



miicema

Malaysia Indonesia International Conference on
Economics, Management and Accounting

MIICEMA 2014

CONFERENCE PROCEEDINGS

Global Economic Climate: Issues and Challenges

Hotel Bangi-Putrajaya,
Malaysia

10 - 11 November
2014

ISBN 978-983-3198-82-5



9 789833 198825



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Action Research: The Methodology of Choice for Muslim Researchers?

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Abstract

This paper documents one researcher's paradigm shift with regards to academic research. As a young researcher, I used surveys and quantitative methods to complete my PhD and publish papers in SCOPUS and ISI journals. Although I got promoted, I had no positive impact in the community surrounding my university. This presented me with an ethical dilemma. Muslims are encouraged to change themselves first, then their own family, then their own district, then their own town and then their own state. After reading the work of Chris Argyris, I embraced the logic of action research. I am currently doing an action research project in two public schools in the Gombak area and I share the difficulties, the joys and the results. Realistically, researchers still need to meet the key performance indicators of their university. However, action research seems a better methodology for solving social problems. As a Muslim researcher, the limitations of conventional research have become very apparent and action research resolves most of them. Apart from resolving the ethical dilemma, action research forced me to develop a more holistic perspective of the problem being investigated. This paper is not meant to present a theoretical discussion on this subject as others have already done that. Ultimately, I hope to inspire one or several researchers in Malaysia and Indonesia to take on the challenge of action research.

Key Words: action research, ethics, oral history, Islamic methodology

INTRODUCTION

As a Muslim researcher, I have always wondered about my accountability on the Day of Judgment with regards to my academic research. Typically, management academic research uses quantitative techniques to document a problem. Once a problem has been documented, the researcher publishes an article - preferably in an ISI-refereed international journal - but the actual problem does not get solved. In practice, the only benefit of documenting the problem is achieving the key performance indicator of the university and (hopefully) earning a promotion. Can we imagine that the Prophet (ﷺ) or the Companions would observe a social problem and not do something to solve it?

When I became a lecturer, I did my PhD in the area of cross cultural management. My PhD looked at the impact of ethnic culture on work values among Malay, Chinese and Indian employees. One of my key findings was that Malaysians of all races share common cultural values and it is these shared cultural values that "glues" Malaysian society. After completing

my PhD, I was very hopeful that my research would benefit Malaysians. Fifteen years later, my PhD had no meaningful impact on Malaysian society. Since then, I have published a number of articles in academic journals. As far as I can tell, my research has had no social impact. I am now 44 years-old. I have found that writing and publishing quantitative papers is

easy. But how will Allah assess my intentions and my efforts in my research and publication? Why publish papers that have no social impact when there are other methodologies that have greater social impact?

THE WORK OF CHRIS ARGYRIS

As I was reflecting on these issues, I came across some of the writings of Chris Argyris. He said,

“I am interested in producing knowledge that is actionable. My claim is that most good social science research is not actionable. By good, I mean it follows the rules of rigorous methodology.” (Fulmer & Keys, 2004, p.17)

The idea that knowledge should be actionable seems very Islamic as we know that knowledge is either beneficial or is not beneficial. I do not intend discuss the theory of action research as many scholars have already done that. I would like to share my personal experience. The key principles in doing action research are:

- ✓ You identify a community and negotiate the scope of the action research with the stakeholders
- ✓ You go through the first action research cycle
- ✓ After the first cycle, you will learn something new about the problem. With this new knowledge, you modify your action research approach
- ✓ You go through the second action research cycle
- ✓ You will learn something new and modify your approach again. You continue going through this cycle until the problem disappears

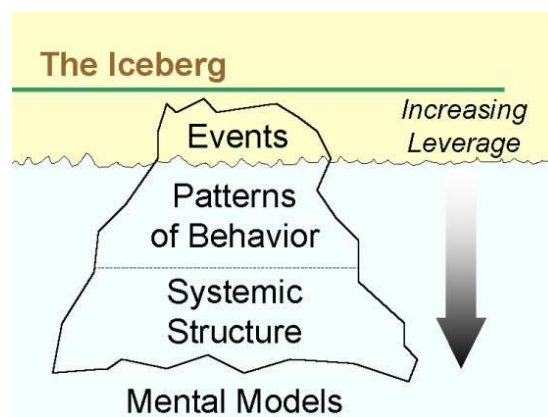
Although action research is often linked to Kurt Lewin, I was more interested in the work of Checkland (1999) and Senge (1990). Conventional management practice is based on the principle of reductionism (Checkland, 1999). Reductionism breaks a complex problem into its components parts and investigates every component independently. Although that gives practitioners an idea of the nature of the problem, they lose sight of the bigger picture. In a social system where the actors are interdependent, this reductionist approach to problem solving creates unintended consequences. It is necessary to use a systems-thinking approach to see the bigger picture to produce a sustainable change (Senge, 1990, Checkland, 1999). Senge (1990) argues that a problem exist because stakeholders have an invalid mental model and most people are not aware of their mental model.

A mental model is how stakeholders think about the problem. It reflects their perceptions and their past experiences in trying to solve a problem. Mental models are often based on assumptions that are i) never questioned and ii) partially true (and therefore partially false).

The aim of action research is to discuss the current mental model (i.e. create awareness), allow stakeholders to discuss it (i.e. create a discourse) and replace it with a better mental model if necessary (i.e. create lasting change). Any attempts at “solving the problem” without validating the current mental model is doomed to fail.

In practice, individuals often see all the problems inside as a series of unrelated problems. Senge (1990) argues that in reality, these “small problems” are symptoms and the root cause of all these problems is the mental model. The current mental influences the current system (such as the promotion system) and this influences the behaviour of employees. This is shown in figure 1.

Figure 1: The Iceberg Model



Source: www.google.com/imghp (key word: iceberg model)

The analogy with the iceberg is that most people only see people’s behaviour. They generally don’t see how this behaviour is shaped by the current system and even less by the current mental model. Although the concept of “mental model” has already been defined, additional information is useful. Mental models include

- The way employees perceive the limits of their system
- The way employees understand cause and effects in their system
- The way they attribute success and failure in their system
- Mental model reflect the values of the individuals in their system, especially of top management.

In my experience that I will describe below, identifying the current mental model and proposing an alternative mental model are the two keys to a successful action research.

BACKGROUND TO THIS ACTION RESEARCH

Since 2010, I have been teaching a course that uses problem-based learning (PBL) as its core teaching approach. In March 2012, some of my students did an outreach project in two secondary schools in the Gombak area. This project was part of their coursework for their class in organizational behaviour. The project required my students to investigate the perception of secondary school students with regards to the prayer. The schools gave us students with known discipline problems. These students reported that on the days where they did not pray, they were often involved in stealing, motorbike racing and the destruction of public property. However, on the days when they did pray, they would not

be involved in such activity. From these sessions, it became clear that these students were confused about Islam but they really wanted to know more.

This experience in schools made me reflect on the problem of the youth in Malaysia. I started doing a literature review to understand the theory underpinning teenage behaviour. I found that there is no convincing theory to explain teenage thinking and behaviour. However, the literature did point to two different paradigms:

- Some researcher focused on the individuals
- Some researchers focused on the group

In particular, I was intrigued by the work of Zimbardo (2007). Prof. Zimbardo is a social psychologist. He argues that social psychologists don't deny the role of individuals but they have found that the power of social groups is much greater than most people assume. In practice, many teenagers are influenced by their friends.

I was also influenced by Falomir and Perez (1999). They point out that many people refuse to change because their identity is threatened. For examples, in many anti-smoking campaigns, non-smokers tell smokers that their behaviour is wrong. They say that such campaigns threaten the social identity of smokers. A more effective campaign might be if ex-smokers share their experience of stopping smoking with current smokers.

In September 2012, I told all of my students to focus on making videos of Malay teenagers who got themselves into trouble and then got themselves out of trouble. The purpose of these videos was to document the process that these teenagers used to solve their problems. My students had to find real stories. They were not allowed to invent scenarios. The concept of these videos was, "*Teenagers sharing their stories with other teenagers*". Some of these videos are presented in table 2. .

Table 2: Some Videos Made By IIUM Students

<i>Name of the Video</i>	<i>Description</i>
MIP 6	The story of a student who failed his PMR. He decides to change his behaviour and does well in his SPM.
MIP 22	Testimony of a former drug addict. He learns about Islam and uses its spiritual strength to overcome his addiction.
MIP 35	Testimony of an ex-addict to pornography. He learns about Islam and then finds the spiritual energy necessary to overcome his addiction.
MIP 77	Testimony of a woman who was raped in Form 4 by her "boyfriend". She became pregnant and delivered twins. She shares her trials. The story has an happy ending
#MIP80	Testimony of a former drug addict. He repents and comes back to school "clean". Shunned by his friends, he gets depressed and falls again into the trap of drugs. He attempts suicide but survives. He then repents again and sorts himself out

Source: The Author

All of these videos are available on YouTube. I decided to call this the Productive Teens project. In March 2013, I started thinking about whether these videos can be used for an action research project in secondary schools. I make these observations because an action research project doesn't just materialise from thin air. It often reflects research interests

(in my case, whether the focus should be on the individual or on the group) or it emerges from what happens in the classroom (e.g. an outreach project or a PBL project).

PLANNING THE ACTION RESEARCH

Planning an action research project is not done in isolation. It requires choosing a social setting (e.g. a school). The social setting determines the key stakeholders (e.g. the principal) and it is the main stakeholder than determines the scope of the project. The Productive Teens methodology can be used to help good students become better or to help under-performing students. The principals I met insisted on helping their students with discipline problems (as will be explained below). The point is that the planning has to be negotiated with stakeholders. In March 2013, I visited four secondary schools. I met the principal, I explained the scope of the Productive Teens project and volunteered my service. Within a short period of time (about 30 minutes), I had secured an agreement to work together. This surprised me because I was expecting a lot more resistance. Here is my conclusion

- In these meetings, I showed them videos made by IIUM students while explaining my ideas. If you want to persuade people, you often have to show them something concrete. You have to tell them about successful projects you have done in the past, rather than projects you hope to do in the future. Researchers must first create a “success story” and that use that to secure permission to do action research. A simple way is to volunteers to do something for the school for free.

We agreed that I would focus on helping students with discipline problems. At this stage of the project, I had no exact methodology as I had yet to meet the students. However, the early stage was about meeting the principal, meeting teachers and building relationships. We agreed that I would train selected teachers in October 2013 and that the actual project would start in January 2014. In my mind, I assumed that my role would be to advise the teachers and that the teachers themselves would be the facilitators.

TRAINING TEACHERS

The workshop to train teachers was conducted in October 2013 in IIUM. Unfortunately, the workshop was a disaster. Although I had made many preparations to ensure that the material was clear and logically organized, the teachers were uncertain with the whole idea. Wanting to save the project, I volunteered to spend one hour per week in the schools and facilitate the students myself. They agreed. This was an important lesson.

- Good communication is often not about talking about something you intend to do in the future but about showing people what you have done in the past.

The methodology of action research requires a high-level of commitment as stakeholders often expect you to demonstrate things by showing them rather than talking about what should be done.

FACILITATING AT SECONDARY SCHOOL

In 2013, I had the agreement of four school principals but two pulled out by the end of 2013. By January 2014, I had the commitment of only two schools: SMK Seri Gombak and SMK Hillcrest. We agreed that I would focus on Form 2 students in Seri Gombak and Form 4 students in Hillcrest. The counsellors would identify the students involved. In February 2014, I met 25 Form 2 students at Seri Gombak (Photo 1) and 25 Form 4 students at Hillcrest (Photo 2).

Photo 1: Form 2 Students at SMK Seri Gombak



Source: The Author

Photo 2: Form 4 Students at SMK Hillcrest



Source: The Author

My facilitation time at Hillcrest was from 11.30am to 12.30pm every Friday. At Seri Gombak, it was from 3pm to 4.30pm every Friday. I used 8 IIUM students as facilitators. I soon realized that many of my initial plans were not possible. Although these school students were individuals with a good potential, their ability to contrite was very short. They had no sense of planning. They would get distracted very quickly and they would often start pushing one another in class. Many of them were deeply attached to their

friends. Since the age of 7, they have done everything together. They have often been punished together as well. Breaking that kind of social bound is very difficult. The students know that their current behaviour is counter-productive but they have to meet the expectations of their friends. This reinforced my perception that the focus should be on the group rather than on individuals. Quickly, I changed my initial plans. I asked them to work in small groups to make their own videos. We worked with these students from February 2014 until May 2014 (1st cycle).

The 25 students at Seri Gombak were divided into three groups to create an element of competition between groups. The same was done with the students at SMK Hillcrest. By mid-February, all groups were working reasonably well although one group at Hillcrest never took off. Although many teachers use group works, our approach was quite different. Many teachers use groups for academic work only. These groups stay together for a very short duration (40 minutes). At the end, their output is nothing for the students to be proud of. We were using groups for a complex project. The group would work together for three months and the output (i.e. a video uploaded on YouTube) was something to be proud of. The IIUM facilitators acted as facilitators, directors, cameramen and editors of the videos. A key milestone was when one group produced their first video (Photo 3).

Photo 3: Hitam Putih on YouTube



Source: <http://www.youtube.com/watch?v=hqyOr0YFNHY>

This video encouraged the other groups to compete with the first group. Groups were allowed too much freedom in the script and the storyline when making their first video. In the end, much time was wasted and the momentum of the project slowed down unnecessarily. For their second video, we gave them the script. One group in particular produced a more sophisticated video (Photo 4). During the project, some of the children involved were expelled from school. After they appealed, they were allowed to re-enter the school but they were not allowed to re-enter the Productive Teen project. This meant that all the children involved in the project perceive that being part of the project was a reward for them.

Photo 4: Inilah Kisahku - Aiman



Source: <http://www.youtube.com/watch?v=Mdezy9z9c58>

Making the videos was not the purpose of the project. The purpose of the project is to get the students to change. Making the videos was simply a means to achieve this objective. We could observe the positive changes in the students in the classroom (especially after the *Hitam Putih* video was uploaded) but what happened outside the classroom?

THE FEEDBACK FROM PARENTS

By March 2014, my facilitators and the school counsellors could observe improvement in the students' behaviour. Their group dynamics had improved. Their feeling of achieving something meaningful seemed to have given them a new sense of purpose and increased their self-efficacy. Another milestone was the first meeting with the parents of the students' involved. The meeting at SMK Seri Gombak was held in March 2014 and the meeting at SMK Hillcrest was held in April 2014. The meetings were held during the week so only a handful of parents could come. However, the results were encouraging. At SMK Seri Gombak, 5 out of 5 parents reported that their child's behaviour at home had changed positively and that they now looked forward to going to school. At SMK Hillcrest, 6 out of 7 parents reported similar results. But what had actually happened to make the school students change?

RETHINKING THE CONCEPTS

From February 2014 to May 2014, I had plenty of time to observe the behaviour and the attitudes of various all stakeholders in these two schools. Here is a summary of my observations.

In these schools, all students are members of clearly defined social groups. Some groups in schools have a positive influence on their members while other groups have a negative influence on their members. The school environment is socially very unforgiving. Everybody knows whose group everybody else belongs to. Good students, weak students and teachers often label one another. These labels are often established in Standard 1 at the age of 7. These labels become a self-fulfilling prophecy. The distribution of power in schools works against students that have been negatively labelled. For a discussion of the problem of labelling, internalizing and social power, I found Madigan (2010) to be

useful. Generally, teachers and students tend to think in terms of two social classes: good students and bad students. Some teachers are more open-minded but often, these labels have been associated with specific students for many years. Part of the challenge of doing action research is ignoring the current performance of students but focusing on the potential performance of these students.

Typically, students can only socialise with their own “social class”. When students start having academic problems, they are identified by teachers and sent for counselling. After the counselling, they re-enter their social group. Once they return to their group, they return to the values, the norms and the behaviour of their social group.

With the Productive Teens concept, we did not focus on individuals. We focused on the entire group. Rather than trying to change individuals, we relied on the group to change the individuals. Instead of using the group’s energy and creativity for destructive goals (usually skipping school and illegal motorbike racing), we encouraged the group to use its energy and creativity to focus on something productive, something the students can be really proud of. In practice, only three out of eight students were busy completing the project. As the project progressed, the group leader “converted” passive members into active members. When videos were uploaded to YouTube, all of them felt a sense of achievement.

Interestingly, the quality of the last video made (“Inilah kisahku Aiman”) was beyond my expectation. The videos themselves became a product that allowed the principals to explain the benefits of the project to teachers and parents. Table 2 presents the differences between the current approach in schools and the approach of the Productive Teens projects. Table 2 describes the mental model, the systemic structures that underpin these two approaches. The end-goal of the project was to identify the existing mental model (focus on individuals) and propose an alternative mental model (focus on the group).

Table 2: Analysis of the project

	<i>The Current Approach in Schools</i>	<i>An Alternative Approach in Schools</i>
Event	Lack of commitment to school	Higher commitment to school
Pattern of Behaviour	No change in patterns of behaviour. Children with discipline problems get counseled and often expelled from school after two serious offences.	New pattern of behaviour. Principal uses membership of Productive Teens as a reward for good behaviour.
Systemic structures	When students don’t perform, they are taken out of their social group and given counseling. They re-enter their social group and often return to their old ways.	Facilitators focus on the potential of students. A complex project is given to the group so the group has to “tay together for several months.
Mental model	The focus is on the individual. Try to change the attitude of individuals when they don’t perform.	The focus is on the group. Use group dynamics to change the attitude of individuals

Source: The Author

COMMUNICATING WITH STAKEHOLDERS

At the end of the first cycle, I had lots of time to think about the challenge of communication with stakeholders. Here are a few tips I would share with people doing action research for the first time,

- ✓ Be humble: You don't have all the answers. Frame the pilot as an experiment that may or not work. Respect the advice of the teachers and the principal.
- ✓ Focus on learning: Most of my initial ideas didn't work because I didn't know the students. I had to improvise a lot. Don't be afraid to change the tactics.
- ✓ Get feedback from stakeholders quickly: We got feedback from the counsellors all the time, the principals regularly and the parents once. The more feedback you can get, the better you can modify your tactics to achieve the desired goal.
- ✓ Stick to the facts: I know that the students changed - I observed it, the teachers and the parents observed it. I don't really know why they changed. Depending on which theory of psychology you believe in, there are multiple ways of explaining the change. Parents, teachers and the principal don't really care why they changed - they simply care that they changed.

DISCUSSION

Having presented the action research so far, I would like to share my reflections. In the introduction, I explained my frustration at doing academic research that has no obvious social impact. Once I started this project, I seemed to have some kind of immediate social impact. As a Muslim, I feel that I am better able to justify my effort in research and publication and I believe that the methodology of action research is more in line with the Islamic principle of helping others.

Having said that, I don't think that action research is for new researchers. There are many issues of methodologies that need to be well understood. I found it particularly confusing because there are individual factors (e.g. the personality of certain students), group factors (e.g. letting the group leader discipline the other students) and organizational factors (e.g. the school expelling some students) that were working simultaneously. In writing this paper, I tried to be very honest about the process. There is a lot of trial and error. There are many theoretical models that don't work in practice. Only an experienced researcher can successfully navigate the fluid nature of a real social setting. As a PhD supervisor, I would strongly discourage any PhD students to use action research as a methodology. I would recommend it to the experienced researchers.

There is also the possible trap of doing "voluntary social work" (i.e. providing the school with free manpower) rather than doing real action research (i.e. questioning the existing mental model and offering an alternative).

At the same time, the reality is that researchers need to publish in ISI journals. My advice is that researchers can easily have two parallel research strategies: one focuses on conventional academic research and one focuses on action research projects. These two strategies can complement one another. For example, I am still amazed at the behavioural changes that the students underwent when they worked in teams. After all, we created teams with the "worst" students in every school. That should have been a recipe for disaster, yet they performed beyond our expectations. This made me want to better understand group dynamics and my conventional research has shifted to this area.

CONCLUSIONS

In this paper, I have tried to show several things:

- ✓ For researchers wanting to have a positive social impact, action research is an effective methodology. I have found it much more emotionally rewarding than doing conventional research.
- ✓ Action research is not easy. It requires a good understanding of the literature (i.e. there are multiple and often conflicting theoretical models). It requires regular discussions, negotiations and re-negotiations with stakeholders. An action research project generally takes more time than a normal project and it tends to grown in multiple and often unexpected directions.
- ✓ Action research is empowering as long as one thinks about understanding the current mental modl and proposing an alternative mental model (Senge, 1990). It helps if the action researcher has an understanding of systems thinking.
- ✓ In practice, to meet the KPIs of universities, researchers still need to do conventional research that can be published in ISI journals. They can do action research in parallel. I believe that this combination of conventional research (theory-centric) and action research (practice-centric) is in fact an ideal combination to develop all rounded researchers.

Lastly, I encourage Muslim researchers to consider action research as a research strategy.

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The Role of Communication Openness in Performance Appraisal Systems in Enhancing Appraisees' Job Satisfaction

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Abstract

This paper aims at investigating the relationship between appraisers' communication openness and appraisees' job satisfaction. A survey method was employed to gather data from employees who work in a privatized postal company in Sarawak, Malaysia. The outcomes of testing research hypotheses using SmartPLS path model analysis displayed two important findings: first, explanation was positively and significantly related to job satisfaction. Second, feedback was positively and significantly related to job satisfaction. This finding demonstrates that the capability of appraisers to clearly explain performance appraisal practices and adequately provide feedback in performance appraisal systems acts as an important predictor of appraisees' job satisfaction in the organizational sample. Further, discussion, implications and conclusion are elaborated.

Keywords: Explanation, feedback, job satisfaction

INTRODUCTION

Performance appraisal is a vital issue in management (Bacal, 2012; Daft, 2012), human resource management (Dessler, 2013; Mondy & Mondy, 2012), and organizational behaviour (George & Jones, 2012; Kreitner & Kinicki, 2013). It is often designed by employers to assess the ability of employees in performing duties and responsibilities, recording employee assessment results and providing solutions to enhance employee performance in organizations (Daft, 2012; Mondy & Mondy, 2014; Sabeen & Mehboob, 2008). Results of this appraisal system will usually be used by employers to build employees' strengths and minimize deficiencies, plan employees' career development, provide better recognitions to high performing employees, and make decisions about staff services such as promotion, demotion, termination, layoffs and/or transfer (Kavanagh *et al.*, 2007; Mondy & Mondy, 2014; Noe *et al.*, 2014; Walsh & Fisher, 2005).

A recent literature on organizational management highlights that the design and administration of performance appraisal systems is much affected by employers' thoughts, namely classical management approach and contemporary management approach (Jabeen, 2011; Mondy & Mondy, 2014). In the early days of industrial revolution in North America and European countries, the design of performance

appraisal systems were much affected by a classical management approach as upheld by Taylor's (1856 to 1915) scientific management, Fayol's (1841 to 1925) administrative principles, and Weber's (1864 to 1920) bureaucratic organization. This classical approach emphasizes more on evaluating employee productivity based on objective measurements (Daft, 2012; Muchinsky, 2006). Under a performance appraisal based classical management approach, the nature of performance measurements is usually conducted using single-source feedback, non-participation style in decision-making, and boss centered approach. For example, appraisers (*e.g.*, managers and/or supervisors) are given much power and authorities to assess employee abilities, identifying employees' strengths and weaknesses, determining the types of punishment and neglecting developmental aspects of employees (Daft, 2012; Erdogan, 2002; McCarthy & Garavan, 2001). Many scholars view that implementation of this appraisal system only suitable to measure employee productivity in organizations that operate in stable and less competition environments (Daft, 2012; Ismail *et al.*, 2013).

In an era of globalization, many employers have shifted the paradigms of performance appraisal from a single rater to multiple rater perspectives in order to obtain accurate and reliable information about employee performance (Daft, 2012; Erdogan, 2002; Noe *et al.*, 2014). This new appraisal system is strongly designed based on a contemporary management approach as upheld by humanistic perspective (*i.e.* human relations movement, human resources view, and behavioural sciences), system thinking and contingency view (Daft, 2012; Mondy & Mondy, 2014). This management approach gives more attention on the role of human needs, behaviour and attitudes, effect of interrelationship between subsystems in an organization, and adaptability with different situations as important factors in determining the effectiveness of management techniques (Daft, 2012). Under this management approach, the nature of performance appraisal systems allows appraisers to promote communication openness as an important instrument to increase transparency and decrease inequality gap among appraisers, as well as decrease unclear responsibilities and biasness among appraises and appraisers in determining employee scores. Further, this appraisal practice may lead employees to support organizational and human resource management's strategies and goals (Cloutier, & Vilhuber, 2008; Daft, 2012; Mondy & Mondy, 2014; Noe *et al.*, 2014).

A review of the workplace performance management literature shows that communication openness in performance appraisal systems consists of two effective components: explanation and feedback (Cook & Crossman, 2004; Kavanagh *et al.*, 2007; Mondy & Mondy, 2014; Noe *et al.*, 2014). Explanation is usually practiced by appraisers to deliver information about the goals, policies and procedures of the performance appraisal system using electronic and printed media to employees who work in different job categories. The ability of appraises to clearly understand about the appraisal systems may enhance their appreciations about the process and systems of allocating performance scores, and motivate them to strongly support the implementation of appraisal systems in the workplace (Atiomo, 2000; Mondy & Mondy, 2014; Noe *et al.*, 2014; Obisi, 2011). Conversely, feedback is often practiced by appraisers to tell about appraises' performance scores, listen appraises' voices and justifications, discuss the appraisal outcomes and provide constructive advices to appraises about possible areas for improvement, problems that must be solved, and

new responsibilities to be undertaken and involve appraisers in setting up performance goals in an environment of respect and encouragement. The ability of appraisers to clearly understand and accept the value of feedback that they receive from their appraisers may strongly motivate them to support the implementation of performance appraisal systems in organizations (Mondy & Mondy, 2014; Noe *et al.*, 2014).

Interestingly, recent studies in the workplace performance appraisal highlight that the ability of appraisers to properly implement communication openness in managing performance appraisal systems may have a significant impact on appraisers' attitudes and behaviour, especially job satisfaction (Cloutier, & Vilhuber, 2008; Kavanagh *et al.*, 2007). According to an organizational behaviour perspective, job satisfaction is often related to employees' affective and/or cognitive attitudes about overall job and/or job facets may lead to induce their enjoyable feelings in organizations (Ambrose *et al.*, 2008; Judge *et al.*, 2009; Locke, 1976; McShane & Von Glinow, 2005; Maathis & Jackson, 2014).

Within a performance appraisal model, many scholars think that explanation, feedback and job satisfaction are different, but strongly interconnected concepts. For example, the ability of appraisers to clearly explain and adequately provide feedback in determining employees' performance scores can lead to an enhanced job satisfaction in the workplace (Sabeen & Mehboob, 2008; Sogra *et al.*, 2009). Although the nature of this relationship is interesting, not much is known about the role of communication openness as an important predicting variable in the workplace performance appraisal model (Cloutier & Vilhuber, 2008; Sogra *et al.*, 2009). Many scholars argue that the predicting variable of communication openness is given less attention in the previous studies because they have much described the general characteristics of communication openness, employed a simple correlation method to assess general respondent attitudes toward specific communication openness styles, and neglected to measure the magnitude and nature of the relationship between communication openness and appraisers' attitudes and behavior in responsive organizations (Obisi, 2011; Sabeen & Mehboob, 2008; Sogra *et al.*, 2009). Therefore, this situation encourages the researchers to further discover the nature of this relationship.

PURPOSE OF THE STUDY

This study has two fold objectives: first, is to examine the relationship between explanation and job satisfaction. Second, is to examine the relationship between feedback and job satisfaction.

LITERATURE REVIEW

Correlation between communication openness and job satisfaction supports the notion of organizational behavior theory. For example, Vroom's (1964) expectancy theory explains that a person who understands the value of outcome that he/she receive may result in positive behavior. Besides that, Bies and Moag (1986) interactional justice theory suggests that a person heavily concerns about good or bad treatment that he/she

receives from another person may affect his/her feelings of justice. The essence of these theories suggest that perceive high value of outcome and fair treatment will exist if appraisers able to clearly explain about the performance appraisal systems and adequately provide feedback in determining performance scores. The essence of these theories had gained strong support from performance appraisal research literature. For example, several extant studies were done using a direct effects model to investigate communication openness based on different samples, such as perceptions of 70 managers of the manufacturing organizations listed in Indonesian Capital Market Directory (Lau & Sholihin, 2005), perceptions of 77 staff at the faculty of medicine in UZ (Ndambakuwa & Jacob, 2006), perceptions of 2,377 public sector employees (Kavanagh *et al.*, 2007), perceptions of 297 Canadian workers (Cloutier & Vilhuber, 2008), perceptions of 229 workers of public listed companies in Klang Valley, Malaysia (Sudin, 2011) and perceptions of 133 employees of multinational companies in Malaysia (Darehzereshki, 2013). Outcomes of these studies found that perceived value of outcome and perceived fair treatment had increased when the appraisers able to clearly giving explanations about the appraisal system goals, policies and procedures, as well as adequately providing feedback in determining employee performance scores. As a result, it could lead to enhanced appraises' job satisfaction in the organizations (Cloutier & Vilhuber, 2008; Darehzereshki, 2013; Kavanagh *et al.*, 2007; Lau & Sholihin, 2005; Ndambakuwa & Jacob, 2006; Sudin, 2011). Based on the literature, it was hypothesized that:

H1: There is a positive relationship between explanation and job satisfaction.

H2: There is a positive relationship between feedback and job satisfaction.

METHODOLOGY

This study used a cross-sectional research design where it allowed the researchers to integrate performance appraisal research literature, the pilot study and the actual survey as a main procedure to gather data for this study. The main advantage of using this method may gather accurate data, less bias data and quality data (Sekaran & Bougie, 2010; Zikmund *et al.*, 2010). This study was conducted in a privatized postal company in Sarawak, Malaysia. The name of this company is kept anonymous for confidential reasons. The core business of this company is to provide day-to-day mailing services, courier and postal services for general public and retail customers. In order to maintain its competitiveness in a global economy, this company has implemented a performance appraisal related reward as a mean to improve organization and employee performance. Under this appraisal system, management employees (*i.e.*, managers and supervisors) are exposed with proper technical and human skill courses in order to enhance their abilities in communicating with employees who have different backgrounds that work in the various job categories. The ability of managers to clearly explain about the performance goals, policies and procedures and adequately provide feedback in determining performance scores are viewed as critical factors in attracting, retaining and motivating employees to maintain and support the organizational strategy and goals in an era of knowledge based

economy. The achievement of this appraisal system is not recorded empirically and this situation has provided an opportunity to further explore its impact on employee outcomes in the organization.

At the initial stage of data collection, the survey questionnaire was drafted based on the information gathered from the workplace performance appraisal literature. Next, the pilot study was conducted by discussing the survey questionnaire with 10 managerial staff and experienced supporting staff who had worked in the organization. Their views were used to verify the content and overall format of survey questionnaire for an actual study. Hence, a back translation technique was employed to translate the survey questionnaires into English and Malay versions in order to increase the validity and reliability of research findings (Lovelock *et al.*, 2004; Sekaran & Bougie, 2010).

The survey questionnaire consisted of three sections. Firstly, explanation had 4 items and feedback had 3 items that were developed based on the workplace performance appraisal literature (Brown *et al.*, 2010; Cook & Crossman, 2004). The dimensions used to measure explanation are clarification, praise, advice and rapport. Secondly, The dimensions used to measure feedback are suggestion, support, attention, and discussion. Finally, job satisfaction was measured using 5 items that were modified from Warr, Cook, and Wall's (1979) job satisfaction scale. The dimensions used to measure job satisfaction are supervision, job security, recognition, opportunity to use abilities in doing job, and promotion. All items were measured using a 7-item scale ranging from 'strongly disagree/dissatisfied' (1) to 'strongly agree/satisfied' (7). Demographic variables were used as controlling variables because this study focused on employee attitudes.

The unit of analysis for this study is employees who work in the organization. A convenient sampling technique was employed to distribute 300 survey questionnaires to employees who were ready to participate in this study. This sampling technique was chosen because the list of registered employees was not given to the researchers because of confidential reasons and this situation did not allow the researchers to choose randomly participants in the organizations. Of the total number, 129 usable questionnaires were returned to the researchers, yielding 43% response rate. Participants answered these questionnaires based on their own consent and on a voluntarily basis. This figure met the requirements of inferential statistics, therefore it could be properly analyzed to produce valid and reliable research findings (Hair *et al.*, 2010; Sekaran & Bougie, 2010). Further, the SmartPLS version 2.0 as recommended by Henseler *et al.* (2009) was employed to determine the validity and reliability of instrument and test the research hypotheses. This statistical package is very useful because it can produce latent variable scores, avoid small sample size problems, estimate every complex model with many latent and manifest variables, handle hassle-stringent assumptions about the distribution of variables and error terms, and test both reflective and formative measurement models (Henseler *et al.*, 2009).

RESULT

In terms of sample profile, the most respondents were males (76.7%), aged between 26 to 35 years old (29.5%), SPM holders (53.5%), served more than 18 years (27.1%), and non-management employees (54.3%).

Table 1 shows the results of convergent and discriminant validity analyses. All constructs had the values of AVE larger than 0.5, indicating that they met the acceptable standard of convergent validity (Barclay *et al.*, 1995; Fornell & Larcker, 1981; Henseler *et al.*, 2009). Besides that, all constructs had the values of $\sqrt{\text{AVE}}$ in diagonal were greater than the squared correlation with other constructs in off diagonal, showing that all constructs met the acceptable standard of discriminant validity (Henseler *et al.*, 2009; Yang, 2009).

Table 1. The results of convergent and discriminant validity analyses

Variable	AVE	Explanation	Feedback	Job Satisfaction
Explanation	0.7200	0.8485		
Feedback	0.7725	0.6953	0.8789	
Job Satisfaction	0.6352	0.5731	0.5149	0.7970

Table 2 shows the validity and reliability of constructs. The correlation between items and factors had higher loadings than other items in the different constructs, as well as the loadings of variables were greater than 0.7 in their own constructs in the model are considered adequate (Henseler *et al.*, 2009). This result met the criteria of validity of measurement model. Besides that, the values of composite reliability and Cronbach's Alpha for all constructs were greater than 0.8, indicating that the instrument used in this study had high internal consistency (Henseler *et al.*, 2009; Nunally & Bernstein, 1994).

Table 2. The results of factor loadings and cross loadings for different constructs

Construct/ Item	Explanation	Feedback	Job Satisfaction	Composite Reliability	Cronbach Alpha
<u>Explanation</u>					
b1	0.875669				
b2	0.901223				
b3	0.849555				
b7	0.761224				
<u>Feedback</u>					
b8		0.889669			
b9		0.899210			
b11		0.847040			
<u>Job Satisfaction</u>					
f3			0.764096		
f4			0.798345		
f8			0.865447		
f9			0.822733		
f20			0.727280		

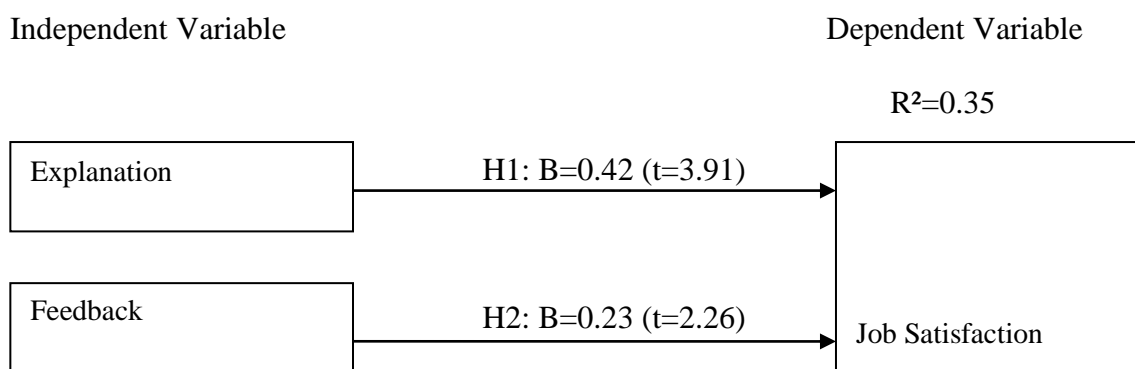
Table 3 shows the results of Pearson correlation analysis and descriptive statistics. The means for all variables are from 5.1 to 5.3, showing that the levels of explanation, feedback and job satisfaction are ranging from high (4) to highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., communication and treatment) and the dependent variable (i.e., job satisfaction) were less than .90, indicating the data were not affected by serious collinearity problem. Hence, all the constructs had value 1 that were shown in a diagonal, showing that these constructs met the requirements of reliability standard (Hair *et al.*, 2010; Nunally & Bernstein, 1994). Thus, these statistical results provide further evidence of validity and reliability for the constructs used in this study.

Table 3: Pearson correlation analysis and descriptive statistics

Variable	Mean	Standard Deviation	Pearson Correlation Coefficients		
			1	2	3
1. Explanation	5.2	1.3	1		
2. Feedback	5.1	1.3	.77**	1	
3. Job Satisfaction	5.3	1.1	.57**	.52**	1

Note: Significant at *p<0.05;**p< 0.01 Reliability estimation is showed in a diagonal

Figure 1 presents that the value of R² is used as an indicator of the overall predictive strength of the model. The value of R² is considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998; Henseler *et al.*, 2009). The results of showed that the inclusion of explanation and feedback in the analysis had explained 35 percent of the variance in job satisfaction. Specifically, the result of testing this model displayed that explanation was positively and significantly related to job satisfaction ($\beta=0.42$; $t=3.91$; $\beta=0.23$; $t=2.26$, respectively), therefore H1 and H2 were supported. This result demonstrates that communication openness does act as an important predictor of job satisfaction in the hypothesized model.



Note: Significant at *t>1.96

Figure 1. The outcomes of SmartPLS Path Model Show on the relationship between communication openness in performance appraisal systems and job satisfaction

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels *et al.*'s (2009) guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)}$. This measure can explain the power of SmartPLS path model in comparison with the baseline values (GoF small=0.1, GoF medium=0.25, GoF large=0.36). The outcome of GoF test showed that the value of GoF was 0.50, showing that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result provides strong support to validate the PLS model globally (Wetzels *et al.*, 2009).

DISCUSSION

This study shows that communication openness in performance appraisal systems does act as an important predictor of job satisfaction in the studied organization. In the context of this study, appraisers (i.e., managers and/or supervisors) implement performance appraisal systems based on their organization's policies and rules. According to majority respondents, the levels of explanation, feedback and job satisfaction are highly practiced in their organizations. This situation explains that the ability of appraisers to clearly explain about performance appraisal goals, policies and procedures, as well as adequately provide feedback in determining performance scores may lead to an enhanced appraisees' job satisfaction in the organization.

The implications of this study can be divided into three major categories: theoretical contribution, robustness of research methodology and practical contribution. In terms of theoretical perspective, the findings of this study show that explanation and feedback have been important predictors of job satisfaction in the studied organization. This result also has supported and broadened studies by Lau and Sholihin (2005), Ndambakuwa and Jacob (2006), Kavanagh *et al.*, (2007), Cloutier and Vilhuber (2008), and Sudin (2011) and Darehzereshki (2013).

With respect to the robustness of research methodology, the survey questionnaires used in this study met the acceptable standards of validity and reliability analyses, this could lead to the production of accurate and reliable research findings. Regarding on the practical contributions, the findings of this study may be used as guidelines by management to improve the administration of performance appraisal systems in organizations. In order to achieve these objectives, some improvements need to be done in the particular aspects: firstly, training content and methods should be customized according to the organizational strategy and goals may help employees to understand, respect and obey the policies, rules, and work cultures practiced in the organizations. Secondly, recruitment and selection policies should give a priority to hire knowledgeable and experience people to hold management positions and their expertise may be used to coach junior managers and/or supervisors in planning and implementing performance appraisal systems in organizations. Finally, level of pay for individual and group performance should be revised based on external organizational competitiveness may help to capture employees' hearts and minds, as well as encourage them in achieving the interests of their organizations. If such suggestions are given attention this may strongly motivate employees to appreciate and support their performance appraisal goals.

CONCLUSIONS

This study suggested a conceptual framework based on the workplace performance appraisal research literature. The instrument used in this study met the acceptable standards of validity and reliability analyses. The outcomes of SmartPLS path model generally confirmed that the implementation of communication openness in performance appraisal systems does act as an important predictor of job satisfaction in the studied organization. This result also has supported and broadened the workplace performance appraisal literature mostly published in Western countries. Therefore, current research and practice within the performance management model needs to consider explanation and feedback as crucial elements in the workplace performance appraisal domain. These findings further suggest that the ability of appraisers to clearly explain the performance appraisal goals, policies and procedures, as well as positively and constructively provide feedback in determining performance scores will strongly induce positive subsequent employee attitudes and behavior (e.g., justice, commitment, performance, ethics, trust and teamwork). Thus, these positive outcomes may lead to maintained and enhanced organizational growth and competitiveness in an era of globalization.

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Empirical Investigation of Five-Factor Model of Personality

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Abstract

The concept of Five-Factor Model (FFM) of Personality describes the basic dimension of human behavior, thinking, and emotions that related to the job. The FFM currently getting popular and reach more attention to from the scholars and practitioners as well, particularly in the area of human resource management. Therefore, the main goal of current research is to compile and to test the dimensions of FFM and its measure empirically. Eighty-four self report measures distributed to the 238 employees who work both for public and private organizations at the Northern Sumatera Island, Indonesia. The respondents are currently completing their graduate programs at the University of Bengkulu. Two-hundred-and-eighteen questionnaires completed and returned by respondents, and analyzed using Factor Analysis with Varimax Approach to extract them in to the several components. Based on the analyses, research confirmed the 5 dimensions for FFM, which is conscientiousness (18 items), extraversion-introversion (18 items), agreeableness (12 items), openness to experience (14 items), and emotional stability (12 items). The result strictly recommended that the use of FFM as a means of Human Resource Practices such as selection, promotion, training, and the like.

Keywords: Personality; Conscientiousness; Extraversion; Agreeableness; Emotional Stability; Openness to Experiences

INTRODUCTION

Personality refers to the way someone reacts and interacts with others (Robbins and Judge, 2009: 139). Personality is defined as the patterns of behavior, thought, and unique emotion and relatively stable which is shown by someone (Greenberg and Baron, 2009: 97). Mount (2005) concluded that personality refers to traits of characteristics that are stable over time, the reason underlying the one's behavior. Personality reflects the owner and generally determine one's affective style, behavioral, and cognitive.

Definition specifically states that personality is the patterns of thought, emotions, and behaviors that are relatively stable and unchanged for certain period of time and

explain human behavior in different situations (Elanain, 2007). Personality differences between individuals explain someone gives different responses with others in the same situation. Personality differences also explain why someone tends to show a certain behavior for a particular situation, while others show a different behavior for the same situation.

Basically, classify individuals in a certain personality group is very difficult. Because it is hardly find 2 individuals who have identical thoughts, emotions, and behaviors, even 2 twin siblings. But experts in the field of organizational behavior has made great efforts to formulate a personality pattern that is able to gather a few people of a certain personality group. Associated with it, has appeared various conceptualizations of personality that is quite popular, such as *the big 5 of personality* (Costa and McCrae, 1992), *positive and negative affective* (Isen and Baron, 1992), *type A and type B behavior* (Friedman and Rosenman, 1974), and *morning-evening person* (Guthrie *et al.*, 1995).

Among various personality conceptualizations above, the most popular and get a lot of attention from practitioners, academics, and researchers are personality conceptualization of the big 5 of personality (Five-Factor Model/ FFM). This concept has been widely accepted as a complete picture of the nature of personality (Saucier and Ostendorf, 1999). In accordance with the table, this concept assumes that one's personality can be measured for each of five different dimensions, namely *Conscientiousness*, *Extraversion-Introversion*, *Agreeableness*, *Emotional Stability*, and *Openness to Experience*.

Conscientiousness dimension describes the extend how far someone is hardworking, neat, self-contained, and diligent versus lazy, frivolous, and not reliable. *Extraversion-Introversion* dimension describes how far someone who likes to make friends, assertive, and tolerant versus loner, shy, and reserved. *Agreeableness* shows how far someone is cooperative, warm, easy to fit versus quarrelsome, cold and not easily matched. *Emotional Stability* shows how far someone is someone who is anxious, worried, and depressed versus feel safe, calm and happy. And *Openness to Experience* dimension describes how far someone is someone who is creative, curious, and cultured versus practical and has little interest range.

Extraversion relates to the degree how far someone is outgoing and active individual physically and verbally. Individuals who have high score of extraversion dimension is individual who like adventure, frank, sociable, assertive and like to talk. Individuals who have low score on this dimension are generally reclusive and look more reserved, shy, cautious, and dislike to socialize. Individuals who have an average score for this dimension like mix situation between associate and aloof (Weaven *et.al.*,2009).

Agreeableness refers to the altruistic nature, guardian, care, and emotional support. Consequently, someone who has a high score of this dimension is characterized by the nature of the good-natured, friendly, sympathetic, warm, and like to give. Otherwise, the low individual score of agreeableness are individuals who like to compete, hostile, indifferent, selfish, vengeful, and jealous (Weaven *et al.*, 2009).

Conscientiousness relates to the degree how far someone always set high standards, have a good job, and show goal oriented behavior. Conscientiousness is

very strongly associated with achievement and a desire to achieve it. An individual who has high score of this dimension is described as someone who concentrates on very limited number of goals, which is tried seriously. This type of individual is obedient, orderly, competent, responsible and conscientious. Otherwise, individuals who have low score of this dimension are people who are easily confused, and impulsivity (Weaven *et al.*, 2009).

Emotional Stability refers to the degree how far someone is associated with stress. Individuals who have high score of this dimension generally is quiet and relaxing person, and very rarely have a mental or physical pressure that is associated with stress. Individuals who have low score of this dimension generally is a less stable, tend to feel fear, worry, easily influenced, and tend to be fear, depression, mental disorders due to the effect of stress (Weaven *et al.*, 2009).

Openness to experience is degree how far someone opened to new ideas, interested in the culture/civilization and creative. Individuals who have high score of this dimension is generally interested in the experiences which related with sensory and cognitive, like anything new, can grow in complicated situations, and very liberal. Individuals who have low score of this dimension are people who are conventional, conservative, show interested in kinship, and dislike the changes (Weaven *et al.*, 2009).

Research in the field of personality shows an important role of FFM dimensions in predicting one's performance (Salgado, 1997; Judge *et al.*, 1998). Salgado (1997) concluded that individuals with high scores of *conscientiousness* and *emotional stability* dimension has high performance for all types and aspects or the work. As for other dimensions of FFM, relevant only to certain types of work (Judge *et al.*, 1998). Gill and Hodgkinson (2007) noted that the concept of FFM has been so widely used in the practice of selection and assessment. Dimensions of FFM implicated as predictors of career success for various types of work, starting from sales force and customer service up to managerial positions and roles of other semi-killed.

FFM, as noted by Salekin *et al.*, (2005), considered to have gained empirical support in terms of convergent and discriminant validity either self-assessment, peer, or partner. However according to Gill and Hodgkinson (2007), measurement techniques that have been used freely in field have many deficiencies. Thus become an important task of empirical research to formulate and provide easier empirical evidence to be adopted for the importance of practice in the field.

METHOD

Data collection in this research were divided in three groups of respondents, consisted of experts group, employee group, and samples. Each of the respondents group use different method and data collection technique, according to the type of data and data collection purposes. The data came from a team of experts will be collected by the method of in-depth interviews. These data collection method is used for digging sharper and detailed information about aspects or personality traits. With in-depth interview technique is expected can be identified personality traits of an employee in accordance with the conceptualization. FGD is used to confirm the data of personality traits which are netted through in-depth interviews, so obtained the measurement items that can then be tested through survey methods, namely the questionnaire. The

number of participants was 12 people, consisting of private employees and civil servants working in various institutions in Bengkulu.

The research sample for the survey was 234 civil servants and private employees in various cities in Bengkulu and surrounding areas. The sample frame was the students who were studying in graduate programs in the Faculty of Economics and Business in University of Bengkulu, namely Master of Management, Master of Development Planning, and Master of Accounting. Samples were taken randomly, proportional to the number of students in each of graduate program. Data collection instrument was a questionnaire which consisted of 84 items of question. Questionnaires were given directly to the respondents. Of 234 questionnaires distributed, only 218 respondents who fill out completely and return to the researcher. Of the 218 respondents who participated in this research, 63% were male and 69% of respondents worked in government agencies. In term of age, 54.59% of respondents aged less than 26 to 35 years old. Based on the period of employment, 62.39% of respondents had worked for their current organization in the span of less than 10 years. 68.55% of the respondents were employess of public agency, and 49.54% were staff or not having the structural position in the organization where they worked.

Analysis technique is the triangulation analysis, combining qualitative and quantitative technique. Qualitative technique is used to analyze the data from the results of depth-interviews and FGD. Qualitative analysis is conducted to identify the indicators and measurement items FFM constructs. Qualitative analysis uses an interactive model approach developed by Milles and Hubberman (1992:20). Four stages of analysis interact with each other to form a cycle of analysis, which consists of data collection, data presentation, data filtering, and inference data. Quantitative analysis is applied by using analysis factor with the help of an application program, that is Statistical Product and Service Solutions (SPSS). Analysis factor helps reduce the number of variables (items) very much (all the questions that form the desired variables in a questionnaire) to be a series of significant factors, can be interpreted, and handled. Principal component analysis is applied to transform all items into a series of variables group that are not correlated with each other (Sekaran, 2000: 409). Linear combination of these variables are called factors, which calculates the variance contained in the data as a whole. The best combination to form the first principal component is the first factor. The second principal component is defined as a linear combination of the best variable to explain unaccounted variance through the first factor, and continued to the third factor, the fourth, and so on (Cooper and Schindler, 2001: 594).

