from the companies joined in when their knowledge was needed, which all commence with the prefix HR, CL or SD depending on the company they come from.

The focus lies within the times the meetings took place, shedding light on the expert knowledge exchanged during face-to-face formal interaction, aiming to highlight the importance of meetings. The recordings of the meetings were coded through contextualization and systematically reviewed. First, the meetings were generally evaluated by date, which then allowed topics discussed during the meetings to surface. The topics were then pulled together in order to find tacit knowledge and knowledge creation as well as exchange over time, through the previously discussed theories. Different themes started to surface, which were previously found in the literature, such as constructive learning, individual- and group tacit knowledge as well as tacit knowledge triggers. Focusing on tacit knowledge triggers, a more in-depth analysis through a narrative, inductive approach was made. Five main triggers were found, which will be discussed in detail in section four.

The research is embedded on the assumption and feasibility of cumulating findings and generalizing results in order to great new knowledge. Focusing on one project, each team member plays a crucial role in passing on tacit knowledge to his or her colleague. Knowledge elements are passed on to other project team members through a trigger, which allows knowledge to surface. This key assumption is evaluated and examined in the software development context. The triggers are related to extracts in the data where evidence of each trigger was found and established. Allowing the research to focus on one project, knowledge passed on over time can be put into context and evaluated what knowledge has been previously exchanged.

The following section presents the data analysis, which involved the methods used in the software environment to highlight tacit knowledge. Using the knowledge exchanged in the different companies, the interplay of knowledge exchange helps further understand the project and how the knowledge spirals within. A combination of theory and data will be demonstrated.

#### **4.Results and Discussion**

The knowledge within the project was spread between the different companies, and team work was needed to achieve success. Within each collected extract triggers were found which allowed tacit knowledge to surface. The goal during the analysis was first, to find evidence of tacit knowledge, followed by understand what kind of tacit knowledge was found and lastly, what made tacit knowledge surface. During this analysis phase five main triggers were found which will be discussed in greater detail below. These will also contain extracts collected during the research.

The research was conducted over a three-month period, where 45 extracts were used to demonstrate evidence of tacit knowledge. Within these extracts socialization, internalization and group tacit knowledge were always found. Externalization was found 28 times, combination 9 and constructive learning 18 times. These were used as the basis of evidence to show tacit knowledge exchange. Following that, the triggers were developed and emerged through the data analysis and are in partially based on theories found in Clarke (2010). However, Clarke does not

see them as an external trigger but rather as an internal impulse to combine and create new tacit knowledge. The triggers in this case are an external influence on tacit knowledge exchange launching tacit knowledge transfer. The tacit knowledge triggers emerged on numerous occasions. First, visual triggers were found 18 times, conversational 39, constructive learning 19, anticipation 2 and recall triggers 7 times. These triggers will be the focus of the discussion. An in-depth discussion of each trigger will be presented below.

#### 1. Visual Triggers:

Visual triggers allow an individual to utilize previously gained knowledge to surface by reading or seeing information. During the research this trigger mainly surfaced when the software was looked at and edited by the team. The knowledge is gained tacitly, processed, which then triggers socialization within the group. In these scenarios, the software development company would present the developed pages to the human resource consultancy. The pages in the software were analyzed by the team and changed according to their needs when possible. This mainly focused on wording, the layout or process in which the pages were to be found and structured within the software.

Visual triggers were found on numerous occasions, one example is the following:

SD A: Multiple Pensions. Order of priority. So, when they run out of money, this one comes first, this one comes next...

SD A: Say you are on 500 GBP a week and you get an attachment of earning because you failed to pay your child support. So, the attachment will have top priority. There is a level in which deductions should stop.

HR A: Sorry can you just go back to the pensions type.

SD A: yea.

HR A: Just wanted to see where I can attach the file.

SD A: I think this needs a real thorough look, I am just skimming through it.

In this extract SD A explained the pensions pages. Through constructive learning the HR consultants learned how to the pensions pages functioned, during the explanations, HR A stops the lecture for a previously seen page. Although, SD A had moved on, HR A was still processing the visually gained knowledge in the previous page and asked to go back to see if a feature was available. In another extract one specific part of a page triggered a conversation within the group, the payroll ID. The work reference and the ID were confused by SD A, thinking two references were used by the HR company, this triggered HR B to further ask and explained their system of referencing employees. This visual trigger allowed conversational triggers to surface by starting socialization between the project members.

Visual triggers can also be more simplistic in their essence. In another extract the team looks at the salary screen, and needs to rearrange the order to fit the requirements of the HR consultants. The visual stimuli of the software triggers [the](#) expert knowledge of the HR team which needs to be combined with the software engineering team. Similar situations were found in other extracts, where the 360 feedback is being assessed. HR A says changes within the structure of the pages will need to be done to fit the requirements of the client. HR A's tacit knowledge base of the customer as well as experience are combined with the knowledge visually gained through the software. Throughout the data analysis there have been several extracts demonstrating how visual mediums trigger knowledge within an individual. This triggered knowledge enables the project team to further conversations and complete gaps of knowledge within the group and allows group tacit knowledge to prosper. Visual triggers launch an internal process within an individual, where the tacit knowledge base is used to combine the current tacit knowledge of an individual with the new visually gained knowledge.

#### 2. Conversational Triggers:

Conversational triggers occur frequently during meetings. Knowledge surfaces explicitly, which is then processed by a team member. The individual will then use the newly gained knowledge, add it to their existing knowledge and create new tacit knowledge. Socialization continues within the group and allow knowledge gaps to be completed. Due to conversations being at the center of the research conversational triggers are one of the most frequent which are found throughout the research.

The following extract demonstrates a conversational trigger:

HR A: In an unrelated topic, we talked about sick pay, policies and rules last week. I do not have any up to date paper work from you guys. Could you send me the most recent copy?

CL A: I can send you the policies, because we did update it about 6 weeks ago, when we changed the sickness payroll for the organization. The long term sickness absence. So I can send that over to you. Could you copy in SD A as well? Thank you.

SD A: So Payroll, while you mention that...

The analyzed extract demonstrated a conversational trigger, where HR A discusses the pay policies, this then triggers SD A's tacit knowledge, where the topic is changed to payroll. SD A listens to HR A and CL A discussing a finance related topic enables the recall of an unsolved issue with payroll. Later in the discussion, seen during another extract HR A furthers the topic of payroll by building on the knowledge SD A shared. Through explicit exchange within the group, knowledge spirals and builds individual knowledge within each individual. Topics of discussion are altered and enhanced by using the tacit knowledge gained from the previous group member. Their similarities triggers socialization and externalization such as in another conversation, where the discussion allows knowledge to spiral and prosper within the group. Externalized knowledge is used by several members of the project, processed and complemented by the knowledge of each individual taking part in the discussion.

Visual, conversational and constructive learning triggers interplay in some of the extracts. While the software pages are being shown, conversations are being triggered and furthered within the group. This also allows constructive learning to take place.

Conversational triggers are one of the most frequent triggers found during the analysis of the data. Explicit communication within the group allows group tacit knowledge to build and each individual to utilize the knowledge to work to achieve project success. This trigger is often in combination with visual or constructive learning, where an external verbal medium allows an individual to take in information, process and reflect the knowledge to then externalize the new processed knowledge. This greatly supports group tacit knowledge and the core of a meeting, 'to get everyone on the same page'.

### 3. Constructive Learning Triggers:

A constructive learning trigger occurs when a project member explains to the others a specific topic of the project. The knowledge is passed on from a person explicitly to the group, which tacitly utilizes and combines the knowledge. During the project learning was crucial due to the software being tailored to the company. Each project group, the HR consultants, software developers as well as the customer exchanged knowledge through learning and integrating the knowledge in the software as well as its usage. This trigger also results in socialization, where questions are raised to clarify and add to the subject. An example of a constructive learning trigger can be found in the next extract.

SD A: Is it a standard wage? You can have multiple standard wages such as London living wage. You can put pay on hold. So you know when the customer.... just going to get SD B up to speed.

HR A: So that is going to be the annual basic pay, sorry, the FTA isn't it? Oh no it's going to be FTM.

SD A: Yea.

HR A: Because over here you have the percentage haven't you. So will it work out?

SD A: I don't know, we need to ask SD B.

HR A: Because otherwise there is a lot of room for error.

SD A: The pro rata bit didn't work, the rest did. The standard hours need to be calculated to see hourly rate by default (on screen).

When SD A explains the pay by period page to the HR consultants, constructive learning takes place. This allowed HR A to process the gained knowledge and externalize what has not yet been understood. Externalization of knowledge can also be to confirm newly gained knowledge. SD A explains payments, which then triggers HR A to confirm the name of annual basic pay, FTM.

Contrastive learning can also be a related task, another extract shows the customer as well as the HR team are trying to understand what data can be fed into the system and how it should be structured. This allows an interplay between constructive learning and conversational triggers, which can also be found in extract 16, where knowledge



surfaces by teaching as well as learning and ultimately understand an issue of the project. Conversational triggers can also often be triggered by visual triggers. During another meeting, the recruitment page in the software triggers a conversation on how the employees are ordered, by usage or alphabetically. Here, the visually, explicitly gained knowledge triggers a thought process within each individual, which is then turned into a conversation where knowledge surfaces through discussion.

#### 4. Anticipation Triggers:

An Anticipation trigger allows an individual to raise a topic within the group, which he or she waited to address. The trigger surfaces through a similar topic of discussion and allows a change of topic. In this case the project member plans to talk about a subject during the meeting, however waits for a moment to bring it up. This is not to be put in direct comparison to a 'to-do-list' or minutes, where the subjects of discussion are being listed before a meeting and discussed one after the other but rather allows another to emerge through its similarity. It can surface during externalization or socialization.

During the extract shown in the conversation trigger section, SR A was anticipating to discuss payroll during the meeting, although a conversational trigger allowed the finance topic to emerge, SR A was waiting to share payroll knowledge. Another example of an anticipation trigger is demonstrated in an extract which builds on a previous meeting where HR A asks to run through the 360 feedback. Here an email was sent to the group about the topic. It was not necessarily planned to discuss the topic, however HR A specifically asks CL A to explain and run through the process. This built on the previous meeting between SD A and HR A found in the extract below.

SD A: Now we are getting into linked records, we have done the core records. We talked about name changing, to be the item type. Appraisal type. Standard appraisal, 360 appraisals and a scoring appraisal. So this is something to look at with SD B tomorrow.

HR A: My thoughts on the whole is that we will probably have to change some of that, but I am not quite sure to what yet, until we start building the form, and then work through every stage of the process. I think it will become clearer.

SD A: Is there something from the old software that could make it clearer?

HR A: No, because they currently don't use it. I've got draft one of the questionnaire done now, which I would be happy to send to you but it hasn't even been checked by CL A yet. While we're at it, you know we talked about the summary of the feedback and SD B asked what kind of format do you want it in? We just got some of the internet that CL A quite likes, do you want them now or should I give them to SD B?

SD A: SD B. The feedback is in the process engine, so that's his / her part.

Anticipation triggers are the least commonly found triggers within the data. The meetings were usually structured around a specific topic of the software which was addressed. Unlike recall triggers, where knowledge pops up, anticipation triggers build around the notion of waiting to discuss a topic when the meeting allows the subject to come up.

#### 5. Recall Triggers:

Recall triggers surface when a topic of discussion or a visual trigger allows an individual to remember knowledge related to the subject which seemed forgotten or not shared in its entirety. This trigger can occur during any stage of the tacit knowledge process. New gained knowledge is processed through several steps, when it is initially heard or seen, combined with existing knowledge or when it is transformed into explicit knowledge and shared with the group recall triggers can emerge. This can change previously shared knowledge and alter the conversation. These triggers have a great meaning due to the knowledge almost being forgotten as well as the knowledge being at risk of not being shared in its entirety or differently could change the outcome of parts of the project.

SD A: So they might have a monthly London weighting allowance. What do you pay by period?

HR A: They have clothing allowance, first aid allowance.

SD A: So those sort of things. So it has a name, pay by period name, it has a pay type, it has a period it can fall into. It has to be authorized.

HR A: Every period?

SD A: Every payment has to be authorized. Sorry yes, it is authorized on their account and then its generated into weekly or monthly payroll as it gets signed off.

HR A: Would you only put in payments for that month or put in something...

SD A: ...you put it in as a go ahead, so when you set it up you select if it is set up for once or if it runs every month or.... For example, season tickets run over 10 or 12 months.

During extract above SD A explains the monthly allowance page to the HR consultants, during this discussion HR A asks how allowances are authorized. SD A first replies quickly, but then goes into more detail when recalling that the short answer was not sufficient to understand the authorization process. This internal process allowed SD A to clarify and further the discussion. Recall triggers can also be minimal, where an individual mistakes one thing for another. In another extract, validating recall triggers, HR A recalls a conversation from the day before and combines the current topic, processes and the previously gained buro knowledge to fill in gaps of knowledge.

In addition, more evidence was found in an incident where HR A confuses FTA with FTM, which is a tacit process where through knowledge recall the initial thought is corrected. In extract 24 HR B recalls previously gained work knowledge and shares it with the project members. The conversation focuses on recruitment, where HR C is the recruitment expert within the group. HR B's knowledge is triggered through HR C's uncertainties and is able to add valuable knowledge, having previously worked in the field.

Recall triggers are quite frequent throughout the meeting, they are often found in combination with conversations, constructive learning and visual stimuli. Recall triggers are an internal tacit process where knowledge 'pops up' at random. This might be related as well as unrelated to the discussed topic. This trigger allows an individual to communicate knowledge, which is recalled in order to further the knowledge exchange within the group, and it's group tacit knowledge.

The triggers found through the research demonstrate the need to allow the creation of a knowledge-sharing place within a company as well as teams. These spaces should help teams find a safe environment which supports knowledge exchange and allows the experts within the team to share and build on each other's knowledge. Using different means throughout the meetings can also help trigger expert knowledge to surface, allowing more knowledge to spiral and build.

## 11. Conclusion and Implications

The aim of the paper was to further understand and progress the field of tacit knowledge transfer and its triggers within a software development environment. Using current theories and methodologies to explore data will help project teams focus on exchanging and exploring knowledge from different sides. It is important to interpret and analysis knowledge adequately in software projects to prevent misconceptions (McAfee, 2003). Tools such as constructive learning within the group as well as discussions to further understand the software and exploring the knowledge input from each individual is crucial for a project to succeed.

Trigger points, which support the transfer of tacit knowledge into explicit knowledge within a group, were created. However, these can only be created within a dynamic environment in which an exchange of knowledge is supported by the project team. Spending time together as a team and working together is at the core of knowledge creation and transfer. Seeing the project develop over time allows strategies gained to surface applied during the software development process (Vitalari & Dickson, 1983). Bouncing ideas off one another and subsequent mutual learning furthers the knowledge creation process. This allows each individual to take in more knowledge and provide a better, more complete view of the subject and enables the prospect of more complete software to emerge.

The different triggers emerged through the research were:

1. Visual Triggers: Tacit knowledge surfacing through visual stimuli.
2. Conversational Triggers: Tacit knowledge surfaces through a conversation held within the team.
3. Constructive Learning Triggers: Tacit knowledge is enabled through a team member explaining and the others learning from them.
4. Anticipation Triggers: Tacit knowledge is exchanged by an individual in the group by waiting for the topic to come up or the meeting to take place.

5. Recall Triggers: Tacit knowledge resurfaces through discussions or visual aids which seemed forgotten or not present by an individual.

These triggers give way to further researching what makes tacit knowledge surface within groups. This allows managers to create environments, which allow tacit knowledge to surface and be shared within the teams. However, further investigation into knowledge sharing and interaction between software project groups will help validate the triggers. Varying the context of the project team as well as testing the triggers on day-to-day working groups would shed light on tacit knowledge triggers. The development of tacit knowledge in groups through a dynamic environment helps the comprehension of expert knowledge in software projects. Understating the knowledge a team has and aiding it the exchange can ultimately lead to a more successful and well functioning product.

## References

- Berger, P. and Luckmann, T. (1967), "The Social Construction of Reality", Anchor, New York.
- Clancy, T. (2006), "The Standish Group Report Chaos", ACM, New York.
- Clarke, T. (2010), "The development of a tacit knowledge spectrum based on the interrelationships between tacit and explicit knowledge". Cardiff: UWIC.
- Dreyer, H. & Wynn, M. (2016), "Tacit and Explicit Knowledge in Software Development Projects: A Combined Model for Analysis", *International Journal on Advances in Software*, vol. 9, no. 3&4. pp. 154-166.
- Fischer, G. & Ostwald, J. (2001) "Knowledge management: problems, promises, realities, and challenges", *IEEE Intell. Syst.*, 16, pp. 60–72.
- Langford, T. & Poteat, W. (1968). "Upon first sitting down to read *Personal Knowledge: an introduction*", in *Intellect and Hope: Essays in the thought of Michael Polanyi*, pp. 3-18.
- McAfee, A. (2003), "When too much IT knowledge is a dangerous thing", *MIT Sloane Management Review*, Winter, pp. 83-89.
- Nonaka, I. & Konno, N. (1998). "The concept of 'Ba': building a foundation for knowledge creation". *California Management Review*, 40(3): 40-54.
- Nonaka, I. and Teece, D. (2001), "Managing Industrial Knowledge", London: Sage.
- Polanyi, M. (1966), "The tacit dimension". The University of Chicago Press.
- Ryan, S. & O'Conner, R. (2012), "Acquiring and sharing tacit knowledge in software development teams", The University of Dublin.
- de Souza, K., Awazu, Y. and Baloh, P. (2006), "Managing Knowledge in Global Software Development Efforts: Issues and Practices", *IEEE Software*, vol. 23, Issue 5, September, pp. 30 – 37
- Valente, T. W. & Davies, R. (1999), "Accelerating the diffusion of innovations using opinion leaders", *The Annals of the American Academy of Political and Social Science*, vol. 566, pp. 55-67
- Vitalari, N. & Dickson, G. (1983), "Problem solving for effective systems analysis: An experiential exploration", *Communications of the Association for Information Systems*, 26(11), pp. 948–956.
- White, G. and Parry, G. (2016), "Knowledge acquisition in information system development: a case study of system developers in an international bank", *Strategic Change*, 25 (1), pp.81-95.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **TREADING ON A MINEFIELD – CHALLENGES IN CONDUCTING REAL WORLD NEGOTIATION RESEARCH IN THE SME SECTOR**

**Nadine Sulkowski**

*Senior Lecturer Hospitality Management and International Development Lead  
University of Gloucestershire Business School, nsulkowski@glos.ac.uk*

---

### **ABSTRACT:**

*Negotiation research has been historically dominated by experimental and classroom based studies whereby inconsistencies of results have raised concerns over their validity and reliability. Whilst the number of practitioner-based studies has increased in recent years, few attempts have been made at a substantive level to integrate different methodological approaches into frameworks that are fit for the purpose of capturing multiple and situationally nuanced impacts on processes on negotiation. These impacts can be particularly diverse within the context of small-sized and family businesses where personal relationships are often key drivers of decision-making and highly dependent on individual, and possibly fluctuating, perspectives of business owners.*

*The purpose of this paper is to discuss how different ontological and epistemological perspectives can inform the study of negotiation behaviour. It introduces different schools of thought in negotiation research and highlights their strengths and limitations in informing practitioner research. It then moves on to reflect on a pilot study that was informed by methodological approaches from different schools of thought in an attempt to offer a more complete perspective of business negotiations than one in isolation would be able to offer.*

*The findings suggest that practitioner negotiation research, where the researcher is a third party, is subject to a range of substantial constraints. These are related to both procedural, reflexive as well as ethical aspects of the research, which highlights the need for the subject community to engage in more critical methodological debates and the development of suitable research protocols.*

**Keywords:** Practitioner research, negotiation research, ontology, epistemology, small and medium size enterprises

---

## 1. Rationale

Negotiation research amalgamates psychology, economics, industrial relations, organisation behaviour, sociology and law (Thompson, 1990). As outlined by Bazerman et al (2003), social psychology was a dominant discipline in the 1960s and 1970s. Linked to this period are studies based on theories of social exchange or game-theoretic modelling (see Morton, 1978; Emerson, 1976; Deutsch, 1975; Kelley et al, 1970; Schoeninger and Wood, 1969; Blau, 1964).

Behavioural decision-making increasingly replaced social psychology. Bazerman et al (2003, 2000) explained this move by the growing acceptance that decision-making frequently deviated from those predicted through game-theoretic models. Recognising the impact of irrationality on negotiation behaviour called for a focus on the de-biasing of the mind in an attempt to improve negotiation behaviour (for example Hegtveldt and Killian, 1999; Bazerman et al, 1998; Bottom, 1998; Drolet, Larrick and Morris, 1998; Forgas, 1998; Rao and Schmidt, 1998; Allred et al, 1997; Diekmann et al, 1997; Babcock and Loewenstein, 1997; Pillutla and Murningham, 1996; Barry and Oliver, 1996; Babcock et al 1995; Bazerman and Neale, 1992; Neale and Bazerman, 1991; Carnevale and Isen, 1986; Greenberg, 1983).

A re-emergence of social psychology was observed in the 21<sup>st</sup> century (Bazerman et al, 2003; Bazerman and Chugh, 2006). Alongside this, an increasing pool of literature addressed emancipatory aspects, such as treating negotiation as a process of personal growth and improving relationships (see for example Crump, 2015; Ingerson, DeTienne and Liljenquist 2015, Fox, 2013; Smyth, 2012; Sargent, Picard and Jull, 2011; Holtom, Gagne and Tinsley, 2010; Brach, 2008; Putnam, 2004; Fisher, 2004; Cobb, 2000). A communality featuring this work is that processes of negotiation are reviewed through multiple perspectives, rather than one school of thought. An example was offered by Brach (2008) who concentrated on internal cognitive and emotive processes as well as interactive dynamics within negotiations.

The above caused some authors to question the predictive validity of existing research for practice-based scenarios, calling for alternative methodological approaches (see for example Hueffmeister et al, 2011; Buelens et al, 2008; Agndal, 2007; Matz, 2005; Wilkenfeld, 2005; Bazerman et al, 2000; Moore and Murningham, 1999; Kenny and Kashy, 1992; Thompson 1990). Hueffmeister et al (2011) in particular warned that the over-reliance on laboratory experiments, combined with an absence of longitudinal studies, created a practitioner-researcher divide and prevented the transfer of empirically tested practices that could improve the productivity and profitability of individuals and organisations.

Despite this, there appears to be a lack of debate about ontological and epistemological viewpoints. This concerns in particular the question of how these could be integrated to generate a more complete picture of negotiations. This has led to the following research question:

What are the philosophical justifications of construal and behaviour in negotiations?

The aim of this paper is therefore to discuss how different ontological and epistemological perspectives can inform the study of negotiation behaviour. Its objectives are

- To understand how common schools of thought in negotiation research are framed by different

- To discuss the strengths and limitations of different philosophical approaches in understanding the trajectory of business negotiations, as well as the actions and motivations of business negotiators
- To reflect on the application of multiple and mixed philosophical perspectives in the study of business negotiations

## 2. Literature Review

### 2.1 General issues surrounding ontology and epistemology in negotiation research

Overcoming the shortfall of methodological debates in negotiation research is complicated by wider issues concerning the reflexive relationship between ontology and epistemology and the perceived disparity of common philosophical perspectives.

One contribution to this debate is Buelens et al' (2008) meta-analysis who categorise negotiation research into the three philosophical domains of positivism/post positivism, constructivism/interpretivism, and critical postmodernism. Positivism is associated with theory verification and experimental and quantitative methods, whereas post-positivism assumes probabilistic rather than deterministic relationships. Contrarily, constructivism is led by the assumption that an objective reality does not exist, but is created by individual actors and their responses to situation and is thus associated with interpretive approaches. Critical post-modernism is described as the pool of literature that views research as intertwined with political agendas and thus stresses the emancipatory aspects of research. In other texts (see Robson, 2011), this type of research has been linked to feminism.

Despite the existence of distinct schools of thought (see Bazerman et al, 2003; Bazerman et al, 2000; Bazerman and Lewicki, 1985), current literature lacks systematic attempts to appraise those on the basis of their ontological viewpoints, epistemological consequences and limitations. It seems logical to associate game-theoretic approaches with rationalist and thus positivist viewpoints and behavioural decision approaches with constructivist viewpoints. However, when attempting to categorise socio-psychological approaches in the same way, possible associations with rationalism (decision-making based on expected economic utilities), constructivism (decision-making based on the construal of situations) as well as social constructionism (decision-making based on theories of social exchange) emerge.

Jakobsen et al (2005) proposed that *ontology* is understood as "notions about the nature of the world and indicates the necessary features of that which exists", whilst *epistemology* is understood to involve "the examination of the conditions, possibilities and limitations of knowledge." Archer (1995, p.28) pointed to the interdependence of both saying that "an ontology without methodology is deaf and dumb, a methodology without an ontology is blind" and "only if the two go hand in hand can we avoid a discipline in which the deaf and the blind lead into different directions". However, understanding the reflexive relationship between ontology and epistemology is challenging as both are conceptually inseparable, intertwined in a complex manner (Jakobsen et al, 2005) and because some epistemological stances draw upon multiple ontological assumptions (see Tables 1 and 2).

Analysing selected definitions of the term negotiation has led to the proposition that behavioural adaptation can be linked to ontological perspective-taking (Table 1), i.e. those of positivist, instrumentalist, structuralist and idealist perspectives. It is further proposed that the

stance chosen by a negotiator may determine the epistemological vehicles that he or she chooses to draw upon in analysing a situation and selecting appropriate strategies and that this involves cognitive, emotive as well as relational processes (Table 2).

Table 1 Ontological perspectives on processes of negotiation

<b>Definition</b>	<b>What does the definition say are the basic characteristics of a negotiation?</b>	<b>What does the definition say about the attitudes and motivations of those who negotiate?</b>	<b>What does the definition say about the focus of the transformative process?</b>	<b>What does the definition say about the ontological perspective towards the basic nature of a negotiation?</b>
"A competitive activity, in which players contend with each other according to a set of rules" (Osborne, 2004 p.1)	Negotiation is rational and predictable process	Ego-centric or collaborative	There is no transformative process – behaviours and outcomes are predictable.	Positivist Only what can be scientifically verified or which is capable of logical or mathematical modelling is real. Therefore, negotiation is about applying generalised theories to predict negotiation behaviour and outcomes.
"...to deal or bargain with another or others...to confer with another so to arrive at the settlement of some matter (Rubin and Brown, 1975 p.2)"	Negotiation is a process of seeking resolution.	Outcome-orientated attitude – the motivation to negotiate is to resolve a dispute. This process may require negotiators to alter their original stance as the negotiation progresses (for example from egocentric to collaborative).	The focus rests on the transformation of views held by different parties in whatever way is necessary to settle the dispute.	Instrumentalist Thought is an instrument for solving practical problems, and that truth is not fixed but changes as the problems change. Therefore, negotiation is a self-serving process or a means to an end.
"...situations in which two or more parties recognise that differences of interest and values exist among them and in which they want (or in which one or more are compelled) to seek a compromise agreement... (Raiffa, 1982 p.7)."	Negotiation is a process of seeking compromise where there are differences in values and interests. The preparedness of different parties to compromise may be imbalanced.	Collaborative/ possibly submissive attitude – the motivation to negotiate is to compromise even if the preparedness to compromise is not shared equally between the parties.	The focus rests on transforming one's own views, and ideally the views of other party, to the degree that is necessary to reach agreement.	Relativist Knowledge, truth and morality exist in relation to culture, society and historical context and are not absolute. Therefore, negotiation is a subjectively perceived process.
"Negotiation is a process by which a joint decision is made by two or more parties (Pruitt, 1981 p.1).	Negotiation is a process of joint decision-making. (The use of term "joint decision" in this context is understood to reflect an agreement that is equally acceptable to all parties.)	Collaborative attitude – the motivation to negotiate is to arrive at a joint decision.	The focus rests on the joint transformation of views.	Structuralist Individuals have no independent existence but dependent on interrelationship with others and wider structures, therefore, negotiation is an interdependent process
"I can never fight you, I am always fighting you plus me" (Davis, 1989 with reference to Mary Parker Follett)	Negotiation is a process of relationship building and emancipation.	Collaborative attitude - the motivation to negotiate is to learn, improve relationships and achieve positive outcomes of wider significance.	The focus rest on mutual transformation and emancipatory aspirations.	Idealist Thoughts and actions are guided by the belief in or pursuit of perfectionism. Therefore, negotiation is a process of relationship building and emancipation
"Negotiation is a basic means of getting what you want from others. It is back-and-forth communication designed to reach an agreement when you and the other side have some interests that are shared and some that are opposed" (Fisher, Ury and Patton, 1991 p. xiii)."	Negotiation is a dynamic process of communication in the pursuit of self-interest, which involves conflict of interests and opportunities for mutual gain.	Egocentric attitude – the motivation to negotiate is to get what you want despite opposing interests	The focus rests on transforming the views of the other party.	Combines relativist, structuralist and instrumentalist assumptions.



Table 2 Ontological and epistemological negotiator dispositions

<b>Epistemological lenses</b>	<b>Epistemological assumption</b>	<b>Assumptions that guide the analysis of negotiations and behaviour</b>	<b>Ontological perspectives</b>
<b>Empiricism</b>	All knowledge is based on experience and derived from the senses	Negotiation is a process driven by cause and effect relationships and their understanding and generalisation can help predict future negotiation behaviour.	Positivism: Only what can be scientifically verified or which is capable of logical or mathematical modelling is real, also linked to reductionism
<b>Interpretivism</b>	Knowledge is derived from the meaning of people's participation in social life.	Negotiation is a socially constructed process and be understood by analysing mechanisms of construal and by studying relationships, interdependence, social exchange.	Relativism: Knowledge, truth and morality exist in relation to culture, society and historical context and are not absolute.  Structuralism: Individuals have no independent existence but dependent on interrelationship with others and wider structures.
<b>Rationalism</b>	Reason, rather than experience is the basis of knowledge.	Negotiation is a predictable as well as sequentially evolving process and requires the use of mathematical modelling.  Negotiation is a self-serving process or a means to an end and requires the study of expected utilities.	Positivism: Only what can be scientifically verified or which is capable of logical or mathematical modelling is real.  Instrumentalism: Thought is an instrument for solving practical problems, and that truth is not fixed but changes as the problems change
<b>Social constructivism</b>	Knowledge of a subject is partial and limited by the individual perspective from which it is viewed	Negotiation is a subjectively perceived process and is best studied through behavioural decision theory.  Negotiation is a self-serving process or a means to an end and requires the study of expected utilities.	Relativism: Knowledge, truth and morality exist in relation to culture, society and historical context and are not absolute.  Instrumentalism: Thought is an instrument for solving practical problems, and that truth is not fixed but changes as the problems change.
<b>Social constructionism</b>	Knowledge of a subject is derived from studying its structures of interdependence	Negotiation is an interdependent process and requires the study of relationships, interdependence and social exchange.	Structuralism: Individuals have no independent existence but dependent on interrelationship with others and wider structures.
<b>Feminism</b>	Knowledge of a subject is derived from studying its structures of interdependence and emancipatory powers.	Negotiation is a process of relationship building and emancipation and thus requires the study of interdependence, reciprocity and evolutionary processes.	Idealism: Thoughts and actions are guided by the belief in or pursuit of perfectionism
<b>Critical realism</b>	Knowledge of a subject is derived through methodological pragmatism and can never be absolute.	Negotiation is a process in which all aspects are of relevance and its study requires a critical understanding of the stratification of reality and of the vehicles that are best suited to the study of different strata.	Nominalism: The object of perceptions has real existence and is neither reducible to universal principles nor dependent on the perceiving agent  Critical realism: Structures are real and have real powers and real mechanisms, whether these are activated, transcend and lead to observable events or not.

## **2.2 How ontologies and epistemologies have shaped different schools of thought in negotiation research**

The discussion so far suggests that much negotiation research is liable to reductionist thinking that fails to consider the real nature of hidden mechanisms (see Hueffmeister et al, 2011, Buelens et al, 2008; DeDreu and Carnevale, 2005, Jensen-Campbell and Graziano, 2005; Barry and Smithey Fulmer, 2004; Ross and Nisbett, 1991). The consideration of ontological and epistemological frames in negotiation research offers a starting point in trying to develop a deeper understanding of those. However, this requires a critical understanding of how different lenses complement one another, and of their respective limitations. The following sections address empiricist, interpretivist, rationalist, social constructivist, social constructionist and feminist approaches towards negotiation research and illustrate how these relate to different schools of thought.

### **2.3 Empiricism and interpretivism**

Empiricist studies are reductionist and seek to validate assumptions through quantification. Examples of this are previous attempts to establish correlations between specific personality traits and negotiation behaviours (see Morris, Larrick and Su, 1999; Sullivan, O'Conner and Burris, 2006; Baytalaskaya, 2008).

Some authors pointed to their limited transferability to practitioner-based scenarios (Hueffmeister et al, 2011; De Dreu and Carnevale, 2005; Barry and Friedmann, 1998; Lewicki, 1997; Patton, 1994), Moreover, negotiation anatomies are complex with regard to structural, issue and process components. Likewise, the attitudes and behaviours of individual negotiators are partially emergent as well as transient. Thus, experimentally isolating variables in a meaningful and quantifiable way for the purpose of empirical investigation is challenging and may lead to atheoretical statements (see Robson, 2011; Easton, 2010, Jakobsen et al, 2005; Scott, 2005). Whilst interpretive approaches are designed to help overcome these criticisms, the reliance on laboratory research designs limit their capacity to address the complexity of negotiation behaviour (Cobb, 2000). Moreover, they are liable to subjectivity and the dilemma of double-hermeneutics (Jakobson et al, 2005).

Despite those criticisms it is important to acknowledge that such evidence is necessary to inform abstractions of causal mechanisms and to overcome the complexities that complicate the generalisation of practitioner research (Scott, 2005; Yeung, 1997; Patton, 1984). Combining interpretive with empiricist thinking (see for example Fry et al, 1983; Moreton, 1978) enables a move from conventional theories of causation, i.e. that A leads to B, to the realist view of generative causation which assumes that A leads to B because of the operation of one or more mechanisms (Robson, 2011).

## **2.4 Rationalism**

Rationalist, or a priori, approaches are represented by the work of game theorists (see for example Bazerman and Chugh, 2006; Vlaev and Chater, 2006; Wolfe and McGinn, 2005; Buelens and Van Pouke, 2004; Kolb, 2004; Mumpower et al, 2004; Osborne, 2004; Stuart, 2004; Weingart and Olekalns, 2004; Camerer, 2003; De Dreu, 2003; Blount and Larrick, 2000; Bolman Pullins et al, 2000; Mosterd and Rutte, 2000; Srivastava, Chakravarti and Rapoport, 2000; Stuhlmacher and Champagne, 2000; Murningham et al; 1999; Bottom, 1998; Brett, Shapiro and Lytle, 1998; Northcraft et al, 1998; Larrick and Blount, 1997; Weingart, Hyder and Prietula, 1996; Babcock and Olson, 1992; Neale and Bazerman, 1992; Neslin and Greenhalgh, 1986; Messick and Sentis, 1985; Neslin and Greenhalgh, 1983; Bazerman and Neale, 1982; Kelley et al, 1970; Wyer, 1969).

In game theory, individuals are assumed to be rational players who are able to identify the pay-offs of a range of available strategies and act in accordance with this knowledge. It is based on equilibrium theory and includes a range of variants including the modelling of games with perfect and imperfect information, competitive or coalition games, as well as a sequential games (see for example Osborne 2004). In the study of negotiation behaviour this provides a backdrop of rationality for how individuals frame negotiations. It is thus central to the development of prescriptive models and for helping negotiators to assess the behaviour of opponents and detect biases in their own decision-making (Bazerman and Chugh, 2006). However, whilst game theoretic modelling is useful in conceptualising both isolated cases of decision-making and, through sequential games, trajectories of negotiations, demarcations between different game-theoretic perspectives are largely artificial (Raiffa, 1982).

Game theoretic models are based on the assumption that negotiators are motivated by the desire to maximise utility in relation to a single goal. In reality, negotiators often pursue multiple and seemingly contradictory goals and dispositional preferences may undermine generalisations based on economic theory. Besides its abstract nature, game theory does not give regard to irrational or subconscious factors, or factors unrelated to the respective situation. As such, game-theoretic modelling is not designed to address human and social aspects of negotiation processes (Cobb, 2000). Further research into the complexities of negotiation behaviour is therefore needed to examine the combined effects of socio-cognitive influences, perceptions and situational power (Camerer, 2003).

## **2.5 Social constructivism**

Social constructivist approaches, associated with behavioural decision theory, address processes of construal, i.e. how individuals interpret situations and choose behavioural strategies accordingly. Constructivist approaches thus concentrate on investigating mechanisms of situational adaptation that are driven by individual differences and how these affect a negotiator's response to contextual or relationship factors. Much of this literature is linked to the work of McAdams (1995) or Rubin and Brown (1975).

McAdams' Big Five predispositions *extraversion, agreeableness, conscientiousness, emotional stability* and *openness to experience*, are frequently used in interpretations negotiation behaviour. For example, agreeableness relates to the ability to solve problems collaboratively and preserve relationships. Openness to experience relates to the ability to cope with ambiguous situations. Not addressed, however, are predispositions that determine one's ability to cope with complexity, ethical challenges or cultural difference all of which are key variables that may determine negotiation anatomy. Individual responses to these variables are manifest in, for example, sensitivity towards the multidimensionality of issues and historic relationships (Raiffa, 1982), opportunistic behaviour (Thompson and Leonardelli, 2004) and situational pragmatism (Mnookin, 2010). *The Social Psychology of Bargaining and Negotiation* (Rubin and Brown, 1975) appears to offer the most comprehensive framework, proposing that negotiation behaviour is driven by eight dimensions, i.e. *intelligence, cognitive complexity, risk-taking propensity, intolerance of ambiguity, interpersonal orientation, authoritarianism, flexible ethicality* and *Machiavellianism*.

Social constructivist approaches serve the purpose of probing the underlying motivations of behaviour and adaptation in negotiations (for example Brooks and Rose, 2004) and thus facilitate a breadth and depth of knowledge that cannot be attained through rationalist approaches. Such studies are needed to explain why individuals with stable personality characteristics may vary their negotiation behaviour across a series of related or unrelated scenarios (see also Mnookin, 2010). This also extends to the significance of emotions as anterior, experiential or strategic phenomena (Barry and Smithey Fulmer, 2004).

The body of negotiation literature addressing the link between individual differences, construal and decision-making is subject to five limitations. Firstly, many seminal studies (McAdams, 1995; Rubin and Brown, 1975) require application to more specific contexts, in particular professional contexts. Secondly, older theories require a re-evaluation of previous findings within the context of contemporary society and possibly transformed value systems. Thirdly, the over-reliance on empiricist and experimental approaches has resulted in a widespread disregard of the dynamic, interactive and reflexive nature that characterises negotiation processes (Field, 2011; Sargent et al, 2011). Finally, it largely fails to address in how far negotiators are able to integrate different perspectives when making sense of a situation. Whilst Rubin and Brown (1975) and subsequent authors building on their work (Brooks and Rose, 2004) acknowledged that negotiators may choose different approaches depending on circumstances, the general assumption is that individuals tend to have a preferred style of negotiation (see for example Neale and Fragale, 2006; Ma and Jaeger, 2005; Beersma and De Dreu, 1999; Jordan and Roloff, 1997). What does not seem to be widely recognised is the possibility that by nature, individuals may hold multiple negotiator personalities and switch between those depending on the situation. The question of how individuals integrate and switch between multiple roles and personalities appears to be reserved to the field of transactional analysis combining social psychology and psychoanalysis (see for example Stewart and Joines, 1987; Berne, 1968), but so far seems to not have featured in any negotiation research.

## **2.6 Social constructionism**

Social constructionist approaches are based on the presumption that the existence of individuals, and thus their behaviour, is directed by their social context. Whilst, accordingly the drivers of negotiation behaviour are anchored internally, social constructionist theory examines how the latter are linked to, and limited by, social ascription, human relationships, and related behavioural norms. It is based on the view that social properties are constructed through interactions between people rather than them having a separate and objective existence (Robson, 2011).

Similar to game theory, theories on interdependence and exchange largely assume that individuals are driven by the motivation to maintain the stability of relationships and to protect expected economic and social utilities. This concerns in particular the rules and dynamics of reciprocity of exchange (Emerson, 1976), expected behaviours (Valley et al, 1999), behavioural reciprocity (Ross and Nisbett, 1991) and outcomes (McGinn, Thompson and Bazerman, 2003).

This shows that economic and social relationships differ qualitatively in the content of their personal ties which are the product of joint activities, interactions and sentiments (Valley et al, 1995), which indicates a need for the modelling of complex and diverse structures and the development of relationships over time. Despite this, even studies that concentrated on relational aspects relied mainly on empiricist and experimental approaches and were thus not designed to capture longitudinal interactions or the evolution of negotiation relationships in a comprehensive manner.

Whilst social constructionist approaches towards the study of negotiation are distinct in their focus on relational aspects, patterns of exchange and the significance of wider socio-economic context, it is evident that they are epistemologically difficult to separate from game-theoretic or behavioural approaches as both are intrinsically linked to the processes by which individuals construe and adapt to situations.

## **2.7 Feminism**

Feminist theory has emerged as a derivative of social constructionism, adding dynamic, developmental, idealistic and philanthropic dimensions. Negotiation is regarded as a process of relationship building and emphasises the aspiration of sensible and mutually fulfilling agreements. The goal of feminist aspiration rests in the goal of redistributing social power and, through this, achieve social equity (Robson, 2011; Landry and Donnellan, 1999). It thus focuses on the dynamic and adaptive aspects of negotiation and stresses the importance of critical introspection and relational reflexivity as necessary conditions for enabling emancipatory transformation (Sargent et al, 2011; Brach, 2008; Landry and Donnellon, 1999; Kolb, 1995; Davis, 1989).

Examples of contributions that are feminist, or ontologically idealist, in outlook are typically theoretical, which reflects their relative novelty in negotiation research (see for example Crump, 2015; Ingerson, DeTienne and Liljenquist, 2015; Smyth, 2012; Sargent, Picard and Jull, 2011; Brach, 2008;

Fisher, 2004; Putnam, 2004; Cobb, 2000; Landry and Donnellon, 1999; Kolb, 1995; Salacuse and Rubin, 1990; Follett, 1924).

Contributions to this new wave in negotiation literature are emancipatory in two ways. Firstly, they draw attention to opportunities for learning and growth provided through the process of negotiation, whereby the focus of this is four-dimensional and may involve learning about oneself (introspective), learning about the negotiation partner (interactive/relational), learning associated with the subject of negotiation and the new positions/opportunities that may emerge as a result of discussion (issue/outcomes), and learning related to parties that are external to the negotiation (third party). Secondly, they question the soundness of research and negotiation training models that fail to acknowledge the paramount importance of introspection and interpersonal reflexivity arguing that the advancement of society depended on negotiators giving due consideration to the possibility of generating positive outcomes not just for themselves, but also their negotiation partners and third parties affected by negotiation outcomes (Fox, 2013; Robson, 2011).

Feminist theory thus appears to be more advanced in dissecting and making meaning out of the interplay of these composite parts than rationalist, constructivist and constructionist approaches.

### ***2.8 Towards an integrated perspective***

Whilst negotiation literature lacks a critical debate of ontological and epistemological issues (Buelens et al, 2008), it is dominated by three major schools of thought. These include economic/game theory, behavioural decision theory and social psychology. Even though the majority of contributions can be attributed to one school and by extension, one of the relevant epistemological categories considered here, many do take a combined perspectives. A closer analysis of each epistemological category has highlighted that, despite their focus on different layers of negotiation processes, they are conceptually inseparable and in some cases create mutually moderating effects.

Therefore, the study of negotiation behaviour needs to begin with understanding the processes by which individuals construe scenarios and, on the basis of this, choose specific or combinations of strategies. Informed by the illustration of ontological perspectives on processes of negotiation (Table 1) and of ontological and epistemological negotiator dispositions (Table 2), the following framework (Table 3), has been developed to inform the initial primary study. The framework is based on the assumption that negotiators are not necessarily stable in their perspectives and behaviours, but may assume different stances, depending on the particularities of the scenario. The epistemological lenses of empiricism and interpretivism have been omitted in this framework as, as these are of relevance to the development of research methodologies but not the nature of negotiator construal as such.

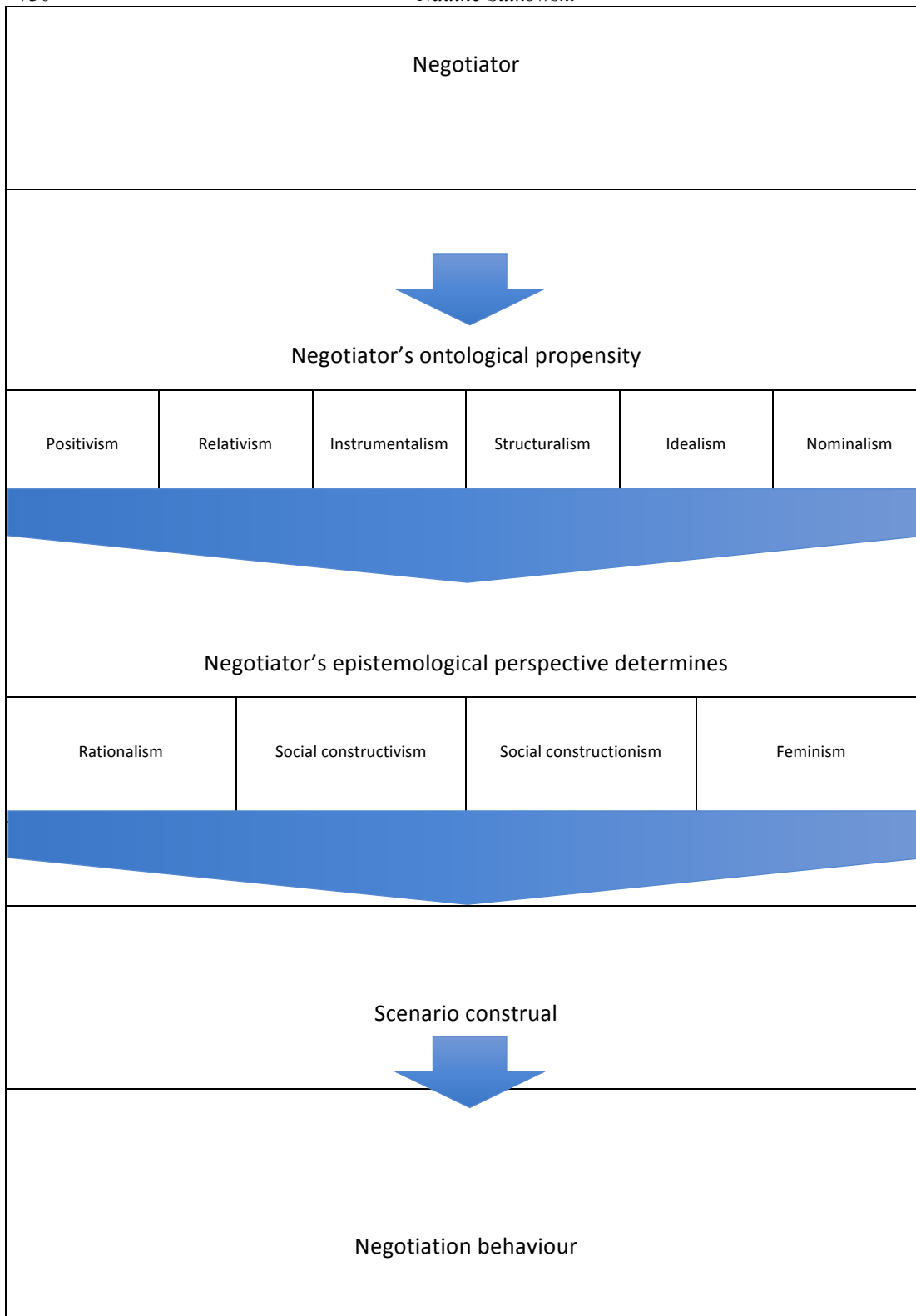


Table 3: Methodological Reference Framework

### 3. Methodology

The purpose of the primary research was to examine, by means of an initial study, the philosophical justifications for situational construal and behaviour in business negotiations. It was felt that an individual case study was the most suitable method for this exploratory study. There are four justifications for this.

Firstly, the main purpose of this rests in the development and initial trialling of a mix of suitable methods for analysis. Choosing a larger sample and through this risk the dilution of the analytical depth that can best be achieved through the detailed examination of a single case would have defeated this objective.

Secondly, in order to capture the potential complexity of anterior and reflexive construal prior and during the act of negotiating it was necessary to develop a close relationship with the research participant to be able to understand their ways of framing situations, the relationships with their negotiation partners and their wider professional circumstances as critically and accurately as possible. This process involved several personal conversations and a trail of e-mail correspondence alongside the collection of psychometric data, notes regarding anterior construal, post-reflections and observations. The personal conversations and email correspondences were instrumental to the process of interpreting the written notes provided by the case study participant and to relate them to the insights gained during the observations. Due to the intensity and reflexive nature of this process, it would have proven impractical to extend the study to a larger range of participants.

The third issue arose from the strategic sensitivity of information collected. For some, the use of confidentiality agreements appeared to be of limited power in reducing the perceived risk attached to sharing sensitive information with the researcher, particularly where opportunities for interactions with other parties under investigation would have existed. During the planning of the primary research, the study of a dyadic or triadic negotiation relationship in a series of scenarios was considered as an alternative approach, but after assessing issues of perceived risk was judged unfeasible.

Finally, the data collection process was time-consuming, particularly for the case study participant and thus required a considerable degree of goodwill. The case study participant was identified through professional connections. Discussions with other professional negotiators suggested that, given the extent of necessary time commitment, convenience sampling was the only realistic way of agreeing access.

#### **3.1 The collection of psychometric data**



The methods of data collection included a psychometric element which comprised a qualitative and a quantitative component.

Part A, the qualitative component, consisted of twenty-four questions. Questions 1.1 – 1.4 were designed to collect information on the participant's level of experience. Questions 2.1 – 2.6 were designed to examine their natural negotiator disposition, and as such their natural approach towards construing situations. Questions 2.7- 2.20 were designed to examine the participant's propensity to change their approach towards anterior construal depending on circumstances and thus the perceived stability of their natural disposition.

Part B, the quantitative component, contained fourteen sets of questions and asked the participant to identify, by means of a Likert scale to what extent they felt that different statements applied to them. This part further probed the participant's ontological and epistemological disposition. The questions were devised on the basis of McAdams' (1995) Big Five personality characteristics and Rubin and Brown's (1975) categorisation of personality factors.

### **3.2 The observation of business negotiations**

Two observations of business negotiations took place whereby in each the research participant was the lead negotiator.

Each observation involved three stages, which were the collection of anterior thoughts, observation and the collection of post-reflections. The scenarios are described in the section that presents the findings, but due to confidentiality and the need to protect anonymity are restricted to generic descriptions. As some of the details discussed during the negotiations were highly sensitive, no permissions for note-taking or audio-recording could be granted. The inability to take notes, audio-record or triangulate insights by means of third-party verification placed obvious limitations onto the reliability of data even though some of this was mitigated through the discussion of joint recollections immediately after the negotiations.

The chosen observational method is best classed as "participant as observer" approach as the researcher was known to the groups, but did not participate in conversation. Whilst this approach allows a more analytical stance than more immersive forms of observation, it is liable potential observer effects, observational biases, observer drift, expectancy effects and interpersonal factors (Robson, 2011).

The written recollection of each observation was complemented by a coded illustration of the negotiation sequence. This involved state coding, i.e. the recording of specific behaviours, and interval coding, i.e. the recording of specific phases and interactions (Robson, 2011). The aide-memoir developed for the purpose of recording observational notes after each negotiation prompted the recording of specific negotiation behaviours (such as for example positioning, processing, probing etc.) and the patterns of interaction between the research participant and other parties.

### **3.3 The collection of anterior thoughts and post-reflections**

Prior to each negotiation, the participant was asked to record their thoughts concerning the negotiation. The collection of a priori thoughts covered fourteen questions that were aimed at understanding anterior construal within the specific context and sought to elicit information on how the participant perceived and planned to manage the negotiation. Specific attention was paid to designing prompts that would generate information on the participant's approach towards assessing specific utilities and thus provide clues concerning lenses adopted in construing the situation and in deciding upon suitable strategies.

Similar to the collection of anterior thoughts, the collection of post-reflections was based on a set of prompts and involved seven questions designed to examine whether the participant had been able to realise their intended strategies and any possible causes for deviation.

This set of evidence was complemented with unstructured conversations with the participant after each negotiation and insights into email correspondence between the participant and their negotiation partners, which helped to reduce the typical limitations of written anterior and posterior thoughts (Jensen Campbell and Graziano, 2005).

### **3.4 The analysis of primary data**

The data collected by means of the chosen methods enabled the profiling of the research participant's natural negotiator disposition, their situational disposition in each scenario, as well as their actualised behaviour.

The process of coding involved the typical three sets of coding (Robson, 2011). Initially, open coding led to an increasingly advanced understanding of the different composite parts of behavioural adaptation in business negotiations. This process was carried out intuitively and created initial categories for the structuring of the literature review and reference framework (Tables 1-3), specifically concerning the linkages between the ontologies, epistemologies and the three schools of thought. Axial coding and selective coding were then applied to analyse patterns of negotiation behaviour influenced by context and other intervening conditions and the clustering of evidence under specific themes. Examples include typical negotiation constructs, such as anchoring or framing, that affected anterior and reflexive construal.

Once this process was completed findings were summarised to present profiles of the participant's natural and situationally determined dispositions towards the construal of negotiations, and to reflect on the consistency between their planned and actualised negotiation strategies.

### **3.5 Ethical considerations**

Due consideration was given to ensuring that the process of collecting and handling data did not infringe on any ethical principles. The research was conducted in accordance with the University of Gloucestershire's Research Ethics Guidance and the researcher was satisfied of the legality and ethicality of business matters observed. Before commencing with the process of data collection, formal consent was obtained from the main research participant and a protocol for the handling of confidential information and anonymity was agreed. Since the research strategy extended to the observation of third parties, it was necessary to ensure that they consented to the researcher's presence even though they were not treated as subjects under investigation. The main research participant managed this process on behalf of the researcher and provided written evidence of having liaised with third parties for this purpose in advance of the respective observations. The original records of various types of correspondence and reflections have been stored safely, allowing only the researcher to gain access, and will be destroyed once they have outlived their purpose of informing this and related studies.

## **4. Discussion of Findings**

The case study participant (P1) holds a leadership position in an organisation of national and international significance. Their organisation operates through a number of subsidiary or associated businesses, most of which are SMEs or family businesses, and is involved in national and international project work in a variety of industries and across the public and private sector.

The two negotiation scenarios observed showed significant contextual similarities as well as differences. They were different with regard to the subject of negotiation as the first one involved a negotiation with a national charity about potential joint collaboration on specific projects, whereas the second involved a discussion about the possible formation of a subsidiary company under the overall umbrella of P1's organisation. This proposition involved a possible joint venture between two family businesses. The similarity of the two negotiations was linked to the nature of P1's historic relationships with their negotiation partners. In both cases these had existed for a long time and were evidently characterised by amicability, openness and mutual supportiveness.

### **4.1. Detecting different ontological and epistemological perspectives in negotiation behaviour**

P1's natural approach towards construing negotiations tends to be based on an integration of game-theoretic analyses (Rationalist disposition), interest-based approaches (Social constructivist disposition), an assessment of exchange relationships and interpersonal dynamics (Social constructionist disposition) and emancipatory aspirations (Feminist disposition).

The following statements extracted from different sources of primary evidence reflect their overall multi-epistemological disposition and tendency to use a diversity of analytical vehicles from different schools of thought when assessing a specific scenario.

Quote 1 P1: "Always incredibly happy, content and enthusiastically passionate about life & all that I do. I am as I am – it naturally seems to deliver a positive negotiating environment and interaction". **(Social constructivist disposition/Individual differences: Extraversion)**

Quote 2 P1: "I am genuinely interested in people and who I meet so don't have to fake any of my behaviours!! I am aware of the process I am following, which is akin to being aware that I am breathing and walking **(Social constructivist disposition, Individual Differences, Self-awareness)**."

Quote 3 P1: "I've always speculatively and for pure enjoyment and self-fulfilment purposes spread myself

across a number of spaces in order to create an enhanced potential relevance at an unknown future point in time! These activities or experiences are normally at personal cost. This may sound a bit odd however it appears to work despite seemingly uncommercial!" **(Social constructivist disposition)**

Quote 4 P1: "For me negotiation is a science, an almost mathematical model in terms of the need for precision, which if followed imaginatively, in my experience results in a positive outcome. Can such models be imaginative?"

Well mathematics can be incredibly creative and deliver astonishing outcomes. [xxxxx]

I tend to follow the same plan for all my meetings and have a number of different routes planned in the event of certain responses not being received or finding that we are suddenly going off piste. These could be shown in a simple flow chart.

I also apply the inverted pyramid principle for the journey which can involve spending years on the first level in order to carry me smoothly to the next until ultimately the inverted gold tipped close is almost invisible and indeed should be to the prospect.

During the journey from inverted base to gold tip there will be critical points beyond which there is no point passing without satisfying the concerns of the other party"**(Rationalist disposition / use of game-theoretic approach)**

Quote 5 P1: "In my world connectivity of intelligence knowledge is everything. It allows me to access [xxxxxx] people of influence who I currently don't know.

*By association my connections then enhance [my organisation's] credibility in a global market and across [national and international institutions]*

*It is an advertisement for the creativity and innovative thinking of the [reference to own organisation] [xxxxxx].*

**(Social constructionist disposition).**

*Quote 6 P1: "However, and what is absolutely crucial is that it will allow me to further strengthen my vision of helping as many people as I can to improve their lot, before I cease my mortal coil .*

*I attempt, in all that I do, to link artistic and altruistic desires and aspirations with commercial realities and the need for a positive financial outcome (Emancipatory aspirations).*

P1's ontological disposition can be described in as a combination of an instrumentalist and idealist ontological perspective, which is reflected by the following statement:

*Quote 7 P1: "One where we are all happy with the outcome or satisfied that it is the best we can achieve based on the circumstances".*

These insights demonstrates the merits of analysing negotiator construal by linking it to the use of different philosophical perspectives.

P1's application of the inverted pyramid approach demonstrates a game-theoretic approach towards the removal of possible obstacles. Particularly evident in P1's approach towards negotiations is the assumption that positive interactions in the past increase the likelihood of positive future interactions and thus the likelihood of agreement.

As evidenced by their choice of strategies within the two scenarios, P1 tends to use a range of techniques to promote a collaborative orientation in their negotiation partners. One technique they use is collaborative framing, which was evident both during the early stages of the observed negotiations as well as in anterior correspondence.

In correspondence with their negotiation partners prior to the second observation, P1 applied an integrated approach towards collaborative framing. This included acknowledgement of efforts spent so far aimed at promoting a sense of commitment, acknowledgement of prior successes aimed at reducing perceived risk, the explanation of reward structures aimed at the recognition of equity, visions for implementation aimed at eliminating concerns about feasibility, and well as reference to third parties with interest in the proposition aimed at demonstrating the wider acceptance of the proposition. This form of framing, which describes one of the steps that P1 took in applying the inverted pyramid approach, was aimed at promoting a mutual understanding of possible gains in advance of the meeting. A further form of framing that P1 tends to use is the appeal to charitable aspirations, which was particularly evident within the context of the first scenario.

In summary, the evidence suggests that P1 does consider the specific particularities of a situation and chooses his approach accordingly. For example, in the first scenario the epistemological dimension that dominated their approach was that of emancipatory aspirations. However, they utilised all other epistemological lenses to design an integrated negotiation strategy around the charitable aspirations pursued in this scenario. In the second scenario, P1's focus rested on managing the relationship between their two business associates whereby they predominantly adopted social constructivist and constructionist lenses.

The pilot study suggests that behavioural adaptation in negotiation can be linked to ontological perspective taking, i.e. those of positivist, instrumentalist, structuralist and idealist perspectives, and to epistemological sense-making. It has also led to the proposition that it is possible for negotiators to adopt a combined ontological and epistemological perspective and, by extension, that they may shift their perspective depending on the situation.

The degree to which the insights generated by the pilot study provide a real picture of the observed negotiation is debateable for they are highly interpretivist, liable to double hermeneutics and the final interpretations a result of an iterative and reflexive process of analysis and reflection which has been shaped by the interpersonal researcher-participant dynamics. However, in explaining their approaches to the different scenarios, P1 has evidently drawn upon principles that rest in alternative ontological and epistemological realms.

In practitioner research, different techniques can be adopted to increase the validity of insights derived from primary investigation. In the case of observations, examples of such techniques include audio- and video-recording. Alternatively, the presence of a second or of multiple observers facilitates a triangulation of observations made by different individuals (Robson, 2011). To obtain a balanced picture of the negotiation, the positions and perceptions of each party need to be considered. Thus, examining the anterior construal, posterior reflections and situational adaptation of all negotiation parties on a longitudinal basis would be the ideal approach towards interpreting the actions, reactions and interactions of those involved in the negotiation.

However, within the context of business negotiations the nature of such data is strategically sensitive. As the researcher becomes privy to information that, from a participant's perspective is strategically sensitive, any possibility within the overall research setting that permits private conversations between the researcher and individual parties bears the risk of turning into a source of mistrust. Such research is therefore only possible if the researcher and participants subscribe to an agreed understanding of how the relationship between the researcher and individual parties will be managed.

Approaches towards the management of confidentiality typically focus on the researcher's conduct. However, within the context of researching business negotiations, this needs to extend to the conduct of participants. The observation of practitioners for can only take place in an ethically safe way if all participants agree to the principle that the researcher is provided with access to information that they might not be privy to and do not undertake to abuse the knowledge held by the researcher for their own tactical purposes, for example by actively asking the researcher questions about the information

provided by other parties. If managed badly, observation of business negotiation thus bears the risk of undermining not just the present negotiation but also future interactions between the negotiation partners. An added complication is that of distance. Obtaining insights into the objectives, perceptions and concerns of individual parties might tempt the researcher to assume the role of a mediator. However, a failure to maintain the appropriate level of impartiality and distance inevitably compromises the research process and causes the researcher to become part of the negotiation. Many practitioners are likely to remain reluctant and, if at all, only grant a researcher with observational access to negotiations that they consider strategically safe.

Pragmatically, obtaining the amount of insights needed for an in depth investigation presents a challenge. Firstly, a considerable amount of time is required to either note down or verbally explain relevant personality factors, and to allow the researcher not just to observe but also to probe some of the initial responses and interpretations. For professionals it is difficult to make this time commitment. Within the context of this study, the data collections strategy was altered during the process to suit the nature in which the participant shared relevant insights. This was done not only to make allowances for the time constraints, but also to capture unexpected nuggets of information that emerged during e-mail correspondence or conversations.

Secondly, to understand an individual's negotiation behaviour as fully as possible, the researcher needs to develop a relatively close relationship with the participant. The trust and rapport that is needed to enable open discussion and allow the researcher to develop sensitivity to nuanced behaviour is difficult to achieve unless a close relationship between the researcher and the participant exists or develops as a result of the process.

Moreover, by means of this method it is not possible to remove behavioural adjustment effects that are caused by the participants' awareness of being observed. Inevitably, the presence of a researcher compromises the authenticity of the situation. The only possible ways to obtain unadulterated insights into practitioner negotiation are by means of covert research which is excluded as an option on ethical grounds, or auto-ethnographic inquiry.

## **5. Conclusion**

The paper has sought to examine philosophical justifications of situational construal and behaviour in business negotiations and thus contributed to the limited debate surrounding ontological and epistemological perspectives in negotiation research. It has discussed how the dominant schools of thought in negotiation research, i.e. game theory, behavioural psychology, social psychology and feminism are framed by different ontological and epistemological perspectives.

Game theory has been linked to positivist, instrumentalist and rationalist framing and to the modelling of the trajectory of negotiations. Behavioural psychology has been linked to relativist, instrumentalist and social constructivist frames, whilst social psychology was found to be associated with structuralist and social constructionist perspectives. Feminist negotiation has been linked to an idealist and emancipatory philosophy. A closer examination of existing negotiation literature has led to the

conclusion that prior studies rarely rely on one perspective only, but instead examine the moderating effects of multiple perspectives. However, holistic approaches that encapsulate all in a structured manner do not appear to exist.

The paper has led to the proposition that the mechanisms of situational adaptation, and as such various relevant phenomena are the result of ontological and epistemological perspective-taking whereby negotiators might adopt multiple and varying perspectives depending on the scenario. It is thus proposed that construal and, consequently, negotiation behaviour is the result of such perspective-taking and that psychometric profiling and a diagnostic of anterior construal can provide clues as to which situational components a negotiator is most likely to prioritise.

### **5.1 Limitations**

Whilst the study has pointed to the potential value of examining the relationship between philosophical perspective-taking and negotiation behaviour, it was exploratory in nature and limited in scope leaving the insights it generated subject to further quantitative testing and abstraction. The discussion has highlighted limitations concerning the validity and reliability of the findings, which stem from the absence of longitudinal observation and third party verification, as well as the reflexive relationship between the researcher and the participant.

### **5.2 Practical implications and future research**

The outcomes of this paper are of particular relevance to the areas of negotiation pedagogy where behavioural analysis can provide a detailed diagnostic of the stability of natural and situational dispositions, as well as of potential causes of disparity between anticipated and actualised negotiation behaviour. The creation and use of such diagnostic tools can also inform the development of pedagogic methods aimed at addressing individual training needs by making negotiators aware of where their construal of scenarios might lead them to choose strategies that, in turn, lead to suboptimal results.

The development of such a diagnostic tool will require the development of a psychometrics designed to assess the propensities of negotiators towards construing scenarios from different perspectives, as well as a set of introspective prompts to capture anterior, reflexive and posterior cognitive and emotive elements.

Further, the initial studies has pointed to possible correlations between perspective-taking and negotiation behaviour that can be explored further through quantitative testing.

### **References**



- Agndal, H. (2007). Current trends in business negotiation research. SSE/EFI Working Paper Series in Business Administration. No 2007: 003
- Allred, K. G., Mallozzi, J. S., Matsui, F., and Raia, C. P. (1997). The influence of anger and compassion on negotiation performance. *Organizational Behaviour and Human Decision Processes*, 70(3), 175-187.
- Archer, M. S. (1995). *Realist social theory: The morphogenetic approach*. Cambridge university press.
- Babcock, L. C., and Olson, C. A. (1992). The causes of impasses in labor disputes. *Industrial Relations: A Journal of Economy and Society*, 31(2), 348-360.
- Babcock, L., and Loewenstein, G. (1997). Explaining bargaining impasse: The role of self-serving biases. *The Journal of Economic Perspectives*, 109-126.
- Babcock, L., Loewenstein, G., Issacharoff, S., and Camerer, C. (1995). Biased judgments of fairness in bargaining. *The American Economic Review*, 1337-1343.
- Barry, B., and Oliver, R. L. (1996). Affect in dyadic negotiation: A model and propositions. *Organizational Behaviour and Human Decision Processes*, 67(2), 127-143.
- Barry, B., Smithey Fulmer, I. S., and Van Kleef, G. A. (2004). I laughed, I cried, I settled: The role of emotion in negotiation. *The handbook of negotiation and culture*, 71-94.
- Baytalskaya, N. (2008). *The effects of Machiavellianism, perspective taking, and emotional intelligence components on negotiation strategies and outcomes* (Doctoral dissertation, The Pennsylvania State University).
- Bazerman, M. H., and Chugh, D. (2006). Bounded awareness: Focusing failures in negotiation. In Thompson (eds). *Negotiation theory and research*, pp7-26
- Bazerman, M. H., and Lewicki, R. J. (1985). Contemporary research directions in the study of negotiations in organizations: A selective overview. *Journal of Organizational Behaviour*, 6(1), 1-17.
- Bazerman, M. H., and Neale, M. A. (1982). Improving negotiation effectiveness under final offer arbitration: The role of selection and training. *Journal of Applied Psychology*, 67(5), 543.
- Bazerman, M. H., Curhan, J. R., Moore, D. A., and Valley, K. L. (2000). Negotiation. *Annual review of psychology*, 51(1), 279-314.
- Bazerman, M. H., Gibbons, R., Thompson, L., and Valley, K. L. (1998). Can negotiators outperform game theory. *Debating rationality: Nonrational aspects of organizational decision making*, 79-99.
- Bazerman, M. H.; Curhan, J. R. and Moore, D. A. (2003) The Death and Rebirth of the Social Psychology of Negotiation. In: Fletcher, G. J.O. and Clark, M.S. (eds) *The Blackwell Handbook of Social Psychology: Interpersonal Processes*. pp 196-228

- Beersma, B., and De Dreu, C. K. (1999). Negotiation processes and outcomes in prosocially and egoistically motivated groups. *International Journal of Conflict Management*, 10(4), 385-402.
- Berne, E. (1968). *Games people play: The psychology of human relationships* (Vol. 2768). Penguin UK.
- Blau, P. M. (1964). *Exchange and power in social life*. Transaction Publishers.
- Blount, S., and Larrick, R. P. (2000). Framing the Game: Examining Frame Choice in Bargaining. *Organizational Behaviour and human decision processes*, 81(1), 43.
- Bolman Pullins, E., Haugtvedt, C. P., Dickson, P. R., Fine, L. M., and Lewicki, R. J. (2000). Individual differences in intrinsic motivation and the use of cooperative negotiation tactics. *Journal of Business and Industrial Marketing*, 15 (7), 466-478. Bordone, R. C. (2000). Teaching interpersonal skills for negotiation and for life. *Negotiation Journal*, 16(4), 377-385.
- Bottom, W. P. (1998). Negotiator risk: Sources of uncertainty and the impact of reference points on negotiated agreements. *Organizational Behaviour and Human Decision Processes*, 76(2), 89-112.
- Brach, D. (2008). A logic for the magic of mindful negotiation. *Negotiation Journal*, 24(1), 25-44.
- Brett, J. M., Shapiro, D. L., and Lytle, A. L. (1998). Breaking the bonds of reciprocity in negotiations. *Academy of Management Journal*, 41(4), 410-424.
- Brooks, B. W., and Rose, R. L. (2004). A contextual model of negotiation orientation. *Industrial Marketing Management*, 33(2), 125-133.
- Buelens, M., and Van Poucke, D. (2004). Determinants of a negotiator's initial opening offer. *Journal of Business and Psychology*, 19(1), 23-35.
- Buelens, M.; Van De Woestyne, M.; Mesdagh, S. and Bouckenooghe, D. (2008) Methodological issues in negotiation research: a state-of-the-art-review. *Group Decision and Negotiation*. 17:321-345.
- Camerer, C. (2003). *Behavioural game theory: Experiments in strategic interaction*. Princeton University Press.
- Carnevale, P. J., and Isen, A. M. (1986). The influence of positive affect and visual access on the discovery of integrative solutions in bilateral negotiation. *Organizational Behaviour and human decision Processes*, 37(1), 1-13.
- Cobb, S. (2000). Negotiation pedagogy: Learning to learn. *Negotiation Journal*, 16(4), 315-319.
- Crump, L. (2015) Analyzing complex negotiations. *Negotiation Journal*, Vol. 31, No. 2 pp131-153
- Davis, A. M. (1989). An interview with Mary Parker Follett. *Negotiation Journal*, 5(3), 223-235

- De Dreu, C. K. (2003). Time pressure and closing of the mind in negotiation. *Organizational Behaviour and Human Decision Processes*, 91(2), 280-295.
- De Dreu, C. K.W. and Carnevale, P. J. (2005) Disparate methods and common findings in the study of negotiation. *International Negotiation*. 10. pp193-203.
- Deutsch, M. (1975). Equity, equality, and need: What determines which value will be used as the basis of distributive justice?. *Journal of Social issues*, 31(3), 137-149
- Diekmann, K. A., Samuels, S. M., Ross, L., and Bazerman, M. H. (1997). Self-interest and fairness in problems of resource allocation: allocators versus recipients. *Journal of personality and social psychology*, 72(5), 1061.
- Drolet, A., Larrick, R., and Morris, M. W. (1998). Thinking of others: How perspective taking changes negotiators' aspirations and fairness perceptions as a function of negotiator relationships. *Basic and Applied Social Psychology*, 20(1), 23-31
- Easton, G. (2002). Marketing: a critical realist approach. *Journal of business research*, 55(2), 103-109.
- Emerson, R. M. (1976). Social exchange theory. *Annual review of sociology*, 335-362.
- Field, P. (2011) The unreliable narrator. *Negotiation Journal*. 27 (3). pp 387-395
- Fisher, R. J. (2004). The problem-solving workshop as a method of research. *International Negotiation*, 9(3), 385-396.
- Follett, M. P. (1924). *Creative experience*. New York: Longmans, Green and Company.
- Forgas, J. P. (1998). On feeling good and getting your way: mood effects on negotiator cognition and bargaining strategies. *Journal of personality and social psychology*, 74(3), 565.
- Fox, E. A. (2013) *Winning From Within: A Breakthrough Method for Leading, Living and Lasting Change*. New York: Harper Collins.
- Fry, W. R., Firestone, I. J., and Williams, D. L. (1983). Negotiation Process and outcome of Stranger Dyads and Dating Couples: Do Lovers Lose?. *Basic and Applied Social Psychology*, 4(1), 1-16.
- Greenberg, J. (1983). Overcoming egocentric bias in perceived fairness through self-awareness. *Social Psychology Quarterly*, 46 152-156.
- Hegtvedt, K. A., and Killian, C. (1999). Fairness and emotions: Reactions to the process and outcomes of negotiations. *Social Forces*, 78(1), 269-302.
- Holtom, B. C., Gagné, K. C., and Tinsley, C. H. (2010). Using "Shocks and Rumors" to Teach Adaptive Thinking. *Negotiation Journal*, 26(1), 69-83.

- Hüffmeier, J., Krumm, S., and Hertel, G. (2011). The Practitioner–Researcher Divide in Psychological Negotiation Research: Current State and Future Perspective. *Negotiation and Conflict Management Research*, 4(2), 145-168. .
- Ingerson, M. C., DeTienne, K. B., and Liljenquist, K. A. (2015). Beyond Instrumentalism: A Relational Approach to Negotiation. *Negotiation Journal*, 31(1), 31-46.
- Jakobson, L. (2005) *Explaining Society – Critical Realism in the Social Sciences (Critical Realism Interventions)*. London: Taylor and Francis e-Library.
- Jensen-Campbell, L. A., and Graziano, W. G. (2005). Methodologies for studying personality processes in interpersonal conflict. *International Negotiation*, 10(1), 165-182.
- Jordan, J. M., and Roloff, M. E. (1997). Planning Skills and Negotiator Goal Accomplishment The Relationship Between Self-Monitoring and Plan Generation, Plan Enactment, and Plan Consequences. *Communication research*, 24(1), 31-63.
- Kelley, H. H., Deutsch, M., Lanzetta, J. T., Nuttin Jr, J. M., Shure, G. H., Faucheux, C., and Thibaut, J. W. (1970). A comparative experimental study of negotiation Behaviour. *Journal of Personality and Social Psychology*, 16(3), 411
- Kenny, D. A., and Kashy, D. A. (1992). Analysis of the multitrait-multimethod matrix by confirmatory factor analysis. *Psychological Bulletin*, 112(1), 165.
- Kolb, D. M. (1995). The Love for Three Oranges Or: What Did We Miss About Ms. Follett in the Library?. *Negotiation Journal*, 11(4), 339-348.
- Kolb, D. M. (2004). Staying in the game or changing it: An analysis of moves and turns in negotiation. *Negotiation Journal*, 20(2), 253-268.
- Landry, E. M., and Donnellon, A. (1999). Teaching negotiation with a feminist perspective. *Negotiation Journal*, 15(1), 21-29.
- Larrick, R. P., and Blount, S. (1997). The claiming effect: Why players are more generous in social dilemmas than in ultimatum games. *Journal of Personality and Social Psychology*, 72(4), 810.
- Lewicki, R. J. (1997). Teaching negotiation and dispute resolution in colleges of business: The state of the practice. *Negotiation Journal*, 13(3), 253-269.
- Ma, Z., and Jaeger, A. (2005). Getting to yes in China: Exploring personality effects in Chinese negotiation styles. *Group Decision and Negotiation*, 14(5), 415-437.
- Matz, D. (2004). How much do we know about real negotiations? Problems in constructing case studies. *International Negotiation*, 9(3), 359-374.

- McGinn, K. L., Thompson, L., and Bazerman, M. H. (2003). Dyadic processes of disclosure and reciprocity in bargaining with communication. *Journal of Behavioural Decision Making*, 16(1), 17-34.
- Messick, D. M., and Sentis, K. P. (1985). Estimating social and nonsocial utility functions from ordinal data. *European Journal of Social Psychology*, 15(4), 389-399.
- Mnookin, R. (2010) *Bargaining With The Devil: When To Negotiate, When To Fight*. New York: Simon and Schuster.
- Moore, D. A., & Murnighan, J. K. (1999). Alternative models of the future of negotiation research. *Negotiation Journal*, 15(4), 347-353.
- Morris, M. W., Larrick, R. P., and Su, S. K. (1999). Misperceiving negotiation counterparts: When situationally determined bargaining behaviours are attributed to personality traits. *Journal of Personality and Social Psychology*, 77(1), 52
- Morton, T. L. (1978). Intimacy and reciprocity of exchange: A comparison of spouses and strangers. *Journal of Personality and Social Psychology*, 36(1), 72.
- Mosterd, I., and Rutte, C. G. (2000). Effects of time pressure and accountability to constituents on negotiation. *International Journal of Conflict Management*, 11(3), 227-247.
- Mumpower, J. L., Sheffield, J., Darling, T. A., and Milter, R. G. (2004). The accuracy of post-negotiation estimates of the other negotiator's payoff. *Group Decision and Negotiation*, 13(3), 259-290.
- Murnighan, J. K., Babcock, L., Thompson, L., and Pillutla, M. (1999). The information dilemma in negotiations: Effects of experience, incentives, and integrative potential. *International Journal of Conflict Management*, 10(4), 313-339.
- Nauta, A., and Kluwer, E. (2004). The use of questionnaires in conflict research. *International Negotiation*, 9(3), 457-470.
- Neale, M. A., and Bazerman, M. H. (1992a). Negotiating rationally: The power and impact of the negotiator's frame. *The Executive*, 6(3), 42-51.
- Neale, M. A., and Fragale, A. R. (2006). Social cognition, attribution, and perception in negotiation: The role of uncertainty in shaping negotiation processes and outcomes. In Thompson. (eds). *Negotiation theory and research*, pp27-54.
- Neslin, S. A., and Greenhalgh, L. (1986). The ability of Nash's theory of cooperative games to predict the outcomes of buyer-seller negotiations: A dyad-level test. *Management Science*, 32(4), 480-498.

- Neslin, S. A., and Greenhalgh, L. (1983). Nash's theory of cooperative games as a predictor of the outcomes of buyer-seller negotiations: An experiment in media purchasing. *Journal of Marketing Research*, 368-379.
- Northcraft, G. B., Preston, J. N., Neale, M. A., Kim, P. H., and Thomas-Hunt, M. C. (1998). Non-linear preference functions and negotiated outcomes. *Organizational Behaviour and Human Decision Processes*, 73(1), 54-75.
- O'Connor, K. M., Arnold, J. A., and Burris, E. R. (2005). Negotiators' bargaining histories and their effects on future negotiation performance. *Journal of Applied Psychology*, 90(2), 350.
- Osborne, M.J. (2004). *An introduction to game theory*. New York: Oxford University Press
- Patton, B. M. (1984). *On teaching negotiation*. Harvard Law School.
- Peterson, E., and Thompson, L. (1997). Negotiation teamwork: The impact of information distribution and accountability on performance depends on the relationship among team members. *Organizational Behaviour and Human Decision Processes*, 72(3), 364-383.
- Pruitt, D. G. (1981). *Negotiation Behaviour*.
- Putnam, L. L. (2004). Transformations and critical moments in negotiations. *Negotiation Journal*, 20(2), 275-295.
- Raiffa, H. (1982) *The art and science of negotiation – how to resolve conflicts and get the best out of bargaining*. Cambridge, Massachusetts: The Belnap Press of Harvard University Press
- Rao, A., and Schmidt, S. M. (1998). A behavioural perspective on negotiating international alliances. *Journal of International Business Studies*, 665-693
- Robson, C. (2011). *d Research: A resource for Users of Social Research Methods in applied settings* 3rd Edition.
- Ross, L., and Nisbett, R. E. (2011). *The person and the situation: Perspectives of social psychology*. Pinter and Martin Publishers.
- Rubin, J. Z. and Brown, B. R. (1975) *The Social Psychology of Bargaining and Negotiation*. London: Academic Press Inc.
- Ryan, A., Tähtinen, J., Vanharanta, M., and Mainela, T. (2012). Putting critical realism to work in the study of business relationship processes. *Industrial Marketing Management*, 41(2), 300-311.
- Salacuse, J. W., and Rubin, J. Z. (1990). Your place or mine? Site location and negotiation. *Negotiation Journal*, 6(1), 5-10.
- Sargent, N.; Picard, C. and Jull, M. (2011) Rethinking conflict: perspectives from an insight approach. *Negotiation Journal*. 27 (3). pp 343-366

- Schoeninger, D. W., and Wood, W. D. (1969). Comparison of married and ad hoc mixed-sex dyads negotiating the division of a reward. *Journal of Experimental Social Psychology*, 5(4), 483-499.
- Scott, D. (2005). Critical realism and empirical research methods in education. *Journal of Philosophy of Education*, 39(4), 633-646.
- Smyth, L. F. (2012). Escalation and Mindfulness. *Negotiation Journal*, 28(1), 45-72.
- Srivastava, J., Chakravarti, D., and Rapoport, A. (2000). Price and margin negotiations in marketing channels: An experimental study of sequential bargaining under one-sided uncertainty and opportunity cost of delay. *Marketing Science*, 19(2), 163-184.
- Stewart, I., and Joines, V. (1987). *TA today: A new introduction to transactional analysis*. Lifespace Pub.
- Stuart, H. W. (2004). Surprise moves in negotiation. *Negotiation Journal*, 20(2), 239-251.
- Stuhlmacher, A. F., and Champagne, M. V. (2000). The impact of time pressure and information on negotiation process and decisions. *Group Decision and Negotiation*, 9(6), 471-491.
- Sullivan, B. A., O'Connor, K. M., and Burris, E. R. (2006). Negotiator confidence: The impact of self-efficacy on tactics and outcomes. *Journal of Experimental Social Psychology*, 42(5), 567-581.
- Thompson, L. (1990). Negotiation Behaviour and outcomes: Empirical evidence and theoretical issues. *Psychological bulletin*, 108(3), 515.
- Valley, K. L., Neale, M. A., and Mannix, E. A. (1995). Friends, lovers, colleagues, strangers: The effects of relationships on the process and outcome of dyadic negotiations. *Research on negotiation in organizations*, 5, 65-94.
- Vlaev, I., and Chater, N. (2006). Game relativity: how context influences strategic decision making. *Journal of Experimental Psychology: Learning, Memory, and Cognition*, 32(1), 131.
- Weingart, L. R., and Olekalns, M. (2004). Communication processes in negotiation: Frequencies, sequences, and phases. *The handbook of negotiation and culture*, 143-157.
- Weingart, L. R., Hyder, E. B., and Prietula, M. J. (1996). Knowledge matters: The effect of tactical descriptions on negotiation behaviour and outcome. *Journal of Personality and Social Psychology*, 70(6), 1205.
- Wyer, R. S. (1969). Prediction of Behaviour in two-person games. *Journal of Personality and Social Psychology*, 13(3), 222.
- Wilkenfeld, J. (2004). Reflections on simulation and experimentation in the study of negotiation. *International Negotiation*, 9(3), 429-440.
- Wolfe, R. J., and McGinn, K. L. (2005). Perceived relative power and its influence on negotiations. *Group Decision and Negotiation*, 14(1), 3-20.

Yeung, H. W. C. (1997). Critical realism and realist research in human geography: a method or a philosophy in search of a method?. *Progress in Human Geography*, 21(1), 51-74.





## **EMERGING CORPORATE INITIATIVES AND STRATEGIES TO MEET ECOLOGICAL CHALLENGES**

**(A Study of Select Indian Corporate Houses)**

**Dr Sudhir Sachdev,**

**Manav Rachna University,**

**Sector – 43, Aravalli Hills, Sector – 43, Delhi Surajkund Road, Faridabad, Haryana (India) – 121004**

**sudhir@mru.edu.in; sudhirsachdev@gmail.com,**

### **Abstract**

*In recent years, environmental and energy conservation issues have taken the central theme in the global business arena. The twin reality of rising energy cost and its adverse impact on environment has shifted the social and economic consciousness of the business community.*

*As a result, green management initiatives have become an important competitive factor in forward-thinking businesses around the world. Growing global environmental concerns and the development of international environmental standard are creating the need for businesses to adopt formal environmental strategies and programmes- strategies – from pollution control to pollution prevention.*

*The purpose of this research is to clarify the definition of “green business” and study the real and potential contribution that Indian businesses can and are making in protecting environment by making this as a part of its corporate strategy. Thus, this paper examines the diffusion of environmental management initiatives in business as disclosed in the websites of the Indian companies.*

*One can distinguish three main agents in the process of environment protection: consumers, governments, and business itself, with each of them in its own way contributing to the ecological cause. However, this paper will confine itself to the role of businesses in protecting environment.*

**Key words:** *sustainable development; environmental challenges; Indian corporate initiatives and strategies*

## **Introduction**

Climate change is considered to be one of the greatest and widest ranging market failures as modern day efficient markets have miserably failed to price in the large number of negative externalities associated with it. Some of the issues that pose major environmental threats include:

- destruction of the living environments (habitats) of flora and fauna
- release of pollutants into the environment
- emission of greenhouse gases into the atmosphere than can cause climate change, along being serious health hazards.
- exhaustion of fossil fuels

India is facing the challenge for sustaining rapid economic growth while dealing with global threat of climate change. Indian businesses have begun to acknowledge this phenomenon and the response to climate change and the systemic and sector specific risks associated with it. Indian corporate houses believe that environmental challenges need to be urgently countered through the realization of viable market based mechanisms. This imperative is especially strong in the developing country context where high level of desired economic growth is directly linked with equally high level of environmental degradation. Owing to the high levels of risks posed to countries like India, the immediate need to shift to a low carbon growth path is imperative. In turn, low carbon strategies can only be implemented if the emissions landscape across businesses and its effects on sustainable growth are clearly defined and understood.

Basically, there are five key steps in each business life cycle i.e. inputs, process, outputs, environment externalities and marketing (Briyan Titley, 2008). To be successfully green, business need not only implement cleaner business practices, but also have better communications with their customers in order to establish their brand and capture the market share for green products. Thus, the strategy of the firm is therefore based not only on the concept of productivity but also on the assessment of the life cycle of products and services.