RESULTS

The results of factor analysis of 84 items of FFM question with Varimax rotation method, producing 5 factors or components with loading factor score was more than 0.4. As shown in table 1, the first factor has 18 items of question, the second factor also has 18 items of question, the third factor has 12 items of question, the fourth factor has 14 items of question, and the fifth factor has 12 items of question.

Table 1
The Number of Explained Data Variance

No.	Factor	Number of Eligible Items	% Explained Variance	Explained Variance Cumulative
1.	First	18	10.471	10.471
2.	Second	18	10.067	20.538
3.	Third	12	8.176	28.714
4.	Fourth	14	6.964	35.677
5.	Fifth	12	6.801	42.479

These factors or components of FFM were able to explain 42% of the total of data variance. The first factor is a collection of items that ask personal type characterized by the indicators: diligent, organized, neat, well-planned, thorough, passionate, reliable, responsible, and cautious. In accordance with the identification of theoretical that is proposed by the authors and previous researchers (Ferguson, 2004; Burke and Witt, 2004; Gill and Hodgkinson, 2007; Salgado, 1997; Judge *et al.*, 1998; Judge and Erez, 2007; Furnham *et al.*, 2005), this factor is called conscientiousness dimension. This factor was able to explain 10.47% of the data variance.

The second factor is a collection of items that ask personal type characterized by the indicators: adaptive, likes to be the center of attention, talkative, sociable, friendly, smart break the ice, cheerleaders, open, and assertive. In accordance with the definition of theoretical that is proposed by the authors and previous researchers (Judge and Erez, 2007; Gill and Hodgkinson, 2007; Salgado, 1997; Judge *et al.*, 1998; Furnham *et al.*, 2005), this factor is named Extraversion-Introversion dimension. This factor was able to explain 10.7% of the data variance.

The third factor consists of items that ask personal type characterized by the indicators: what it is, care, sensitive, tolerant, positive thinking, forgiving, seldom complain, and make friends easily. In accordance with the definition of theoretical that is proposed by the authors and previous researchers (Juhasz *et al.*, 2009; Burke and Witt, 2004; Weaven *et al.*, 2009; Judge and Erez, 2007; Furnham *et al.*, 2005), this factor is named Agreeableness dimension name. This factor was able to explain 8.18% of the data variance.

The fourth factor consists of items asking personal type characterized by the indicators: like abstract ideas, imaginative, complex, rich vocabulary, often using difficult words, like trying new things, like art, always curious, and willing to take risks. In accordance with the definition of theoretical that is proposed by the authors and previous researchers (Weaven *et al.*, 2009; Gill and Hodgkinson, 2007; Salgado, 1997; Judge *et al.*, 1998; Judge and Erez, 2007; Furnham *et al.*, 2005), this factor is named Openness to Experience dimension. This factor was able to explain 6.80% of the data variance.

The fifth factor consists of items that ask personal type characterized by the indicators: relaxed, calm, able to control the feeling, feeling happy, rational, patient, and feel safe. In accordance with the definition of theoretical that is proposed by the authors and previous researchers (Marcus *et al.*, 2007; Ferguson, 2004; Weaven *et al.*, 2009; Gill and Hodgkinson, 2007; Judge and Erez, 2007), this factor was named Emotional Stability dimension. This factor is able to explain 6.80% of data variance.

Conscientiousness Dimension

Based on the results shown in table 2, 18 items of question that are expected to form conscientiousness dimension has loading factor $\geq .400$. Nine items that use reverse score (reverse score symbolized by the mark [®]) also has good loading factor, which the value is more than .400. The items of question that were given reverse score reflect the personality type that is reverse from the main concept.

Table 2
Loading Factor Value of Conscientiousness Dimension (*Rotated Component Matrix*)

No	Statements	Component				
		1	2	3	4	5
1.	I always pursue what I am doing	.545				
2.	I am the type of regularly person	.480				
3.	I am the type of neat individual	.615				
4.	I have a good plan for every thing	.641				
5.	I am a careful person	.694				
6.	I am always enthusiastic in doing every activities	.705				
7.	I always reliable for a lot of things	.592				
8.	I am the type of responsible individual for what I do	.682				
9.	I am always careful in every my jobs	.499				
10.	I would rather give up and do other things when faced with difficulties	.467				
11.	I am the type of person who tends to fall apart	.694				
12.	I prefer to finish my job before the time than spend the time to make it more presentable	.638				
13.	I am the type of person who flows (not bound plan)	.668				
14.	I tend to be reckless in doing my job	.620				
15.	I am the type of lazy person	.720				
16.	I am not person who can be relied	.616				
17.	Better I avoid or grant mistakes to others than sacrificing my self	.668				
18.	I have felt to neglect many things in my life	.528				

Extraversion-Introversion Dimension

As shown in table 3, 18 items of question were estimated to form the Extraversion-Introversion dimension has loading factor $\geq .400$. 9 items of question that use reverse score (reverse score symbolized by the mark [®]) also has good loading factor, which the value is more than .400. The items of question that were given reverse score reflect the personality type that is reverse from the main concept.

Tabel 3
Loading Factor Value of Extraversion Dimension (*Rotated Component Matrix*)

No.	Statements	Component				
		1	2	3	4	5
1.	I am individual who is easy to adjust		.422			
2.	I like to be the center of attention		.445			
3.	I am the type of person who likes to converse		.513			
4.	I am the type of person who likes to hang out		.498			
5.	In many situations I always start a conversation with others		.697			
6.	I often dilute the atmosphere of conversation that is stiff and tense		.742			
7.	I am a person who likes to be merry		.670			
8.	I am easy to tell what I feel to others		.465			
9.	I am a assertive person		.676			
10.	I am the type of rigid person		.655			
11.	I am the type of shy person		.737			
12.	I am the type of reticent person		.690			
13.	I am the type of person who prefers to be alone		.574			
14.	I often speak in angry tone		.677			
15.	I often get carried away by the atmosphere around me		.699			
16.	I am the type of morose person		.596			
17.	I feel that I am a closed person		.433			
18.	I prefer to harbor feelings (such as angry, love, etc) than express spontaneously		.523			

Agreeableness Dimension

Based on the results shown in table 4, twelve of 16 items of question that are expected to form Agreeableness dimension has loading factor $\geq .400$. Six of 8 items of question that use reverse score (reverse score symbolized by the mark [®]) also has good loading factor, which the value is more than .400. The items of question were given reverse score reflect the personality type that is reverse from the main concept..

Table 4
Loading Factor value of Agreeableness (Rotated Component Matrix)

No.	Questions	Component/Factor				
		1	2	3	4	5
1.	I always look what it is			.699		
2.	I am the type of person who cares about other people's problems			.682		
3.	I am easily to feel what experienced by other people			.415		
4.	I am always tolerant of other people's mistakes on me			.384		
5.	I always take the possitives from other people's actions			.209		
6.	I am a person who easily forgive			.691		
7.	I do not like to complain discomfort that I feel			.734		
8.	I easily make friends with anybody			.664		
9.	I always try to cover my weakness			.685		
10.	I am the type of indifferent person			.562		
11.	I am the type of person who is not responsive			.618		
12.	I am the type of selfish person			.390		
13.	I often prejudiced			- .150		
14.	I always remember the bad action of others to me, and if there is a chance I will avenge			.560		
15.	I often complain that the problems I face become lighter			.609		
16.	I do not easily make friends with new people I know and people who I believe have not been fully			.574		

Openness to Experience Dimension

Based on the results shown in table 5, fifteen of 18 items of question that are expected to form Openness to Experience dimension has loading factor $\geq .400$. Eight of 9 items of question that use reverse score (reverse score symbolized by the mark [®]) also has good loading factor, which the value is more than .400. However, one item of reverse score remains disposed despite having loading factor 0.631. This item was discarded because it is a negative question of item that has loading factor of less than 0.4.

Table 5
Loading Factor Value of Openness to Experiences Dimension (Rotated Component Matrix)

No.	Questions	Component/Factor				
		1	2	3	4	5
1.	I like abstract ideas and not be too predictable				.219	
2.	I dream of many things in my life				.444	
3.	I like complicated things				.428	
4.	I always use different words so that my explanations are understandable				.724	
5.	I often use new new vocabulary that is rarely used				.627	
6.	I like trying new thing				.520	
7.	I really like the art				.581	
8.	I am the type of person who always wants to know				.547	
9.	I am the type of person who likes to take risks				.383	
10.	I tend to like things that are obvious and not abstract				.631	
11.	I am the type of realistic person				.518	
12.	I prefer practical things				.415	
13.	I always repeat my words when explaining a problem to others				.715	
14.	I am always straightforward in explaining				.592	
15.	I am a person who prefer routine job than fluctuate job				.549	
16.	I do not occupy a specific hobby				.595	
17.	I am the type of person who is not interested in things outside my job				.474	
18.	I am the type of person who tries to avoid risky things				.207	

Emotional Stability Dimension

As shown in table 6, twelve of 14 items of question that are expected to form Openness to Experience dimension has loading factor $\geq .400$. one of 7 items of question that use reverse score (reverse score symbolized by the mark [®]) also has good loading factor, which the value is more than .400.

Table 6
Loading Factor Value of Emotional Stability Dimension (Rotated Component Matrix)

No.	Questions	Component/Factor				
		1	2	3	4	5
1.	I am a laid person					.631
2.	I am the type of person who is always calm					.615
3.	I am always able to control my feelings					.173
4.	I always feel happy with my self and my surroundings					.517
5.	I am type of rationally person					.530
6.	I am always patient for others' attitudes, words, and actions to me					.673
7.	I feel safe from others' threats and harassment					.519

8.	I am the type of person who rushes	.577
9.	I am the type of person who easily gets nervous	.499
10.	I am the type of person who is easily offended	-.111
11.	I feel that I am a unlucky person	.694
12.	I tend to follow my heart	.502
13.	I am the type of person who is easily angry	.691
14.	I worry many things	.598

Reliability and Descriptive Statistics

Means, standard deviation, and Cronbach's Coefficient Alpha of FFM dimension shown in table 7. With number of the same item for each variable of Conscientiousness and Extraversion dimension, the comparison between dimensions be much easier. Mean value for the Conscientiousness dimension is 69.85 (with standard deviation is 12.280) is higher than mean of Extraversion dimension (with standard deviation is 12.349). Mean value for Agreeableness dimension is 44.30 (with standard deviation is 8.161) higher than mean of Emotional Stability dimension namely 39.93 (with standard deviation is 8.707). These three dimensions are the best overall score. It means, overall, mean of respondents for dimensions of FFM in this research had relatively high Conscientiousness scores. Similarly, for Emotional Stability and Openness to Experience dimension, is in the range of high-to-very high.

Table 7
Means, Standard Deviations, and Cronbach's Alpha of Five-Factor Dimension

No.	Dimensions	Number of Item	Means	Standard Deviations	Cronbach's Alpha
1.	Conscientiousness	18	69.85	12.280	.918
2.	Extraversion-Intraversion	18	64.23	12.349	.912
3.	Agreeableness	12	44.30	8.161	.887
4.	Openness to Experience	14	49.68	7.527	.845
5.	Emotional Stability	12	39.93	8.707	.875

Table 7 also shows Cronbach's Coefficient Alpha. All dimensions which were produced FFM variable in this research have good level of reliability. This meant that level of inconsistency or unfamiliarity of respondents to the items of question tend low or included in acceptable category. So the items of question were tested in this research was very feasible in measuring FFM dimension, in accordance with the original concept discussed and proven in previous empirical researches (Weaven *et al.*, 2009; Gill dan Hodgkinson, 2007; Salgado, 1997; Judge *et al.*, 1998; Ferguson, 2004; Judge dan Erez, 2007; Furnham *et al.*, 2005; Foldes *et al.*, 2008; Marcus *et al.*, 2007).

DISCUSSION

There were 9 of 84 items of predictabel question capable of measuring the dimensions of FFM, did not produce required loading factor value. 9 these items of question are 4 items for Agreeableness dimension, 3 items of question for Openness to Experience dimension, and 2 items for Emotional Stability dimension. In addition to 9 items above, there is one item of question for Openness to Experience dimension which also rejected despite having loading factor more than 0.4. The rejection was based on

consideration that score of couple item for these items were less than 0.4, so it was rejected. Ten items were rejected because it did not meet the desired requirements were presentd in table 8.

For Agreeableness dimension, deleted items of question were: *“I am always tolerant of other people’s mistakes on me, I always take the possitives from other people’s actions, I am the type of selfish person, I often prejudiced”*. 4 these questions represented two personality traits, namely toleran-selfish and postive-negative. Two these characteristics was originally thought to be most representative of this dimension, but it did not meet the requested loading factor requirement. The explanation that could be given for the rejection to the first nature is that the items of question may be considered unrealistic for now. Excessive tolerant nature may be considered to reflect weakness while the selfish nature tends to be not favored. The second nature, the positive-negative thinking did not meet requesite of loading factor may be due to this nature was considered too directly on the issue. Respondents were hesitant to admit that he/she was a tolerant or selfish and positive or negative thinking.

At the fourth factor/component, namely Openness to Experience dimension, deleted items of question are: *“I like abstract ideas and not be too predictable, I am the type of person who likes to take risks, I tend to like things that are obvious and not abstract, I am the type of person who tries to avoid risky things”*. 4 these items reflected the views and interest of a person to something abstract and risky. Two these natures were originally considered to represent this dimension, but it did not meet the requested loading factor requirement. The explanation that can be given for the rejection of the first nature is that the items of question may be considered to be a personality trait which tend to be negative and is something unusual. Background of the community which this research was conducted may be assumed that someone who is not abstract precisely got a good place because it was not considered manipulative, dishonest, and not like the preamble. The rejection of nature that relate with the risk may be caused by the attitude of “middle” which is preferred by the public, including this research’s respondents. In indonesia, the nature which is too take the risk regarded as speculative, while attitude which is too avoid the risk regarded impossible.

Table 8

Items of question that do not meet the requirements of Factor Loading value

No.	Questions	Component/Factor				
		1	2	3	4	5
1.	I am always tolerant of other people’s mistakes on me			.384		
2.	I always take the possitives from other people’s actions			.209		
3.	I am the type of selfish person			.390		
4.	I often prejudiced			-.150		
5.	I like abstract ideas and not be too predictable				.219	
6.	I am the type of person who likes to take risks				.383	
7.	I tend to like things that are obvious and not abstract				.631	
8.	I am the type of person who tries to avoid risky things				.207	
9.	I am always able to control my feelings					.173
10.	I am the type of person who is easily offended					-.111

Two question items of Emotional Stability dimension, which the fifth factor/component was rejected because it had insufficient loading factor value. Two items of question that were expected to help forming these dimensions did not meet the requirements of desired loading factor value, namely question: *I am always able to control my feelings and I am the type of person who is easily offended*. Two items of this question essentially measures a person's ability and inability to control the feelings. The nature based on respondents' response in this research are not included in Emotional Stability dimension, while conceptually assumed be a major item for this dimension. A possible explanation is given for this result is that the respondents felt very hesitant to identify themselves on the side of feeling control or not control the feelings. The respondents generally felt that they were in some situations or for some things can control their feelings well, but for some others were not.

CONCLUSION

This research concluded that the conceptualization of FFM which consist of five main dimensions of personality, has met the requirements of construct validity. The test results of factor analysis produced five dimension of personality, in a row based on the percentage of data variance which was capable explained: conscientiousness (18 items), extraversion-introversion (18 items), agreeableness (12 items), openness to experience (14 items), and emotional stability (12 items). In addition, this five dimensions of FFM also have good level of reliability.

This research provides the strong support for the conceptualization of the dimensions of FFM, so that the items of measurement can be considered more workable to be used in practical purposes such as employee selection, training and development, promotion, and other practices of Human Resources Management (HRM). The practitioner of organizations, particularly HRM practitioners are advised to use the conceptualization and measurements that have been empirically proven to improve the fit among employees with job/profession that they run.

Future research also needs to clarify the influence of the FFM dimension on the performance of employees, especially in Indonesia. Therefore, should be conducted a research involving respondents from various professions to infer between the personality dimension score with job/profession that they run.

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The Effects of Shopping Lifestyle, Fashion Involvement, and Self Confidence on Impulse Buying Behavior on the Generation Y Banjarmasin

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Abstract

This study aims to analyse and investigate the influence of shopping lifestyle, fashion involvement, and self confidence towards impulse buying behavior on the Generation Y. Using online questionnaires the data were collected. The number of respondents who identified as samples in this study was a hundred fashion product consumers that categorized as Generation Y. The SmartPLS was employed to test the hypotheses. The results show that shopping lifestyle and self confidence significantly and positively related to fashion involvement. Furthermore, shopping lifestyle significantly and positively related to impulse buying behavior. While fashion involvement and self confidence had no significant affect to impulse buying behavior on the Generation Y.

Keywords: Shopping Lifestyle, Fashion Involvement, Self Confidence, Impulse Buying Behavior, Generation Y

Introduction

In the marketing literature it is well known that there is an existence of Generation (cohort) which is play an important role in marketing science because a generation describes a group of individuals that born in a particular year group (Gilboa, Fabio, Marinacci, & Schmeidler, 2010). Experience in different generation, affect them to think and act, and lead to different attitudes from each group generation (Strauss & Howe, 1991).

Marteny (2010) suggests that human generation is divided into six categories. The first generation is the Greatest Generation those who were born in 1901 to 1924 (*world war II*). The second generation is the Silent Generation those who were born in 1925 to 1942. The third generation is the Baby Boomers those who were born in 1943 to 1960. The fourth generation is Generation X those who were born in 1961 to 1981. The fifth generation is Generation Y those who were born in 1982 to 1994, and the sixth generation is Generation Z those born in 1995 to 2010 (Merdina, 2012). Consumer of Generation Y represents a significant percentage of population and recognized as an important market segment and shows the difference with previous generations in shopping lifestyle (Bakwell & Mitchel, 2003).

The objective of this study is to analyse and investigate the influence of shopping lifestyle, fashion involvement, and self confidence towards impulse buying behavior on the Generation Y. Empirical research on this domain has to-date largely focused on western consumers and little evidence is available from Asian countries, particularly Indonesia. This study contributes to the consumer behaviour area by examining the relationship of those variables to Generation Y in Indonesia.

LITERATURE REVIEW

Generation Y

Generation Y are people who were born from 1982 to 1994 (Merdina, 2012). Consumer of Generation Y represents a significant percentage of population and recognized as an important market segment and shows the difference with previous generations in shopping lifestyle (Bakwell & Mitchel, 2003).

Don Tapscott, *Grown Up Digital* author (2009), mentions that Generation Y or millennial are net generation who have characteristics as follows: loved freedom, customization, scrutiny, integrity, loved collaboration, loved entertainment, fast, and loved innovation. More over, Generation Y prefers to choose a product that is known through the information they got from television or internet, and then they will decided to buy the product or not.

Shopping Lifestyle

Shopping lifestyle is defined as behaviors exhibited by the buyer which associated with a responses and personal opinion about purchasing a product (Cobb & Hoyer, 1986). Shopping lifestyle is a shopper style that occurs specifically gave a pressure on shopping lifestyle which includes shopping activities, interests and opinions, and reflection as a complex social activity, recreation, and economic phenomena. Basically shopping lifestyle understood as a social phenomenon that is done by consumers as a form of recreation and economic activity (Visser & Preez, 2001).

Fashion Involvement

Fashion involvement is a behavior refers to the interest of attention with category of fashion products (such as clothes). Fashion involvement used primarily to predict the variables of behavior which is related to products such as clothes, purchasing behavior and consumer characteristics (Browne & Kaldenberg, 1997). O'Cass (2004) found that fashion involvement on clothes are closely related to personal characteristics (women and young people), and knowledge of fashion which is turn affect consumer confidence in making purchasing decisions.

Self Confidence

Self confidence defined as a feeling of containing the power, the ability and skills to perform something which is based on the confidence to succeed (Bandura, 1977). Self confidence begins from own self determination, to do everything we want and need in life. Self confidence starts from faith in self, so that we are able to face the challenges of life and to do something about it (Angelis, 2003:10).

Impulse Buying Behavior

Impulse buying behavior defined as a different purchasing behavior with purchase plan before going to the store (Dell, Roger, & Coney, 2001). Impulse buying behavior is a tendency of consumers to make spontaneous purchases, not reflected, in a rush, and encouraged by motional psychological aspects of a product and tempted by the persuasion of marketers (Stern, 1962).

Conceptual Framework

In an attempt to describe the relationship between the variables in this study, can be explained through the frame work scheme as follows:

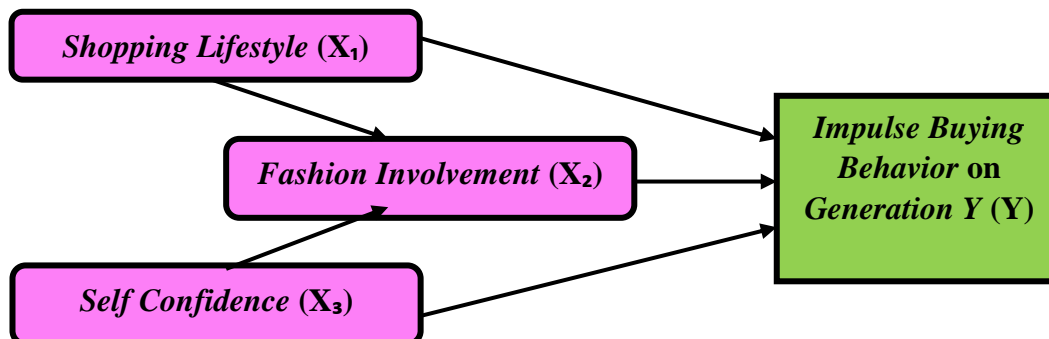


FIGURE1. Conceptual Framework

Source: Developed for research by the authors

Hypotheses

Shopping lifestyle become one of the most favorable lifestyle, to full this lifestyle people are willing to sacrifice something to achieve it and it is mostly occurs on fashion oriented-products. Frings (2007) found that the consumer motif to buy fashion product are various. Like based on to look like fashionable, attractive, to impress others, be acceptable by friends, peer group, or colleagues, or to full psychological the needs. Thus,

H1: shopping lifestyle will have a significant positive effect on fashion involvement on the Generation Y in Banjarmasin

Most people think shopping as fun social activities, so shopping lifestyle is chosen as a popular way to spend their leisure time. People love to look for new and interested thing that is offered in the market, shopping just for fun, people have a desire to innovative products, and the benefits that provided by those products then people tend to do impulse buying behavior. Impulse buying behavior usually occurs when consumers feel a strong motivation then turned into a desire to purchase goods or services. Cobb & Hoyer (1986) found that shopping lifestyle maybe related to impulse buying behavior. Thus,

H2: Shopping lifestyle will have a significant positive effect on impulse buying behavior on the Generation Y in Banjarmasin

Fashion involvement refers to a person's style of the way they dressed by an interest in one's appearance. The awareness of fashion identified as an important dimension from someone lifestyle that influence buying behavior and consumer behavior. Fairhurst & Gentry (1984) found that there is a positive relationship between fashion involvement and impulse buying behavior. Thus,

H3: Fashion involvement will have a significant effect on impulse buying behavior on the Generation Y in Banjarmasin

Self confidence has an important means of recognition of their existence in social life and community. Swastha & Handoko (1987) found that everyone has a personality and one of them is self confidence, and it is effect a different thought about some product. It occurs on the way to chose product, the color of clothes, and motif on clothes. Thus,

H4: Self confidence will have a significant effect on fashion involvement on the Generation Y in Banjarmasin

Impulse buying behavior often occurs on certain products that quite attractive to consumers. Like fashion product or clothes, because clothes is not just serve as body protector but clothes can also be used as a means of increasing self confidence, prestige and a person's mood. Rook & Fisher (1995) found that impulse buying behavior usually occurs when consumer feels strong motivation in confidence that come to be a desire to buy the product. Furthermore, they found that someone's good mood is more conducive to do impulse buying. Thus,

H5: Self confidence will have a significant effect on impulse buying behavior on the Generation Y in Banjarmasin.

METHODOLOGY

In this study, the explanatory method used to test the influence of shopping lifestyle, fashion involvement, and self confidence towards impulse buying behavior on Generation Y. The sampling method that used in this study was convenience sampling procedure with 100 respondents that filled up the questionnaire on line. The invitation to participate on this study was sent through email, twitter, and other social media. All measures employed on this study were adapted from previous research that was similar on this study.

Data Analysis Techniques

Structural Equation Model (SEM) with SMART PLS was used to test the hypotheses. PLS is a powerful method of analysis (Wold, 1985 in Ghazali, 2008) because it is not based on many assumptions. For example, the data must be normally distributed, samples should not be large. It can be used to confirm the theory, PLS also can be used to explain the relationship between latent variables. PLS can as well as analyzing constructs formed with reflective and formative indicators. It cannot be done by SEM based covariance because it will be an unidentified model.

EMPIRICAL RESULTS

The data analysis in this study using PLS with program Smart PLS 2.0 and the following results:

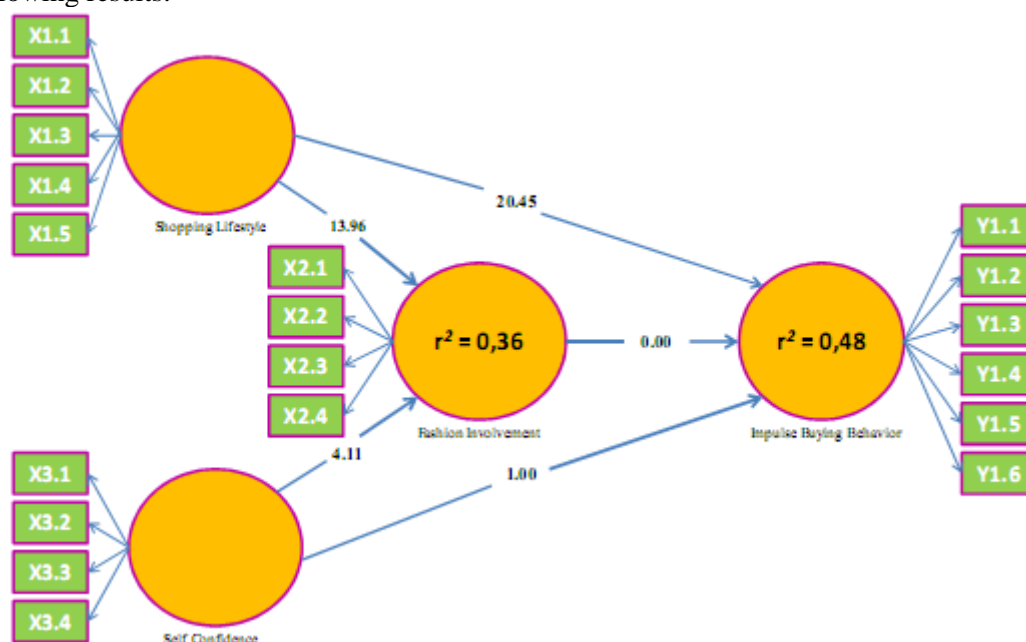


FIGURE 2. Structural Model

TABLE 2. Partial Least Square results

Predicted Variable	Predictor Variable	Hyp	Path Weight	Variance due to path	R ²	Critical Ratio
Fashion Involvement		H1	0.51	0.29	0.36	13.96 ⁺
Impulse Buying Behavior	Shopping Lifestyle	H2	0.70	0.48		21.81 ⁺
Impulse Buying Behavior	Fashion Involvement	H3	-0.00	0		0.00 ⁺
Fashion Involvement		H4	0.21	0.07		4.11 ⁺
Impulse Buying Behavior	Self Confidence	H5	-0.05	0.007	0.48	1.03 ⁺

**exceeds minimum acceptable level 0.015

**exceeds minimum acceptable level 1.96

All the constructs in this study have average variance explained (AVE) exceeded 0.50. Thus, the measures exhibited satisfactory convergent validity. More over, the *composite reliability* of the constructs were between 0.82 – 0.90. Hypotheses were tested using PLS based on the value of R², average variance extracted (AVE), regression weights and bootstrap critical ratios (t-values) and path variance. Table 2 shows that the cut-off point for the path coefficient is 0.015 (15%) of the variance and the bootstrap critical ratios for the path estimates should be greater than 1.96 as recommended by Ghazali (2008). Based on these results, the hypotheses 1, 2, and 4 were accepted and the hypotheses 3 and 5 were rejected.

CONCLUSIONS

Implications shopping lifestyle to fashion involvement

Based on the results of statistical calculations, it can be concluded that the construct shopping lifestyle significantly effected on the construct of fashion involvement. It can be seen from the value of T-statistic greater than 1.96, which is equal to 13,96. Thus, **hypothesis one (H1) in this study were accepted**. This suggests that a person who has a high shopping lifestyle tend to have a high fashion anyway. This phenomenon can occur because the suspected respondent (in this case Generation Y) tend liked to shop and spend their money to make purchases on fashion-oriented goods.

To stimulate consumer's shopping lifestyle on fashion product, the marketer can present products with the latest fashion products. Marketers can make a team to look for new ideas in create a trend, connections are connected and integrated with suppliers to share information on the products that will be sold as a fashion trend with good quality, and etc.

Implications lifestyle shopping on impulse buying behavior

Based on the results of statistical calculations, it can be concluded that the construct shopping lifestyle significantly effect on construct impulse buying behavior. It can be seen

from the value of T-statistic greater than 1.96, which is equal to 21,81. Thus, **hypothesis two (H2) in this study were accepted.** This suggests that a person who has a shopping lifestyle relatively high tend to spend more time in shopping centers and willing to make unplanned purchases than those who are not fond of shopping. This phenomenon can occur because the alleged activities of shopping for Generation Y, is no longer about fashion products to meet the needs, but rather to satisfy the pleasure and as a symbol of a particular image. The desire to shop is often encouraged them to buy goods that really are not needed and only based on interest in those goods through patterns and motif.

To stimulate consumer's shopping lifestyle in unplanned purchases on fashion products, the marketer can do it by modify the display at their store. Display is one form of business marketers to create a stimulus for shopping. The purpose of the display is to highlight the fashion trend or demonstrate how products should be used. The way to do that is to introduce color trends of the season by combine the products with a specific theme, put a writing special price or special offer in the store, and decorate the store which made it more interesting and dramatic as possible in order to represent the image of store and stuff in it.

Implications of self confidence to fashion involvement

Based on the results of statistical analysis, it can be concluded that the self confidence significantly effect on fashion involvement construct. It can be seen from the value of T-statistic greater than 1.96, which is equal to 4,11. Thus, **hypothesis four (H4) in this study were accepted.** It shows that the higher a person's self confidence, the higher involvement of knowledge about fashion and fashion it self. This phenomenon can occur because the alleged involvement of the media (television, internet, magazines, and others) which affects the way they dressed and a tendency to find out things in trend. Thus, in choosing fashion products, they tend to be influenced by self-esteem and subjective knowledge on products of fashion which they got from the media around them.

To stimulate consumer's self confidence in product fashion, the marketers can do this by providing comprehensive information and details about the latest fashion products. The way to do that is doing intensive sales promotion through advertising and publishing product catalogs to increase awareness of fashion products, especially on a product that in trend. With the promotion is expected to make consumers become more aware of the importance of fashion and more confident in their clothes.

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Cross-Cultural Adjustment among Foreign Expatriates of Oil and Gas Industry in Kuala Lumpur

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Abstract

The report stated 25% to 40% range of failed assignment (McCaughey and Bruning 2005) which cost organizations approximately one million dollars per expatriate (Shaffer and Harrison 1998; Shaffer, Harrison and Gilley, 1999). These issues most of the times come from the fact that expatriates are unable to familiarize themselves in the new environment they live in. Without effective adjustment, expatriates may perform poorly in foreign lands and end up reflecting badly on the image of their companies. The purpose of this study was to determine the significance factors that lead to cultural adjustment among foreign expatriates of oil and gas industry in Kuala Lumpur. The study will be conducted by using a survey

approach. Self-administered questionnaires were distributed to 70 foreign expatriates currently working in oil and gas industry in Kuala Lumpur using convenience sampling methods. The data was analyzed by using SPSS 22.0. Statistical test such as reliability analysis, correlation analysis and regressions were applied in this research. The finding indicated that social supports give the most influences to the level of cultural adjustment among foreign expatriates of oil and gas industry. The research also indicated spouse supports and cross-cultural training also give influences to the culture adjustment as well. Spouse supports have positive relationship towards the culture adjustment while cross-cultural training has negative relationship towards the culture adjustment. Social support in the host country was the most influenced predictor of cross-cultural adjustment that needs to highlight by multinational companies in order to minimize cost of expatriates failure.

Key Words: Expatriates, Cross-cultural Adjustment, Social Support

INTRODUCTION

Globalization of business has led to more employees being sent on foreign assignments than ever before with every indication that the use of expatriates will continue to expand in the future (Van der Bank & Rothmann, 2006). It has been estimated that more than 250,000 employees of US firms work on overseas assignments (Kraimer, Wayne and Jaworski, 2001) and 67% of companies reported an increase in the size of their expatriate population (GMAC Global Relocation Services, 2008). This means that there is also an increasing of global assignments. Because global assignments are important for both individuals' career growth and organizations' global success, having a systematic means to predict who will be most likely to succeed in these critical assignments is also increasing in importance. The need for multinational organizations to improve their ability to predict success on global assignments is compounded by the fact that many global assignments are not successful (Black, Gregersen, & Mendenhall, 1992). In order to advance on the expatriate adjustment and cross-cultural training, a research is needed to be conducted.

The inability of a manager to adjust, the inability of a spouse and children to adjust plus of other issues (Chew, 2004) is the main reason why expatriate failure occurs. Cross-cultural training has been described by most researchers as one of global human resource management's most crucial activities and the potential benefits of effective training have been widely acknowledged (Dowling & Welch, 2004). The purpose of this paper is to examine the most influenced factor that can contribute to the expatriate's adjustment. Malaysia was chosen as the research setting for an investigation of the factors that contribute to expatriate's adjustment for some reason. English is a language commonly used in Malaysian organization by both host-country nationals and foreigners. This facilitated conducting research in one language with all participants. Malaysia also has a large population of foreign executive from various countries. This provided the perspectives of a reasonable number of foreign participants from a variety of cultural backgrounds. There were many MNC company from many different industries located in Kuala Lumpur. But the study is only focused to the expatriates that worked for an Oil and Gas Industry. Finding of this result may help the MNC there to determine the most influential factor to their expatriate's adjustment.

Problem Statement

The report stated 25% to 40% range of failed assignment (McCaughey and Bruning 2005) which cost organizations approximately one million dollars per expatriate (Shaffer and

Harrison 1998; Shaffer, Harrison and Gilley 1999). These issues most of the times come from the fact that expatriates are unable to familiarize themselves in the new environment they live in. Without effective adjustment, expatriates may perform poorly in foreign lands and end up reflecting badly on the image of their companies. Past research has been fairly extensive in generating and testing factors that contribute to cross-cultural adjustment (Bhaskar-Shrinivas et al. 2005). The international movement of human resources has generated the development of research which targets the adjustment of expatriates in the foreign cultures. However, previous research have been developed, designed and conducted mostly for the needs of American expatriates who are preparing for international assignments. Information on preparing to go for Malaysian assignments was rare and needed. This study investigated foreign expatriates of oil and gas industry in Kuala Lumpur, Malaysia.

Malaysia is one of a developing country. Organizations consider the country as a major market place for business expansion. Thus, this has pushed the inflow of expatriates into the country. According to the Malaysian Immigration Department (2009), Malaysia had 32,647 foreign expatriates with the service sector employing about 22,018 of them. When global companies need to maintain their identity, they rely on expatriates (Tan & Mahoney, 2006). Expatriates ease the link of companies with other operations in nearby countries, improve the company's international knowledge and promote a clear understanding of international business (Selmer & Leung, 2002). Lee and Croker, 2006 conclude that expatriates execute a vital role for their organization such as managing, coordinating and sending information in between multinational and international businesses.

A failure of expatriate's adjustment can affect the company in terms of business opportunities that have been lost and bad reputation and believed that sending workers and their families for 3 years abroad can cost up to US\$1 million (Ramalu, Rose, Uli and Kumar, 2010). Alongside the company losing some good opportunities, the expatriates also get affected by the loss of self-esteem, self-confidence, and prestige among peers (Hechanova, Beehr and Christiansen, 2003).

A consequence of insufficient preparation is that it causes adjustment problems when the expatriate is not familiar with the host country's culture, and when the problems are not tackled in time, this might lead to failure of the foreign assignment (Hutchings, 2005). It may further be a lack of personality skills for the expatriate to understand the cross-cultural interactions, a lack of technical abilities for the work to be done, a lack of motivation for the foreign assignment, or the expatriate may have difficulties to understand and adapt to either the physical or the cultural differences in the environment (Littrell et al., 2006). All that things that contribute to the failing of expatriate in their international assignments can be solve with an effective cross-cultural adjustment.

As a result this perhaps will help organizations elaborate on things they should do prior to hiring expatriates who will eventually help them experience good jobs performance from their employees and avoid premature return which has become a problem.

Research Questions

RQ1: Is there any significances relationship between the family and spouse support and the cross-cultural adjustment?

RQ2: Is there any significances relationship between the social support and the cross-cultural adjustment?

RQ3: Is there any significances relationship between the cross-cultural training and the cross-cultural adjustment?

RQ4: Which variable contributes most in explaining how an expatriates form their cross-cultural adjustment?

Objectives of the Study

- To identify whether there is significant relationship between family and spouse support towards cross-cultural adjustment
- To identify whether there is significant relationship between social supports towards cross-cultural adjustment.
- To identify whether there is significant relationship between cross-cultural training towards cross-cultural adjustment.
- To identify the most influencing variables in forming an effective cross-cultural adjustment.

Scope of Study

This research is limiting itself only towards the expatriates that currently work in oil and gas industries located in Kuala Lumpur. This research is will focused on the factors that contribute to the expatriate's adjustment process. The respondent of this study will be picked randomly among the expatriates Kuala Lumpur. The total respondents that need to be collected for this research is totaled 70 persons as the researcher didn't have enough time to get more respondents for a given time.

Significances

Researcher

The significant of the study to the researcher is it allows better understanding besides provide more knowledge and information to the researcher as regard to the cross-cultural adjustment. The study edify researcher to learn the right way of conducting business research by giving exposure and experience to conduct the study. By highlighted certain elements that can be consider as significant factors contributing to the cross-cultural adjustment, it allow researcher to come out with strong and good recommendation for strategies improvement and enhancement.

Expatriates

This study will be very helpful for the expatriates to perform well for their organization and help them reduce some dissatisfaction in their job. This research will help the management to aware on the need of expatriates and help the management to provide something for their expatriate to perform in their work.

Multinational Corporations

Finding of this study might be used by the management of companies in order to improve their expatriation and to reduce down the number of expatriates' immature returns. In addition companies can improve their skill to manage the expatriates.

Limitations

Access to Confidential Data and Availability of Data

To finish this study, researcher needs much information from the company where the research conducted itself. Most of the documents and data are private and confidential thus made the researcher encountered some difficulties to access primary data. Most of this research information comes from secondary data sources. A secondary source only provides accuracy and availability of data that is fully depends on the published material.

LITERATURE REVIEW

Research Variables

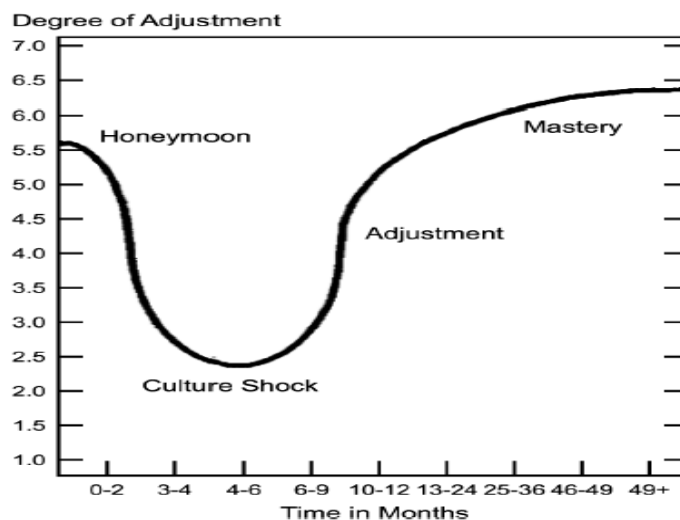
1 Cross-cultural Adjustment

Culture. Culture consists of patterns of behaviors that are acquired and transmitted by symbols overtime, which become generally shared within a group and are communicated to new members of the group in order to serve as a cognitive guide or blueprint for future actions (Black and Mendenhall: 1990). This means people from different culture have a different patterns of behavior, believe and perspective on how they view this world. Those differences caused cross-culture problems when a person from different culture interacting with other people from other culture. The problem might arise because of the failure in communication either the language or some sort of styles in delivering the message.

In general, degree of psychological comfort with various aspects of a host country is what is meant by cross-cultural adjustment (Black, 1988). Cross-cultural adjustment is defined as the process of adaptation to living and working in a foreign culture which perceived degree of psychological comfort and familiarity a person has with the new host culture (Black, 1991).

U-curve theory of adjustment. Early research on expatriate adjustment focused mostly on cross-cultural adjustment issues and scholars relied on the U-curve theory (UCT) of adjustment. To describe the cross-cultural adjustment process of expatriate employees or sojourners within a host culture, the UCT will be used to refer (Usunier, 1998). It includes discussions of four stages of adjustment. Refer to FIGURE 1.

FIGURE 1: STAGES OF ADJUSTMENT



Sources from: Usunier, J. (1998)

The honeymoon stage occurs during the first week after arrival at the host country. Individuals are fascinated by the new and different culture. When the newcomers start to cope with the real conditions on a daily basis, the second stage begins which is culture shock. This stage is characterized by frustration and hostility towards the host nation and its people. The third stage is the adjustment stage, in which the individual gradually adapts to the new norms and values of the host country and is able to act more appropriately than they were before. Finally, in the mastery stage, the individual is able to function effectively in the new culture. Many studies have found that the crucial problem for the expatriate is that adaptation to the unfamiliar culture than with their professional expertise (Aahad and Osman-Ghani 2000). Successful adaptation and cultural adjustment not only directly influence expatriates performance but also lead to corporate success in the international stage.

2 Family and Spouse Supports

Family supports refer to the cohesion or closeness that family members feel toward one another (Olson et al, 1984). The amount of emotional support family members give to one another is the behavioral result from this family cohesion. With a healthy level of family support, the family members have the ability to form healthy autonomous bonds with others outside of the family system while still feeling as though they are an integrated part of the family system (Minuchin, 1974). If the family is not supportive, they tend to ignore each other's needs and lead to dysfunctional, especially during stressful periods. And when the family is "too" supportive, it is supportive to the point of being stifling, and the family members tend to be overly influenced by each member's problems and concerns. This too can cause greater stress and reduce autonomy of the family members (Paula M Caligiuri, Mary Anne M. Hyland, and Aparna Joshi, 1998).

Family adaptability. According to Olson et al. 1984, the effectiveness of change in its rules of functioning as a result of the external stressor is used to indicate the adaptability of the family. Families need to adapt to the developmental changes of the family members and the extra familial pressures that influence the family (Paula M Caligiuri, Mary Anne M. Hyland, and Aparna Joshi, 1998). Family that functioning well is able to accommodate the changes while maintaining the family system continuity (Minchuin, 1974).

Family communication. Communication is the third factor that emerges as a predominant theme in the literature on family systems. An effective communication is the characteristic that enables the evolution of the other two attributes of family functioning (Olson et al. 1984). It refers to the ability to exchange opinions, respect differing opinions, establish decision-making rules, resolve conflicts, and so on. A healthy level of family communication will result in both effective support as well as adaptability. A positive attitude toward the global assignment can help the families spend less energy on their anxieties and more energy on positive coping behaviors that would lead to better adjustment (Feldman & Tompson 1993).

Spillover theory. This theory suggests that a working spouse's experiences will carry over into the home likewise, home experiences can influence a person's work life (Crouter, 1984). It states that the relationship between affective responses in one's work life and family life is reciprocal. Spillover occurs when workers carry their positive or negative emotions and attitudes from their work life into their home life (Kelly & Voydanoff 1985) and when they carry over emotions and attitudes from their home back to the work environment (Belsky, Perry Jenkins & Crouters, 1985). For these reason, the researcher believe the study of home to work in a global context is justified. A family adjustment is a mediator of the relationship between family characteristic and expatriates' adjustment to working in the host country (Paula M Caligiuri, Mary Anne M. Hyland, and Aparna Joshi, 1998).

3 Social Support

Social support. Gottfried (2000) defined social support more broadly as the "process of interaction in relationships which improves coping, esteem, belonging, and competence through actual or perceived exchanges of physical or psychosocial resources" with the key features of interaction, coping, esteem, belonging, competence and exchange. It is emphasis on communication by indicating that social support is an interactive process. Social support can lead to improvement in several areas of health and well being. Communication that helps people cope with a situation, makes them feel better about themselves by raising their sense of self-esteem, reaffirms their association or sense of belonging to a group or improves their ability or competence to perform needed task all are considered forms of social support. Communication that leads to these supportive outcomes occurs through an exchange of physical or psychological resources between at least two individuals.

While Schaefer, Coyne and Lazarus (1981) defined social support as emotional support, esteem support, network support, information support, tangible support. The *emotional support* is the communication that meets an individual's emotional or affective needs. The

esteem support is the communication that bolsters an individuals' self-esteem or beliefs in their ability to handle a problem or perform a needed task. *Network support* refers to communication that affirms individuals' belonging to a network or reminds them of support available from the network. While *information support* is a communication that provides useful or needed information and last is *tangible support* which is any physical assistance provided by other.

4 Cross-cultural Training

Cross-cultural Training or CCT. CCT has been defined in many different ways, but the definition to understand it in its entirety is that 'it is the educative processes used to improve intercultural learning via the development of the cognitive, affective and behavioral competencies needed for successful interactions in diverse cultures' (Littrell, 2006). Generally, CCT was focused on preparing employees for overseas assignments, its incorporation into multicultural training means that organizations are now using it to improve the cultural awareness of domestic employees with the hope that it would empower them to interact with individuals from diverse cultural backgrounds. Cross cultural training is designed to teach trainees both the content and skills that they need in order to effectively interact with culturally different others in cope with change. A cross cultural trained individual is less likely to be a victim of cross cultural misunderstanding or engaged inappropriate behaviors (Black and Mendenhall, 1991).

Due to the higher movement of international assignment, the issues that are associated with the management of human resources across international borders have become of increasing importance to international Human Resource Management (IHRM) managers and academics. An individuals and organizations need to be cross-culturally sensitive, adaptive and responsive when managing internationally if non-adjustment and expatriate failure is to be avoided.

Expatriates. An individuals who relocate from one country to the other for at least one year is called as expatriate (Littrell, 2006). Most expatriation trainings focus on long term expatriation as opposed to short term or extended business visits. The difference between expatriation and short term visits is intensity because during a short term visit, the individual is mentally aware that he or she is going back to the home country, and is aware that it does not require as much adjustment as long term expatriation (A. Eshter Joshua-Gojer, 2012). There is two types of CCT which is pre-departure training and after arrival training. Expatriates play central roles as controllers, coordinators and those who transfer knowledge within multinational and global firms. However, there is a lack of competent expatriates within companies (Suutari & Burch, 2001). Thus, training becomes an important way to promote the competence of expatriates.

Cross-cultural Adjustment versus Family and Spouse Support

Shaffer (1990) find spouse adjustment to be significantly positive to the related general adjustment. The fact that family plays an important role in expatriate adjustment is also supported by Bonsiep (2003) indicating that family adjustment is significantly positive related to work and interaction adjustment. Spouse is also found to be positively related with general adjustment in the studies of Black and Gregersen (1991).

Cross-cultural Adjustment versus Social Support

There were a past research on social support which has consistently shown that expatriates with higher level of social support can overcome the psychological distress associated with those aspects of working, living and interacting in the host country that are particularly difficult to adjust (Farh, 2010). Besides, Stroppa and Spier (2011), has determined that social support is an essential factor related to the context of assignment to a foreign country.

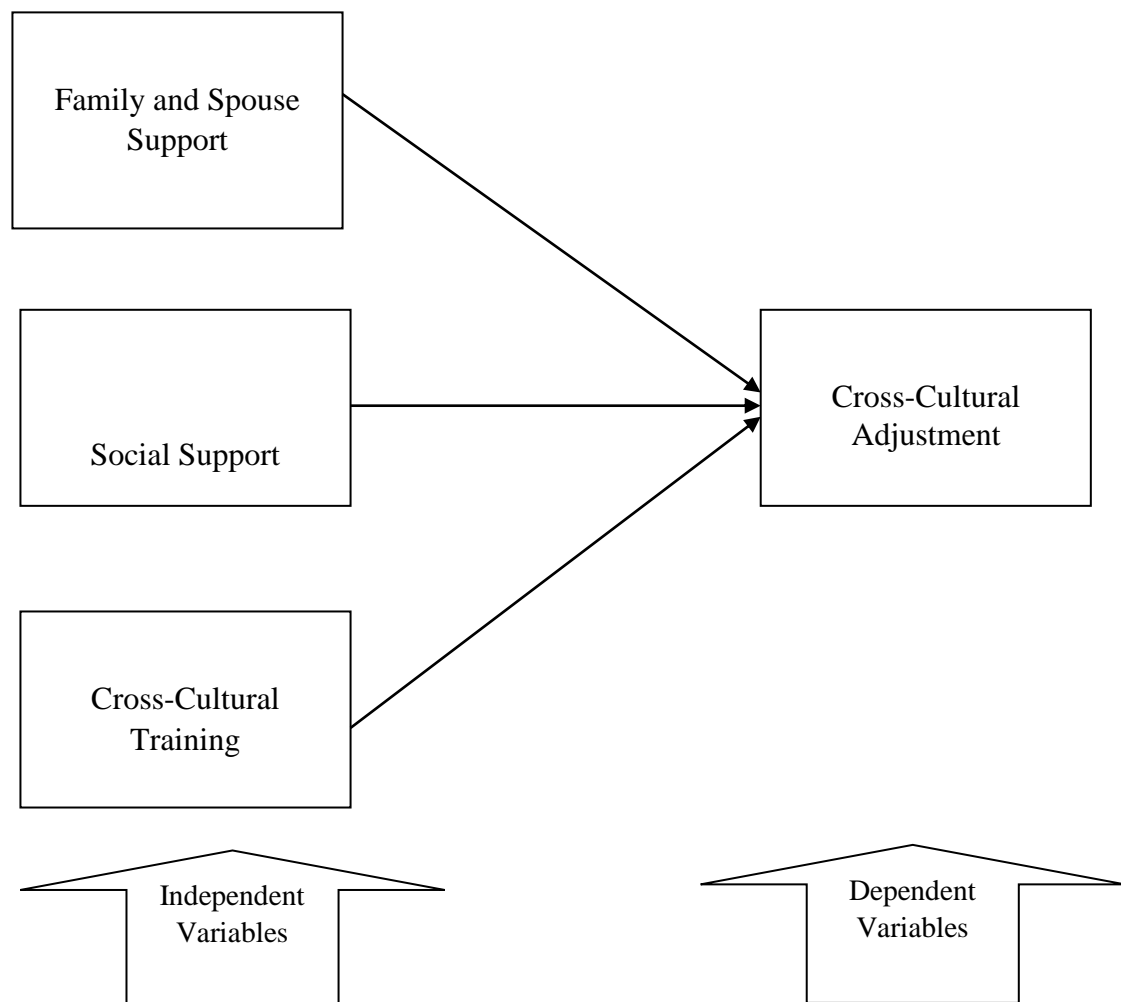
Kraimer and Wayne (2004), has composed social support into two sub-dimensions which is perceived organizational support and supervisor support. While Stroppa and Spier (2011),

classified social support into two components of co-worker and supervisor support. In 2007, Kupka and Cathro finds the social support literature suggests that support from multiple sources such as organizations, supervisors, and colleagues can promote an individual's work adjustment by reducing psychological distress in multi-cultural situations. Thus, these variables by Kupka and Cathro are also adopted for this study.

Cross-cultural Adjustment versus Cross-cultural Training

CCT is important for a host of reasons. Black and Mendenhall (1990) wrote a review of previous studies done about the effectiveness of CCT. Their first finding supported their main argument that training gives an expatriate the ability to more easily adjust to a new culture and as a result of that, be able to perform better. And many studies had been conducted has a same result stating CCT helps expatriate's adjustment.

FIGURE 2: THEORETICAL FRAMEWORK



Hypothesis

H₀: There is no significance relationship between family and spouse support with cross-cultural adjustment.

H₁: There is a significance relationship between family and spouse support with cross-cultural adjustment.

H₀: There is no significance relationship between social support and cross-cultural adjustment.
 H₁: There is a significance relationship between social support and cross-cultural adjustment.

H₀: There is no significance relationship between cross-cultural training and cross-cultural adjustment.
 H₁: There is a significance relationship between cross-cultural training and cross-cultural adjustment.

METHODOLOGY

Sampling Frame

For this research, in order to select a sampling frame, the sampling frame that being used in this study is engineer, geologist and managers in oil and gas industry that located in Kuala Lumpur. The samples were selected randomly among them.

Sampling Technique

The researcher use non-probability sampling technique which is named as a convenience sampling. It is being drawn from part of population which is close to hand. The sample population selected because it is readily available and convenient. The researcher using such a sample cannot scientifically make generalizations about the total population of foreign expatriates in Kuala Lumpur because it might be not representative enough.

Sampling Size

In summary, the samples in this research are considered to be sufficient in size to represent and generalize to the research population with an acceptable level of confidence. In multivariate research, including multiple regression analysis, the sample size should be several times as large as the number in variables in the study. The appropriate sample size for this study is 70 respondents which comprised people work in oil and gas industry in Kuala Lumpur.

Research Instrument

The researcher used the questionnaire as the major instrument to collect the data from respondents. The questionnaire made is consists of five sections:

TABLE 1: QUESTIONNAIRE'S SECTIONS

Section A	Demographic Profile
Section B	Cross-cultural Adjustment
Section C	Family Support
Section D	Social Support
Section E	Cross-cultural Training

Section A is consisting of 6 questions, Section B is consisting of 5 Questions and Section C, D, E is consisting of 5 questions that are related with the factor that contribute to an expatriate's adjustment. Certain proper scaling technique was used to make the information gathering more significant and reliable. For this research, a few measurements were used in the questionnaire design.

Nominal Scale (Multiple Choices)

This scale was used in Section A, where the respondents need to tick the right that suits them the most. Table below are the example of the question.

TABLE 2: Nominal Scale

Male	
Female	√

Likert Scale

In Section B until Section D, Likert Scale of five-point interval was used. The Likert Scales was designed to examine how strongly respondents agree or disagree with the statements on a five-point scale. The questionnaire would end with an expression of sincere gratitude from the researcher to the respondents.

Example:

TABLE 3: Point of Scale

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Data Collection Method

Primary Data

The primary data can be used to gather the information by asking the respondents about the factor that can contribute an expatriate's adjustment. Method can be used such as surveying by having an interview or conversation with the readers in order to obtain the information. The advantage of using questionnaire is the researcher can collect all the complete responses within a short period of time and easy face-to-face respondent and also can be distribute the questionnaire via email by using Internet.

Online Journal

Besides that data mostly is gathered from the Emerald Insight and ezaccess.library.uitm.edu.my website. It is to find the online journal that relate with the topic. It is written by various authors and provides much information to support the study. It might be useful to support some facts or information gathered from other sources. Online searches of information via the internet search engines such as Google and Yahoo are also being assessed to get the instant and updated data also being used as sources of information.

Internet

It is an effective tool in order to search lots of information. One of the benefits of Internet is all information provided is worldwide. Servers that can be used are Emerald Insight, Yahoo Search engine and Google Search engine.

Data Analysis

The study used Statistical Package for Social Science (SPSS) for the analysis data captured. The data gathered through this analysis are illustrated in the form of tables and bar charts for easy reference and understanding. Besides that, it also can get the number of respondents associated with different values of the variables and to express in percentage term. Furthermore, the researcher used Descriptive Analysis for this research. This method is divided into two types of analysis which is reliability test, frequency distribution, correlation coefficient, and descriptive statistic.

FINDING

Reliability Test

According to William Zikmund (2000), when the Cronbach's Alpha is $0.8 < \alpha < 0.9$ it means the data obtained from study is considered as very good. Thus, all questions for this study are acceptable.

TABLE 4: Reliability Statistic: Dependent And Independent

Cronbach's Alpha	Number of Items
.875	20

TABLE 5: Reliability Statistic: Cross-Culture Adjustment(Dependent Variable)

Cronbach's Alpha	Number of Items
0.862	5

The Cronbach's Alpha for the dependent variable is .862. It is within the rank of $0.8 < \alpha < 0.9$ which means the data obtained from study is considered very good. All 5 questions for this dependent variable are reliable.

TABLE 6: Reliability Statistic: Family And Spouse Support (Independent Variable)

Cronbach's Alpha	Number of Items
0.645	5

The Cronbach's Alpha for this independent variable is .654 which is considered moderate. Although it is considered moderate but the questionnaire is still acceptable to be used.

Reliability Statistic – Social Support (Independent Variable)

TABLE 7: Reliability Statistic: Social Support (Independent Variable)

Cronbach's Alpha	Number of Items
0.748	5

The Cronbach's Alpha for this independent variable is .748 which is considered in the rank of $.7 < .8$ and considered good. That's mean that the questionnaire is reliable.

Reliability Statistic – Cross-cultural Training (Independent Variable)

TABLE 8: Reliability Statistic: Cross-cultural Training (Independent Variable)

Cronbach's Alpha	Number of Items
0.695	5

The Cronbach's Alpha for the dependent variable is .695. It is within the rank of $.6 < .7$ which means that the data obtained from study is considered moderate. All 5 questions for this dependent variable is still acceptable.

Cronbach's alpha reliability coefficients of all variables tested were all above 0.6. Therefore, this shows that there is inter-item consistency reliability among the variables analyzed.

Frequency Distribution

The findings are derived from 70 sets of questionnaires that are distributed randomly among the foreign expatriates that worked in Oil and Gas Company in Kuala Lumpur. This analysis described the demographic variables of the respondents.

Demographic Profile

TABLE 9: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	56	80.0	80.0	80.0
Female	14	20.0	20.0	100.0
Total	70	100.0	100.0	

The table 4.7 indicates the gender of respondents who answered the questionnaire. Based on the data gathered, there are 59 male respondents and 11 female respondents which is 80.0% and 20.0% respectively. As conclusion, the respondents mostly are a male.

TABLE 10: Marital Status

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Single	32	45.7	45.7	45.7
Married	24	34.3	34.3	80.0
Divorced	14	20.0	20.0	100.0
Total	70	100.0	100.0	

The TABLE 10 indicates the marital status of respondents of these studies. Based on the table, there is 32 respondents are single, 24 respondents married and the rest already divorced means that 45.7% of respondents are single, 34.3% married and 20.0% already divorced. As a conclusion, most of the respondents are single respondents.

TABLE 11: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-30	2	2.9	2.9	2.9
31-40	41	58.6	58.6	61.4
41-50	22	31.4	31.4	92.9
>50	5	7.1	7.1	100.0
	70	100.0	100.0	

The TABLE 11 indicates the age of the respondents that answering the questionnaire. The table shows that there are only 2 respondents that are age between 20 to 30 years which means 2.9% of the total respondents. 41 persons or 58.6% of respondents are between 31 to 40 years, 22 persons or 31.4% between 41 to 50 years and 5 persons or 7.1% are above 50 years. Therefore, most of the respondents are between 31 to 40 years.

TABLE 12: Region of Origin

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid European	15	21.4	21.4	21.4
Asian	17	24.3	24.3	45.7
North American	8	11.4	11.4	57.1
South American	14	20.0	20.0	77.1
Australian	16	22.9	22.9	100.0
Total	70	100.0	100.0	

TABLE 12 indicates the region of origin of the respondents. It states that there are 15 respondents comes from region of Europe, 17 respondents are from Asia region, 8 from North America, 14 respondents from South America and 16 respondents are from Australia. The highest is from Asian region which is 24.3% of the overall respondents and the lowest is 11.4% which comes from North America.

TABLE 13: Education Level

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	15	21.4	21.4	21.4
Bachelor Degree	50	71.4	71.4	92.9
Master Degree	5	7.1	7.1	100.0
Total	70	100.0	100.0	

TABLE 13 indicates the education level of the respondents of these studies. The table shows there are 15 respondents that are holding Diploma which is 21.3% of the total respondents, 50 persons or 71.4% of respondents holding Bachelor Degree and 5 respondent holding Master Degree which is 7.1%. From that, we can see most of the respondents are holding Bachelor Degree.

TABLE 14: Correlation Statistic

** . Correlation is significant at 0.01 level (2-tailed).

Variables		DV	IV1	IV2	IV3
Cross-cultural Adjustment	DV Pearson Correlation	1			
	Sig. (2-tailed)				
	N	70			
Family and Spouse Support	IV1 Pearson Correlation	.364**	1		
	Sig. (2-tailed)	.002			
	N	70	70		
Social Support	IV2 Pearson Correlation	.772**	.377**	1	
	Sig. (2-tailed)	.000	.001		
	N	70	70	70	
Cross-cultural Training	IV3 Pearson Correlation	.334**	.447**	.557**	1
	Sig. (2-tailed)	.005	.000	.000	
	N	70	70	70	70

The intercorrelations among the study variables are shown in TABLE 14. This table is measure using Pearson Correlation matrix. A Pearson correlation matrix will indicate the direction, strength, and significance of the bivariate relationships among all the variables that were measured at an interval or ratio level. The correlation is derived by assessing the variations in one variable as another variable also varies.

Family and Spouse Support

First independent variable which is family and spouse support, the result of Pearson correlation test showed that there is a moderate relationship ($r=0.364$, $p<0.01$) between family and spouse and cross-culture adjustment. P-value is very significant and it shows that there is an empirical evidence to suggest that there is a relationship between family and spouse supports and cross-culture adjustment, hence family and spouse supports have an impact towards expatriate's cross-culture adjustment. Therefore, the two variables are related.

Social Supports

Second independent variable which is social support, the result of Pearson correlation test showed that there is a Moderate Relationship ($r=0.772$, $p<0.01$) between social and cross-culture adjustment. P-value is very significant and it shows that there is an empirical evidence to suggest that there is a relationship between social supports and cross-culture adjustment, hence social supports have an impact towards expatriate's cross-culture adjustment. Therefore, the two variables are related.

Cross-cultural Training

Third independent variable which is cross-cultural training, the result of Pearson correlation test showed that there is a moderate relationship ($r=0.334$, $p<0.01$) between cross-cultural training and cross-culture adjustment. P-value is very significant and it shows that there is an empirical evidence to suggest that there is a relationship between cross-cultural training and cross-culture adjustment, hence cross-cultural training have an impact towards expatriate's cross-culture adjustment. Therefore, the two variables are related.

Descriptive Analysis

This research will be emphasize on descriptive analysis in which to find research objective on which culture could give dominant impact to the performance management. It is based on likert scale, where 1 is strongly disagree until 5 that is strongly agree.

TABLE 15: Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
DV	70	2.20	5.00	4.0571	.62242
IV1	70	2.00	5.00	3.4829	.61053
IV2	70	1.20	5.00	3.8114	.74979
IV3	70	1.20	4.80	3.2371	.69139
Valid N (listwise)	70				

Based on Table above, the mean on all variables are observed as somewhat enriched. The maximum of 5 indicates that some are highly agree with all variable cross-cultural adjustment, family and spouse support, social support and cross. The values for minimum that ranged from 1.20 to 2.00 indicate that some were rather low on the study variables. TABLE 15 shows the ranking of factor of descriptive statistics which indicated the most

influence factors to the cross-cultural adjustment among foreign expatriate in Kuala Lumpur. The factor that influenced the most towards cross-cultural adjustment is social supports. This is because it has the highest mean which is 3.8114. Therefore, social support is the most influence factor that gives impact towards cross-culture adjustment among foreign expatriates in Kuala Lumpur which worked in oil and gas industry.

Regression Analysis

TABLE 16: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.790*	.625	.608	.38993

a. Predictors: (Constan), CrossCulturalTraining, FamilyandSpouseSupport, SocialSupport

b. Dependent Variable: Cross Cultural Adjustment

Regression analysis was conducted to establish the contribution of family and spouse supports, social supports and cross-cultural training (independent variables) to foreign expatriates of Oil and Gas Industry adjustment's in Kuala Lumpur. According to the results in TABLE 16, family and spouse supports, social supports and cross-cultural training accounted for 62% (R Square = 0.625) of the variation in foreign expatriates of oil and gas industry adjustment's. The results also indicate that an estimation of foreign expatriates of oil and gas industry adjustments can only be wrong by 0.39%.

Table 17: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	16.696	3	5.565	36.604	.000 ^b
Residual	10.035	66	.152		
Total	26.731	69			

a. Predictors: (Constan), Cross Cultural Training, Family and SpouseSupport, SocialSupport

b. Dependent Varialbe: CrossCulturalAdjustment

ANOVA test (TABLE 17) revealed an F-value of 36.604 and P-value of 0.00. Since P-value is far much less than the alpha level 0.05, it implies that independent variables, contributed significantly to variation in the dependent variable.

TABLE 18: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.505	.313		4.799	.000
FamilyandSpouseSupport	.140	.087	.137	1.600	.114
SocialSupport	.685	.077	.825	8.946	.000
CrossCulturalTraining	-.168	.086	-.186	-1.951	.055

a. Dependent Variable: CrossCulturalAdjustment

Family and Spouse Supports

Objective 1: To identify whether there is significant relationship between family and spouse support toward cross-cultural adjustment.

H₀: There is no significance relationship between family and spouse support with cross-cultural adjustment.

H₁: There is a significance relationship between family and spouse support with cross-cultural adjustment.

Based on TABLE 18, the coefficient for family and spouse supports is 0.137 which means the variables has positive relationship. So for every 1 unit of standard deviation change in family and spouse supports is expected to result in a 0.137 unit of standard deviation change in cross-cultural adjustment is predicted, holding all other variables constant. The coefficient for family and spouse supports (0.137) is not significantly related to cross cultural adjustment because its p-value is 0.114, which is larger than 0.05. Hence, for Objective 1, reject H₁ and accept H₀.

Social Support

Objective 2: To identify whether there is significant relationship between social supports toward cross-cultural adjustment.

H₀: There is no significance relationship between social supports with cross-cultural adjustment.

H₁: There is a significance relationship between social supports with cross-cultural adjustment.

Based on TABLE 18, the coefficient for social supports is 0.825 which mean the variables have positive relationship. So for every 1 unit of standard deviation change in social supports is expected to result in 0.825 standard deviation changes in cross-cultural adjustment are predicted, holding all other variables constant. The coefficient for social supports (0.825) is significantly related to cross-cultural adjustment because its p-value is 0.000, which is smaller than 0.05. Hence, for Objective 2, reject H₀ and accept H₁.

Cross-cultural Training

Objective 3: To identify whether there is significant relationship between cross-cultural training toward cross-cultural adjustment.

H₀: There is no significance relationship between cross-cultural training with cross-cultural adjustment.

H₁: There is a significance relationship between cross-cultural training with cross-cultural adjustment.

Based on TABLE 18, the coefficient for cross-cultural training is -0.186 which mean the variables have negative relationship. So for every 1 unit standard deviation change in cross-cultural training is expected to result in -0.186 standard deviation changes in cross-cultural adjustment, holding all other variables constant. The coefficient for cross-cultural training (-0.186) is not significantly related to cross-cultural adjustment because its p-value is 0.055, which is larger than 0.05. Hence, for Objective 3, reject H₁ and accept H₀.

There are more than one analyses were done in this chapter to test the hypotheses. The researcher is using SPSS to analyses and interprets the data. The first analysis was frequency analysis of the demographics gender, marital status, and age, region of origin, religion and educational level.

The result of the frequencies analysis show that there are 80% of male respondent and 20% of female respondent which means male is more than female respondents. The respondents are majority still single which hold 45.7% followed married respondents 34.3% and divorced respondent 20%. Next analysis is calculated by the age of the respondents, 2.9% of respondents in the range of age 20 – 30 years old which is the lowest one and 31- 40 years old 58.6% hold the highest percentage of total respondents. This research have a highest respondents that is come from Asian region which hold 24.3%, Australia region 22.9%, Europe region 21.4%, South American 20.0% and the lowest is North American which hold only 11.4%. Half of the respondents are Christian follower and the other half includes Hindu, Buddhist, Muslim and other religion. And lastly 71.4% of the respondents are Bachelor Degree holder followed by 21.4% of Diploma holder and 7.1% Master Degree holder.

Intercorrelation and means for all the independent and dependent variables used in this study are presented in TABLE 14 and TABLE 15. Alpha reliabilities for the scale variables are shown in parentheses along the diagonal. As table of correlation reflects, each dependent variable (family and spouse supports, social supports and cross-cultural training) was significantly related to the independent variables (cross-cultural adjustment).

Specifically, family and spouse support was significantly related to cross-cultural adjustment ($r = .364, p < 0.01$), social supports was significantly related to cross-cultural adjustment ($r = .772, p = < 0.01$), and cross-cultural training was significantly related to cross-cultural adjustment ($r = .334, p < 0.01$). The results of the correlation analysis provide preliminary support for the hypothesized relations in this study.

Multiple regression analyses were conducted to test the relationships between the family and spouse supports, social supports and cross-cultural training and foreign expatriate of Oil and Gas Industry adjustments. The result shows that, the coefficient for family and spouse supports (0.137) is not significantly related to cross-cultural adjustment because its p-value is 0.114, The coefficient for social supports (0.825) is significantly related to cross-cultural adjustment because its p-value is 0.000 and the coefficient for cross-cultural training (-0.186) is not significantly related to cross-cultural adjustment because its p-value is 0.055, Hence, Hypothesis H₁ is accepted for the social support and null hypothesis is rejected in the research

objective 2, that proposed that there is a significance relationship between social supports with cross-cultural adjustment, .was supported.

CONCLUSION

In summary, this research finds that social supports are the strongest variable of foreign expatriate in the study sample. These results were exemplified in the Pearson's correlation coefficient. It provides additional evidence to suggest that social supports explain the most contributing factor that influence in foreign expatriates of Oil and Gas adjustment in Kuala Lumpur with the highest coefficient which is 0.825. Further, it replicates and confirms J. Palthe (2004) point regarding cross-culture adjustment. Social supports are one of the predicted outcomes of cross-cultural adjustment. The other finding is followed by family and spouse supports and cross- cultural training. This study reveals that a social support in the host country is the most influenced predictor of cross-cultural adjustment. The result ($r=.772$, $p<0.01$) is consistent to J. Palthe (2004) study ($r=0.77$, $p<0.05$). These results were exemplified by the Pearson correlation coefficient. This is an important finding, in that it illuminates the strategic influence of host site socialization intervention, including social get-togethers and informal networking with host nationals, in expatriates' adjustment abroad. It confirms Kraimer et al.'s (2001) previous propositions of cross-cultural adjustment where previous studies have argued that social support (i.e. supervisor support and perceived organizational support) may play a prominent role in enhancing expatriate adjustment and performance (Kraimer et al., 2001; Lee, 2010). While there is still much to be learned about cross-cultural adjustment, this research makes several contributions. First, this study highlights the importance of social supports in cross-cultural adjustment and the importance of family and spouse supports also the cross-cultural training in expatriate of Oil and Gas Industry adjustment in Kuala Lumpur, Malaysia. It also investigated the effect of social supports on expatriates' adjustment. Second, it served to delineate the relative importance of each of these variables on each aspect of cross-cultural adjustment. However, this study shows that cross-cultural training is not significantly related to cross-cultural adjustment because its p-value is 0.055, which is larger than 0.05. This study presented some preliminary evidence that the effectiveness of cross-cultural training on expatriate managers' adjustment may not be contingent on the specific circumstances and the culture of the foreign assignment.

Recommendations

Family and Spouse Support

Given the strength of the finding that spouse–family adjustment plays such a crucial role in expatriate interaction and general adjustment, global corporations should continue to develop human resource strategies, policies and practices that support expatriate family adjustment. For example, as suggested by Black and Stevens (1989), spouses and other family members should be included in cross cultural training offered by the organization. Multinational corporations could sponsor and develop family support programs that assist the expatriate's family both prior to and during the assignment in the host country. Moreover, as Pellico and Stroh (1997) suggest, spousal assistance programs, including proactive assistance with job searches and placements, should be an integral component of the international assignment.

Social Supports

The result show the most influential factor contributing to the cross-cultural adjustment is social supports which mean organization should more focused on the socialization of their expatriates. Organizations are recommended to provide more assignment that can helpful in creating a feeling of togetherness among the expatriates and local employees so that the relationship among them are much easier to bond. That will automatically help the socialization level of expatriates in the organization.

Suggestions for Future Research

Test on Different Samples or from Different Industry

The respondents for this research are only from Oil and Gas Industry. The survey failed to be generalized to all expatriates in Kuala Lumpur since it only focused on one industry and there are many other industry in Kuala Lumpur which having an expatriates in their operation. More resources and efforts could be applied to safeguard larger samples of respondents, thus potentially resulting in better statistical data. Since our data were collected from Kuala Lumpur, there may be some concern as to the generalizability of our findings to other expatriates working in other cities in Malaysia.

Test on other Independent Variables

Given the strength of the relationship that was found between social supports at the host company and each facet of adjustment, it would be valuable if researchers were to further explore the role that the host company plays in fostering an environment that enhances adjustment. Future research could, for example, explore the role of host company communication networks and peer support in enhancing expatriate adjustment abroad. Other than that, future research could also add more independent variable such as job satisfaction, learning orientation, distance of country of origin and other factor that can contribute to the cross-culture adjustment.

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External Factors Affecting Indonesians for Islamic Spiritual Tourism: A Conceptual Model

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Abstract

Currently there has been a rise in tourism linked to religious and spiritual motives. This rise is recognized by tourism operators but the literature and research on this topic is limited. Similarly, Muslims traveling for Islamic spiritual tourism is being recognized as the most popular niche in today's tourism. The research on this Islamic spiritual tourism is still in its infancy stage. The number of Muslims going for Hajj and Umrah as their spiritual tourism has triggered demarking now, but still the research conducted on the factors influencing this rise in Islamic spiritual tourism is limited. Indonesia with the highest Muslim population and the most Muslim spiritual tourists identifies a significant target population to be studied to identify the influencing factors. The uncontrollable or external factors influencing Islamic spiritual tourism for Indonesians is the aim of this conceptual paper. The literature on Indonesians Muslims travelling for spiritual journeys within their country or overseas was studied in this research. Hence, this conceptual paper presents a research model which aims to explore external factors that motivate Indonesians who travel for Islamic spiritual tourism. The model comprises of three external factors, namely health risk, terrorism activities and political unrest. Relationships between these external factors and the research propositions are discussed. Research implications of the conceptual model are also highlighted in this paper. In the future, these factors will be empirically tested.

Keywords: Islam, tourism, external factors, spiritual journey, Indonesia.

INTRODUCTION

The market and marketing trends of this century have observed the emergence of global Muslim consumerism and their strong buying power. The rise of the Muslim markets and buying power can be credited to the modernisation of oil rich Arabian states, growing affluent Muslims in Western countries, impact of democratic regimes in various Muslim countries and above all the rise of Islamic spirit and spirituality. Historically, the term 'Islamic' has been understood to express religious, autocratic, rigid, political, and violent aspects, but recently it has been associated with various business and marketing practices (Alserhan, 2010; Zamani- Farahani & Henderson, 2010; Al-Hamarneh & Steiner, 2004; Shakry, 2001). Shakry (2001) expressed 'Islamic' in the marketing context as linked to the revival of Islamic values, financially beneficial for Muslims, and enhancing the confidence and identity of Muslims around the world.

A global study conducted by Pew Global Organisation (2005) found that majority of Muslims were more proud to be Muslims rather than citizens of their respective countries. The terrorist attacks of 9-11 in New York and the following wars on terror are regularly identified as the driving factors behind such shifts in the Islamic world (Al-Hamarneh & Steiner, 2004; Scott & Jafari, 2010). This re-awareness of the Islamic values and spirituality is clearly reflected in the Muslim buying patterns and consumerism across the world (Alserhan, 2010; Haq & Wong, 2011; Battour, Ismail, & Battor, 2010). Hence, today many business organisations and their businesses are adapting the Islamic label or links as key features of their business operations and corporate cultures (Temporal, 2011). The remarkable growth of Islamic Banking and Finance is an evident case of the growth and stretch strategy implemented by various banks around the world. The international tourism industry has also appreciated the Islamic and Muslim market and customers, and hence recently Islamic Tourism was adopted as a new tourism segment (Tajzadeh, 2013; Bhuiyan, Siwar, Ismail, & Islam, 2011).

Today's Indonesia is moving well towards the high growth rate as well as economic and social development as supported by all figures and statistics. The regular presidential elections being held in Indonesia, specifically the latest one in July 2014 indicate credible democratic reforms and progress in the country. A fair study of any market or business indicators will testify the significance of Indonesia as a future global leader in business, economics, politics and social infrastructure (Fealy, 2008). The road for success to reach such goals of this global attainment for Indonesia, clearly has a strong connection with the influence of Islam in daily lives of Indonesians that is highlighted in all areas including tourism. This paper is a natural extension of a previous study conducted on the factors motivating Islamic Spiritual Tourism in Indonesians. The previous study explored personal factors motivating Indonesians, but the current paper attempts to identify external and uncontrollable factors that could be managed better if not overcome by the public and private tourism operators of Indonesia.

LITERATURE REVIEW

1. Islamic Spiritual Tourism

The recent economic growth experienced by many Muslim countries triggered the global awareness and rise in Islamic Banking and Finance. This global awareness of Islamic trade and marketing opened the doors of interest in other Islamic products and

services where the emergence of Islamic tourism is realised (Tajzadeh, 2013). This realisation of Islamic tourism appeals towards an urgent need to study tourism behaviour of Islamic spiritual tourists. Islamic tourism has recently being recognised in the research and business sectors as tourism related to Muslims and non-Muslims travelling to learn Islam, its spirituality, history, culture and heritage (Bhuiyan et al., 2011). The term Islamic spiritual tourism may sound new, but the practice is as old as the religion (Haq & Jackson, 2009). The meaning of spiritual tourism is vital in order to conceptualise Islamic spiritual tourism.

The literature concerning to the areas of religious tourism, Islamic tourism and spiritual tourism was called upon to pin point the meaning of Islamic spiritual tourism and its practice in this study. In this paper the focus was on literature incorporating theoretical discussions about pilgrimage, Hajj, Umrah, rihla, ziyara and halal tourism. While religion has always motivated spiritual tourism, the literature on religious tourism, for the main part, has been descriptive. Religious tourists and people visiting holy destinations in specific geographical areas, pilgrimage to shrines, religious tourist attractions and festivals with religious associations have all been the subject of the descriptive literature. Recognition of the growing significance of Islamic spiritual tourism and its acceptance in academic circles can be supported by referring to the recent propagation of conferences and special publications for Islamic Marketing, business and tourism.

As mentioned that many business entities around the world are adopting the Islamic or halal element in their products and services (Haq, 2014; Wilson, 2012; Alserhan, 2010; Temporal, 2011). The tourism operators are also targeting Muslim consumers and buyers by offering Islamised services (Tajzadeh, 2013; Zamani-Farahani & Henderson, 2010). Scott and Jafari (2010) agreed about the growing success of Islamic and halal tourism in satisfying many Muslim consumers in different countries. Islamic tourism is also accepted to be a successful and sustainable product based on the global economic growth of Muslim consumerism (Haq & Wong, 2011; Temporal, 2011).

Spiritual tourism has recently been recognised as a type of special interest tourism though people have been practising it long before tourism was recognised as a separate activity. Although spiritual tourism is in an evolving stage, the current literature provides a definition of a spiritual tourist that can be adopted in this research project; ‘someone who visits a specific place out of his/her usual environment, with the intention of spiritual meaning and/or growth, without overt religious compulsion, which could be religious, non-religious, sacred or experiential in nature, but within a Divine context, regardless of the main reason for travelling’ (Haq & Jackson, 2009, p. 145). This definition covers tourists who visit sacred places and events seeking the Divine presence, even without classifying themselves as followers of a religion.

The above given definition of a spiritual tourist could be used to identify a Muslim spiritual tourist as someone who travels for his or her spiritual development by seeking closeness with Allah. For example, Hajj is compulsory for a Muslim who is capable of travelling, but many Muslims who experienced Hajj or Umrah indicated that their intention was not to fulfil a religious obligation but to seek proximity to Allah, thereby identifying them as Muslim spiritual tourists. This definition lays a foundation for this study to explore the factors affecting buying behaviour of Muslim spiritual tourists in Indonesia. Muslims are recognised as the most rapidly growing religious group in the world and Indonesia enjoys the position of the country with most number of Muslims. Haq (2014) suggested from his research that the extension of the Islamic and halal tourism product that is the Islamic spiritual tourism.

Among other religious observations, Muslims constitute the largest global spiritual tourism market, which includes the pilgrimage to Makkah known as Hajj and Umrah. Muslim spiritual tourists from Indonesia again have the largest number of visitors for Hajj and Umrah every year. Spiritual journeys and tourism in Islam could be divided into three types that are the Hajj/Umrah, Rihla or Ziyara (Haq & Wong, 2010; Bhardwaj, 1998; Kessler, 1992). Hajj is the essential, if viable, visit for all Muslims to the holy city of Makkah, while a Muslim can go for a spiritual trip of Umrah anytime during the year, but he/she can perform Hajj only during the specified days of the month of Hajj, Zul-Hajj (Haq & Jackson, 2009; Clingingsmith, Kwaja, & Kremer, 2008). A Muslim's spiritual journey in search of knowledge, commerce, health or research has been defined as the Rihla (Kessler, 1992). The spiritual journeys of Muslims visiting the mausoleums, mosques or monasteries belonging to spiritual Muslims of the past are called Ziyara (Timothy & Iverson, 2006; Bhardwaj, 1998; Kessler, 1992). The Ziyara further branches out into two categories of spiritual travels. First are the journeys to meet Islamic religious and spiritual scholars, to attend Islamic festivals, events, seminars or gatherings, or to follow in the footsteps of the prophets, Sufis and spiritual celebrities (Bhardwaj, 1998). Second are journeys to holy places in search of spirituality to improve their quality of life (Timothy & Iverson, 2006; Bhardwaj, 1998).

In this study, any Muslim from Indonesia, travelling for any of the above three types of Islamic travels will be considered as an Islamic spiritual tourist. The research purpose of this paper is to identify external and uncontrollable factors that could be managed more effectively for the growth of Islamic Spiritual Tourism by the public and private tourism operators of Indonesia.

2. Indonesian Islamic Spiritual Tourism - Umrah

In spaces of global marketing, merchandising and business, the Indonesian tourism industry outshines many counterparts. The tourism in Indonesia has always proved to be an economic and financial and sometimes social lifeline for the people of this country in all times. Indonesia accommodates the largest Muslim population in the world and a high majority of Muslims adopt Islamic code and standards in their daily lives (Fealy, 2008). Indonesia enjoys a diversity of geographic, cultural, historical and topographic resources that offer several Muslim spiritual tourists with different tastes and preferences. This paper highlights these external and uncontrollable factors that affect Islamic spiritual tourism for Indonesians.

The Saudi Government each year awards a high quota for Hajj for Indonesians (Priyambodo, 2011). However, the hopeful Hajj pilgrims from Indonesia have to wait on the waiting list for more than 10 years before going to Mecca for Hajj. This fact indicates the major difficulty for Muslims in Indonesia to perform Hajj and results in a high number of people going for Umrah (Fealey, 2008; Kusumastuti, 2008). As an outcome, the demand for Umrah is increasing since it is like a mini Hajj that can be undertaken at any time of the year. Moreover, this is also a lucrative source of revenue for tour operators (Fealey, 2008). Other reasons for the popularity to perform Umrah among Indonesians are to use Mecca as a place to get married, a place for a honeymoon, to seek a place for peacefulness, and for some out-shoppers it is as a shopping place (Kusumastuti, 2008).

Budiman and Haq (2012) presented a conceptual framework regarding the motivation of tourists for destination selection based on their research study on

Indonesian Muslim spiritual tourists. The three motivation factors for Indonesian Muslim spiritual tourists were: firstly, the strength of the Islamic belief of the individual tourist, secondly, the urge for Islamic spiritual learning and education from the trip, and thirdly, the personal inspiration to travel to Islamic places and events (Budiman & Haq, 2012). The research conducted in the current paper gets its inspiration and directions from the paper from Budiman and Haq (2012), and tries to present a conceptual framework regarding the external and uncontrollable factors that influence the travel decisions of Indonesian Muslim spiritual tourists.

3. Issues related to Indonesian Islamic Spiritual Tourism

The significance of research on tourism started 30 years ago when tourism researchers have explored tourists' motivation in destination choice, mode of travel, expectations, information source and the effect of socio-demographic characteristics on motivation. Pilgrimage and religious tourism have a religious dogma motivation, though people also travel to religious destinations for other motives, such as education, knowledge and awareness (Haq & Jackson, 2009). Destinations linked to Islamic spiritual tourism are not only the religious places, but they include Islamic events and gatherings where people feel more spiritually fulfilled (Haq & Wong, 2010). The review of the literature on Muslim spiritual tourism categorises spiritual tourism as a pilgrimage and a religious practice depending upon the intention of the tourist.

Earlier research has identified many factors that help to indicate the motivation of tourists to select a place or an event with different motives and intentions. The ground breaking and one of the first studies on tourists' behaviour, Moutinho (1987) presented a workable model to study consumer behaviour of tourists, which concluded with external and personal factors that influence tourism behaviour. The external factors included culture, social class, reference groups and family roles (Moutinho, 1987, p.6). The personal factors included personality, learning, motivation, perception and attitudes (Moutinho, 1987, p.6). Moutinho (1987) examined different aspects of tourists' behaviour and attitudes, his findings were used by many other tourism researchers. Haq and Jackson (2006) used Moutinho's model to study the external factors that could be used in spiritual tourism segmentation. Based on an exploratory study conducted on spiritual tourists in Australia, Pakistan and the UK, Haq and Jackson (2006) presented three external factors that were significant in segmenting spiritual tourism, they were: culture, social class and reference groups including families.

The current tourism literature stresses upon the buying decisions of tourists and pilgrims, but limited studies have specifically explored the Islamic spiritual tourists' buying decisions. Pilgrimage is one of the five pillars of Islam and consists of Hajj and Umrah, as discussed earlier. A quick study of the Holy Quran would indicate several instructions to the believers to travel around God's earth to see His Blessings and adversities that will help to strengthen the faith. The Prophet of Islam also gave explicit instructions regarding leisure and travels; for example, 'most of the people do not know how to use two of the bounties: their health and their spare time' (Vukonic' 1996, p.3), seek knowledge even if you have to travel to China, 'travel, thus you will be healthy and enabled for everyday experience' (Vukonic' 1996, p.41).

Recently, many scholars have expressed their understanding of the philosophy of Hajj and Umrah, their connection to the original message of the Islamic faith, their political and social dimensions and personal expectations and observations from spiritual tourism to Makkah. After investigating the external factors influencing spiritual tourism segmentation, Haq and Jackson (2009) studied the behavioural aspect

of Muslim spiritual tourists going for Hajj on a sample focussed on Australian and Pakistani Muslims. Based on the study Haq and Jackson (2009) delivered the themes of philosophy of Hajj linked with the core belief, the inspiration associated with local culture and links to Islam, and the social status and the financial costs involved in travel decisions.

FINDINGS

The literature survey discussed in the preceding sections have discussed the critical factors that help a tourist, a spiritual tourist, or a Muslim spiritual tourist. The findings of this paper are based on the literature review and both authors' research experience and observations of Islamic spiritual tourism in Indonesia, identify the uncontrollable and external factors affecting the relevant decisions of Indonesian Islamic spiritual tourists.

The primary uncontrollable factor recognised in this study is the risk of health issues for Indonesian Muslim spiritual tourists. Since all gatherings of Islamic Spiritual Tourism in Mecca for Hajj or Umrah witness millions of attendees, regardless of proper management, health risks are eminent (Haworth, Barasheed, Memish, Rashid, & Booy, 2013). Various outbreaks of diseases have been dedected and then avoided during Hajj and Unrah for the last 40 years, influenza being the most common among them (Haworth et al., 2013). A recent virus affecting a lot of Muslim spiritual tourists in Mecca is the MERS (Middle East respiratory syndrome) that has threatened the whole travel practice (de Groot, Baker, Baric, Brown, Drosten, Enjuanes, & Ziebuhr, 2013). Regualr testing for MERS before and on arrival are being recommended by medical experts that is creating inconvenience for traveleers to the Holy cities (Assiri, McGeer, Perl, Price, Al Rabeeah, Cummings, & Memish, 2013).

Indonesian Muslims are similar to all other Muslims and common tourists from all other countries. Hence, naturally they have high concerns for health issues regarding their Hajj and Umrah trips. Where Islam stresses upon travelling to strengthen the belief and Hajj is a compulsion under various conditions, at the same time health issues are considered serious and Muslims are exempted from Hajj compulsion. Indonesian authorities need to have a regular study of the health issues and produce an annual report for precautionary steps or medical procedures to avoid any health problems during Hajj or Umrah.

The second uncontrollable factor affecting Indonesian Muslims for spiritual tourism is the global threat of terrorism. Raza and Jawaid (2013) presented various terrorism issues and threats that are damaging Muslim economies and tourism. The threat of terrorism is not new for Muslim spiritual tourists but it has intensified after the America's war on terror (Zamani- Farahani & Henderson, 2010; Al-Hamarneh & Steiner, 2004). Even the terror attacks in Indonesia, especially the Bali attacks of 2002; created a havoc among Indonesians and at least gave them a reason to think again before embarking on Islamic spiritual tourism. The recent events in Middle East: the civil wars in Iraq and Syria and the ethnic cleansing of Muslims in Gaza by Israel has created grief among Muslims that leads to unpleasant events. Moreover, even in the region that Indonesia belongs to, the ongoing genocide of Muslims in Burma and Sri Lanka cannot be ignored as crucial events that could instigate more terrorist activities.

The third uncontrollable factor affecting Indonesian Muslims for spiritual tourism is the political crisis that prevails in many countries around the world, specifically the Muslim countries. The Arab Spring and its outcomes, mostly devastating for Muslim publics, triggered a political havoc. Even the internal politics of Indonesia is always prone to conflict among various political and non-political groups as seen numerous times in the past. Although, the current political atmosphere in Indonesia is very positive and regular elections have improved the political and governance credibility, yet the different mind sets of different people need to be addressed to avoid any political problems, especially for Indonesian Muslim spiritual tourists.

DISCUSSION AND CONCLUSION

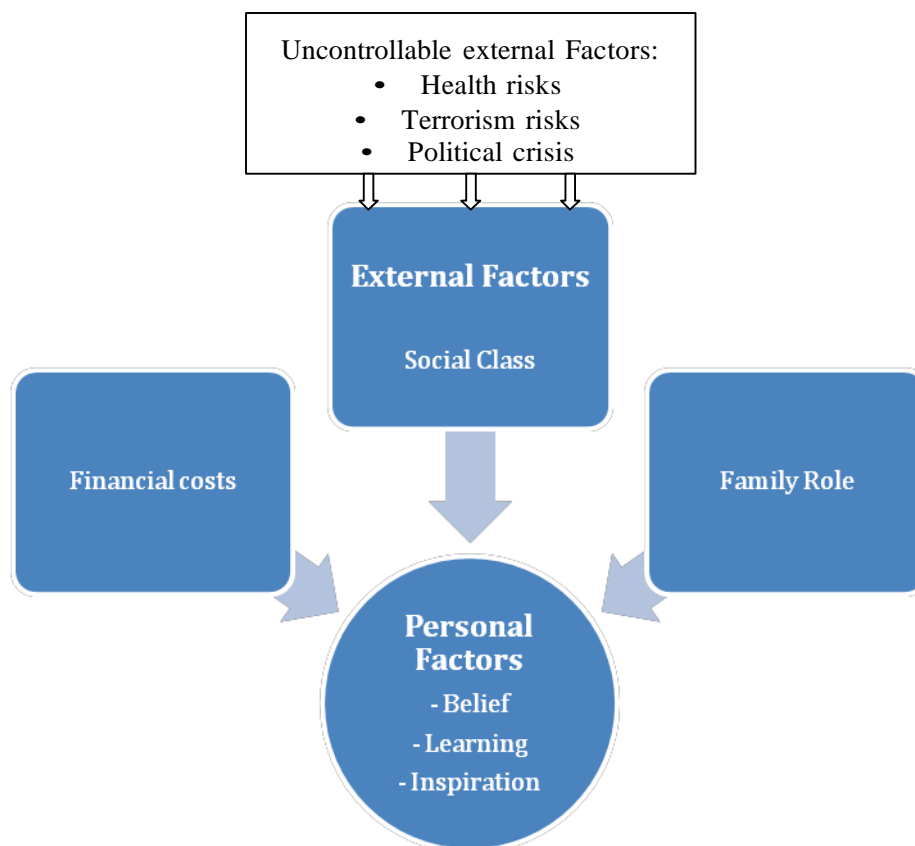
Based on the analytical process mentioned above and adopting from Budiman and Haq (2012) and Haq and Jackson (2009), this paper concludes that three uncontrollable and external factors will be significant to prepare and motivate Indonesian Muslims for Islamic spiritual tourism. The three uncontrollable factors are: health risks, terrorism risks and political crisis. Although it is discouraged in Islam, yet the consciousness about these risks while travelling for Hajj or Umrah is natural. The strong spirit of being guests of Allah and being part of the Islamic brotherhood plays a key role to inspire and motivate Indonesian Muslims, yet the three issues need to be addressed. In this paper, the established variables are appreciated as they are common among Muslim spiritual tourists who are assumed to have similar consumer behaviour regardless of the national and cultural backgrounds.

The approach for spiritual tourists going for Hajj or Umrah, analysing the above mentioned risks, will consider the spiritual and social status of the trip. A study of the consumer behaviour theory indicates that trust and belief related to consumption is an important concept in consumer behavior because consumers can be motivated and influenced by the status of the products or services in their purchase decision (Heaney, Goldsmith, & Wan Jusoh, 2005). Eastman, Goldsmith, and Flynn (1999) define status consumption as “the motivational process by which individuals strive to improve their social standing through conspicuous consumption of consumer products that confer or symbolise status for both individuals and surrounding others” (p. 42).

In this study it is suggested that spiritual tourists tend to think that social status is considered by ignoring the three uncontrollable risks mentioned above. Spiritual tourists claim that their spiritual status and motivation is too high to be distracted by any worldly risks. In Turkey for example, consumers use cellular phones as status symbols compared to other motives such as mobility and business (Özcan & Koçak, 2003). In the case of spiritual visit to Mekkah, consumers could use this insignificance towards the external risks as a way to polish their social status in the community.

FUTURE RESEARCH

An empirical research to test findings of this paper is an obvious future research direction. The three uncontrollable risks for Indonesians to travel for Islamic spiritual tourism could be tested by directly inquiring from the individuals. A mixed method approach could be used where survey questionnaires could be given to individuals for quantitative analysis and interviews could be conducted with the tourism providers for qualitative analysis.



Source: Adapted and developed for this paper from Budiman & Haq (2012)

Figure 1: Personal and Uncontrollable factors for Indonesian Islamic Spiritual Tourists

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Prison Officers in Highly Stressful Organisation: The Relationship Between Wellness, Stress and Personality

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Abstract

Prison officers constantly confront with two interrelated issues within their work organisation which are their wellness and stress. Prison officers' wellness is irrefutable due to intense pressure conditions at the workplace that continuously falter their wellness in the long run. Gradual wellness fluctuation due to excessive stress will severely tarnish prison officer's performance as well as prison department's performance. Nevertheless, their personality plays an important role in conserving their wellness level despite continuous overrun of stress during work. Therefore this paper elaborates on the influence of prison officer's individual personality and stress in order to maintain wellness at work. These findings are significant since prison officer's wellness, personality and stress remain loose issue particularly in Malaysia. Findings have revealed that personality and occupational stress influence prison officers' health and wellbeing.

Keyword: Prison officers, wellness, personality, work stress

INTRODUCTION

In recent years, management and professionals in public and private organisations as well as industry are more responsive and perceptive of employee wellness issues (Tsui, 2008; Cheeseman Dial & Johnson, 2008; Summers-Krause, 2007; Els and De La Rey, 2006; Myers and Sweeney, 2004). The rising interest and investment in the workplace health and wellbeing or simply known as wellness parallels the significant role of work in majority of individuals' lives since average adults spend at least a quarter to a third of their waking life at work (Harter, Schmidt & Keyes, 2003). The wellness of employees ensures a healthy workplace. A healthy workplace promotes balance between employees' goal for well-being and organization's objectives for profitability and productivity (Sauter, Lim and Murphy, 1996).

Nowadays, organizations have realized the importance of employee health and wellbeing in cultivating acceptable employees' performance and productivity that will ensure organisation functioning and performance (Tsui, 2008; Bertera, 1990). Many organizations are attempting to integrate employee wellness in their organization to ensure organisation performance through enforcement of employee health due to considerable corollary of stress at the workplace instigated through change phenomenon in society, technology advances, the availability of

resources, and the social structure in order to achieve optimum profitability and resilient competitive advantage (Zafir & Fazilah, 2006; Tsui, 2008).

LITERATURE REVIEW

Employees' health and wellbeing or simply wellness is considered significant especially among high-stress occupation employees who are dealing with human service and high risk at work such as police, teachers, customer service employees, prison officers (Brough & Williams, 2007; Pienaar, Rothmann & van de Vijver, 2007; Harvey, 2014). Human service sector or helping organizations is the human service work organisation that renders services to social service recipients such as prison inmates specializes on client work (Borritz, Rugulies, Bjorner; Villadsen; Mikkelsen & Kristensen, 2006).

Globally, several researchers who are focusing on human service occupations have found the consequences of human services employees having a direct long term contact with their clients will impact their wellness level and indirectly impact their productivity and performance (Maslach, Jackson & Leiter, 1996; Armstrong & Griffith, 2004; Pienaar, Rothmann & van de Vijver, 2007). Concurrently more studies have substantiated that certain occupations as more stressful (Armstrong & Griffin, 2004) than others because these occupations implicate prolonged stress conditions, emotional labour, constant threat of violence and excessive workload that can have negative impact on employees' mental and physical health at long term (Cooper, Dewe & O'Driscoll, 2001; Pienaar, Rothmann & van de Vijver, 2007). These findings support previous research on stress experienced by different occupation types and job roles and its impact on their long term health and wellbeing (Travers & Cooper, 1993).