## **Literature Review**

According to the literature the word “Strategy” comes from ancient Greece and is constituted of two terms: “STRATOS” which wants to say “Armed” and of word “AGEÎN” meaning “To lead”. According to this etymology the managerial strategy of the company was founded on a hierarchical and military vision. Thus it was the reflection of the culture of a certain time characterized by bonds of vertical and subordinate responsibility.

Becoming green is a multifaceted process; there are various practices that can be applied when business wants to shift to a green behaviour. Makower and Pyke, state that “a green business requires a balanced commitment to profitability, sustainability and humanity” (Makower, Pyke, 2009). Research shows that companies who have successfully started their sustainability journey develop five distinct stages of change (Brusman, 2009).

Stage 1: Viewing Compliance as Opportunity

Stage 2: Making Value Chains Sustainable

Stage 3: Designing Sustainable Products and Services

Stage 4: Developing Business Models

Stage 5: Creating Next-Practice Platforms

Broadly speaking, in an environmental context, in each of these five stages, business should participate at least in one of “4Rs” – reduction, reuse, recycling, and recovery (Kassaye, 2001). Each of those “Rs” can be achieved through several practices, some of which might serve the purpose of more than one “R”. The first “R” refers to reduction of resource consumption and reuse of waste. A typical example of the first type of practice is the reduction of energy consumption, e.g., by replacing incandescent lamps with energy-efficient LED bulbs which enable to save up to 80% of energy, or by switching to solar energy. Companies might also apply the “product stewardship” policy. It means that the manufacturer is responsible for waste reduction, recycling, and the use of renewable materials.

In Reinhardt’s view, “environmental policy, like other aspects of corporate strategy, needs to be based in the economic fundamentals of the business: the structure of the industry in which the business operates its position within that structure, and its organizational capabilities.” Other academics have also confirmed this proposition

The revenue rising benefit can be derived from product differentiation and brand image, customer communication, additional value and higher productivity (Collins, 2008; Swallow, 2009; Laroche et al., 2001). By going green, a business distinguishes itself from others and gains a competitive advantage. It is well known that customers buy a product not only as a commodity but also the image links of the product. A green brand is one that appeals to the retail consumers and B2B customers who favour greener products and services (Hartman et al., 2005). Consumer willingness to pay more for a green product indicates that consumers perceive an additional value in it. However, a green brand should be effectively communicated or, in other words, marketed in order to be recognized by consumers. Green marketing (also known as sustainable marketing, organic marketing, and environmental marketing) usually refers to the product, service or lifestyle which it is promoting, rather than to a method of marketing itself. It centres on consumers’ explicit or implicit willingness to pay more for environmentally friendly products and is about selling environmentally safe or said to be safe products.

### **India’s Green Corporate Initiatives**

India is not endowed with sufficient natural capital in comparison to the population it supports. Though India is home to 18% of the world’s population, it only has 2.4% of the planet’s landmass, 4% of the fresh water resources and about a percent of the world’s forest. India’s ecosystems are already highly degraded. Most Indian rivers have water quality unfit for direct human use. Air quality in Indian cities is degrading despite significant improvements in emissions from vehicles and industries. The country however continues to remain on the threshold of a grave ecological crisis. The current paradigm of rapid economic growth along with the need of conserving the natural and ecological resources, challenges the very foundation of the manner in which business is done today. It challenges the traditional business management theory, which echoes Milton Friedman’s famous statement that there is ‘only one responsibility of business: to use its resources and engage in activities designed to increase its profits.’

The fact that rapid economic growth is the only realistic means to lift the poor out of extreme poverty and the fact that most economic activities depend on product and services provided

by the ecosystems, necessitates the ushering of a new business paradigm which enables rapid economic growth without compromising the capacity of the ecosystem to sustain, nurture and fuel economic development and human well-being.”

The notion of “green business and sustainable business” emerged at the end of the 20th century in the wake of the ever increasing public apprehension about the sustainability of economic development. The latter, in turn, was roused up by the growing awareness of environmental issues such as the accelerating depletion of natural resources and the deterioration of environmental quality. Sustainability is widely defined as “Ability to make development sustainable— is to ensure that it meets the needs of the present generations without compromising the ability of future generations to meet their own needs.” While the origins of the modern “eco-friendly movements” can be traced down to the middle of the 1960s, it took almost 25 years for corporates to adapt to the “greening” trends and adopt them into its strategy, coining the term “eco-friendly business”. The objectives of ecologically sustainable development are-

- to enhance individual and overall societal well-being while following the economic growth;
- to protect the interest of the future generations;
- to protect biological diversity and maintain essential balance.

Green company promotes sustainable patterns of production and consumption i.e. patterns that are resource and energy efficient, low-carbon and low waste, non-polluting and safe, and which produce products that are responsibly managed throughout their lifecycle. The Green organization continuously improves its resource productivity and environmental performance. It also aims to create green industries, that deliver environmental goods and services in an industrial manner, including, for example, waste management and recycling services, renewable energy technologies, and environmental analytical and advisory services.

However, in developing countries like India, green business practices are still far from being universally embraced and applied by business entities across the sectors. In a survey conducted by WWF’s Trade and Investment Programme, when asked “How would you rate Indian companies in general in terms of abiding by the laws and policies for environmental protection”, 66% replied that either “many” or “very many” are “breaking laws”. This is due to several reasons, one of them being the fact that the “greening of business” is still largely perceived as an extra burden (in terms of cost increase or revenue loss), The concept of green practices has not picked up, in spite improving literacy rate among people and various legislations enacted by the government. Not many companies have adopted eco-friendly practices in real terms even though it is the need of hour for them. Senior managers across many industries in India today are concerned about sustainability due to the perception that it will add to their cost and will not deliver immediate benefits. CEOs and Board of Directors are concerned that producing “eco-friendly” products and services will put them at a relative disadvantage compared to their rivals who do not share same values. In fact, major emerging economy like India needs to lessen the rapid growth in the pollution level which is a by-product of the rapid industrialization. Going green at the industry level is one such way to control pollution given the fact that the formal environmental regulation has not been able to deliver tangible improvements. However, there are several reasons as to why the concept of environment protection is not made an integral part of corporate strategic development. The companies and particularly the small to medium enterprises (SMEs) which accounts for more than 50% of output in India, face a number of barriers; most important of them being the technical and the economic barriers when opting for a greening option. This gains higher significance, if manufacturing a green product involves a higher marginal cost of production. Faced with of lack of technical expertise, if a firm facing a financial barrier opts for

developing a greener product then it would end up producing a product which though green would be below standard in the overall quality i.e. the physical quality. Marketing such a green product would be difficult because green attribute should always come after the traditional selling points like price and quality have been catered to. It would be more difficult when the consumer awareness about the environmental consequences of the product they are purchasing is either absent or low to begin with, as is the case in India where consumers are guided more by the prices and the quality of the product they are purchasing than by the green attribute of it. In such a situation justifying a price premium for the green attribute becomes difficult and such a firm offering a high eco-friendly product but having a inferior physical quality would lose out on the market share in contrast to a firm which though is polluting in nature, offers a product with higher physical quality attributes. It has become a cliché that environmental problems are substantial, and that economic growth contributes to them. A common response is stricter environmental regulation, which often inhibits growth. The result can be a trade-off between a healthy environment on the one hand and healthy growth on the other. As a consequence, opportunities for business may be constrained. Moreover, environmental reporting is not mandatory in India.

Methodologies to strategic management used by Indian companies are many and vary considerably according to nature of their business, with many organisations now integrating their environmental management processes into normal business processes. This integration should start at the strategic level when the strategic business objectives of an organisation are being developed. While it is true that business greening usually necessitates certain additional costs, it also might bring tangible commercial benefits and lead to an increased profitability. A business can reap two types of benefits by “going green”: one is revenue rising, and the other is cost saving.

Cost saving is mainly generated by waste utilization and input sparing. Practices such as heat generation by waste incineration, cutting down the paper use in exchange for electronic communication, turning off electronic appliances when they are not in use and the like provide possibilities to save costs. Furthermore, it is believed that green business practices make workplaces healthier and safer, thus enabling a company to cut spending on employees' sick time.

*Water is a critical resource for the sustenance of life as well as business. The geographies in which Sterlite Industries (India) Ltd operate have been facing a scarcity of useable water. Major source of water of companies operations is surface water and remaining is bought from tankers. The company has established systems for closed loop water management to ensure zero water discharge. ETPs/STPs has been installed at the facilities to treat the waste water.*

In order to review the kind and extent of initiatives undertaken by the prominent companies of India to address the sustainability issues, the present study was carried out on a focus group of the most valuable companies that are included in BSE Greenex– a new index of sustainability stocks that help investors looking for green companies. Green companies, or companies that have the best environmental practices to reduce their carbon footprint, are now increasingly seen as more sustainable in the long run. The top-ranking twenty five companies from each sector like power, steel, cement have made it to the new index called BSE-GREENEX. This list includes Ambuja Cements, BHEL, Cipla, DLF, Dr Reddys Lab, Gail India, GlaxoSmithKline Pharmaceuticals, HDFC, Hindustan Unilever, ICICI Bank,

L&T, Lupin, NTPC, Reliance Infra, SBI, Sterlite Industries, Sun Pharma, Tata Motors, Tata Power and Tata Steel.

*With a view to recycle waste paper in an environment friendly manner, a paper recycling machine has been installed by NTPC Kayamkulam. The machine has the capacity to handle 8 – 10 kgs of paper per day. This is sufficient to ensure full reuse of paper waste collected at Kayamkulam office. The operation of the machine is simple – two persons can operate the unit smoothly. One ton of paper recycled saves three tons of wood or six trees.*

The role of Indian business in contributing to sustainable development remains indefinite. Many Indian executives have demonstrated that pursuing sustainable development strategies makes good business sense. For an organization to be considered an environmental friendly company, it strives to use renewable resources, without leaving a significant ecological footprint. The ecological footprint is a way of measuring human pressure on the natural environment and was created by two researchers at the University of British Columbia in Vancouver. A carbon footprint is often part of the ecological footprint. It refers to amount of greenhouse gases (GHG) produced in our daily lives by burning fossil fuels for electricity, heating, transportation etc. (Vishvanathanand Mishra, 2009). The carbon footprint can be defined as the sum total of all the greenhouse gases individually produced and is measured in tonnes (or kilograms) of carbon dioxide equivalent. The carbon footprint comprises the sum of two parts – the primary footprint and the secondary footprint.

- The primary footprint is the measure of direct emission of carbon dioxide from the burning of fossil fuels and includes domestic energy consumption and transportation (e.g. plane, car etc.). We have direct control over it.
- The secondary footprint is the measure of indirect carbon dioxide emission from the life cycle of the product manufacture and its eventual breakdown.

*As a part of commitment to sustainable development under the green initiative, Bharat Heavy Electricals Ltd (BHEL) installed a grid interactive 5 MWP Solar Photo Voltaic (SPV) plant at its BAP Ranipet unit. Further a 1.5 MWP Grid Interactive Solar power plant was also under installation at HPEP Hyderabad unit. The 5MWP grid interactive solar power plant at its BAP Ranipet unit generated nearly 6.23 Million Units of green electricity during 2014-15 resulting in mitigation of carbon Footprint to the extent of 5600 MT CO<sub>2</sub>-e additionally. As a part of its strategic plan 2017, BHEL is enhancing the use of clean energy at its units/sites through usages of PV based street lights & solar water heating systems, installation of roof-top and grid interactive solar*

While environmental investments are welcome by society, managers also need to identify the circumstances favouring the generation of both public benefits and corporate profits. Some executives consider the principal objective of business to be making money. Others recognize a broader social role. There is no consensus among business leaders as to the best balance between narrow self-interest and actions taken for the good of society. Companies continually face the need to trade off what they would 'like' to do and what they 'must' do in pursuit of financial survival. Becoming an environmentally friendly business is more complicated than just signing on to a cap and trade agreement. Everything from the way that

products are displayed and advertised, conserving water and energy, whether or not changes can be made to the basic operations of a business will all work towards making them more environmentally responsible. The 3 R's of waste hierarchy can reduce the amount of waste generated and improve the waste management processes. Reducing what is produced and what is consumed can reduce the amount of waste that is generated. Reuse items for different purposes instead of disposing them off. Recycle items like aluminium cans, plastic, paper, glass that can be shaped into a new item.

*Water is a key component of cement production. While it is an unavoidable part of manufacturing, in today's world, one cannot ignore the threat of water shortage. But the team of technicians at Ambuja cement set their goals above simply replacing the amount of water they used. They decided to give back to the environment more than they could ever take. A combination of various programs and revolutionary techniques were employed. Through rainwater harvesting large quantities of water were collected that would have otherwise gone unused. Even used quarries were given a new life by converting them into manmade lakes and wetlands. Pioneering innovation like 'Modular Curing' reinvented the cement curing process by placing special plastic sheet over wet concrete slabs. This saved effort and more importantly water. Steadily the results grew with each year. Today Ambuja Cement is possibly the first Cement company in the World to be certified as 'Water Positive'. The company was certified as Two Times Water Positive in 2011, and in 2014 became 'Four Times Water Positive'. Currently, teams' ambition's is to become 'Five Times Water Positive' by 2017.*

Recently, the triple bottom line (abbreviated as "TBL" or "3BL" and also known as "people, planet, profit") is becoming a new measure for business performance (Brown, et. al, 2006). Once these products are sold to other businesses or retail customers, these customers use such eco-friendly product in a green way by reducing power usage and disposing of them properly or recycling them efficiently. This idea is to make products from beginning to end a green product one (cradle to grave concept). The idea of green business is to make the whole process surrounding the operations friendlier to the environment, economy, and society. This means companies produce their goods in such a way that reflects the triple bottom line positively. Thus, the products that meet environmental safety standards can carry 'Green Labels' to gain easier recognition in the market.

*Green buildings constructed by the Larsen and Toubro (L&T) Construction Business help customers to reduce energy and water consumption, utilize recycled material and locally source most of construction material.*

*L&T has 14 certified green buildings and one certified green factory within its campuses. Around 46 million sq. ft. of green buildings constructed by the company.*

28 L&T campuses achieved zero waste-water discharge status

#### **Revenue from Waste**

*L&T's manufacturing facility at Ahmednagar found a buyer for the sludge - the World Resources Institute. The Ahmednagar factory now sells sludge at INR 55,611 per ton.*



## Conclusion

Business houses all over the world and in India are realizing their stake in the society and engaging in various environmental activities. The greening of corporate has become a core determinant of economic competitiveness and sustainable growth. Since resource inputs represent an important production cost for industries, improving efficiency gives industries a competitive advantage. The greening of corporate also plays a role in poverty alleviation, through promoting energy security, health and safety, jobs, and reducing costs through increased productivity.

The author believes that there are some forms of development that are both environmentally economically and socially sustainable. They lead not to a trade-off but to an improved environment, together with development that does not draw down our environmental capital. If sustainable development is to achieve its potential, it must be integrated into the planning and measurement systems of business enterprises. And for that to happen, the concept must be articulated in terms that are familiar to business leaders. Businesses and societies can find approaches that will move towards all three goals environmental protection, social wellbeing and economic development - at the same time. This is what sustainable development is all about - a revolutionary change in the way we approach these issues.

## References

- Brusman, M. (2009) Building Sustainable Companies- Corporate Social Responsibility vs. Bottom Line (Web Blog), Expert Click.
- Forest Reinhardt, "Environmental Product Differentiation: Implications for Corporate Strategy," *California Management Review*, 40/4 (Summer 1998): 43-73.
- Forest Reinhardt, "Market Failure and the Environmental Policies of Firms: Economic Rationales for 'Beyond Compliance' Behavior," *Journal of Industrial Ecology*, 3/1 (1999): 9-21.
- Benjamin Bonifant, Matthew Arnold, and Frederick Long, "Gaining Competitive Advantage Through Environmental Investments," *Business Horizons*, 38/4 (July/August 1995): 37-47.
- Kassaye, W, Green dilemma. *Marketing Intelligence and Planning*, Vol. 19 (6), (2001): pp. 444-455.
- Collins, J. Why "Green" is good for business. *Business and Economic Review*, (2008). pp. 25-26.
- Laroche, M., Bergeron, J., Barbaro-Forleo, G. Targeting consumers who are willing to pay more for environmentally friendly products. *Journal of Consumer Marketing*, Vol. 18 (6), pp. (2001). 503-520.
- Swallow, L. *Green Businesses Practices for Dummies*. Indianapolis, Wiley Publishing. (2009). pp 384.

Brown, D., J. Dillard and R.S. Marshall. (2006) Triple Bottom Line: A business metaphor for a social construct. [www.recercat.net/bitstream/2072/222311/UABDT06-2.pdf](http://www.recercat.net/bitstream/2072/222311/UABDT06-2.pdf) [Last visited on May 2016]

BriyanTitley(2008), “Competitive advantages and Green business” ERNST and YOUNG, BERR, London.

Vishvanathan, A and Mishra V (2009) Green Growth: Changing the environment of consumer buying: Infosys white paper.

Makower, J.; Pike, C. (2009). Strategies for the Green Economy: Opportunities and Challenges in the New World of Business. New York, McGraw-Hill. 290 p.

Charter M. 1992. Greener Marketing: a Responsible Approach to Business. Greenleaf: Sheffield.

[www.cii-sustainability.org](http://www.cii-sustainability.org)

## **ENTREPRENEURSHIP: ISSUES AND CHALLENGES TO WOMEN OF INDIA**

**NehaWadhawan**

**ManavRachna International University, nmaini1@gmail.com**

---

### ***ABSTRACT***

*Entrepreneurship which was traditionally described as initiation and running of a business involving high risks of start-up ventures. An entrepreneur is someone who tries to bring innovation in business and attempts to gain profit through it. Government of India is making rigorous efforts to boost up the number of entrepreneurs in India. Many policies, programmes and schemes have been launched to support and promote this notion, particularly for women entrepreneurs in both urban and rural areas. But still, there seems a gap in endeavors of government of India and actual situations faced by entrepreneurs. The paper lists down certain issues and challenges faced by entrepreneurs to meet the success and also some of the suggestions to improve entrepreneurial situation in India.*

*Keywords: Entrepreneurship, innovation, policies, ventures, challenges.*

---

### **I. INTRODUCTION**

Indian entrepreneurship has been assumed as a contradiction with paradoxes. Entrepreneurs are produced in India to set examples of inspirations for many as to how innovation and success could be achieved overcoming the basic constraints. The family business of India and entrepreneurial zeal has significantly boomed and transformed the industry and business interface of India.

Women of India have been striving hard to attain heights of leadership positions. Besides facing additional barriers of balancing responsibilities, access to entrepreneurial prospects, control over resources and many more, women have proved themselves equitable to many areas in order to achieve economic independence and respectable positions. Many entrepreneurial development support processes have been initiated to support and uplift the entrepreneurial zeal among women in India. These support initiatives are creating and providing paths of economic independence and work opportunities to the women in India.

Micro, Small and Medium Enterprises (MSMEs) are providing a sound base of economic development and growth in India. MSMEs are taken as foundation for all industrial endeavors of almost all countries including India. They are supporting in contribution of huge business worldwide. As far as India is concerned, the economic development and progress of the country has been significantly flourishing due to these MSME's.

With this background, the paper strives to highlight the state of entrepreneurship in India with focus on women entrepreneurs, the challenges faced by them, including the women of rural

areas as the women in India constitutes a major portion of labor force in India. They are still exploring to join the mainstreams of economic development of the country through various means of their contributions. If tapped and polished properly, this segment can come up as very efficient and effective representatives and contributors of change in country leading to better lifestyle, better society and strong economy in the overall current global scenario. More and more women are opting to leave the work force and to be at home, not to sit and make their homes but to rise as entrepreneurs. The presence and contribution of women as entrepreneurs in the field of business has and will change the demographic prospects of businesses. Women-run businesses are getting common nowadays and are playing significant role in uplifting the economic growth of the overall society. The paper revolves around the issues, difficulties and challenges confronted by women as entrepreneurs, some suggestions to overcome them.

### **Objective of the Study**

- To study the growing scenario of entrepreneurship in India
- To study the current scenario of women entrepreneurs in India.
- To study the problems and challenges faced by women entrepreneurs in India.
- To generate suggestions for growth and development of women entrepreneurs in India.

## **II. LITERATURE REVIEW**

**Mishra & Kiran (2014)**, talked about the entrepreneurial development of women, particularly from rural background. They highlighted the fact that women are becoming socially and economically independent and empowered through running up their own enterprises. Women entrepreneurship is getting more importance nowadays for the economic growth of the country. The paper focused on the factors which could be used to enhance entrepreneurial skill of women residing in rural areas.

**(Dangi & Ritika, 2014)** in their research paper talked about Micro, Small and Medium Enterprise (MSMEs) and the role they are playing in bringing significant industrial development in India. The paper revolved around importance of MSMEs in India and difficulties faced by women entrepreneurs in India.

**Swetha & Rao (2013)** through their study discussed that an entrepreneur brings an overall change in the society through innovation. Indian entrepreneurs have proved to be inspirational in attaining heights while overcoming barriers and obstacles in their field. The Second World War brought with it many enterprising souls from various field of expertise. Through their research they told expressed that life of an entrepreneur had never been smooth. They have to face many obstacles and hindrances in their path of entrepreneurship to reach to success. Further, they emphasized that women as a part of the nation acts as a source of support, solidity and firmness, not only to her family but also to whole nation.

**Shah H., (2013)** conducted its study with the objective to come up, identify and suggest some strategies and approaches which could make a favorable environment for women entrepreneurs in India. It aimed at bringing up certain policies and practices which could encourage healthy development of entrepreneurial activities and businesses owned by women. The study majorly highlighted that women entrepreneurship is not yet tapped properly for economic growth of country like India. The study shared many cases of women entrepreneurs and raised certain recommendations to promote a favorable environment for the growth of women in businesses.

The research article **(Vijayakumar and Jayachitra, 2013)** revolved around emerging issues and challenges of women entrepreneurs in India and measures to how to overcome them. It

also analyzed the various policies and programmes framed by the Government of India to uplift and enhance women entrepreneurship.

**Mahajan S., (2013)** showcased women entrepreneurs as potentially the most developing human resource of 21<sup>st</sup> century. The paper described the case of Hina Shah and her successful story as a women entrepreneur and recommendations for helping women entrepreneurship are given based on her case.

Women entrepreneurs particularly staying in rural areas are facing problems related to finance, leadership skills, planning and working skills and other problems due to illiteracy and unawareness. **(Pharm & Sritharan, 2013)**.

But on the other side **(Rajasekaran & Sindhu, 2013)** expressed that how self-help groups are helping women of India in gaining confidence and motivation to achieve entrepreneurship goals. Based on their research, it has been shown that due to these extended help programmes, number of woman entrepreneurs, has drastically increased.

Researchers **(Mehta & Mehta, 2011)** explained the word entrepreneur very beautifully described as someone who aims to bring innovation and thus maximizing profits through it. It also emphasized that rural women constitutes a significantly large proportion of our Indian population. If developed properly and given favourable environment for entrepreneurship, it can bring robust changes to our society and Indian economy as a whole.

**(MS. RashmiGopinathan, 2010)** in his paper highlighted how women entrepreneurship is having an impact on families and found that majorly the respondents were married. It also highlighted that assets and the value associated with those assets depicts the financial condition of the family and the need for setting up personal enterprise depends on that.

### III. RESEARCH METHODOLOGY

The research method used for this study is descriptive in nature supported by brief analysis of the theoretical findings. The data sources used for this study are secondary in nature collected and compiled from reports of govt. of India, various academic research journals, newspapers, online web articles.etc.

#### Characteristics of women entrepreneurs in India

The women as an entrepreneur can bring new colours to enterprises and economy of the country. Various qualities have been enumerated here while some are yet to be explored, of how they manage the complete business of an enterprise. From planning to executing, beautiful, timely and effective execution of work takes place under her control. A woman as an entrepreneur has an efficiency to calculate the risk on hand, visualize the potential risk too to strategize the work and endeavors. She can even dare to take genuine and realistic form of risks, facing the uncertainties strongly to express her true potential to be a successful entrepreneur. Woman as an entrepreneur strives to develop sound organization, by coordinating, organizing and managing resources to their best utilities. It is important for all women working as an entrepreneur to have self-confidence and faith in their abilities and potential with the courage to accept, learn and improve mistakes coming from her decisions. A woman entrepreneur can generate new ideas, starts her business creatively with these new ideas keeping feasibility in mind. The distinguishing and appreciable feature of a woman entrepreneur is her zeal to work hard and show her potentials and can handle multiple important tasks simultaneously very easily. She could be a true example of balance at

business. Women generally work for accomplishment, achievement, challenge and service to others, keeping money as secondary mode of motivation. The combination of positivity, intelligence, creativity, analytical thinking and zeal to prove themselves garnish their way to success in self owned businesses.

### **Phases of entrepreneurship in India (explanation using hindu mythology)**

#### **Brahma: Creation phase**

After liberalization took place, india witnessed many opportunities in business. Many businessmen accelerated their businesses from small scale initiatives to large scale commencing. Allocation of proper capital, effective execution and orientation of customers lead to the success. Manufacturing and delivery of goods were more focused in pre license raj era but factors like consumers preferences and efficiencies were not given much attention. This age brought with it key factors like knowledge, awareness hence called the 'Phase of Saraswati' (Goddess of knowledge in Hindu mythology of India)

#### **Vishnu: Preservation phase**

This phase majorly focused on maintaining business growth. Time was now to change the business ownership from one man show to a team bound work. But, people are getting reluctant to surrender the operational control of their businesses into organized processes. Hence, not many, only a few yet large and professionally driven institutions came into being.

Operations were better managed now due to allocation of work to professionals while ownership was still with the owners to provide directions keeping in mind vision of the company and enjoy the output of its professionally driven operations of business. Younger generation was all set to take the handling to the businesses, but then their eligibility to succeed their elders shall be measure before in the form of audits, managing tasks education criteria, Industry was growing and thus if things are not developed with proper planning , stagnation could be the result.

Ownership structures was gradually changing with professionals employed to work as decision makers too, in turn making more scope for the organization to reap.

Due to professionalism at work, more and more organizations started initiatives to globalize their operations. Some of the organizations like TATA steel ,Dabur started to work well in this culture.

### Shiva: Destruction Phase

Now is the time, when businesses should start working to sustain more, because merely working for management or control of tasks or exceptional valuation would not enable it to sustain for long. Now is the time when businesses realize a need of formal family structure to be established to take their ventures to next generations. If family structure work and responsibilities are properly designed then the business can get through the chance of survival. If a business is not balanced into its forthcoming family structure then the chances of closure becomes more after the first generation itself. This phase also brought with it the need for shareholders too.

A blend of entrepreneurial skills, handling diversity of work, consumer centric focus were required to withstand the leading position and success in family structure. The growth of Indian economy and its entrepreneurial spirit can only flourish and sustain if Indian economy continues to grow.

## 2. Status of women entrepreneurs in India

Despite of the fact that entrepreneurship is one of the leading factors, it is leading to the development of society, but India has not yet earned any appreciable position in the area of women entrepreneurship in comparison to other countries as per the global entrepreneurship survey.

### Challenges to women entrepreneurs in India

- a. **Unequal educational opportunities:** Where on one side women are striving hard and accomplishing educational heights but on the other hand they are not able to produce high productive outputs in business due to lack of amalgamated experience of education, skills and work expertise.
- b. **Balancing work and Family:** Despite of their rigorous efforts, this is the most challenging part of woman's life to create a balance between work and family commitments. Woman is considered to be primarily responsible for child rearing, home and family commitments, hence very few are able to come out of this and devote maximum to their entrepreneurial endeavors.
- c. **Financial constraints:** women entrepreneurs usually face this challenge of obtaining financial or capital help even from traditional capital sources like banks which show reluctance to women entrepreneurs if they are not backed by the support of any male, particularly in lower income families due to lack of legal information on these matters.  
At some pieces of documentation, they are even asked to present counter signature of their male counterparts.
- d. **Heavy responsibilities:** Women particularly staying in rural areas are surrounded with heavy responsibilities of many children along with rigorous house chores, ending up with very little free time for themselves, Hence, many sacrifice their zeal for these tied up constraints.
- e. **Lack of support of close ones or family:** It is not new or rare to women to face challenges of get support from family. They are expected to keep domestic responsibilities and family commitments on priority above other personal ventures of business.
- f. **Insufficient self-confidence:** Besides having multiple constraints, women look for inspirational role models who could mark up their confidence and trust in selves to gear up their energies.
- g. **Unable to take risk:** Women in India are exposed to much protected life where she is supposed to become a risk taker and be dependent on male members of the family for any activity outside home. So, they lack the confidence of being self-dependent.

- h. **Proliferating corruption:** many other problems are sublimed for women particularly in rural areas. Some of them are lack of approachable private or public institutions and the rampant corruption.
- i. **Barriers by society:** Societal traditions and customs prevailing in Indian societies for women sometimes act as a hindrance in the path of growth or business development.
- j. **Lack of motivation:** Motivation plays a very significant role in running a business venture. Woman because of the above mentioned reasons sometimes lack motivation to initiate their venture.

#### IV. RESULT AND DISCUSSIONS

This initiative requires appropriate efforts from all expected and related areas for the development of women entrepreneurs. Government of India has provided few policies and programmes to assist women entrepreneurs but an intergrated and operational efficiencies are still to be looked upon.

#### Suggestion to development of woman entrepreneurship

Here are few of the suggestions that could be taken into consideration for advancement and development of women as an entrepreneur:

- a. Women particularly living in rural areas should be exposed to awareness programmes related to entrepreneurship.
- b. Government should come up with better schemes for women entrepreneurs, keeping in mind their challenges and constraints.
- c. New training programmes should be framed and provided to women.
- d. Entrepreneurship could be taught as a mandatory or optional subject at school level.
- e. Counselling through the medium of successful women entrepreneurs or NGOs or specialists could be provided.
- f. A separate entrepreneurial guidance cell for women could be set up for all time assistance of information.
- g. Women entrepreneurs could be given provision of credit system at micro or enterprise level.

#### V. CONCLUSION

In the conclusion the study wants to reveal that government of India has already taken initiatives to contribute towards development of entrepreneurship (particularly woman entrepreneurship) in India using various policies, development programmes and through agencies and schemes. But still there is scope of improvement in contributions and initiatives which could be taken into consideration for advancement and development of women as an entrepreneur. Some of them have already been stated above. Women be it from rural or urban sector, who were thought of to handle domestic chores are now capable and efficient of managing their personal business enterprises along with their family. Though their journey may expose them to problems and challenges in becoming successful entrepreneur but government of India is already in support of woman entrepreneurs. Women in low income families or rural areas lack awareness and knowledge to handle legal processes related to loan or establishment of business enterprise. These women besides support need training and knowledge of functional areas of business also. Most importantly government and society as a whole need to work on developing a favourable environment and atmosphere for women to work as an entrepreneur and rise as self-employed and advanced individuals keeping aside all gender inequalities.



## REFERENCES

1. Dangi, N. and Ritika, 2014. Women Entrepreneurship and Growth and Performance of MSMEs in India, *International Journal of Advance Research in Computer Science and Management Studies*, Vol. 2, Issue 4, April 2014.
2. Gopinathan, R., 2010. Impact of Women Entrepreneurship Development on Families: A Study of Women run micro-enterprises in Selected districts of Maharashtra, June 2010.
3. Jaggi Vasudev, the 3 'I' mantras of entrepreneurs, *Business Line*, 2012.
4. Mahajan, S., 2011. Women Entrepreneurship in India, *Global Journal of Management and Business Studies*, Vol. 3, Issue 10 (2013), pp. 1143-1148.
5. Mehta, A. and Mehta, C. M., 2011. Rural Women Entrepreneurship in India:- Opportunities and challenges, *International Conference on Humanities, Geography and Economics (ICHGE'2011) Pattaya*, Dec. 2011.
6. Mishra and Kiran, 2014. Rural Women Entrepreneurs: Concerns & Importance, *International Journal of Science and Research (IJSR)*, Vol. 3 Issue 9, September 2014.
7. Pharm A, and Sritharan R., 2013. Problems Being Faced By Women Entrepreneurs in Rural Areas. *The International Journal of Engineering And Science (IJES)*, Vol. 2.Issue3,pp. 52-55
8. Rajasekaran R. and Sindhu R.,2013. Entrepreneurship and Small Business: A Study with Reference to Women Self Help Groups, *Global Journal of Management and Business Studies*, Vol. 3, No. 7 (2013), pp. 703-710
9. Shah, H., 2013. Creating an enabling environment for women's entrepreneurship in India, May 2013.
10. Swetha, T., Rao, V.K., 2013. Entrepreneurship in India, *International Journal of Social Science & Interdisciplinary Research*, Vol. 2 (7), July 2013.
11. Vijayakumar, A. and Jayachitra, S., 2013. Women entrepreneurs in India - emerging issues and challenges, *International Journal of Development Research*, Vol. 3, Issue, 04, pp.012-017, April, 2013

## Websites

<http://en.wikipedia.org/wiki/Entrepreneur>

<http://iveybusinessjournal.com/publication/indian-entrepreneurship-and-the-challenges-to-indias-growth>



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **ART AND CRAFT FAIRS: A SUSTAINABLE PLATFORM FOR SSE'S AND SME'S TOWARDS DISCOVERING AND REINVENTING INDIA**

**Priyanka Verma**

**Department of Business Studies, Faculty of Commerce and Business Studies  
Manav Rachna International University, Faridabad**

[priyanka.fcbs@mriu.edu.in](mailto:priyanka.fcbs@mriu.edu.in)

Contact : +91-9717227042

### **Abstract**

**Objective of study:** There are several objectives of this research paper which are mentioned below:

1. To study the role of government in facilitating Small Scale Industries and Small Medium Enterprises with the help of various craft and art fairs
2. To analyze the role of these fairs in making SSE's and SME's successful in India
3. To understand customer behavior for these art and craft fairs
4. To study revival of cultural values from the art and craft fairs
5. To study the buying behavior of consumers and comparison with normal buying patterns
6. To understand the importance of foreign partners involved in these craft fairs

### **Research Paradigm**

A sample of 100 customers from three craft fairs namely International Surajkund Craft Fair in Faridabad, Shilpgram in Udaipur and Khadi Gramudyog in Dehradun and Bhilwara has been selected for the study. The hypothesis of the research given by the researcher is as follows:

- a) The role of government is not significant to reinvent art and craft levels in India
- b) Make in India initiative is not making any significant difference in attracting SSE's or SME's for sustainable progress in various art and craft fairs

**Keywords:** Sustainable, Buying patterns and Reinvent

### **Introduction**

Arts and crafts fairs are celebrated lavishly across different parts of India. The core concept of the arts and craft festivals is to depict the pride of Indian arts, honor the artisans and spread the knowledge about the arts and crafts of the region and of India as a whole. Beyond the religious and spiritual festivals, arts and crafts fairs share a fair place among the Indian festivals and

celebrations. Government also supports these art and craft fairs for facilitating the art and craft and to sustain the Indian culture and establish coherent environment in the country. There is social cause also associated with these kinds of fairs like old age education, children education, drinking water facilities, residential facilities and other social programs are being organized by us to improve the earning along with social status of the workers. Currently many awareness programs like Beti Bachao and Beti Padhao have also become an integral part of awareness programs to various rustic people by these various fairs.

India Trade Promotion Organisation (ITPO), the premier trade promotion agency of the Govt. of India for organizing trade fairs, is committed to showcase excellence achieved by the country in diverse fields especially trade and commerce. ITPO as the nodal trade promotion agency of the country has had a pioneering role in the national trade growth dynamics since its inception. Apart from its role in bringing the Indian businesses, particularly those in the MSMEs sector, closer to global markets, it was first to popularize trade fairs as a tool of trade promotion within the country. Even the global footprints of ITPO are in the markets of HongKong, Australia, Kuala Lumpur, Taiwan and many other countries.

Apart from this, it is an excellent opportunity for various Small scale industries and Small medium enterprises to

## **Shilpgram**

The well-known handicrafts of Udaipur have their base set in Shilpgram. Shilpgram is the major platform where the handloom products, marble crafts, paintings, silver articles, terracotta products and other handicrafts are developed.

Shilpgram is a rural arts and crafts complex, situated 3 km west of the city of Udaipur. The complex is conceived as a living ethnographic museum to depict the lifestyles of the folk and tribal people of the region. The main objective is to increase awareness and knowledge about the rural arts and crafts, the Shilpgram provides opportunity to rural and urban artists to come together and interact through the process of camps and workshops. So it enhances intercultural communication and act as an amalgamation of varied art and culture of various states.

At the same time it enhances the tourism of the state during the due course. People from various states come and enjoy the sanity There are many villages and small towns in India specialized in exclusive arts and handicrafts. Shilpgram is one of the villages, located at a distance of 3 kilometers away from the beautiful Udaipur city. Although it is called a craft village, it is more of an arts and crafts complex. The complex is spread across 70 acres of land, which is surrounded blissfully by the picturesque Aravali Mountains.

Having a better insight about this crafts village can help understanding the arts and crafts fiesta celebrated at Shilpgram.

The cultural complex is considered as a live ethnographic museum. *Ethnography refers to study of the people and their associated culture.* The museum displays and creates an insight about the life of the tribal groups, lifestyle, ancient practices, and traditions of the people belonging to the

region. Since handicrafts form a major part of life in many villages, Shilpgram depicts the life of the people nestled with the intriguing crafts work.

Lately, both at national and international levels, artisans and craftsmen are encouraged to exhibit their talent and skill to a whole new level. In order to showcase the arts and crafts work as well as to extend the opportunities to the budding artisans, Shilpgram serves as a base.

### **International Surajkund craft fair**

A splash of colours, rhythm of drum beats and joy de-vivre merge at Surajkund in Faridabad, Haryana during the first fortnight of each February. The curtains go up on the acclaimed annual Surajkund International Crafts Mela from 1st February onwards, a celebration of Indian folk traditions and cultural heritage. Occupying a place of pride on the international tourist calendar, more than a million visitors throng the Mela during the fortnight including thousands of foreign tourists. The Surajkund Mela is unique as it showcases the richness and diversity of the handicrafts, handlooms and cultural fabric of India, & is the largest crafts fair in the world.

This is the best place to be seen as amalgamation of varied culture and heritage and true picture of globalization. Telengana is the theme state and there are many huts/stalls are from this state depicting the unique work in crafts, textile and cuisine as well.

“To promote women empowerment the “Beti Bachao Beti Padhao” campaign is also being showcased at the Apna Ghar with women in different roles and importance of education for women. This Mela gives opportunity to government to make their campaigns promoted at large scale and make people aware about various projects like Swacchh Bharat Abhiyan. The similar kind of project has been initiated by government who work as corporate social responsibility initiatives and can get a good platform. There is a stall set up by National Centre for Autism- India to take care of children suffering from autism.

### **Khadi Gram Udyog Fair**

Khadi Gramudyog is an institution constituted in order to develop increasing in sales of Khadi. Due to increase in sales of khadi it was obvious that employment will increase. Today in each sub-center every 7th person is getting full or part time employment through our organization. Amongst these 63% workers are from poor and backward schedule classes. They are not only getting employment but are leading a respectful social life and experiencing a new light of hope and

development. All these workers are provided facilities of drinking water, residence and medical facilities. Their Childrens are getting education assistantship etc. The aim of this institution was conceived to develop all the villages of the block through the Khadi and Village industries and other constructive activities. The name of the institution was chosen to be Khadi Gramodyog Saghan Vikas Samiti.

The ultimate aim of the institution was to bring development to all the villages. The policy was formulated to establish a production centre in each of the nyaya panchayats present in the cluster. Each nyaya panchayat in turn governed five or six panchayats thereby ensuring that the governance reached the interiors of the villages. These centers were established to cover Khadi

pre-processing, spinning, weaving and other activities along with the sale centers or the Khadi Bhandars in all the seven nyaya panchayats namely Bassi, Bansko, Badwa, Jatwara, Madhogad and Sambhariya. Khadi Gramodyog Sagan Vikas Samity also looks to achieve the wider objectives in production of Khadi

### **SWOT Analysis of Indian Handicraft Industry**

The opportunities are as follows:

- Rising appreciation for handicrafts by consumers in the developed countries
- Widespread novelty seeking
- Large discretionary income at disposal of consumer from developed countries
- Growth in search made by retail chains in major importing countries for suitable products and reliable suppliers. Opportune for agencies to promote marketing activities
- Use of e-commerce in direct marketing

Pertaining to these opportunities there are various strengths

- Abundant and cheap labour hence can compete on price
- Low capital investment and high ratio of value addition
- Aesthetic and functional qualities
- Wrapped in mist of antiquity
- Hand made and hence has few competitors
- Variety of products which are unique
- Exporters willing to handle small orders
- Increasing emphasis on product development and design upgradation

The weaknesses are as follows:

- Inconsistent quality
- Inadequate market study and marketing strategy
- Lack of adequate infrastructure and communication facilities
- Capacity to handle limited orders
- Untimely delivery schedule
- Unawareness of international standards by many players in the market

Keeping the aforesaid weakness Export Council of India and Government through make in India has tried to overcome these and create enough opportunities for these artisans to showcase their talents.

### **Research Methodology**

A sample of 100 customers from the aforementioned three craft fairs namely International Surajkund Craft Fair in Faridabad, Shilpgram in Udaipur and Khadi Gramodyog in Dehradun and Bhilwara has been selected for the study. Primary source of data collection was based on questionnaire and observational method from these 100 customers. Apart from these there were 17 artisans were interviewed by the researcher for various opportunity in varied ambits and support from external environment. There have been variety of initiatives taken by the

government and even they are planning to do many especially in area of entrepreneurship and exporting these handicrafts and arts.

Export Promotion Council for Handicrafts (EPCH), India's premier export promotion organization with 7600 member exporters is engaged in trade promotion of handicrafts exports from India. Indian Handicrafts and Gifts Fair (IHGF) Spring Fair has been the hallmark for growth of the Indian handicrafts sector for over 20 years. IHGF has carved out its presence in the world market, by offering huge sourcing opportunities to international buyers, agents etc. Indian Handicrafts and Gifts Fair Delhi Fair Spring 2016 has now become Asia's "one stop sourcing event", since its inception in 1994 while providing extended business platform to small & medium exporters. The hallmark of a successful trade event is its ability to bring a platform wherein markets and people come together in an efficient and highly professional manner. IHGF's organizers – EPCH, strives to better this ability with each successive edition and IHGF Delhi Fair Spring 2016 is a bolder step in this direction. (1)

The number of visitors in such kinds of fair is more than 5000 in the complete tenure for the fair. The important point that arises out of this are:-

- a) Growth of SSE's and SME's in multi- dimensional aspect.
- b) As a macro indicator also it can help in increasing the exports as these kinds of products are art and crafts products and liked by variety of people in abroad as well.
- c) These fairs provide sustainable approach towards spreading the culture and tourism of India with lot of diversity.
- d) After Make in India there are many international investors coming in to invest in such fields. IHGF has carved out its presence in the world market, by offering huge sourcing opportunities to international buyers, agents etc.
- e) Export council is now focusing country wise product exports by these small scale enterprises and small medium industries.
- f) Government is extending the support by arranging various crafts fair and inviting people from outside the country. Even these people are financially helped by government for doing such initiatives.
- g) The selection of research area from variety of places is been done to get the result generalized on entire India. Faridabad depicts "A" Town City, Dehradun and Udaipur depicts B town and Bhilwara is district region covering some rural area also.

## Testing of hypothesis and analysis

The hypothesis is rejected by the researcher

i.e. the role of the government is significant and contributory to reinvent art and craft fairs in today's scenario. Apart from this government is trying to rebuild the importance of handicrafts and art work of specialized and dexterous craftsmen from different and diversified background with different cultures. It facilitates tourism also for the related state and facilitate to sustain the cultural values as well.