Particularly prison officers, among other human service occupations such as ambulance workers, ER nurses, health professionals, teachers, customer service employees in call centres and police are identified as being most stressful resulting depleting physical and psychological well-being and having the lowest level of job satisfaction (Johnson, Cooper, Cartwright, Donald, Taylor & Millet, 2005; Borritz, Rugulies, Bjorner; Villadsen; Mikkelsen & Kristensen, 2006). Moreover, other studies also have ruled that the nature of some work environments is found to be more stressful than others such as business executives (Kobasa, Maddi & Puccetti, 1982), lawyers (Kobasa, 1982), bus drivers (Bartone, 1989), police officers (Pienaar, Rothmann & van de Vijver, 2007), and prison officers (Senol-Durak, Durak & Gencoz, 2006; Armstrong & Griffin, 2004). In addition, specific characteristics of the particular job also influence work stress. Hence different jobs that possess different work environments and organizational structures will have different sources of stress.

Meanwhile Friedman, Hawley and Tucker (1994) have emphasized that employee wellness is significantly reliant to their stress level at work, workplace setting as well as their personality to cope with the stress. Earlier, Mellama and Espnesb (2003) have verified on certain people characterized Type A personality with emotional distress is more prone to heart problem. Type A personality character of a bitter, hostile, suspicious and frustrated nature will be an easy victim to develop cardiovascular disease such as heart attack or stroke due to their constant battle against harsh psychosocial environment as they perceived and experienced. Another eminent researcher in the area, Witmer and Sweeney (1992) have substantiated that employees with high level of wellness (healthier) are indeed pertinent asset of an organisation because they bring profit to the organisation: they are prolific, resourceful, diligent and creative. Healthier employees also are

very supportive to the organisation with satisfactory level of competence and commitment towards their work. Rarely they are absent from work (Witmer & Sweeney, 1992).

Today, many research findings revealed similar results and thus supported previous studies on wellness and stress in human service organisations dealing with high risk (Bogaerts & van der Laan, 2013; Pienaar, Rothmann & van de Vijver, 2007). For that reason, maintaining wellness of these employees is deemed crucial because without optimally functioning and well-balanced of being, they will not be able to efficiently perform and be productive. Since employee wellness is referred to as the “soft indicator” of individual performance, this signifies the importance to ensure employee wellness at its best when it functions as mirror on overall organization performance (Crawford & Henry, 2003). Obviously neglecting employees wellness will severely interrupt and damage overall organizations’ performance and profitability as well as increases overall organization’s medical expenditure. This has confirmed by MacDonald (2005) where he has articulated deteriorating wellness may result outlay to public and private organizations, government and community.

Therefore this sort of employees is an inevitable asset in their organizations – be it a profiteering organization or a service-oriented organisation, private or public organizations. It is even more crucial in human service sector (helping organizations) in particular prison officers as human service professionals (Johnson et al., 2005). Since prison work settings are portrayed as unique and dangerous because of constant confrontation with off-putting and depressing characters of prison inmates, peers, supervisors and management of prison as well as the strain condition of prison Hawk (1997); therefore it is deemed critical for prison management to seriously focus on the condition of their employees’ wellness because their wellness can easily deplete due to strenuous conditions that gradually tarnish their individual performance.

Meanwhile, in other hand, many prison officers were able to work till their penchant date. Considering the magnitude of stress that came across their working lives and their ability to cope with the stressors were astoundingly fantastic. Indeed, in high risk and high stress organization such as prison department, the essential weapon for prison officers to manage their high stress in this environment would be their individual personality; otherwise the high stress would ultimately run them down (Schwarzer & Halum, 2008). Prison officers’ personality braced their stress level resulting in adjustment in their wellness and performance. These two worked interactively to ensure the wellness level was maintained in the prison setting. During work stress process, prison officers’ personality has some influence on stress appraisal and coping efforts; so that these officers’ normal level of psychological well-being is at a balance position (Hall, 2004; Rosnah & Azmi, 2008).

These officers have to fine tune their personality character to preserve their wellness level and maintain impeccable job performance in this isolated and incompatible surrounding of prison as workplace setting (Rosnah & Azmi, 2008). In spite of high stress at work, prison officers with certain personality characteristic are capable of managing their occupational stress and uphold their wellness level (Hall, 2004; Rosnah & Azmi, 2008). Hence, in order to initiate wellness of prison officers, it is imperative to assess their individual personality since the fundamental element of facilitating the study was the notion that substantial prison officers’ wellness within highly stressful work environment is rather influenced by their personality.

Corresponding to previous international and local research, this study looks into employees’ wellness in human service sector particularly the Prison Department of Malaysia and its

relationship with work stress at prison and prison officers' personality. As human element is a critical factor in prison department leading to ultimate efficacy of the prison organisation; and since Prisons Department of Malaysia as people-oriented organization rely heavily on its manpower to effectively render correctional service to the society, thus it is wise for its management to consider employee wellness issues accordingly. Also, as people-oriented organization, the management of Prison Department must realize the impact of work stress and individual's personality can have on employees' wellness (Pfeffer, 2005; Purcell, Kinnie, Hutchinson, Rayton & Swart, 2003).

Prison officers' wellness

In 1947, the World Health Organization (WHO) has described optimal health or later is known as wellness as "a state of complete physical, mental, and social well-being, not merely the absence of disease or infirmity" (Myers & Sweeney, 2005). Today, wellness is termed as "a dynamic progression through which people become aware of, and make choices toward a more successful existence" (Myers and Sweeney, 2004). After extensive review of literature from various discipline, Myers, Sweeney and Witmer (2000) have reinstated wellness as a life orientation toward optimal health and well-being in which body, mind and spirit are integrated by the individual to live more fully. Currently, Myers and Sweeney (2004) have added wellness definition via holistic approach that integrates all aspects of the mind, body, and spirit in a purposeful manner with a goal of living life more fully. Generally most researchers (Cameron, Dutton & Quinn, 2003; Keyes & Haidt, 2003; Myers & Sweeney, 2005) in this area have concurred on wellness as the continuous and deliberate process where people are actively involved to boost their overall wellbeing: intellectually, physically, socially, emotionally, occupationally, and spiritually. Wellness presents more than the absence of diseases; at a condition defined as 'health', and incorporates a concern for optimal functioning, or positive mental, physical, and spiritual health, and enthusiasm and zest for life. Health and well-being are dynamic processes involving the individual within his/her environment. Wellness concept was forwarded when traditional studies of individual health in organization were focused on psychological and physical ill health in the illness-health-wellness continuum. Therefore, pursuing studies on individual health from the perspective of human character strength is indeed way out from the conventional pathological study (Els & De La Rey, 2006; Sommers Krause, 2007) because wellness (that synchronized with Islam values) goes beyond the absence of ill health to optimal health. Wellness implicates beyond workplace injury and disease to include personal initiatives to achieve employee optimal health. In this study, prison officers' wellness is defined as the optimum state of health and wellbeing that each front line prison officers is capable of achieving despite endless strenuous conditions of prison environment (Myers and Sweeney, 2007). In this research, prison officers' wellness is defined as the continuous and deliberate process where prison officers are actively involved to boost their overall health and wellbeing despite strenuous conditions: intellectually, physically, socially, emotionally, occupationally and spiritually through holistic approach that integrates all aspects of the mind, body, and spirit in a purposeful manner aiming to live life fully (Myers & Sweeney, 2005). Measure of employee wellness is derived from Myers and Sweeney (2004) Five Factor Wellness model are Creative Self, Coping Self, Social Self, Physical Self and Essential Self. Wellness is underpinned by Adlerian Individual Psychology (Myers & Sweeney, 2005)

Prison officers' work stress

Cooperstein (2001) defines prison officers' occupational stress as the occupational hazard in prison environment. Individuals who are exposed to work-related stress will put a tremendous influence on individual's mental and physical health. Thus through comprehensive understanding on the sources and causes of work stress are crucial to increase job satisfaction, job performance and wellness of the individual. Specific characteristics of the particular job also influence the level of work stress of an employee such as police officers (Patterson, 2003) and correctional officers (Armstrong and Griffin, 2004). In addition, correctional officers have reported to endure prolong and greater stress due to cultural diversity, increased negative perception towards the occupation and shift of expectations from the mere punitive institution to treatment facility (Senol-Durak, Durak and Gencoz, 2006). Therefore, in this study, prison officers' stress is defined as the condition in which some factor or a combination of factors, at work interacts with the prison officers as an individual to disrupt his/her psychological or physiological homeostasis (Storrs, Trinkoff and Anthony, 1999) and are measured based on five stress inducing elements namely work overload, role conflict and role ambiguity, inadequacies of physical conditions in prison, threat perception, and general problem (Senol-Durak, Durak and Gencoz, 2006).

Prison officers' personality

Since frontline prison officers' wellness and work stress in high-risk environment are two interrelated issues therefore it is important to accentuate wellness among prison officers in order to guarantee effective prison service that entails long-term benefit to the society. Nevertheless, some officers are still committed in their work, until they reach their set pension dates. Such officers show intense focus and high levels of enthusiasm that expectedly boost their level of wellness. This is because they possess certain personality trait that causing them happiness instead of illness and motivate them to stay on. Regardless of the situation, prison officers' wellness and illness work "shoulder-to-shoulder" throughout prison officers' struggle to maintain their sanity despite working in highly strenuous correctional environment. Essentially, in high risk and high stress organization such as prison department, the essential weapon for prison officers to manage their high stress in this environment would be their individual personality; otherwise the high stress would ultimately run them down (Schwarzer & Halum, 2008). Prison officers' personality braced their stress level resulting in adjustment in their wellness and performance. These two worked interactively to ensure the wellness level was maintained in the prison setting. During work stress process, prison officers' personality has some influence on stress appraisal and coping efforts; so that these officers' normal level of psychological well-being is at a balance position (Hall, 2004; Rosnah & Azmi, 2008). These officers have to fine tune their personality character to preserve their wellness level and maintain impeccable job performance in this isolated and incompatible surrounding of prison as workplace setting (Rosnah & Azmi, 2008). In spite of high stress at work, prison officers with certain personality characteristic are capable of managing their occupational stress and uphold their wellness level (Hall, 2004; Rosnah & Azmi, 2008). Hence, in order to initiate wellness of prison officers, it is imperative to assess their individual personality since the fundamental element of facilitating the study was the notion that substantial prison officers' wellness within highly stressful work environment is rather influenced by their personality.

The importance of prison officers' personality or character was voiced during the tentative interview. The prison officers pointed out on the importance of certain individual quality to enable them to manage their work stress well and to assure their wellness and sanity were intact throughout their profession as prison officers. Although prison officers' work stress is part and

parcel of the working environment and it helps to keep the workers motivated; excessive stress can undermine their performance. In viewing the uniqueness of prison work setting, the most appropriate operational definition of prison officers' personality as based on Allport's (1961) conceptual definition of individual personality. Allport (1961) defined personality as individual's (in this study prison officers) characteristics which capable to interfere with their health, mental wellness and wellbeing merely as it is a dynamic organization, inside them, of psychosocial systems that create their characteristic patterns of behavior, thoughts and feelings towards their work, personal wellness and stress.

As derived from the Dynamic Equilibrium Theory (Hart & Wearing, 1993), personality acts as a bolster in individual's stress process. Psychologically, prison officers as human beings are embedded by personality explained in terms of five factors (B5) namely neurotic, extravert, openness to experience, agreeableness and conscientiousness. Personality classification as B5 factors pattern is well established in human studies and especially effective in industrial and organizational psychology studies (Ganjeh, Arjenaki, Nori & Oreyzi, 2009; Barrick & Mount, 1991; Barrick, Mount & Judge, 2001). Prison officers' neuroticism personality is their tendency to experience negative effect and emotional distress. Meanwhile their extraversion personality is their disposition toward positive emotions, sociability and excitement. Their openness to experience personality is characterized by a willingness to entertain new ideas and unconventional values. Also their agreeableness personality means the inclination to be agreeable and altruistic. Finally, prison officers' conscientiousness personality refers to the temperament of a strong-willed, determined and organized individual. Since prison workplace setting is with endless potential confrontation and arduous environment; prison officers need to refine their outlook through their character qualities to survive. Due to extensive stress in prison work setting, it was adamant to consider personality to buffer prison officers' stress level so that they would be able to maintain adequate level of wellness as well as their productivity level. The better they cope with their stress, the lesser their stress will be; and the better their wellness will be. Since Prison Department of Malaysia as people-oriented organization rely heavily on its manpower to effectively render prison service to the society, it is wise for its management to realize the impact of prison officers' occupational stress and their individual's personality can have on their wellness (Pfeffer, 2010).

The relationship between prison officers' wellness, work stress and personality

Prison work has been characterized as one of the toughest position in law enforcement. Maintaining the very important role of prison services and safe custody, it is important to the community that prison officials should be optimally functioning and well balanced (Senol-Durak, Durak & Gencoz, 2006). The unique working environment of these public servants, however, increasingly jeopardizes the fulfillment of such expectations (Dollard & Winefield, 1998). The seriousness of the physical and psychological effects of stress on the prison official (heart disease, hypertension, peptic ulcers, sickness, alcoholism, depression, suicidal tendencies, anxiety, as well as other mental disorders), as posited by Anson et al. (1997), have serious implications for mental health management in this type of organization. Hence it is clear that being a prison officer is not a job for everyone. Prison officers need to adjust themselves to work under constant strain.

In providing the daily management of prison facilities specifically in Malaysia, prison officers face a wide array of stressors that, in many cases, are unique to their profession (Morgan, 2009; Brower, 2013). Work stress can have significant negative consequences for prison officers individually, as it affects their wellness, work performance, the inmates they supervise, their co-

workers and their families (Senol-Durak, Durak & Gencoz, 2006; Durak, Senol-Durak & Gencoz, 2007). These consequences can decrease the performance and safety of a prison institution, can have substantial financial implications for the department (e.g., turnover, poor performance, lawsuits) and can reduce the legitimacy of prison department in the eyes of its employees (prison officers) and those they supervise (prison inmates) families (Senol-Durak, Durak & Gencoz, 2006; Durak, Senol-Durak & Gencoz, 2006).

Being a wage earner as prison employee is dreadfully challenging and stressful since constant occupational stress due routine tribulations may taint and damage frontline prison officers' health and wellbeing in long term. In actuality, threat of inmate violence against prison officers, actual violence committed by inmates, threat of assault, inmate demands and manipulation and problems with co-workers are among conditions that officers have reported in recent years that can cause stress and deplete wellness (Senol-Durak, Durak and Gencoz, 2006; Brower, 2013). These factors, combined with other sources of stress such as overcrowded prisons, intercultural conflicts, violent within the prisons, drug use, inadequate frontline correctional staff, shift work, staff with training deficits, understaffing, extensive overtime, rotating shift work, low pay and poor public image, can impair officers' health, cause them to burn out or retire prematurely, and impair their family life (Brower, 2013; Senol-Durak, Durak and Gencoz, 2006; Moon & Maxwell, 2004; Morgan, Van Haveren & Pearson, 2002).

These factors affected the officer, the officer's family members as well as the organization. Not only the increasing absence rate due to illness is irrefutable constraint but also problems such as burnout, substance abuse, internal depression and inability to cope with traumatic experiences of daily work often lead to early retirement or retirement with physical or mental problems (Brower, 2013; Senol-Durak, Durak and Gencoz, 2006). Hence, in accordance to aforementioned statement, there is no doubt that occupational stress in prison department is a major challenge to the wellness of prison officers, to the healthiness of Prison Department of Malaysia and to the effectiveness of the prison services that they deliver (Rosnah & Azmi, 2008). As Prison Department of Malaysia is a labour intensive organization, prison officers' wellness is a detrimental element to ensure individual performance (Prison Department of Malaysia, 2008).

However, despite these assertions, most psychologists and criminologists study in correctional issues focus almost exclusively on offenders (Senol-Durak, Durak and Gencoz, 2006; Karofi, 2005; Yik 2006; Mazlan, Mat Saat and Ahmad, 2010; Choi, Kavasery, Desai, Govindasamy, Kamarulzaman, and Altice, 2010; Najib Ahmad Marzuki & Awanis Ku Ishak, 2011) instead of prison officers. However, beginning in the late 1970s, there was a series of studies investigating those who work in the field of corrections. Most research has explored how prison or correctional workers view and react to their jobs, especially in terms of occupational stress, job satisfaction, and correctional orientation (Britton, 1997; Cullen, Latessa, Burton, and Lombardo, 1993; Karasek and Theorell, 1990).

Latest pertinent studies also have validated on prison officers poor health due to high level of stress and anxiety (Senol-Durak, Durak and Gencoz, 2006, Sundt and Cullen, 2002). Since previous research and subjective evidences have highlighted on the massive effect of occupational stress on prison officers may seriously retard or causing frontline prison officers' mental health to deplete unswervingly (Senol-Durak, Durak and Gencoz, 2006; Pfeffer, 2010; Purcell, Kinnie, Hutchinson, Rayton and Swart, 2003); therefore it is crucial for the prison department administrators to pursue into this issue.

Regrettably, research on prison officers' wellness, their personality and their occupational stress are nonetheless quite scanty in Malaysia. Malaysian prison research scenario focuses more on the keep and not the keepers. Several local studies conducted in correctional facilities are focused on incarcerated individuals such as imprisoned drug addicts, HIV sufferers in prison, female inmates, felon awaiting for delinquents, detainees under ISA act (Internal Security Act) viewing from pathological perspectives (Karofi, 2005; Yik 2006; Mazlan, Mat Saat and Ahmad, 2010; Choi, Kavasery, Desai, Govindasamy, Kamarulzaman, and Altice, 2010) but insufficient research are pursued on prison officers. Viewing at the scarcity of this study specifically in Malaysia, pursuing this study would be realistic and sensible. Since the Prison Department of Malaysia functions as the "International Standard Correctional Service Provider" (Laporan Kualiti Perdana Menteri, Prison Department of Malaysia, 2008), employee personality and occupational stress are strategically and tactically important for the organization to gain employee loyalty and thus enhance employee wellness in achieving high productivity and competitive edge. Therefore, this study aims to fill up the literature gap in correctional study specifically on prison officers' health and wellbeing, their occupational stress and personality traits. Hopefully, the literature and empirical findings of prison officers' wellness, their personality and occupational stress will initiate future study of the keepers.

The ultimate objective of the study is:

- To investigate the correlation between correctional officers' wellness, their occupational stress (work overload, threat perceptions, general problems, role conflict and role ambiguity and inadequacies in physical conditions of prison) and their personality (neuroticism, extraversion, openness to experience, agreeableness and conscientiousness).
- To examine the influence of work stress dimensions (work overload, threat perceptions, general problems, role conflict and role ambiguity and inadequacies in physical conditions of prison) and personality domains (neuroticism, extraversion, openness to experience, agreeableness and conscientiousness) on frontline correctional officers' wellness.

Methodology

Participants

Since the grand total of frontline Prison officers at 8 locations are 4,783, then the required respondents sample for the populations is between 354 and 356 (Krejcie and Morgan, 1970; Dean, Sullivan and Soe, 2009). In tandem, Nunnally and Bernstein (1994) has advised appropriate sampling calculation should be subjected to the measured construct variable (in this research, parcelled items) of 10:1. Meanwhile McMillan (2004) has suggested the rate of return should be at least at 60%. Considering all suggestions, the author settled for the usable returned questionnaires amount because it is between the recommended sample size and also suitable for item parceling purposes. The returned questionnaires are totalled at 570 whilst usable returned questionnaires are at 417. The sample size has satisfied the proposed minimum by Krejcie and Morgan (1970), Tanaka (1993) and Nunnally and Bernstein (1994). This has indicated acceptable returned questionnaires are at 62.68% and has met the suggested rate (McMillan, 2004). The questionnaire is completed by front line Prison officers as selected respondents (n=417; mean age 33 years).

Instruments

Three instruments are incorporated to establish an appropriate questionnaire for the study; which are 5F-WEL (91 items) (four likert-type formatted scale) (Myers and Sweeney, 2004), Five Factor Inventory (60 items) (five likert-type formatted scale) (Costa and McCrae, 1992) and Work Stress Scale for Prison officers (35 items) (five likert-type formatted scale) (Senol-Durak, Durak and Gencoz, 2006).

Procedure

Essentially the study was founded on four pertinent stages. Initially, an extensive accessible literature on employee wellness, personality and occupational stress in prison environment was conducted. Later, based on literature, wellness, personality and occupational factors and their relevant measurable items were identified. Next, the instruments used to measure wellness, personality and occupational stress constructs in this study were translated into Malay version questionnaire to suit cross-sectional survey design (Brislin, 1970). The instruments were then tested for validity and reliability through face validity, content validity, construct validity and internal consistency analysis. Thus in considering the thoroughness of this study, it contributes to an extension of the knowledge the theory and functional behavioral science specifically in prison environment. The cross-sectional survey enabled the author to analyze the situation and let the author produce insinuations based on sample that would perhaps be generalized to the population. The author encountered empirical data problems, rectified and undertaken various precautions during data analysis so that errors of measurement were minimized. Cross-sectional survey method was adopted where the questionnaires were distributed to eight selected prison facilities through multistage sampling; combining two sampling techniques which were the stratified random sampling and simple random sampling to achieve optimal result. Multistage sampling technique was used to address frontline correctional officer samples in the most effectual approach possible. Through the stratified random sampling, the prison officers were divided into homogenous subgroups; then taking a simple random sampling in each subgroup (Cavana, Delahaye and Sekaran, 2001).

EMPIRICAL RESULTS

Demographic Information

Respondents are consisted of 417 frontline correctional officers (of 233 male and 184 female; 56% and 44% respectively). This sample reflects real situation of frontline correctional officers population where majority are male dominated. Larger numbers of female front line correctional officers are concentrated at Penjara Wanita Kajang (female prison). This sample also reflects true populace of the profession where it is dominated by Malay ethnic (94.24%) whilst other ethnic group (Chinese, Indian and others) is at 5.76%. Age mean and age mode of respondents are at 32.8 years and 25 years respectively where 47.2% of respondents are between 20-29 years, while 28.1% are between 30-39 years. 24.7% of respondents are at age between 40 to 59 years. Most respondents worked between 4-10 years with 39.3% (n=164) while 28.8% (120) respondents have worked 3 years and below. 31.8% respondents have served the department between 11 to 20 years and between 21-30 years.

Reliability Analysis

According to Cavana et al (2001), the reliability of a measure indicates the extent to which the measure is without bias and hence offers consistent measurement across time and across the various items in the instrument. Besides, the reliability of a measure indicates the stability and consistency with which the instrument measures the concepts and helps to assess the “goodness” of a measure. Cavana et al (2001) also have mentioned that the reliabilities less than 0.60 are considered poor whilst the reliability value range between 0.6 and 0.8 are acceptable. Reliability value at 0.8 and above is considered good.

In this study, the cronbach’s alpha values of 5F-Wel, NEO FFI and WSSCO instruments are .90, .90 and .89 respectively, indicating acceptable internal consistency of instruments. Referring to the table, overall cronbach’s alpha coefficient for each measurement battery is adequate. Nevertheless, two dimensions of Work Stress Scale for Correctional Officers scale namely Work Overload and Inadequacies in Physical Conditions of Prison reveal the least cronbach’s alpha value of .614 and .602 respectively. Additionally, Cronbach alpha values of two personality domains, extraversion and openness to experience are at .646 and .670. Albeit low alpha values, they are still acceptable (Cavana et al, 2001). Detail is as highlighted in Table 1.

TABLE 1 RELIABILITY ANALYSIS OF MEASUREMENT

Measurement	Mean	SD	Cronbach value
Wellness			
Wellness (91)	274.6	15.034	0.89
Dimensions:			
Coping self (18)	53.93	4.624	0.70
Creative self (18)	53	4.686	0.72
Essential self (17)	51.07	4.84	0.72
Physical self (10)	29.64	3.475	0.70
Social self (10)	27.88	3.084	0.73
Contextual factor (18)	55.83	5.453	0.80
Personality			
Personality (60)	185.11	21.447	0.90
Domains:			
Neuroticism (12)	34.22	6.435	0.75
Extraversion (12)	28.62	4.489	0.65
Openness to experience (12)	31.11	5.125	0.67
Agreeableness (12)	35.39	5.664	0.71
Conscientiousness (12)	35.55	4.101	0.71
Work Stress for Prison Officers			
Work Stress for Prison Officers (35)	97.95	13.34	0.89
Dimensions:			
Work overload (6)	17.33	2.732	0.61
Inadequacies in physical conditions of prison (4)	10.77	2.361	0.60
Role conflict and role ambiguity (10)	28.77	4.518	0.76
Threat perception (7)	20.44	3.766	0.72
General problem (8)	20.65	4.011	0.72

Factor Analysis

Traditionally factor analysis has been used to explore the possible underlying structure of a set of interrelated variables without imposing any preconceived structure on the outcome (Hair, 2010). Exploratory factor analyses are performed on the measurement instruments for the purpose of investigating the factor structure of the measurement battery as well as to objectively trace natural groupings of factors. By performing exploratory factor analysis (EFA), the number of constructs and the underlying factor structure are identified. Since this is the first time 5F-WEL and WSSCO are adapted into Bahasa Melayu and are tested in Malaysia, exploratory factor analyses (EFA) are performed to investigate the factorial validity of the translated instrument measurements (Suhr, 2006). Through EFA, the underlying factor structures of three measurement instruments are identified. Factor analyses results have revealed that the measurement instruments are fitting for this study.

Statistical analyses and discussions

Correlation and regression analyses

According to Cavana et al. (2001), correlation analysis is intended in a relationship study to examine the nature, direction and significance of relationships of constructs used in research. Thus in this present research, the researcher attempts to examine the relationship of work stress (general problems, role conflict and role ambiguity, threat perceptions, inadequacies of physical conditions in prison and work overload), personality (neuroticism, extraversion, openness to experience, agreeableness and conscientiousness) and wellness of respondents through Pearson product-moment correlation coefficient and multiple regression as statistical tools.

Correlation between wellness, work stress and personality domains of prison officers

Hipotesis 1 There is a relationship between frontline correctional officers' wellness, occupational stress (role conflict and role ambiguity, work overload, inadequacies in physical conditions in prison, threat perception and general problems) and personality (neuroticism, openness to experience, extraversion, agreeableness and conscientiousness).

TABLE 2 CORRELATION ANALYSES

Construct / Dimensions / Domains	Wellness	
	r value	Sig.
Personality		
Personality (60)	-.215**	.000
Domains:		
Neuroticism (12)	-.062	.206
Extraversion (12)	.063	.198
Openness to experience (12)	-.079	.107
Agreeableness (12)	-.104*	.034
Conscientiousness (12)	-.161**	.000
Work Stress for Prison Officers		
Work Stress for Prison Officers (35)	-.132*	.007
Dimensions:		
Work overload (6)	-.060	.221
Inadequacies in physical conditions of prison (4)	-.043	.381
Role conflict and role ambiguity (10)	-.112*	.004
Threat perception (7)	-.164	.001
General problem (8)	-.187**	.007

The results of Pearson correlation (r) between work stress, personality and wellness are highlighted in Table 2. Wellness construct was significantly negative correlated with work stress at $r = -.132$ and personality at $r = -.215$. Therefore Hypothesis 1 was substantiated. There was similarity of results compared to previous research. This findings confirmed previous studies on the negative relation and impact of work stress on employee health and wellbeing (Senol-Durak, Durak and Gencoz, 2006; Pfeffer, 2010; Purcell, Kinnie, Hutchinson, Rayton and Swart, 2003).). The present study also supported Kropp, Cox, Roesch and Eaves' (1989) study where they revealed the mentally disordered inmates as the main source of correctional officers increasing stress (90%) causing them exhausting health and mental wellbeing. In particular work stress dimensions namely role conflict and role ambiguity, threat perception and general problems were significantly negative related with the officers' wellness.

First and foremost, the findings indicated that correctional officers' perception of threat issues (such as risk of being involved in arguments and fights with prison inmates and the need to be cautious all the time) were significantly related to their wellness at work. This discovery supported previous research that cited correctional officers' perceived threat of inmate violence as the major cause of stress at work and causing them depleting health and wellbeing (Finn, 2000; Senol-Durak, Durak and Gencoz, 2006). Next, these officers' general problems such as health problems due to the nature of work, not having enough quality time with family due to work, ignoring the needs of family due to work also were related to correctional officers' wellness (Senol-Durak, Durak and Gencoz, 2006). Eventually these problems drained off correctional officers' health and wellbeing. Low salary to compensate with the high risk working in prison also was causing stress (Senol-Durak, Durak and Gencoz, 2006).

These officers wellness were also related to their role conflict and role ambiguity at work especially during the transition period from pure custodial-oriented to rehabilitative-oriented. Role conflict occurred when correctional officers' custodial responsibility (maintaining security)

collided with the rehabilitation of inmates in prison. While role ambiguity occurred when correctional officers were expected to go by the rules and at the same time be flexible and used judgment in their interactions with inmates. In this case, these officers were often engulfed by multiplicity of job demands, role, responsibilities and array of duties that implicated ambiguous job role resulting work stress. Prolong situation caused high strain and impairment; thus causing deteriorating correctional officers' wellness (Young & Lambie, 2007, Senol-Durak, Durak and Gencoz, 2006).

As for the relation between personality and wellness, there was similarity and contradictory findings compared to previous research findings. Although contradicting to personality of general population, yet this finding corresponded with previous researches particularly on the correlation between personality traits and individual's health and wellbeing (Booth-Kewley and Vickers, 1994). The similarity on the positive correlation between wellness and conscientiousness had supported previous findings. According to Salgado (1997), an extent amount of research indicated that conscientiousness was among the best predictors of performance at work. Whilst Booth-Kewley and Vickers (1994) claimed that personality particularly conscientiousness and agreeableness had positive relation with health behavior. Traits under conscientiousness domain such as cautiousness, dutifulness, orderliness, self discipline were among the essentials to correctional officers' wellness and performance. These traits ensured them to excel despite of strenuous working conditions in prison.

Meanwhile contradicting to previous findings, this finding revealed agreeableness was negatively correlated to wellness. The ground for negative correlation result was also due to the strenuous working conditions in prison. At work, they were frequently vulnerable to inmate violence and aggression. Under major apprehension, they were assumed to be decisive in brief periods of time. They were also publicly and internally scrutinized for their any choice and action they took at work. Additionally, their jobs require shift work, long hours, and attention to strict organizational guidelines.

Therefore, to effectively adjust with their kind of work, these officers had to adjust their personality at work. They restrain themselves from showing their true emotions and conduct themselves according to the nature of their work. Once they were at work, they were a different person due to the exigency of the nature of their work that differed from the usual. Agreeableness personality traits such as trust, sympathy, altruism and morality were impractical in conditions that require tough or absolute objective decisions especially when they were attending the prison inmates (Wagner, Martin, & McFee, 2003).

In reality, due to the nature of their work, they were low in trust, more guarded and not affected strongly by human suffering. Therefore, this study had demonstrated agreeableness and conscientiousness as relevant to wellness behavior; and supported Conway, Vickers, Wallston and Costa Jr. (1992) remark on extraversion, agreeableness and conscientiousness as three most important elements of personality in predicting health behavior (in this circumstance wellness).

The Influence of Work Stress and Personality on Correctional Officers' Wellness

Hipotesis 2 Frontline correctional officers' work stress and their personality significantly influence their wellness.

TABLE 3 MULTIPLE REGRESSION ANALYSIS

	Std Coeff	t	Sig.
	Beta		
(Constant)		21.773	.000
Conscientiousness	.263	4.983	.000
Threat perception	-.225	4.074	.000
Agreeableness	-.270	4.165	.000
Openness	-.134	-2.162	.031
Role conflict and ambiguity	-.115	-2.059	.040
R value	.331	F Value	10.081
R² value	.109	Sig F Change	.000

Multiple regression analysis on five dimensions of both correctional officers' work stress and personality was performed. The R² indicated the percentage of variance in the correctional officers' wellness was explained by their occupational stress and personality. Percentage of variance explained in frontline correctional officers' wellness was significant at 11.0 percent; explained by five independent variables which are conscientiousness, threat perception, agreeableness, openness to experience and role conflict and role ambiguity respectively. Therefore Hipotesis 2 was substantiated.

Correctional officers who worked under strenuous condition embraced positive conscientiousness characters (dutiful, cautious, organized and self control), negative agreeableness characters (Peabody & De Raad, 2002; Saucier, Hampson & Goldberg, 2000) and negative openness to experience characters to ensure they maintained their wellness at work. Wellness also was influenced by work stress dimensions which were the threat perception and the role conflict and role ambiguity. Glaring reason of the results was due to secluded prison condition and prison culture.

The custodial and rehabilitative-oriented service rendered towards the prison inmates had demanded correctional officers to strongly adopt conscientiousness character (dutifulness and dependable), the differing side of agreeableness (being suspicious and uncooperative to the demand of prison inmates) and disparate character of openness to experience (more guarded, low in trust, and change resistant) so that they would be able to control their stress and maintained wellness at work. Apparent display of correctional officers' perception of threat and their experience of role conflict and role ambiguity at work also triggered their wellness to deplete.

CONCLUSION

In conclusion, this research demonstrated the relationship and influence of correctional officers' personality and work stress on their health and wellbeing that ultimately have an effect on their performance. Based on the findings, work stress dimensions namely role ambiguity and role conflicts and threat perception correlated and influenced wellness. Meanwhile, personality characters which were agreeableness, conscientiousness and openness to experience influenced wellness. To conclude, occupational stress at work and individual health and well-being appear to be closely intertwined. Whereas an acceptable work stress can bring good things to an organization, it also hurts health and well-being especially when it lingers on, when passivity and withdrawal dominate the way people cope with stress, and when socio-emotional and relationship

issues are at stake causing depleting individual and organisational performance. Therefore these issues cannot be ignored. Once these issues were established, proper practical suggestions could be forwarded; to ensure these officers were well prepared. Any indication of poor health and low levels of well-being in the work place may be taken as a signal that high stress amongst frontline correctional officers lingers on and need to be addressed.

ACKNOWLEDGEMENT

The author wishes to thank Malaysia Correctional Department. The author also wishes to thank Drs. Jane Myers and Tom Sweeney, Drs Senol-Durak, Dural and Gencoz and Drs Costa and McCrae for their permission to use the instruments, support and assistance for this academic research.

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The Effect of Religiosity on Purchase Decision towards *Halal* Foods with Awareness as Intervening Variable

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Abstract

Muslim consumers are influenced by different factors when trying to decide on whether or not to acquire *halal* foods. Religion is one of the important factors that shape consumer behavior toward *halal* foods. This study reports a study that examines the direct and indirect effect of religiosity on purchase decision. Data was collected from Brunei Muara District using convenience sampling. One hundred ninety eight (198) respondents participated in this study. Using a path analysis this study found that among the sample: (1) the direct effect of religiosity on purchase decision is significant, (2) the indirect effect of religiosity on purchase decision through awareness is significant. This study contributes not only to the research literature but also to government, food manufacturers and marketers to develop strategies related to *halal* foods.

Keywords: awareness, purchase decision, *halal* foods, religiosity.

1 INTRODUCTION

Islam has tenets that govern what its followers can and cannot eat. For a food or drink product to be approved for consumption it must conform to Islamic dietary laws as specified in the Quran. In Muslim societies, religion plays one of the most influential roles shaping food choice. Muslim consumers eat *halal* meat in order to follow and express their religious teachings (Bonne and Verbeke, 2006). These religious commitments and beliefs influence the feelings and attitude of people towards

consumption (Jamal, 2003). Religious obligations and beliefs direct peoples' attitude and feeling towards a range of products, such as food, financial, cosmetics and pharmaceutical products (Esso and Dibb, 2004; Mullen *et al.*, 2000).

Marketing researchers have been interested in the influence of religion in decision making process. Religion is an important cultural factor to study because it is one of the most universal and influential social institutions that have significant influence on peoples' attitudes, values and behaviors at both the individual and societal levels (Mokhlis, 2009). These religious commitments and beliefs influence the feelings and attitudes of people towards consumption (Jamal, 2003). There are a considerable body of extant literature focused on religiosity and its influence on various variables. Prior researchers have examined how religiosity affected new product adoption (Rehman and Shabir, 2010), consumer's evaluation of retail store attributes (Khraim *et al.*, 2011), consumer behavior and on purchasing decisions (Alam and Hisham, 2011; Mohklis, 2009).

Alam and Hisham (2011) examine the effect of religiosity on Muslim consumer behavior and on purchasing decision. The study confirms that religiosity acts as a full mediating role in the relationship between relative and contextual variables, and purchase behavior of Muslim consumers. Mokhlis (2009) investigate the role of religious factors in explaining differences in consumer behavior. Findings of the study suggest that significant differences exist in shopping orientation among consumers with different levels of religiosity. Both dimensions of religiosity (intrapersonal and interpersonal) may be significant in predicting certain aspects of shopping orientation. More specifically, three shopping orientation factors, namely price conscious, quality conscious and impulsive shopping, were found in the study to be consistently related to religiosity. Patel (n.d.) explore whether religion influences shopping behavior. The results of the research indicate that shopping behavior of people differs across different religious group affiliation and degree of faith manifested. It is also found that religious impact on consumption also differs across various product categories and culture.

Besides religiosity, research interest in the area of awareness towards *halal* foods has grown considerably (Salman and Siddiqui, 2011; Nor Ardyanti *et al.*, 2013; Ambali and Bakar, 2013). Salman and Siddiqui (2011) examine the awareness and perception of *halal* food in Pakistan. Their study found that people who are highly religious may not necessarily have high level of awareness about *halal* food. This result is consistent with the findings of the study done by Nor Ardyanti *et al.* (2013) which suggested that Muslim customers are likely to choose a food outlet based on price and taste instead of *halal* logo or certification. A similar study was done by Ambali and Bakar (2013) which addresses the determinants of Muslim consumers' awareness of *halal* products or foods in the city of Shah Alam, Selangor in Malaysia. The study found that religious belief, *halal* exposure, *halal* logo, and health reasons are the determinants of Muslims' awareness about *halal* consumptions.

The investigation of Muslim attitude towards *halal* products is important in Islamic societies such as Brunei Darussalam, where it is generally assumed that products sold in the Brunei markets are considered *halal* to be consumed. The current study differs from prior studies in two significant areas. Firstly, the effect of religiosity and purchase decision has been investigated by previous researchers, however, there is no research that

incorporates the role of awareness in the relationship between religiosity and purchase decision. To the authors' knowledge, this study is the first attempt to relate religiosity and purchase decision with awareness. It is claimed in some of the literature that religion is the key cultural element that determines behavior and decisions to buy (Babakus *et al.*, 2004; Cornwell *et al.*, 2005). Secondly, the measurement of religiosity is novel, and has never been studied in the Brunei context. A significant methodological contribution of this research is the development of a set of scales for measuring religiosity. Based on the above-mentioned research motivation, this research has two objectives. The first objective is to investigate the direct effect of religiosity on purchase decision. The second objective is to analyze whether awareness acts as an intervening variable on the relationship between religiosity and purchase decision.

2 LITERATURE REVIEW

2.1 Legitimacy of *Halal* Foods Consumption

Islamic laws govern what is lawful for a Muslim (*halal*) and what is forbidden (*haram*). It is stated in Al-Qur'an (Surah Al-A'raf 7:157):

*"[Allah] allows them as lawful what is good (and pure) and prohibits them from what is bad (and impure)"*¹

The food consumed by Muslims are lawful or permitted, unless the food is categorized in Al-Qur'an and Hadith as *haram* or forbidden. The word *halal* means permissible or lawful according to Islamic laws. According to Rehman and Shabbir (2010), *halal* products are those that are Shariah compliant, i.e. do not involve: the use of *haram* (prohibited) ingredients, exploitation of labor or environment, and are not harmful or intended for harmful use.

This has been clearly stated in Al-Qur'an (in surah Al-Baqarah 2:172-173):

"O ye who believe! Eat of the good things that We have provided for you, and be grateful to Allah, if it is Him ye worship. He hath only forbidden you dead meat, and blood, and the flesh of swine, and that on which any other name hath been invoked besides that of Allah. But if one is forced by necessity, without wilful disobedience, nor transgressing due limits,- then is he guiltless. For Allah is Oft-forgiving Most Merciful."

And again in (surah Al-Ma'ida 5:3):

"Forbidden to you (for food) are: dead meat, blood, the flesh of swine, and that on which hath been invoked the name of other than Allah. That which hath been killed by strangling, or by a violent blow, or by a headlong fall, or by being gored to death; that which hath been (partly) eaten by a wild animal; unless ye are able

¹ Translation by 'Abdullah Yusuf Ali.

to slaughter it (in due form); that which is sacrificed on stone (altars); (forbidden) also is the division (of meat) by raffling with arrows: that is impiety.”

Wahab (2004) states that the word ‘Food for Muslims’ or ‘food certified *halal*’ or ‘*halal*’ or having similar meanings can be defined as follows:

- a. Free of, and not made of, or containing any part or substance taken or extracted from animal which are forbidden (*haram*) to be consumed by Muslims, according to Islamic laws.
- b. Not containing any substances, which is declared as filth according to Islamic Laws.
- c. Not prepared, processed, produced or manufactured using utensils, equipment and/or machinery which are not free from filthy substances as directed by Islamic Laws, and
- d. During preparation, processing or storage, it should not come into contact or be in close proximity with any food which do not fulfil the requirements as stipulated in Paragraph (a), (b) or (c) or any substance declared as being filth according to Islamic Law.

2.2 Religiosity

The link between religion and consumer behavior is noted. However, there exists relatively few papers which explore religion as a predictor of consumption patterns. One of the main reasons for this is due to the difficulty of measuring *religion* as a variable for consumer research. Nevertheless, the influence of religion has been operationalized in the context of research in terms of religious affiliation and religiosity.

Religious affiliation is a discrete construct that is typically measured relative to the denominational membership or religious identification of an individual (e.g. Muslim, Christian, Jew, Hindu, and Sikh). As an example, Hirschman (1983) found significant differences among Catholics, Protestants and Jews in the consumption patterns for entertainment, transportation, and family pets. Although identification as a variable is relatively easy, authors such as Wilkes *et al.* (1986), believe that religious affiliation was insufficient in understanding the impact of religion on consumer behavior.

On the other hand, religiosity is a continuous construct that measures the level of religious commitment or adherence. Worthington *et al.* (2003, p. 85) describes religiosity as “*the degree to which a person adheres to his or her religious values, beliefs and uses them in daily living.*” Furthermore, they posit that the “*supposition is that a highly religious person will evaluate the world through religious schemas and thus will integrate his or her religion into much of his or her life.*” Early work relied on single indices or uni-dimensional indicators to measure religiosity, such as religious attendance. Although there is some disagreement in the literature regarding the precise number of dimensions to employ in measuring religiosity, most researchers agree that it should be multidimensional in nature. Thus, the concept of religiosity allows a richer understanding of the relationship between religion and consumer behavior.

Worthington *et al.* (2003) developed a general of measure of religiosity known as the Religious Commitment Inventory (RCI-10) which has been validated across different samples. The RCI-10 is made up of statements which express intrapersonal religiosity and intrapersonal religiosity, which measure cognitive and behavioral dimensions of religion. Based on this measurement scale, Mokhlis (2009) for example, finds significant

differences in shopping orientation (quality consciousness, impulsive shopping and price consciousness) between Muslims, Buddhists, Hindus and Christians. Using both religious affiliation and religious commitment, he finds that differences in shopping orientation were much more profound for religious commitment than religious affiliation, which implies that religiosity may serve to be a powerful predictor and determinant of consumer behavior. Nazlida and Mizerski (2010) however, contend that the commitment of consumers to their religion need to be measured based upon each religions' perception of religious commitment rather than a single generic measure.

Khraim (2010) found that three dimensions (i.e. seeking religious education, Islamic current issues and sensitive products) yielded the best combination of dimensions for the measurement of Muslim religiosity. This measure however was noted to be directed more on practical behavior by Abdul Shukor and Jamal (2013), and argued that it did not reflect the true meaning of Islam. They argued that the measurement of a Muslim's religiosity should include two important aspects: relationship with Allah (*hablum minallah*) and relationship with other people (*hablum minannas*).

It can be concluded that to date, huge strides have been made in the measurement of religiosity in the context of consumer research. Researchers appear to agree that religiosity cannot be measured in generic terms, but should be defined for each specific setting. Nevertheless, it is important to gather a holistic measure of religiosity incorporating both cognitive and behavioral dimensions in an Islamic perspective.

2.3 Awareness on *Halal* Foods

Although the dietary laws imposed by religion may be rather strict, the amount of people following them is usually quite substantial. Even in US alone, it was estimated that 75% of Muslims follow their religious dietary laws (Hussaini, 1993). This is very much determined by religiosity and awareness of Muslim consumers on *halal* Foods. This would also yield a quite substantial potential *halal* food market.

Awareness comprises a human's perception and cognitive reaction to a condition or event. Awareness does not necessarily imply understanding, just an ability to be conscious of, feel or perceive. According to Ambar and Bakar (2013), the literal meaning of the word "awareness" in the *halal* context is to have special interest in or experience of something and/or being well informed of what is happening at the present time on *halal* food, drinks and products.

The use of *halal* logos to provide awareness and enable consumers identify foods which are *halal*, are common around the world. Despite the specific injunctions in Islam, there are still some unresolved issues with regards to certification and standardization. This affects public understanding and awareness of what is permissible. Furthermore, in some cases *halal* logos are abused, which makes it increasingly difficult for the discerning Muslim consumer.

In many countries, there are authorities which inspect and provide certification or logos for *halal* foods. However, these authorities are sometimes in disagreement regarding what constitutes foods which are *halal*, and what does not. Wilson & Liu (2010) provides a useful recent review of the current literature and practices regarding the usage and consumption of *halal*, within the marketing and branding context.

Some countries have found it useful to have one designated authority to inspect and regulate the availability and provision of *halal* foods such as JAKIM in Malaysia and MUIB in Brunei. Even then however, the implementation of *halal* certification is not without its challenges, most particularly regarding the adulteration of food products as well as the enforcement by *halal* food authorities (Shahidan and Md Nor, 2006). Food production has increasingly been based on the advancement of science and technology, which has led to increasingly complex methods for detection of non-permissible ingredients such as pork, lard and alcohol (Nurrulhidayah *et al.*, 2011). Furthermore, although relatively still in its infancy, technological advancements have also been mooted to assist the enforcement of *halal* logo usage (Mohd. *et al.*, 2011).

In response to certification issues described above, the Brunei *halal* Brand was launched in 2009 to gain sustainable competitive advantage. Temporal (2011) notes that Brunei is the first country to introduce both *halal* certification and *halal* brand logos. The objective is to gain the consumer trust towards the Brunei *Halal* logo, which is automatically associated with a high *halal* compliant standard. However, it is acknowledged that the process to bring about this global awareness and recognition will take time and high costs.

In any case, the presence of a single authority in a country to regulate *halal* food issues should assist consumers in making better-informed decisions, but several questions remain. What is the extent of consumer awareness and understanding towards *halal* foods? Do consumers assume that food items coming from traditionally Muslim countries are *halal*? Do consumers accept all food items with *halal* logos, regardless of origin, as *halal*? Does the presence of an authority to handle *halal* food issues mean that consumers delegate the responsibility of checking the ingredients?

2.4 Purchase Decision

Nowadays, Muslims are making their presence felt socially and politically and are requesting *halal* certified food products (Riaz & Chaudry, 2004; Shafie & Othman, 2006). Therefore many producers start applied the *halal* certification on their products. Leading retailers such as Carrefour in France and Belgium or Albert Heijn in the Netherlands are testing to include *halal* meat in their products. Previous attempts in a retail environment were often unsuccessful because of lack of insights in food purchasing and consumption behaviour of Muslims. (Ramdani, 2005), Shah Alam and Sayuti (2011) mentioned that Muslims worldwide today are become more aware towards the *halal* concept and this has opened up the demand for *halal* foods in compliance with their religious requirements. Gaining better insights in *halal* food and meat consumer behavior will be useful to several stakeholders in the food chain, including food policy makers, the industry and retailers.

The decision to purchase a product typically goes through a complicated process. The analysis of purchasing decisions will reveal consumer preferences, behavior, attitude and perception towards particular products. Several empirical studies have recently been conducted to understand the purchasing intention or purchasing decision of *halal* products.

For example, Mohani *et al.* (2009) finds that assurance is sought in relation to the “*halalness*” of business premise, “*halalness*” of product, and assurance from

environmental elements such as the *halal* logo. Unsurprisingly, they also find a significant relationship between respondents' religious affiliation and perceptions toward *halal* logo and ingredients. Furthermore, Yushanis and Chok (2013) found that *halal* awareness, *halal* certification, marketing promotion, and brand were positively related to purchase intention, whereas food quality was negatively associated with it. Also, Hasleena *et al.* (2013) found that knowledge or familiarity of the processed *halal* foods was the most influential factor in determining the purchasing decision among Muslim consumers.

All these studies indicate that there is a multitude of factors that affect the consumers purchasing decision.

3 HYPOTHESIS DEVELOPMENT

3.1 Linkage between Religiosity and Purchase Decision

Food which is consumed by Muslims must be *halal*, unless it is categorized in Al-Qur'an or Hadith as *haram* or forbidden. The word *halal* means permissible or lawful according to Islamic laws, and therefore the permissibility or *halalness* of different types of foods should be of great concern to all Muslims. However, the commitment or adherence of Muslims towards *halal* foods may not necessarily be identical due to different levels of commitment or adherence towards their faith. In general, we expect that a Muslim with a stronger level of faith, or a more religious person, would be more committed towards the decision to purchase and consume *halal* foods. Based on this argument, the following hypothesis can be developed:

H₁: There is a direct effect of religiosity on purchase decision

3.2 Linkage among Religiosity, Awareness and Purchase Decision

The purchase decision of *halal* foods is complex, and not necessarily straightforward. Although we expect a direct link to exist between religiosity and purchase decision, this relationship may not be complete. In other words, there may be other factors which affect the relationship between religiosity and the decision to purchase *halal* foods, such as awareness.

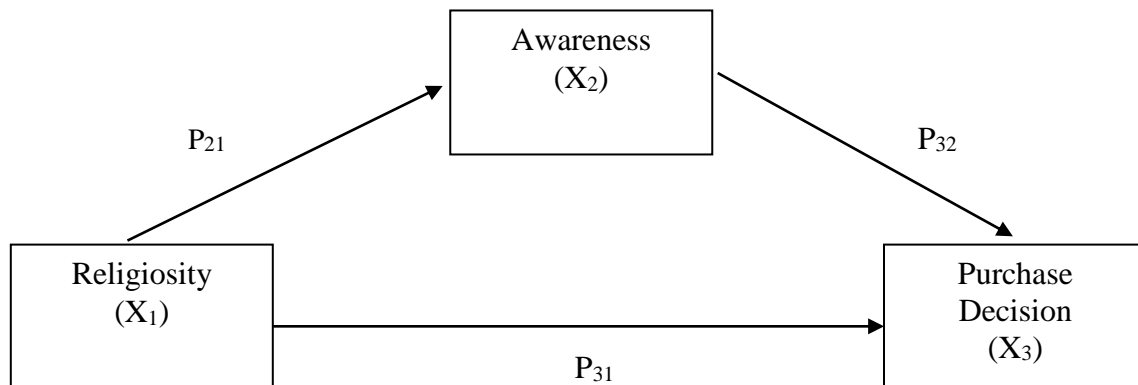
Awareness in the *halal* context refers to the state of individuals who are well-informed of what is happening at the present time on *halal* foods. In particular, the use of *halal* logos are common throughout the world, to provide awareness, and enable consumers to identify foods which are *halal*. However, there are still unresolved issues with regards to the certification and the standardization of *halal* logos. These issues affect public understanding and awareness of what is permissible. Furthermore, in some cases *halal* logos are abused, which makes it increasingly difficult for the discerning Muslim consumer.

In general, we expect that a religious person who is more aware of the issues pertaining to *halal* foods is more likely to make better purchase decisions, than one who is less aware. Thus, these arguments suggest the following hypothesis:

H₂: There is an indirect effect of religiosity on purchase decision through awareness

Based on the arguments developed above, the model proposed in the present study is as follows:

Figure 1 Basic Theoretical Model of the Present Study



4 METHODOLOGY

4.1 Research Design

Data for this study was gathered by primary data collection method through a structured questionnaire. The questionnaire contains four (4) sections and comprises 25 items. The first section of the survey sought demographic information from the respondents such as gender, age, marital status, education level. The second section asks for respondents' perception of purchase decision based on 6 given statements. The third section is designed to investigate the awareness towards halal foods. The last part of the questionnaire measures religiosity consist of 9 items. In the second, third and fourth sections respondents were requested to rate their opinions according to a five point Likert type scale ranging from 1 to 5. 1 refers to strongly disagree, 2 refers to disagree, 3 refers to neutral, 4 refers to agree, and 5 refers to strongly agree. The questionnaire was developed in both Malay and English language, as the majority of the respondents were educated in the languages. Data were collected from Bruneian muslims in Brunei Muara using a convenience sampling procedure. A questionnaire was administered to a sample of 300 Bruneian Muslims, 198 were returned yielding a response rate 66%. Tabel 1 presents the reliability of the scale used in this research.

Table 1: Reliability Coefficients

Variables	No. of items	Cronbach's alpha
Awareness	10	0.616
Purchase Decision	6	0.874
Religiosity	9	0.833

Table 1 shows that the three scales has Cronbach's alpha value for all items are more than 0.6. A value of 0.6 or higher is generally considered to indicate high reliability (Hair Jr. et al. 1998).

4.2 Analysis of the Proposed Model

A path analytic method was used to test the model of the study as shown in figure 1. Path analysis is a statistical technique primarily to examine the comparative strength of direct and indirect relationships among variables (Lleras, 2005). In the model, the relationships between variables were specified by a series of path coefficients (P_{1j}) which are equivalent to standardized beta. The equations in the path model are shown as follows:

$$X_2 = P_{21}X_1 + P_{2a} \dots \dots \dots (1)$$

$$X_3 = P_{31}X_1 + P_{32}X_2 + P_{3b}R_b \dots \dots \dots (2)$$

The first equation shows the religiosity (X_1) as the independent variable and awareness (X_2) as dependent variable. The second equation treated religiosity (X_1) and the awareness (X_2) as the independent variable and purchase decision (X_3) as the dependent variable. Test on the adequacy of the regression models indicates that the results of each model are fairly normally distributed. To diagnose multicollinearity, the variance inflation factors (VIFs) are examined for the predictors. VIFs vary from a low of 1.024 to a high value of 1.064.

5 RESULTS

5.1 Background of Respondents

The following table below shows demographics profile of the respondents which encompass age, gender, status, highest level education and religious education background.

Table 2: Demographic Profile

Characteristics	Frequency	Percentage (%)
Age		
Less than 20 years	28	14.1
Between 20 and 29 years	120	60.6
Between 30 and 39 years	26	13.1
More than 40 years	24	12.1
Gender		
Male	59	29.8
Female	139	70.2
Status		
Single	138	69.7
Married	60	30.3
Highest Level Education		
GCE O level or below	19	9.6
GCE A level or equivalent	60	30.3
Diploma or equivalent	24	12.1
Bachelor Degree or equivalent	74	37.4
Postgraduate degree or equivalent	17	8.6
Other	4	2.0
Religious Education Background		
Completed primary six	141	71.2
Attended but did not complete primary six	20	10.1
Not attended	10	5.1
Others	27	13.6

Table 2 shows that 120 (60.6%) of the respondents were aged between 20 to 29 years old. There is almost an equal number of respondents in the group less than 20 years (28%), between 30 and 39 years (26%), more than 40 years (24%). In terms of gender, more than half of respondents (139) are female (70.2%) and 59 are male (29.8%). In terms of marital status, 138 respondent (69.7) are single. On the other hand, 60 respondents (4.1%) are married.

Table 2 also shows that in terms of highest educational level, there is almost an equal number of respondents who have GCE O level or below (19 respondents) and postgraduate degree (17 respondents). This is followed by 60 respondents those who had GCE A level or equivalent (30.3%), 24 respondents had diploma or equivalent (12.1%), 74 respondents had bachelor degree or equivalent (37.4%), and other 4 respondents (2%). As far as the formal religious education is concerned, majority of respondents had completed primary six. It constitutes 71.2% of the sample. Further, 10.1% respondents attended but did not complete primary six 5.1% not attended, and others 13.6%. This

means that a significant proportion of respondents have received a decent background in Islamic religious education.

5.2 Test of Hypotheses

Table 3 and 4 below provide the results of regression equations.

Table 3: Results of Regression of Equation 1
 The Effect of Religiosity (X1), on Awareness (X2)

Equation (1)		$X_2 = P_{21}X_1 + P_{2a}$		
Variable	Value	SE	T -stat	Sig
X ₁ Religiosity	0.269	0.076	3.555	0.000
R = 0.246		R ² = 0.061	F=12.640	α = 0.05

Table 4 Results of Regression of Equation 2
 The Effect of Religiosity (X1) and Awareness (X2) on Purchase Decision (X3)

Equation (2)		$X_3 = P_{31}X_1 + P_{32}X_2 + P_{3b}R_b$		
Variable	Value	SE	T -stat	Sig
X ₁ Religiosity	0.152	0.040	3.808	0.000
X ₂ Awareness	0.287	0.040	6.583	0.000
R = 0.526		R ² = 0.277	F= 37.346	α = 0.05

5.3 Test of Hypothesis 1

To test H1, the effect of religiosity on awareness, a linear regression model is employed, in which the independent variable is religiosity and the dependent is purchase decision. As summarized in Table 4, it shows that religiosity has significant effect on a purchase decision [$p(0.000) < 0.05$]. Hence, the result of the path model support for hypothesis 1.

5.4 Test of Hypothesis 2

It is expected in hypothesis 2 that there is an indirect effect of religiosity on purchase decision through awareness. Table 3 and 4 provide the results to examine the indirect effect. Table 3 reveals that the effect of religiosity on awareness is positive and significant [$p(0.000) < 0.05$]. Table 4 also provides evidence to support hypothesis 2. Table 4 shows that the effect of awareness on purchase decision is positive and significant [$p(0.000) < 0.05$]. These results lead the author to conclude that the two path which form indirect effect of religiosity on purchase decision through awareness are significant and therefore H2 could not be rejected.

6. CONCLUSIONS AND LIMITATIONS

The purpose of the study was to examine empirically the intervening role of awareness in the relationship between religiosity and purchase decision. The results reveals that (1) the direct effect religiosity on purchase decision is significant (2), the indirect effect of religiosity on purchase decision through awareness is significant. The result indicate that consumer behavior is influenced by consumer's religiosity. Highly religious individuals are more likely to be concerned with halal foods and more likely to make purchase decision on *Halal* foods. Looking at the above demographic information. It can be seen that majority of respondents of this study is largely dominated by students who has completed primary six religious so they are very cautious related to halal foods. This means that the higher an individual's religious education, the more will be their concern to ensure that food they eat conforms to halal requirements. This study also suggests that the internalization of Islamic values related to halal foods can be enhanced through the education process. The influence of Islamic values related to halal foods on individual's values is not immediate and that individual may need time to learn that certain values are correct. Furthermore, the result also suggest that the effect of religiosity on purchase decision is intervened by awareness. Thus , religiosity play a crucial role in the purchase decision by controlling consumer behavior. When halal foods is seen as a religious issue, individuals are likely more aware, and increase the intention to purchase halal foods.

There are at least three limitations to the study which are worth noting. First, the sample was taken from Brunei Muara only and respondents were selected using convenience sampling. It is recommended that future research consider using a bigger sample size representative of all Bruneian Muslim and a wider geographical area. Second, the study did not consider all the variable that might affect purchase decision. There might be another variables that influence purchase decision. The buying behavior is influenced by both internal and external factors (Jalalkamali and Nikbin, 2010). The internal factors comprised of motivation, perception, consumer resources, knowledge, attitudes, personality, values and lifestyle. On the other hand, the external input variables consist of the environmental and marketing stimuli. Third, while awareness and purchase decision measures are well recognized in the literature, the survey instrument and conceptualization of religiosity are both issues requiring further investigation in the literature.

The findings of this study add to the limited knowledge of halal foods research. This study identifies a gap in the literature, it has explored that gap through quantitative research, however, there still remains a significant amount of research requiring to be done in this area to replicate or extend this study. For future research it is recommended to study the influence of religiosity on other marketing variables, such as how religiosity can affect promotions of the halal foods. Beside this, the present study is of practical significance because the empirical result provides information about halal foods to help government to develop strategies toward increasing halal foods awareness. Also, the result indicate that religiosity and awareness are important antecedends of Bruneian Muslims intention to purchase halal foods. Therefore, marketers should design their marketing campaigns focusing on creating awreness regarding their compliance with halal products. Moreover, food manufacturers and sellers should use the reliable halal

certification and logo as a way to inform their consumers that their products are truly halal.

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The Implementation of Corporate Governance Mechanism on Earnings Management of Jakarta Islamics Index (JII) and LQ-45 Index

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Abstract

The purpose of this study examines the impact of Corporate Governance mechanism i.e institutional ownership, managerial ownership, size of board committee, independence of board committee, and the audit committee on earnings management. The earnings management is measured by various models such as accruals (long term discretionary accrual and short term discretionary accrual), real (abnormal operating cash flow, abnormal production costs, and abnormal discretionary expenses and integrated model. The sample is 271 companies listed in Sharia (JII) and Conventional Index (LQ45) during the 2004 – 2010 periods. The descriptive analysis showed that the companies incorporated in the JII index tends to decrease earnings numbers pattern, while on companies incorporated in the LQ-45 index tends to increase earnings numbers pattern. Companies which incorporated in JII index focused on manipulated earning number of current assets, while in the LQ 45 focused on fixed assets such as depreciation methods. In the real models, all of company manipulated earning number by manipulated on abnormal cashflow with sales accrued in short period.

Based on the multiple linear regression analysis, it found that corporate governance mechanism is quite effective in reducing earnings management. While in real earnings management model, corporate governance mechanisms are not able to reduce earnings management. It means the earnings management are likely performed on accrual basis rather than real basis. The variables proportion of independent board and the existence of Audit Committee have effect significantly on earning management. It means that corporate governance mechanism from outside has more effective for controlling management. In the future, researchers should be using the corporate government perception index for measuring CG mechanism, consider the characteristics of industries and analysis earning management with efficiency perspective.

Key words: Corporate governance mechanism, earnings management, sharia index, LQ-45 index.

INTRODUCTION.

The earnings management has be done as a result of an information asymetry between manager and the owners. According to Schipper (1989), earnings management is a management intervention with the specific intent against external users to obtain some of personal profit.

Encouragement for earnings management also occurs because the implementation of corporate governance is not efficient.

According to the Organization for Economic Co-operation and Development OECD (2004) and FCGI (2003), the corporate governance is a set of regulations governing the relationship between shareholders, corporate managers, creditors, government, employees, and the other internal and external shareholders related to their rights and obligations, or is a system which governing and controlling the company (Effendi, 2009)

In the agency theory perspective, the earnings management can be minimized through monitoring mechanism to align differences in the interests between owners and management, It used by (1) increase the company's share ownership by management (managerial ownership) (Jensen and Meckling, 1976), (2) increase the stock ownership by institutional because they are considered a sophisticated investor (Midiastuti and Machfoedz, 2003), (3) the larger proportion of independent board (Peasnell, Pope and Young, 1998), (4) the size of board of commissioners, where the more number of commissioners that is to reduce earnings management (Midiastuty and Machfoedz, 2003) and (5) the existence of an audit committee also can reduce earnings management (Wilopo, 2004).

Research on earnings management with various earnings management models in the Indonesian capital market both in the Islamic and conventional indexes has been done by (Wiyadi et al.2011, 2012). Generally, previous studies (Boediono (2005); Kusumawati (2005); Veronica and Bakhtiar (2005); Rahmawati, Suparno and Qomariyah (2006); Nasution and Setiawan (2007); Ujijantho and Pramuko (2007); Herawaty (2008), Sasongko and Fauziah (2011), Wiyadi and Prasnowo (2011), Trisnawati and Nugroho (2011), are measuring earnings management used accruals aggregate approach. This approach separated total accruals into non-discretionary component and discretionary accruals (accruals components are in management or policy managers to intervene in the financial reporting process). This model frequently used is the modified Jones

Further models were developed to perform separation of components of discretionary accruals into short-term discretionary accruals component and long-term discretionary accruals. The separation is expected to clarify the role of each of the components of discretionary accruals to measure earnings management (Sasongko and Purbasari, 2012; Wiyadi and Safitri, 2012; Romi, 2011; Zayene and Jilani, 2010; Subekti, Wijayanti and Ahmad, 2010 ;).

The accrual earnings management measurement model is considered by some researchers still have not been able to reveal the full of the earnings management practices because the model ignores the relationship between cash flow transactions and accruals (Dechow et al. 1995, Kothari et al., 2005, Subekti, et al. 2010). Accounting research drawing conclusions about the earnings management only based on accrual adjustment alone may be invalid (Roychowdhury, 2006). Furthermore, Trisnawati and Suhestiningsih (2012) measured earnings management based on real activity. Survey Graham, Harvey and Rajgopal (2005) found the evidence that top management as respondents are much more willing to engage in real earnings management) rather than accruals management to achieve earnings targets

The integrated management model introduced by Leuz, Nanda and Wysocki (2003). This model is a combination of the values of smoothing earnings and reported earnings discretion (discretionary accruals) and real earnings management. Later, this model adopted by Habib (2004). Subekti, Kee and Ahmad (2008) also conduct an integrated approach to earnings management by performing factor analysis to determine the value of earnings management.

Trisnawati et al (2012) conducted a study of earnings management by integrated approach with an average approach. They refer Baharudin and Satyanugraha (2008). Real earnings management is measured by abnormal operating cash flow, abnormal production costs, and abnormal discretionary expenses (Suhestiningih and Trisnawati, 2012). While accrual earnings management is measured by short-term discretionary accruals and discretionary long term accruals (Wiyadi and Safitri, 2012; Sasongko and Purbasari, 2012). Integrated measurements provide a more accurate model to measure earnings management in the Indonesian capital market (Trisnawati et al, 2012).

This research is to analyze the role of corporate governance mechanisms in reducing earnings management. Corporate governance mechanism is measured by the managerial ownership, institutional ownership, the proportion of independent board, the number of independent board and audit committee existence. While the measurement of earnings management using discretionary accruals in to short-term discretionary accruals component and long-term discretionary accruals (Sasongko and Purbasari, 2012; Wiyadi and Safitri, 2012; Romi, 2011; Zayene and Jilani, 2010; Subekti, Wijayanti and Ahmad, 2010), Real earning management (Trisnawati and Suhestiningih, 2012) and integrated earnings management (Leuz, Nanda and Wysocki, 2003; Habib, 2004, Subekti, Kee and Ahmad, 2008; Trisnawati et al., 2012). This study has explored the various earning management models with cases in JII and LQ 45. It used to describe the role corporate government mechanism for reducing integrated earning management.

LITERATURE REVIEW

1. Corporate Governance

Effendi (2009) defines corporate governance as a system of internal control that has the main purpose to manage risk to achieve its business objectives through enterprise asset security and enhance the value of shareholders' investment in the long run. Roodposhti and Chashimi (2011) describes the good corporate governance is to decrease difference interest between shareholder and managers. The role is more useful when manager have the opportunity to deviate from the shareholders' interests or conduct earnings management. Principles of Good Corporate Governance is based on the principles of transparency, accountability, responsibility, independence, and fairness

1.1. Managerial Ownership

Managerial ownership is a situation where the manager as well as the company's shareholders. In the financial statements, the circumstances shown by the percentage of ownership in company stock by the board of commissioners and the board of directors which disclosed in the financial statements. Firms with managerial ownership as well as its shareholders would be aligning its interests. If a company has a high managerial ownership, managers are much more concerned about the interests of shareholders. Thus, capital structure with high managerial ownership reduce agency costs and increase voluntary disclosure (Saputri, 2010).

Morck et al. (1988), Warfield *et al.* (1995); Gabrielsen, *et al.* (2002), and Midiastuty and Mahfoedz (2003) give the conclusion that the company is managed by a manager and have a certain percentage of the company's stock can affect the earnings management practice. In addition, pressure from capital markets cause firms with low managerial ownership will choose accounting methods that increase reported earnings, which in fact does not reflect the economic

circumstances of the company concerned. According to Jensen and Meckling (1976) the interests of managers and shareholders can be aligned when managers have a larger company shares. Based on the reasoning and findings of previous research, this study will examine the effect of managerial ownership on earnings management. In other words, the greater the ownership of the manager, the earnings management can be reduced. Then the hypothesis can be formulated as follows:

H₁: Managerial ownership affects negatively on earnings management

1.2. Institutional Ownership

Institutional ownership is the shares owned by institutions, such as insurance companies, banks, investment companies, and other institutional ownership. Institutional ownership is important to monitor because of the presence of management by institutional ownership leads to a more optimal control (Permanasari, 2010). Institutional ownership has the ability to control the management through monitoring process effectively so the management reduce earnings management. This reasoning supported by Rajgopal *et al.* (1999), Bushee (1998), Rajgopal and Venkatachalam (1998), and Midastry and Mahfoedz (2003). Conclusions of these results are institutional ownership has the ability to affect earnings management practice for providing the quality of reported earnings. Indicators used to measure institutional ownership is the percentage of shares owned by institutions from the total shares of the company

Institutional ownership is often referred to as institutional investors are sophisticated investors and should be able to use the information in the current period compared to predict future earnings with non-institutional investors. Balsam *et al.* (2002) found a negative association between discretionary accruals are not expected to stock returns around the announcement date, which is a negative relationship varies depending on the level of sophistication of investors, where the reaction of the market is more sophisticated investors who preceded unsophisticated investors. Jiambalvo *et al.* (1996) found that the absolute value of discretionary accruals is negatively related to institutional investor ownership. Midastry and Mahfoedz (2003) found that the presence of high institutional ownership restricts managers do earnings management. This study will test the effect institutional ownership to earning management, so the hypothesis can be formulated as follows:

H₂: Institutional ownership affects negatively on earnings management

1.3. The size of the Board Commissioners

Number of board members that are owned by the company, consisting of the main commissioner, an independent commissioner, and the internal commissioner. Commissioners have a duty and responsibility to supervise and advise the board of directors and also ensure that the company has conducted to good corporate governance rules No. 40/2007 Section 108 subsection (5) explains that for companies is required to have at least two (2) members of the Board of Commissioners. Therefore, the variation number of the Board of Commissioners members in Indonesia depend on the complexity of the company with regard to its effectiveness in decision-making. In Indonesia, the number of Commissioners at most three and five people (Ratnasari, 2011). Number of commissioners is an important factor in the effectiveness of the commissioners. Through the role of the board in exercising oversight of the company's operations

by management, the board can make an effective contribution to the outcome of the process of preparation of the financial statements of quality or avoid the possibility of fraudulent financial statements. However, the literature has not provided a consensus regarding the relationship between the number of commissioners and effectiveness (Chtourou et al. 2001). A large number of commissioners will reduce the effectiveness of the functions but it is easier to control the board of directors (Jensen and Meckling, 1976)). On the other hand, a large number of commissioners created a better environment relationships and more expert. The research hypothesis can be formulated;

H 3: The size of the board of commissioners affect on earnings management

1.4. Proportion of Independent Commissioner

Independent Commissioner is a commissioner who is not a member of management, shareholders, or other party related directly or indirectly to the majority shareholder of a company (Surya and Yustivandana, 2006). Independent directors are expected to put justice (*fairness*) as a core principle in the interests of other parties, such as minority shareholders and other *stakeholders*, because the independent directors should be free of interest and any business that may be considered as interference to act in the interests profitable companies (Linoputri, 2010). The commissioners composition consisting of members from outside the company have a tendency affect earnings management. This reasoning supported research Dechow et al. (1996), Chtourou et al. (2001), Midiastuty and Mahfoedz (2003, and Xie et al. (2003). The results provide conclusion that companies with compositions by commissioners who come from outside the company may affect the action of earnings management. Through its role in oversight, board composition may influence the management in preparing the financial statements in order to obtain a qualified profit (Anderson *et al.*, 2003). Dechow *et al.* (1995) in his research shows that companies that earnings manipulation is more likely to have a board that is dominated by management and are more likely to have a major directors who concurrently as chief commissioner. Chtourou et al. (2001) and Wedari (2004) found that independent commissioners will restrict earnings management activities. Based on the arguments and empirical findings, the research hypothesis can be formulated:

H4: The proportion of independent board effect on earnings management

1.5. Existence of an audit committee

Veronica and Bakhtiar (2004) found that audit committees have a significant relationship with discretionary accruals in manufacturing company in Indonesia, especially for the period 2001 to 2002, The presence of an audit committee to effectively reduce the earnings management in the company. Wilopo (2004) analyzes the relationship of independent board, audit committee, corporate performance and discretionary accruals. These studies reported that the presence of audit committees and independent board affecting earnings management practices in the company. It indicates that the mechanism of corporate governance is important to ensure the implementation of company practices will be fair (fair) and transparent. The research hypothesis can be formulated:

H5: The existence of an audit committee negatively affect on earnings management.

2. Earnings Management

Scott (2006) defines earnings management as follows “Given that managers can choose accounting policies from a set (for example, GAAP), it is had to expected that they will choose policies so as to maximize their own utility and/on the market value of the firm” Fischer and Rosenzweig (1995) defines earnings management as the the action a manager to present a report which increase or decrease profit for the period of its responsibility to business units,

Based on the definition above, earnings management is intervention in the external financial reporting process with a view to benefit themselves. Earnings management is one of the factors which can reduce the credibility of financial statements. The earnings management can be measured by various models, that is: accrual earnings management model (short term and long term), real earnings management, and integrated earnings management.

2.1. Long term accrual model dan short term accrual model

The measurement model of accrual earnings management is considered by some researchers still have not been could reveal the full conditions of earnings management, because the model ignore the relationship between transaction cash flows and accruals (Dechow et al., 1995, Guay et al., 1996, Kothari et al. 2005, Subramanyam, 1996, Kothari 2001, Subekti, Wijayanti and Akhmad 2010). The accruals approach separates total accruals into non-discretionary component of accruals and discretionary accruals Models are frequently used is the modified Jones model.

Some previous studies measuring earnings management using accruals approach Midiastuty and Machfoedz (2003); Veronica and Bachtiar (2004); Wedari (2004); Boediono (2005); Kusumawati (2005); Veronica and Main (2005); Rahmawati, Suparno and Qomariyah (2006); Nasution and Setiawan (2007); Ujiyantho, Arief and Scout (2007); Herawaty (2008), Prasnowo and Wiyadi (2011), Nugroho and Trisnawati (2011), Fauziah and Sasongko (2011). One of the advantages of discretionary accruals approach (aggregate accruals) is potentially able to uncover a variety of ways to increase or decrease the profit rate. It has less attention to be known by outsiders (Gumanti 2000). However, the use of discretionary accruals model has a lot of criticism. Gomez, et al. (1999) found that the model ignores the relationship between cash flow and accruals. So that some accruals non discretionary component into classified as discretionary. These errors result the model misspecification.

According to Kothari et al. (2002) Jones model failed to estimate the portion of total discretionary accruals and probably will cause seriously problems in formulating conclusions. Therefore, the development of model needs to be done with other models offered by Whelan and McNamara (2004) which is a development of Jones model (1991) and modified Jones (1994). The differences, discretionary accruals divided into components of short-term discretionary accruals and long-term discretionary accruals. The separation is expected to better explain the role of each component of discretionary accruals to measure earnings management.

Short term and long term accruals have different characteristics. Short term accruals related to how to perform earnings management related to assets and current liabilities, the period is usually conducted in the first quarter or a fiscal year. While the long - term accruals related to fixed assets and long-term debt (Kusuma, 2006). Managers can take advantage of the differences in these characteristics. Managers will be easier to manipulate accounting data through long - term discretionary accruals, because the manager's actions can not be detected for several subsequent accounting period (Whelan and McNamara 2004).

According to Whelan and McNamara (2004) the market may consider long term use of discretionary accruals is effort the manager to fooling market participants, because the nature of the accrual provides an opportunity for managers to manipulate. Thus the impact of long term use of discretionary accruals will be greater than the short term discretionary accruals. Earnings

management research by separating the components of total accruals into discretionary accruals short-term and long-term discretionary accruals has also been conducted by previous studies (Romi, 2011; Zayene and Jilani, 2010; Subekti, 2010; Guay and Sidhu, 2001), Safitri and Wiyadi (2012), Purbasari and Sasongko (2012).

2.2. Real Earnings Management

Roychowdhury (2006) defines earnings management as follows “management actions that deviate from normal business practice, undertaken with the primary objective of meetings certain earnings thresholds”. In other words, managers intervene in the financial reporting process not only through various accounting methods or estimates but also can be done through various decisions relating to operational activities.

Real earnings management is the management actions that deviate from the normal course of business and conducted with the main objective to achieve the profit target (Roychowdhury, 2006; Cohen and Zarowin, 2010). Real earnings management can be conducted with 3 (three) ways, namely: the manipulation of sales, a decrease in discretionary expenditures, and overproduction. The third way is usually conducted by a company is underperforming, so not much has accrued to be manipulated. Roychowdhury (2006) provide empirical evidence that the company is doing in real earnings management to avoid reporting losses.

Research on earnings management based only on accrual arrangement alone may be invalid (Roychowdhury, 2006). Several recent studies of earnings management stated the importance of understanding how the company conducts earnings management through real activities manipulation in addition to accrual-based earnings management (Roychowdhury, 2006; Gunny, 2005; Cohen et al., 2008; Cohen and Zarowin, 2010; Suhestingsih and Trisnawati, 2012).

2.3. Integrated Earning Management

The model of integrated earnings management is introduced by Leuz, Nanda and Wysocki (2003). This model is a combination of the values and policies of income smoothing and discretionary accruals. This model was adopted by Habib (2004) with his study the impact of earnings management on the relevance of accounting information value on manufacturing companies in Japan. Subekti, Kee and Ahmad (2008) also measured the value of integrated earnings management used factor analysis. Furthermore, measurement of earnings management in the company go public in Indonesia by using the integrated model was conducted by Trisnawati et.al, (2012).

RESEARCH METHODOLOGY

This research population is manufacturing companies listed in the index of Sharia (JII) and Conventional Index (LQ 45) during the period from 2004 to 2010. The sample selected by purposive sampling. Total sample is 271 companies. Data used in this research is the annual financial statements published during this period and had complete information for observation and estimation

Variabel Measurement

The earnings management measured by accrual earnings management (discretionary accruals Short term and long term discretionary accrual), real earnings management (abnormal cash flow operations (CFO), abnormal production costs (PROD), and abnormal discretionary expenses (DISCR), and integrated earnings management (the average value of each proxy is STDA, LTDA, CFO, DISCR and PROD). The measurements each proxy is:

a. Short Term Discretionary Accrual

$$STDA = \frac{STACCI,t}{TAI,t-1} - \left\{ \beta_1 \left(\frac{1}{\text{Log } TAI,t-1} \right) + \beta_2 \left(\frac{\Delta REVI,t - \Delta RECI,t}{TAI,t-1} \right) + \beta_3 \left(\frac{INC_i,t}{TAI,t-1} \right) \right\}$$

b. **Long Term Discretionary Accrual**

$$LTDA = \frac{LTACCI_t}{TA_{i,t-1}} \left\{ \beta_1 \left(\frac{1}{\log TA_{i,t-1}} \right) + \beta_2 \left(\frac{PPE_{i,t}}{TA_{i,t-1}} \right) + \beta_3 \left(\frac{INT_{i,t}}{TA_{i,t-1}} \right) + \beta_4 \left(\frac{INC_{i,t}}{TA_{i,t-1}} \right) \right\}$$

c. **Abnormal Cash Flow Operation (Abnormal CFO)**

$$CFO_t / A_{t-1} = \alpha_0 + \alpha_1(1/\log.A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \varepsilon_t$$

d. **Abnormal Production Costs**

$$PRODt / A_{t-1} = \alpha_0 + \alpha_1(1/\log.A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \beta_3(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

e. **Abnormal Discretionary Expenses**

$$DISC_t / A_{t-1} = \alpha_0 + \alpha_1(1/\log.A_{t-1}) + \beta(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

Descriptive analysis performed to calculate the amount of abnormal CFO, abnormal PROD, abnormal DISCR, STDA and LTDA and to declare the degree of earnings management in each proxy for each sub-group sample (JII and LQ-45) during the period 2004-2010. Ranking conducted on the value of aggregate earnings management by calculating the average of the five proxies that form an integrated earnings management value (AGGR).

The independent variables consist of managerial ownership, institutional ownership, board size, the proportion of independent board, the existence of audit committee, and the type of index.

1. **Managerial Ownership**

Managerial ownership is the percentages of shares owned by managers (commissioners and directors). Managerial ownership = the number of shares owned by management divided by total number of shares outstanding x 100%

2. **Institutional Ownership**

Institutional ownership is the percentage of shares owned by institutional investors. Institutional ownership measured by the number of shares owned by institutional investors divided by the total number of shares outstanding multiplied by 100%.

3. **Board Size**

Board size is the number of commissioners from both internal and external. Board size was measured by the number of commissioners from both internal and external.

4. **The proportion of independent Board**

Independent board is the percentage of corporate board member from outside parties (instead of management and owner). This variable was measured by using the ratio of the number of commissioners from outside parties with the total number of commissioners.

5. **The existence of Audit Committee**

The audit committee is a dummy variable, if the company's Audit Committee formed in accordance with the rules of the Stock Exchange (consisting minimum three people) were given a score 1. When not in accordance with the rules of the Stock Exchange, were given a score 0

6. **The type of index**

Type of index is a dummy variable, for the companies included in the index JII were given a score 0, while for the companies included in the LQ-45 index were given a score 1

EMPIRICAL RESULTS AND DISCUSSIONS

This research aims to analyze the role of corporate governance mechanisms in reducing earnings management with various approaches. The initial step analysis is to calculate the average value of each proxy of earnings management in each sample group. The mean values of earnings management with various models can be seen in the following table.

Table 1
Earnings Management Value.

No.	Model	Jakarta Islamic Index	LQ-45 Index
1.	LTDA	0,233685	0,604901
2.	STDA	-0,589799	-0,404240
3.	ACCRUAL	-0,356114	0,200661
4.	Abn-CFO	-0,012055	0,005118
5.	Abn-PROD	0,006644	-0,002420
6.	Abn-DSCR	-0,004292	0,002336
7.	REAL	-0,009703	0,005033
8.	INTEGRATED	-0,075419	0,040803

Sources: Secondary data, processed.

The table 1 shows that during the period 2004-2010, the manufacturing companies listed the in JII index had a negative mean value of accrual earnings management, real earnings management, and integrated earnings management. It means companies tend to perform with the pattern of decrease profit numbers. While the company is listed in the LQ45 had a positive mean value of earnings management. It means companies tend to perform earnings management with the pattern to increase profit numbers.

By using an accrual earnings management approach, a company incorporated in the JII index have the higher value in short term approach (-0,589799) rather than in the long term approach (0,233685). Most companies tend to decrease earnings numbers. This pattern gives an indication, that the earnings numbers performed with the selection of accounting methods for recording and recognition inventory, accounts receivable, current assets, accounts payable and taxes payable, While the companies incorporated in LQ-45 index have the higher value in long term approach (0,604901) rather than a short term earnings numbers (-0,404240). This strategy is to raise the value of fixed assets by selecting the depreciation method. Moreover, it can also conducted by recognizing the long-term debt into current liabilities. However, the companies in the index JII and LQ-45 used the same approach to increase earnings numbers (long term approach) and to reduce the earnings numbers (short term approach).

With the real earnings management approach, the numbers of earnings management is higher in companies which incorporated in JII index (-0,009703) compared with in the LQ-45 index (0,005033). The patterns tend to reduce earnings number conducted by discretionary costs (DISC) with raising the advertising and research costs. Based on the data analysis, the value of the highest real earnings management proxy is mostly done by manipulating cash flow (Abn-CFO) because it has the highest mean value compared to other proxies.

Furthermore, through an integrated earnings management approach (AGGR), the pattern of earnings management in the index JII is decreasing earnings numbers. While in the LQ-45 index companies tend to use pattern increasing earnings numbers. The integrated measurement of earnings management clearly gives more accurate results. The results of multiple regression

analysis related to describe the implementation of corporate governance mechanisms on earnings management in LQ 45 and JII can be described by the following table.

Table 2.
The result of multiple regression analysis

VARIABLE	ACCRUAL	STDA	LTDA	REAL	INTEGRATED
CONSTANT	0,055	-0,479	0,534	-0,028	-0,006
MGROWN	0,209	-0,065	0,274	0,100	0,073
INSTOWN	-0,083	-0,140 ***	0,057	0,052	-0,012
BOARSIZE	0,040	0,001	0,039	0,001	0,009
BOARDINDP	-1,416 ***	-0,062	-1,354 ***	-0,088	-0,282 ***
AUDITCOM	-0,301 **	-0,028 *	-0,273 *	0,016	-0,055*
TYPE IND	0,535***	0,180 ***	0,356 ***	0,017	0,112 ***
F test	5,647	29,538	4,016	0,012	5,442
R square	0,114	0,402	0,084	0,513	0,110

Sources: Secondary data, processed.

***) significant with 1%

**) significant with 5%

*) significant with 10%

1. Hypothesis 1

Managerial ownership describes the large number of shares owned by management of the total shares outstanding. In terms of economic value, it has incentives to align the interests of managers with the company. The result of hypothesis testing for managerial ownership variable indicates that stock ownership by management has no effect on earnings management with various models. This suggests that managerial ownership had no effect on earnings management with accruals, real and integrated approach in the LQ-45 index and the JII index.

The result is in contrast with some studies that high managerial ownership will reduce earnings management practices Gabrielsen, *et al.* (2002); Madiastuty and Mas'ud Mahfoedz (2003). The reason for this is in the study, the percentage of managerial ownership is very low (10%). Thus, these results have not addressed that managerial ownership reduce the misalignment of interests between management by the owners or shareholders.

2. Hypothesis 2

Hypothesis testing is intended to test the impact of institutional ownership on earnings management. The analysis shows that institutional ownership has no effect on the earnings management, except in the short term discretionary accrual approach (STDA). In STDA approach has β value of -0,140 with a probability value level of 0,001 ($< 0,05$). It means institutional ownership negatively affect on earnings management with STDA models.

These results support the research of Jensen and Meckling (1976), Warfield *et al.*, (1995), Dhaliwal *et al.*, (1982), Morck *et al.*, (1988), Pranata and Masud (2003) and Cornett *et al.*, (2006) which found a significant negative effect institutional ownership on earnings management. These results are also consistent with reason that institutional owners are more focused on current earnings (Porter, 1992; Pranata and Mas'ud 2003). As a result, managers are forced to take earning management in short-term period or focused on current asset.

The result also supported by Cornett *et al.*, (2006), if institutional ownership will make the managers feel bound to meet profit targets of the investors, so they will tend to engage in

earnings manipulation. The monitoring by institutional investors may encourage managers to focus more attention on the companies performance and can reduce their behavior for its own interest.

3. Hypothesis 3

Based on the analysis, board size has no effect on earnings management significantly with various models. It means the amount of the company's board size can not reduce the earnings management. These results contrast with the research Xie, Davidson, Dadalt (2003), Yu (2006), Zhou and Chen (2004), and Chtourou, Bedard and Courteau (2001) which showed that a larger board size will reduce the earnings management. This variable is not significant because the placement or additional board members is made on the formal regulation not for monitoring enterprises. While the majority shareholder (controllers or founders) still plays an important role, so the performance of the board is useful (Gideon, 2005). In addition, the size of the board size is not a key determinant of the effectiveness supervision of management on the company. However, the effectiveness of the control mechanism depends on values, norms and beliefs are accepted within an organization (Jennings 2004a; 2004b; 2005a; Oliver, 2004).

4. Hypothesis 4

The analysis showed that the proportion of independent board significant effect on earnings management with various earnings management models except for STDA models and real earnings management model. It means, the more proportion of independent board within the company reduce the earnings management. Thus, the proportion of independent board (BOARDINP) negatively affect earnings management practices with an integrated approach This study supports research Chashmi and Roodposhti (2011) about the impact of corporate governance mechanisms on earnings management. Research findings showed board independence is negatively related to earnings management. This results also supported by Dechow et al. (1995), Chtourou et al. (2001), Midiastuty and Mahfoedz (2003), and Xie et al. (2003). The results explain that companies with the compositions by commissioners who come from outside the company may affect the earnings management. Through its role in oversight, the composition of the board of commissioners from outside the company may affect the management in preparing the financial statements in order to obtain a qualified profit.

5. Hypothesis 5

The hypothesis aims to test whether the presence of an audit committee negatively affect earnings management practices with an various models except on real earning management model. These results indicate that hypothesis 5 is supported. So the existence of an audit committee may reduce the company's earnings management practices.

These results are consistent with the research Xie, Davidson, Dadalt (2003), Veronica and Bachtiar (2004), Wedari (2004), and Wilopo (2004), where the existence of an audit committee negatively affect on the action of earnings management. So that, indicates an important corporate governance mechanism to ensure the implementation of the company's actions were fair and transparent. While on the real models, variable presence of an audit committee does not negatively affect on the earnings management. So these results are consistent with the research Veronica and Main (2005) that the existence of an audit committee does not affect on the action of earnings management.

6. Hypothesis 6

Based on the analysis, earnings management on various models is mostly occurs in the companies incorporated in the LQ-45 index compared with companies in the JII index. This is

caused the company in JII more ethics and more compliants to the regulation. These results supported the research by Hanafi (2006) and Nugroho (2011), They found that the cost of capital is lower in JII index compared with in LQ-45. The lower cost of capital is indicating a lower level of risk, lower information asymmetry, and lower agency costs so the investors are not interest for profit numbers.

CONCLUSION

Based on the results of descriptive analysis, generally, the companies incorporated in the JII index tends to decrease earnings numbers pattern, while on companies incorporated in the LQ-45 index tends to increase earnings numbers pattern. The use of accrual earnings management model and real earnings management is complement for measuring earnings management that combines both (integrated earning management). It provides the better results rather than single models. Companies which incorporated in JII index focused on manipulated earning number of current assets, while in the LQ 45 focused on fixed assets such as depreciation methods. In the real models, all of company manipulated earning number by manipulated on cashflow with sales accrued in short period.

Based on the multiple linear regression analysis, it found that corporate governance mechanism is quite effective in reducing earnings management. While in real earnings management model, corporate governance mechanisms are not able to reduce earnings management. It means the earnings management are likely performed on accrual basis rather than real basis. The variables proportion of independent board which measured by the percentage of corporate board member from outside parties (instead of management and owner) and the existence of Audit Committe have effect significantly on earning management. It means that corporate governance mechanism from outside has more effective controlling management. The monitoring mechanism from outside parties are expected to align differences in the interests between owners and management, so the earning management doing by management can be reduced.

There are some limitations of this study, such as (1) the need for the other variables in the corporate governance mechanisms. By looking at the value of R^2 is relatively small, then for subsequent studies have examined the use of Corporate Governance Issued Index by ICGI so the role of the mechanism of CG is able to reduce the earnings management by management more accurate (2) earnings management perspective used in this study is the opportunistic perspective. It means that earnings management as the actions taken by management to deceive stakeholders. For further research of earnings management needs to be reviewed from the others perspective, such as efficiency perspective. Efficiency perspective states that managers perform the accounting policy choice to provide better information about impending cash flow and to minimize the agency cost that occurs due to a conflict of interest between stakeholders and managers (Jiambalvo, 1996). (3) Variable corporate governance mechanism which proxies by institutional ownership, managerial ownership, board composition, board size, and the existence of an audit committee. These five variables can not be a comprehensive measure of corporate governance practices in the company, so the need for an index that reflects the corporate governance mechanism are more appropriate. (4) Develop a measurement model that is more accurate for counting earnings management each industry. So, the characteristics of different industries can also identify differences in the pattern of earning management each industry.

Acknowledgement:

* This research is is funded by DP2M DIKTI : Surat Perjanjian Pelaksanaan Hibah Penelitian No: 008/K6/KL/SP/2013, on May 16th 2013.

- * Thanks for all our team research (Noer Sasongko, Rina Trisnawati, Nanang Prasnowo, Emy Fauziah, Sidiq Permono Nugroho, Suhestiningsih, Lina Ayu Safitri, Happy Purbasari, Sutanta, Mulyaningsih dan Suleksi Ekawati).

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Lending Interest Rates Relationships of Malaysia and Other Countries

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Abstract

This paper is to examine the lending interest rates relationships of Malaysia with other countries which include China, Singapore, United States, Indonesia and Thailand. Those five countries are Malaysia's major trading partners. The daily base lending interest rates from 2006 to 2013 are applied in this study. The associations of the interest rates are tested by coefficient correlation and multivariate regression analysis. Results show that Malaysian lending interest rates are significant and positively related to those of China, Thailand and the United States. Among the five countries' interest rates, only the changes in interest rates of China, Thailand and the United States would affect Malaysian lending rates. The independence of monetary policy would hardly be expected by the Malaysian authorities, Bank Negara, in its decision on lending interest rate. In addition it may affect the trade finance decision by the international traders. This study provides an overview and guidance to the government authorities in making more effective decisions related to monetary policy and trade finance in order to strengthen the economy.

Key Words: interest rate, lending, monetary policy, trade finance, relationship

INTRODUCTION

Interest rate, the cost of borrowing and return on investment in a financial asset, is part of economic mechanism. An increase in interest rates is an increase in the opportunity cost of household consumption. Thus, an increase in interest rates would reduce household consumption. In addition, firms would rather cut down their investment than to finance their equipment and machinery at higher interest rate. Since the household consumption and firms' investment are the components of GDP, thus, the GDP of a country would be affected too by an increase in an interest rate. Indeed, Qi, Bin and Alexiadis (2012) stated that not only consumption and investment would be affected by interest rate but also national savings, demand for domestic currency, prices of commodities and balance of payment. This statement shows how significant the role of interest rate is in affecting the economy of a country.

Interest rate is also a determinant used in monetary policy. According to Case and Fair (2004), in an effort to stimulate the economy, the central bank would expand the money

supply and lower interest rates. This policy is called easy monetary policy. Tight monetary policy is implemented as an effort to restrain the economy, in which the money supply is contracted and push the interest rates higher. Indeed the authors pointed out that in practice, the interest rate values are chosen by the authorities and accept the money supply as consequences, rather than vice versa. Thus, interest rate plays significant role in monetary policy decision making.

Changes in interest rates would affect money market, labor market, property market, stock market and market of goods and services. Rising interest rates would have an adverse impact on investors' confidence in the property market. Higher interest rates would cause higher borrowing costs, thus reduce the investment in the property and stock markets as well as goods and services market. Such reduction would affect the national income and the economic growth negatively. Najarzadeh, Ashena and Jezdani (2012) further confirmed that the interest rate and investment are key variables affecting the rate of economic growth. Ahmad, Rehman and Raoof (2010) also noted that changes in interest rates increase the cost of a business and reduce the stock returns. GRK, Cvetkovic and Vidas (2008) added that interest rates have direct influence on banks' decision in securities investment and stock market price.

Knowing that interest rate is one of the economic mechanisms, how the interest rate is determined or related is questioned. Should the interest rate of a country is determined by the domestic variables or should it be influenced by or related to the interest rates of other countries too? In other words, is the interest rate implemented in one country independent from the rest of the world and thus the country is enjoying its independent monetary policy? Thus this paper investigates the relationship of interest rates in Malaysia and interest rates in other countries. The findings would indicate the level of dependence the interest rate of a country is as compared to others. Thus it would assist the authorities, especially the central bank, in making decision related to interest rates and monetary policy in order to come out with more effective policies in stimulating the economy. Indeed, this paper focuses on the relationship of lending interest rates of Malaysia and its trading partners. Having any differences in the lending interest rates among those countries would affect the international traders' decisions in trade financing, and thus would affect the trade and current account balance of the country.

The objective of this paper is to examine the relationship between the daily lending interest rates of Malaysia and those of China, Singapore, the United States, Indonesia and Thailand. Those five countries analyzed in this paper are Malaysia's close trading partners, using the data from January 2006 to December 2013.

LITERATURE REVIEW

Interest rate is defined as the price of money which is the amount of interest payable per unit of time expressed as a percentage of the amount borrowed (Alao, 2010). Ahmad et al. (2010) defined it as the cost of money, while Ozon (2007) defined it as a measure of the time value of money, which explained the volatility in stock returns.

There are different types of interest rates which include base lending rate (BLR), base financing rate (BFR), and interbank offer rate (IBOR). BLR is the ceiling, average or minimum lending rate prescribed by central bank to be offered by commercial banks and finance companies to their customers (Bank Negara Malaysia, 2010). BFR is offered by Islamic banks, in which the funding is provided through contracts compliant. IBOR is the interest rate offered by banks when lending to each other. Normally, this rate is used as the basis for determining the cost of borrowing, particularly the Euro Dollar and syndicated loans (Mahmood, 1994). LIBOR, the London Interbank Offered Rate, is a daily reference rate based on the interest rate at which banks borrow unsecured funds from other banks in the London money market (or interbank market). It is the most widely used short-term interest rates as benchmarks in the world (Fukuda, 2011).

Most of the literatures have been focusing on the determinants of interest rates. Some of the determinants discussed are monetary policy, oil price, gross domestic product (GDP), investment and financial growth rate. According to Kim and Sheen (2000), Najarzadeh et al. (2012), monetary policy has significant effect on interest rates and its volatility in the short term. Indirectly, the unemployment rates would also affect the level of interest rates. Having high unexpected unemployment rate would increase an expectation on monetary expansion, thus would reduce the interest rates. Wu (2010) revealed that changes in oil prices would also affect the interest rate. Interest rates are having both, direct and indirect relationship with economic growth (Najarzadeh et al., 2012). Interest rates are also positively related to investment and money demand (Kudlacek, 2009), but negatively related to the supply of loanable funds (Brock, 1996).

The relationship of the interest rates between one country with the others are also found in the literatures. However, those studies focused on the relationship between or among the developed countries. This paper, on the other hand, analyzes the interest rates relationship of Malaysia with those of Malaysia's closed trading partners. Those trading partners include both developed and developing countries; the United States, Singapore, China, Indonesia and Thailand.