Secondly, one more point assumed by the researcher is also rejected as Make in India has open international doors for regional people to showcase their art work. Apart from this Export

Promotion Council for Handicrafts is also playing major role in making these relations possible. This council also give them a platform to showcase their artwork and culture to our foreign partner. There is a huge demand for our handicraft products in abroad, so to facilitate SME's and SSE's, Make in India has started playing important role.

In addition to this the analysis revealed that the customers who come for buying to these craft fairs are basically non focused customers and come with an open mind to purchase any kind of product in these art and craft fairs. Hence, the malleability level is very high and scope for selling becomes more. These buyers many a times get interested in the culture and regionals specifications as well and show their keen interest in touring the same place, resulting into increase in tourism. These fairs are generally organize for more than a week and best marketing is word of mouth for more footfalls in the premises.

There were many sellers who got employment through this medium to showcase the talent in them through some performances of their specific region, resulting into seasonal employment for many artists and provide them ample of opportunities as well to explore their talent at different places.

Sellers become more satisfied to get associated with such kind of fairs as it gives them a belongingness towards country and make them feel good about sustaining their artwork even after so many years. Also it gives them to explore in varied fields of art.

### **Findings and conclusion**

The findings of the analysis clarifies that government is taking all necessary actions toward development of SME's and SSE's through various art and craft fairs. Apart from this Make in India has become a successful platform for all those who are willing to enter into such fields but due to lack in the funds and initial investments they cannot start up in these fields.

India has a differentiating advantage in the fields of textiles and Art& craft as these products vary with respect to various diversified dimensions. There is a huge demand of handmade products of different variety in various countries. With the help of Export Council of India these small business can be promoted and reach to another level.

Another finding from the research which can be concluded is that marketing parameter of these differentiated products is mostly based upon the branding of the fair and cultural background of the organization and it facilitates the sales of the displayed and varied products.

The cultural aspect can also be taken care off and can be used for facilitating the tourism of the respective state. These fairs create immense employment opportunities. In 21<sup>st</sup> century, these art and craft fairs still hold the importance and have different and relevant dimensions in the fields of innovation and uniqueness of cultural. These fairs help in crossing the boundaries and reach to different culture and can develop the amalgamation of various culture and increase cross cultural interactions.

Government of India, Ministry of Commerce and Industry, Department of Commerce

2. <http://www.epch.in/>

3. <https://india.gov.in/topics/industries/tourism>

4. <http://www.tradeportalofindia.org>

5. <http://haryanaturism.gov.in>
6. <http://www.cybex.in/International-Trade-Resources/Export-Promotion-Council-for-Handicrafts.aspx>
7. [www.shilpgram.in/](http://www.shilpgram.in/)
8. <https://www.retailpackaging.com/blog/2012/07/guide-to-craft-fair-booth-displays/>
9. [http://www.barbarabrac.com/homebiz/crafts-industry\\_importance-to-economy.htm](http://www.barbarabrac.com/homebiz/crafts-industry_importance-to-economy.htm)
10. <http://www.indiatradefair.com/>

#### References

1. Foreign Trade Policy 2015-2020,  
FOREIGN TRADE POLICY,



**MODELING AND ANALYZING THE FACTORS FOR WORKFORCE  
CAPABILITY USING ISM APPROACH****Rajender Kumar\*, Neeraj Lamba\*, R. N. Rai\*\*, D. K. Dodeja\*\*\*****\*Assistant Professor, Mechanical Engineering, FET, MRIU, Faridabad, India****\*\*Professor, Mechanical Engineering, MRU, Faridabad, India****\*\*\*Professor-In charge, Entrepreneurship Development Cell, FET, MRIU, Faridabad, India****e-Mail: rajender.fet@mriu.edu.in; neerajlamba.fet@mriu.edu.in; rnrai@mru.edu.in;  
devkumar.fet@mriu.edu.in****Abstract**

The primary motivation of this research work is to identify the factors defining the workforce capability. The workforce capability has the basic need of learning the advancement and sharing the knowledge among the colleagues. In Indian culture, the present government initiative 'Make-In-India' has the perspective of rebuilding and redesigning the existing policies to reclaim the organizational excellence. The organizational performance is very much dependent on the socio-cultural behavior of the workforce. The forecasting about the socio-cultural behavior of the workforce (considered formally) is found dynamic in nature and may have incurred changes with the passage of time. This creates the unreliability among the workforce involvement for most of the operations/task happening in the organization. In this paper, the qualitative analysis on workforce capability is done with the help of ISM approach. In addition, the suggestions have been made which would guide such considerations, which are often ignored while evaluating the organizational performance based on workforce capability.

**Keywords: Workforce Capability, Reliability, Strategic Management, ISM****Introduction**

The organization refers to bring together to all the employees to achieve the predefined goal. [2, 3] The organization has the resources as the input material (raw); facilities as to utilize these resources (transmission process); and output as the product/service comes out from the organization. The work culture is an important attribute while developing an organization. It plays an important role in extracting the best employees out of infinite populations and retains them to serve for the longer duration. The literature on the work culture reveals that this concept has been criticized because of the conceptual weakness. [4,7] The book titled 'Organizational Culture and Leadership' most of the researches recognized the culture as a multidimensional and multilevel concept. In addition, the organization culture consist the three levels, i.e. visible organizational structures, espoused values manifested, and the basic assumptions (unconscious beliefs; perceptions; thoughts; feelings etc.). [17] It is one of the important parameters in an organization to sustain performance, and has competitive advantage. In the present environment, the competition among the service and production sector has increased rapidly. This cause affects the organizational performance and most of the time leads to downfall of the organization. The organizational success is very much dependent on the resources especially the work force. [16, 19] The workforce is an important asset for an organization. The ability to find, hired, managed,

trained and lastly to retain the right kind of workforce is a challenge for organizations. Establishing the healthy work culture is dependent on the characteristics of the workforce i.e. a) Importance of the workers; b) Roles and responsibilities; and c) Finally, their intent to work. [2, 9]

The organizations always try to modify their policies time-to-time for getting the competitive advantage. Also, the training modules (online and Offline) are designed for the workers to train them for troubleshooting. However, in Indian context, most of the employees are fails to adapt or in other words reluctant to follow the rules and instructions as defined by the employers. They made errors at random. [18, 19]

The present work identified the variables, which are having their direct affects on the work force capabilities. [15] The workforce capability is always affected through their working style and the error done by the workforce while performing any operation. Such reasons are bypassing the checklist; ignoring the caution/warning; task mis-prioritization; wrong risk assessment; lack of knowledge about the necessary actions; wrong perception; violation of organizational rules; the judgmental & decision error, following the wrong procedures in the planning stage. In short, these reasons results in deviation from intention, expectation or desirability of the organizational goals. So, it becomes apparent to understand the intent of these causes in the organizational operations and consider them while designing the healthy work culture. [9, 10]

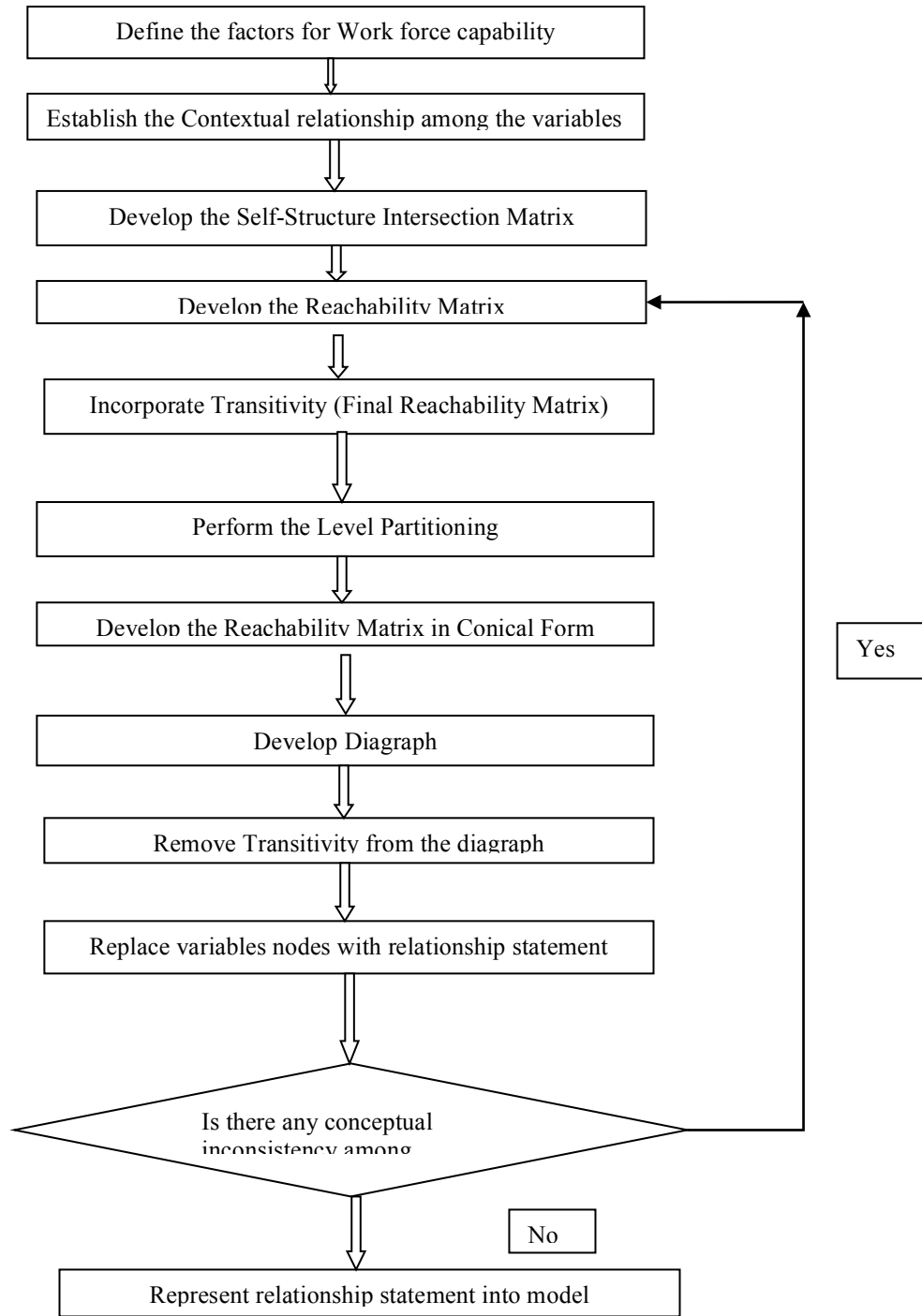
### **Problem Formulation**

The culture defines the workers involvement and includes the self-managed work or in a team. Undoubtedly, establishing a healthy work environment in any organization is the most challenging task. [8] A huge amount of resources has been wasted on building the healthy work-culture. The reason for failure in establishing the healthy work-environment is lack of trust, fear among workforce, the resentment etc.

The workforce repeats the mistakes as made in the past repeatedly and with this the organization losses his resources. Perhaps, most of the organizations disproportionately dedicate their focus and investment into non-workforce development issues i.e. technological development or business expansion. In addition, the industries have limited time and resources to motivate the workforce in building high performing organizations. [2]

### **Research Study**

The work force capability is critical to evaluate and measured. Despite the fact, all the organizations seeks to improve the work force capability i.e. elimination of performance inadequacies in the man-machine management system. In the present work, the ISM model is develop for the factors affecting the workforce capabilities which further leads to affect the work culture.[1, 5] ISM as an interactive learning approach to prioritizing the causes and ranked them accordingly through a set of different and directly related variables. [20] In the beginning of the ISM model, the contextual relationship among all variables with each other is defined on judgmental basis. Later on the mathematical calculation is done for defining the ranking of the individual variable on the system. Fig. 1 shows the steps in ISM approach.



**Fig. 1. Flow Chart for Present Study [6,11]**

**Step 1: Setting up the contextual relationship**

The present work initiate with identification of relative importance among the factors for work force capability through brainstorming and the judgmental opinions of the experts. On the basis of inputs the contextual relationship is established and given in table 1.

**Table 1. Contextual Relationship Establishment Matrix**

Work Force Capability affecting Factors	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	C <sub>4</sub>	C <sub>5</sub>	C <sub>6</sub>	C <sub>7</sub>	C <sub>8</sub>	C <sub>9</sub>	C <sub>10</sub>
Checklist Error (C <sub>1</sub> )	X	V	V	V	V	V	V	V	A	V
Procedural Error (C <sub>2</sub> )		X	V	V	A	V	A	V	V	A
Judgmental & Decision Error (C <sub>3</sub> )			X	V	A	A	A	O	A	A
Risk Assessment (C <sub>4</sub> )				X	O	V	A	X	A	V
Task Misprioritization (C <sub>5</sub> )					X	V	O	V	A	V
Necessary Action (C <sub>6</sub> )						X	O	O	A	V
Caution/Warning Ignored (C <sub>7</sub> )							X	V	X	V
Decision making during operation (C <sub>8</sub> )								X	A	V
Perception error (C <sub>9</sub> )									X	V
Violation of rules (C <sub>10</sub> )										X

*Note: The contextual relationship among the factors affecting the workforce capabilities are defined through the notations i.e. V (When i leads to j, but j does not lead to i); A (When j leads to i, but I does not lead to j); X (When i leads to j, and j leads to i) and O (No relation appears) [12]*

### Step 2: Development of reach ability matrix

With the help of contextual relationship the SSIM is developed considering the binary matrix as 1's and 0's for the analysis purpose as shown in table 2. The ground rule for defining 1's and 0's in the matrix are as mentioned below:

- If the  $(i, j)$  entry in the SSIM is V, then  $(i, j)$  entry in the Reach ability matrix written as 1 and the  $(j, i)$  entry as 0.
- If the  $(i, j)$  entry in the SSIM is A, then  $(i, j)$  entry in the Reach ability matrix written as 1 and the  $(j, i)$  entry as 0.
- If the  $(i, j)$  entry in the SSIM is X, then  $(i, j)$  entry and the  $(j, i)$  entry both are written as 1.
- If the  $(i, j)$  entry in the SSIM is O, then  $(i, j)$  entry and the  $(j, i)$  entry both are written as 0.

**Table 2. Initial Reach ability Matrix**

Workforce Capability Affecting factors	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	C <sub>4</sub>	C <sub>5</sub>	C <sub>6</sub>	C <sub>7</sub>	C <sub>8</sub>	C <sub>9</sub>	C <sub>10</sub>
C <sub>1</sub>	1	1	1	1	1	1	1	1	0	1
C <sub>2</sub>	0	1	1	1	0	1	0	1	1	0
C <sub>3</sub>	0	0	1	1	0	0	0	0	0	0
C <sub>4</sub>	0	0	0	1	0	1	0	1	0	1
C <sub>5</sub>	0	1	1	0	1	1	0	1	0	1
C <sub>6</sub>	0	0	1	0	0	1	0	0	0	1
C <sub>7</sub>	0	1	1	1	0	0	1	1	1	1
C <sub>8</sub>	0	0	0	1	0	0	0	1	0	1
C <sub>9</sub>	1	0	1	1	1	1	1	1	1	1
C <sub>10</sub>	0	1	1	0	0	0	0	0	0	1

**Step 3: Balancing of binary matrix**

For the balancing of binary matrix, the term transitivity is used to before the final mathematical computations. It states that if variable A is related to B and B is related to C then A is related to C. The incorporated in any box is represented through the 1\* (replacing the 0). The table 3 represents the final reach ability matrix (balanced Matrix).

**Table 3. Final Reachability Matrix (RM) – Incorporating Transitivity**

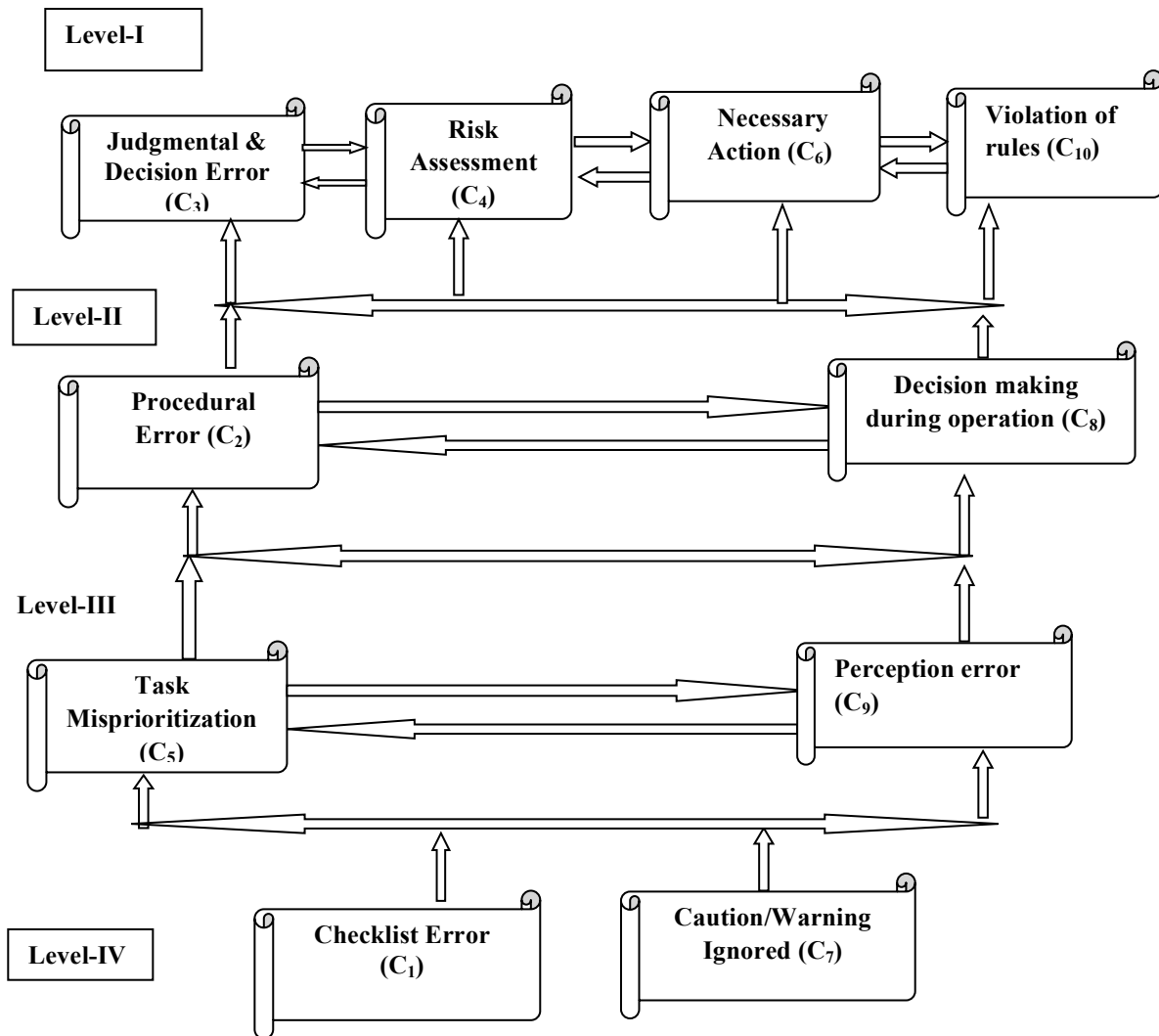
Workforce Capability Affecting factors	C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	C <sub>4</sub>	C <sub>5</sub>	C <sub>6</sub>	C <sub>7</sub>	C <sub>8</sub>	C <sub>9</sub>	C <sub>10</sub>	Driving Power
C <sub>1</sub>	1	1	1	1	1	1	1	1	1*	1	10
C <sub>2</sub>	1*	1	1	1	1*	1	1*	1	1	1*	10
C <sub>3</sub>	0	0	1	1	0	1*	0	1*	0	1*	05
C <sub>4</sub>	0	1*	1*	1	0	1	0	1	0	1	06
C <sub>5</sub>	0	1	1	1*	1	1	0	1	1*	1	08
C <sub>6</sub>	0	1*	1	1*	0	1	0	0	0	1	05
C <sub>7</sub>	1*	1	1	1	1*	1*	1	1	1	1	10
C <sub>8</sub>	0	1*	1*	1	0	1*	0	1	0	1	06
C <sub>9</sub>	1	1*	1	1	1	1	1	1	1	1	10
C <sub>10</sub>	0	1	1	1*	0	1*	0	1*	1*	1	07
<b>Dependence Power</b>	04	09	10	10	05	10	04	09	06	10	<b>77</b>

**Step 4: Level partitioning**

The level partitioning in ISM model defines the hierarchy to prioritize the sensitivity of the cause for the given problem. This process is continued till all the variables/factors are assigned the level 1, 2, 3 and so-on depending upon the no. of variables. Table 4 shows the level partitioning for the present case and the ISM diagram on the basis of level partitioning is shown in fig.1 below.

**Table 4: Level Partitioning**

Workforce Capability Affecting factors	Reachability Set (RS)	Antecedent Set (AS)	Intersection	Level
C <sub>1</sub>	1,2,3,4,5,6,7,8,9,10	1, 2, 7, 9	1, 7	IV
C <sub>2</sub>	1,2,3,4,5,6,7,8,9,10	1,2,4,5,6,7,8,9,10	1, 2, 5, 7, 8, 9	II
C <sub>3</sub>	3,4, 6, 8, 10	1,2,3,4,5,6,7,8,9,10	3,4, 6, 8, 10	I
C <sub>4</sub>	2, 3, 4, 6, 8, 10	1,2,3,4,5,6,7,8,9,10	2, 3, 4, 6, 8, 10	I
C <sub>5</sub>	2, 3,4, 5, 6, 8, 9, 10	1, 2, 5, 7, 9	1, 5, 7, 9	III
C <sub>6</sub>	2, 3,4, 6, 10	1,2,3,4,5,6,7,8,9,10	2, 3,4, 6, 10	I
C <sub>7</sub>	1,2,3,4,5,6,7,8,9,10	1, 2, 7, 9	1, 7	IV
C <sub>8</sub>	2, 3, 4, 6, 8, 10	1,2,3,4,5,7,8,9,10	1, 2, 5, 7, 8, 9	II
C <sub>9</sub>	1,2,3,4,5,6,7,8,9,10	1, 2, 5, 7, 9, 10	1, 5, 7, 9	III
C <sub>10</sub>	2, 3, 4, 6, 8, 9, 10	1,2,3,4,5,6,7,8,9,10	2, 3, 4, 6, 8, 9, 10	I



**Fig.1: ISM diagram**

**Step 5: MICMAC Analysis**

This is done to classify the state of nature of all the variables/factors i.e. *Independent variables, Linkage Variables, Dependent Variables or Autonomous Variable*. This analysis is based on the multiplication properties of matrices through cross-impact matrix multiplication. Figure 2 shows the graph for MICMAC analysis plotted with the help of data in the table 3.

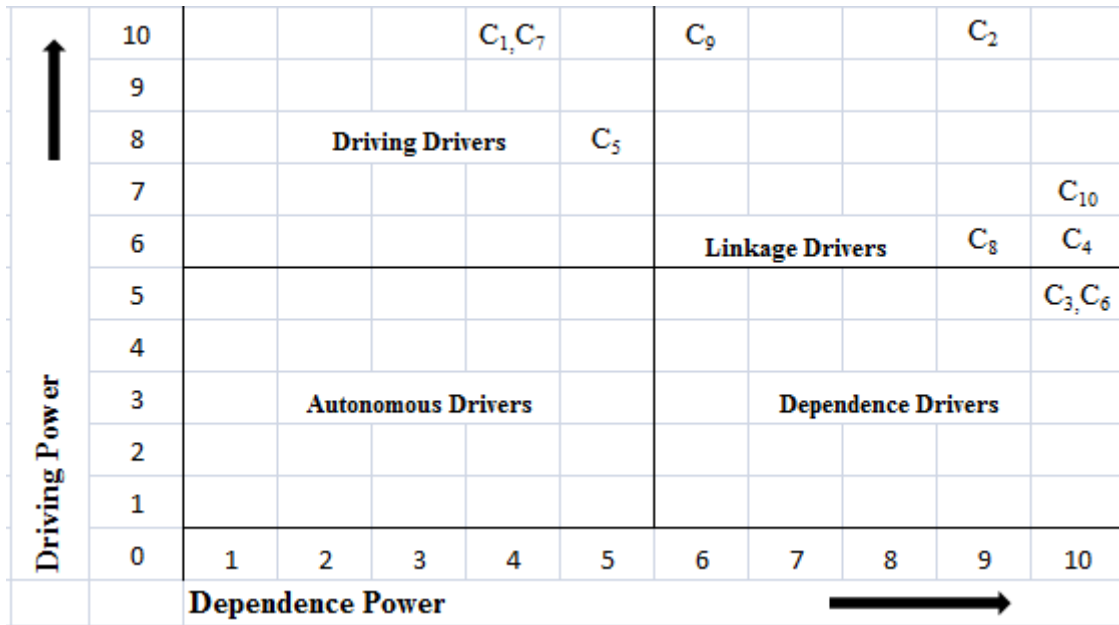


Fig. 2. MICMAC Analysis

**Results and Analysis**

In this research work, work force capability affecting variables are analyzed through ISM approach. The ISM diagraph shown in fig.1 above depicts that the most of the workforce capability is affected through the checklist error and the caution/warning ignored. Checklist preparation is the simple way to define the operations what is to be done by the workforce on machine/product. The checklist shows the operations done and left out (in case may affect the affect the overall results). Similarly the reductions nature of the workforce to ignore the cautions affect their working capability. Both the situations lead to high risk condition. The task-mis prioritization and the perception error of the workforce (at 3<sup>rd</sup> level) also affect the workforce capability because both the factors lead to disorganize the sequence/precedence as developed in the beginning stage. The procedural error and decision-making also contribute in affecting the workforce capability and further lead to affecting the work culture. The ISM diagraph also reveal that the contribution of judgmental error, risk assessment, necessary action taken and the violation of rules is less as compared to other factors. Further, the MICMAC analysis validates the research variables through diagraph between the dependence and the driving power. In the present work, the work force capability affecting factors Checklist Violation, Ignoring of cautions/warnings and the task mis-prioritization are the driving drivers for all other factors. In addition, the factors i.e. judgmental error and necessary action are the dependent in nature, and depends upon the driving factors. The present work has the following specific contributions such as:

- The present work use the interpretive structural model and MICMAC analysis to identify the factors affecting the workforce capability and how these factors are interdependent for creating an healthy work culture.
- The factors i.e. Checklist Violation, Ignoring of cautions/warnings and the task mis-prioritization are reported as the most driving power and need to be taken care of on a priority basis.
- The outcomes of this work may be beneficial for the organizations who are striving to achieve success in the present scenario.
- In addition, the developed hierarchical structural model will enable the young leaders to address these factors more efficiently towards the congenial work environment.

## References

1. Ansari, M. F., Kharb, R. K., Luthra, S., Shimmi, S. L., & Chatterji, S. (2013). Analysis of barriers to implement solar power installations in India using interpretive structural modelling technique. *Renewable and Sustainable Energy Reviews*, 27, 163-174.
2. Buffa, S.E. and Sarin, R.K. (2011). Modern production/Operation Management. *Wiley India (P.) Limited*, India, 8th edition.
3. Chauhan, A.S. and Vaishwanar (2010). Engineering Management. *Jain Brothers Publication*, India 7<sup>th</sup> Edi., 148-150.
4. Deal, T.E. and Kennedy, A.A. (1983). Culture: A new look through old lences. *Journal of Applied Behavioral Science*, 19, 488-505.
5. Haleem, A., Sushil, Qadri, M. A., & Kumar, S. (2012). Analysis of critical success factors of world-class manufacturing practices: an application of interpretative structural modelling and interpretative ranking process. *Production Planning & Control*, 23(10-11), 722-734.
6. Jayant, A. and Azhar, M. (2014). Analysis of the barriers for implementing green supply chain management (GSCM) Practices: An Interpretive Structural Modeling (ISM) Approach. *Procedia Engineering of 12th Global Congress on Manufacturing and Management (GCMM 2014)*, 97, 2157 – 2166.
7. Khatib, T.M. (1996). Organizational culture, subcultures, and organizational commitment. Dissertation Report submitted in Iowa State University Ames, Iowa, 1-169.
8. Kobayashi, I. (1995). 20 Keys to Workplace Improvement. *Published by Productivity Press*, New York.
9. Kumar, R., Kumar, V., Singh, S. & Theraja, P. (2015a). Managing the utility of manufacturing process facilities through Lean Supply Chain. *Journal of Advance Research in Production and Industrial Engineering*, 2 (1), 13-23.
10. Liker, J.K. (2004). The Toyota Way: 14 Management Principles From the World's Greatest Manufacturer. *McGraw-Hill*, New York.
11. Luthra, S., Kumar, V., Kumar, S., & Haleem, A. (2011). Barriers to implement green supply chain management in automobile industry using interpretive structural modeling technique: An Indian perspective. *Journal of Industrial Engineering and Management*, 4(2), 231-257.
12. Mangla, S., Madaan, J., & Chan, F. T. (2013). Analysis of flexible decision strategies for sustainability-focused green product recovery system. *International Journal of Production Research*, 51(11), 3428-3442.
13. Madu, B.C. (2011). Organization culture as driver of competitive advantage. *Journal of Academic and Business Ethics*, 5 (1), 1-9.



14. Mozaffari, F.A. (2008). A Study of Relationship between Organizational Culture and Leadership. *Published in the proceeding of International Conference on Applied Economics*, U.S.A., 679-688.
15. Nongo, E.S. and Ikyanyon, D.N. (2012). The Influence of Corporate Culture on Employee Commitment to the Organization. *International Journal of Business and Management*, 7 (22), 1-8.
16. Sage, A. (1977). *Interpretive structural modeling: methodology for large scale systems*. McGraw-Hill, New York, pp 91-164.
17. Schein, E. M. (2004). *Organizational culture and leadership*. (3rd. ed.). Jossey-Bass.
18. Sharma. A. and Thareja, P. (2011). Leaning Pizza. *Journal of Production Research & Management*, 1 (1), 1-18.
19. Thareja P., Sharma, D.D, and Mahapatra P.B. (2011b). Total Quality Management - A Developmental Perspective. *Journal of Production Research & Management*, 1 (1), 38-56.
20. Warfield, J. N. (1974). Developing subsystem matrices in structural modeling. *Systems, Man and Cybernetics, IEEE Transactions on*, (1), 74-80.

**A STUDY OF IMPACT OF FAMILY BUSINESS DEMOGRAPHICS,  
LEADERSHIP AND MANAGEMENT STYLE ON FIRM PERFORMANCE****Dr Rajat Gera<sup>1</sup>, Dr Bindu Agrawal<sup>2</sup>**<sup>1</sup>*rajatgera@mru.edu.in*<sup>2</sup>*bindu@mru.edu.in*

---

**ABSTRACT:** There is a debate in literature on whether family business have better performance as compared to non family business. A number of studies have explored factors affecting family business and there is a need for incorporating contextual factors while evaluating the impact of ownership form on firm performance since performance differences between family and non family firms may reflect contextual differences rather than real differences.

Researchers have failed to appreciate that firm demographics (legal form, age of firm, principal business activity and location type of primary operational premises can affect performance of the firm. This study aims to evaluate the impact of demographics of family business, leadership and management style (formal versus informal) on firm performance. The study will analyze the relationship between family management involvement, family-oriented strategic decision making, and family firm performance. The study will be conducted in Indian context and sampling frame will be the family business managers, owners and family members . Sampling method will be non probability judgemental and quota based to overcome the disproportionate representation of family business in some industrial sectors. The research design will be descriptive and cross sectional. The data will be evaluated using multivariate techniques. Firm performance will be measured using financial measures such as sales revenue, profits and assets and non financial performance measure such as market share, exports growth, employment generation.

**Keywords:** *Family Business, demographics, firm Performance, India*

**Introduction:**

FBs play an extremely significant – and surprisingly understated – role in many economies. Indeed, it has been claimed that FBs make up over two-thirds of all businesses worldwide and are becoming more prevalent (Harvard Business School, 2001).

The link between the family business (FB) and performance is complex and the literature is relatively limited, (Allouche and Amman, 1999). Whereas there are adequate number of studies on how to manage family businesses, deal with conflict within the family owning the business and how to plan a proper succession, there is dearth of studies on the impact of contextual factors on FB performance. *Dyer (2006)* examined the performance of family- owned firms and concluded that most research in FBs fails to incorporate the family effect on organizational performance.

Research shows that family business outperform non family business on performance indicators such as bottom line, value creation by the shareholder and capacity to create jobs. However researchers also note a lack of consistent framework over a sufficiently long time frame in order to accurately assess whether FBs outperform NFBs on a range of short and long-term financial and non-financial measures of performance. (EMCS-LSE report-2002)

The performance of FBs has been analysed in relation to ownership structure, such as the implications of corporate governance structures, or in relation to the particular systemic, psychological or economic characteristics that make FBs unique units of enterprise. This study aims to evaluate the relationship contextual and india specific firm demographics (legal form, age of firm, principal business activity and location type of primary operational premises of family business, leadership and management style (formal versus informal) on firm performance. The study will analyze the relationship between family management involvement, family-oriented strategic decision making, and family firm performance.

The global business environment has become hyper-competitive resulting in need for new sources of competitive advantage such as speed ,sustainability ,flexibility ,quality of product and service ,brand, customers relationship ,employees care , and patient capital which often require idiosyncratic business strategies developed by firm that are family controlled . However, family business also often posses unique advantages born out of unique and dynamic family business

interaction (poza,2010). Family business owned and operated firms are mostly small and small micro business and also fast growth and large successful firms, Thus there is a need for both large sample and small sample studies and international and single country studies to cover the divergent cultural and environmental contexts in which FBs operate.

A recent review on family business worldwide, establishes their predominance, economic importance and significance in the global economy .In Germany,75% of the work forces are employed by family businesses ,who contribute 66% of the GDP .Redial (1994)categorizes 80%(about two million companies )of all Germany companies as family controlled and concludes that they are the —backbone —of the German economy .In Australia ,Owens (1994) estimates that 75% of Australia

In india, the family-owned businesses in India were very successful and Tata Airline was among the top 10 Airlines in the world until the Government of India adopted a socialist approach. The economy of the country was determined by the growth and development of the family business. In 1970 private owned firms which constituted 93% of family –owned business at that time, were restricted by regressive policies to control growth of private wealth by Government of India.

Research on family business has been largely based on samples and theory built from the United States. There is an apparent increase in international studies of family business (single non-U.S. country or comparative) due to need for grounded research in a new context rather than efforts to extend and test similarities and differences from historical work. There are many small sample studies with variations in conceptual and operational definitions and limitations in information on sample source, data gathering methods, psychometrics, and data analysis. Thus leading to greater attention to theoretical and measurable international and national culture dimensions while systematically building on what has preceded. This study is an effort in the same direction.

Researchers (Binder Hamlyn, 1994) have failed to appreciate that firm demographics (legal form, age of the business principal business activity and location of main operational premise may also affect their business performance. Prior studies have used uni variate measures of business performance (Stoy Hayward, 1992,) . There is lack of consensus of best measure of business performance of FBS (Daily and Dollinger 1992) and many studies have assumed profit maximization as the best measure of FB performance (Gasson et al, 1998).

## Definition of Family Business

There is lack of consensus on how to define family business or what constitutes a family business. There is no clear demarcation between family and non family business and no single definition can capture the distinction between the two types of entities

Family business has been defined as a business that is owned and managed (i.e, controlled) by one or more family members (Handlers ,1989.,Hollander & Elman ,1988). Davis and Tagiuri (1982) define family firms as: organization where two or more extended family members influence the direction of the business through the exercise of kinship ties ,management roles ,or ownership rights . Gallo(1944) has asserted that family are essentially the same in every country in the world relative to their problems ,issues and interests.

A business is a family business when it is an enterprise growing out of the family's needs ,built on the family's abilities worked by its hands and guided by its moral and spiritual values ,when it is sustained by family commitment, and passed down to its sons and daughter as a legacy as precious as the family's nature (Astrachan et al,2005).

Some authors (Alcorn, 1982, Barnes and Hershon 1976, Barry 1975, Landsberg, Perrow and Roglosky, 1988) define family business based on the level of equity owned by a single family.

Other researchers identify FB on the basis of the degree of implication of the family in the management structure (Beckhard and Dye, 1983, Keppner, 1983).

Some researchers consider the fb based on the concept of the willingness to transmit the ownership to the next generation (Churchill and Hatten, 1987, Ward 1987), or the commitment to transgenerational wealth creation (Habbershon, Williams and MacMillan, 2001).

Smyrniotis, Romano and Tanewski (1997), proposed a multi criteria definition of family business as one which should meet at least one of the following conditions

- More than 50% of ownership is held by a single family.
- More than 50% of ownership is held by more than one family.
- A single family group effectively controls the business.
- A majority of senior management is drawn from the same family.

Westhead, 1997; Gallo, Tapias and Cappuyens, 2000 base the definition on the perceptions of the managers, i.e. an FB is one which is perceived by the managers as a family business.

Most recently, Colli (2002) has stressed the need for a broader definition, including all cases

where the family maintains an equity stake sufficient to appoint top management and influence firm strategy, thereby limiting the choices available to non-family management.

The lack of consensus what constitutes an FB could be reflective of the recent history of fb as a topic of research and range of disciplines under which the topic has been researched ie economics, psychology, sociology, anthropology, education, social work, family science, etc.

The most common definition of fb which is also adopted for this study is the concept the a FB is a complex system of interactions between the family as an entity, individual family members, and the business itself.

Family Business and firm performance:

The theoretical literature on family business performance is dominated by four themes : ownership and control, management strategies and style, long-term view, and human resources. overall, the literature does not yield clear and unambiguous conclusions. The literature on factors enhancing performance of family business can be categorized under the following themes:

*Agency cost efficiencies* – family management mitigates the principal-agent problem; *Non-profit maximising objectives* – lower risk approach to debt leverage and company growth than NFBs. *Leadership efficiencies* – improved leadership from centralised decision making, greater flexibility and lower transaction costs. *Differing goal prioritisation* – emphasis on non-pecuniary goals, stability and succession. *Stakeholder efficiencies* – increased trust, loyalty and motivation by managers, employees and customers alike.

The literature also lists following themes as factors which hinder better performance of family business firms: *Inefficient management* – desire to secure family succession may produce suboptimal outcome versus market determined management choice; *Longer-term time-horizons* on decisions relating to investment and growth. Not constrained by pressures of quarterly reporting. *Low innovation and slow adaptation* – family members constrained by pressures to maintain traditionally successful

The principal-agency framework is the most dominant theory explaining the relatively better performance of FBs.

The separation of ownership and management also known as separation problem, Berle and

Means (1932), explains that managers control of firm's operations may adversely affect the firm's performance, as managers are likely to pursue their own interests to the detriment of shareholders' interest. This is also known as the principal-agent problem or agency problem, and depends on the extent to which shareholders (principals) can control managers' performance (agents) and on the differing objectives and incentives of managers and shareholders.

The extent of the problem is hypothesized to be minimized when property is concentrated in the hands of one family and likely to be higher when ownership is dispersed and diluted, since the manager-shareholder divergence in interests may be greater.

Thus owner-controlled FBs are more likely to outperform management-controlled NFBs (Daily and Dollinger, 1992) as owners of fb are expected to maximise firm value, enabling them to personally realize any financial and economic gains. Professionally managed firms in contrast are unlikely to pursue profit maximisation and growth-orientated strategies because of their focus on realizing their own benefits such as maximisation of short-run sales revenues.

The inherent conflict of interest between managers and owners in NFBs may be minimized if managers are effectively constrained from taking actions that are not in the best interests of shareholders, via several disciplining mechanisms. However this would involve higher transaction costs for NFBs such as management selection and replacement, enforcement of incentive contracts, and takeovers which are non existent or minimal in FBs as the principal and agent are the same person. Thus, inspite of shareholders and managers' interests being properly aligned through a range of internal and external mechanisms, FBs are likely to have a cost advantage over NFBs.

The management strategies and management styles of FBs are likely to more efficient especially as regards approaches to business management and problem-solving, as they are likely to have flat management, better customer service, leaner structures, quicker decision processes and higher commitment of qualified personnel.

The reasons for the same in literature are a) commitment, loyalty and trust of managers and customers and b) centralization of the decision process. (Deutsche Bank Institut für Familienunternehmen, 2001). The FB environment is expected to inspire greater employee loyalty, motivation and trust (Ward, 1988; Tagiuri and Davis, 1996) and greater trust in clients and other external stakeholders who regard family management as reliable and honest (Ward and Aronoff, 1991; Allouche and Amman, 1999).

The centralized decision making style wherein decisional control is mostly with top family members yields performance benefits from lower decision-making costs and enhanced flexibility (Goffee and Scase, 1985; Hall, 1988; Tagiuri and Davis, 1996; Poza, Alfred and Maheshwari, 1997), less cumbersome organisational structure with lower monitoring and control costs (Daily & Dollinger, 1992) and more effective communication and greater privacy (Tagiuri and Davis, 1996).

FBs normally take a long-term perspective as compared to NFBs which enhances company performance. This is intuitively supported by special characteristics of FBs such as the inseparability of family and business objectives, freedom from managers with quarterly financial performance targets, stability of family leadership and the low managerial turnover which results in long lasting relationships with clients and markets.

Thus the inseparability of family and business objectives within FBs leads to significantly longer time-horizon when making important strategic choices (Arnoff and Ward, 1994).

Fb owners usually aim to maximise the well-being of current and future generations, and many founders plan to secure positions of responsibility for their siblings in the managerial structure of the FB and, ultimately, to secure the transmission of family control across generations. Consequently, investment plans, growth targets and other key strategic decisions are usually taken with such an extended, trans-generational time frame in mind which is likely to result in a more consistent and long term strategy that could lead to better business performance.

Even within larger Fbs with many non family managers taking decisions, founding family members retain the prerogative to overrule their decisions in the long-term interests of the family ( In contrast, NFBs are managed by non-family managers in large publicly owned companies and their objectives are likely to be over a much narrower time-horizon as they seek to maximise personal benefits over their expected period of employment.

Fbs owners objectives are likely to be towards providing opportunities for family members, both currently (for example, in the form of employment (Kellermanns et al., 2008)) and in the future (e.g. passing the business on (Miller and Le Breton-Miller, 2003)); running the business in such a manner as to reflect well on the family owners; and social accomplishments (Miller and Le Breton-Miller, 2005; Berrone et al., 2012) and preserving family cohesion wealth (Chrisman et al., 2003; Gomez-Mejia et al., 2007), with profits the result of pursuing these objectives.



Family businesses are likely to pursue goals which may be non-economic, in order to increase or preserve socioemotional wealth (Gómez-Mejía et al., 2010).

There are three main themes of literature on research on performance of FBs. Under first theme, statistical performance differences between FBs and NFBs have been quantified based on average sales, number of employees, profit margins, growth rate of sales

Under the second theme, the focus has been on the principal-agent problem by hypothesizing that shareholder control and ownership which limits managerial discretion would result in a higher level of performance. However, there is lack of consensus on how to define ownership and control of the firm. However, the impact of family control has not been studied extensively in this literature.

The third theme of literature focuses on specific characteristics of FBs – such as reputation, quality and efficient recruitment – and how they impact on different measures of economic performance.

Under the first theme, results show that the differences between FBs and NFBs are not significant with respect to turnover and profitability (Westhead and Cowling, 1997) and growth in sales (Stoy Centre for Family Business, 1997).

Study by Daily and Dollinger (1992) on 186 small manufacturing businesses in Indiana (US) show that FBs outperformed NFBs in sales turnover and profit growth between 1986 and 1988.

Faccio, Larry and Young (2001) study suggests that family ownership in East Asia has severely hampered performance on account of discriminatory rules governing the treatment of minority shareholders, greater disclosure of firm data and the prevalence of cross-shareholding networks in Asia.

Studies by Stoy Centre for Family Business (1997) found no statistically significant differences in the performance of FBs and NFBs based on an analysis of nine performance criteria, including the percentage growth in both sales and employment. Westhead and Cowling (1997) criticized the studies exploring the performance of FBs and NFBs because they do not control for the contextual effects of firm demographic characteristics.

The objectives of this study are to evaluate the relationship of demographics of family business, leadership and management style (formal versus informal) on firm performance. The study will

analyze the relationship between family management involvement, family-oriented strategic decision making, and family firm performance.

### **Firm business size, Management style and firm performance**

Prior studies on relationship of firm size to business performance, management style and effectiveness by Watson (1996), Ettlie and Rubenstein (1987), Goetz, Morrow, and McElroy (1991) and Brush and Chaganti (1999), Edmunds (1979) and Bates (1989), were preliminary and produced mixed results. Further, none of these studies were focused in family businesses.

Its hypothesized that there is a positive relationship between demographics of family business and firm performance

Its hypothesized that there is a positive relationship between management style of family business and firm performance

### **Family Involvement and Firm performance**

Kowalewski et.al (2010) investigated the effect of family involvement on firm performance in an emerging market economy by using panel data of 217 polish companies between 1997 to 2005, and found an inverted U- shaped relationship between the share of family ownership and firm performance. The data also showed that firms with family CEOs are likely to outperform their counterparts that have non family CEOs.

Its hypothesized that there is a positive relationship between family involvement in family business and firm performance

### **Methodology:**

The study is conducted in Indian context and sampling frame is the family business managers, owners, family members and family controlled managers of family businesses. Sampling method is non probability judgemental and quota based to overcome the disproportionate representation of family business in some industrial sectors. The research design is descriptive and cross sectional. Family business are identified by use of self-reporting to identify *ex post* those which are family

firms (Wortman 1994; Daily and Dollinger 1992, 1993; Handler 1989). Firms selected for the study were identified in the National Capital region of Delhi through expert opinion of two academicians and two industry practitioners.

Data is collected through a research questionnaire on the following dimensions.

The variables considered for the study are Demographics of FB (age of business); age/gender/marital status/highest education of CEO/MD/business owner: generation 1/2/3/4; Sales turnover/profits for last three years; Products/services category.

Management style is measured on the following attributes : planning and budgeting, organizing, analyzing problems, building and using management systems, prudently allocating resources, and providing performance feedback

Governance is measured as type of governing structure ie Formal board of directors/Formal advisory board (regular meetings with a selected ongoing group of advisors)/Informal advisory board(adhoc meetings with advisors)/Shareholders' agreement/A policy for the selection, remuneration and promotion of family employees/A policy for the selection, remuneration and promotion\ of non-family employees/Family governance structures/practices Family Council (family members that represent the family to the business)/A Family Constitution or code of conduct

Business performance is measured as Costs of doing business/competitiveness of products/services / Ability to expand into related Industries/market share/profitability.

The relationships are evaluated using bi-variate and multi-variate statistical techniques.

## References

- Agrawal, A. and Knoeber, Ch. R., 'Firm performance and mechanisms to control agency problems between managers and shareholders', *The Journal of financial and quantitative analysis*, Vol 31, No. 3, 1996, pp. 377-397.
- Alcorn, P., *Success and survival in the family-owned firm*, New York, MacGraw Hill, 1982.
- Allouche, J. and Amann B., 'L'entreprise familiale: un état de l'art', *Finance, Contrôle, Stratégie*, December, 1999.
- Barnes, L. and Herson, S., 'Transforming power in the family business,' *Harvard Business Review*, July-August, 1976.
- Barry, B., 'The development of organization structure in the family firm', *Journal of General*

*Management*, 3, 1975.

Baskin, O.W., 'Trust as a competitive advantage: why family firms have an edge in the global marketplace', *The Graziadio Business Report*, Spring, 2001.

Beckhard, R. and Dyer, W., 'Managing continuity in the family-owned business', *Organizational Dynamics*, 12, 1983.

Carlos A. Benavides-Velasco , Cristina Quintana-García , Vanesa F. Guzmán-Parra (2013), Trends in family Business Research, *Small Bus Econ* (2013) 40:41–57

Daily, C., and M. Dollinger. 1992. An empirical examination of ownership structure in family and professionally-managed firms.

*Family Business Review* 5, 2:117–136.

Daily, C., and M. Dollinger. 1993. Alternative methods for identifying family vs. non-family managed small businesses. *Journal*

*of Small Business Management* 31, 2:79–90.

Deutsche Bank Institut für Familienunternehmen, 'These zur Situation von Familienunternehmen', downloaded on September 10, 2002 from [www.uniwh.de/de/lehrstuhle/difu/familien/konzeption/html](http://www.uniwh.de/de/lehrstuhle/difu/familien/konzeption/html), 2001 *Family Business Review*, 9 (1), 1996, pp. 5-14.

Faccio, M., Larry P.H. and Young L., 'Dividends and expropriation', *American Economic Review*, 91, 2001, pp. 54-78.

Fama, E. F., 'Agency problems and the theory of the firm', *Journal of Political Economy*, 88, 2, 1980.

Gallo, M.A., Tapiés, J. and Cappuyns, K., 'Comparison of family and non-family business: financial logic and personal preferences', *IESE Research Paper No 406 bis*, January, 2000.

Gallo, M.A., Cappuyns, K. and Estape, M.J., 'La continuidad de las empresas familiares', *Research Paper IESE*, No 290, 1995.

Goffee, R. and Scase, R., 'Proprietorial control in family firms: some functions of "quasiorganic" management systems', *Journal of Management Studies*, 22, 1, 1985.

Gonzalez M., Guzman, A., Pombo, C. and Trujillo, M.A. (2013) Family firms and debt: Risk aversion versus risk of losing control. *Journal of Business Research*, 66(11), pp2308–20

Habbershon, T., Williams, M. and MacMillan, I., 'A unified systems theory of family firm performance', *Wharton Enterprising Families Initiative Working Papers*, No 103, August 2001, Philadelphia, The Wharton School, University of Pennsylvania, 2001, pp. 2-16.

- Hall, P. D., 'A historical overview of family firms in the United States', *Family Business Review*, 1 (1), 1988. Harvard Business School Executive Education Brochure, 2001.
- Hall, P. D., 'A historical overview of family firms in the United States', *Family Business Review*, 1 (1), 1988.
- Handler, W. C. (1994). Succession in family business: A review of the research. *Family Business Review*, 7(2), 133–157
- Handler, W. C. 1989. Methodological issues and considerations in studying family Businesses. *Family Business Review* 2, 3: 257–276.
- Handler, W. C. 1994. Succession in family business. *Family Business Review* 7, 2:133–157.
- Harris, D., Martinez, J.I. and Ward, J.L. (1994). Is strategy different for the family-owned business? *Family Business Review*, 7(2), pp159–74.
- Poza, E. J., Alfred, T. and Maheshwari, A., 'Stakeholder perceptions of culture and management practices in family and family firms; a preliminary report', *Family Business Review*, 10 (2), 1997
- Sharma, P., Chrisman, J. J., and Chua, J. H. (1996). *A review and annotated bibliography of family business studies*. Boston, MA: Kluwer Academic Publishers.
- Sharma, P., Chrisman, J. J., and Chua, J. H. (2003). Succession planning as planned behavior: Some empirical results. *Family Business Review*, 16(1), pp1-15.
- Sharma, P., Chrisman, J. J., Pablo, A. L., and Chua, J. H. (2001). Determinants of initial satisfaction with the succession process in family firms: A conceptual model. *Entrepreneurship Theory and Practice*, 25(3), 17-36.
- Sharma, P., Chua, J. H., and Chrisman, J. J. (2000). Perceptions about the extent of succession planning in Canadian family firms. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration*, 17(3), pp233-44
- Stoy Centre for Family Business in association with the Leverhulme Trust and Westhead, P., Cowling, M. and Storey, D., 'The management and performance of family businesses in the UK', Warwick Business School, 1997.
- Tagiuri, R. and Davis, J., 'Bivalent attributes of the family firm', *Family Business Review*, 9 (2), 1996.

Westhead, P. and Cowling, M., 'Performance contrasts between family and non-family unquoted companies in the UK', *International Journal of Entrepreneurial Behaviour and Research*, Vol. 3 No.1, 1997, pp. 30-52.

Westhead, P., 'Ambitions, "external" environment and strategic factor differences between family and non-family companies', *Entrepreneurship and Regional Development*, 9 (2), 1997



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **A STUDY OF STRATEGIC MANAGEMENT IN FAMILY BUSINESS AND ITS IMPACT ON FIRM PERFORMANCE**

**Dr Rajat Gera<sup>1</sup>, Dr Pragati Chauhan<sup>2</sup>**

*<sup>1</sup>rajatgera@mru.edu.in <sup>2</sup>pragati@mru.edu.in*

---

**ABSTRACT:** Family business is a business governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families. The literature on strategic management in family firms is mostly descriptive, and its impact on performance and the achievement of the owners' goals remains understudied. Strategic planning is critical for family businesses as a way of providing a framework for reconciling family and business issues and for promoting open and shared decision making. It is believed that theory of family business should incorporate a strategic management perspective..

This study aims to evaluate the process of goal setting and the effect of strategic tools and decision making practices adopted by family companies, on firm performance. The study will be conducted in Indian context and sampling frame will be the family business managers, owners and family members . The research design will be descriptive and cross sectional. The data will be evaluated using multivariate techniques. The study will be conducted in National Capital region of Delhi. The strategic management framework adopted for the study is based on a simplified model of the strategic management process. Some of the research questions addressed would be what the business's goals are, who sets them, and why the business selects particular goals; how a family business differs from a non-family business with respect to the strategic management process. What are the reasons for the same. Which differences affect performance positively

**Keywords:** *Family Business, strategic planning, firm Performance*

Research shows that about 90% of the business in the United States are family owned and controlled (Ibrahim & Ellis) and contributed 30 to 60 percent of its gross domestic product (GDP) and 50% of total wages paid (Glueck & Meson, 1980; Ibrahim & Ellis, 1994; Ward, 1987). According to Dreux (1990) family business universe is possibly equal to or larger than the entire publicly owned universe in size and scope of economic activity. He described family owned firms as a —parallel economy. Literature shows that family firms outperform their industry groups and public owned companies. Monsen (1969) concluded that family business net income to net worth ratio was 75% higher than manager-controlled firm, have higher return on investment, have a better managed capital structure and more efficient allocation of resources. Jaffe (1990) quoted a 1986 study by US News and World Report that of the 47 largest family owned firms, 31 outperformed the Dow-Jones Index. A family owned business that won the 1996 Ernst and Young Fastest Growing Family Award (Genusa, 1994) had shown a 6000% growth rate (Benavides et al., 2013).

A planning process to guide and coordinate both company and family actions is critical for following reasons: a planning process will encourage the family to examine its values, needs and goals on a regularly scheduled basis; development of an effective planning process will help the family focus on the business and create new strategies to revitalize the company and promote future growth over years and generations..

Harris and Ward (1994) in their research on family business strategy concluded that although significant percentage of USAs largest companies are family controlled, there is dearth of research on Strategy. They proposed topics for research on family business strategy which included mission, industry and situation analyses, global strategy, and strategy implementation. Dyer (2006) examined the performance of family- owned firms. And concluded that most research in FBs fails to incorporate the family effect on organizational performance.



Westhead and Howorth (2006) in their research on privately held family businesses in UK based on agency and stewardship theories to explore relationship between ownership and management profiles and the performance and objectives of family firms. Their research showed that management rather than the ownership structure of a family business was strongly related with selected firm-performance indicators and non financial Company objectives. Blumentritt (2006) in their study on relationships between existence of boards of directors and advisory boards and the use of planning in family business found significant relationship between the primary roles of boards, the governance of a firm's management team and the provision of valuable business resource of the firms management team, with the use of planning activities in family business. Basco and Rodriguez (2009) in their study with Fbs in Spain empirically established that FBs that give more emphases to family and business as a whole have better family and business results compared to FBs that constrain governance businesses. They identified four basic dimensions to describe the governance and the nature of the family and the business.

There is however scant research on strategic management process followed in FBs especially in context of India which is an emerging economy and dominated by FBs. Strategic planning is critical for family businesses especially to provide a framework for aligning family and business issues and for establishing open and shared decision making. Strategic Management in FBs is required to develop goals and strategic tools suitable for FBs , and formulation of strategic decisions and practices such as location, total quality, networks and inter organizational cooperation, acquisitions, corporate diversification, etc. However , the literature on strategic management in FBs is descriptive, and there is a need for studies on the impact on performance and owners' goals.

Distelberg and Sorenson (2009) provided a framework for understanding FBs holistically and discussed the the goals, resource transfer, strengths, and limitations of each type of system. They described how firm adaptability and resource flows influenced and changed these family business system. They argued that to understand family businesses health, one must understand the values and goals that guide the family business work and ownership systems, as well as the overfill family business system;

Zahra and Sharma (2004) emphasized the need of developing a theory of the family firm which should incorporate a strategic management perspective. According to some researchers, the resource based view has the potential to help identify the resources and capabilities that make family firms unique and allow them to survive and grow, and create differences in the performance of family and non family enterprises (Chrisman et al. 2005; Habbershon and Williams 1999).

Family businesses are known to vary across national cultures (Bhalla et al. 2009) and there is a need to understand the strategy making processes and distinctive resources and capabilities in family business that operate within their national settings as compared to those that operate Internationally.

There is still a dearth of studies exploring the strategy processes and the factors that influence the strategy within these types of firms (Bhalla et al. 2006; Kelly et al. 2000). Further research should advance in the knowledge of how SMEs and FBs can individually develop unique resources and capabilities to create competitive advantages. This study aims to evaluate the process of goal setting and the effect of strategic tools and decision making practices adopted by family companies, on firm performance.

Our understanding of strategic management issues in Asian family businesses seems to be insufficient (Jiang & Peng, 2011; Liu, Yang, & Zhang, 2012; Sharma & Chua, 2013).

Chrisman et al, 2005 advocated field studies that document in detail the activities of family business owners, family managers, other family members, and nonfamily managers to evaluate whether family involvement affects performance of FBs. While there is conclusive evidence as regards founding family involvement in large firms, further research is needed to determine whether this is true in small firms and in firms where family involvement is not confined to a founding family (i.e., family management buy-outs and purchasing an existing business by a family from the outside).

## **FBs**

“Family business” refer to a firm that is owned and managed by family members, although a family business may evolve into a private business after generations (Gersick, Davis, Hampton, & Lansberg, 1997). Private business and family business are likely to differ as regards ownership structure and management control of strategic decision making.

Family businesses from Asia Pacific have become global giants such as Cheung Kong Group in Hong Kong, CP Group in Thailand, and chaebols in South Korea. Some of the newly emerged giants from mainland China, such as Huawei (the largest telecommunications equipment maker in the world) and Wanxiang Group (a global leader in the auto parts industry), are family businesses.

However there is lack of consensus on what constitutes a FB in literature, Its observed that businesses with the same level of family involvement may or may not consider themselves family businesses, and that their perspective may change over time has led researchers to define FBs theoretically using the following characteristics (1) a family’s influence over the strategic direction of a firm (Davis & Tagiuri, 1989); (2) the intention of the family to keep control (Litz, 1995); (3) family firm behavior (Chua et al., 1999); and (4) unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions (Habbershon, Williams, & MacMillan, 2003).

The RBV perspective explains that the two systems lead to sustainable capabilities or “familiness” (Habbershon et al.; Habbershon & Williams, 1999) that make family business uniquely positioned to survive and grow. A family’s vision and intention for transgenerational sustainability may lead to the institutionalization of the perceived value of the combined family and business systems (cf. Selznick, 1957), thus encouraging cooperation to create utilities for members of a family business and shape their behaviors and decisions.

The definition proposed by Astrachan, Klein, and Smyrnios (2002) that the extent to which a firm is a family business should be determined by how family involvement is used to influence the business is accepted for this study.

### **Strategic management in FBs**

Strategy is defined as a set of decisions and actions that are designated to exploit organizational competitive advantages in order to achieve pre-set objectives. Researchers have explored the relationships among strategy content, context, and processes; and/or an impact of such relations on firm performance (Hoskisson et al., 2000; Pettigrew, 2003; Wright et al., 2005). Research shows that in developed economies strategy-making processes vary according to the types of strategic content.

A number of studies show that FBs and NFBs differ in terms of goals (Lee & Rogoff, 1996), ethics (Adams, Taschian, & Shore, 1996), international structures and strategies (Tsang, 2002; Zahra, 2003), and corporate governance (Randøy & Goel, 2003). Some studies have found little or no difference between family and nonfamily firms on dimensions such as sources of debt financing (Coleman & Carsky, 1999), strategic orientation (Gudmunson, Hartman, & Tower, 1999), management and governance characteristics (Westhead, Cowling, & Howorth, 2001), problems and assistance needs (Welsch, Gerald, & Hoy, 1995), and risk (Gallo, Tapias, & Cappuyns, 2004).

Family business researchers have established that the unique attributes of family businesses allow them to gain strategic advantage by organizing their business activities efficiently and effectively. Hoffman, Hoelscher and Sorensen (2006), established that the influence of the family relationships on the business is a significant factor in strategic management of FB. The characteristics which make strategic management of FB unique are: family businesses have a paternalistic relationship between the owners/managers and employees (Bertrand and Schoar, 2006), and have cohesive clan cultures in which employees are hired for the long-run and treated generously (Miller and Le Breton-Miller, 2005). Secondly, family businesses have unique capabilities which engender trust, inspiration, motivation, and commitment among the workforce and there is a strong desire to develop customer relationships and the demonstration of flexibility in decision-making (Tokarczyk et al., 2007). Third, the reputation of family businesses are more trustworthy and they experience lower overall transactions costs (Tagiuri and Davis, 1996). FBs are likely to nurture social relationships and connections, and maintain the integrity and commitment in those relationships (Miller et al., 2009). Fourthly, families may control their businesses by giving priority to family members in top management and other sensitive positions,

and are also selective in their recruitment procedures (Bertrand and Schoar, 2006) which allows family businesses to have lower recruitment and human resource costs, thus making them more efficient especially in labor-intensive businesses (Levring and Moskowitz, 1993). These characteristics allow FBs to develop and implement effective and efficient business strategies.

Studies of strategic management in Asian societies have recognized the importance of contextual factors in research (Li & Peng, 2008; Lu, Tsang, & Peng, 2008). Xu and Meyer

(2013) noted that, strategy research in emerging economies, including Asia Pacific regions, have encountered four main challenges in terms of (1) less efficient markets, (2) dominance of governments as both rule makers and players in economic activities, (3) preference for network-based behaviors, and (4) high risk and uncertainty caused by high volatility of key economic, political, and institutional variables. All these factors are related to societal contexts.

Recent research has further advanced the strategy literature through the examination of how contextual factors and institutional variables shape and influence firm strategy making and execution (Au, 2007; Chu, 2011; Filatotchev, Zhang, & Piesse, 2011; Huang, Chen, & Kao, 2012; Li & Peng, 2008; Lu et al., 2008; Peng, Bhagat, & Chang, 2010; Xu & Meyer, 2013; Yang & Terjesen, 2007).

Rationality is contextually dependent—or “contextual rationality” (Townley, 2008). Therefore researchers need to incorporate contextual factors into their research design, data collection, and analysis. The Asian contextual factors are distinct in terms of state authoritative structures, late comer status in industrialization, diversity of religious beliefs, varieties of political systems, and a mix of transition versus emerging economies (Au, 2007; Carney, Gedajlovic, & Yang, 2009; Globerman, Peng, & Shapiro, 2011; Li & Peng, 2008; Peng, 2003; Pye, 1985; Whitley, 1990).

These contextual factors are assumed to influence firm strategy formation and execution, especially in family businesses.

This study aims to evaluate the process of goal setting and the effect of strategic tools and decision making practices adopted by family companies, on firm performance.

## **Goals and Firm performance**

Goals direct the firm to achieve vision and provide a framework for unifying the planning process. In a family firm goals allow the family shareholders to understand and support management's plans. Goals provide a basis for evaluating management's performance and making decisions about future investment. A family business needs objective criteria for assessing family or non-family management performance. The work of the management team in creating a business philosophy, setting goals and exploring a Business Vision creates their statement of Strategic Commitment. The goals and objectives of a family business are likely to be quite different from the firm-value maximization goal assumed for publicly held and professionally managed non-family firms. According to some authors the family firm's goals could be family or business centered (Singer and Donoho, 1992). Other researchers see the goals as changing through the interaction of the needs of the family and the firm (Danco, 1975; Davis and Tagiuri, 1989; McGivern, 1989)

It is hypothesized that there is a significant relationship between goal setting and business performance of FBs.

## **Methodology**

### **Conceptual Approach**

The study was conducted using the parallel planning process (PPP) model (Carlock and Ward, 2001). The PPP model proposes that family members as well as the management team are simultaneously exploring the family and business systems. This collaborative process not only yields new ideas, but also establishes a shared understanding of the family business' values, goals, strengths, weaknesses, threats and potential opportunities. According to this model, the real value of planning lies within the group's discussion and thinking so that family and business goals and planning are aligned (Carlock and Ward, 2001).

The study is conducted in Indian context and sampling frame is the family business managers, owners, family members and family controlled managers of family businesses. Sampling method is non probability judgemental and quota based to overcome the disproportionate representation of family business in some industrial sectors. The research design is descriptive and cross sectional. Family business are identified by use of self-reporting to identify *ex post* those which are family firms (Wortman 1994; Daily and Dollinger 1992, 1993; Handler 1989). Firms selected for the study were identified in the National Capital region of Delhi through expert opinion of two academicians and two industry practitioners.

A questionnaire was developed for the study on the following dimensions of strategic management process.

Goals of FB are measured as: where employees can be happy, productive and proud; to provide financial security and benefits for the owner; to develop new quality products; to serve as a vehicle for personal growth, social advancement, and autonomy; to promote good corporate citizenship; and to provide job security, based on an empirical study on the goals of family business by Tagiuri and Davis (1992)

Management which is measured as planning and budgeting; organizing; analyzing problems; building and using management systems; prudently allocating resources, and providing performance feedback

Demographics of FB were measured on the indicators of age of business; age/gender/marital status/highest education/ of CEO/MD/business owner; generation 1/2/3/4; Sales turnover/profits for last three years; Products/services category

The Strategic planning process was evaluated using the PPP model. The attributes to evaluate Family Vision were What are the family's core values?, What is the family's vision of their relationship to each other and the business?, What is the Family Business Philosophy?, What is the family's level of commitment to business ownership?, Is the family willing to participate actively in supporting the business?, How will the family prepare family members for management and leadership roles?, Who will own the business in the future?

The strategic management process was measured on exploring business vision, setting business goals, setting business objectives, assessing the firm's potential, exploring business strategies and finalizing strategy and investment decisions, Formulating plans and tactics

Family business issues were measured as What career qualifications are required to work for the business? How are financial rewards shared? How should ownership be distributed?, What returns does ownership receive?, Who has what leadership responsibilities?, How are family and business decisions balanced?, What roles should the family and business play in the community?, What non-career roles (governance, or family leadership) does the family need to play?

Business performance is measured as Costs of doing business; competitiveness of products/services; Ability to expand into related Industries; market share; profitability;

## References

Adams, J., Taschian, A., & Shore, T. (1996). Ethics in family and nonfamily owned firms: An exploratory study. *Family Business Review, 9*, 157–170.

Albanese, R., Dacin, M.T., & Harris, I. (1997). Agents as stewards. *Academy of Management Review, 22*, 609–611.

Aldrich, H. & Cliff, J. (2003). The pervasive effects of family on entrepreneurship: Toward a family embeddedness

perspective. *Journal of Business Venturing, 18*, 573–596.

Anderson, R., Mansi, S., & Reeb, D. (2003). Founding family ownership and the agency cost of debt. *Journal of Financial Economics, 68*, 263–285.

Astrachan, J.H., Klein, S., & Smyrnios, K.X. (2002). The F-PEC scale of family influence: A proposal for solving the family business definition problem. *Family Business Review, 15*, 45–58.



- Astrachan, J.H. & Shanker, M.C. (2003). Family businesses' contribution to the U.S. economy: A closer look. *Family Business Review*, 16, 211–219.
- Bertrand, M., & Schoar, A. (2006). The role of family in family firms. *Journal of Economic Perspectives*, 20(2), 73-96.
- Bhalla, A., Henderson, S., & Watkins, D. (2006). A multiparadigmatic perspective of strategy: A case study of an ethnic family firm. *International Small Business Journal*, 24(5), 515–537.
- Bhalla, A., Lampel, J., Henderson, S., & Watkins, D. (2009). Exploring alternative strategic management paradigms in high-growth ethnic and non-ethnic family firms. *Small Business Economics*, 32(1), 77–94.
- Blanco-Mazagatos, V., de Quevedo-Puente, E., & Castrillo, L. A. (2007). The trade-off between financial resources and agency costs in the family business: An exploratory study. *Family Business Review*, 20(3), 199–213.
- Blumentritt Timothy (2006), —Relationship Between Boards and Planning in Family Business , *Family Business Review*, Vol. 19, no.1, pp.65-72.
- Carlos A. Benavides-Velasco , Cristina Quintana-García , Vanesa F. Guzmán-Parra (2013), Trends in family Business Research, *Small Bus Econ* (2013) 40:41–57
- Chua, J.H., Chrisman, J.J., & Sharma, P. (1999). Defining the family business by behavior. *Entrepreneurship Theory and Practice*, 23, 19–39.
- Chua, J.H. & Schnabel, J. (1986). Nonpecuniary benefits and asset market equilibrium. *Financial Review*, 21(2), 112–118.
- Coleman, S. & Carsky, M. (1999). Sources of capital for small family-owned businesses: Evidence from the national survey of small business finances. *Family Business Review*, 12, 73–85.
- Davis, J.A., Schoorman, F., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22, 20–47.

Daily, C. M., & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms, *Family Business Review*, 5(2), 117–136.

Dollinger, M. J. (1995). *Entrepreneurship Strategies and resources*. Burr Ridge, IL: Irwin

Distelberg Brain and Sorenson (2009), —Critical Systems Concepts in Family Business ,*Family Business Review*, Vol.22,no.1,pp.65-81.

Dreux D R (1990), —Financing Family Factor, The Impact of Family Relationship Dynamics on Business-Owning Families during Transitions , *Family Business Review*, Vol.12, no.1, pp.41-57.

Gallo, M., Tapies, J., & Cappuyns, K. (2004). Comparison of family and nonfamily business: Financial logic

and personal preferences. *Family Business Review*, 17, 303–318.

Gomez-Mejia, L. R., Larraza-Kintana, M., & Makri, M. (2003). The determinants of executive compensation in family-controlled public corporations, *Academy of Management Journal*, 46(2), 226– 237.

Gomez-Mejia, L. R., Nuñez-Nickel, M., & Gutierrez, I. (2001). The role of family ties in agency contracts, *Academy of Management Journal*, 44(1), 81–95.

Gudmunson, D., Hartman, E.A., & Tower, C.B. (1999). Strategic orientation: Differences between family

and nonfamily firms. *Family Business Review*, 12, 27–39.

Habbershon, T. & Williams, M. (1999). A resource-based framework for assessing the strategic advantages of family firms. *Family Business Review*, 12, 1–25.

Habbershon, T., Williams, M., & MacMillan, I. (2003). A unified systems perspective of family firm performance. *Journal of Business Venturing, 18*, 451–465.

Hickson, D., Butler, R., Cray, D., Mallory, G., & Wilson, D. 1986. *Top decisions: Strategic decision making in organizations*. San Francisco, CA: Jossey-Bass.

Hoffman, J., Hoelscher, M., & Sorensen, R. (2006). Achieving sustained competitive advantage: A family capital theory. *Family Business Review, 19*(2), 135-145.

Hoskisson, R., Eden, L., Lau, C. M., & Wright, M. 2000. Strategy in emerging economies. *Academy of Management Journal, 43*: 249–267.

Huang, Y., Chen, A., & Kao, L. 2012. Corporate governance in Taiwan: The non monotonic relationship between family ownership and dividend policy. *Asia Pacific Journal of Management, 29*(1): 39–58.

Jiang, Y., & Peng, M. W. 2011. Are family ownership and control in large firms good, bad, or irrelevant?. *Asia Pacific Journal of Management, 28*(1): 15–39.

Li, Y., & Peng, M. W. 2008. Developing theory from strategic management research in China. *Asia Pacific Journal of Management, 25*(3): 563–572.

Liang, Q., Li, X., Yang, X., Lin, D., & Zheng, D. 2013. How does family involvement affect innovation in China?. *Asia Pacific Journal of Management, 30*

- Liu, W., Yang, H., & Zhang, G. 2012. Does family business excel in firm performance? An institution based view. *Asia Pacific Journal of Management*, 29(4): 965–987.
- Litz, R. (1995). The family business: Toward definitional clarity. In D.P. Moore (Ed.), *Proceedings of the Academy of Management*, (pp. 100–104). Vancouver, BC, Canada, August
- Lee, M. & Rogoff, E. (1996). Research note: Comparison of small businesses with family participation versus small businesses without family participation: An investigation of differences in goals, attitudes, and family/business conflict. *Family Business Review*, 9, 423–437.
- Lu, Y. 1996. Management decision making in Chinese enterprises. London: Macmillan.
- Lu, Y., Tsang, E. W. K., & Peng, M. W. 2008. Knowledge management and innovation strategy in the Asia Pacific: Toward an institution-based view. *Asia Pacific Journal of Management*, 25(3): 361–374.
- Miller, D., & Le Breton-Miller, I. (2005). *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses*. Boston, MA: Harvard Business School Press.
- Miller, D., Lee, J., Chang, S., & Le Breton-Miller, I. (2009). Filling the institutional void: the social behavior and performance of family vs non-family technology firms in emerging markets. *Journal of International Business Studies*, 40, 802-817.
- Miller, D. & Le-Breton-Miller, I. (2005). *Managing for the long run: Lessons in competitive advantage from great family businesses*. Boston: Harvard Business School Press.
- Orrù, M., Biggart, N. W., & Hamilton, G. G. (Eds.). 1997. The economic organization of East Asian capitalism. London: Sage.
- Pangarkar, N., & Wu, J. 2013. Alliance formation, partner diversity, and performance of Singapore startups. *Asia Pacific Journal of Management*, 30

Randøy, T. & Goel, S. (2003). Ownership structure, founder leadership, and performance in Norwegian

SMEs: Implications for financing entrepreneurial opportunities. *Journal of Business Venturing*, 18, 619–637.

Selznick, P. (1957). *Leadership in administration*. Berkeley, CA: University of California Press.

Tagiuri, R., & Davis, J. A. (1996). Bivalent attributes of the family firm. *Family Business Review*, 9(2), 199-208.

Townley, B. 2008. Reason's neglect: Rationality and organizing. Oxford: Oxford University Press.

Welsch, H., Gerald, H., & Hoy, F. (1995). Family impacts on emerging ventures in Poland. *Family Business*

*Review*, 8, 293–300.

Westhead, P., & Cowling, M. (1998). Family firm research: The need for a methodological rethink, *Entrepreneurship: Theory and Practice*, 23(1), 31– 56.

Whitley, R. 1990. Eastern Asian enterprise structures and the comparative analysis of forms of business organization. *Organization Studies*, 11: 47–74.

Wright, M., Filatotchev, I., Hoskisson, R., & Peng, M. W. 2005. Strategy research in emerging economies: Challenging the conventional wisdom. *Journal of Management Studies*, 42: 1–33.

Wright et al. (2005). *Journal of Management Studies*, in press.

Williamson, O. E. (1981). The economics of organization: The transaction cost approach, *American Journal of Sociology*, 87, 548–577.

Wong, B., McReynolds, B. S., & Wong, W. (1992). Chinese family firms in the San Francisco Bay area, *Family Business Review*, 5(4), 355–372.

Xu, D., & Meyer, K. 2013. Linking theory and context: 'Strategy research in emerging economies' after

Yang, X., & Terjesen, S. 2007. In search of confidence: Context, collaboration and constraints. *Asia Pacific Journal of Management*, 24(4): 497–507.

Yiu, D.W., Su, J., & Xu, Y. 2013. Alternative financing and private firm performance. *Asia Pacific Journal of Management*, 30(this issue, doi:[10.1007/s10490-012-9303-y](https://doi.org/10.1007/s10490-012-9303-y)).

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. 2008. Corporate governance in emerging economies: A review of the principal-principal perspective. *Journal of Management Studies*, 45: 196–220.

Zahra, S. A., Hayton, J. C. and Salvato, C. (2004), 'Entrepreneurship in family vs. non-family firms: a resource-based analysis of the effect of organizational culture', *Entrepreneurship Theory and Practice*, 28 (4), 363–81



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## THE IMPACT OF FEMALE ENTREPRENEURSHIP

### ON ECONOMIC GROWTH IN INDIA

Dr Rajat Gera<sup>1</sup>, Dr Pooja Kapoor<sup>2</sup>

<sup>1</sup>rajatgera@mru.edu.in<sup>2</sup>pooja@mru.edu.in

---

**ABSTRACT:** Women Entrepreneurship” is an act of business ownership and business creation that empowers women economically , increases their economic strength as well as position in society . women-entrepreneurs have been making a considerable impact in all most all the segments of the economy which is more than 25% of all kinds of business. In India “Entrepreneurship” is very limited amongst women especially in the formal sector, which is less than 5% of all the business. The purpose of this paper is to explore the challenges facing female entrepreneurs in India. The study draws on primary research conducted through face to face surveys with female entrepreneurs in India in a wide range of sectors, all of whom have their own micro enterprises. It draws on the framework of Bates et al (2007 ) and Baughn et al (2006) to look at the entrepreneurship landscape in India and the barriers and constraints faced by women entrepreneurs as well as the support and opportunities available. In order for female entrepreneurship to have a greater impact on economic growth within India . The study will be based on three sources of evidence (i) structured interviews with female entrepreneurs working within the field of micro finance and women’s entrepreneurship in India; (ii) semi-structured interviews with employees of selected organisations; and (iii) direct observation. The women entrepreneurs will be selected through non probability judgemental sampling techniques within the national Capital Region of Delhi. Capital of India.

**Keywords:** *Women Entrepreneurship, economy, India*

According to the International Labour Organisation (ILO) women entrepreneurs now account for a quarter to a third of all businesses in the formal economy worldwide (Nxopo 2014). Entrepreneurship has been a male-dominated phenomenon, but time has changed the situation and brought women as today's most memorable and inspirational entrepreneurs, even in traditionally male dominated sectors such as construction (Vinesh 2014). According to Das (2001), women are increasingly turning to entrepreneurship as a way of coping with the 'glass ceiling' that seems prevent them from reaching top managerial levels in organisations. Women have realised that they can do what men do, or even better than them in terms of business ventures (Singh 2012) The female entrepreneur's role is evident in growth leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity and the formation of new industries (Nxopo 2014). Van der Merwe (2008) asserts that female entrepreneurship is increasing rapidly and women are starting their own business to take control of their personal and professional lives. Meyer (2009) points out that women entrepreneurs increasingly are considered important for economic development and they not only contribute to employment creation, but they also contribute to the diversity of entrepreneurship in the economic process. Promoting women's economic and political empowerment has gained greater attention over the last three decades (Defene, 2007).

Literature

### **Women Entrepreneur**

An entrepreneur is an individual with a skill, mindset and the vision to start up a high-potential venture and the typically more seasoned, risk averse professional with the ability to scale the enterprise (Timmons & Spinelli, 2009:4). An entrepreneur is, therefore, any individual who



establishes a new firm, usually with considerable initiative and risk. These entrepreneurs play an indispensable role in ensuring that the economy continues to prosper and grow.

The international definition of an entrepreneur is that he or she is an enterprise builder, perceives new business opportunities, creates businesses where none existed before, directs these businesses by using his or her own and borrowed capital, takes the associated risks and enjoys profit as rewards for the efforts (International Labour Organization, 2015). Governments look to entrepreneurship as a critical driver of growth and job creation.

As per Holmquist (1997), empirical studies of women entrepreneurs and the development of theories about women entrepreneurs has been neglected in descriptive & perspective research work. Baker al. (1997) found that that surveys with focus on women entrepreneur account for only 6-8 percent of international research into entrepreneurship.

Brush (1992) concluded from the review of existing research that women's business leadership cannot be understood using traditional (male oriented) framework of business analysis. She states that "significant difference have been found in skills, business goals, management styles, business characteristics and growth rates" which suggest that women perceive and approach business differently than men".

Ahl's (2006) critiqued female entrepreneurship to highlight the limits to the impact of female entrepreneurship on economic development and consumption smoothing. .

Prior studies show that women entrepreneurship impact economic growth through employment creation, economic growth, innovation and diversity of entrepreneurship (Verheul et al, 2006 Jamali, 2009). Female owned businesses are one of the fastest growing entrepreneurial populations in the world (Brush et al. 2006).

Ahl's (2006) critiqued female entrepreneurship because of the excessive focus of women entrepreneurship studies on economic growth, while ignoring other factors, higher focus on individual rather than social structure and collective environment and because, research on female entrepreneurs and entrepreneurship is highly individualistic. Ahl (2006, 605) argued that, 'contextual and historical variables...such as legislation, culture, or politics are seldom discussed'.

This study aims to attenuate all three criticisms were through the methodology of this study and so that Indian contextual and historical variables are incorporated in the study

### **Challenges faced by Women entrepreneurs**

Prior research has demonstrated that household poverty levels can be reduced increase access for women to income-earning activities to empower them economically (Daniels, Mead and Musinga, 1995, K-Rep, in Bula and Tiagha, 2012).

Financing is well established as one of the major challenges to entrepreneurship as an income earning activity, especially in the initial stages of the businesses' development (Brush et al., 2002, Carter et al., 2007, Robb and Coleman, 2010). Female entrepreneurs often face challenges in accessing finance due to lack the savings required to attract investment, lack of collateral and limited access to land (Welter et al., 2007). According to Welter *et al.* (2007) key forces influencing females to engage in activities with low entry thresholds and low financial risk are resource constraints, environmental uncertainty and specific female aversion to risk-taking.

Micro – credit pioneered by the Grameen Bank in 1976 in many countries has led to significant increase in women's entrepreneurial activity and has successfully alleviating poverty amongst the poor, and empowering the poor, particularly women (Hulme, 2008).

However, a note by Overseas Development Institute in 2011 quoted Dichter (2006) who found that microfinance had often been used to cover basic consumption needs rather than fund enterprise. Because of such evidence, the microfinance sector is now representative of consumption 'smoothing' (Collins et al., 2009) which can reduce risk and vulnerability, but can also lead to poor individuals substituting microcredit for non-existent income which becomes unsustainable. Thus microfinance may be considered as a successful tool for eradicating poverty but is not adequately successful to support economic growth.

Brush et al.'s (2009) 'gender-aware framework for women's entrepreneurship' built on the existing "3M" framework (Bates et al. 2007) has been extensively used in the development of research on

women entrepreneurs. The “3M” framework suggests that ‘venture creation is generally organised around three basic constructs, namely markets, money and management “3Ms”.’ These authors have incorporated ‘motherhood’ and the “meso/macro environment” to explore societal factors under the “5M” framework. Thus, as Brush et al. suggest the “5M” framework advances the original theory by incorporating contextual variables such as household and family context of the individual entrepreneur (motherhood), and the expectations of society and cultural norms (meso and macro environment) without compromising the initial 3M framework of markets, money and management.

Entrepreneurship can take many forms. Baughn et al. (2006) focus is on the individual, identifying two categories of entrepreneur; necessity entrepreneurs who are pushed towards entrepreneurship because of the restrictive nature of the labour market or glass ceiling career problems, and opportunity entrepreneurs who experience pull factors such as independence, challenge, initiative and ideas that encourage entrepreneurial activity (Hughes, 2003; Baughn et al. 2006). Baughn et al. (2006) also recognise, in line with the

### *Barriers to growth*

While prior research has focused on why women choose to become entrepreneurs, there has been lack of research on the level of growth of these businesses and how that growth contributes to economic growth. McCormick (2001) (in Stevenson and St-Onge, 2005) state that women owned businesses are smaller, less likely to grow, less profitable and begin with less capital investment than those owned by men. McCormick attributes three factors for the same ; lower levels of education, reduced ability to save, and reduced time available to spend in business due to the dual role they are expected to perform at work and in the household as mothers (Brush et al 2006).

Thus women entrepreneurs need to be supported in skills development and training. However, non-business enabling environment factors such as their attitudes towards business and their entrepreneurial characteristics may also be inhibiting growth of women owned businesses.

Baughn et al (2006) identified the restrictive nature of the labour market or glass ceiling career problems as reasons why women entrepreneurship is often associated within developing countries, by leaving stable jobs in the formal sector and joining the informal sector through micro finance schemes to start their own businesses. This is contrary to what the literature suggests

regarding the inhibiting environment for women in accessing loans and therefore starting their own businesses. The evidence suggests that a shift from employment in the formal sector to the informal sector is common to most developing countries (United Nations University Policy Brief 2013). 'During the past three decades, in most developing countries, growth of employment in the formal sector has stagnated or at best shown a gradual ascent while the informal economy has increased significantly' (Bacchetta, Ernst, and Bustamante, 2009 in United Nations University, 2013). The Policy Brief cites Chen (2005) to illustrate this point who found that in India, the informal economy accounts for about 93 per cent of total employment.

The informal sector however presents barriers to growth of micro enterprises size. Ishengoma and Kappel (2006), Tokman (2001) and Morrisson (1995) suggested 'formalising the informal economy' and discussed the problems for the same, such as financial burden of taxation. . Tokman (2001) argues for a more serious approach by actors in the informal sector. Morrisson (1995) suggested that government officials should address the problems relating to the informality of the sector, Thus there is need for co operation between the informal sector, and the government to develop a business enabling environment that promotes economic growth through micro finance.

### *Methodology*

The study is conducted in Indian context and sampling frame is Indian women entrepreneurs . Sampling method is non probability judgemental and quota based to overcome the disproportionate representation of women business in some industrial sectors. The research design is descriptive and cross sectional. Women entrepreneurs were selected for the study in the National Capital region of Delhi through expert opinion of two academicians and two industry practitioners.