The daily interest rates of the two regions, the United States and Europe, were closely related. The results showed that the two regions were interdependent to each other. However, the U.S. interest rates had greater effect on Europe's than vice-versa (Ehrmann & Fratzscher, 2004). The results varied when the study were done in shorter periods. The U.S. and Europe interest rates had a weak relationship from 1974 to 1978, while from 1979 to 1984, the interest rates relationship between the two nations were strong (Kirchgassner & Wolters, 1987). Fung and Isberg (1992) claimed that the U.S. interest rates caused the changes in Europe's in the period of 1981 to 1983. In the period of 1984 to 1988, a cause-effect relationship was reversed. According to the two authors, this might be due to an expansion in the size of the European markets and an increase in the Eurodollar trading. The interest rates in the European countries under European Monetary System (EMU) were integrated to each other in the long-run (Zhou, 2003).

In relation to the developing countries, Srivyali (2004) found that the rate of interest in India responded well to those in the U.S. and Japan both in short-run and long-run. For the Asian countries, Chinn and Frankel (1995) claimed that the rate of interest in Malaysia, Hong Kong and Taiwan were cointegrated with those in the U.S. and Japan. The interest rates of South Korea, Indonesia and Thailand, on the other hand, were only cointegrated with the Japanese, while Singapore's interest rates were cointegrated with the U.S. alone.

Most of the previous studies examine the relationship between short-term nominal or real interest rates and certificate of deposit rates. There is no study done in examining interest rates on loans or lending rates. Therefore, this research is to analyze the relationship between bank lending rates in Malaysia and bank lending rates in China, Singapore, United States, Indonesia and Thailand. There were also many studies done on the relationship between the interest rates and other macroeconomic variables, which is not the focus of this study.

METHODOLOGY

In analyzing the relationship between the lending rates of Malaysia and those of its trading partners', the data on lending interest rates prescribed by the countries' central banks were collected. The daily lending interest rates for the conventional bank loans were collected from January 2006 to December 2013. Malaysia's close trading partners, which include the United States of America, Singapore, China, Indonesia and Thailand, were selected due to the possible impact of lending rates on trade financing decision for their international trades, and thus would affect the trade and current account balance of a country, generally, a country's economy. The time period studied is from 2006, the period before the start of the U.S. subprime mortgage crisis, till 2013, the latest available data. Those secondary data was obtained from Datastream. The details of the data and its sources are described in Table 1.

TABLE 1: Interest Rates Data and its Sources

Country	Interest Rate	Sources of Data
Malaysia	Base Lending Rate – Middle Rate	Bank Negara Malaysia
The United States of America	Prime Loan - Middle Rate	Federal Reserves
Singapore	DBS Bank Prime Loan Rate – Middle Rate	Reuters
China	Lending Rate - Middle Rate	People's Bank of China
Indonesia	Lending Rate - Middle Rate	Bank Indonesia
Thailand	Lending Rate - Middle Rate	Bank of Thailand

In order to identify the behaviors of the lending rates of different countries from 2006 to 2013, descriptive statistics and time series graphs were done. The central tendency is identified in descriptive statistics. The time series graphs show the movements of the daily lending rates in eight years. The inferential statistics such as correlation and multivariate regression equation were conducted to measure the relationship between the lending rates of Malaysia and those of five foreign countries. Pearson correlation analysis measures the relationship between two variables, with the correlation value that may range between +1 and -1. Multivariate least square regression analysis measures a linear relationship between numbers of independent variables (Xs) with a dependent variable (Y). The results indicate whether the positive or negative relationship exist between the independent variables and the dependent variable as well as the expected value of the dependent variable when the independent variables increase or decrease. The applied multivariate least square regression equation is as follows:

$$M_{it} = \alpha_1 + \beta_1 US_{it} + \beta_2 Si_{it} + \beta_3 Ci_{it} + \beta_4 Ti_{it} + \beta_5 Ii_{it} + \varepsilon_t \quad ($$

Eq 1)

where

M_{it} is the bank lending interest rate of Malaysia at time t ;

US_{it} is the bank lending interest rate of the U.S. at time t ;

Si_{it} is the bank lending interest rate of Singapore at time t ;

Ci_{it} is the bank lending interest rate of China at time t ;

Ti_{it} is the bank lending interest rate of Thailand at time t ;

Ii_{it} is the bank lending interest rate of Indonesia at time t ;

ε_t is independently distributed random error term with zero mean and constant variance;

$\alpha_1, \beta_1, \dots, \beta_5$ are the parameters to be estimated.

EMPIRICAL RESULTS

The relationship of the banks' lending interest rates of Malaysia and its five major trading partners was analyzed by using correlation coefficient and multivariate least square regression. Before applying such analysis, the behaviors and the movements of the daily lending rates of the six countries were explored through descriptive statistics and time series graphs.

Descriptive Statistics

Table 2 shows the descriptive analysis of bank lending rates in six countries. The time series graphs are available in the Appendix. Malaysia's lending rate was at the highest level in six years at 6.75% from early 2006 to end of 2008, before it dropped to the lowest rate at 5.55% in early 2009, during the US subprime mortgage crisis. The overall rates are closed to the mean when the standard deviation is 0.4466.

The lending rates in the United States started declining at the end of 2007 from the highest rate of 8.25% to the lowest rate of 3.25% in 2009 onwards. Due to the crisis in

the country, the US had its biggest deviation as compared to the other five countries. Singapore, on the other hand, had fixed lending rates throughout the six years at the rate of 4.25%. Due to its fixed rate, Singapore's rate could not be applied in the regression equation. Thus, the Singapore's rate is independent from all other rates, regardless of weakening or strengthening economy. Its lending rate is the only stable rate as compared to the other five countries. This caused Singapore to ensure that their interest rates are in line with market conditions and that need to be supported by a set of monetary policy.

TABLE 2: Descriptive Analysis: Lending Interest Rates of the Six Countries from 2006 to 2011

	Mean	Minimum	Maximum	Std. Deviation
Malaysia	6.3826	5.5500	6.7500	0.4466
The U.S.	5.1407	3.2500	8.2500	2.1651
Singapore	4.2500	4.2500	4.2500	0.0000
China	6.6943	5.9400	7.8300	0.6982
Thailand	6.7188	5.8630	7.6250	0.6420
Indonesia	8.2367	6.0000	12.7500	1.9434

China's lending rates were at the highest rate of 7.83% for one year till end of 2008 before plummeting to its lowest rate at 5.94% from early 2009 to end of 2010. Thailand's lending rates had almost similar experience with a maximum rate of 7.63% before the global crisis and plunging down to the lowest rate at 5.86% during the global crisis period. Indonesia's lending rates had the second highest deviation after the U.S.'s. It plummeted from the highest point of 12.75% to 6% during the crisis period.

Correlation

The correlation table in Table 3 portrays that all correlations between the two countries' lending rates were positive, except the correlation with Singapore. The lending rates in Malaysia had the highest correlation with Thailand's. After Thailand, China and the US lending rates were also closely correlated to Malaysia's with correlations of more than 0.5. Only Indonesia's lending rates were less correlated with Malaysia's. Indonesia's was closely correlated to Thailand's. Singapore's lending rates were totally independent at zero correlations with the other countries. The results indicate that there is a positive relationship between Malaysia lending rates and its trading partners', except Singapore's.

TABLE 3: Pearson Correlation of Bank Lending Rates of Six Countries from 2006 to 2013

		Malaysia	The US	Singapore	China	Indonesia
The US	Correlation Sig. (2-tailed)	0.631 <i>0.000</i>				
Singapore	Correlation Sig. (2-tailed)	0.000 <i>0.000</i>	0.000 <i>0.000</i>			
China	Correlation Sig. (2-tailed)	0.756 <i>0.000</i>	0.436 <i>0.000</i>	0.000 <i>0.000</i>		
Indonesia	Correlation Sig. (2-tailed)	0.468 <i>0.000</i>	0.120 <i>0.000</i>	0.000 <i>0.000</i>	0.120 <i>0.000</i>	
Thailand	Correlation Sig. (2-tailed)	0.818 <i>0.000</i>	0.691 <i>0.000</i>	0.000 <i>0.000</i>	0.589 <i>0.000</i>	0.666 <i>0.000</i>

REGRESSION ANALYSIS

Multivariate least square regression analysis was conducted to examine the objective of this paper, the relationship of Malaysian lending rates and the lending rates of Malaysian five close trading countries. The applied model as in Eq 1 is:

$$Mi_t = \alpha_1 + \beta_1 USi_t + \beta_2 Si_t + \beta_3 Ci_t + \beta_4 Ti_t + \beta_5 Ii_t + \varepsilon_t$$

Singapore's lending rates were not included in the model as independent variable due to its fixed interest rates for the whole duration of eight years. The variable was rejected by the analysis program. Thus Singapore's lending rates were perfectly independent.

The results in Table 4 indicates that $Mi_t = 2.132 + 0.019USi_t + 0.271Ci_t + 0.343Ti_t + 0.004Ii_t + \varepsilon_t$. All those coefficients are significant at 1%, except Indonesia's. Thus, Indonesia's and Malaysia's interest rates were not significantly dependent to each other. The other 3 countries' lending rates were positively related to Malaysia's lending rates, which mean, the higher the lending rates of those countries, the higher the lending rates of domestic banks in Malaysia. Among the three countries, Thailand's lending rates had the greatest impact on Malaysia's, followed by China and the U.S.

The value of R^2 in Table 4 of 0.790 indicates how well the goodness of fit of the model is. Thus, the lending rates in China, Indonesia, the United States and Thailand could contribute 79% of the changes in Malaysian lending rates. Adjusted R^2 value is 0.789 indicating that 78.9 % of lending rates for China, Indonesia, the U.S. and Thailand could change the lending rates in Malaysia. There are another 21.1 % for the other countries to affect substantially the lending rates of Malaysia. The F test shows that the regression equation as a whole is statistically significant. The variance inflation factor (VIF) shown in the table above indicates that the multicollinearity does not exist in the regression

estimation. The reported VIF are all less than 5, despite of having high R^2 in the regression estimation.

TABLE 4: Multivariate Regression Results: Relationship between domestic and foreign bank lending rates (2006 to 2013)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.132***	.071		29.995	.000		
China	0.271***	.011	.423	23.948	.000	.432	2.313
Indonesia	0.004	.005	.020	.846	.397	.254	3.938
The U.S.	0.019***	.004	.090	4.264	.000	.300	3.338
Thailand	0.343***	.015	.494	23.001	.000	.293	3.417
R	0.889						
R ²	0.790						
Adjusted R Square	0.789						
Sig. Change F	0.000						

Dependent Variable: Malaysia

Predictors: (Constant), Thailand, China, The U.S., Indonesia

*significant at 10%; **significant at 5%, ***significant at 1%

The findings of the two analyses, correlation and multivariate regression, concluded that the lending interest rates between Malaysian banks and foreign banks of Thailand, China and the U.S., are positive and significantly related. The null hypothesis that there is no relationship between the domestic and foreign banks' lending rates is to be rejected. This result is consistent with the results obtained by Chinn and Frankel (1995) who reported that Malaysia was cointegrated with the U.S. and Japan. The lending rates of Indonesia and Singapore, however, are found not to have significant relationship with the domestic lending rates. The findings on Singapore's lending rates contradict the findings of Chinn and Frankel (1995). According to the two authors, Singapore's real rates of interest were cointegrated with the U.S. alone. This paper shows no relationship between Singapore's lending rate with the other four countries above. Chinn and Frankel (1995) also claimed that Indonesian and Thailand were closely related to Japanese instead of the U.S.

CONCLUSION

The findings of this paper conclude that there is a positive relationship between Malaysian lending rates and the lending rates of Thailand, China and the US. Changes in lending rates in those countries could influence the domestic lending rates. The null hypothesis that there is no relationship between Malaysian and other countries' lending rates is rejected.

The results could be related to some policy implications. The implication is that financial markets in Malaysia could not be excluded from the effects of monetary policy changes occurred in the financial markets of those countries, specifically, Thailand, China and the U.S. Thus, the independent of monetary policy would hardly be expected by the authorities in Malaysia. The monetary policy decision makers, Bank Negara Malaysia, have to take into consideration the interest rates offered and monetary policy implemented in Thailand, China and the US. This is to ensure the effectiveness of the policy in achieving the desired objectives. The influence of foreign lending rates on domestic rates would also affect the trade finance decision made by international traders. Thus, it would affect the trade and current account balances, investment growth and exchange rates between the two countries. Indonesia's and Singapore's lending rates, on the other hand, are not significantly related to Malaysia's lending rates. Thus any changes on their rates and their monetary policies would not affect Malaysia's.

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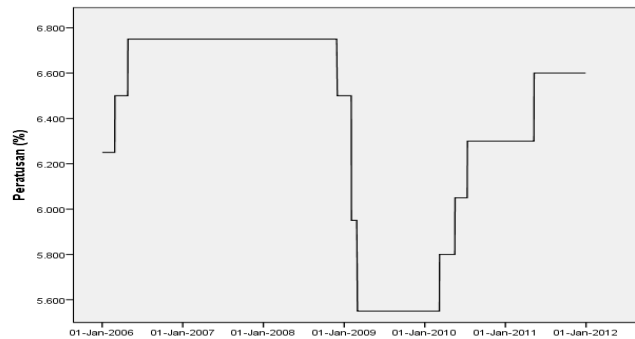
Appendices:

FIGURE 1: Time Series – Lending Interest Rates of Malaysian Banks (2006 – 2013)

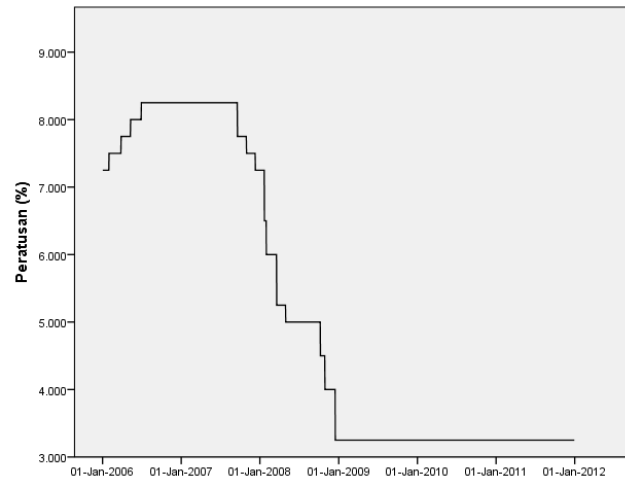


FIGURE 2: Time Series – Lending Interest Rates of the United States Banks (2006 – 2011)

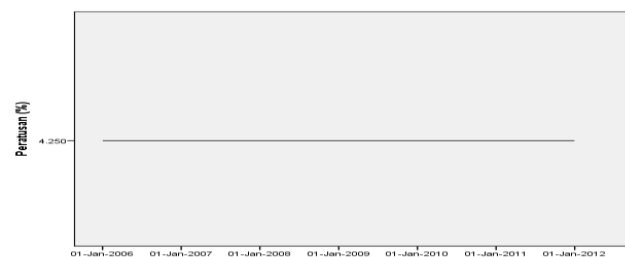


FIGURE 3: Time Series – Lending Interest Rates of the Singapore Banks (2006 – 2013)

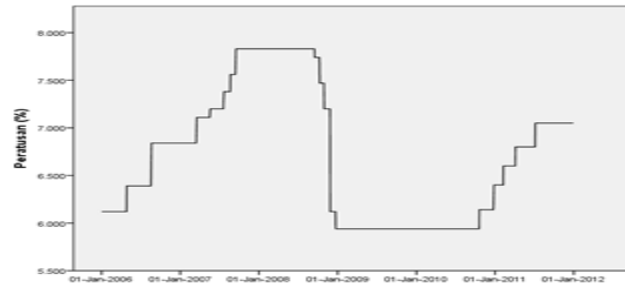


FIGURE 4: Time Series – Lending Interest Rates of the China Banks (2006 – 2013)

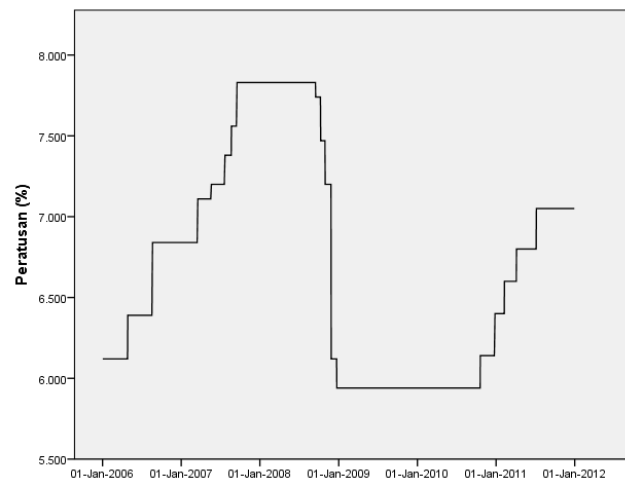


FIGURE 5: Time Series – Lending Interest Rates of the Indonesia Banks (2006 – 2013)

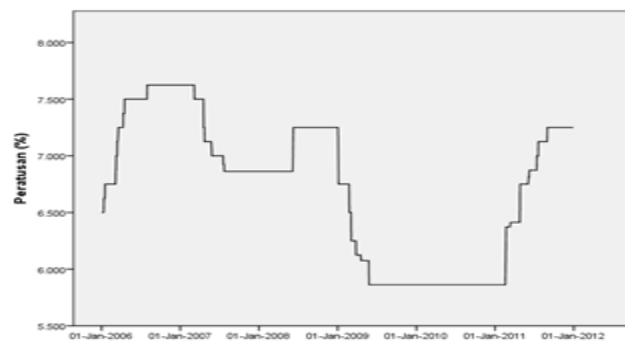


FIGURE 6: Time Series – Lending Interest Rates of the Thailand Banks (2006 – 2013)

Identification of Elements that Promote the Linkage between Information Technology Strategy and Business Strategy

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Abstract

The alignment of business and information technology (IT) strategy has long been recognized as a key issue for managers and has grown in importance as IT has become strategically substantial. Previous studies have noted the intangibility of alignment of business and information technology strategy and identified a number of vital elements that promote the alignment. In other words, strategic alignment between business and IT can have a positive business impact only an organization's view IT components as parts of a well-integrated organizational system. If business strategy is viewed separately from IT strategy or IT strategy is viewed only as a support tool, then there is little likelihood that the above positive impact of strategic alignment can occur. The study builds on previous work and develops an understanding of alignment between information technology, people and business. This paper highlights the linkages between IT strategy and also business strategy which is associated with competitive strategy. Furthermore, the paper illustrates the relationship between human resource and IT and the importance of its combination in achieving firm's goals and objectives.

Key Words: Information technology strategy; Business strategy; Organizational goal; Competitive strategy

INTRODUCTION

In a diverse and ever-changing marketplace, organizations are persistently seeking to harness technology to improve their core competency and gain competitive advantage. This is mainly due to the agility of an organization to respond to changes in the competitive environment is highly dependent on its leverage on information technology (IT). Explicitly, knowing how to apply IT in an appropriate and timely way and in congruence with strategies, goals and needs could bring the organization closer to business success. In other words, aligning IT strategy with business strategy has become a critical issue in most organizations.

Developments in ICT such as the World Wide Web, Electronic Data Interchange, and electronic mail can be seen as enablers to cross organizational boundaries more easily when dealing with information intensive processes. From the early efforts to support existing organizational processes (e.g. the exchange of documents between organizations), the focus has shifted to the

emergence of new ways of doing business. Examples of this include the introduction of electronic trading markets, electronic auctions, and electronic bookstores. ICT has developed from a minor force supporting the organizational processes into a dominant force for shaping these processes.

Some studies seek to understand the linkages between business strategy and IT strategies. For instance, some prior studies advocate the importance of considering the role of strong partnerships and mutual understanding and support between IT managers and top business managers, the competitive use of IT to transform business strategies, and the importance of aligning IT strategy with business strategy for organizations across different industries (Bakos & Treacy, 1986). In addition, firms have been traditionally advised to adopt information technologies to support the achievement of existing business objectives. This is mainly because the source of the competitive advantage brought by information technology has changed, to be largely obtained through increase in customers' perceived value. Apart from that, business managers are encouraged to participate actively in information system decisions. This paper will analyse the relationship between business strategy, information technology and also the importance of human resource in participating in information technology decisions.

LITERATURE REVIEW

Business Strategy

Strategy is a mechanism through which a company makes sense of the world around it. In other words, it is a collection of ideas about how the company anticipates to win, the source code upon which everything else depends. White (1986) claims that business strategy is the outcome of decisions made to guide an organization with respect to the environment, structure and processes that influence its organizational performance. Firms adopting different strategies will obtain different benefits of information technology investment. For instance, a firm pursuing a differentiation strategy may explore the operational functionality benefit of information technology, and a firm pursuing a cost leadership strategy may rely upon the operational efficiency benefit.

According to Li and Tan (2013), there are many views on what constitutes "business strategy". A business strategy should summarize a statement of an organization's mission or vision so that there is a clear and consistent point of focus. Furthermore, business strategy provides a deliberate plan of action and organizations need to evaluate both their internal and external environment in order to determine a position and market approach. With the numerous positive impact of ICT in businesses, it is hard to imagine a contemporary business functioning without adoption of ICT. ICT permeates every aspect of twenty first century businesses.

Information Technology Strategy

Information technology (IT) is a technology which uses computers to gather, process, store, protect, and transfer information. Due to the rapid change of technology, Information and communication technologies (ICTs) may be viewed in different ways.

Information Communications Technology (ICT) refers to any device or system that allows the storage, retrieval, manipulation, transmission and receipt of digital information. It is not only Information Technology (IT), but also includes communication technologies. This includes the Internet, wireless networks, cell phones, and other communication mediums. Today, it is common to use the term Information and communications technology (ICT) because it is unimaginable to work on a computer which is not connected to the network.

Information and communication technologies (ICTs) defined by The World Bank as “the set of activities which facilitate by electronic means the processing, transmission and display of information” (Rodriguez & Wilson, 2000). Marcelle (2000) defined ICTs are a complex and varied set of goods, applications and services used for producing, distributing, processing, transforming information – [including] telecoms, TV and radio broadcasting, hardware and software, computer services and electronic media. Another definition of ICTs as “refer to technologies people use to share, distribute, gather information and to communicate, through computers and computer networks” (ESCAP, 2001).

Information and communication technologies (ICTs) represent a cluster of associated technologies defined by their functional usage in information access and communication, of which one embodiment is the Internet. Hargittai (1999) defines the Internet technically and functionally as follows: “the Internet is a worldwide network of computers, but sociologically it is also important to consider it as a network of people using computers that make vast amounts of information available. Given the two [basic] services of the system – communication and information retrieval – the multitude of services allowed...is unprecedented”. According to Kiiski and Pohjola (2001), ICTs represented by the Internet, deliver “at once a worldwide broadcasting capability, a mechanism for information dissemination, a medium for interaction between individuals and a marketplace for goods and services”.

In the past few decades, information and communication technologies have provided society with a vast array of new communication capabilities. For example, people can communicate in real time with others in different countries using technologies such as instant messaging, voice over IP (VoIP), and video-conferencing. Social networking websites like Facebook allow users from all over the world to remain in contact and communicate on a regular basis.

Modern information and communication technologies have created a "global village," in which people can communicate with others across the world as if they were living next door. For this reason, ICT is often studied in the context of how modern communication technologies affect society.

The field of Information and Communication Technology (ICT) combines science and Technology. There are six major components which are people, software, hardware, data, procedures and information to form ICT system for the daily operation. All ICT systems commonly involve the three steps of input, processing and output. ICT systems are those where the output from the system goes directly to a human being or into another ICT system.

Information and Communication Technology are playing a central role in people lives and in business at large. ICT technologies are used for:

- Applications for corporations (airlines, insurance companies, internet banking)
- Applications for state organizations (electronic voting, tax refund)

- Applications for healthcare (data about patients, diagnostic tools and instruments, special surgical equipment)
- Applications for education (computer based training - CBT, distance learning, e-learning): adaptive learning time, flexible learning location, multimedia learning experience, reduced costs.

Information and Communication Technology (ICT) has proven to be a valuable aid to solving problems and accomplishing tasks in business, industry, government, education, and many other human endeavors. In general terms, IT also could be defined as a technology that provides gathering, processing, storing and conducting or making that information reachable when needed. IT, actually, covers a whole system which refers to hardware, consisting of instruments and devices, software that is designed to be used on this hardware and the access, usage and sharing via these two concepts. Strategic information technologies (ITs) are systems that shape the organizations' competition strategy or support them.

On the other hand, it changes objectives, processes, product or environmental relations to bring in the advantage for competition. Furthermore, information systems seem to have critical importance for most organizations in many aspects. They are elementary to most business processes, integral parts of many products and services, and most importantly support decision making at the operational and strategic level (Tsai, Raghu & Shao, 2013). Apart from strategic value of tangible IT resources (hardware, software and systems), intangible IT abilities, which is the firm's ability to integrate, build and reconfigure IT assets to match business developments are considered critical for IT effectiveness. Ives and Jarenpa (1991) suggest that information systems may be an effective way to provide timely and relevant information to top managers and thus to help reduce uncertainty.

Critical Success Factors for Developing IT Strategy

Previous research and findings indicate that there was broad general agreement that five factors had to be in place for strategic development to be effective.

i. Revisit the Business Model

Business models and strategies are often confused with each other. A business model explains how the different pieces of a business fit together. It ensures that everyone in an organization is focused on the kind of value a company wants to create. Only when the business model is clear, strategies can be developed to articulate how a company will deliver that value in a unique way that others cannot easily imitate. Thus, it is essential that all managers including IT and business managers completely understand how their business as a whole works. While this sounds like a truism, almost any IT manager can tell "war stories" of business managers who have very different visions of what they think their enterprise should look like. The worlds of IT and business have traditionally been isolated from each other, leading to misaligned and sometimes conflicting strategies. Although there is now a greater willingness among business managers to understand the implications of technology in their world, it is still IT that must translate their ideas and concepts into business language.

ii. Adopt Strategic Themes

Themes give both business and IT managers a broad yet focused topic of interest that challenges them to move beyond current operations. For example, one retail company decided it wanted to be “a great place to work”. A bank selected e-banking as critical differentiator. Both firms used a theme to engage the imaginations of their employees and mobilize a variety of ideas and actions around a broad strategic direction. By grouping IT and business programs around a few key themes, managers find it easier to track and direct important strategic threads in an organization’s development and to visualize the synergies and interdependencies involved across a variety of programs spread out across the organization and over time.

iii. Get the Right People Involved

One of the most important distinguishing factors between companies that get high IT business value and those that do not is that senior managers in high performing companies take a leadership role in IT decision-making. Getting the right people involved also means getting line of business managers and other key stakeholders involved in IT strategy as well. Research shows that the best strategies often stem from grass-roots innovations and it is therefore critical that organizations take steps to ensure that good ideas are nurtured and not filtered out by different layers of management.

iv. Work in Partnership with the Business

Successful strategy demands a true partnership between IT and business, not just use of the term. Strategy decisions are best made with input from both business and IT executives. Partnership is not just a matter of “involving” business leaders in IT strategy or vice versa or “aligning” business and IT strategy. Today, effective strategizing is about “continuous and dynamic synchronization of capabilities”. The IT programs need synchronizing with business strategy – not only at a high level but right down to the individual projects and the business changes that are necessary to implement them properly.

v. Balancing IT Investment Opportunities

One of the many challenges of developing effective IT strategy is the fact that technology can be used in so many different ways. The opportunities are practically limitless. Unfortunately, the available resources are not. Thus, a key element of IT strategy is determining how best to allocate the IT budget. This issue is complicated by the fact that most businesses today require significant IT services just to operate. IT strategy therefore must consider two important components: (1) how to do more with less, i.e., driving down fixed costs; and (2) how to allocate the remaining budget towards those IT investment opportunities that will support and further the organization’s business strategy. In order to do more with little budget, with occasional exceptions, CIOs and their teams are mostly left alone to determine the most cost-effective way of providing the IT utility to their organizations. This has led to a variety of IT focused initiatives to save money including outsourcing, shared services, and most recently, grid computing. However, it is the way that IT allocates the rest of its budget that has captured the attention of business strategists. Determining the balance between the opportunities is a significant component of how IT strategy delivers business value. In a way, organizations have to adopt a portfolio approach to IT investments. Too much or too little focus on one type of investment can mean a failure to derive maximum value from a particular strategic business theme.

ANALYSIS AND DISCUSSION

Alignment of Business Strategy and Information Technology Strategy

The rapid globalization of business and the increased role of IT in shaping business strategy illustrates that global IT is a topic of considerable importance to information systems practitioners. Information technology is having an increasingly important influence on a business environment that becoming more complex and uncertain. Zahra and Covin (1993) claimed that IT has become an important aspect of everyday business and it is potentially a key element in competitive positioning. In addition, IT has become a major organizational resource for executing business strategy. Furthermore, the nature of the influence and role of IT in organizations has also changed. White (1988) argued that in the 1950s information systems were used mainly for accounting purposes and batch processing. These later evolved to database-centered online systems supporting organizational processes and finally to IT being the communication norm. IT has moved from simply supporting operational functions to being a critical strategic organizational resource which should be shaped to deliver business needs. However, it is difficult to maintain a high level of alignment for a rapidly growing company, particularly when business strategies are imprecise and changing and as the company seeks an advantageous position within the value chain. The continuously evolving strategies results in dramatic organization changes and varied IT practices. The lack of consideration of the IT department within a growing company causes an unsynchronized alignment. The IT manager prepared IT plans based on the business strategy, but the business strategy has changes. This will led the implemented alignment may be operationalized as intended but the IT system is no longer appropriate given external events (i.e., changing customer demands, innovative products emerging to replace existing products, shifts in purchasing patterns, changes in raw material costs, shifting to another lifecycle stage earlier than anticipated). Over the year, aligning IT with the latest business strategy remains challenging for many organizations.

Information Technology and Competitive Strategy

A number of authors have identified opportunities for the application of information technology to create competitive advantage. Two general approaches can be distinguished, a value-added chain analysis of the firm's operations and Porter's framework for competitive analysis (Chen, Sun, Helms & Jih, 2008). To understand competition in an industry, one must look beyond current competitors to include customers, suppliers, firms producing substitute products and potential entrants. Firms generally try to manipulate the competitive forces in their industry in order to achieve comparative advantage over competitors. There are certain generic strategies that can be employed to that end. Porter had identified cost leadership and product differentiation as two such strategies. In an IT context, it is best exemplified by Porter and Millar (1985) who see IT as a means by which firms can gain competitive advantage by altering the competitive forces that collectively define industry profitability. Information technology can contribute to this alteration of competitive forces by contributing to either lowering costs or enhancing differentiation. Porter's competitive strategy framework identifies five industry forces, the intensity of industry rivalry, the threat of new entrants, the threat of substitutes, the bargaining power of suppliers and the bargaining power of customers. These forces determine the profit potential of an industry or of a segment of this industry. In such a context, a firm has to assess these forces and determine how to find a position in the industry so as to best defend it from them. The way a firm chooses to improve its competitive position should ideally create significant

difficulties for other to imitate, which results in a long-term or sustainable competitive advantage (Croteau & Bergeron, 2001). In addition, creation of customer perceived value brings a renewed dependence on IT. Better IT systems contribute to competitive advantage because they allow for more efficient use of business resources to meet customers' needs, and support delineation of positioning strategies that can gain customers' preference and loyalty. Value creation is important for business because customers compare the perceived net value associated with each competing business offering and choose the highest value (Li & Tan, 2013).

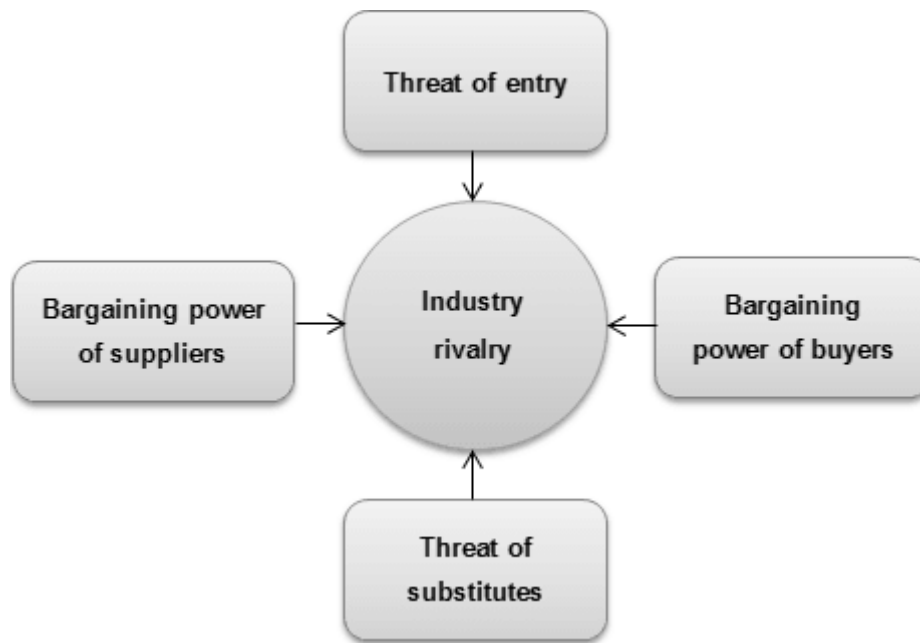


Figure 1: Porter's five forces model

Information technology and human resource

With IT becoming more ubiquitous in organizations, the recruitment of a top manager who can architect and manage the IT within an organization in order to match the organization's business strategy becomes more critical (Radhakrishnan, Zu & Grover, 2008). Moreover, business managers are encouraged to participate in information systems decisions as information technology is a critical resource for firms. This eventually leads to the question of what characteristic traits this IT person needs to possess. This is mainly because the extent of operational and management process capability development depends upon the extent to which IT effectively interacts with operational and management processes within firms. For instance, the degree of sharing of the IT related knowledge and business related knowledge among IT managers and functional managers oversee the organization's capacity to absorb and effectively use IT.

Firms achieve competitive advantage by using such standard resources to create organizational capabilities. Capabilities, thus, refer to an organization's ability to effectively deploy valued

resources, usually in combination. In addition, management processes are associated with administration, allocation and utilization of resources, communication, coordination and control that are carried out at different levels of an organization (Croteau & Bergeron, 2001). Many scholars believed IT can administrate and transform management processes. IT informs management process through the use of executive information system (EIS), decision support systems (DSS), electronic document management and electronic meeting systems. These systems help personnel to take better decisions related to utilization and allocation of resources, and other strategic issues, which leads to improvement in decision quality, employee empowerment, better utilization of resources and administrative efficiency. For instance, IBM uses electronic systems for group meeting across all levels of management in 33 sites of IBM. This has reduced the administrative costs by more than 30%. This indicates that effective management of human resource will result in considerable achievement of IT strategy in achieving competitive advantage (Franz & Klepper, 1995).

Match between IT manager characteristics and business strategy

Hambrick & Mason (1984) suggests that observable managerial characteristics such as age, tenure, educational level, career experiences, financial position, and socio-economic status can influence various strategic choices such as product innovation, unrelated diversification, administrative complexity and corporate acquisition, and organizational outcomes such as growth and profitability. This study chooses three characteristics as focus.

i. Age

The IT strategy for prospector needs to be flexible and innovative. Prospectors, then, need to identify managers who can formulate and implement such IT strategy to align with the business needs. Studies imply that younger managers are more inclined to pursue innovative and risky IT strategies than older managers. Several studies have attempted to provide explanations for such a relationship. First, according to Chown (1960), older managers may have greater difficulty grasping new ideas and learning new behaviors. Cognitive abilities seem to diminish with age, including learning ability, reasoning and memory (Burke & Light, 1981); hence, older officers may have less of the physical and mental stamina needed to exploit IT for innovativeness and flexibility. Second, younger managers are more likely to have received their education more recently than older one. Thus, their technical knowledge should be superior and more current (Bantel & Jackson, 1989).

ii. Tenure

Previous research has indicated that leaders tend to become more conservative toward changes as their tenure increases (Martina, Vincent, & Virginia, 2006). This is because as the years of tenure increase, the CIOs and managers may have more psychological commitment to the organizational status quo (Staw & Ross, 1980) and become more strongly committed to implementing their own paradigms of how the IT strategy should be run (Hambrick & Fukutomi, 1991). Furthermore, long tenure could result in insulation and a narrowing of the manager's perspective. Long-tenured managers may also have developed inertia in their environmental scanning activities, reducing the intensity and scope of their scanning activities. They may also refrain from making changes and investment in keeping the IT strategy innovative and flexible over time; instead, they may prefer to emphasize stability and efficiency, which suits the defenders' needs for IT strategy. In contrast, managers with shorter tenure may be less influenced by the organizational status quo

and become more innovative in pursuing the IT for flexibility strategy which suits the business strategy of prospectors.

iii. Educational level

Prior studies (e.g., Kimberly & Evanisko, 1981) indicate that higher levels of education are associated with a person's ability to generate and implement creative solutions to complex problems. This ability may explain why people who are more educated have higher tendency to possess a more flexible and receptive attitude toward innovation (Kimberly & Evanisko, 1981). The association between educational level and both cognitive ability and attitudes toward innovation may suggest that managers with a higher educational level are more likely to adopt IT strategies that are innovative and flexible—features consistent with prospectors' business needs for IT strategy. In contrast, researches associate less educated managers with more conservative, risk-averse IT strategies—features consistent with the defenders' business needs for IT strategy.

CONCLUSION

A number of important conclusions about the alignment of IT and business strategy may be drawn from this paper. Alignment between IT strategy and business strategy is an important indicator of IT effectiveness. Furthermore, the most important direct predictor of alignment in this study was a high level of communication between IT and business executives. The paper concludes that there is a need of strong partnership among IT strategy and business strategy as it dictates the competitive strategy of the firm. Besides that, the paper finds that, business managers and IT executives should develop mutual communication in developing business objectives which will lead to company profitability. To conclude, this paper illustrates the importance of alignment among three important elements which are business strategy, IT strategy and human resource.

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Psychological Resilience, Agreeableness, Attitude and Behaviours toward Organizational Change: A Study of Academics in Malaysian Research Universities

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Abstract

This study examined two types of individual characteristics—psychological resilience and agreeableness—in determining employee’s commitment to change and supportive behaviours for change. Using a personally administered survey method on a sample of 145 academics from the research universities in Malaysia, we found that psychological resilience and agreeableness were positively related to affective commitment to change, but not normative commitment. Our results also indicated that affective and normative commitment to change were positively related to behavioural and creative support for change. This study provides implication that selection of employees based on individual characteristics is a useful means of increasing employees’ attitude and behaviours toward organizational change.

Key Words: psychological resilience, agreeableness, commitment to change, organizational change, conservation of resources theory

INTRODUCTION

The high occurrence of organizational change in modern organizations (Herold, Fedor, Caldwell, & Liu, 2008) and its impact on organizations have raised concern from management scholars. Generally, prior research has reached to a consensus that organizational change is not easy to implement, as it is hard to achieve implementation success (Marks, 2006; Paper & Chang, 2005). The main reason of the failure of organizational change is due to the lack of support from the employees (Kotter & Cohen, 2002). There has been extensive research focusing on employees’ attitudinal and behavioural toward organizational change when investigating the issue about organizational change (Herscovitch & Meyer, 2002; Parish, Cadwallader, & Busch, 2008). Likewise, this study focuses on the same aspect, more specifically, the academics’ change attitude and behaviours.

According to Jaros’ (2010) review of past change literature, majority of prior research investigated organizational change in corporate sector context. Study on organizational change in the university has been limited. Extending from prior research, the current study was conducted in the research universities of Malaysia. The government has selected education as one of the 12 national key economic areas (NKEA). It is in line with the 10th Malaysia Plan, in which improving the level of the higher education standard is one of the key objectives (Government of

Malaysia, 2010). For example, the government hopes to increase the total number of graduates from postgraduate studies and encourages the universities to commercialise their research output. As a result, the government has awarded five universities as research universities and these universities are given autonomy to administer their universities with special allocation of funding from the government. For having a sustainable research university title, the universities are concerned with their performance and achievement, not just to be competent within national level but also to be able to compete with other universities internationally. Therefore, the management of the universities has made major changes to the university. They have restructured the university to a new direction, from a teaching based university to a research based university (Shahabudin, 2008).

Majority of past empirical research investigated the relationship between situational factors and employees' attitude and behaviours toward organizational change (e.g. Fedor, Caldwell, & Herold, 2006; Ford, Weissbein, & Plamondon, 2003; Herold, et al., 2008; Parish, et al., 2008). On the other hand, some researchers studied the influence of employees' dispositional factors on employees' supportive attitudinal and behavioural for change (Avey, Wernsing, & Luthans, 2008; Shin, Taylor, & Seo, 2012; Vakola, Tsaousis, & Nikolaou, 2004). We target our research will be useful for the university to make decisions on selecting and recruiting individuals who are willing to support organizational change in the university. Thus, focusing on the influence of academics' dispositional factors is more appropriate for this study. In addition, in the Malaysian research university's organizational change context, it is not known whether academics' dispositional factors can increase their supportive behaviours for change. Therefore, this study investigated the influence of academics' dispositional factors—psychological resilience and agreeableness—on their supportive attitudinal and behavioural for change.

Organizational change has been accepted as a formidable stressor in the workplace, linked with unfavourable outcomes such as reduced status, job loss, threats to employee's psychological well-being, and conflict at home and work (Ashford, 1988; Schweiger & Denisi, 1991). As such, it becomes important to study how employees can cope with the uncertainties of radical change. Based on conservation of resources theory (Hobfoll, 1989, 2001), it addresses the notion that resource (e.g. personality characteristics) is a useful means to overcome stressful events, such as confronting with a changing environment when organizational change is underway. Drawing from conservation of resources theory, it is speculated that psychological resilience and agreeableness as resources, may increase employee's level of commitment to change, in turn it may translate to greater level of supportive behavioural for change. Shin and colleagues (2012) have explored the precursor of psychological resilience as resource on attitude and behaviours toward organizational change. However, to our knowledge, agreeableness is still under explored in such topic. To fill this void, we conducted our empirical study in the Malaysian research universities to investigate this particular unexplored area. Thus, the purpose of this study is to examine whether employees' psychological resilience and agreeableness jointly increase their commitment to change, and subsequently their behaviours in demonstrating support for change.

LITERATURE REVIEW

Conservation of resources theory

Conservation of resources theory (Hobfoll, 1989, 2001) emphasises the importance of possessing resources when one is dealing with stress. As organizational change creates stress among the

employees, using conservation of resources theory helps to explain the role of resources in shaping individual's attitude and behaviours toward organizational change. According to Hobfoll (1989), stress can occur in three types of situation: 1) when one is threatening with the loss of resources 2) when there is an actual loss of resources 3) when there is a lack of resource gained after investing in resources. Resources are defined as "those objects, individual characteristics, conditions, or energies that individuals value or treat them as means of achieving and protecting these resources" (Hobfoll, 1989). Self-esteem (Rosenberg, 1989), mastery (Pearlin & Schooler, 1978), socioeconomic status (Worden & Sobel, 1978), learned resourcefulness (Rosenbaum & Smira, 1986), and employment (Parry, 1986) are a few examples of resources.

Resources are important to individuals when confronting with both current and future stressors. When individuals are confronted with stressors, they use resources to minimize net loss. In contrast, individuals try to prepare for future loss by developing resource surpluses (Hobfoll, 1989). This also explains how individuals used resources in an organizational change setting. Specifically, first, resources provide both mental and physical energy, in turn increase one's coping ability and/or protect them from attacking by dysfunctional psychological states (Hobfoll, 2001), such as anxiety and fatigue (Wheaton, 1983) when confronting with stressors. Second, individuals prevent future loss of resources, obtain resource surpluses for future use, and/or restore from past resources, through investing resources in several activities (Hobfoll, 2001). Thus, individuals are able to cope with organizational change stressors with greater resources compared to those who have lesser resources.

Psychological resilience and agreeableness as resources

The university that is undergoing organizational change needs to consider recruiting the type of employees who will most likely to support change. Individual characteristics are easy to obtain by asking applicants to fill out inventories. Drawing from conservation of resources theory, individual characteristics are one of the resources that will enhance individual's ability to cope with stressful events. Thus, this study focuses on resources, particularly on individual characteristics that may enhance coping ability.

The first resource that was investigated in this study is psychological resilience. Block and Kremen (1996, p. 359) defined psychological resilience as "the capacity of the individual to effectively modulate and monitor an everchanging complex of desires and reality constraints." Resilience as a psychological means plays an important role in building individual resources, whether it is used to minimize stress and prepare for hardships (Fredrickson, Cohn, Coffey, Pek, & Finkel, 2008), recover from past loss by replenishing with additional resources, or prevent any future loss of resources (Muraven & Baumeister, 2000; Taylor, Kemeny, Reed, Bower, & Gruenewald, 2000). Prior studies found positive outcomes yield from resilience, supporting resilience as a resource. For example, attitudinal and behavioural support for change (Shin, et al., 2012), positive work attitudes (Coutu, 2002; Tait, 2008; Youssef & Luthans, 2007), optimistic thinking (Kumpfer, 1999) and lower levels of psychological distress (Utsey, Giesbrecht, Hook, & Stanard, 2008).

Agreeableness is the second resource that was examined in this study. Agreeableness individuals have the humane aspects of characteristics such as being nurturance, altruism, emotional support and caring, as opposed to indifference to others, hostility, spitefulness, self-centeredness and jealousy at the other end (Digman, 1989). Agreeable individuals tend to build and maintain harmonious relationships with others (Tobin, Graziano, Vanman, & Tassinary, 2000). In terms of

managing their emotions related to interpersonal relationship, agreeable people engender and express empathetic feelings at life events involving emotion feelings. However, they may also control their feelings when there is a relationship implication (Tobin, et al., 2000). The regulation of emotions spills over to their workplace, in turn it strengthens team cohesiveness and creates a friendlier environment (Panaccio & Vandenberghe, 2012). Because of their friendly and understandable character, agreeable people are likeable and accepted as trustworthy organizational member. Panaccio & Vandenberghe (2012) found that agreeable people experience more positive emotions from being accepted by others. Despite confronting with stressors under a changing environment, with their positive emotions, we speculate that agreeableness is an important resource for individuals to overcome hardships and reduce traumatic experience. Additionally, they may gain support from others, thus, both positive emotions and gaining support enhance optimistic thinking of agreeable employees toward organizational change.

Affective and normative commitment to change

Commitment to change is defined as “a force (mind-set) that binds an individual to a course of action deemed necessary for the successful implementation of a change initiative” (Herscovitch & Meyer, 2002, p. 475). The force that ties an employee to this course of action can reflect (1) a desire to support the change based on a belief that it has inherent advantages (affective commitment to change), (2) a recognition that there are costs of resisting the change associated (continuance commitment to change), and (3) a sense of obligation to be supportive for the change (normative commitment to change). Taken together, employees feel obligated to provide support for a change as they want to, have to, and/or ought to.

Although there are three types of commitment to change, only affective and normative commitment to change affect discretionary behaviours (Herscovitch & Meyer, 2002). Discretionary behaviours are more than purely complying when undergoing change. There are two forms of discretionary behaviours: (1) cooperation: more than just having the spirit of the change, it requires modest sacrifices (2) championing: having more personal sacrifices than the former, it involves intention to promote to others (within and outside of the organization) about the organizational change value. Therefore, we only investigated two forms of commitment to change (i.e. affective and normative commitment to change) in our study.

Shin et al. (2012) found that individuals high in resilience respond more favourably to organizational change than those low in resilience. Using resilience as coping resources, individuals overcome hardships and traumatic changes positively. According to Shin et al. (2012), employees view optimistically to the processes and outcomes of change with positive emotions, therefore, they tend to act positively to organizational change. Based on their findings, resilient people were found to have greater affective and normative commitment to change. Thus, we hypothesise:

H1a: Employees high in resilient tend to have greater affective commitment to change than those low in resilient.

H2a: Employees high in resilient tend to have greater normative commitment to change than those low in resilient.

Prior research has found favourable work outcomes from agreeableness, including job embeddedness (Mitchell, Holtom, Lee, Sablinski, & Erez, 2001) and identification to the organization (Ellemers, De Gilder, & Haslam, 2004). Subsequently, Panaccio and Vandenberghe (2012) have empirically found that high-agreeable employees tend to affectively and normatively commit to their organization through positive emotions induced by their personality. However, they investigated agreeableness in a normal work context, we extend their findings to an organizational change context. Thus, we propose the following hypothesis:

H1b: Employees high in agreeableness tend to have greater affective commitment to change than those low in agreeableness.

H2b: Employees high in agreeableness tend to have greater normative commitment to change than those low in agreeableness.

Behavioural and creative support for change

Two types of organizational change-related behaviours—behavioural and creative support for change—are postulated as the consequences of commitment to change in our study. Herscovitch and Meyer (2002) defined behavioural support for change as the extent to which employees support change more than formally required standards and exert extra effort with the change spirit. Creative support for change is defined as a form of support in which employees suggest and generate innovative ideas going along with the spirit of change (Shin, et al., 2012). Past empirical research has found that individuals' change commitment predicts behaviours toward organizational change (Herscovitch & Meyer, 2002). Similarly, Shin et al. (2012) empirically found that employees' strong affective and normative commitment motivate them to demonstrate support for change and invest in generating creative ideas in the midst of change. According to Shin et al. (2012), employees' supportive behaviours are generated from their positive beliefs on the advantages of change and feelings of responsibility to support change. Thus, we propose hypotheses below:

H3a: Employees' affective commitment to change positively influences their behavioural support for change.