The study uses three sources of evidence (i) structured interviews with female entrepreneurs (ii) semi-structured interviews with employees of selected organisations; and (iii) direct observation

The women entrepreneurs were selected by judgemental sampling method in National capital region of Delhi where basic infrastructure was available. Specific focus in the interviews was on access to land and collateral, access to finance, education and training, the dual role within the household, and the political and social structure within India and how it impacts on women entrepreneurs

The instrument used for the study consisted of following attributes

#### Demographics

<25 25-45 years above 45 yrs

#### Educational

Language proficiency --english/hindi/regional

No of hrs spent in running business/hh chores per day

#### About Business

-No of years since of operational business

access to finance

size of loan

source of loan-banks/personal/NGO/partnership/Govt organizations/friends and relatives/private lender/micro finance

-Amount of income generated every month

Profit made per month

-Types of Business

where would you go for future loan

### References:

- Ahl, H. (2006). Why research on women entrepreneurs needs new directions. *Entrepreneurship Theory and Practice*. 30 (5) 595–621
- Bacchetta, M., Ernst, E., and Bustamante, J. (2009). Globalisation and informal jobs in developing countries. International Labour Office and the Secretariat of the World Trade Organization.
- Baughn, C., Chua, B-L., Neupert, K. (2006). The normative context for Women's Participation in Entrepreneurship: A Multicountry Study. *Entrepreneurship Theory and Practice*. 30 (5) 687-708.
- Bird, B. and Brush, C. (2002). A gendered perspective on organisational creation. *Entrepreneurship Theory and Practice*. 26 (3) 41-66.
- Blackden, C, M. And Canagarajah, R, S. (2003). Gender and Growth in Africa: Evidence and Issues. World Bank UNECA Expert Meeting on Pro-Poor Growth. World Bank.
- Brush, C., Carter, N., Greene, P., Hart, M. and Gatewood, E. (2002). "The role of social capital and gender in linking financial suppliers and entrepreneurial firms: a framework for future research", *Venture Capital*, 4 (4) 305-323.
- Brush, C., de Bruin, A., Welter, F. (2009). A gender-aware framework for women's entrepreneurship. *International Journal of Gender and Entrepreneurship*. 1 (1) 8-24
- Brush, C.G., Carter, N.M., Gatewood, E.J., Greene, P.G., & Hart, M.M. (2006). Growth oriented women entrepreneurs and their businesses: A global research perspective. Cheltenham / Northampton, UK. Edward Elgar.
- Bryman, A. (1988). *Quantity and Quality in Social Research*. London: Routledge
- Chen, M.A.(2005). Rethinking the informal economy: Linkages with the formal economy and the formal regulatory environment (No. 2005/10). Research Paper, UNU-WIDER, United Nations University (UNU).
- Daniels, Lisa, Donald C. Mead and Muli Musinga (1995) Employment and income in micro and small enterprises in Kenya: results of a 1995 survey. Gemini Technical Report No. 92.
- Danish, A and Lawton Smith, H (2012) 'Female Entrepreneurship in Saudi Arabia' *International Journal of Gender and Entrepreneurship* 4 (3) 216 – 23

Das, M. (2001). Women Entrepreneurs from India: Problems, Motivations and Success Factors. *Journal of Small Business and Entrepreneurship*. 15(4) 67-81

Hulme, D. (2008). The Story of the Grameen Bank: From Subsidised Microcredit to Market-based Microfinance. Brooks World Poverty Institute, University of Manchester.

Hughes, K. (2003), "Pushed or pulled: women's entry into self-employment and small business ownership", *Gender, Work and Organization*, Vol. 10 No. 4, pp. 433-54.

Hughes, K. , Jennings, J., Brush. C., Carter. S., Welter. F.(2012). Extending Women's Entrepreneurship Research in New Directions. *Entrepreneurship. Theory & Practice*. (36) 3 429-442.

Ishengoma, E. K. and R. Kappel, (2006), "Economic Growth and Poverty: Does Formalisation of Informal Enterprises Matter?", GIGA Working Papers No. 20

Jamali, D. (2009). Constraints and Opportunities facing women entrepreneurs in developing countries: A relational perspective. *Gender in Management: An International Journal*. (24) 4. 232-251.

Kelley, D., Brush, C., Greene, P. and Litovsky, Y. (2011). Global Entrepreneurship Monitor 2010 Women's Report. <http://gemdev.dev.marmaladeontoast.co.uk/docs/download/768> (accessed April 11 2012)

Langowitz, N.S. and Morgan C. (2003). Women entrepreneurs: Breaking through the glass barrier. In: J. Butler (ed.): *New perspectives on Women Entrepreneurs*. Greenwich, CT: Information Age Publishing, pp. 101-119.

Marlow, S. (2002). Women and self-employment: A part of or apart from theoretical construct? *Entrepreneurship and Innovation*, 3(2) 83-91.

McCormick, D. (2001). Gender in small enterprise in Kenya: An Institutional Analysis. I in P.C.Samanta & R.K. Sen (eds), *Realising African Development*. Kolkata, India, CIADS in collaboration with IIDS, 309-330.

Morrisson, C. (1995): *What Institutional Framework for the Informal Sector?* OECD Development Centre, Policy Brief No. 10, OECD

Sinha, S. (2005). *Developing women entrepreneurs in South Asia: Issues, Initiatives and Experiences* UN ESCAP:

Economic and Social Commission for Asia and the Pacific. *Women entrepreneurs in developing countries*.

[Online] Available: pdf file

Singh, R. (2012). Women entrepreneurship issues, challenges and empowerment through self help groups: an overview of Himachal Pradesh. *International Journal of Democratic and Development Studies*, 1(1) 45-58.

Meyer, N. (2009). An investigation into the determinants of women entrepreneurship

Nxopo, Z. (2014). The Role of Government in Empowering Female Entrepreneurs in the Western Cape, South Africa. Master of Technology: Business Administration (Entrepreneurship). Cape Peninsula University of technology. Cape Town , Master in Business Administration. Mini-dissertation. North-West University, Potchefstroom.

Tokman, V.E., 2001, "Integrating the informal sector in the modernization process", in SAIS Review, vol. XI, No 1, Winter-Spring

Ufuk, H. & Ozgen, O. (2001). The profile of women entrepreneurs: A sample from Turkey. *International Journal of Consumer Studies*. 25 (4) 299-308.

Unicef. (2013). Kenya Overview. [http://www.unicef.org/kenya/overview\\_4616.html](http://www.unicef.org/kenya/overview_4616.html). Accessed online on 23.09.2013

United Nations University. (2013). Policy Brief: Women in the informal economy: Experiments in Governance from Emerging Countries. <http://www.merit.unu.edu/publications/uploads/1368782651.pdf> Accessed online on 23 September 2013.

Van der Merwe, L.H. (2008). Socio Economic implications: KKNK in Oudtshoorn. Unpublished M.Com

dissertation. Potchefstroom: North Western University, Faculty of Economic and Management Sciences.

Van Der Merwe, M. (2008). A study of discrimination against women entrepreneurs when applying for financial

assistance. Phil thesis, University of Pretoria: Pretoria

Verheul, I., Stel, A.J. van & Thurik, A.R. (2006). Explaining female and male entrepreneurship at the country level. *Entrepreneurship and Regional Development*, 18(2), 151-183.



Vinesh, L. (2014). Role of women entrepreneurs in India. *Global Journal of Finance and Management*. 6(5) 473-

480.

Welter, F. (Editor) (2007), - Handbook on Women-owned SMEs: Challenges and Opportunities in Policies and Programmes; International Organisation for Knowledge Economy and Enterprise Development (IKED) and Global Knowledge Partners (GKP) Contributors: Andersson, I.; Raihan, A.; Rivera, M.; Sulaiman, I.; Tandon, N

Women Enterprise Fund. (2013) <http://www.wef.co.ke/>. Accessed online on 23 September 2013.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**STUDY OF RELATIONSHIP OF CORPORATE SOCIAL RESPONSIBILITY AND PERFORMANCE OF  
ENTREPRENEURIAL FIRMS IN INDIA**

**Dr Rajat Gera<sup>1</sup>, Dr Sudhir Sachdev<sup>2</sup>**

*<sup>1</sup>rajatgera@mru.edu.in <sup>2</sup>Sudhir@mru.edu.in*

---

**ABSTRACT:** This study tests the impact of CSP (corporate social performance) on financial and non financial performance of entrepreneurial firms. Empirical studies of CSP and financial performance started over three decades ago and the results of these studies have been mixed. There are three possible results for the relationship between CSP and CFP: negative association, no association, and positive association. Results indicate that CSP and CFP have a significantly positive relationship in both directions, supporting the view that CSR programs have positive

impacts on the bottom-line. Its argued that firms can increase sales by increasing CSR investments—assuming increases in CSR investments leads to higher CSP—as long as the perception of programs transform from socially responsible, philanthropic actions to programs promoting corporate shared value (CSV). The research design will be descriptive and cross sectional. The data will be evaluated using multivariate techniques. Firm performance will be measured using financial measures such as sales revenue, profits and assets and non financial performance measure such as market share, exports growth, employment generation. The CSP measurement that best account for the complexity of CSR initiatives is the KLD Index, which was changed to the MSCI ESG (Environmental, Social, and Governance) Index in 2011

after a change of data ownership from KLD to MSCI Inc. For this reason, this study will use the MSCI Index to measure CSP.

**Keywords:** *Corporate Social responsibility, Firm performance, India*

## **Introduction**

Although Corporate Social Responsibility (CSR) has become a topical issue in recent years with researchers and practitioners, there is lack of consensus on the relationship or association of corporation social responsibility with corporate governance, Business performance and firm value. KPMG one of the Big Four accounting firms, in their report on CSR practices of global corporations "The State of Global Corporate Social Responsibility Reporting" in 2011, on the Global Fortune Top 250 companies reported that 95% of global companies issue annual CSR reports that summarize their CSR initiatives.<sup>13</sup> as compared to the 2002 KPMG report wherein only only "45% published a separate corporate report on their performance."<sup>14</sup> PricewaterhouseCoopers alongwith Craib Design & Communications to published in 2010 "CSR Trends" report, conducting CSR research on global organizations" reported that of the 423 companies in multiple countries reviewed, 31% of companies had their annual CSR reports assured by third parties.<sup>15</sup>

For FBs (de la Cruz DénizDeniz, M. and Suarez, M. 2005), the social responsibility has been a neglected dimension since they are more likely to be focused on their economic benefits Also the research on CSR undertaking situations of family firms is scarce.

FBs constitute a major part in the world economies (Wen, G. and Zheng, X. 2010) in developed ( in the US, the top 100 family business in 2010 generated about 11% of the whole country's GDP, which is \$1.6 trillion generated by the US top 100 family businesses to

America's \$14.6 trillion GDP in 2010 according to CampdenFB's ranking list article, "Top 100 family businesses in North America) and emerging economies

FBs company size, the extent of family's control and involvement in the business operations, the corporate governance and the financial or reputational context can affect its inclination towards CSR. . The unique social interrelations, along with dynamics between the business and family can also affect its CSR decisions and behaviours (de la Cruz DénizDeniz, M. and Suarez, M. 2005).

There is lack of consensus in literature regarding the commitment of the family business to CSR. According to Morck & Yeung (2004) in FBs, the interests of the family are given priority over socially responsible behavior; while Déniz & Cabrera (2005) conclude that FBs are not uniform when behaving in their orientation to CSR. Uhlaner, Goor-Balk & Masurel (2004) and Dyer & Whetten (2006), suggest that in Fbs orientation towards CSR is relatively higher . In spite of its relevance and importance to today's context, the topic has not been addressed adequately except by few researchers (Fitzgerald et al., 2010; Campopiano, Massis & Cassia, 2012; Benavides, Quintana & Guzman, 2013)

This study proposes to examine the relation between corporate social responsibility (CSR) programs and corporate financial performance (CFP). The study seeks to examine whether the implementation of CSR programs is associated with financial ( increased sales and gross margin) and non financial performance of family business in Indian context.

Empirical studies of CSP and financial performance undertaken over past show mixed results. They results show either negative association, no association, or positive association.

## **Literature Review**

### **CSR**

CSR is defined as "actions that appear to further some social good, beyond the interest

of the firm and that which is required by law.”<sup>3</sup> Thus, CSR policies are actions that go *beyond* obeying the law to positively impact society (the community, environment, employees, etc.).

Corporate social responsibility programs include actions to improve the environment, community, and lives of all the stakeholders of an organization. CSR is a multi dimensional concept which includes environmental, social, and governance aspects . The initiatives within each aspect below are incorporated into the CSP measurement .

The environmental aspect involves sustainable products, pollution prevention, recycling, and clean energy. Sustainability efforts are based on the principle of minimizing the environmental footprint of a corporation’s operations and maximizing sustainability.

The social aspect includes community, human rights, employee relations, diversity, and product safety programs . Community initiatives involve cause-related marketing and corporate philanthropy. Cause-related marketing is when a “corporation commits to making a contribution or donating a percentage of revenues to a specific cause based on product sales,”(Kotler and Lee, 2005) and usually involves a corporation partnering with a non-profit organization. Corporate philanthropy is when a corporation makes a direct donation to a charity or cause. Human rights initiatives involve a two-way communication between employees, customers, and corporate executives. It also includes measures so that there is no violation of such rights as child labor, privacy, and fairness. Employee relations initiatives include having good union relations, strong health programs, and strong benefit programs. Diversity requires having adequate women and minority representation in the organization, including the Board of Directors.

Corporate governance is the “framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its stakeholders (financiers, customers, management, employees, government, and the community).”(businessdictionary.com)

## CSR, Corporate Governance and Business performance

The relationship between corporate governance and corporate social responsibility is still unclear though corporate social responsibility and corporate governance are important mechanisms for company to successfully its operation. According to Kolk and Pinkse (2010), there is an increasing focus on board composition and behavior, audit or independence and risk management alongwith voluntary aspects of social and stakeholder responsibilities in corporate governance.

In terms of the nature relationship between CSR and CG, Arora and Dharwadkar (2011) collected data of 518 firms of S&P 500 and analyzed these firms" KLD. It indicated strong evidence that corporate governance would have an impact on corporate social responsibility and good governance mechanism can reduce the negative aspects of corporate social responsibility. Based on the previous literatures demonstrating that corporate social responsibility and corporate governance are not separate concepts, S.Young, V. Thyil (2014) deeply explore the link between CSR and CG and how institutional systems and other contexts influence this relationship. They concluded that CSR is a component of corporate governance and its relationship with corporate governance depends on national contexts and environmental conditions. These contexts include the economic environment, regulation and national governance system.

According to Margarita Tsoutsoura (2004), CSR is measured by two method ie the data from corporate disclosures and CSR reports. However, these data from CSR reports lack validity as they may not be reported properly or have their CSR reports externally verified.

Second measurement is Kinder Lydenberg Domini (KLD) rating system where each company listed in the S&P 500 is rated based on different aspects of corporate social performance.

In terms of the relationship between CSR and family firms, some researchers have implied that family firms are less likely to perform its social responsibility while others have suggested that social responsibility can protect the family's assets. According to W. Gibb Dyer, Jr. David A. Whetten (2006), they collected the data of 261 firms (202 non-family firms 59 family firms) listed in the S&P 500 and compared the degree to which family and non-family behave social responsibly. They concluded that family firms are more socially responsible than non-family firms.

Lopez *et al.* (2007) in a study of 110 European forms found negative relationship between CSP and financial performance across 2002-2004 using the accounting measure of profit/loss before taxes. CSP was measured using the Dow Jones Sustainability Index (DJSI). The results support Friedman (1970) who believed businesses should not adopt corporate social responsibility (CSR) programs because they are outside the profit-making scope and are unnecessary expenditures. However he supported the integration of CSR programs into business operations, if it positively impacted profitability in the long-run.

The empirical study by Aupperle *et al.* (1985) found an uncertain or no relationship between CSR and Business performance. The four components of CSR programs in this study were economic, legal, ethical, and philanthropic responsibilities by surveying 241 CEOs. Financial performance, was measured using return on assets (ROA) and "employed both short-term (one year) and long-term ROA (five years)."27 The theoretical justification for same was given by Ullman who reasoned that there are so many intervening variables between CSP and CFP that there is no reason to expect any relationship at all.28

The instrumental stakeholder theory is combination of two theories, which proposes that there is a positive relationship between CSP and CFP.29 These two theories are the

instrumental theory which is an economic theory that predicts what results will occur as a result of management decisions.<sup>30</sup> The stakeholder theory, which is an ethical theory suggests that managers have a duty to put stakeholders' needs first in order to increase the value of the firm. The instrumental stakeholder theory, proposes that CSR influences stakeholder satisfaction which in turn affects financial performance (Jones, 1995).<sup>31</sup> and is partially supported by empirical evidence which show that stakeholders as a whole find some value in CSR programs.

A meta analysis conducted by Orlitzky *et al.* (2003).<sup>32</sup> of 52 studies with a 33,878 sample size over a 30-year span concluded that not CSP has a positive influence on CFP, and vice versa that there is a bidirectional relationship between the two variables. Most of the studies in recent past find a positive relationship (van Beurden and Gossling, 2008; Wu, 2006; Allouche and Laroche, 2005; Goll and Rasheed, 2004; Orlitzky, 2003)

### **CSR and business performance in FBs**

Thompson and Smith (1991) cite firm performance and success as key areas of needed research in the family business literature. FBs reputation and social capital can generate value for a firm because they reduce transaction costs relating to search, screening, adjustment, and contract enforcement (Gulati, 1998). Khanna and Palepu (1997) believe that family controlled business groups represent a property rights enforcement mechanism because an entrepreneur's personal reputation lies behind all the firms in the group, and opportunism on the part of a single firm in the group negatively reflects on the group as a whole. For the families of owner-managers, the maintaining of high social capital and a good reputation with stakeholders



important.

There are various theoretical contributions to the literature, which indicate that family firms have a marked tendency to build and maintain a reputation for integrity and trust with regard stakeholders, as well as to create social capital in the form of enduring associations with partners.

Hart and Ahuja (1996) and Lankoski (2008) showed that an adverse event may have a negative impact on the company's good name and, consequently, on its performance in the market place. Love and Kraatz (2009) empirically demonstrated that some businesses suffer a loss in excess of 65% of their ranking in terms of corporate reputation when they downsize (Zyglidopoulos, 2004; Flanagan and O'Shaughnessy, 2005). Waldman et al. (2006), found that that activities which provide benefits for shareholders, and society at large, are seen to bring consequential benefits to the firm's reputation implying that negative spillovers regarding the company's reputation may take place because the firm is associated with its family owners.

(Gómez-Mejía et al., 2007), suggested that socio-emotional rewards for the firm and its owners mean that the family will have a greater tendency to adopt social strategies even though it is not proven that such strategies will have economic benefits (Berrone et al., 2012).

Stafford et al. (1999, p. 205) suggest that "sustainability of family businesses results from a confluence of family success, business success, and appropriate responses to disruptions." Thus business performance of family business needs to be measured on both subjective and objective indicators. *Subjective performance* is family business operators' views or perceptions regarding their businesses accomplishments in the community of operation, whereas *objective performance* refers to a concrete measure of business financial performance. Various studies suggest that social responsibility may positively influence subjective or perceived performance and success. Miller and Besser's (2000) in their study with small business operators in 10 Iowa cities, USA found that firms operators with a higher

sense of community social values were more likely to report perceived business success than firms with low values.

The theoretical support is provided by the enlightened self-interest (Aram 1989; Mescon and Tilson 1987; Arlow and Gannon 1982) and social-capital (Putnam 2000, 1993; Coleman 1990, 1988) perspectives.

Its therefore hypothesized that there is a significant positive relationship between CSP dimensions and business performance in FBs

### **Methodology:**

The study is conducted in Indian context and sampling frame is the family business managers, owners, family members and family controlled managers of family businesses. Sampling method is non probability judgemental and quota based to overcome the disproportionate representation of family business in some industrial sectors. The research design is descriptive and cross sectional. Family business are identified by use of self-reporting to identify *ex post* those which are family firms (Wortman 1994; Daily and Dollinger 1992, 1993; Handler 1989). Firms selected for the study were identified in the National Capital region of Delhi through expert opinion of two academicians and two industry practitioners.

Various methods have been used to measure CSP in the past : self-constructed surveys (Aupperle, 1991), The *Fortune reputation survey* (Brown and Perry, 1994), the Dow Jones Sustainability Index (Lopez *et al.*, 2007), CRO's *Best Corporate Citizens* (Wallace *et al.*, 2009), and the KLD Index developed by Kinder, Lydenberg, Domini and Co (Waddock and Graves, 1997; Hull and Rothensberg, 2008). CSP is a multidimensional construct comprising of both internal (governance, employees, etc.) and external (environmental and community impact) factors that must be considered when measuring CSP. This study CSP is measured

using the KLD Index, which has changed to the MSCI ESG (Environmental, Social, and Governance) Index in 2011 after a change of data ownership from KLD to MSCI Inc. MSCI rates companies on seven attributes—environment, community, human rights, employee relationships, diversity, product, and governance—through a binary system. If the corporation meets the criteria, it scores a “1.” Otherwise, it scores a “0.”

CSR factors were developed from a pool of 17 items included in the 2000 NFBS. Items were selected based on theoretically supported measures of CSR present in the literature (Besser and Miller 2001; Miller and Besser 2000; Besser 1999; Sethi 1979).

### References:

- Aram, J. D. (1989). “The Paradox of Interdependent Relations in the Field of Social Issues in Management,” *The Academy of Management Review* 14(2), 266–283.
- Arlow, P., and M. Gannon (1982). “Social Responsiveness, Corporate Structure and Economic Performance,” *Academy of Management Review* 7, 235– 241.
- Aronson, R. L. (1991). *Self-Employment—A Labor Market Perspective*. Ithaca, NY: ILR Press.
- Astrachan, J. H., and M. C. Shanker (2003). “Family Businesses’ Contribution to the U. S. Economy: A Closer Look,” *Family Business Review* 16(3), 211–219.
- Aupperle, K.E., A.B. Carroll, and J.D. Hatfield: 1985, ‘An empirical examination of the relationship between corporate social responsibility and profitability’, *Academy of Management Journal* 28: 458.
- A. Williams and D.S. Siegel, “Corporate social responsibility: a theory of the firm perspective,” *Academy of Management Review* 26, no. 1 (2001): 117.

Barnett, J. H., and M. J. Karson (1987). "Personal Values and Business Decisions: An Exploratory Investigation," *Journal of Business Ethics* 6(5), 371–383.

Benavides, C., Quintana, C. & Guzmán, V.F. (2013). Trends in family business research. *Small Business Economics*, 40(1), 41-57.

Besser, T. L. (1998). "The Significance of Community to Business Social Responsibility," *Rural Sociology* 63(3), 412–431.

——— (1999). "Community Involvement and the Perception of Success among Small Business Operators in Small Towns," *Journal of Small Business Management* 37(4), 16–29.

Besser, T. L., and N. Miller (2001). "Is the Good Corporation Dead? The Community Social Responsibility of Small Business Operators," *Journal of Socio- Economics* 33, 221–241.

Berrone P, Cruz C, Gómez-Mejía L, Larraza-Kintana M (2010). Socioemotional wealth and corporate responses to institutional pressures: Do family-controlled firms pollute less? *Adm. Sci. Q.* 55:82-113.

Brown, D. J., and J. B. King (1982). "Small Business Ethics: Influences and Perceptions," *Journal of Small Business Management* 20(January), 11–18.

Campopiano, G., De Massis, A., & Cassia, L. (2012). The relationship between motivations and actions in corporate social responsibility: an exploratory study. *International Journal of Business and Society*, 13(3), 391-425.

Casson, M. (1991). *The Entrepreneur: An Economic Theory*. Hampshire, England: Gregg Revivals.

Coleman, J. (1988). "Social Capital in the Creation of Human Capital," *American Journal of Sociology* 94, 96–120.

——— (1990). *Foundations of Social Theory*. Cambridge, MA: Harvard University Press.

Cochran, P. L., and R. A. Wood (1984) "Corporate social responsibility and financial performance." *Academy of Management Journal*, 27 (1): 42-56.

"Corporate Governance." *Definition and Meaning*. N.p., n.d. Web. 05 Oct. 2012.  
<<http://www.businessdictionary.com/definition/corporate-governance.html>>.

Déniz, M. C. & Cabrera, M. K. (2005). Corporate social responsibility and family business in Spain. *Journal of Business Ethics*, 56(1), 27-41

Dyer, W. G. y Whetten, D. A. (2006). Family firms and social responsibility: Preliminary evidence from the S&P 500. *Entrepreneurship Theory and Practice*, 30(6), 785-802.

Fitzgerald, M. A., Haynes, G. W., Schrank, H. L. & Danes, S. M. (2010). Socially responsible processes of small family business owners: Exploratory evidence from the national family business survey. *Journal of Small Business Management*, 48(4), 524-551.

Flanagan DJ, O'Shaughnessy KC (2005). The effect of layoffs on firm reputation. *J. Manage.* 31(3):445-463.

Friedman, Milton. "The Social Responsibility of Business Is to Increase Its Profits." *The New York Times*, September 13, 1970. "Rethinking the Social Responsibility of Business," *Reason.com*, October, 2005.

Gallo, M. A. (2004). "The Family Business and Its Social Responsibilities," *Family Business Review* 17(2), 135– 149.

Gómez-Mejía LR, Haynes K, Nuñez-Nickel M, Jacobson KJL, Moyano-Fuentes J (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Adm. Sci. Q.* 52(1):106-137.

Hart S, Ahuja G (1996). Does it pay to be green? An empirical examination of the relationship between emission reduction and firm performance. *Bus. Strat. Environ.* 5:30-37.

Hull, C.E. and Rothenberg, S.: 2008, "Firm performance: the interactions of corporate

social performance with innovation and industry differentiation”, *Strategic Management Journal* 29, 781-789.

John Hagel, III, and John Seely Brown. "HBR Blog Network." *Harvard Business Review*. 4 Mar. 2010.

Jones, T.M. "Instrumental stakeholder theory: a synthesis of ethics and economics." *Academy of Management Review*, 20 (1995): 405-432

Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken, N.J: Wiley, 2005, 114

*KPMG International Survey of Corporate Responsibility Reporting 2011*. Publication.

KPMG, 2011. Print.

*KPMG International Survey of Corporate Sustainability Reporting 2002*. Publication.

KPMG, 2002. Print.

Margarita Tsoutsoura (2004) "Corporate Social Responsibility and Financial Performance." University of California at Berkeley Financial Project.

Martin, John, Petty, William and Wallace, James S., Shareholder Value Maximization – Is There a Role for Corporate Social Responsibility?. *Journal of Applied Corporate Finance*, Vol. 21, Issue 2, pp. 110-118

Mescon, T. S., and D. J. Tilson (1987). "Corporate Philanthropy: A Strategic Approach to the Bottom-Line," *California Management Review* 24(2), 49–61.

Miller, N. J., and T. L. Besser (2000). "The Importance of Community Values in Small Business Strategy Formation: Evidence from Rural Iowa," *Journal of Small Business Management* 38(1), 68–85.

Morck, R. & Yeung, B. (2004). Family control and the rent-seeking society. *Entrepreneurship Theory and Practice*, 28(4), 391-409.

Orlitzky, M. Corporate social performance and financial performance: A research synthesis. In A. Crane, A. McWilliams, D. Matten, J. Moon, & D. S. Siegel (Eds.), *The Oxford Handbook of CSR*. Oxford, UK: Oxford Press 2008.

S.Young, V. Thyl (2014) "Corporate Social Responsibility and Corporate Governance:Role of Context in International Settings." *J Bus Ethics* (2014) 122:1-24.

Stafford, K., K. Duncan, S. Danes, and M. Winter (1999). "A Research Model of Sustainable Family Business," *Family Business Review* 12(3), 197–208.

Thompson, J. K., and H. L. Smith (1991). "Social Responsibility and Small Business: Suggestions for Research," *Journal of Small Business Management* 29(January), 30–41.

Thompson, J. K., H. L. Smith, and J. N. Hood (1993). "Charitable Contributions by Small Business," *Journal of Small Business Management* 31(July), 35–51

Tiago Melo. "Effects of Corporate Social Responsibility on Brand Value." Thesis. Universidad De Salamanca, 2009, 22.

Uhlener, L.M., Goor-Balk, H. & Masurel, E. (2004). Family business and corporate social responsibility in a sample of Dutch firms, *Journal of Small Business and Enterprise Development*. 11(2), 186-194.

Ullmann, A. 'Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance of US firms', *Academy of Management Review*, 10 no. 3 (1985): 540-557.

Waddock, S.A., & Graves, S.B. "The corporate social performance-financial performance link." *Strategic Management Journal*, 18 (1997), no. 4: 303–19.

W. Gibb Dyer, Jr. David A. Whetten (2006). "Family Firms and Social Responsibility Preliminary Evidence from the S&P 500." *Entrepreneurship Theory and Practice* (2006) November.pp:785-802.

Zyglidopoulos SC (2004). The impact of downsizing on the corporate reputation for social performance. *J. Public Af fairs*, 4 (1):11-25.





The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## DEVELOPMENT OF SMALL BUSINESS FOR TOUR AND TRAVEL BY USING THE BUSINESS MODEL CANVAS

Abdullah Umar<sup>1</sup>, Agung Hari Sasongko<sup>2</sup>

<sup>1</sup>Bina Nusantara University, [abdullah.umar@binus.ac.id](mailto:abdullah.umar@binus.ac.id)

<sup>2</sup>Bina Nusantara University, [asasongko@binus.edu](mailto:asasongko@binus.edu)

---

### ABSTRACT

*One that can move the Indonesian economy is the small business micro or small and medium businesses. It is inseparable from the role of government in providing support to small businesses, so that pretty much grow small businesses. For example, tour and travel business, where the business once dominated by big companies and require substantial capital to set it up, now began many small business owners are able to set up a tour and travel business with a small capital.*

*However, in setting up a business is certainly not easy, there are some obstacles often faced obstacles both internal and external constraints. Given these constraints, this business will be difficult to develop. These weaknesses will be the reference of how the business can be developed using the existing tools, the marketing mix and business model canvas. Business model canvas is a business strategy that illustrates and designs the pattern of business so as to win the competition with its rivals.*

*This research was conducted using qualitative methods and the study of literature. Where the data collection done directly by direct observation and interviews with business owners, employees and consumers. The results of this study will be able to look at the factors that influence the development of tour and travel as a small business and can be done by everyone. This business can develop well and were able to improve people's lives*

*Keywords: Small Business, Business Model Canvas, Business Strategy*

---

### 1. Introduction

One that can move the Indonesian economy is the small business micro or small and medium businesses. It is inseparable from the role of government in providing support to small businesses, so that pretty much grow small businesses. However, in setting up a business is certainly not easy, there are some obstacles often faced obstacles both internal and external constraints. According Hadiyati, (2010) that the survey of BPS identify the weaknesses and problems faced by SMEs based on priorities, which include: (a) Lack of capital, (b) difficulties in marketing, (c) Competition is tight, (d) Difficulties raw materials, (e) is less technical and production expertise, (f) lack of human resources and managerial skills (g) lack of knowledge in management problems, especially in finance and accounting. Where the law number 20 of 2008 explains that the purpose of the empowerment of micro, small and medium enterprises are: (a) Realizing the economic structure of the national economy that is balanced, growing and justice, (b) Grow and develop micro, small and medium enterprises become and independent businesses, and (c) Enhancing the role of micro, small and medium enterprises in regional development, job creation, income generation, economic growth and alleviation of poverty of the people (Kementerian Dalam Negeri, 2008). "The significant role played by small and medium enterprises (SMEs) in the socio-economic development of societies

has been Widely Recognized both in developed and developing countries. The development of SMEs facilitates creation of employment opportunities and entrepreneurial skills (Al-Owaihian, Al-Ajmi, & Rao, 2009) ".

In setting up this business, be it a businessman small entrepreneurs, micro and medium enterprises have to take risks, look at the opportunities that exist, creating new ideas based on the existing opportunities, and create new opportunities. All that is in itself an entrepreneur. The general position of the entrepreneur is putting himself to the risk of shocks from the company he founded (venture) and the entrepreneurial risk on financial entrusted to him in starting something (Hadiyati E., 2011). "Entrepreneurship is the process of creating something new and of A Certain value by using the required time and effort, financial risk, physical and social risk, to receive monetary rewards and personal satisfaction and independence (Hisrich et al, 2008)". But in reality it is not easy to cultivate business Small and Medium Enterprises in Indonesia, because the growth is experienced many constraints and limitations that were able to grow as their internal and external factors (Rifa'I, 2013). "Business owner is positioned as a producer as well as marketers, each of them should possess entrepreneurial competency to enable Reviews their sales growth, enhancement profit and asset growth. The Characteristic of the business owners, also Played a role in improving Reviews their business performance and improving Reviews their business performance (Soejono, Mendari, & Rinamurti, 2015). "The pressure for business to respond to sustainability concern is increasing, organizations are expected to more actively issues such as financial crises, economic and social inequalities, environmental events, material resources scarcity, energy demands and technology development as part of Reviews their focus (Joyce & Paquin, 2016)

Table 1. Problems of Micro, Small and Medium Enterprises

Internal factor	External factor
The Lack of Capital and access to financing	Conducive business climate
The quality of Human Resources	Limited facilities and infrastructure
Weak business networks and the ability to market penetration	Exaction
The mentality of entrepreneur of small and medium enterprises	The implications of region autonomy
Lack of transparency	The implication of free trade
	The nature of the product with short durability
	Limited market access
	Limited access to information

Examples of promising venture is the tour and travel business, where the business once dominated by big companies and require substantial capital to set it up, now began many small business owners are able to set up a tour and travel business with a small capital. Now everyone can set up a tour and travel business and can be called with a travel agent. In the 1990s, established the tour and travel business is very promising and may provide benefits that are not small. However, in establishing this business required a huge capital. So are able to establish this business is not much. examples of tour and travel, namely: H.I.S Tour & Travel, Tour & Travel Iwata, Smailing Tour, Dwidaya Tour, Avia Tour, TX Travel etc. Then the tour and travel business has a derivative that is franchise travel. Each person can establish this business, where just buy a franchise owned by major travel agents, for example, TX Travel. However, the cost to buy the right franchise is big enough. So not everyone can open this business. In the era of 2015, began to appear online travel agencies, which all need to tour and travel can be purchased online, be it on air tickets, train, bus, hotel travel packages to both domestic and foreign. But for the layman opening a business is also quite difficult, besides having a large capital, it also requires the ability in the field of information technology, since using the network or internet. Some examples of online travel agent or online tour and travel: [www.tiket.com](http://www.tiket.com), [www.traveloka.com](http://www.traveloka.com), [www.pegipegi.com](http://www.pegipegi.com) and many online travel agents in Indonesia. Because it requires a substantial capital, especially financial capital. So there are many small entrepreneurs who struggle to open this travel agent. Along with the advent of online travel agents, then to give new hope to the businessmen who have little capital to participate in conducting business in the field of tour and travel. Namely the tour company's travel providing an opportunity for the public to have a business travel to the

capital is not large, ranging from 1 million to 5 million. And these entrepreneurs can sell exactly the same product to that of the company's tour and travel is great. Just how these entrepreneurs want to do small business marketing so that businesses can grow up.

The purpose of this paper is to identify and analyze the strategy on small businesses, especially in the tour and travel business. In this study, will be the identification and evaluation of the business approach model of canvas. So that would be obtained in accordance with the picture of small businesses.

## **2. Literature Review.**

The increased interest of businesses in the services sector has become an agreement, that the services business should be put on customer service. Where in the marketing of these services is more emphasis on how to serve customers better. Services are an activity that has some element of non embodies (intangibility) related thereto, which involves keeping the interaction with the consumer or the property in his possession, and does not produce a transfer of ownership. Changes in conditions that may occur and the production of services could be related or may not be related to the physical product (Sunyoto & Susanti, 2015). Business tour and travel or travel agents are businesses that use marketing in the field of services. Where the product already exists and prepared by the parent company. So business owners living execute the sale of these products.

Marketing is a social process with the process of the individuals and groups to get what they need and want by creating, offering and freely exchanging products and services of value with others (Kotler & Keller, 2006). The marketing activities as one of the activities the company's operations are important in order to increase sales volume as well as introducing the goods or services offered to the public (Fayshal & Medyawati, 2013). Meanwhile, according to Kartajaya, (2007) Marketing mix is a tactic in integrating the offer, logistics, and communications products or services, it is important for the marketing mix is the most visible aspects (tangible) from a company in marketing activities. Sale and the place have a weak influence on customer loyalty, and then you should pay attention to marketing planning company management (Hose, 2013). Meanwhile, according to Assauri (2011) marketing mix is "One of the elements of integrated marketing strategy is a mix strategy is a strategy that runs the company, relating to the determination of how the company presents its product offerings on a particular segment, which is the target market". Therefore the marketing mix used to make the marketing strategy. In the last four elements of the marketing mix of mutually supporting, namely Product, Price, Promotion and Place. The elements of the marketing mix according to Rachmawati, (2011) are:

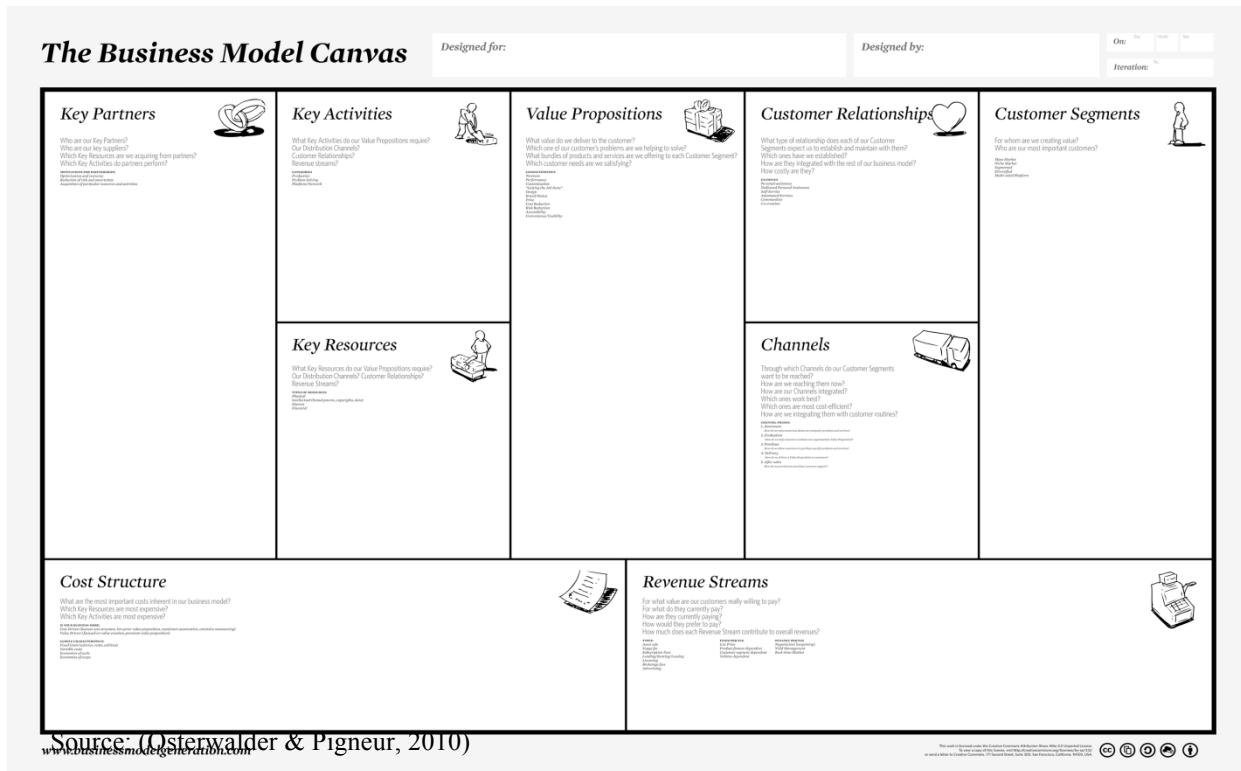
- Product is the overall concept of the object or process that provides a number of benefits to the consumer value.
- Price is the amount it costs to get the product or service as a means of exchange.
- Promotion is the information activities concerning the products or services to a target market that achieved its marketing targets.
- Place is a distribution channel where consumers can get the products or services offered.

In developing a business, requires processes that are interconnected. So we need a business model that can help entrepreneurs to develop their business. Where in business models, business processes can be mapped, systematically illustrated that can be used as the basis of decision-making. Business models used to describe the business process is a business model of canvas. In the business model canvas is a template that is used to describe what kind of business that is being run, ranging from aspects of the customer to the internal aspects of the company. According to Osterwalder & Pigneur, (2010) "Business model canvas is a logical picture business model on how the organization creates, delivers and captures a value. The nine building blocks include:

- Customer Segment: Customer segment block which describes a group of people or organization to be reached or served by the company.
- Value Proposition: Value proposition block describes the combination between product and service which creates value for the specific customer segment.
- Channels: channels block describes how a company communicates with the customer segment and reaches to the provide value proposition.
- Customer Relations: Customer relations blocks describe various type of relationship establish by the company and the specific customer segment.
- Revenue Stream: Revenue stream blocks describe the cash produced by the company from each customer segment (cost should deduct the income to produce revenue).

- Key Resources: Key resources blocks describe important aspects required by a business model to be fully functional.
- Key Activities: Key activities blocks describe important things to do by the company in order that the business model can work perfectly.
- Key Partnerships: Key partnerships blocks describe the network of supplier and partner which allows the business model to work.
- Cost Structure: Cost structure block describes all cost spent to operate the business model.

Table 2. Business Model Canvas



The Business Model is not simply the means by which a firm creates and captures customer value. Focusing on creating customer value without regard to competitive advantage will leave a firm vulnerable to both margin erosion and anemic growth. Because the competitive environment is forever changing, business models require constant vigilance; they must be adapted and strengthened over time as the competitive environment evolves (Euchner & Ganguly, 2015). “The Business Model Canvas as a tool of strategic management, including financial management, contain nine basic units: (1) Value offered to customers, (2) Relations with suppliers, (3) Key resources ensuring enterprise’s work and development, (4) Key business processes ensuring the transformation of resources into a result which determines value, (5) Target consumers, (6) Distribution channel for value offered to customers, (7) Relations with customers (consumer-oriented approach, (8) Income from the consumer value, (9) Costs to create value (Dudin et al, 2015)”. “A key difference between business model innovation and, say, technological or product innovation is that, unlike the latter, which usually relies on market or technical knowledge specific to the industry, business model innovation is deeply rooted in the laws of economics and operations management that are universally applicable to a wide variety of industries (Girotra & Netessine, 2013)”. “While business models are traditionally concerned with firm-level value creation and capture, business model innovation poses in addition questions about novelty in customer value proposition and about respective logical reframing and structural reconfigurations of firms. Academic attention paid to business model innovation has also sharply

increased in recent years (Schneider & Spieth, 2013)". "Three major roles assigned to business models as underlying motivations for engaging in business model research can be identified: (1) explaining the business, (2) running the business and (3) developing the business (Spieth, Schneckenberg, & Ricart, 2014)".

### 3. Research Method

The research method in this research is descriptive qualitative research. Qualitative methods ideographic trying to lift a variety of realistic phenomenon and social development, especially the development of social theory sociology can be formed from a variety of phenomena or cases studied (Soemantri, 2015). Meanwhile, according to have now, (2014) qualitative research is a research procedure that produces descriptive data of people while quantitative research is research based on the data collected and processed. In this study leads to the business model canvas in small businesses, namely business in the field of tour and travel, from the results of these studies, then continued on the evaluation on each element. Subjects of this study are derived from the travel agent tour and travel, which is the subject of research include: business conditions, the owner, employees, partners and customers of the company.

The data used is qualitative data.

Data source

- Primary data, the data obtained from interviews and observations.
- Secondary data, this data is derived from the literature review are consistent with studies

### 4. Results and Discussion

One of the most attractive businesses is tour and travel. Where the tour and travel presents a variety of needs for a vacation or for traveling. Where this travel presents a wide variety of tickets, both for air transport, sea and air. Besides, travel tour also provides vouchers for hotels and package tours.

The duties of tour and travel:

1. Take care of all travel documents, such as passports and visas.
2. Being an intermediary such accommodation booking lodging and hotel, restaurant and means to travel.
3. Selling travel packages.
4. Being an intermediary for the sale of tickets, be it on air tickets, ship, bus, train or rental car.

In this study, focused on business tour and travel agents. Where this can be done by everyone, because it does not require a large capital. Previous must be known in advance equality of tour and travel business and travel agent conventionally done by small businesses.

In the tour and travel industry, there are 4 groups with their respective advantages.

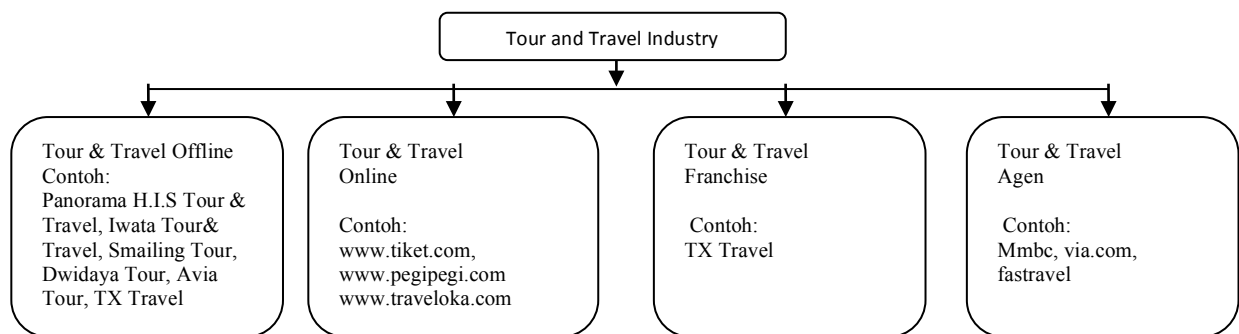


Figure 1. Distribution of Tour and Travel Industry

Table 3. Equation Travel Agent - Tour and Travel

	Travel Agent (Small Business)	Tour and Travel (Konvensional)
Provide Flight Tickets	V	V
provide Hotel	V	V
Providing tour to Attractions	V	V
Provides Package	V	V
Document handling	X	V
Umrah and Hajj	V*	V
car rental	V	V
other products	V	X
Train ticket	V	V
Bus Travel	V	V
Reload phone credit	V	X
PPOB (Online Payment Point Bank)	V	X
Bill Payment	V	X
Expedition	V	X

\*: Not all travel agents that provides a package of Umrah and Hajj

Source: Adapted by the author

<b>Key Partners</b> <ul style="list-style-type: none"> <li>• Supplier</li> <li>• Tour and Travel Partnership</li> <li>• Hotel</li> <li>• Tourist Attraction</li> <li>• The Provider Souvenir</li> <li>• Tour guide</li> </ul>	<b>Key Activities</b> <ul style="list-style-type: none"> <li>• Service to the customer</li> <li>• Sales</li> <li>• Payment</li> <li>• Control quality product</li> <li>• Interaction with customer</li> <li>• promotion</li> </ul>	<b>Value Proposition</b> <ul style="list-style-type: none"> <li>• Services</li> <li>• An affordable price</li> <li>• Offline and Online service</li> <li>• The payment system</li> <li>• Provide information on products</li> <li>• Choice of diverse product, such as airlines ticket, bus, and train ticket, hotel vouchers, Bill payment, leasing finance, umroh and haji, tour package and delivery of goods</li> </ul>	<b>Customer Relationships</b> <ul style="list-style-type: none"> <li>• Discount</li> <li>• Promotion</li> <li>• Features convenient to use</li> <li>• Customer service</li> <li>• Live-chat</li> </ul>	<b>Customer Segments</b> <ul style="list-style-type: none"> <li>• Mass Market</li> <li>• Age 17-65 years old</li> <li>• Individuals</li> <li>• Company</li> <li>• Traveler</li> </ul>
	<b>Key Resources</b> <ul style="list-style-type: none"> <li>• Website</li> <li>• Store/office</li> <li>• Network</li> <li>• Human resources</li> <li>• Computer</li> <li>• Vehicles</li> </ul>		<b>Channels</b> <ul style="list-style-type: none"> <li>• Social media</li> <li>• Mass media</li> <li>• Website</li> <li>• Store/office</li> </ul>	
<b>Cost Structure</b> <ul style="list-style-type: none"> <li>• Infrastructure</li> <li>• Salary human resources</li> <li>• Marketing cost</li> <li>• Transport</li> </ul>			<b>Revenue Streams</b> <ul style="list-style-type: none"> <li>• Fee ticketing purchase</li> <li>• Fee leasing finance</li> <li>• Fee bill payment</li> <li>• Fee tour package</li> <li>• Fee expedition</li> </ul>	

Figure 2. Business Model Canvas for Tour and Travel

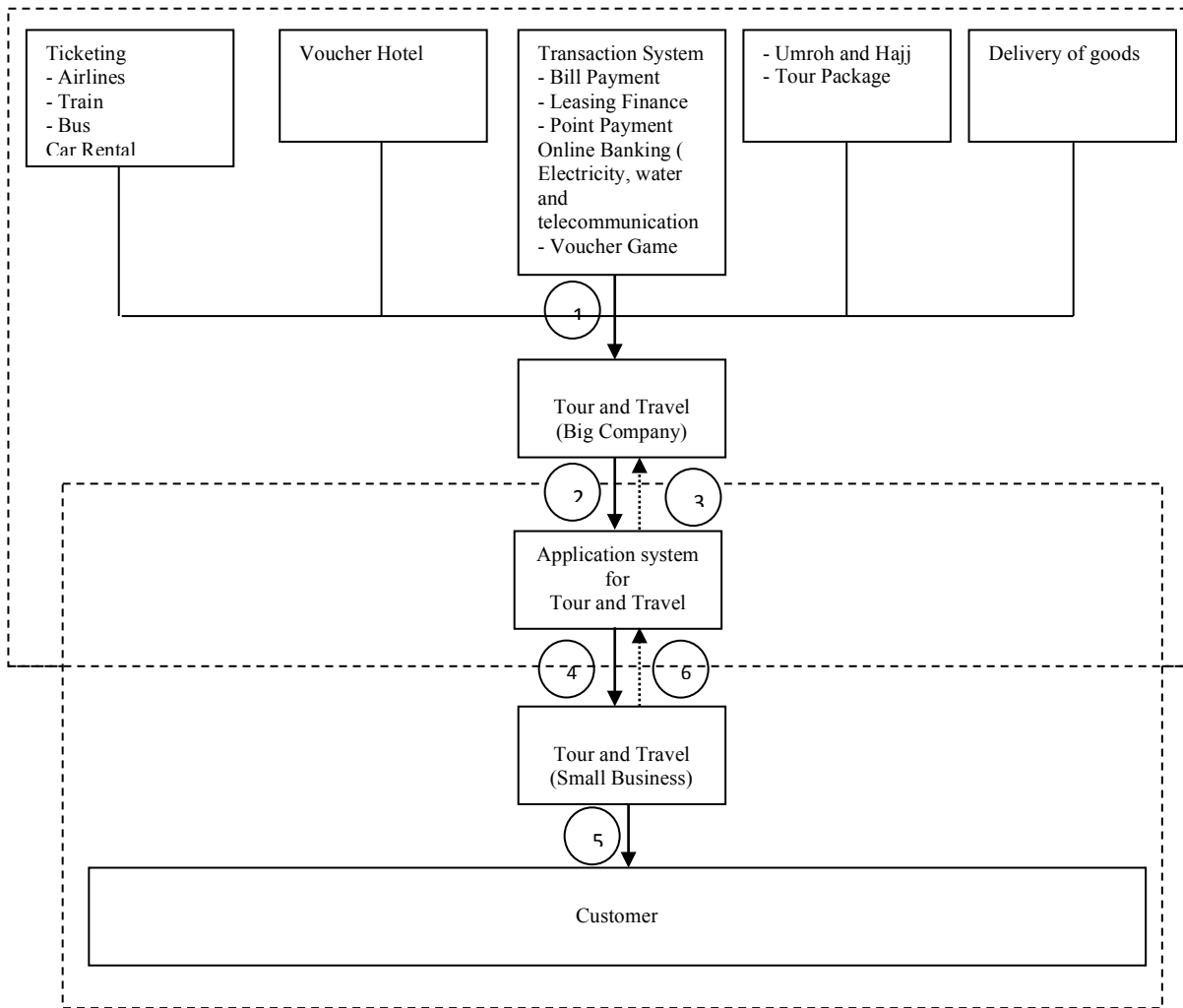


Figure 3. Tour and Travel Scheme

Information:

1. All providers in collaboration with the Tour and travel.
2. Tour and travel make the system useful applications to accommodate all providers working together.
3. The company carries out control to all existing applications.
4. Applications purchased by tour and travel as agent partnerships. And do all the process of purchasing products through the application system.
5. If there are customers who need the product, the customer can directly contact tour and travel.
6. Tour and travel accepted for purchase of consumer products and process through the existing application systems.



Table 4. Development of Marketing Strategy: Marketing Mix and Business Model Canvas

Marketing Mix	Business Model Canvas	Strategi
Product	Value proposition Customer Relationship Key Resources Key Partners Customer Segment	Improve product quality Adding types of products Quality human resources Get a partner who will work together In accordance with the needs of society
Price	Key partners Key activities Value proposition  Revenue stream Customer relationship	Improve product quality Flexible payment The payment process is quick Payment systems varies Reliable and safe Fee from product sales
Promotion	Key Partnership Key Activities Channel Key Resources Cost Structure	Social media Marketing and advertising And promotion of the business location marketing tools Costs incurred for advertising and marketing
Place	Customer Segment Value Proposition Channel  Revenue Stream Key Resources  Cost Structure  Key Partner	Mass Market Comfortable online or offline Social media Can use the autopilot by using the website The location for the store / office were comfortable The website is easy to use The cost is not too great, if offline can use their own home Cooperation with the owners of business premises

### 5. Conclusion and Implication

In this study, the marketing mix can be integrated with the business model of canvas. Where both can be useful tool for developing small businesses. Special tour and travel or as a travel agent. By having a wide range of products which not only sell airline tickets or travel packages, but a wide range of products that are beneficial to society. Such as payment of utility bills that occur every month or you can also sell prepaid credit for mobile phone users. Just how business owners develop business cooperation with various parties.

Location to be considered, where the location should be comfortable, so that consumers are happy to visit the business location. Prices are in line with standards set by the company, so there will be no price competition. And employers should be able to do the promotion as possible so that consumers want to buy the products offered.

This research will provide strategies that exist in this business, so it can be developed to the maximum by utilizing existing products. so as to give a good effect for the surrounding communities. In the business model of this canvas will be seen picture of what is needed by business owners in developing the business, both in terms of product, price, location and promotion will be done.

### References

Al-Owaihian, A., Al-Ajmi, R. S., & Rao, C. (2009). Entrepreneur Characteristics and Management Practices: Implication for SME's Development. *Journal International Business and Entrepreneurship Development* , 243-264.

Assauri, S. (2011). *Manajemen Pemasaran*. Jakarta: PT. Raja Grafindo.

- Dudin, M. N., Kutsuri, G. N., Fedorova, I. J., Dzusova, S. S., & Namitulina, A. Z. (2015). The Innovative Business Model Canvas in The System of Effective Budgeting. *Asian Social Science Vol. 11, No. 7*, 290-296.
- Euchner, J., & Ganguly, A. (2015). Business Model Innovation in Practice. *Journal Research-Technology Management*, 33-39.
- Fayshal, A., & Medyawati, H. (2013). Analisa Strategi Pemasaran Produk Asuransi Jiwa pada Bumi Putera Syariah cabang Depok. *Jurnal Asuransi dan Manajeme Resiko*, 48-58.
- Girotra, K., & Netessine, S. (2013). Business Model Innovation for Sustainability. *Manufacturing & Service Operation Management Vol. 15, No. 4*, 537-544.
- Hadiyati, E. (2011). Kreativitas dan inovasi berpengaruh terhadap kewirausahaan usaha kecil. . *Jurnal Manajemen dan Kewirausahaan (Journal of Management and Entrepreneurship)*, 13(1), 9-16.
- Hadiyati, E. (2010). *Pemasaran Untuk UMKM (Teori dan Aplikasi)*, Edisi Pertama. Malang: Bayumedia.
- Hisrich, R., Peters, M., & shepherd, D. (2008). *Kewirausahaan (Entrepreneurship)*, 7th Edition - Translated Version. Jakarta: Salemba Empat.
- Joyce, A., & Paquin, R. L. (2016). The Triple Layer Business Model Canvas. *Journal of Cleaner Production*.
- Kartajaya, H. (2007). *Seri 9 Elemen Marketing Hermawan Kartajaya on Marketing Mix*. Bandung: Mizan.
- kementerian Dalam Negeri. (2008, Juli 04). Retrieved Februari 7, 2017, from kemedagri Website: <http://www.kemendagri.go.id/produk-hukum/2008/07/04/undang-undang-no-20-tahun-2008>
- Kotler, P., & Keller. (2006). *Marketing*. USA: Prentice Hall.
- Osterwalder, A., & Pigneur, Y. (2010). *Business Model Generation*. New Jersey: Prentice Hall.
- Rachmawati, R. (2011). Peranan Bauran Pemasaran (Marketing Mix) terhadap Peningkatan Penjualan (Sebuah Kajian terhadap Bisnis restoran). *Jurnal Kompetensi Teknik Vol. 2 No. 2*, 143-150.
- Rifa'i, B. (2013). Efektivitas Pemberdayaan Usaha Mikro Kecil dan Menengah (UMKM) Krupuk Ikan dalam Program Pengembangan Labsite Pemberdayaan Masyarakat Desa Kedung Rejo Kecamatan Jabon Kabupaten Sidoarjo. *Jurnal Kebijakan dan Manajemen Publik, Vol. 1 No. 1*, 131-136.
- Schneider, S., & Spieth, P. (2013). Business Model Innovation: Toward an Integrated future research agenda. *International Journal of Innovation Management Vol. 17, No. 1*.
- Sekaran, U. (2014). *Research Metodology*. Jakarta: Wiley.
- Selang, C. A. (2013). Selang, C. A. (Juni 2013). Bauran Pemasaran (Marketing Mix) Pengaruhnya terhadap Loyalitas Konsumen pada Fresh Mart Bahu Mall Manado. *Jurnal EMBA Vol. 1, No.3*, 71-80.
- Soejono, F., Mendari, A. S., & Rinamurti, M. (2015). Competency, Entrepreneur Characteristic and Business Performance: Study of The Pempek Business in Palembang. *Journal of Indonesia Economic and Business Vol. 30, No. 1*, 30-41.
- Soemantri, G. (2015). Memahami Metode Kualitatif. *Jurnal Makara Sosial Humaniora Vol. 9, No.2*.
- Spieth, P., Schneckenberg, D., & Ricart, J. E. (2014). Business Model Innovation - State of The Art and future challanges for The Field. *R&D Management*, 237-247.
- Sunyoto, D., & Susanti, F. E. (2015). *Manajemen Pemasaran Jasa (Merencanakan, Mengelola dan Membidik Pasar Jasa)*. Yogyakarta: CAPS (Center for Academic Publishing Service).



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

## **FAMILY BUSINESS SUSTAINABILITY IN PT. MYSHOP RETAILINDO**

**Hellyanda A. Rukmana<sup>1</sup>, Yanti Setianti<sup>2</sup>, Centurion C. Priyatna<sup>3</sup>, Yustikasari<sup>4</sup>**

<sup>1</sup>Public Relations Studies, Faculty of Communication Science, Universitas Padjadjaran

<sup>2</sup>Public Relations Studies, Faculty of Communication Science, Universitas Padjadjaran  
email address: yantisetianti@gmail.com

<sup>3</sup>Public Relations Studies, Faculty of Communication Science, Universitas Padjadjaran  
email address: centurion.priyatna@unpad.ac.id

<sup>4</sup>Public Relations Studies, Faculty of Communication Science, Universitas Padjadjaran

### ***ABSTRACT***

*The aim of this research is to explore the organization's communication atmosphere in PT. MyShop Retailindo and the performance of employees. Method used in this research is Descriptive Methods with quantitative data. The population for this research consists of 365 people with a total sample of 78. Sampling technique used is probability sampling technique, with disproportionate stratified random sampling technique. Data was collected using questionnaires, interviews, observation, and literature study. This study uses the concept of Organizational Climate Communication of Pace and Faules.*

*The results show that there is a high level of connectedness between the trust factor, and decision-making, both encourage a high level of performance in employees' functional tasks. On the honesty factor, open communication from top to bottom, listen to the communication for top management, and attention towards high performance goals there are interconnected.*

*The conclusion of this research is that the existence of communication atmosphere in the organization highly affected the performance of the employees. It is suggested that PT MyShop Retailindo should increase the confidence of the supervisors towards their subordinate.*

**Key Words** : *Family , Business, communication, organization, employees,*

### **1. Introduction**

PT. Myshop Retailindo is a family owned business focusing on fashion and lifestyle, which targeted teenagers to adult, especially woman. PT. Myshop Retailindo has been established since 1998, and has an expansion throughout several regions. To keep its existence as an

established company, PT. Myshop Retailindo always provides the best for its customers as well as its employees. In order to achieve that particular objective, it is substantial to produce a harmonious communication climate between top executives and employees. Communication between top executives and employees in an organization means that it streams through from top level to lower level. It is considered to be an effective communication if top level management able to deliver the message to their lower levels.

Organizational communication climate consists of perceptions, consisting of macro evaluation on communication events, human behaviour, responds of employee towards another employee, expectations, conflict between individuals, and the opportunity for the growth of the organization. In the case of PT. Myshop Retailindo, in which, employees are disregarding all the instruction from their higher level as well as higher level management lack of attention and supervision towards the employees.

The existing communication problem prompts a decline in productivity, which can be seen in company's statistic on list of attendance and company's income. This research is focusing on organizational communication climate and employees' performance of PT. Myshop Retailindo.

## **2. Literature review**

Communication climate comprise of perception on organizational elements and the influence of those elements towards communication. The impact is defined, agreed upon, and established in a sustainable way through interaction between member of the group. This impact produces a guidance for decisions, individual acts, and influencing messages on organization.

Organizational communication climate is being established through the interaction between member of organization, as Pace and Faules suggest:

Through interaction process, each member of an organization examines the existence of trust, openness support, attention, and straightforwardness. It can be said that influence of communication existed in many ways and transforming the way of determining and establishing those influences through interaction among member of organization. (Pace & Faules, 2015:154)

Katz and Khan also added that:

Most of our interaction with people is a communication act (verbal, non-verbal, speech, and silent). Communication, information exchange, and transmission of meaning, are a social system or an organization. (in Pace & Faules, 2015:66)

The open climate organization will enforce employees to utter their interest and dissatisfaction without fear of having a negative counter act or attention. Dissatisfaction can be wisely managed by the open climate environment, even though this would not have happened if every member does not have a high confidence and believe in the act of justice.

### **3. Research Method**

The method applied for this research is survey research with descriptive technique. Survey research is a research by taking sample out of a particular population and utilizing questionnaire as primary data collecting tools (Singarimbun & Effendi, 2006:3). In the mean time the descriptive technique applied in this research is coined by Rakhmat (1995:24) as a technique to explain a particular situation or event as it is at the time of the research. This particular research is not seeking or explaining relation between variables nor does examining hypothesis or illustrating prediction.

#### **Population**

In this sub chapter, the discussion is on the population of this research. Population itself according to Sugiyono (2011:80) is an area of generalization consists of objects/subjects who has a particular quality and characteristic addressed by a researcher to be examined and to acquire conclusion out of it. The population for this research is 365 active employees of PT. MyShop Retailindo<sup>\*\*</sup>.

#### **Sample**

The next in the discussion is sample. Sample as per Nawawi (1995:141) suggestion is part of the population gathered by a particular way. Sampling technique for this research is probability sampling technique using disproportionate stratified random sampling. This technique is used for determining sample in a disproportional stratified population (Sugiyono, 2011:64). The sample generated from the technique is 78 respondents.

### **4. Results and Discussion**

This research applied descriptive analysis technique, which purpose is to expose on research object based on data and variables from subject being researched.

The answer from respondents on several questions and statements in the questionnaire will be displayed in the form of frequency distribution table. The analysis is being done using

---

<sup>\*\*</sup> Based on data from PT. MyShop Retailindo

correlation technique, by looking at the degree of correlation between two variables. First step of this research is to have descriptive analysis on respondents' data, which is being classified and applied in the table.

The following are the results based on components of organizational climate variable (V1).

### Trustworthiness (V 1.1)

**Table 1 Trustworthiness (V1.1)**

No	Interval	Category	F	%
1	15 – 20	High	32	41.0%
2	9 – 14	Medium	26	33.3%
3	4 – 8	Low	20	25.6%
<b>Total</b>			<b>78</b>	<b>100</b>

Source: Questionnaire data process 2015

Based on the trustworthiness table, the highest respond is on high category with 32 respondents representing 41%, almost half of the whole respondents. The medium category with 26 respondents or 33.3%, while the low category with 25.6% which comprise of 20 respondents. It can be concluded that almost all respondents have replies in the high category in trustworthiness variable.

It can be concluded that the trustworthiness from top level to employee in lower level has a potential to affect performance. The data lies inline with what Myer suggestion as follows: Level of trustworthiness and believe between top level management and lower level management, influences the amount and detail of information acquired by top level management in order to have decision or distributing decision making authority (Myers, 1987:79). Furthermore, Fox in Rollinson (1988:565) indicates that low trustworthiness level in an organization can be seen in the working environment that give a little trust to an individual member with their work behaviour being observed in detail.

Based on the field observation, the role of top level management is not elaborated well especially in the area of trustworthiness. This fact can be explored through the high level of employee being absent, which practically relevant with the level of trustworthiness from top to lower level of employee on job division.

In the healthy organization, symmetrical relation between two individuals can be seen in high level of trust among them. Pace & Faules (2015:159-160) added that every personnel on every level should work hard in developing relation, consisting of trustworthiness, believe, and credibility supported by actions and statements. It is very necessary for an organization to build and maintain trust between top and lower level employees, as better relation generates

responsive act on personal needs, sensitivity of employee feelings and fellow co-worker, and also the availability of information.

**Table 2 Superior trusting employees**

Statement	Respondent's answer	f	%
Superior has trusted some works towards employee	Highly Agree	5	6.4%
	Agree	25	32.1%
	Has a doubt	20	25.6%
	Disagree	19	24.4%
	Highly disagree	9	11.5%
	Total	78	100,0%

Source: Questionnaire data process 2015.

Table 2 represents response from respondents on item of superior has trusted some works towards employee, the majority of respondents 32% or 25 people agreed upon the statement, while small number of 5 people or 6.4% highly agreed on the statement. A relatively high number of people of 20 or 25.6% doubted the statement, with 19 other people disagree and a small number of 9 people highly disagree.

Organizational climate is a supporting factor in increasing performance of employees in a particular company or organization. It is caused by the need of a conducive environment by employee to work on, which one of them made up from the level of trust given to them in PT MyShop Retailindo. As Toulson, Mike, Smith (1994:457) hinted that:

Organizational climate can be measured in a work environment, whether directly or indirectly, which affected on employees and their workplace, with the assumption that it will have an effect on employees' motivation and behaviour.

**Table 3 Superior provided a freedom to employee**

Statement	Respondent's answer	f	%
Superior provides freedom in completing the work for employee, as long as it is inline with company's objective.	Highly Agree	5	6.4%
	Agree	29	37.2%
	Has a doubt	17	23.1%
	Disagree	22	26.9%
	Highly disagree	5	6.4%
	Total	78	100,0%

Source: Questionnaire data process 2015

Table 3 provides an insight on the item of “superior provides freedom in completing the work for employee, as long as it is inline with company’s objective”. Majority respondents comprise of 29 people or 27.2% agree on that statement, while 22 (or 26.9%) and 5 (or 6.4%) people disagree and highly disagree, respectively. 17 respondents have a doubt while 5 respondents highly agree on the statement.

The trust on employees’ ability is one factor that helps a conducive organizational climate in a workplace. This is caused by positive psychological effect generated from the trust, thus giving employees encouragement in giving an all out performance to finish the work. As hinted by Forehand (1964:362) that organizational climate is a set of characteristics that describe an organization and that distinguish the organization from other organizations and influence the behavior of people in the organization.

**Table 4 Respect and appreciation from superior towards employees**

Statement	Jawaban Responden	f	%
There are respect and appreciation from superior towards employees	Highly Agree	14	17.9%
	Agree	21	26.9%
	Has a doubt	14	17.9%
	Disagree	20	25.6%
	Highly disagree	4	5.1%
	Total	78	100,0%

Source: Questionnaire data process 2015

Table 4 is the respond on item of “respect and appreciation from superior towards employees”. The highest percentage lies on respondents being agree on the statement with 21 people or 26.9% almost the same as people who are disagree with 20 people or 25.6%. In addition, 14 people or 17.9% highly agreed on the statement, the same number with people who has a doubt. While only a small number of 4 people or 5.1% highly disagree on this matter.

The majority of respondents regards that there are no respect or has a doubt on the existence of that particular activity within the organization, affecting to PT. MyShop Retailindo employees’ low level of performance. Mr. Karim as one of the employee suggested this in one of the interview:

I really hope that I would be able to work in a supportive environment to increase my performance. Superior who really care about their employees by giving them trust to



maximize their work in their own expertise according to job description, which never existed until today.<sup>§§</sup>

## 5. Conclusion and Implications

It can be concluded from this research based on the data that there is a correlation between high trust level factor and performance of PT. MyShop Retailindo, which comprise of the trust in employee to finish their work including the process of completing the work.

It is suggested that PT. MyShop Retailindo should have their superior in higher level to distribute full responsibility towards employees to finish their work, and cooperate during the process. High level of trust enables employees to have a confidence in doing their work, which can be generated through the freedom of finishing the job with their own way, thus would increase the feel of responsibility for the job in hand.

## References

- Pace, Wayne ; Faules, Don F. (1998). *Komunikasi Organisasi*, translated by Deddy Mulyana, Bandung,  
PT Remaja Rosdakarya
- (2001). *Komunikasi Organisasi*, translated by Deddy Mulyana, Bandung,  
PT Remaja Rosdakarya
- Poerwanto. (2008). *Budaya Perusahaan*. Yogyakarta: Pustaka Pelajar
- Tubs, Steward L., dan Mass Sylvia. (1996). *-Prinsip Dasar*. Bandung:PT. Remaja Rosdakarya.
- Wibowo. (2010). *Budaya Organisasi. Sebuah Kebutuhan untuk Meningkatkan Kinerja Jangka Panjang*. Jakarta: PT Rajagrafindo Persada.
- Wirawan. (2007). *Budaya dan Iklim Organisasi Teori Aplikasi dan Penelitian*. Jakarta: Penerbit Salemba Empat

---

<sup>§§</sup> Fourth Interview with Mr. Karim, employee of PT. MyShop Retailindo at PT. MyShop Retailindo Office, 15<sup>th</sup> December 2015.

The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship  
**ENTREPRENEURSHIP TRAINING FOR COMMUNITY EMPOWERMENT  
EFFORT IN MATHLAUL ULUM MADRASAH TSANAWIYAH**

(Yanti Setianti, Hanny Hafiar, Kokom Komariah, Aat Ruchiat Nugraha)

*Program Studi Hubungan Masyarakat Fakultas Ilmu Komunikasi Universitas  
Padjadjaran, Jl. Raya Bandung Sumedang km 21  
Aatruchiat.nugraha@gmail.com*

Garut is one of the existing districts in West Java, addition to fertile land, Garut has water flowing into the river Cimanuk and beautiful scenery surrounded by mountains such as Mount Cikurai, volcano, Mount Guntur, Mount Galunggung, mount Talaga Bodas and Mount Karacak. Community arrow root should have a good entrepreneurial spirit to promote the potential of its natural wealth. This activity is conducted to provide entrepreneurship training for students MTS Mathlaul Ulum Garut . Several objectives of this activity, among other things, increase the students knowledge in entrepreneurship, improving the entrepreneurship skills of students in planning, and enhance students' skills in making an entrepreneur.

The training uses lecture and simulation as well as the practice of making planning entrepreneurship. Conclusion derived from entrepreneurial training activities for students madrasah tsanawiyah is increase in student knowledge in entrepreneurship, entrepreneurial skills of students in planning and entrepreneurial skills of students to carry out. This study **suggests** given after this training is to conduct similar activities continuously in order to grasp owned by the participants into a more comprehensive so that they can realize their dream to become an entrepreneur.

Key words : Entrepreneurship, Community, entrepreneur, planning, Promote

## **INTRODUCTION**

Garut has lovely views and has a heterogeneous society as urbanization, community diversity, and growth in Garut closely related to plantation businesses and attractions in Garut, either natural or culinary attractions.

Garut is one of the Districts that existed in West Java, in addition to the fertile soil, Garut has water flowing into the river and is surrounded by beautiful scenery and mountains such as Mount Cikurai, Mount Papandayan, Mount Galunggung, Mount Guntur, Mount Telagabodas and Mount Karacak. Garut communities should have a good entrepreneurial spirit to promote the potential of its natural wealth.

Entrepreneurship explained by the experts through a variety of definitions. Referring to The Great Dictionary of the Indonesian Language, Second Edition - Dept. of Education and Culture, Balai Pustaka, 1996, the word derives from the word entrepreneur, is a word that comes from the French language, i.e. the entrepreneur which means those qualities of courage, virtue, and example in taking risks on its own capabilities (Sumahamijaya, Yasben and Dana, 2003:67).

According to The Presidential Directive of the Republic of Indonesia No. 4 of 1995 regarding the National Movement To Promote and Cultivate Entrepreneurship (GNMMK), entrepreneurship is:

Spirit, attitude, behavior and a person's ability in dealing with business or activity that leads to the effort of searching, creating, implementing procedures, technology, and new products by improving efficiency in order to provide better service and or gain a larger (Soesarsono, 1996:9).

Based on the above statement then it can be said that entrepreneurship is one effort to systematically compile various aspects to improve knowledge, attitude, and skills. Thus if someone wants to entrepreneurship then it should have an entrepreneurial attitude and have the entrepreneurial skills (Soemanto, 1999:45).

Thus through entrepreneurial skills training conducted in the institution through the instructors are expected to promote and cultivate the values of entrepreneurship in teenagers. The entrepreneurial values (Siagian & Asfahani, 1996:12-13) includes a strong willingness to work and independent, able to make the right decision and dare to take risks, creative and innovative, diligent conscientious and productive, as well as working with the spirit of togetherness and a healthy business ethics. The values associated with the entrepreneurial achievement motive (N-Ach) that can be transmitted by the environment so that it is based on the results of McClelland research (1961:147-149) stated that the best way to grow the N-Ach is through education in the family.

Skills training has a role in improving entrepreneurial skills. Activities that are not optimal happens in training, causing not maximal improvement of entrepreneurial skills from participants. If the entrepreneurial abilities of the trainee are expected to rise to its full potential then the activity or process of training undertaken by the trainee should be followed optimally. Therefore if the entrepreneurial skills of the trainees are expected to have an entrepreneurial attitude then entrepreneurial skills training should take place optimally.

Mathlaul Ulum Madrasah Aliyah students are individuals who certainly has a lot of differences between one another. Nevertheless, from heterogeneity among them, that can be searched homogeneity or their equivalents, which among them is the similarity in the thinking of the needs of information and economic needs. One of the efforts to meet the needs of their students and economic information, it must be held entrepreneurial training to make students be empowered so they can create jobs themselves after they graduate. So they do not depend on other people to get the job if they don't have the cost of tuition to continue to College.

Based on the description then the problem can be formulated as follows: *"How Entrepreneurship Training For Community Empowerment Efforts in Mathlaul Ulum Madrasah Aliyah "*.

## LITERATURE REVIEW

Entrepreneurship explained by the experts through a variety of definitions. Referring to The Great Dictionary of the Indonesian Language, Second Edition - Dept. of Education and Culture, Balai Pustaka, 1996, the word derives from the word entrepreneur, is a word that comes from the French language, i.e. the entrepreneur which means those qualities of courage, virtue, and example in taking risks on its own capabilities (Sumahamijaya, Yasben and Dana, 2003:67).

In addition, the entrepreneur is defined as hard work, involving an unpredictable blend of calculation and luck (Kao, 1991:2), the hard work that involves a combination of calculation and luck are difficult to predict. In this study, the definition of self-employment was more referring to the statement that human productivity that can create jobs for themselves or for others (Yani, 96:3).

According to The Presidential Directive of the Republic of Indonesia No. 4 of 1995 regarding to the National Movement To Promote and Cultivate Entrepreneurship (GNMMK), entrepreneurship is: Spirit, attitude, behavior and a person's ability in dealing with business or activity that leads to the effort of searching, creating, implementing procedures, technology and new products by improving efficiency in order to provide better service and or gain a larger (Soesarsono, 1996:9).

Based on the above statement then it can be said that entrepreneurship is one effort to systematically compile various aspects to improve knowledge, attitude, and skills. Thus if someone wants to entrepreneurship then it should have an entrepreneurial attitude and have the entrepreneurial skills (Soemanto, 1999:45). While the factors that can contribute to support a person to be an entrepreneur is:

8. The individual characteristics and experiences, including intelligence, talents, interests, achievements, personality, values, embraced, hobbies, skills, personal problems and limitations, the education received, training and work history.
9. The personal situation of individuals, including family background, outlook on life, work of parents, childhood experiences, societal values, and marital status.
10. Individual social factors, including the influence of the primary and secondary (Yani, 1996: 73-88).

The kind of entrepreneurial skills training can be given on the teenagers divided into groups of types of skills, among other things:

53. The group of Workshop practice, repair the damage and improve the shape of an item, such as cars, motorcycles, televisions, radios, watches and other goods that use the machines.
54. The group of Carpentry work, the practice of producing, creating and producing the goods, such as iron, timber, tiles, hollow brick, tile, lathe, shoes and so on.
55. The group of offices, a practice it works related to the situation in the administration offices, such as typing, bookkeeping, shorthand, cashier, and other management, etc.
56. The group of Language, practice it works related to the knowledge and use of language, such as United Kingdom Language, Mandarin, French, Germany, etc.
57. The group of Special Skills, the practice of Group work is a skill that can be used to add to and meet the needs of living as a profession or hobby development, such as: Barber, beauty salon, farming, ranching, fishing, painting, cooking, preparation and preservation of food, sewing, batik, weaving, embroidery, photography, gardening, crafts and more.
58. The group of Trade Group, practice it works related to the buying and selling of goods, such as food, building tools, power tools, pet food, fabric, clothing, stationery and more. (Yani, 1996:163-166).

Accordingly, through entrepreneurship skills training conducted within the institution through an instructor is expected to promote and cultivate the values of entrepreneurship in adolescents. The values entrepreneurship (Siagian & Asfahani, 1996: 12-13) include a strong will to work and self-sufficient, able to make the right decisions and take risks, creative and innovative, diligent conscientious and productive, as well as working with the spirit of togetherness and ethics a healthy business. Values of entrepreneurship related to the achievement motive (N-Ach), which can be transmitted by the environment that is based on the research of McClelland (1961: 147-149).

## **RESULTS AND DISCUSSION**

This training emphasizes the meaning of learning (learning). According to Crow 5 Crow, learning is the process of changing one's personal behavior or based on a specific practice or experience. This means that after having had the experience of entrepreneurship training participants are expected to start showing interest to want to entrepreneurship training emphasizes the significance of learning (learning). According to Crow & Crow, learning is a process of change in behavior or a private person based practice or experience. This means that after having had the experience of entrepreneurship training participants are expected to start showing interest to want to entrepreneurship independently so that it can become a powerful community.

The next need is provided a range of tools and supporting materials to facilitate this training process in the form of a computer, and a variety of materials that will be used as a product for entrepreneurial

Because this training is training that aims to improve skills, then felt strongly the need to demonstrate the practice of making one product directly and followed by a simulation activity that involves the participants directly so that expected at the time of training activities has been completed then the whole groups the participants already have the product as needed.

Community empowerment is the way the students of the school as a community role as the social controller that can provide oversight and input towards entrepreneurial products are made so that the activities can take place on an ongoing basis. Target audience between the entrepreneurial training is strategic in Madrasah Aliyah Mathlul Ulum students in the village of Tanjung Kamuning Tarogong Subdistrict. The participants of this training can be projected to the audience, who can then disseminate the results to other community activities. So the transfer process of knowledge and transfer of skill can run smoothly.

The process of learning requires certain teaching methods from the instructor. Teaching methods can be shaped lectures, demonstrations, discussions, as well as a aims to provide an understanding of the knowledge, understanding of the application, understanding of the analysis, synthesis and evaluation (Syah, 2002:202). Therefore on the methods will use in the entrepreneurial training are lectures and simulated practice.

Entrepreneurial training in Mathlul Ulum Madrasah Aliyah, Tanjungkamuning Village sub-district of Garut Tarogong, using training methods, lectures, and discussion as well as questions and answer sessions. The purpose of this training is to enhance the knowledge and skills of students in entrepreneurship.

In general, this activity assessed quite successful in terms of planning, implementation or the results of the training activities. This is reflected from the comments, feedback or request the participants who want a similar activity either with the same or different material. Participants felt delighted to follow entrepreneurial training.

Evaluated from the enthusiasm of the participants, obtained an idea that the material given by the speaker in accordance with the needs of the participants, namely the students who desire the presence picture of how to do the entrepreneurship.

Based on the types of questions asked, there is a tendency that the students in this school do not have the comprehensive knowledge yet about the steps to make the entrepreneurial planning of what they will run, so they asked a lot of things that are very fundamental about entrepreneurship.

With the explanation from the speaker, the knowledge of the participants has increased and insights on entrepreneurship participants more open. Accordingly, purpose from training to increase the knowledge of participants regarding the writing of the wall magazine and increase the skills of participants for the manufacture of writing for the wall magazine can be achieved gradually.

As for some of the proposals raised by participants after completion of the training is often conducted activities such as entrepreneurial training.

The other proposal is related to the types of training needed by participants such as printing business training, training the manufacture of paper, and library management.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **CONCLUSIONS**

After the training activities have been undertaken to a number of school students who become trainees gained some conclusions as follows:

The knowledge of students about entrepreneurship, after following this training be increased, from which no clue at all about becoming entrepreneurs know what is meant by entrepreneurship.

### **RECOMMENDATIONS**

Need further activities related to the training, for example, the training to make a T-shirt printing business in their schools.

### **REFERENCES**

- Bandura, Albert. 1977. *Social Learning Theory*. New Jersey : Prentice-Hall.
- Gerungan, W. A. 1991. *Social Psychology (Psikologi Sosial)*. Bandung : Eresco.
- Glanz.Rimer dan Lewis.2002. *Health Behavior and Health Education*.San Francisco;Jossey-Bass A Willey imprint
- Liliweri, Alo. 1994. *Theoretical Perspective, Interpersonal Communication (An Approach Towards Social Psychology of Communication)*. (*Perspektif Teoritis, Komunikasi Antarpribadi (Suatu Pendekatan Ke Arah Psikologi Sosial Komunikasi)*). Bandung : Citra Aditya bakti.
- Rakhmat, Jalaluddin.1985. *Psychology of Communication*. (*Psikologi Komunikasi*). Bandung : Remadja Karya.



The 1<sup>st</sup> International Conference on Family Business and Entrepreneurship

**CHIEF ENTREPRENEUR  
FOR EVERY INDIAN STATE ECOSYSTEM**

**Sriram Pappu**

Tech Tribe Group LLC, [sriram@techtribegroup.com](mailto:sriram@techtribegroup.com)

---

***ABSTRACT***

*When capitalising on an emerging investment opportunity, entrepreneurs want the economic progress of the country. However, unlike governments, they usually might not work on the entire nation's interest. The government has plans of employment generation by encouraging entrepreneurship and startups. Archaic policies, occasionally, act as a clog, forcing entrepreneurs and investors to find alternative ways of running a company. The implications of government intentions and upcoming policy drafts are coherent: encouraging entrepreneurship ecosystems, incubators, accelerators, supporting venture capital firms and angel groups that ultimately influence job creation. Although there is only a small gap between the current government's intent and the startup's business intent, there seems to be a significant difference between their methodologies. The presented hypothesis and examples are based on my experience with over 500 startup reviews, 4 years in the startup ecosystem as part of incubators, crowdfunding platforms, angel investors groups, and publishing. The paper attempts to derive pragmatic solutions for discussed issues. In India, Startup Entrepreneurs cannot wait for policy changes or exemptions at a usual pace as an angel investor in India still expects instant returns on investments. State governments need to draw the experience of the private sector and create an office in every Indian state that that aspires to support entrepreneurship that will lead to employment opportunities. This paper will demonstrate the benefits of creating the position of a Chief Entrepreneur (CE), key performance indicators of CE and how the CE's board, structure, and power and will bring about the much demanded change.*

**Keywords:** *Venture capital, Angel funding, Policy, Ecosystem, Chief Entrepreneur*

---

## 1. INTRODUCTION

In India, over 600 million people belong to the 'middle class'. This is just about 50% of the country's population, and for most, entrepreneurship is not encouraged. Failure in it, is perceived as an unforgivable error. Moreover, it is only the wealthy and entitled who are encouraged into entrepreneurship. Despite the significant improvement in numbers since the liberalisation of '91, the trend of entrepreneurship is still emerging from the shadows. The startup world has contributed massively to this emergence.

Entrepreneurship in India or in any developing country comes with its fair share of challenges. Angels and Venture Capital firms are infamous for being biased towards elite university graduates such as the Indian Institutes of Technology. The metros of Delhi,

Mumbai and Bangalore which also have the top prestigious universities, account to 93.8% (\$ 3.32 billion) of the total funding attracted in 2016. As somebody who worked in the Indian startup system, I feel that the good entrepreneurial education and strong alumni connections in these institutions influence certain interest and favouritism. Alumni from other universities might have great ideas and execution skills, but have inadequate entre-preneurial education and avenues to it. This makes it challenging to get investments or attention. Such companies have to lean on savings and funds from external sources apart from angel money. Such sources are scanty.

Table 1. Top Startups in India

Companies	Founders Pedigree	Number of Rounds & Funding Obtained
Flipkart.com	IIT	Funding Rounds 12, 3.15 billion USD
Housing.com	IIT	Funding Rounds 6, 159.2 Million USD
Ola Cabs	IIT	Funding Rounds 8, 1.23 Billion USD
Oyo Rooms	Non- IIT	Founding Rounds 6, 187.65 Million USD
Zomato	IIT	Funding Rounds 8, 223.8 Million USD
SnapDeal	Wharton	Funding Rounds

Despite India being home to lot of well-trained software engineers, it cannot talk about building world class products within the country. Barring *Zoho CRM*, there are not many that caught my attention. Companies such as *Flipkart* and *Zomato* are technically not registered Indian companies, because it is a tedious process to start an enterprise and arduous to exit or close it. The taxes are heavy and red-tapism is rampant. Indian rate of corporate tax on corporate profits is 34%, whereas it is between 10% and 19% in other countries. Investors make money through capital gains. In India, paid dividends and capital gains are taxed at 16.9% and 15% respectively, whereas they are not taxed in investment friendly countries.

The whims of the powerful and populist demands sway FDI regulations. The profits from foreign income are charged too. Foreign Venture Capital Investors (FVCI) are still not entering into India with all guns blazing. As a matter of fact, a couple of firms such as *500 Startups* have put their Indian arm at hold citing lack of clarity on taxation and regulation issues. Albeit the government's new tax initiatives for startups, few startups have found their way to getting tax benefits. The government wants startups, investors want to invest, people want to start ventures, but nothing is happening as expected due to the lack of real catalysts to facilitate and make things happen. Professor Daniel Isenberg (Babson College), published an article in 2010 in the *Harvard Business Review*. He wrote it in order to provide increased cognizance of the concept of startup ecosystems. According to Professor Isenberg, the nine primary components required to generate an entrepreneurial ecosystem are presented in the diagram below.