H3b: Employees' normative commitment to change positively influences their behavioural support for change.

H4a: Employees' affective commitment to change positively influences their creative support for change.

H4b: Employees' normative commitment to change positively influences their creative support for change.

METHODOLOGY

Sample

The initial sample of this study included 450 academics from two research universities, Universiti Malaya (UM) and Universiti Kebangsaan Malaysia (UKM) through distribution of questionnaires. The sample covered both science and non-science faculties from the two universities. A total of 190 academics (90 from UM and 100 from UKM) completed and returned their questionnaires, yielding response rate of 42 percent. 45 incomplete or reverse scored items inconsistency responses were discarded, which derived a final sample of 145 academics (62 from UM and 83 from UKM). Based on the sample characteristics, 45.5 percent of the sampled academics were male; the average age was 43 years old.

Measures

Psychological resilience. To assess psychological resilience, we used 14-item scale (1 = “does not apply at all” to 4 = “applies very strongly”), which was developed by Block and Kremen (1996). The scale reliability (α) was .74. An example of the items is “I am generous with my friends.”

Agreeableness. We used a 9-item scale that was originally developed by Saucier (1994) and refined by adding one extra item. This original scale, big five personality consists of five dimensions and we only used one of the dimensions. All items ($\alpha = .72$) were rated on a scale ranging from 1, “extremely inaccurate,” to 9, “extremely accurate.” Example items are “sympathetic” and “warm.”

Commitment to change. Using the 12-item scale (1 = “strongly disagree” to 7 = “strongly agree”) developed by Herscovitch and Meyer (2002), we assessed two forms of commitment to change (e.g. affective and normative commitment to change). The scale reliability (α) were .78 and .57, respectively. Example items are “I believe in the value of this change” (affective commitment to change) and “I feel a sense of duty to work toward this change” (normative commitment to change).

Behavioural support for change. Employees were asked to rate their intention to demonstrate support for change on the scale (1 = “strongly disagree” to 7 = “strongly agree”) developed by Herscovitch and Meyer (2002). Behavioural support for change consists of two dimensions—cooperation (9 items) and championing (6 items)—with scale reliability (α) of .76 and .83, respectively. Example items are “I don’t complain about the change” (cooperation) and “I persist with the change to reach goals” (championing).

Creative support for change. Employees’ intention to demonstrate their support for change by developing creative ideas was assessed using the 14-item scale (1 = “strongly disagree” to 7 = “strongly agree”; $\alpha = .88$) developed by Zhou and George (2001). An example item is “I am not afraid to take risks.”

EMPIRICAL RESULTS

The following results are presented: (1) contributions of resilience and agreeableness to the prediction of commitment to change (2) contributions of commitment to change to the prediction of behavioural and creative support for change.

Contributions of resilience and agreeableness to the prediction of commitment to change

Multiple regression was used to examine the contributions of resilience and agreeableness to the prediction of affective and normative commitment to change. The results as shown in Table 1 show that resilience and agreeableness were significantly related ($p < .001$) and contributed 31% of the variance in affective commitment to change among the academics. Thus, hypotheses H1a and H1b were supported.

The results also show that the main and strongest predictor of affective commitment to change was agreeableness ($\beta = .41$, $t = 5.39$, $p < .001$). Resilience contributed a lesser degree to the prediction of affective commitment to change ($\beta = .28$, $t = 3.62$, $p < .001$).

TABLE 1: Multiple regression analysis between resilience, agreeableness and affective commitment to change

Variable	B	β	t
Resilience	.320	.276	3.616*
Agreeableness	.280	.412	5.389*

* $p < .001$

To test the contributions of resilience and agreeableness to the prediction of normative commitment to change, we performed multiple regression analysis. However, we found that resilience ($\beta = -.05$, $t = -.59$, $p = .56$) and agreeableness ($\beta = .13$, $t = 1.45$, $p = .15$) were not significantly related to normative commitment to change, $p = .35$. Thus, hypotheses H2a and H2b were not supported.

Contribution of commitment to change to the prediction of behavioural and creative support for change

Multiple regression analysis was done to test the influences of behavioural and creative support for change on affective and normative commitment to change. Table 2 summarises the results and indicate that affective and normative commitment were significantly related to behavioural support for change ($p < .001$), with 28.6% of contribution of variance. Thus, hypotheses H3a and H3b were supported.

Based on the results, affective commitment to change has a stronger contribution ($\beta = .40$, $t = 5.42$, $p < .001$) to the prediction of behavioural support for change, compared to normative commitment to change ($\beta = .36$, $t = 4.95$, $p < .001$).

TABLE 2: Multiple regression analysis between commitment to change (affective and normative commitment to change) and behavioural support for change

Variable	B	β	t
Affective commitment to change	.643	.395	5.418*
Normative commitment to change	1.222	.361	4.950*

*p < .001

We also performed multiple regression analysis to examine the relationships between two forms of commitment to change and creative support for change. It was found that affective and normative commitment to change were significantly related to creative support for change ($p < .001$), with 20.4% of contribution of variance. Thus, hypotheses H4a and H4b were supported.

As shown in Table 3, affective commitment to change has a stronger contribution ($\beta = .37$, $t = 4.82$, $p < .001$) to the prediction of creative support for change, compared to normative commitment to change ($\beta = .27$, $t = 3.49$, $p < .01$).

TABLE 3: Multiple regression analysis between commitment to change (affective and normative commitment to change) and creative support for change

Variable	B	β	t
Affective commitment to change	.609	.366	4.821*
Normative commitment to change	.916	.265	3.487**

*p < .001, ** p < .01

In sum, our results indicate that academics with high psychological resilience and agreeableness in the Malaysian research universities tend to be affectively committed to the university's change. Additionally, an agreeable academic has stronger affective commitment to change than a resilient academic. However, their high psychological resilience and agreeableness do not translate to their normative commitment toward organizational change. Based on the results, it also indicates that academics' high affective and normative commitment to change influence their behavioural and creative support for change. Moreover, their affective commitment to change is a stronger precursor of their behaviors toward organizational change (i.e. behavioural and creative support for change) than their normative commitment to change.

We draw our implications for the research universities that undergoing change. First, for the successful implementation of change, the university needs support from the academics who are willing to demonstrate in supporting for change. When undergoing change, the university should select and recruit academics with high agreeableness and psychological resilience. As these individual resources have been built up before confronting with change stressors, the academics use them not only for coping with the strains but also to improve their work performance. In turn, the resources enable the academics to commit to the change affectively. Psychology scholars suggest that resilience is not a trait and can be developed through social support and training interventions (Bonanno, 2005; Cornum, Matthews, & Seligman, 2011). Thus, to improve the academics' psychological resilience, the university should consider the employment of intervention.

Based on our findings, along with prior studies (Shin, et al., 2012), academics' commitment to change enable their discretionary change behaviours. Additionally, employees' change commitment and discretionary behaviours are related to positive outcomes of change (Neubert & Cady, 2001). Therefore, our second implication is that the university needs to frequently monitor the level of academics' change commitment. The issues resulting in low change commitment of the employees should be addressed through open communication with them.

Although this study has generated some implications for the university, it also has some limitations that need to be considered. First, quota sampling was used in this study and the data were only collected from two universities. Hence, it prevents us to generalise the findings to the population of research universities in the country. For the purpose of generalisation, future work should use probability sampling design, such as stratified random sampling. Second, the data derived from a single source (e.g. academics' self-reported measure), leading to the possibility of having common source variance that may have biased the results. Thus, we recommend future research to obtain multiple data sources. Third, this study employed cross-sectional study, preventing us to make conclusive statements on causality due to its correlational design. A longitudinal study would be more appropriate if researchers want to infer cause and effects from their data.

CONCLUSION

This study has successfully achieved its objective that is to investigate the relationships of two forms of individual resources—psychological resilience and agreeableness—and employees' commitment to change and discretionary change behaviours. It extends the change literature by highlighting the importance of individual resources (e.g. psychological resilience and agreeableness) to be considered for recruiting academics when organizational change is underway. Consistent with conservation of resources theory, it is suggested that selection of employees based on these resources is a useful means of increasing employees' attitude and behaviours toward organizational change. Different from other prior research focusing on organizational change of the companies, this study was conducted in the research universities that were undergoing organizational change. Future studies are encouraged to extend this study by including other resources that enable employees to commit to change and demonstrate their support for change across different industries, nations and cultures.

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Using Behavioral Online Intention to Create Customer Trust at Shopping Online in Bengkulu Indonesia

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Abstract.

This paper is aimed at contributing to the literatur on using behavioral online intention to create customer trust at shopping online in Bengkulu Indonesia. The TAM Theory is adapted as the theoretical foundation for conceptual model used in the research. Internet acceptance has been widely tested using Technology Acceptance Model (TAM) which records perceived ease of use and usefulness towards the use of internet for shopping online. Questionnaire was deployed as research instrument to collect data. Respondents to the study were the consumers who have access to the internet and who have done to shopping online users in Bengkulu Indonesian. Futhermore, The number of respondents were 158 potential online shopper regarding trust and tecnology and intention to shop online. The analysis data methods used were multiple regression analysis. The results showed that perceived usefulness, perceived ease of use, purchase intenton are able to assign to create consumer trust at shopping online. This is indicated by the value of F calculated by 18,27 and the significance level of 0.000. It can be concluded that the regression model can be used to predict customer trust.

Keywords : perceived usefulness, perceived ease of use , purchase intention, shopping online.

INTRODUCTION

Online shopping is increasingly becoming attractive with penetration of the Internet in the modern times. It saves time and offers convenience (Alba at al. 1997), reduces the costs which otherwise would have been incurred on searching the goods (Seo & Kim, 1999), offers a price cheaper than brick-and- mortar store (Foley & Sutton, 1998; O'Conner & O'Keefe, 1997), and constantly being perceived as secured for online transactions, apart from reduced cost of internet due to its mass diffusion. E-commerce is a new concept that can be described as the process of buying and selling goods or services on the Internet World Wide Web (Shim, et al., 2000). E-commerce is the use of computer networks to perform purchase and sale of goods, services and information electronically (Urbaczewski et al., 2002) Online transactions give scope for understanding online shopping behavior. Several studies show that online shopping experience is a good predictor for online search behavior (Klein, 1998; Liang & Huang, 1998; Eastlick, 1996; Weber & Roehl, 1999; Shim, Sherry, & Wamington, 2001).

Many of these previous researches on internet acceptance were done using Technology Acceptance Model (TAM) developed by Davis (1989). It has been well established that online purchase behavior model can be developed from TAM. Futhermore, TAM deals with external variables affecting perceived ease of use and usefulness. Perceived ease of use and usefulness affect attitudes toward usability that shapes intention to use. Perceived usefulness has however direct influence on intention to use. It is also the fact that behavioral intention influences the actual behavior. This model has been tested by many researchers and findings reported agree to this relationship.

E-commerce is experiencing rapid development in Indonesia, for a particular community of e-commerce is not a new thing anymore. The use of internet is increasing reference to the three influences. *First*, the rapid use of the internet will spur entrepreneurs in setting up innovative businesses. *Second*, the emergence of this crime are closely related to problems in this study. *Third*, the development of the internet a person can be prosecuted indirectly applying IT. In e-commerce trust factor is the most important thing. Only those who feel have confidence in the e-shop that would dare to make e-commerce transactions. Because the trust becomes an important thing that will support the development of e-commerce.

In 2012, the number of Internet users in Indonesia reaches more than 60 million people, growing more than 30%. Indonesia currently ranks 4th as the country with the most Internet users in Asia. According to the latest Nielsen Global Online Survey, more than 85% of the world's online population has used the Internet to purchase. In Indonesia, half of online shoppers use Facebook (50%) and social networking Kaskus (49,2%) for the purchase of goods, from fashion products, electronics, books, to household appliances. The most desirable fashion products in online shopping. A total of 33,5 % of respondents had shopped online. The goods they are buying is a fashion or apparel products, including accessories and shoes (60,8%). (<http://ekonomi.kompasiana.com/bisnis>).

TAM has been widely used in studying consumer behavior in Indonesian, including in studying people's interest with respect to e-learning, consumer perceptions, studies of information systems, acceptance of the application of audit techniques, in case of e-procurement, the use of information technology, use of internet banking, the use of mobile internet, and others. Consumer behaviour changes dynamically over the time as they adopt the technological developments. The fact could be attributed to internet penetration that is pretty good in Indonesia, however, many people are still reluctant to utilize internet as online shopping media due to security concerns. There are many people still question the safety of online transaction and payment. The research objective of this paper is thus to analyze using behavioral online intention to create customer trust at shopping online in Bengkulu Indonesia.

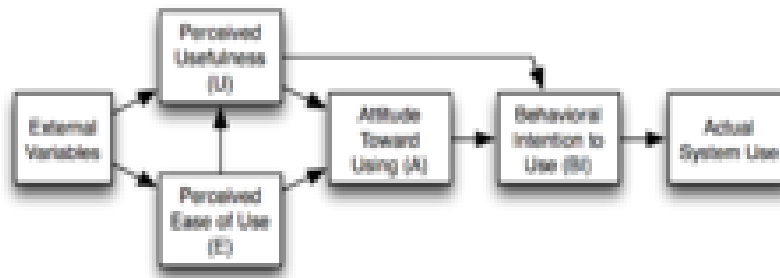
LITERATURE REVIEW

Technology Acceptance Model (TAM) is an information systems theory that models how users come to accept and use a technology. The model suggests that when users are presented with a new technology, a number of factors influence their decision about how and when they will use it, notably:

Perceived Usefulness - This was defined by Fred Davis as "the degree to which a person believes that using a particular system would enhance his or her job performance".

Perceived Ease of Use - Davis defined this as "the degree to which a person believes that using a particular system would be free from effort" (Davis 1989).

The TAM has been continuously studied and expanded-the two major upgrades being the TAM 2 (Venkatesh & Davis 2000 & Venkatesh 2000) and the Unified Theory of Acceptance and Use of Technology (or UTAUT, Venkatesh et al. 2003). A TAM 3 has also been proposed in the context of e-commerce with an inclusion of the effects of trust and perceived risk on system use. Venkatesh & Bala 2008).

Figure 1: Technology Acceptance Model (TAM)

Source : Deloped from Davis, Bagozzi & Warshaw (1989)

Overview of the Model

The Technology Acceptance Model has been used in different contexts with numerous supporting empirical studies. Although attitudes are constructs proposed in the original TAM, many researchers have eliminated these constructs from their models (Venkatesh & Brown 1996; Szajna 1994; Davis, Bagozzi & Warshaw 1989). There were three main reasons that accounted for the elimination of attitudes from the Technology Acceptance Model. *Firstly*, prior empirical studies showed a nonsignificant effect on behavioral intention (Davis, Bagozzi & Warshaw 1989). Perceived usefulness was found to be the major determinant of behavioral intention while attitudes illustrated a non-significant impact toward behavioral intention. Although perceived usefulness has an important influence on attitude formation, it is possible that attitudes might not play a strong role in predicting behavioral intention after an individual is exposed long enough to the technology. *Secondly*, Why some researchers have chosen to take attitudes out of the Technology Acceptance Model might be in the interest of parsimony because the revised model has fewer indicators, which do not significantly lower its predictive capability (Mathieson 1991; Davis 1985). *Thirdly*, the Technology Acceptance Model relies on the premise that attitude factors are comprehensively included within the construct of perceived usefulness.

Perceived Usefulness

Davis et al, (1989) defined perceived usefulness as ‘the prospective user’s subjective probability that using a specific application system will increase his or her job performance within an organizational context’. Perceived Usefulness was defined as “the degree to which a person believes that using a particular system would enhance his/her job performance” (Davis, 1989, p. 82). Davis (1989) describes a system high in Perceived Usefulness as one for which a user believes in the existence of a positive user-performance relationship. The user perceives the system to be an effective way of performing the task(s).

Perceived Ease of Use

Linkages between Perceived Ease of Use, Perceived Usefulness and attitude in TAM theory have been empirically verified in the IT literature. Several studies have employed different usage measures and found them consistent with TAM results, that is its two beliefs have a close correlation to attitude (Adam et al, 1989 and Burton-Jones et al, 2005).

Perceived Ease of Use refers to “the degree to which a person believes that using a particular system would be free of effort” (Davis, 1989, p. 82). Given that effort is a finite resource, an application perceived to be easier to use than another is more likely to be accepted by users (Davis, 1989).

Perceived Ease of Use was measured using a three-item scale, modified from previous Technology Acceptance Model research (Deane, Podd and Henderson, 1998). Respondents were asked to indicate the extent of their agreement with each item on a five point numerical scale, ranging from 1-strongly disagree to 5-strongly agree. An example of a perceived ease of use item is “It is easy for me to get the groceries I want from the system”. The Cronbach alpha obtained for this scale was 0.62, and is considered acceptable for research purposes (e.g. Nunnally, 1968).

Purchase Intention and Customer Trust

Online trust is a necessity when it comes to online shopping (McCole and Palmer, 2001). Due to the risky nature of online shopping, trust and risk play significant roles in effecting online transactions (Pavlou, 2003). Trust contributes positively towards the success of online transactions (Jarvenpaa and Tractinsky, 1999). Online trust needs to be there when personal financial information and personal data is shared while making a purchase online (Egger, 2006). Online trust is based on the perception of the risks or benefits of the online transaction (Teo and Liu, 2007).

Research Model

The study is done using survey research design method which requires deploying the questionnaire as research instrument. Respondents to the study were customer who have access to the internet. Research model to be tested is shown as Figure 2.

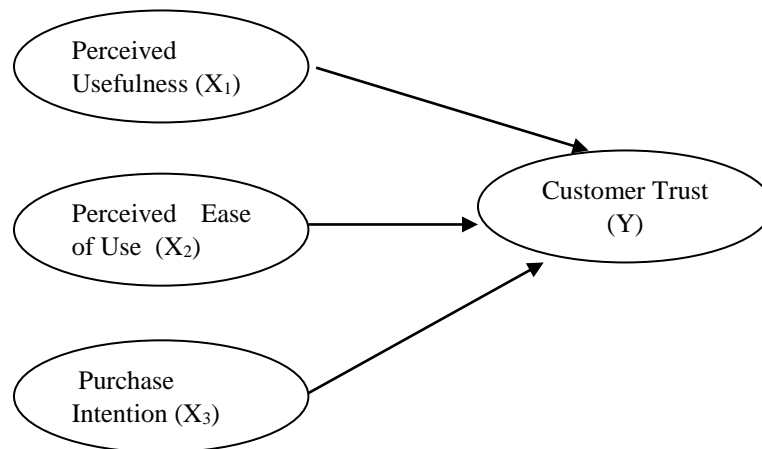


Figure 2. Research Model

Hypotheses

There are four hypotheses proposed in this research

H1 : That perceived usefulness have influence on customer trust at shopping online

H2 : That perceived ease of use have influence on customer trust at shopping online

H3 : That purchase intention have influence on customer trust at shopping online

H4 : That using behavioral intention (perceived usefulness, perceived ease of use, purchase intention) have an influence on customer trust at shopping online.

Results and Discussion

Questionnaires were distributed to 165 respondents but only 158 were returned duly filled responses were coded following Likert scale rule. Answers to the statement were coded between 1 up to 5. Research variables consist of 4 (four) variables which has 3 variables as independent variabel and others as dependent variables. Perceived ease of use, perceived usefulness, purchase intention are independent variables while customer trust is dependent variables. Prior to questionnaire distribution, validation and reliability test were performed. Validation test was performed using correlation, and reliability test was done.

METHODOLOGY

Research Design

This study is done using survey research design method which requires deploying the questionnaire as research instrument. The research instrument was a questionnaire containing 5 items. The measuring scale was a 5 point Likert-type scale that ranged from “1” (completely disagree) to “5” (completely agree).

Sampling Method

Method used is purposive sampling, a technique of determining the sample with special consideration to be sampled. Respondents in the study were respondents who lived in Bengkulu city and who have access to the internet and also who have never done online shopping.

Table 1. Measures and Estimates for Construct

Construct	Measurement Item	Mean
Perceived Usefulness	Quickly	4,10
	Effort Saving	4,13
	Time saving	4,00
	Cost Reducing	3,98
Perceived Ease of Use	Consumer have an online shopping experience	3,90
	Technology makes it easy and convenient in shop online	3,92
	Ease of payment systems	4,15
	Ease of finding information	4,20
Purchase Intention	Changing the way from the conventional shop to e-commerce	4,13
	Shopping online is more effective and efficient	4,00
	Online shopping is the need to find a product	4,14
	Online shopping web sites are a fit means to buy products	4,04
Consumer Trust	Trust on e- shop/company has a good reputation	4,12
	Trust on campany good intention	4,23
	Trust on company promise and commitment	3,98
	Trust on safe transaction	3,99

Perceived usefulness has been measured by using 4 indicators. These were- being (quickly, effort saving, time saving, cost reducing), and overall perceived usefulness. As shown in the table 1, all these indicators contribute in the range from 3,98 to 4,10. The biggest contributor among them in building perceived usefulness toward customer trust of online transaction is effort saving,

whereas the least is its use in cost reducing. Therefore, perceived ease of use, purchase intention and customer trust, which all the variables and indicators have a mean value of a good. It means that respondent believe that using behavioral online intention to create customer trust at shopping online in *Bengkulu Indonesia*

Data Quality Test

1. Reliability Test

Cronbach's Alpha coefficient was used to evaluate the reliability of the measures. Reliability is a degree to which measures are free from error and therefore yield a consistent result (Zikmund, 2003) and hence offer a consistent measurement across time and across the various items in the instrument. The statistic provides an indication of the average correlation among all of the items that make up the scale. Values range from 0 to 1 with higher values indication greater reliability. In table 2 indicates the result of analysis of the Cronbach's alpha scale for Perceived Usefulness, Perceived Ease of Use, Purchase Intention and Customer Trust where its value is more than 0.7.

Table 2 . Reliability Test

Variable	Alpha Cronbach
Perceived Usefulness (X1)	0,85
Perceived Ease of Use (X2)	0,87
Purchase Intention (X3)	0,86
Customer Trust (Y)	0,84

2. Validity Test

Pearson correlations were calculated to identify the correlations between the four variables: Perceived Usefulness, Perceived Ease of Use, Purchase Intention, and Consumer Trust. This study uses content validity to illustrate suitability of a measurement data with what is measured. Each item is said to be valid and the question is acceptable if the r calculated $>$ r the table (with $n-2$, $\alpha = 0.05$), and if r count $<$ r table is declared invalid. Furthermore, to measure the validity can be viewed items, that has a r table 0.266 or greater. So if the correlation score of the item total of less than 0.266 then the item is declared invalid instruments (Santoso, 2005). Based on the results of the calculation of the validity of all variables / indicators have validity where as on average of all the variable has a value of 0,65.

Table 3. Charactiristic of Respondents

No	Demographic Characteristics	Item	Number of Respondents	Percentage
1	Sex	Male	73	46,2 %
		Female	85	53,8 %
2	Age	≤ 18	15	9,5 %
		19 – 25	37	23,4 %
		26 – 35	56	35,4 %
		36 – 45	50	31,6 %
3	Education	\leq high school	30	18,9 %
		Diploma 3	34	21,5 %
		Graduate	78	49,4 %
		Post graduate	16	10,1 %
4	Occupation	Student	32	20,3 %
		Lecturer/Teacher	30	18,9 %
		Servant (non lecturer /non teacher)	58	36,7 %

		Private employee	35	22,2 %
		Additional	3	1,89 %
5	Income	< 1 million	34	21,5 %
		1 million - 2,5 million	63	39,8 %
		2,5 million - 5 million	61	38,6 %

Futhermore, There has been a lot of product purchase such as electronic equipment with the number of respondent was 25 at (15,8%), Cosmetic with number of respondent 21 respondent with (13,3 %), CD 22 at (13,9%), Book 27 at (17,1%), souvenir 28 at (17,7%) and bag, watch, dress 35 at (22,2%). Based on the result research have also been know to visit the online site name is rakuten.co.id with the number of respondent by 18 at (11,4%), kaskus.com with number of respondent by 25 at (15,8%), tokobagus.com with number of respondent by 36 at (22,7%), berniaga.com. with number of respondent by 30 at (18,9%), lazada.co.id with the number respondent by 21 at (13,3%) and also bhinneka.com the number of respondent 28 by at (17,7%).

Testing Hypothesis (Multiple Linear Regression)

In statistic, multiple linear regression analysis is a method used to draw a linear relationship between few independent variables and dependent variables.

Table 4. Coefficients of Multiple Regressions Model

Model	Unstandarized Coefficients		Standarized Coefficients	T	Sig.
	B	Std Error	Beta		
(Constant)	.251	1.935		.130	.898
	.303	.148	.270	2.051	.047
	.386	.179	.302	2.162	.036
	.314	.135	.286	2.342	.025

In table 4, the unstandardized beta coefficient is used for the values of the numbers in the linear regression equation. Theory explains that a higher beta value indicates a greater impact of the independent variable on the dependent variable. The independent variable (Perceived Usefulness, Perceived Ease of Use, Purchase Intention, and Consumer Trust) can be ranked according to the magnitude of the beta coefficient to determine which component has the most significant .

Therefore, the multiple regressions equation of this study is:

$$Y = 0,251 + 0.303 X_1 + 0.386X_2 + 0,314X_3$$

Based on the result obtained, that using behavioral online of the most significant impact on customer trust , as it has the highest beta value, followed by perceived ease of use, purchase intention, and perceived usefulness.

Table 5. Model Summary of Multiple Regression

Model	R	R Square	Adjusted Square	R	Std.Error of The Estimate
1	0,434	0,454	0,540		0,07106

The R square or (coefficient of determination) is a portion of the total variation in the dependent variable that is explained by the variation in the independent variables.

Additionally, it helps to determine the percentage of variance in three dimensions (Perceived Usefulness, Perceived Ease of Use, Purchase Intention) which can significantly explain customer trust. The values of multiple correlation coefficients (R) can lie only within the range from -1 to $+1$. A perfect positive association will be reflected by the correlation of $+1$; a perfect negative association will be reflected by the correlation of -1 ; and the absence of association will produce a correlation of approximately zero.

According to the model summary, R square is equal to 0.454, which is less than 1. This indicates that there is a weak linear relationship between perceived ease of use, purchase intention, and perceived usefulness and customer trust. Approximately 45.4% of variance in all can significantly explain to create customer trust. The finding suggests that aside from components, there are many other factors that might also effect customer trust. Because multiple R is positive in value, it shows that there is positive linear relationship between perceived ease of use, purchase intention, and perceived usefulness and customer trust. Coefficients adjusted R square shows how much the variable perceived ease of use, purchase intention, and perceived usefulness have effect on customer trust at shopping online. Adjusted R^2 is 54% while the remaining amount of 46% is the contribution of other variables.

Table 6. Anova^(b) of Multiple Regressions (F Test)

Anova ^(b)						
Model		Sum of Square	Df	Mean Square	F	Sig.
1	Regression	13.863	4	3.465	18.270	,0000
	Residual	20.104	116	.173		
	Total	33.967	120			

An analysis of variance (ANOVA) is used to test whether there is a significant linear relationship between the combination of the using behavioral intention and customer trust. Therefore, we can see Table 6, the p -value is .000, indicating that the components significantly effect in consumer trust.

CONCLUSION

Based on the analysis, conclusions as the following: variable perceived usefulness, perceived ease of use, and purchase intention have a significant effect. However, if it views the results of hypothesis testing using the f test. Variable perceived usefulness, perceived ease of use, purchase intention have effect and significance simultaneously on customer trust at business retail online. This is indicated by the value of F calculated by 18,270 and the significance level of 0.000, it can be concluded that the regression model can be used to predict customer trust. Therefore, H_0 is rejected and H_a accepted.

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The Impact of Transformational Leadership Dimensions on Organizational Innovation: A Case of Higher Education in Iraq

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Abstract

This research was carried out with the intention of examining the impact of transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration) on organizational innovation in higher education in Iraq. The study used survey design to collect the data. The sample targeted 50 academic staff members from one university in Iraq selected through random sampling technique to participate in this study. The statistic results found significant strong relationships between the transformational leadership dimensions and the organizational innovation. More importantly, there are significant impacts of the transformational leadership on organizational innovation. In addition, transformational leadership plays important roles in determining the organizational innovation. Leaders should consider in matching both leadership behaviors based on the situation of their subordinates. Thus, the study contributes to the existing pool of knowledge on the empirical impact of transformational leadership dimensions on organizational innovation. Different aspects of these variables were tested, so as to provide a wider and more comprehensive understanding of the factors that affect higher education in Iraq.

Keywords: Transformational Leadership Dimensions, Organizational Innovation, and Higher Education

1. Introduction

In today's competitive world organizational success is linked with organizational performance and leadership style plays a significant role in achieving this objective. Leadership is defined as capability of an individual to persuade and inspire others so that they contribute towards effectiveness and success of the organization (Yukl, 2006). Leaders role in an organization should be like a creative thinker, prominent, captivating and humane (Tourish, 2014). The leadership has been extensively studied by many researchers in terms of its impact on the organizational performance and Innovation, but they have examined it independently or have linked it with organizational innovation. Transformational leadership style act as a driving force for organizational performance and innovation side by side job satisfaction of employees as transformational leader interact with subordinates to motivate them, and facilitate employees to work up to mark. Givens (2008) stated that transformational leadership style has grabbed the attention of many researchers in past three decades. (Chipunza and Gwarinda, 2010) stated that transformational leadership style has shown significant achievement in growth and improvements in the development of innovative measures for higher education sector. Moreover, it is worldwide documented due to its remarkable role it plays in sharing of vision and building an environment that is based on team work. Literature is available on past researches regarding leadership and employees' job satisfaction in business organizations, Moreover, researches on leadership styles

with innovative measures in higher education institutions specifically in Arab regions is lacking. This study reveals the hidden measures of Iraqi higher education institutions leadership styles and its impact on organizational innovation. The background of this study is Iraq which is a developing country. Iraq is situated in the Middle South- west of the Asia with a population of 30 million. In 2003, Iraqi Higher education has faced severe destruction due to war and sixty one universities and 101 colleges buildings were demolish and looted. Iraqi higher education has faced great damage in terms of growth and expansion, strategy , rules and regulations building and in overall management of higher education(www.unesco.org).Kezar , Carducci, and Contreras-McGavin (2006) examined the leadership styles in educational institutions and stated that transformational leadership styles plays an important role in empowering employees, trust building and inculcate the values and preferences of organizational culture among employees in order to work up to mark and achieve the targeted outcomes. Transformational leadership has played a vital role in organizational change (Bass , 1997). Rowley , Lujan & Dolence (1997) and William (2003) stated that universities and organizations globally have been forced to adapt to the drastic changes in order to be more innovative. As a result of this higher education institution leaders have made necessary adjustments in order to meet the required goals and objectives (Rowley et al., 1997).

2. Literature Review

The following section provides a summary of the academic literature that is relevant to this study. It includes a section on leadership and organizational innovation.

2. Transformational Leadership

The theory of transformational leadership is not a new one but has been around since 1970s. Transformational leadership defines achievable mission for an organization, builds and enhances employees' self-esteem and confidence building, help employees' to realize their potentials by identifying and fulfilling needs of their employees' (Peterson , Walumbwa, Byron, & Myrowitz, 2009). Bass (1985) has identified and highlighted four behaviors related to transformational leadership style and their influence on employees' motivation and fulfilling the needs of their employees'. These behaviors are idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Idealized influence behavior provides a strong support for employees to respect and trust leaders, encourages leaders to communicate employees the need for the blend of risk and decision-making, and most importantly, aligns leaders' actions with the ethical ideology (Bass , Avolio, Jung, & Berson, 2003). Inspirational motivation enables leaders to set vision and mission for the future of the organization and to inspire employees toward achieving the organizational goals. Scholars describe charismatic leadership behavior as the mixture of both idealized influence and inspirational motivation Intellectual stimulation directs leaders to challenge employees' ways of performing routine tasks and to question the ways they choose to derive solutions. Lastly, individualized consideration behavior showcases leaders' mentor role of paying attention toward achieving the needs of employees and addressing the concerns of employees (Bass *et al.*, 2003).

2.2 Organizational Innovation

Innovation, in particular technological innovation, "is an iterative process initiated by the perception of a new market and/or new service opportunity for a technology-based invention which leads to development, production, and marketing tasks striving for the commercial success of the invention" (Garcia & Calantone, 2002, p. 112). It has generally been classified as product and process innovation. The product innovation refers to introduction of new

and improved products and services to meet the customer demands (Damanpour & Gopalakrishnan, 2001). Researchers (Lukas and Ferrell, 2000; Bonner and Walker, 2004) have classified product innovation in to four categories: product-line extensions, me-too products, new-to-the-world products, and product improvements/modifications. Product-line extensions are related to the extension of the existing product and are new to customers but not to the firm; Me-too products are related to the existing products of competitors. Firms produce and imitate the existing products of their competitors. Such products are new to the firm but not to the existing market. New-to-the-world products are the newly developed products through research and development and are new to the market as well as to the firm; while product improvement and modification are the products that carry even slight modifications to the old products, and so these products will be new neither to the customer market nor to the current firm. On the other hand, process innovation is related to the changes in the processes or activities of producing final products or services. This type of innovation is done to improve the overall efficiency of the internal processes and depends on the rate of implementation of new technology in the firms (Damanpour & Gopalakrishnan, 2001). Lager (2002) classifies process innovation as (1) newness of process technology to the world --- at what extent a particular process technology is known by the market and (2) newness of process technology to the company --- at what extent a particular process technology is implemented in the production system of a particular firm. Process innovation helps in reducing the costs associated with the production and manufacturing processes; while product innovation aims at improving the quality of the products and at the same time producing new products with different features and characteristics (Lager , 2002). Fug sang (2010) explains that innovation in organizations means the creation of new things or adopting new technologies. The central concept of innovation is the newness for organizations (Vander Steen, 2009; Antonioli , 2011). This ‘new’ can be a concept, idea, amenity, procedure, policy, process, structure, product, system, and much more (West & Farr, 1989; Windrum , 2008; Fuglsang , 2010).

2.3 Relationship between transformational leadership and organizational innovation

For organizations, innovation is related to the creation of valuable and useful new products or services For most organizations, innovation is a competitive strategy to outperform competitors. The present study is related to organizational innovations in higher education institutions to attain competitive position, thus a market oriented approach is adopted for the study. Accordingly, organizational innovation is the tendency of the organization to develop new or improved services and providing these new services to its customers (students in case of educational institutions). This approach is consistent with Damanpour's (1991) definition of product innovations as, “new products/services introduced to meet an external user or market need,” and is in-line with the OECD (2004) as, “the successful bringing of the new product or service to the market.” Transformational leadership has been found to enhance innovation within their organizations through inspiring and motivating their employees’ intellectual capabilities (Elkins and Keller, 2003). Transformational leaders promote creative ideas within their organizations through championing of ideas (Howell and Higgins, 1990). These leaders not only have the vision, but also motivate their employees’ to perform beyond expectations by stimulating their intellectual senses to adopt innovative approaches in their work. Thus, in the process enhance organizational innovation (Mumford *et al.*, 2002). A number of empirical studies have been conducted on the role transformational leadership plays in innovation (e.g., Keller , 1992; Waldman and Atwater, 1994). These studies examine the relationship between transformational leadership and innovation R&D and in projects. However, recently, researchers have started

looking at the influence of transformational leadership on innovation in organizational context. For example, Jung et al. (2003), conducted a study on the role of transformational leadership on organizational innovation in Taiwan and found a strong and positive relationship between transformational leadership and innovation in organizational context. He opines that transformational leaders, who articulate strong vision and champions the idea would strive to ensure the market success of the innovation. These leaders would encourage and mobilize their employees to ensure the success of innovations (Jung *et al.*, 2003). Keller (1992) has suggested that professional employees require more than traditional leader behaviors especially in R&D projects, where quality determines the performance. Furthermore, researchers view transformational leadership effectiveness in entrepreneurial activities and championing of ideas and innovations necessary for understanding the market needs (Howell and Higgins, 1990). The present study proposes a positive relationship between transformational leadership and organizational innovation which is conceptualized in this paper as including both the tendency of the organization to innovate and the success of innovations. In line with the view suggested in the literature, the study formulates the research hypotheses as below

H₁: There is significant relationship between transformational leadership dimensions and organizational innovation.

H_{1a}: There is significant relationship between idealized influence attribute and organizational innovation.

H_{1b}: There is significant relationship between idealized influence behavioral and organizational innovation.

H_{1c}: There is significant relationship between inspirational motivation and organizational innovation.

H_{1d}: There is significant relationship between intellectual stimulation and organizational innovation.

H_{1e}: There is significant relationship between individualized consideration and organizational innovation.

H₂: There is significant impact between transformational leadership dimensions and organizational innovation.

H_{2a}: There is significant impact between idealized influence attribute and organizational innovation.

H_{2b}: There is significant impact between idealized influence behavioral and organizational innovation.

H_{2c}: There is significant impact between inspirational motivation and organizational innovation.

H_{2d}: There is significant impact between intellectual stimulation and organizational innovation.

H_{2e}: There is significant impact between individualized consideration and organizational innovation.

3 Methodology

An organization that is able to improve its transformational leadership would be able to sustain academic staff. Previous research have shown that organizations with a more persuasive and guiding leadership style would be able to improve the organization's goals, increase the work effectiveness of employees and will increase organizational innovation. The study was conducted under the framework as shown in figure.1. It demonstrates the variables transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavior, Inspirational

Motivation, Intellectual Stimulation and Individualized Consideration) and organizational innovation that were used in the study.

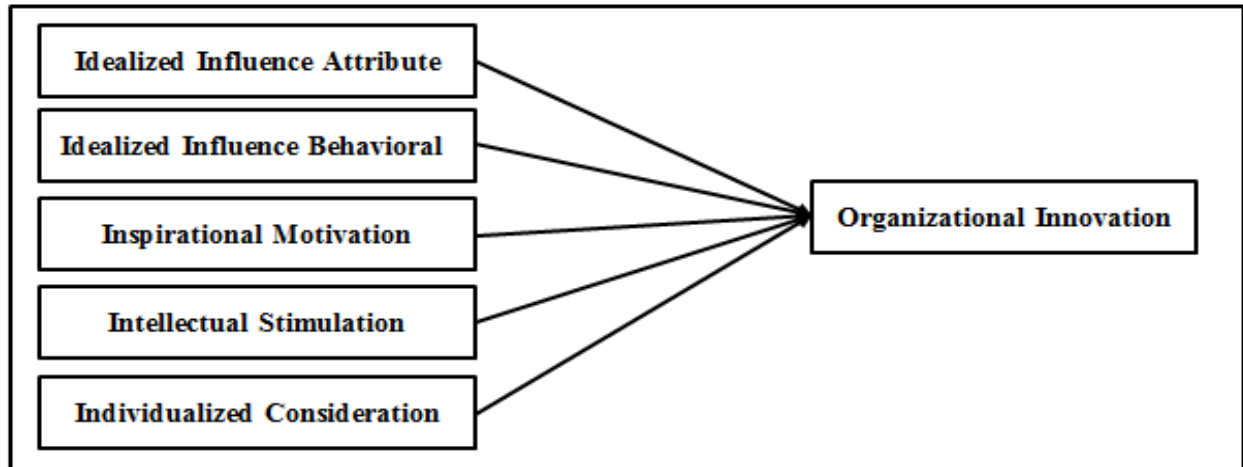


Figure.1. The Proposed Model of Study

3.1 Questionnaire Design

The data for this study was collected through a questionnaire survey. Most of the measurement items in the questionnaire were based on previous studies. Content validity was ensured through an extensive literature review of published material in academic and practitioner journals, and by discussion with several experts and scholars in this field. A transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration) was measured depend on Bass and Avolio (1997) ,Avolio and Bass, 1995 Multifactor Leadership Questionnaire (MLQ) Form Bass & Avolio (1996) , also known as 5X-Short (Bass , Avolio, Jung, & Berson, 2003) MLQ-5X has been shown to be a psychometrically sound instrument (Avolio , Bass, & Jung, 1997; Bass , 1998; Bass & Avolio, 1997; Bass and Avolio, 1995). The MLQ has been extensively used in prior research and is considered to be a well-validated measure of transformational leadership (Awamleh and Gardner, 1999). which is one of the most widely used and tested measures of transformational leadership (Singh and Krishnan, 2008). The MLQ 5x is a recent version of the scale which has been in development for nearly 20 years and used extensively to measure leadership practices, particularly transformational leadership. The five subscales(Idealized influence (attributed), Idealized influence (behavioral), Inspirational motivation, Intellectual stimulation, Individual consideration) that measure transformational leadership were extracted from the MLQ, and a composite transformational leadership score was computed from those items (Carless , 1998). The 20 items represented by these subscales employ a five-point scale ranging from 1=“Not at all” to 5= “Frequently, if not always”.

Organizational Innovation has been measured using 16 items adapted from Tsai , Chuang, and Hsieh (2008). Using a 5-point Likert scale, Respondents are asked to indicate the extent of their agreement with each item ranging from 1 (*strongly disagree*) to 5 (*strongly agree*). The reported Cronbach’s alpha reliability for the scale is 0.93 (Easa, 2012).

3.2 Data Collection

The purpose of this study is to conduct a pilot study to determine the validity of questionnaire design. The pilot study is one that tests proposed research instrument on small sample of

respondents within the sample population to identify and eliminate potential problems Hunt and Wilcox (1982). Therefore, the sample size for this study was chosen based on random sample of (50) academic staff in higher education in Iraq. Analytical methods included Correlation and Regression, reliability and validity. The SPSS (version 21) was used to carry out the dissipative statistical analysis.

4. Findings

4.1 Reliability Analysis

Reliability was tested for each variable of Transformational Leadership and organizational Innovation. To measure the consistency of the scale, Cronbachs alpha was used as a measure of reliability. After factor loading was carried out, , reliability coefficients of 0.7 or more are considered adequate for social studies (Hair et al., 2006) table 2 showed an acceptable range of reliability where the results score.

Table 2. The Reliability result variables Transformational Leadership Dimensions and Organizational Innovation.

No.	Variables	Number of items	Cranach's Alpha
1	Idealized Influence Attribute	4	0.85
2	Idealized Influence Behavioral	4	0.80
3	Inspirational Motivation	4	0.83
4	Intellectual Stimulation	4	0.84
5	Individualized Consideration	4	0.78
6	Organizational innovation	16	0.90

4.2 Correlation Analysis

In this section, Pearson Correlation Coefficient was used to determine the relationship among the study variables. In addition, it identifies significant that opposites the potential value of the error from first type, and it is the amount probability uncertainty value is at significance (0.05) and (0.01) to determine the moral differences between the study variables. The statistical results given in Table3 show that there are significant correlations between the transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration) and organizational innovation. The details are as in the following.

Table 3. The Correlation result Transformational Leadership Dimensions and Organizational Innovation.

Variable	1	2	3	4	5	6	Mean	Standard Deviation
Transformational leadership								
1.Idealized	(0.85)						3.84	0.75

Influence Attribute									
2.Idealized Influence Behavioral	0.63**	(0.80)				3.92	0.72		
3.Inspirational Motivation	0.62**	0.63**	(0.83)			3.84	0.72		
4.Intellectual Stimulation	0.63**	0.50**	0.65**	(0.84)		3.91	0.73		
5.Individualized Consideration	0.63**	0.71**	0.66**	0.65**	(0.78)		3.61	0.72	
6.Organizational innovation	0.79**	0.78**	0.80**	0.75**	0.78**	(0.90)		3.96	0.56
Number of items	4	4	4	4	4	16			

As the statistical results shown in table 3, Pearson Correlation Coefficient value on the relationship between transformational leadership dimensions and the organizational innovation is (Idealized Influence Attribute= 0.79**, Idealized Influence Behavioral =0.78**, Inspirational Motivation =0.80**, Intellectual Stimulation =0.75**, Individualized Consideration =0.78**) at a significance smaller than 0.01. It is a significant positive correlation. This means transformational leadership dimensions has strong significant relationship with organizational innovation. This in turn supports the first hypothesis mentioned below.

4.3 Testing Hypothesis

H1: There are significant relationship between transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration) and organizational innovation.

Statistical results regarding the correlation between transformational leadership dimensions and organizational innovation are shown in table

Pearson Correlation Coefficient value on the relationship between Idealized Influence Attribute and organizational innovation was 0.79**at a significance smaller than 0.01. It is a significant positive correlation. This means Idealized Influence Attribute has strong significant relationship with organizational innovation. This in turn supports the sub-hypothesis mentioned above.

Pearson Correlation Coefficient value on the relationship between Idealized Influence Behavioral and organizational innovation was 0.78**at a significance smaller than 0.01. It is a significant positive correlation. This means Idealized Influence Behavioral has strong significant relationship with organizational innovation. This in turn supports the sub-hypothesis mentioned above.

Pearson Correlation Coefficient value on the relationship between Inspirational Motivation and organizational innovation was 0.80**, at a significance smaller than 0.01. It is a significant positive correlation. This means Inspirational Motivation has strong significant relationship with continuance organizational innovation. This in turn supports the sub-hypothesis mentioned above

Pearson Correlation Coefficient value on the relationship between Intellectual Stimulation and organizational innovation was 0.75**, at a significance smaller than 0.01. It is a significant positive correlation. This means Intellectual Stimulation has strong significant relationship with organizational innovation. This in turn supports the sub-hypothesis mentioned above

Pearson Correlation Coefficient value on the relationship between Individualized Consideration and Organizational innovation was 0.78** at a significance smaller than 0.01. It is a significant

positive correlation. This means supportive transformational leadership dimensions has strong significant relationship with organizational innovation. This in turn supports the sub-hypothesis mentioned above.

4.4 Regression Analysis

A series of linear regression analyses was conducted to measure the impacts between the independent variables and the dependent variable. The regression results are shown in table 4. R square is the square of the multiple correlation coefficients; it indicates the proportion of the variance of the dependent variable explained by the independent variables. The closer R square near to 1, the better the linear regression model is. The F-value is computed as the ratio of the mean sums of squares of the regression equation and the residual. The coefficient indicates the number of units of increase in the dependent variable caused by an increase of one unit in the independent variable. The detailed verifications of the second hypothesis are provided in the following.

Table 4: Regression Analysis Results

Variables	Standard Beta	Sig.	Model Summary
1.Idealized Attribute	Influence 0.79	0.00	R ² = 0.63 Adjusted R ² = 0.62 Standard Error = 0.35 F statistics= 79.90 p-value = 0.00
2.Idealized Behavioral	Influence 0.78	0.00	R ² = 0.60 Adjusted R ² = 0.60 Standard Error = 0.36 F statistics= 72.96 p-value = 0.00
3.Inspirational Motivation	0.80	0.00	R ² = 0.64 Adjusted R ² = 0.63 Standard Error = 0.34 F statistics= 86.04 p-value = 0.00
4.Intellectual Stimulation	0.75	0.00	R ² = 0.57 Adjusted R ² = 0.56 Standard Error = 0.37 F statistics= 62.74 p-value =0 .00
5.Individualized Consideration	0.78	0.00	R ² = 0.61 Adjusted R ² =0 .60 Standard Error = 0.36 F statistics= 74.71 p-value = 0.00

**significant < 0.01, * significant< 0.05

Predictors: (Constant), transformational leadership dimensions

4.5 Testing Hypothesis

H2: There is significant impact of transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration) on organizational innovation.

Statistical results in Table 4 illustrate the impact of transformational leadership dimension on organizational innovation. Statistical results illustrate the relations between Idealized Influence Attribute and organizational innovation. were acceptable. As indicated in the test (F) the calculated (F) value is 79.90 which are the largest of the indexed value (F) at significance less than 0.01. As a result, value of the adjusted coefficient (interpretation) R2 is 0.63. This means the Idealized Influence Attribute explain and interpret 0.63 from the gained changes organizational innovation. In addition, the value of the coefficient Beta (B) for the Idealized Influence Attribute an explanatory (independent) variable for the respondent (dependent) variable of organizational innovation is 0.79 at a significant less than 0.01. In other word, the change of one unit in the Idealized Influence Attribute is followed by an increase of 0.79 in the organizational innovation.

Statistical results illustrate the relations between Idealized Influence Behavioral and organizational innovation were acceptable. As indicated in the test (F) the calculated (F) value is 72.96 which are the largest of the indexed value (F) at significance less than 0.01. As a result, value of the adjusted coefficient (interpretation) R2 is 0.60. This means the Idealized Influence Behavioral explain and interpret 0.60 from the gained changes Organizational innovation. In addition, the value of the coefficient Beta (B) for the Idealized Influence Behavioral as an explanatory (independent) variable for the respondent (dependent) variable of organizational innovation is 0.78 at a significant less than 0.01. In other word, the change of one unit in the Idealized Influence Behavioral is followed by an increase of 0.78 in the organizational innovation.

Statistical results illustrate the relations between Inspirational Motivation and organizational innovation were acceptable. As indicated in the test (F) the calculated (F) value is 86.04 which are the largest of the indexed value (F) at significance less than 0.01. As a result, value of the adjusted coefficient (interpretation) R2 is 0.63. This means the Inspirational Motivation explain and interpret 0.63 from the gained changes Organizational innovation. In addition, the value of the coefficient Beta (B) for Inspirational Motivation as an explanatory (independent) variable for the respondent (dependent) variable of organizational innovation is 0.80 at a significant less than 0.01. In other word, the change of one unit in the Inspirational Motivation is followed by an increase of .80 in the organizational innovation.