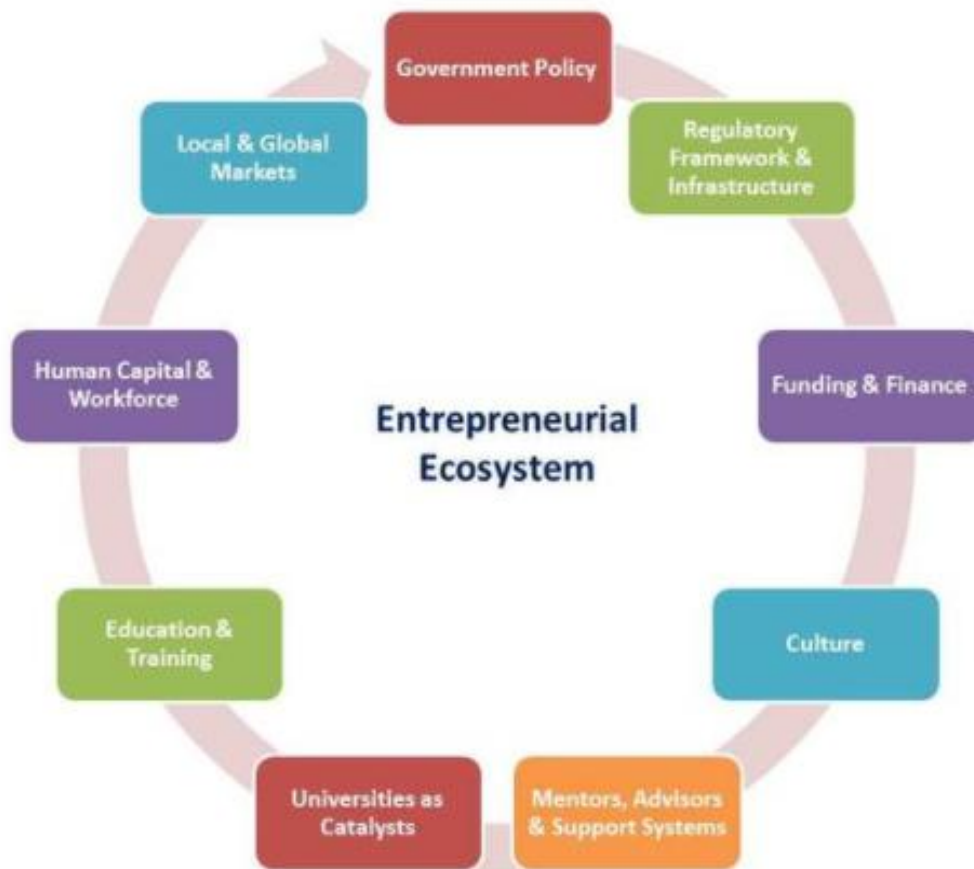


Fig 1. Components of startup ecosystem

Source: [www.mancef.org](http://www.mancef.org)

In a country such as India, government policy, regulatory framework, education and culture seem to be the biggest problems of a startup ecosystem.

## 11. CASE STUDIES

### 2.1. E-Mart

A company that enables Indian manufacturers to sell their products online via integration with *Amazon* in various countries. Just by registering on *e-Mart* Indian sellers have the ability to sell in most parts of the world. Though one of a kind, it does not have the desired support from the key players in the Indian ecosystem. So, the company went overseas and is valued at millions by foreign investors.

**Business Problem:** *e-Mart* could not raise funds in India, as they are associated and integrated with ecommerce platforms. In India, the word e-commerce has become a curse word with angel investors. Investors are not happy by investing into e-commerce companies such as *Flipkart* for its Indian operations. But, *e-Mart* is very different. They were

not dependent on Indian e-commerce platforms; they are acting as enablers to Indian sellers by taking them global. Neither did Indian sellers have any problem using *e-Mart* services nor did any international e-commerce platforms have any problem integrating with them. It is just that the Indian angel investors used to the herd mentality, ignored them.

**Policy & Regulation Problem:** *e-Mart* is an enabler, and is not selling anything in foreign markets by itself. They personally check and vet all the small seller products on board. Their returns percentage is negligible. The taxes and export duties imparted on their income and the income of the small sellers using their platform is huge. It demotivates the sellers from selling a quality product and differentiating their product from the rest. They could be taxed once they achieve a certain volume. Putting the sellers and *e-Mart* under the export tax bracket is unfair.

**Status of Company:** *e-Mart* raised funds from Singapore investors and now is in acquisition talks.

## 2.2. LetsVenture

According to a World Bank report, in order to dodge the traditional structure of the capital market and the establishment of financial regulations in the developed world, developing economies utilise crowdfunding to propel their potential. *LetsVenture* is a popular and unique crowding platform in India that helped more than a hundred companies raise funds.

**Business Problem:** Though scaling in crowdfunding sounds seamless, it is caught up in doing a lot of paperwork and arranging offline interactions among investors and entrepreneurs. Small companies, especially the ones doing social entrepreneurship in remote parts of the nation need money quickly and should not get caught up in the paperwork quagmire. For a crowdfunding platform to survive, they need to be closing deals at a good pace. During fundraising mode, entrepreneurs are extremely distracted from what they should be doing: focussing on the product or service, marketing, and building a team. Fundraising should be an easy process and not daunting as the one that exists in India. Lot of upcoming and social companies require small investments. Such companies heavily depend on crowdfunding platforms.

**Policy and Regulation Problem:** The future of *LetsVenture* is unknown as SEBI, SEC's Indian counterpart, asked it to stop taking up new startups and investors on board. SEBI is trying to protect investors' interest and is also concerned about the quality of startups coming onto the platforms despite *LetsVenture* having an outstanding team to vet all the startups.

**Status of Company:** Lets Venture is trying to run its operations; Similar Indian crowdfunding companies such as *Term Sheet*, *Equity Crest* and *Tracxn* need to be around to support entrepreneurship. Progressive thinking regulations and other factors will play a pivotal role in the success of these enterprises.

These are just two examples. There are more than a hundred other business innovations left with nowhere to go due to the rift between business intent and policy hurdles. Both *e-Mart* and *LetsVenture* are business innovation companies. They are helping multiple stakeholders that subscribe to their service go to the next level. In a perfect or ideal startup ecosystem, *e-Mart* would have enabled more small scale Indian retailers go

global. Each Indian traditional product would have probably explored a market that they could have never imagined. Similarly, *LetsVenture* could have taken multiple social entrepreneurship and tech companies to the next level by assisting them in quick fundraising processes.

Nothing turned out ideal for both the companies. In case of *e-Mart* it is an ecommerce enabler and not an e-commerce company. Lack of information and knowledge about their work prevented angel investors from India from taking the lead in an investment round. Herd mentality also created a domino effect when one investor backed out from the round. Some support from the government by tax exemptions or by leading the round would have instilled some faith for the investors. With *LetsVenture*, there was minimum understanding of how crowdfunding platforms play a vital role in the startup ecosystem of developing countries. Hence no one could put the government and SEBI's concerns to rest and work towards setting up norms for accredited and non-accredited investors' investment rules.

### 3. SOLUTION

Companies such as *e-Mart* and *LetsVenture* would have fared better in the presence of a veteran in the startup ecosystem. The presence of a Chief Entrepreneur (CE), a successful head of a particular region's startup ecosystem would push entrepreneurship in that area to a new level.

Qualifications required to be a CE:

59. Should be below 60 years of age
60. Should not hold an office of profit under the government
61. Should have been a successful Entrepreneur
- 6 Should have dealt with Venture Capital firms had one or two exits themselves
- 7 Should not be a stakeholder in any venture capital or investment firm
- 8 Reputed within and outside the region.
- 9 Should be looking for roles for the betterment of society.
- 10 Adept at the regional language.
- 11 Should not have any ongoing civil or criminal case against him/her in a court of law

The role of Chief Entrepreneur is something that is not new, and a precedence has been set in many developed countries officially.

Table 2: List of officials in similar roles

Name	State & Country	Title	Paid/Volunteer
Greg Adams	Tennessee, USA	Chief Operating Officer	Paid
Henry Darwin	Arizona, USA	Chief Operating Officer	Paid
David Alston	New Brunswick, Canada	Chief Entrepreneur in Residence	Volunteer

Mark Sowerby Queensland, Australia Chief Entrepreneur. Paid

---

**Experience**

---

35 years at IBM in sales, marketing, operations, re-engineering & quality and general management.

Arizona Department of Environmental Quality for 18 years, serving as the Director from 2011 to 2015. As Director, he led the deployment of the first Lean management initiative in Arizona government.

Alston was a key architect of one of New Brunswick's top technology success stories, the social media monitoring pioneer Radian6 which was acquired by [Salesforce](#) in 2011 for north of \$300 million.

Queensland's most successful entrepreneurs and is best known for his role as the founder and former Managing Director of Blue Sky Alternative Investments Ltd.

All the people mentioned above are highly successful entrepreneurs who want to now give back to the society. These are the people who will strive to comprehend the requirements of the involved stakeholders and work to bring about success for all. In developing countries such as India, these roles are not yet official. The members who want to contribute to the society are quietly running small clubs that meet to promote entrepreneurship. Some good has come out of a specific state or region, where companies such *Tuplejump* and *AppDynamics* have been acquired by *Apple* and *Cisco*.

One can copy the intent of a Silicon Valley but have to execute it keeping in mind strengths of the state. India is a huge country, and the dynamics of each stage or region are very different compared to each other and the rest of the world. Entrepreneurship is burgeoning, and it's high time that effective measures are taken. India can be divided into 5 different zones: Central, West, South, East, and North. Each zone has a number of states, and each state needs to have one CE. The CE can employ a few people to shoulder responsibilities. They are usually associates whose work is similar to that at venture capital firms.

#### CE Body Structure:

11. Divided into 5 zones ( East, West, North, South & Central India)
12. Each zone has certain states; each state would have a CE.
13. The CE Board would have its President; All CE's report to the president.
14. CE body would not be entirely autonomous. It could come under Ministry of Skill development and Entrepreneurship.
15. Each CE would have one voting right

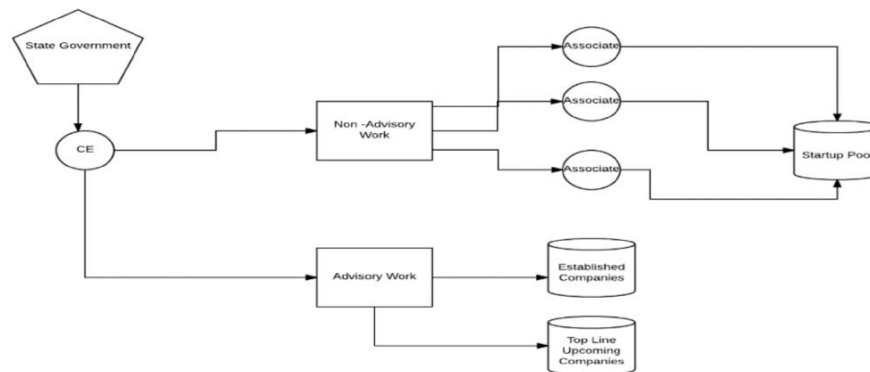


Fig 1. Chief Entrepreneur (CE) state structure

A wave of entrepreneurship is starting to engulf India. The main job of a CE is to keep the wave going by providing and tracking all the determinants - regulatory framework, technology, education and capabilities, culture, and access to quick finance and facilities and connections required for a startup to grow to the next level.

The CE's duty also entails overseeing the disbursement of government allocated funds to competent startups. The role of a CE is of a facilitator and not a manager. If a startup is in trouble, he/she should be the go-to person. The CE has to collate information on existing government policies, implementation and on ground issues faced by startups in availing said policies or schemes and pass it to the Ministry of Commerce and

Department of Industrial Planning and Promotion. In addition to working with the government to exempt startups from old standing policies, the CE must make sure that the Venture Capital firms invest the funds taken from the government to invest in their respective zones. Venture Capital firms and angel firms need encouragement from the CE to adapt to less and right paperwork, and quick access to money. This will make the job of the CE to protect the investors and upcoming entrepreneurs from fraud and corporate malaise much easier. Fi-

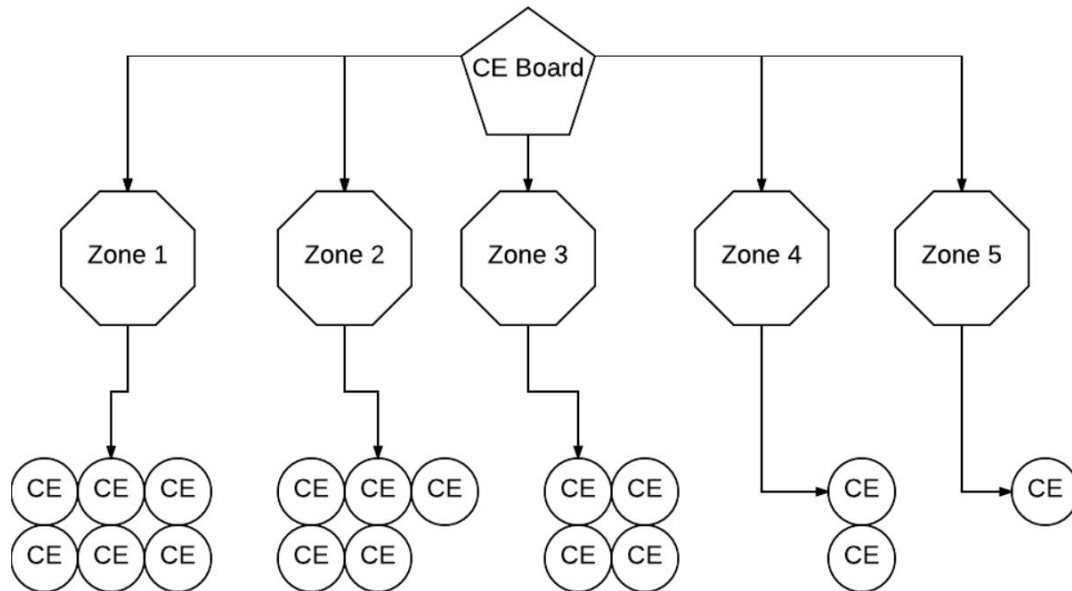


Fig 3. Chief Entrepreneur Board Structure

nally, in a few cases, the CE should have the power to lead a deal on behalf the government. Leading a deal does not mean the person (government in this case) has to invest the highest amount. It just means that it is the first to invest and is leading the due diligence process. The CE Board should come up with concrete actionable strategies for the Min-istry of Commerce and the Department of Industrial Planning and Promotion. India still follows the crowd in investments. In cutting edge startups, the government backing or approval matters.

Along with handling unfair competitive culture, encouraging skilled employees to join startups and pitching angel investors into investing in cutting edge startups, the CE has to work with top tier firms to facilitate infrastructural and operational support to upcoming companies. Resources and talents have to be identified in their corresponding zones and assisted in entrepreneurship growth in the most natural way possible with relation to the organic habitat of the region. An agrarian region should not be forced to transform into a technology hub. Leveraging on the immense knowledge and expertise of the CE, entre-preneurship or startup basics should be taught in the rural areas.

Ventures usually fall into four categories - incremental venture (the founding and management of a routine business exhibiting modest novelty), innovative venture (the initiation and operation of a business based on innovation), imitative venture (the identification and imitation of a novel business venture) and rent-seeking venture (the founding of a business that utilises standards, regulations and laws to share in some of the value of an existing enterprise). The most innovative and imitative ventures need utmost guidance and support. A CE and his team can identify them and provide the required assistance.

Table 3: Funding from different cities in 2016

City	Funding obtained in 2016	Funding percentage of India's total
Delhi NCR	\$ 1.12 billion	32.6%
Bangalore	\$ 1.06 billion	30.9%
Mumbai	\$ 1.04 billion	30.3%
Others	\$ 0.20 billion	6.2%

As the above table indicates, majority of the funding is obtained in three major cities. The angel investment education or entrepreneurial education is also restricted to these cities. This has to change and every state needs a CE to build and manage a self-sufficient start-up ecosystem. The collective effort of the CEs will result in the persuasion of ministries to usher in policy reforms.

#### 4. DEVELOPMENT AND OUTCOME

Table 4: Various sources of funding for three consecutive years

Investors	2014	2015	2016
VC Firms	49%	30%	26%
Individual Angel	32%	58%	62%
Angel Network	3%	2%	2%
Corporate	10%	8%	8%
Others	6%	2%	1%

As the table above indicates, the funding obtained through venture capital firms is dwindling gradually, since it is not easy to come by. In comparison, funding through angel investors and angel networks is on the rise. A few factors needed to build an effective ecosystem are - good entrepreneurial education penetration, angel investors' education penetration, conducive crowdfunding regulations, efficient equity paperwork, a rising number of angel investors each year, tax incentives for angel investors and companies focussing on revenues.

Apart from increasing investment and funding, there will be a significant increase in the number of employees as a result of the creation of a proper channel. Currently, 4000 startups come from Bangalore and Delhi-NCR every year. Let us assume these startups have an average of 30 employees per startup, we have close to 120,000 employees work-ing for upcoming startups in these regions. If the same proportional ratios are applied to all other major cities, we should have at least 20,000 startups employing 600,000 people totally. 10% of the total startups succeed on the scale of successful startups operating in India such as *Flipkart* and *Zomato*. We could now have (2000 startups \* 35,000 employ-ees) 70 million employees by the year 2022 assuming an average of 7 years to expand. In the same progression, by the year 2025, we could have (2000 startups \* 35,000 employees

(11) 3 years) = 0.2 billion employees. A discounted growth flow method would yield a dis-counted number. A realistic figure would be much less than the discounted number itself. Despite the reduced value, even that realistic number would be equivalent to a gold im-pact.

The metrics and parameters used to assess the CE Board could be as follows –

- The growth of top-line revenue from the startups
- Profitability and hiring status of the startups selected by the board
- Confidence in the business financials produced by these startups
- Awareness about the startups among prospective investors
- If the companies are en-route to their original goals and vision
- Number of education initiatives that have been taken up the CE's office
- Number of new employees that are joining the startups
- Number of employees that are getting paid
- Ratio of number of new employees to ratio of new employees that are getting paid.
- Number of angel investors that are registering themselves
- Percentage of regions resources being utilised.

## · CONCLUSION

The CE board and its representatives in conducive environment and support from the government should increase employment opportunities by encouraging entrepreneurship. The structure and idea can be applied for any developing or developed country. As long as the zones and respective states don't try to emulate Silicon Valley model, use its natural resources and rely on its strengths, the whole idea can be executed effectively. In conclu-sion, it's how the government, CE board and its CEs will coordinate and handle the edu-cation of entrepreneurship and angel investments, change in culture towards entrepre-neurship and change in attitude towards failure amongst people, encourage and provide mediums for free flowing of exchange of ideas, mentorships, change and adjust policies related to crowdfunding, business hurdles with



policies, quick transfer of funds, non-accredited investments and ultimately rewarding people who joined the startups will play an essential role in the speed and growth of startup ecosystem development.

#### REFERENCES AND CITATIONS

Anyadike-Danes, M., Hart, M. and Du, J. (2013) Firm Dynamics and Job Creation in the UK. University of Warwick Enterprise Research Centre White Paper.

OECD (2010) High-growth enterprises: What governments can do to make a difference, OECD studies on SMEs and entrepreneurship, Organisation for Economic Cooperation and Development, Paris.

OECD (2011) Financing High Growth Firms: The Role of Angel Investors, OECD, Paris.

OECD (2013) An international benchmarking analysis of public programmes for high-growth firms, OECD LEED programme, Paris.

C. Dorf, R., & H. Byers, T. (n.d.). *Technology Ventures*. Retrieved from [http://web.stanford.edu/group/techventures/resources/TechVentures\\_Chap1\\_2e.pdf](http://web.stanford.edu/group/techventures/resources/TechVentures_Chap1_2e.pdf)

M. BERNARD, R. (2017, January). The Chief Operating Officer That Every State Needs. *Governing*. Retrieved from <http://www.governing.com/blogs/bfc/col-why-every-state-should-have-chief-operating-officer.html>

The Annual Indian Startup Funding Report 2016 - Not That Bad A Year After All. (2017). *Inc 42*. (2017, January). *INC 42*. Retrieved from <https://inc42.com/datalab/the-annual-indian-startup-funding-report-2016/>

Arnold, E., & Magia, S. (2013, January). Intrapreneurship in government. *Deloitte University Press*. Re-trieved from <https://dupress.deloitte.com/dup-us-en/industry/public-sector/intrapreneurship-in-govern-ment.html>

HUBERMAN, E. (2016, May). 3 Benefits of Hiring an “Entrepreneur-in-Residence.” *Entrepreneur*. Re-trieved from <https://www.entrepreneur.com/article/276311>

Crowdfunding’s Potential for the Developing World. (2013, January). *Information for Development Pro-gram (infoDev)/The World Bank*. Retrieved from [http://www.infodev.org/infodev-files/wb\\_crowdfund-ingreport-v12.pdf](http://www.infodev.org/infodev-files/wb_crowdfund-ingreport-v12.pdf)

**THE INFLUENCE OF MARKETING MIX 4A AND ETHICAL CONSCIOUSNESS  
TOWARDS ETHICAL CONSUMPTION****Jason Sulaiman<sup>1</sup> & Jhanghiz Syahrivar<sup>2</sup>***<sup>1,2</sup>President University, email: [jhanghiz@president.ac.id](mailto:jhanghiz@president.ac.id)*

---

**ABSTRACT:**

*This research attempts to analyze the relationship of Marketing Mix 4A and Health Consciousness towards Ethical Consumption. In this research, the researchers employed quantitative method. The data collection method used was primary data by spreading online questionnaires to 200 respondents who were Millennials with the age range of 16-34 years old and were living in Cikarang, Indonesia. The data obtained were then analyzed with SPSS and the hypotheses were tested using binary logistic regression. The results of this research showed that there were significant influences of Marketing Mix 4A and Health Consciousness towards Ethical Consumption. The biggest influencer was Health Consciousness.*

**Keywords:** *Marketing Mix 4A, Health Consciousness, Ethical Consumption, Binary Logistic Regression*

---

**12. Introduction**

Ethical consumption is when consumers prefer a product that has one or more plus values in it, such as environmental values, political values, health values, social values and so on (Long & Murray, 2012). Examples of ethical products are organic products, environmentally friendly products, and products that do not harm animals or its worker during the production process.

Ethical consumption can be measured in terms of consumers' preferences towards eco-friendly products versus conventional ones. According to the data from the Indonesian Automotive Industry Association (Gaikindo), the LCGC market in Indonesia was only 21.1% of the total car purchase in 2016. The non LCGC car purchase which dominated 78.9% of the market in 2016 has indicated that LCGC was still not a very popular choice for the Indonesian consumers.

According to Jambeck et al (2015), Indonesia was ranked the second as the most plastic polluter in the world after China. It was estimated that 0.48–1.29 Million Metric Tons of plastic waste were produced in Indonesia. To solve this problem, at the start of the year of 2016, Ministry of Environment and Forestry of Indonesia issued a policy encouraging retailers to charge a minimum 200 Rupiah for each plastic bag used by their consumers. But after a few months, the policy was canceled by the Ministry due to its ineffectiveness to tackle the problem.

A research done by Paramita & Yasa (2015) on a cosmetic brand name "The Body Shop" also indicated the low preference towards ethical products. Although the brand image was strong, the purchase intention to their products was still considered low. The factors that influence the low consumption were lack of awareness and care towards the environment, lack of trust from the consumers toward the green cosmetic brands and the less benefit of consuming green cosmetic products.

The researchers chose millennials as the subject of the research because of the huge number of millennials in Indonesia. According to populationpyramid.net, in the year of 2016, millennials in Indonesia represents around 32.7% out of 59.5% in the productive age group. According to OECD or The Organization for Economic Co-

operation and Development productive age can be defined as those whose age are 16-34 are able to work. The millennials are the majority in the working age group in Indonesia.

The researchers conducted a pre-research involving 100 millennials in Cikarang between the age of 16-34 with a yes or no question. The pre-research suggested that 63% of millennials in Cikarang had never consumed ethical products. 58% of those who had never consumed ethical products suggested that they would not consume ethical products in the future. The pre-research also suggested that millennials in Cikarang would not consume ethical products in the future for the following reasons: 43% of the millennials stated that ethical products were not affordable, 26% of the millennials stated that they did not know about ethical products, 21% stated that they didn't know where to buy ethical products, and the remaining 10% did not know the benefits of consuming ethical products.

According to the previous researches, there were several variables that influenced Ethical Consumption, such as Marketing Mix (Wallace, 2006) and Health Consciousness (Kavaliauske & Ubartaite, 2014). Therefore, based on the above-mentioned problems and previous studies, the researchers conducted a research on **the influence of Marketing Mix 4A and Health Consciousness towards Ethical Consumption**.

### 13. Literature Review

The literature review shows the theories and the results of previous research that describes the relationship between variables and related variables on which the logical remedy the development of the research hypothesis (if any).

**2.1 Ethical Consumption:** According to Long & Murray (2012) Ethical consumption is the act of consuming or purchasing a product that have additional attributes such as health value, social value, political value, environmental value, religious value and many more in addition to their usage value. People consumed ethically to represent their commitment to these values and/or to support changes to unfair market practices. According to Johnstone & Tan (2014) Ethical consumption is a consumption behaviour that has either no, minimum or reduced negative impact on the environment, such as purchasing environmentally friendly products, recycling, protecting waterways, using reusable energy, buying a product that does harm animals and many more. According to Deschamps et al (2016) ethical consumerism can be defined as the practice of purchasing or consuming products and services manufactured in a way that reduces or have no negative impact on society and/or environment.

**2.2 Marketing Mix 4A:** According to Sheth & Sisodia (2012) the Marketing Mix 4A framework is “a tool that helps marketers aligns their actions with the four essential values sought by customers which are Affordability, Acceptability, Availability, and Awareness. The 4A's enable managers to take a focused look at the strengths and weaknesses of marketing programs and base their allocation decisions on clear objectives rather than gut intuition.” In the end, Marketing Mix 4A's theory focuses on the “end of the chains” or known as the customer; the theory views it on the customer's perspective by investigating what the customers' wants, how customers obtain their products, why customers choose certain products and if the preferred products are affordable enough for them.

#### 2.2.1 Acceptability

According to Zhen & Mansori (2012), ethical values help marketers to discover the elements on acceptability in order to create positive attitude towards behaviours and motivate consumer to purchase ethical product. In addition, subjective norms are considered as an element that influence the acceptability by the consumer due to individual intention to buy ethical product will influences by other consumer's perception or opinion on certain product features

#### 2.2.2 Affordability

According to Zhen & Mansori (2012), consumer attitude and consumer perception are interrelated to consumer's willingness to pay for ethical products. In the market place, the most of consumers are concern on the money spend on ethical products and whether it is worth it or not. Furthermore, others consumer's opinion may influence consumer willingness to purchase on ethical products, especially the amount they will spend on ethical products due to most of customers price sensitive.

### **2.2.3 Accessibility**

According to Paul & Rana (2012), supermarkets had noticed ethical products were becoming more popular, and due to this they had added ethical products to their shelves. Increasing marketing efforts of ethical products through supermarkets and retail outlets have made ethical products more accessible to consumers. Availability is also one of the main factors which encourage the purchase of ethical products.

### **2.2.4 Awareness**

According to Kumar & Ali (2011) consumer knowledge and awareness is one of the most important factors to the growth in the ethical product market, therefore an investigation of consumers' knowledge and awareness towards ethical products may help both ethical consumer's producer of ethical product. Consumer's awareness of various aspects of ethical products may be considered as important ground to build the markets for ethical products in the initial phase of market development.

**2.3 Health Consciousness:** According to Kim & Chung (2011) Health Conscious consumers were customers that would seek to be involved in activities that made them healthy and they would search for products that would keep them healthy. While according to Kempen et al (2012) health conscious consumers were those who accepted responsibility for their own health through their daily lifestyle practices, including food purchasing choices. Kaynak & Eksi (2011) noted that people which were health conscious tend to have a healthier lifestyle, by consuming products carefully and this was embedded in their consciousness which made them avoid overconsumption of a product.

### **2.4 The relationship between Marketing Mix 4A's and Ethical Consumption:**

This research looks on the new model of marketing mix, which is 4As: accessibility, acceptability, affordability and awareness in order to identify their influences towards Ethical Consumption. Researches done by Zhen & Mansori (2012), Paul & Rana (2012), and Kumar & Ali (2011), affirmed the relationship of accessibility, acceptability, affordability and awareness towards ethical consumption.

**2.5 The relationship between Health Consciousness and Ethical Consumption:** According to a study done by Kavaliauske & Ubartaite (2014) health consciousness had a positive influence on intention to buy ethical products, and positively correlated with concern about product composition. Their findings revealed that for intention to buy ethical products not only ethical beliefs were important but also the consumers' great concern about healthiness. Further, it was determined that consumers perceived ethical products both as healthier and friendlier for the environment.

## **14. Research Method**

### **3.1 Research Objectives**

1. The research objective is to measure the influence of Marketing Mix 4A and Health Consciousness towards Ethical Consumption
2. To identify the variable with the most influence towards Ethical Consumption.

### 3.2 Theoretical Framework

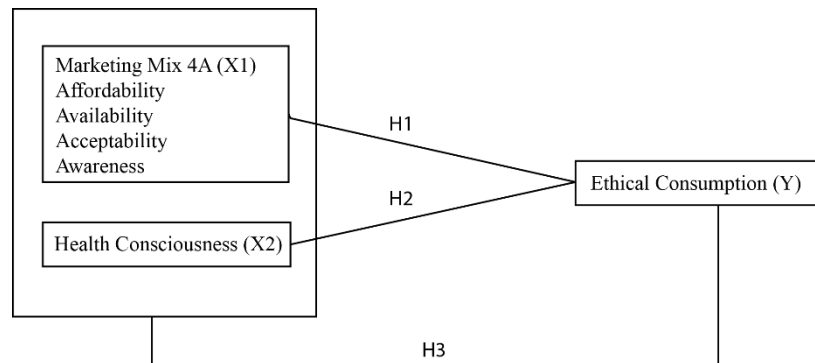


Figure 1: Theoretical Framework (Source: adapted from Wallace (2006) and Kavaliauske & Ubartaite (2014))

### 3.3 Hypothesis

1.  $H_{01}$ : There is no significant influence of Marketing Mix 4A towards Ethical Consumption.  
 $H_{A1}$ : There is a significant influence of Marketing Mix 4A towards Ethical Consumption.
2.  $H_{02}$ : There is no significant influence of Health Consciousness towards Ethical Consumption.  
 $H_{A2}$ : There is a significant influence of Health Consciousness towards Ethical Consumption
3.  $H_{03}$ : There is no significant simultaneous influence of Marketing Mix 4A and Health Consciousness towards Ethical Consumption  
 $H_{A3}$ : There is a significant simultaneous influence of Marketing Mix 4A and Health Consciousness towards Ethical Consumption

### 3.4 Binary Logistic Regression

According to Dulja et al (2016), logistic regression was commonly used to predict a categorical variable from a set of predictor variables which are a mix of continuous and categorical variables (usually in the form of Likert-scale). The simplicity of logistic regression is that it makes no assumptions about the distributions of the predictor variables hence certain tests, such as normality tests, heteroscedacity test are not needed, except for multicollinearity test. For a binary logistic regression, the predicted dependent variable is a function of the probability that a respondent will be in one of the two categories or outcomes.

Grimbeek et al (2005) argued that likert-scale response categories tend to make respondents misjudge the intensity of what is inherently a qualitative response; the range of available response categories can murky rather than clarify the intent of the respondent. A strategy for minimizing respondent ambiguity is to collapse across response categories. As a consequence, after the researchers collected their responses, we converted the 5-point response categories (Strongly Disagree, Disagree, Undecided/neutral, Agree, and Strongly Agree) into dichotomous

categories which represented the respondent's inherently dichotomous dispositions: Ethical (collapsing across Agree and Strongly Agree) or Unethical (collapsing across Strongly Disagree, Disagree, and Neutral). Through the use of SPSS statistical tool the value of each variable is then collapsed or recoded: 1-3 into "0" or "Unethical", and 3.01-5 into "1" or "Ethical".

### 3.5 Questionnaire Design

In this research, primary data was used and questionnaires of 22 items with 5-point likert scale (Strongly Disagree to Strongly Agree) were distributed to 200 millennials (16 - 34 years old) living in Cikarang who consumed ethical products.

### 3.6 Population and sample

The population for this research was unknown. The researchers employed the non-probability sampling by judgment sampling and selected 200 millennials as the respondents of this research. The respondents had to consume ethical products to be eligible for this research.

## 15. Result and Discussion

### 4.1 Descriptive analysis

All of the respondents who filled out the questionnaires were those who consumed ethically. The demographic profiles of 200 respondents were based on gender, age, education, and monthly income,

Based on gender, 40 respondents were male and 160 respondents were female.

Based on age, 83 respondents were between 16-20 years old, 72 respondents were of 21-25 years old, 22 respondents were of 26-30 years old, and lastly, 23 respondents were between 31-34 years old.

Based on education background, 60 respondents were of high school level, 8 respondents were of associate degree level, 76 respondents were of undergraduate level, and 56 respondents were of graduate.

Based on monthly income, 60 respondents had no income, 52 respondents had monthly income between Rp 2,500,001 - Rp 5,000,000, 65 respondents had monthly income between Rp 5,000,001 - Rp 7,500,000, and 23 respondents had monthly income above Rp.10.000.000.

### 4.2 Validity and Reliability Testing

The validity test was done by comparing Corrected Item Total Correlation of each item in each variable with the Critical Values of the Spearman's Ranked Correlation Coefficient  $n = 28$  ( $30 - 2$ ) and  $\alpha = 0.05$  which is 0.375. Table 1 presents the valid items only ( $> 0.375$ ). All variables are considered reliable if the Cronbach's Alpha is more than 0.07.

**Table 1: Validity and Reliability Tests**

		Corrected Item Total Correlation		Cronbach's Alpha

Marketing Mix 4A	MIX3	.470	.810
	MIX5	.518	
	MIX6	.451	
	MIX7	.385	
	MIX8	.519	
	MIX10	.484	
	MIX16	.562	
	MIX17	.654	
	MIX18	.521	
Health Consciousness	HLC1	.565	.841
	HLC2	.635	
	HLC3	.721	
	HLC4	.661	
	HLC5	.726	
	HLC6	.426	
Ethical Consumption	ETC2	.482	.775
	ETC3	.532	
	ETC4	.390	
	ETC5	.592	
	ETC7	.583	
	ETC8	.568	
	ETC10	.600	

### 4.3 Correlation and Multicollinearity Testing

**Table 2: Spearman's Rank Order Correlation**

			TMIX	THLC	TETC
Spearman's rho	TMIX	Correlation Coefficient	1.000	.339**	.361**
		Sig. (2-tailed)	.	.000	.000
		N	200	200	200
THLC	THLC	Correlation Coefficient	.339**	1.000	.538**
		Sig. (2-tailed)	.000	.	.000
		N	200	200	200
TETC	TETC	Correlation Coefficient	.361**	.538**	1.000
		Sig. (2-tailed)	.000	.000	.
		N	200	200	200

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on Table 2, the result as follows:

1. The correlation between Marketing Mix 4A's and Ethical Consumption was statistically significant ( $< 0.05$ ). Meanwhile, the strength of the correlation was .361 suggesting a weak correlation.
2. The correlation between Health Consciousness and Ethical Consumption was statistically significant ( $< 0.05$ ). Meanwhile, the strength of the correlation was .538 suggesting as moderate correlation.

According to Ahmet, (2010) If the data is less than 0.8 it means that the data does not have multicollinearity and is fine to be further used in this research. Based on the table 2, the correlation between independent variables are all less than 0.8 thus there is no multicollinearity.

#### 4.4 Binomial Logistic Regression

##### 4.4.1 Goodness of Fit

**Table 3: Hosmer and Lemeshow Test**

Step	Chi-square	df	Sig.
1	.687	1	.407

Based on Table 3, Hosmer and Lemeshow Test suggested that the goodness of fit of the logistic regression model is a good fit to the data since  $p=0.407 (>.05)$ .

##### 4.4.2 Model Precision

**Table 4: Classification Table**

**Classification Table<sup>a</sup>**

Observed			Predicted		
			ETC		Percentage Correct
			Unethical	Ethical	
Step 1 ETC	Unethical	7	11	38.9	
	Ethical	1	181	99.5	
Overall Percentage					94.0

a. The cut value is .500

Table 4 suggested that the ability of the model to predict between two classifications: Ethical and Unethical. When the model predicted that a respondent would fall into Unethical classification, 7 cases were correct and 11 cases were wrong; therefore, 38.9% correct prediction. When the model predicted that a respondent would fall into Ethical classification, 181 cases were correct and 1 case was wrong; therefore, 99.5% correct prediction. In total, the model could 94% correctly predicting the outcomes. In this research, the model suggested that the respondents inclined towards being Ethical (192 cases).

##### 4.4.3 Variables Explained



**Table 5: Nagelkere R Square**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	89.237 <sup>a</sup>	.147	.324

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Based on Table 5, Nagelkerke R Square value was 0.324 suggesting that the ability of independent variables in explaining the dependent variable (Ethical Consumption) was 32.4%. In other words, 67.6% were explained by independent variables which were not included in this model.

#### 4.4.4 Simultaneous Influence

**Table 6: Omnibus Test**

	Chi-square	df	Sig.
Step 1	31.779	2	.000
Block	31.779	2	.000
Model	31.779	2	.000

Based on Table 6, the Chi-square was 31.779 on 2 degree of freedom. The Chi-square, 31.779 > Chi-square distribution table on 2 degree of freedom (5.991) or with a significance of 0.00 (< 0.05). It indicated that the addition of independent variables could significantly influence the dependent variable. Therefore, there was a simultaneous significant influence of Marketing Mix 4A and Health Consciousness toward Ethical Consumption.

#### 4.4.5 Partial Influence

**Table 7: Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
MIX	1.891	.574	10.869	1	.001	6.629
HLC	2.499	.650	14.794	1	.000	12.172
Constant	-.946	.626	2.279	1	.131	.388

a. Variable(s) entered on step 1: MIX, HLC.

Table 7 suggested that the Independent variables had partial influence towards the dependent variable:

1. The significant value of Marketing Mix was 0.01 or less than 0.05. Therefore, Marketing Mix 4A significantly influenced Ethical Consumption.
2. The significant value of Health Consciousness was 0.00 or less than 0.05. Therefore, Health Consciousness significantly influenced Ethical Consumption.

## 16. Conclusion and Implications

Based on Table 7, Marketing Mix 4A has a significant influence towards Ethical Consumption (Sig.  $0.01 < 0.05$ ). Every agreement in Marketing Mix 4A will increase the probability of the respondent to be ethical buyer by approximately 6.629 times.

Health Consciousness has a significant influence toward ethical consumption (Sig.  $0.000 > 0.05$ ). Every agreement in Health Consciousness will increase the probability of the respondent to be ethical buyer by approximately 12.172 times. Therefore, Health Consciousness is the highest influencer towards Ethical Consumption.

Based on Table 6, Marketing Mix 4A and Health Consciousness simultaneously influence Ethical Consumption.

## References

- Ahmet, B. (2010). The Effects Of Macroeconomics Variables On Stock Returns: Evidence From Turkey. *European Journal of Social Sciences*, 14(3), pp.404-415, 2010.
- Buyuksalvarci, A. (2010). The Effects Of Macroeconomics Variables On Stock Returns: Evidence From Turkey. *European Journal of Social Sciences*, 14(3), 404-416.
- Deschamps, T. C., Carnie, B., & Mao, N. (2016). Public Consciousness And Willingness To Embrace Ethical Consumption Of Textile Products In Mexico. *Textiles and Clothing Sustainability*, 2(1), 1-16.
- Dulja, X., Driouech, N., Kapaj-Mane, A., Nikolla, M. (2016). Albanian Consumer's Behavior toward ethical values of Agro-Food Products: a Socio-Economic Analyses. *AGROFOR International Journal*, Vol. 1, Issue No. 1. DOI: 10.7251/AGRENG1601066D UDC 641:17(496.5)
- Grimbeek, P., Bryer, F., Beamish, W., & D'Netto, M. (2005). Use of Data Collapsing Strategies to Identify Latent Variables in Questionnaire Data: Strategic Management of Junior and Middle School Data on the CHP Questionnaire. *Centre for Learning Research, Griffith University*.
- Honkanen, P., Verplanken, B., & Olsen, S. O. (2006). Ethical Values and Motives Driving Organic Food Choice. *Journal of Consumer Behaviour*, 5(5), 420-430. doi:10.1002/cb.190
- Jambeck, J. R., Geyer, R., Wilcox, C., Siegler, T. R., Perryman, M., Andrady, A., & Law, K. L. (2015). Plastic waste inputs from land into the ocean. *Science*, 347(6223), 768-771.
- Johnstone, M. L., & Tan, L. P. (2015). Exploring the gap between consumers' green rhetoric and purchasing behaviour. *Journal of Business Ethics*, 132(2), 311-328.

- Kavaliauske, M., & Ubartaite, S. (2014). Ethical behaviour: factors influencing intention to buy organic products in lithuania. *Economics and Management*, 19(1), 72-83.
- Kaynak, R., & Eksi, S. (2011). Ethnocentrism, religiosity, environmental and health consciousness: Motivators for anti-consumers. *Eurasian Journal of Business and Economics*, 4(8), 31-50.
- Kempen, E. L., Muller, H., Symington, E., & Van Eeden, T. (2012). A study of the relationship between health awareness, lifestyle behaviour and food label usage in Gauteng. *South African Journal of Clinical Nutrition*, 25(1), 15-21.
- Kim, H. Y., & Chung, J. E. (2011). Consumer purchase intention for organic personal care products. *Journal of Consumer Marketing Vol 28 Iss: 1*, 40-47.
- Kumar, S., & Ali, J. (2011). Analyzing the factors affecting consumer awareness on organic foods in India. In *21st Annual IFAMA World Forum and Symposium on the Road to (Vol. 2050, pp. 20-23)*.
- Lockie, S., Lyons, K., Lawrence, G., & Mummery, K. (2002). Eating 'green': motivations behind organic food consumption in Australia. *Sociologia ruralis*, 42(1), 23-40.
- Long, M. A., & Murray, D. L. (2013). Ethical Consumption, Values Convergence/Divergence And Community Development. *Journal of agricultural and environmental ethics*, 26(2), 351-375.
- Michaelidou, N., & Hassan, L. M. (2008). The Role Of Health Consciousness, Food Safety Concern And Ethical Identity On Attitudes And Intentions Towards Organic Food. *International Journal of Consumer Studies*, 32(2), 163-170. doi:10.1111/j.1470-6431.2007.00619.
- Paramita, N. D., & Yasa, N. N. (2015). Sikap dalam memediasi hubungan kesadaran lingkungan dengan niat beli produk kosmetik ramah lingkungan. *Jurnal Manajemen dan Kewirausahaan (Journal of Management and Entrepreneurship)*, 17(2). doi:10.9744/jmk.17.2.187-195
- Paul, J., & Rana, J. (2012). Consumer behavior and purchase intention for organic food. *Journal of consumer Marketing*, 29(6), 412-422.
- Sheth, J. N., & Sisodia, R. (2012). *The 4 A's of marketing: Creating value for customers, companies and society*. New York: Routledge.
- Wallace, W. (2006). *Marketing Sustainable Products in the Retail Sector: The Potential Integration of Sustainability Marketing*.
- Wen, L. Y. M., & Li, S. H. (2013). A Study On The Relationship Amidst Health Consciousness, Ecological Affect, And Purchase Intention Of Green Production. *International Journal of Organizational Innovation (Online)*, 5(4), 124.
- Wuensch, K. L. (2014). *Binary logistic regression with SPSS*
- Zhen, J. S., & Mansori, S. (2012). Young Female Motivations For Purchase Of Organic Food In Malaysia. *International Journal of Contemporary Business Studies*, 3(5), 61-72

[www.statstutor.ac.uk/resources/uploaded/spearmans.pdf](http://www.statstutor.ac.uk/resources/uploaded/spearmans.pdf)

<https://data.oecd.org/pop/working-age-population.htm>