Statistical results illustrate the relations between Intellectual Stimulation and organizational innovation were acceptable. As indicated in the test (F) the calculated (F) value is 62.74 which are the largest of the indexed value (F) at significance less than 0.01. As a result, value of the adjusted coefficient (interpretation) R2 is 0.56. This means the Intellectual Stimulation explain and interpret 0.56 from the gained changes Organizational innovation. In addition, the value of the coefficient Beta (B) for the Intellectual Stimulation as an explanatory (independent) variable for the respondent (dependent) variable of organizational innovation is 0.75 at a significant less than 0.01. In other word, the change of one unit in the Intellectual Stimulation is followed by an increase of 0.75 in the organizational innovation.

Statistical results illustrate the relations between Individualized Consideration and organizational innovation were acceptable. As indicated in the test (F) the calculated (F) value is 74.71 which are the largest of the indexed value (F) at significance less than 0.01. As a result, value of the adjusted coefficient (interpretation) R2 is 0.60. This means the Individualized Consideration explain and interpret 0.60 from the gained changes Organizational innovation. In addition, the value of the coefficient Beta (B) for the Individualized Consideration as an explanatory (independent) variable for the respondent (dependent) variable of organizational

innovation is 0.78 at a significant less than 0.01. In other word, the change of one unit in the Individualized Consideration is followed by an increase of 0.78 in the organizational innovation. This verifies the validity of the second hypothesis.

5 Conclusion

The above statistical results prove that there are significant strong relationship between the transformational leadership dimensions (Idealized Influence Attribute, Idealized Influence Behavioral, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration) and organizational innovation. More importantly, there are significant impacts of the transformational leadership dimensions on organizational innovation. In others words, it indicates that all of the transformational leadership components are contributing significantly to organizational innovation. Leaders are the key personnel within organizations giving directions and guiding employees to be more creative in their approaches. They are the ones who are responsible for ensuring a conducive environment that could lead to organizational innovation.

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Interaction Effect of Leadership Styles And Regulatory Pressure as Predictor of Organizational Performance: A Study on Port Supply Chain Activities at Port Klang

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Abstract

According to the organizational business management literature, management often practice transactional and transformational leadership in planning and implement supply change activities. The capability of management to appropriately practice the leadership styles in supply chain activities may have a significant impact on organizational performance. More importantly, extant studies in supply chain based organization reveal that effect of leadership styles in supply chain activities on organizational performance is not consistent if management able to appropriately regulate movement of goods in supply chain activities. Even though this relationship is significant the role of regulatory pressure as an important moderating variable has been left unexplained in supply chain management research literature. Therefore, it motivates the researchers to recommend a research framework that explains the relationship between leadership styles in supply chain activities, regulatory pressure and organizational performance. This framework is developed based on current supply chain management theories and practices. In order to increase the understanding of research framework, the in-depth interview method was employed involving 16 executives from various port supply chain participants that familiar with port operation as an integral part of supply chain activities in Port Klang. Their views were being cross checked with an authoritative academician and then were used to define the meanings of important constructs in the framework and explain the effect size of the interaction between leadership styles in supply chain activities and regulatory control on organizational performance. Specifically, the outcomes of in-depth interview methods demonstrate that regulatory pressure moderates the relationship between leadership styles in supply chain activities and organizational performance in the organizational sample. Further, discussion, implications and conclusion are elaborated.

Keywords: leadership, regulatory pressure, organizational performance, supply chain

1. INTRODUCTION

1.1 Significant of Port in Malaysia

Malaysia is a maritime country located between South China Sea and Malacca Straits. And it's located strategically at the busiest straits in the world (Port Klang Authority, 2011). There are a total of 8 federal ports and 10 state own ports in Malaysia (Sources: Ministry of Transport website, 22/5/2014). Port Klang, Penang Port, Johor Port, Port of Tanjung Pelepas, Kuantan Port, Kemaman Port, Bintulu Port, and Labuan ports are the eight of federal ports among these 18 ports. In 2010, Port Klang has become the 13th largest port in the world in volume term while Port of Tanjung Pelepas arrived at 17th in world ranking (Sources : Ministry of Transport website, 22/5/2014). In 2012, Port Klang alone represent about half of total number of container handle by all the ports in Malaysia (Sources: Ministry of Transport website : <http://www.mot.gov.my/my/Statistics/Maritime>). There all together ten port authorities in Malaysia of which namely Port Klang Authority(PKA), Penang Port Commission, Johor Port Authority, Kuantan/Kemaman Port Authority in east Malaysia, while the balance is in west Malaysia in like of Bintulu Port Authority, Miri Port Authority, Rajang Port Authority, Kuching Port Authority, and Sabah Port Authority. Originally, all the port authority act as the landlord but subsequently its being privatised and most of them remain as regulatory body (Soon and Lam, 2013). The private companies that being trusted to manage port operation is called terminal operator. In Malaysia, there are 7 operators namely Pelabuhan Tanjung Pelepas (PTP), Kuantan Port Konsortium Sdn Bhd, Northport Bhd, Penang Port Sdn Bhd, Bintulu, Port Holding Bhd, Johor Port Bhd, and Westport Sdn Bhd. (Sources: : Ministry of Transport website, 22/5/2014).

Port development begins with first generation port that acts merely as interface between land and sea only. The port development then move to the second generation that integrated with other transport channel and offer more value added activities. The emergent of containerize and intermodal transport has saw the development of third generation of port that promote it activities as integrated transport centre and logistic platform in international trade (Beresford et. al. 2004). The evolution of port activities have transform into a logistical hub that extended it role in supply chain integration that involves logistic flows of transaction and information that include various parties (e.g. customer, distributors, supplier, carrier) (Carbone and Martino, 2003, Beresford et al. 2004, Donner and Kurk 2009). In the last four decade, port has progress from a place of crossing point between land and sea transport to a more value added activities (e.g. cargo transformation, Distriparks, Inland Container Depot-ICD) and gradual integrated into the supply chain (Pettit and Beresford, 2009). **'Port supply chain'** consist of supply chain entities, information and material flow across the supply chain, inbound and outbound with regard to import and export operation as being described in Lee, Park and Lee (2003) research. The major actors in the port activities (Lae, 2009) has become a hub for interaction among supply chain members (i.e., Consignee, shipper, logistic service provider, brokerage agent, port authority, customs and other government agencies) in managing goods movement as depicted in figure 1.

Port activities are usually highly dependent on the specific port activities and size. For example, the activities carried out in the container port are different from activities in the oil port. The same reasoning is from the perspective of the size, general depth, and type of ports services that being offered such as handling, storage, warehousing, added value services (stuffing, stripping, assembly, packaging, labelling, testing, integration, separation), transportation between modes (using a pipe, truck, train, or ship to a short distance from the ocean), maritime services (pilot, tugs, boatman, ship traffic control) and other services (Mazaheri and Ekwil, 2009). Port related player consist of major port actors and other service provider that operate close to port parameter whether located inside or outside of the port (Coppen et. al. 2007, cited from Jacob and Hall, 2007).

Port supply chain activities adapted from Lee et. al. (2003) can be generally described in figure 1 consist of several major task namely provide facilities and service for ship, provide facilities and service for cargo, administrative formalities (regulatory, safety, security, traffic, port operation, human resources, finance etc), cargo transfer, and value added activities (Alderton 2008, Mora et. al. 2005). Establishment of regulatory mechanism are undeniable important to distinguish between legitimate and illegal cargo transaction. Movement of unverified cargo either to the local economy or to the public safety is being prohibited to cross national border through effective enforcement of trade regulation. Lead government agencies in the like of Customs, Police, port authority , and other competent agencies have a big responsibility in facilitate and enforce the trade regulation to ensure proper conduct of import and export activities (Trade Facilitation Handbook, pg.22)(Grainger, 2007). Furthermore, port operation is an integral part for supply chain activities that realize four intrinsic flows that explained the functionality of the supply chain namely; material flows, information flows, finance flows, and commercial(transactional) flows (Lu , 2011). As depicted in figure 1 from SAP publication that discuss of current SCM trend (Knolmayer et. al., 2009) that involve material, financial, and information flow. The first three flows are quite visible in the business environment. While the last component is slightly conceal from the public as its only deal with the change of product ownership along the supply chain.

1.2 Background Study of Supply Chain Management in Industry

Research that begin in 1950's to 1960's has prompted most manufacturer to concentrate more on mass production with the intent to minimize cost with less product and process flexibility. Later, the manufacturer in 1970's realize the impact of huge Work in Progress , manufacturing cost quality , new product development and delivery lead time that eventually create manufacturing Resource Planning to tackle the issues. In the 80's amid intensify global competition, improving manufacture efficiency and cycle time was the goal to establish cooperative buyer and supplier relationship in order to achieve company strategic goals (e.g, Just-In-Time (JIT), Total Quality Management (TQM)) (Keah 2000 pp40-41) . Since the early 1990's, people in the academic line and practitioner community have gradually focus more to the supply chain and supply chain management (SCM) in order find best practice to stay competitive. Industrial buyer rely more on third party services provider (3PLs) to improve transportation and logistics

management that stress more on the issue of quick response, service response, and integrated logistic Recent emerging interest is based upon current business environment which becoming globalize and highly competitive (Chan and Qi 2003, Tonya Boone & Ram Ganeshan 2002 p. 6, Wisner, Tan & Leong 2012 p.12).

Participant of supply chain started from a simple supply chain of supplier and customer to more extended form that reminiscent of current local and global supply chain component portray in figure 2 (Scott et. al., 2011). Hugo (2011) also described in his paperback that services provider can also be refer to the whole other categories of companies or organization that serve up the required services to other companies in the supply chains (eg. transport, finance, forwarding, Warehousing).

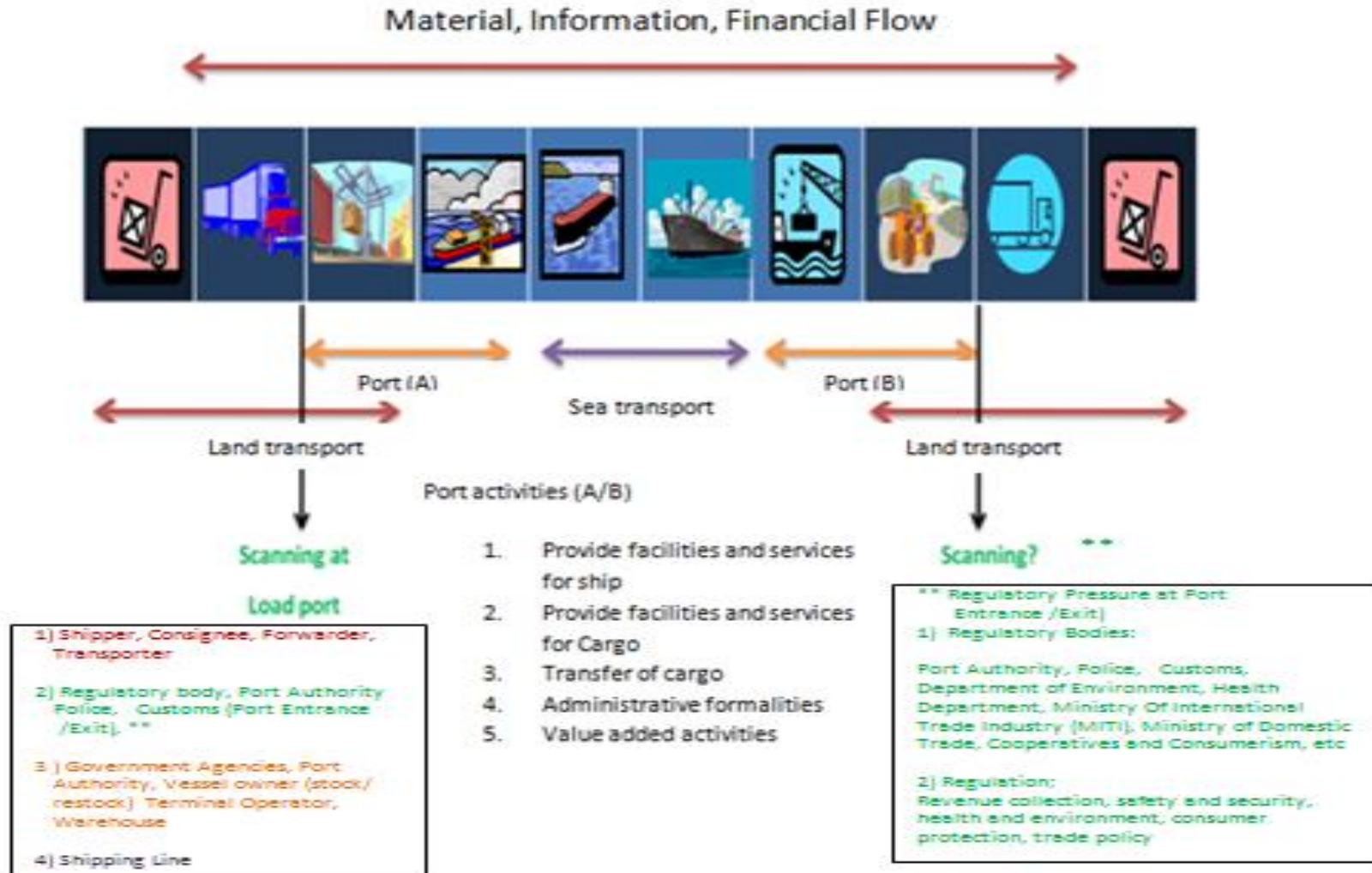


FIGURE 1 : Port supply chain activities as integral part of supply chain : Supply Chain Flow (Material, Information and Financial), International seaport related parties in supply chain, Port activities, and Regulatory pressure (adapted from academic reading references).

fill in the gap of the related literature by exploring the moderating effect of regulatory practice in the relationship between leadership practices and organizational performance in port supply chain activities. Furthermore, Storey et al. (2006) argue that operational approach have dominated the attention in SCM research leaving the organizational behaviour dimension little acknowledgement in SCM study. In Malaysia, supply chain management research is shown upward trend that includes operational research approach (Mustafa and Potter, 2009) and organizational approach (Abu Bakar et al., 2009, Sukati et al., 2011, Khang et al. 2010, Sundram et al., 2011).

Themes	Details
Theorising the role of ports in supply chains	Ports as elements in value-driven chain system Core-periphery model
Changing logistics strategies of terminal operators and shipping lines and its impact on ports	Market consolidation and its impact on port competition The place of terminals in vertical integration strategies Market power of port authorities
The role of seaport terminals	Pricing strategies of TOC Logistics parks near terminals
Hinterland access and supply chains	Hinterland access regimes Coordination problems among actors Role of inland ports Role of freight corridors
Local pressures on ports	Environmental impacts Road congestion and solutions
Supply chains and liner service networks	Hub-and-spoke versus direct calls Link between liner service design and the nature of distribution networks Schedule unreliability
The role of information technology	Port information/community systems

Figure 3: Studies on ports in transport and supply chains: widely used approaches (Pallis et al. 2011)

1.4 Context of the study

Movement of cargo as the integral part of port supply chain in Port Klang, Malaysia

After 9/11 security threat, global supply chain security requirement has been introduced in Port Klang namely; 1) to streamline customs process (e.g. Authorized Economic Operator AEO), 2) dedicate effort by border agency in respond to the current threat (e.g. Container Security Initiative (CSI)), 3) international standard security program (e.g. WCO SAFE Framework of standard), and 4) private entity security program (e.g. Business Alliance for Security Commerce (BASC))(Banomyong, 2005). This risk management based regulation approach is to leverage knowledge, experience, and practice in order to achieve regulatory objective. A research by Benneer (2007) suggest that management based regulation lead business to make risk related behavioural changes that align with regulatory intention. Ensuring unobstructed legitimate flow of goods is a common and collective benefit between business and regulatory agency in supply chain

security objective (Kommerskollegium, 2008). The need to regulate the movement of goods along the supply chain at the earliest stage of arrival into the Malaysia via Port Klang as premier international gateway is ever important. Seaport is the first place of convergence between maritime and inland transport that manages and coordinates information as well as physical cargo that become integral part of the entire supply chain (Grainger, 2007; Carbone and De Martino, 2003). Movement of goods and passenger as illustrate in figure 1 have experiencing regulatory areas on revenues collection, safety and security, environment and health, consumer protection, and trade policy (Grainger, 2007). According to Lambert and Cooper (2001) supply chain members are those who were involved indirectly or directly from point of origin to final destination that usually identifies as those who involve in supply chain process namely; shippers, consignee, forwarders, port authority, other government agencies and customs (Donner and Kurk, 2009).

Selangor as the biggest revenue contributor of indirect tax and major entrance for commerce into Malaysia. It has a large number of registered supply chain members near to the vicinity of Port Klang. Approximately around 5000 registered supply chain members that make up various services, manufacturing and trading companies, individual , forwarding , shipping agent, license carrier, license warehouse and free zone operator (RMCS, 2011; SAFFLA-Selangor Freight Forwarder and Logistic Association, 2012; Malaysian Logistics Directory , 2011/2012; FFM Directory, 2011). Port Klang is a premier entryway into the country that situated in Selangor with the reputation as the oldest and busiest international port in Malaysia. It has become a vital port of entry for commerce with millions of container crossing through the border annually. In 2012 , Port Klang has recorded nearly 10 million container TEU (twenty footer equivalent unit) that represent substantial number of goods movement which contribute significantly to Malaysia economic development (Sources: Ministry of Transport website : <http://www.mot.gov.my/my/Statistics/Maritime>). It also a centre stage for interaction among supply chain members (i.e., Consignee, shipper, logistic service provider, brokerage agent, port authority and other government agencies) in managing goods movement in and out of Malaysia. This is clear indication of how significant is Port Klang as the testing ground for this research as the smuggling illegal items (suspected contamination of goods, firecracker, and Strategic Trade act item) still a major threat on port supply chain activities at the border (The Star, 22 & 23 Mac 2011, and 13 February 2013).

2. LITERATURE REVIEW

Definition of Supply Chain Mgmt (SCM)

Various meaning has been used by earlier researchers in their study. This has encouraged us to adopt SCM define by Batemen and Snell.

'Supply Chain Management refers as the managing of the network of the facilities and people that obtain material from outside the organization, transform them into products, and distribute them to customer'. (Batemen and Snell 2009 p.64)

In general, SCM practices refer as the set of activities undertaken by an organization to promote effective management of its supply chain (Li et al. 2004). It has recently become multi-dimension concept that covers upstream, internal, and downstream side of supply chain research (Suhong et al. 2005).

2.1 Conceptual and Operational definitions of terms

Measurable event that was defined by means of specific concept and the usage of scientific research process is generally referred as conceptual definition. Whereas operational definition is a manifestation of a process on how the concept will be measured in the study (Shoemaker et. al., 2004).

Leadership

It is where the organization influence employee through autocratic, participative and transformation approach in order to successfully implement SCM practice and realize organization objectives. (T.S Khang et al., 2010)(Williams et al., 2002)(Defee , 2007)(Pooya and Deluyi, 2011)(Andraski, 1998)

Operational definition: Its where all manager of supply chain in Port Klang exercise leadership style in managing supply chain activities.

Organizational performance

It is where the organization being measure on how well its accomplish the organizational supply chain management objectives efficient and effectively, and achieving customer satisfaction (Bhagwat and Sharma, 2007)(Chan , 2003).

Operational definition: Its where all manager of supply chains in Port Klang measured organization outcome through satisfaction and supply chain effectiveness in managing supply chain activities.

Perceive regulatory pressure

Perceive regulatory pressure is the ability of organization to aspire its employee to perceivably limit their liberty in order to comply with the regulation in managing supply chain practices that will increase legitimacy and deliver successful organization performance (Di Maggio and Powell, 1983)(Delmas and Toffel, 2004)(Essig at. el., 2013)(Gestel and Hertogh, 2006) .

Operational definition: Its where all manager of supply chains in Port Klang perceived regulatory requirement have considerable impact in supply chain management implementation.

2.2 Leadership, organization performance, supply chain management, port supply chain, and other generic theories apply.

Leadership theory

It has been argue by Bass (1985) that in the beginning of leadership theories existence it said to focus on follower goal and role clarification and leader rewarded or endorsed follower behaviour. This transactional leadership was restricted to only basic exchange with employee. The exchange process was later divided into three component namely; 1) contingent reward- providing material and psychological reward contingent on fulfilment of contractual commitment with a clear role and task requirement, 2) Management by exception active-vigilance leader that ensure standard are met to achieve target goal, 3) Management by exception passive- only intervene upon non conforming of the standard.

Later, he make effort to understand more on how leader influence employee to transcend self - interest for the greater good of their organization to derive optimum level of performance. He refers to this kind of behaviour as transformational leadership. The division of transformational leadership has been explained into 5 parts that is; 1) Idealized influence (attribute)-socialized charismatic and visionary leader that is confident and powerful, 2) Idealized influence (behaviour)- charismatic action that based on focusing vision and strong belief of a leader, 3) inspirational motivation- encouraging employee with an achievable vision through optimism, idealized vision, ambitious goals, and effective communication, 4) Intellectual stimulation-to spur employee sense of logic and analytic thoughts by demanding them to be creative in finding solution of complicated setback, 5) Individualized consideration- leading employee to develop and self-actualize through advising, supporting and paying attention and satisfying their needs,

Finally, non-transactional laissez-faire leadership that refer to the extreme non effective leader that avoid making decision, abdicate duty, and that not use the right and responsibility of a leader.

Organizational performance

Organizational performance has been stated in a variety of ways. They generally classified into hard measurement (business result objective) or soft measurement (perception of effective or satisfaction level)(Vijayasaranty, 2010),(T.s Khang et al. 2010)(Chinho Lin et al., 2005)(D.M Sezhiyan et al. 2011)(Autry and Borbbit 2008)(Zhu and Sarkis, 2007)(Anant Deshpande, 2012). Venkatraman and Ramanujan (1986) stated that performance of an organization can be measured through financial performance such as profit and loss, ROI (return on investment), business sales and growth, and

organization effectiveness. Organization effectiveness is reflection of concept from strategic management and organization theory.

In a balance scorecard approach introduces by Kaplan and Norton (1992) uses both financial and non financial performance measure. It target is to put strategy and vision at the centre (non financial) and not the control (financial). This will help manager to understand overall functional barrier and improve decision making and problem solving. Several study found quality dimension (e.g. customer and employee satisfaction, and service quality) have significant causal relationship with organization performance.(Madu et al. 1995, Madu et al. 1996)(Fecikova, 2004). In supply chain dimension , a qualitative research in supply chain security in Southeast Asia and a quantitative survey of logistic service provider in Hong Kong has support quality management view of customer focus contribute to success of organization performance outcome (Faisal Talib et al.201), (Autry and Borbbit, 2008)(Chinho Lin et al., 2005)

Supply chain management theory

Lambert et al (1998) described the management of multiple relationship across the supply chain is often regard as supply chain management. Similarly with other practice, the authors use the same conventional approach of management practices (e.g, leadership, partnership, communication, and training) as predictor of organization performance in supply chain particularly in port environment research.

Mentzer et al (2001) characterize SCM as management philosophy as 1) *a system approach to viewing the supply chain a whole, and to managing the total flow of goods inventory from supplier to end customer* , 2) *A strategic orientation toward cooperative effort to synchronize and converge intra firm and inter firm operational and strategies capabilities into unified whole*. He then characterize various activities necessary to successfully implement a SCM philosophy including integrated behavior, mutual sharing information, mutual sharing risk and reward, cooperation, , the same goal and the same focus on serving customer, integration of process, and partner to build and maintain long term relationship.

Port supply chain

Lee et al (2003) provided the entities as supplier, ship, port, and distributor. Robinson described that ‘ port oriented chain system’ members are ; shipping line, shipping agent, stevedoring company, customs agents, freight forwarder, rail operator, trucking company, and depot. It should be noted that port user are combine with port service provider n port supply chain as well. Clark, C. (2003) describe international trade business group in port that involve in supply chain material movement is divided into 4 group namely 1) customer, 2) supplier, 3) authority, and 4) intermediary.

Other generic theories ;

Resource based view theory (RBV)

Generic theory from strategic management point of view, RBV holds that organization resources are valuable, rare and hard to substitute are a basis of competitive advantage (Barney, 1991). In the context of SCM, organizational resources (i.e. physical, human, and organizational asset) can explain the link between SCM practices and performance (Zhang and Dhaliwal, 2009).

Motivational –Hygiene Theory

An employee feeling good about their job (job satisfaction) is in the event when feeling bad about the job (job dissatisfaction) is removed. Quality dimension (i.e. customer, and employee satisfaction) have significant causal relationships with organizational performance (Madu et al. 1995)

Social exchange theory

Transactional leadership is an exchange relationship between leader and follower on the concept is consistent with the characteristic of social exchange theory. Later, transformational leadership involved not only gaining compliance but together motivates the follower to achieve performance beyond expectation by transforming belief, attitude, and value.

Relationships between Leadership and organization performance

A research in Malaysian service industry has collected 246 usable survey respondents in the management level of the organization. This study found that leadership in SCM practices has positive and significant relationship with organization performance (Chan et. al, 2010). Another supply chain research in Iran has collected 370 usable questionnaires from manager of automotive part manufacture. The study found that leadership practice in communication, supportive, and personal recognition have significant positive effect on organization performance in innovation (Pooya, & Deeluyi, 2011). According to Pooya and Deluyi (2011) leadership is one of the most infrastructural decision influences on firm improvement. This leadership style in organization is being argued by Correa et al. (2005) as vital because it can set new goals, idea, and encourage innovative solution from the subordinate cited in Pooya and Deluyi (2011).

Which in turn, the inability of SCM manager to sell out new idea is consider as factor of resistance (Andraski 1998). Early description of leadership by Burns (1978) have categorize leadership into two distinguish characters cited in Deefe (2007)(Pooya and Deluyi, 2011); Firstly, transactional leadership is an exchange relationship between leader and follower on the reward (e. wages, recognition) gain from fulfilling leader's instruction. This concept is consistent with the characteristic of social exchange theory. Finally, transformational leadership involved not only gaining compliance but together motivates the follower to achieve performance beyond expectation by transforming

belief, attitude, and value. Bass (1985) argue that to proceed beyond limited approach of transactional focus of subordinates efforts, satisfaction and effectiveness it is time to call on transformational leader that focus on communicate realistic vision, stimulate employee intellect, and pay attention among employee differences cited in Yammarino and Bass (1988).

2.3 Regulatory Pressure

Institutional Theory

According with DiMaggio and Powell (1983), firm business strategy was affected by its institutional environment, which consist of supplier, resources and product consumer, regulatory agencies and competitor. A company tends to be induces to adopt certain practices by external isomorphic pressure through three institutional theoretic strategies that namely: coercive, normative, and mimetic

In relation to SCM practices, institutional environment where the firm operate exert an influence on adoption process. Coercive pressure is seen important in imposing authorize standard in shaping firm operational conduct through regulatory mechanism. Mimetic pressure seen as following other organization successful implementation practices. And finally, normative pressure is seen as firm accepting best practice for SCM adoption in fast changing environment (Wu et al, 2012).

Moderating effect of Regulatory Pressure has on Relationships between Leadership, and organization performance.

A qualitative research by Autry and Borbbit (2008) in supply chain security colloquium have manage to gather 31 logistic and supply chain manager and executives to participate in self administered survey interview that randomly select from the participant. The study found that emerging theme of supply chain security practice does include leadership, partnership, communication and training which closely relate to performance outcome as an advantages or disadvantage to firm performance, and customer satisfaction/dissatisfaction level. This relationship between the supply chain security practices and supply chain outcome is moderately influence by other external factors, and regulatory factor is predominantly cited by the respondents (Institutional theory). While, Zhu and Sarkis (2007) have conducted green supply chain management research that involve 341 manufacturer from two group that is traditional heavy polluter and manufacture exporting product or suppliers of foreign manufacturers in China. Only 213 usable questionnaires were return. The result shows all three pressures: market, regulatory, and competitive have some moderating effects for certain green SCM practices and specific type of performance. Regulatory pressure exists only to moderate green purchasing initiative in the like of supplier partnership and supplier training which improve organization environmental performance. In another study by Wu, Ding, and Chen, (2012) pertaining to green SCM practices in Taiwan's apparel and textile industry. The study has produce 105 usable survey data. Regulatory pressure has positive moderating effect on most GSCM practices such as leadership support, good

communication, human resource training, and good supplier relationship on organization performance in green initiative practices (Wu et al., 2012). A study by Wong et. al., 2012 in Green operation of manufacturing companies in electronic industry has included 122 firms' reveals that specific green regulatory compliance practice by supplier moderates the relationships between internal production stewardship and firm performance. Whereas a study by Lai and Wong (2012) in green logistic management that involve Chinese manufacturing companies that produce a total of 134 completed questionnaire. The research reveal the finding on regulatory pressure enhance the green logistic management (GLM) relationship on performance was supported

2.4 Proposed SCM Framework

From the academic research review above the propose framework in figure 4 also combines and follows others previous study that theoretically pointed to perception of organization members in goods movement via seaport that adopted intra organization supply chain leadership practices and organizational performance. Moderating variable of regulatory pressures is being adopted from institutional theory, while organizational performance of level effectiveness and customer satisfaction adopted form organizational behaviour (OB) models as dependent variable.

Direct effect will be tested on the relationship between leadership on organizational performance in supply chain activities. And the next approach would study and fill the gap by considering moderating effect of regulatory pressure on the relationships between SCM leadership practices on goods movement and organization performance as the indirect effect approach.

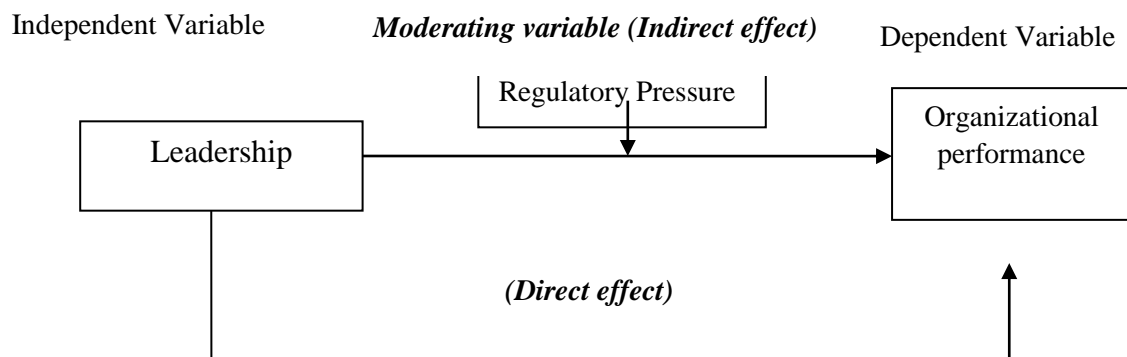


FIGURE 4: This proposed framework was developed based on relevant theoretical & empirical evidence from academic paper references.

2.5 Research Questions

This research intends to bridge the gap in the existing literature. We seek to understand how leadership practices and organization performance interact in supply chain activity. In particular, we investigate how goods regulatory pressure as institutional factor facilitate supply chain activities in movement of goods in term of the impact that it will bring to the connection between leadership and organization performance . Our research questions thus are:

- 1)-How leadership practices in cargo transfer through port supply chain activities influence organization performance?
- 2)-How regulatory pressure in cargo transfer through port supply chain activities influence organization performance?
- 3)-How regulatory pressure moderates the relationship between leadership practices and organization performance in moving goods through port supply chain activities?

3. RESEARCH METHODOLOGY

Method

Methodology of the explorative study is based upon qualitative approach. Extensive interviewed has been conduct for management level practitioner in relation to port supply chain activities. Academic review (SCM Professor from local university and a Doctor of Business Administration holder who is also member of supply chain) was also sought to help identified the logical and systematic approach of the analysis. And the findings did inform the researcher that the interviewed data were truthful and reasonable. This paper used qualitative research design to explore group or individual issue that need to be identify and measure, or disclose silence voices that only be achieve through talking and interviewing directly with the people (Creswell, 2007, p.40).

A self administered survey interview instrument with open ended was utilized as the meant of data collection (Appendix A). This type of structure interview is suitable for large sample and its straight forward manner as mention by Tracy (2013). The type of information that qualitative studies yield is rich in detail. Sample size is only good as it quality not necessarily the quantity. Tracy (2013) mentioned in her book that not enough sample will result in trivial and sour contribution while too many will result in a paralyzing data that will discourage transcription and form incisive understanding. She suggests five to eight interviewers as pedagogically valuable. Data will start to provide rich contribution to research goals after as few as 12 interviews as mentioned by Guest, Bunce, and Johnson (2006). The location has being chosen because of Port Klang position as the busiest port in Malaysia.

Port supply chain participants

Respondents selected were the participants of port supply chain that have experience in facilitate the movement of goods for other or for themselves that include port activities as integral part of their supply chain in Port Klang. This has prompted me to interview a total number of 16 qualified respondents of management level. The respondents comprise of various supply chain members that involve in material flow along the supply chain namely; 1) Forwarding (local and Multinational), 2) Transportation (local), 3) Shipping (International Shipping line), 4) Producer of goods and services (national research centre, national car manufacturer, aircraft industry player), 5) Logistic and warehouse (Multinational and local player), 6) Regulatory agencies (Port Klang Authority, 2 Royal Malaysian Customs officer, Atomic Energy Licensing Board), and Terminal operator (Southport and Northport executive). The profile of the respondents shows all of them are male and that their range duration of SCM experience as a officer who basically have technical knowhow and knowledge are between 5 to 35 years. All the interviewing session was recorded in the month of July 2013, April 2014, and June 2014. The session is conducted using both English and Bahasa Malaysia.

Data collection

The purposive sampling strategy as mentioned by Creswell (2007, p.125) will decide and selects individual and site for research that can decisively inform researcher about the understanding of problem and central phenomenon that has occurred. Researcher need clearly decide about who or what should be sampled, what form the sampling will acquire, and how many respondent or sites need to be sampled, and whether sampling will be reliable with information needed.

Appointment was made for interview after selected officer were contacted, and inviting them to participate in study by verbal invitation and telephones. Four interviews were done at the office, and the balance twelve chooses to participate after office hour. The interviews lasted for an average of 30 minutes. A recorder was used to facilitate the interviews. Comprehensive notes of the answers were taken and transcribe into interview report immediately after each session.

Credibility

In the beginning, formal consent was sought from the participant as well as confidentiality was assured with regard to the data and it purposed was intended only for the research (Gibson and Brown, 2009). Thick description, triangulation and member reflection were used to establish credibility of data collection and analysis (Tracy, 2013). Thick description is achieved when researcher spend time in the environment and acquire

experience through port activities in order to understand the assume values of a certain group, system, or organization.

Triangulation was performed by collecting data from major actors, service provider and regulator. This allowed research to cross check information and fully appreciate port supply chain activities and operational process. Member reflections were conducted by consulting 4 of participants (2 major actors, 1 service provider, and 1 regulator). Each participant examined the result and agreed that the outcome is consistent with their view as well as sharing their reflection on future improvement of the study.

Delimitations of the study

The major limitation was generalizing ability of the study on its conclusions. Emerging themes from the research accept the relevancy with only the context of Port Klang as the busiest seaport in Malaysia. Restrictions of the studies were firm for research, which limited to the exploration of port supply chain participant in the area. Self selected participant were the only approach that were choose based on its cost, time, and accessibility constraint. Consequently, the study based only on port supply chain participant opinion on leadership and regulatory pressure as predictor for organization performance. The gap in this approach is open for future exploration on other type of dry, river, and airport situation that also involve in cargo transfer and supply chain activities.

4. FINDINGS

Supply chain activities

Respondents have described variety understanding of supply chain management when the question being forwarded. Most of them agree that it is not just about internal organization but rather an approach of continuous business process of product movement from corner to corner right until it arrives to the last organization. The major arguments relates are movement of good from point A to point B, from the upstream (raw material) and goes to the downstream (finish goods) activities, from beginning of the goods being supply either locally or abroad right until it reach it intended final customer, the network of organizations that interact together in bring goods from abroad or sending out to overseas, and the essence of it all is about the flows. Some respondents explain further about participant of supply chain and the essence of supply chain flows:

[...] supply chain network where all industry players such as at my place we have our shipping and forwarding agents, we have importer and exporter that are together inside the network and they all involve in bringing cargo and other [...] (Assistant Manager Southport, Port terminal operator).

[...] Supply chain management in the port industry as I see is where the container being received , and then when the container being manage before its being released by the relevant government agencies, and after the government agencies released the container to be transfer to the next responsible parties [...] (Senior Manager Northport, Port terminal operator).

[...] I can summarize into three flows of working rules, first of all in terms of our commodity products , secondly it's about the information flow of command which we share in the supply chain , and the thirdly is the finance flow or capital flow [...] (Manager , Aircraft Industry Player)

Leaderships

In term of leadership in supply chain, there are several emerging theme that were mentioned by the respondents. There are several arguments appears to describe the matter relating to how leader inspire and lead the employee to work , how leader present and effortlessly provide assistance and how leader instruct the employee to follow the clear guideline in job completion . This issue where nicely summarized by this two respondents:

[...] it involves the commitment of top management in leading the effective implementation of supply chain [...] (Professor, Local Public University)

[...] here the leadership emphasizes integration of employees... create understanding among employees so in the manner required by the company to complete something that relate to the task... and we also have Standard Operating Procedures to be followed in term of managing employee work outcome so that it does not shy away from the goal intended [...] (Doctorate of Business Administration, General Manager of Multinational logistic and warehouse)

[...] what we find in my organization is a style of leadership that based on the time [...] because this is what we promised to the customer [...] (Manager, Local car manufacturer)

[...] leadership by example which means as a leader he has to know all the company movements, structure of operations , accounts, and human resource so when a boss knew everything his officer will respect him automatically [...] (Chief Operating Officer, Local transportation)

Organizational performance

With regard to organizational performance in supply chain activities, it has been brought up into attention by the respondents on this topic in various perspectives. The performance of an organization is measured through specific monetary objective, effective use of resources, cost and time saving, and satisfaction to all type of customer in the supply chain. This issue where eloquently summarized by this two respondents:

[...] three aspect of benchmarks in terms of key performance indicator that are constantly observe and attract lot of attention are quality, speed and cost [...] (Manager, Aircraft Industry Player)

[...]key performance indicator that we have to achieved for example in terms of customer satisfaction, sales target and reduction of defective item, and in the warehouse we have all the procedures in place to be followed in order to facilitate and to ensure the smooth running of supply chain [...] (Assistant Manager, local logistic and warehouse)

Regulatory pressure

The final aspect that being mentioned by the respondents was the element of regulatory pressure as being narrated by the respondents:

[...] my understanding of regulatory it involves government bodies such as customs involving tax collection in the supply chain [...] in warehouse where we store goods which is sometime control and need approval from relevant body for example medicine that must have approval from Ministry of Health, and if it is a dangerous good it required authorization from Environmental Department [...] (Assistant Manager, local logistic and warehouse)

[...] movement of goods from point A to point B must have some sort of control because this thing as I said earlier is associated with safety and security issues [...] this thing should be control because as you said anything can happen now day and there must be a means of regulatory mechanisms exist and its not to restrict public but this thing is about safety and security [...] (Executive, Port Authority)

Direct effect

Further approach is to get the respondents feedback on the relationship between leadership (independent) and organizational performance (dependent). This has been proved by several earlier empirical researches but limited research being done in Malaysia that cover supply chain management practices which focusing on material flow along the port supply chain. This study found overwhelming agreement on the 16 respondents (Appendix B) that consent with the leadership style will definitely impact organizational performance organization. This also have similar effect as being argued by the respondents pertaining to the research question on whether regulatory pressure can influence organizational performance. Fourteen respondents in some way agree that organizational performance will be affected if the regulatory pressure present in supply chain material flow.

Indirect effect

It has been indicated that the findings has answer the research question that regulatory can be potentially act as an external moderator in supply chain. Moderating variable describe as those which affect the direction or strength of a relation between an independent... and dependent variable.” Respondents were asked to identify whether regulatory pressure would moderate the relationship between leadership as predictor on supply chain outcome of organizational performance. The study found variety of

arguments with 14 majority respondents agreed (Appendix B), single respondent undecided, one respondent doesn't agree, and 2 respondents were excluded. Here some of the argument being highlighted by the respondents;

[...] regulatory of existing regulation can promote positive performance but there are time the regulatory did turn back the performance negatively because unfairly applied [...](Chief Operating Officer, Local transportation)

[...]but I'm sure when there is regulatory pressure on the material flows it will impact heavily on the leadership style of the leader's commitment for example lobbying the government for additional information [...](Professor, local public university)

[...]this new element... of course leadership will slightly change depending on the extent of the impact that the new regulation bring to the organization...this agency requirement in terms of the impact will required some sort of change in terms of technology and manpower [...](Executive, Port Authority)

[...]Any new regulatory implementation will create some kind of reaction during initial stages [...] organization should continuously state the important and the need for the new regulation [...] in some cases this regulation will bring a negative impact to the organization (Manager, National Research Centre)

[...]Leadership is the major factor that makes things happens ... if someone don't understand the regulation or do not stress its important it will definitely influence the organizational performance. (Manager, Local Car Manufacturer)

Respondents also believe the present of new regulatory pressure will surely need the leader to make some adjustment in business process in order to ensure the worker effectively implement regulatory requirement in supply chain activities. The alteration need time to effectively apply in the system and its definitely will add another business process, additional cost, additional manpower, and additional process time that can slightly affect organizational performance if it is inadequately adopted.

4.1 Discussion

From the study, it has been found that leadership style will definitely determine the organization performance whether in term of monetary or quality achievement. Not surprisingly, respondents from regulatory bodies have coincide that transactional leadership was seem favorable most of the time particularly in major decision making. In more complex and sophisticated business requirement for producer of product and services for instance Aircraft industry player and National Research Centre it seem like open style charismatic leadership that were being exercise by the organization. Startlingly, a automotive manufacturer was being described as being stereotyping transactional style because of over emphasize on time management that usually overshadow other crucial business process. For other company that provides service that

has foreign association with Japan or Korea companies, it's generally practiced a participative leadership that motivates togetherness among employee in job performance. For small locally own company that support port supply chain activity through delivery of service in cargo transfer, they are surprisingly practice both style either transactional or transformational leadership that based on their preferred choice, their anticipation of the market and their company own capabilities.

In term of organizational performance, respondent that appears from organization that offered services to supply chain or moving and facilitating other people goods usually very sensitive to their client need. Generally all of them either regulatory or service provider (shipping, warehouse, logistic, transport) has the goal to match organization objective with the ever changing need of customer that always required services of the highest quality, in a reasonable time with an acceptable cost. Where else the organization that move their own goods (car manufacturer, research center, Aircraft assembler and maintenance) typically have specific goal in term of quality and cost of producing the end product that should have competitive edge over rival which can be transform into a realization of a higher sales.

Majority of the respondent is aware of the requirement set by the authority to monitor the movement of cargo well before it left the international port. Because any illegal cargo that slip pass the regulatory agencies at the border will seriously threaten the livelihood of the public. To detect the illicit cargo and to exercise damage recovery after it left the point of arrival will definitely cause tremendous amount of harm, cost, loss reputation and public unrest that will threaten the social and economic well being of the public. These reason why they belief the present of regulatory pressure will have some kind of influence on the way the leaderships of the organization pursue higher business performance in supply chain activities.

4.2 Implication

Contribution

An important aspect of this research has three contributions. First, theoretical significant is to apply an established theory in a new context of port supply chain activities in term of the movement of goods conduct in the present of regulatory pressure that would moderately effect the linkage between leadership and organizational performance. Companies should be willing to understand regulatory pressure through leadership and act upon these differences. Given the contradictory role of regulatory that interfere the connection, companies can focus on supply chain management mechanism improvement in order to increase organization performance organization.

Second, methodological significance contribution in qualitative empirical research that will contribute by opting to study participant through extensive interview session as oppose to predominant quantitative approach in investigating relationship between leadership practices of companies in Port Klang and the effectiveness and fulfilling firm

obligation in the context of port supply chain management in cargo transfer. Moreover we assess the effect of supply chain management practices on the organization performance. Multi context approach is engaged in order to enhance external validity of our outcome.

Finally, the managerial contribution will be that companies must carefully analyze the pros and cons of regulatory requirement effects on company's leadership practices and the organization outcome that was expected. Regulatory pressure demand attention and resources from the internal practices of companies to avoid unnecessary cost that can exceed companies' potential benefit and ruined firm performance. Once the collaboration relationships have been developed it must be continuously monitored. Changes in relationships context of SCM leadership practices must be analyze and evaluated in relation to the question of what justified degree of regulatory pressure that moderate the specific connection to the organization performance in port supply chain activities.

5. CONCLUSION

This research will study the construct of supply chain management leadership, and organizational performance, and conceptual model that integrate the literature in this area. A review of relevant theories serves as guiding the role of leadership on organization performance when regulatory element is present, and for formulating research question concerning the relationships between leadership constructs and moderator role. Secondly, this study gives definitions and operationalizes supply chain management leadership practices constructs on organizational performance with the influence of regulatory element. This allows us to generate knowledge on the effects of individual construct and characteristic on organization performance relationship outcome. Thirdly, in order to assess which specific supply chain management leadership practices affects overall organization performance, and how the outcome changes in the present of coercive pressure. Finally theoretical basis of the research paper will be to explore the potential for institutional pressure to explain the influence on relational ties between supply chain management leadership constructs and organizational performance in movement of goods in port supply chain activities in Port Klang. The implication for theory of this paper attempt to make contribution on supply chain management and organizational behaviour literature. The moderating effect of regulatory pressure and involvement in relationship practice in supply chain management and performance as defined in this article. In addition, the linkage among supply chain management leadership may have important contribution for increasing organization performance. In this paper we argue that regulatory pressure is important externalities that can interfere the relationships between supply chain management leadership practices and organization performance.

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Appendix A: Open-ended questions (structured interview)

- What is your job title?
- How long you been in the organization doing SCM activities?
- What is your organization primary industry and how does it relate to SCM activities?
- What does the term supply chain management mean to you?
- What is the leadership style that being practice in your organizations that involve moving the goods across the supply chain?
- What is being measured as organization performance that deals with the movement of goods across the supply chain?
- What is regulatory pressure on movement of goods that organizations face across the supply chain?
- In relation to movement of goods, are the relationships between leadership affecting the organization performance?
- In relation to movement of goods, are the relationships between regulatory pressures affecting the organization performance?
- Through the presence of regulator pressure on the movement of goods. Does it have an impact on the relationship of Leadership and the organizational performance?

Appendix B: Structure interview result

Organization	Company/Position/	Leadership Description (IV)1	Regulatory Pressure (IV) 2	Organizational Performance (DV)	Have an effect on Organizational Performance (IV) → (DV)	In present of Regulatory Pressure- Relationship between leadership and organizational Performance can be effected (Moderate)
a)Major Actor Producer of goods and services	1) National Research Centre -Manager	Transformational -Lead by Example	Regulatory mechanism that comply with international standard in keeping the movement of cargo safe	Producer require to meet the ever change need and preference of the customer	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Agree
	2) Automotive Manufacturer -Manager	Transactional -Meeting dateline is all important	On Complete Build Up Unit there is regulatory on tax issue that need to be fulfil before goods can be release	Key performance indicator (KPI) base on monitoring quality material supplied into production line	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Disagree
	3) Aircraft Industry Player -Manager	Transformational -leadership top down and bottom up with attention on cost and speed	Regulatory requirement on goods to be store or transport (e.g. Customs)	Performance of service render will be measured in term of quality, cost, and time.	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Agree
b)Service Provider	4) Local Transport -Chief Operating Officer	Transformational -Lead by Example, involvement, monitoring and knowledgeable	Requirement to comply with the existing regulation on the goods (e.g. Approval permit)	Meeting customer need through competence and efficient service delivery with added value in term of saving cost and time to the client.	-(IV) 1-(DV)= Agree	Agree
					-(IV) 2-(DV)= Not Available	
	5) Local Transport -Manager	Transformational -Lead by Example and participate in Job practice	To regulate movement of goods in and out of this countries in orderly manner	Performance measured by meeting customer request and deliver satisfying service to the client	-(IV) 1-(DV)= Agree	Agree
					-(IV) 2-(DV)= Agree	
	6) International Liner -Manager	Transactional -Leader emphasize perfection, discipline, and responsibility in job completion	Goods Regulatory requirement is very important to identified dangerous goods that required high level of storage protection in order to minimize the risk of catastrophic accident	Firstly, Performance measured by realization of sales that being translate into company profit. Next is the customer evaluation of service delivery.	-(IV) 1-(DV)= Agree	Agree
					-(IV) 2-(DV)= Agree	
	7) Local Forwarder -Executive	Transactional -Lead with strict, clear role and task requirement for employee	Goods Regulatory requirement must be complete before declaration document being approved by Customs for goods release	Service Performance is based on customer expectation on job completion that founded on time taken and cost spend	-(IV) 1-(DV)= Agree	Agree
					-(IV) 2-(DV)= Agree	
8) Forwarding Division for Multinational Company -Executive	Transformational -Lead through participate, support, and advise employee in fulfilling their needs	Government agency that regulate the importation of our consignment right after it enter Malaysia and until goods released to the customer	Performance achieved when customer accept the goods on time without any cost adjustment on delay or transport issue.	-(IV) 1-(DV)= Agree	Agree	
				-(IV) 2-(DV)= Not Available		

Organization	Company/Position/	Leadership Description (IV)1	Regulatory Pressure (IV) 2	Organizational Performance (DV)	Effect on Organizational Performance → (IV) -(DV)	In present of Regulatory Pressure- Relationship between leadership and organizational Performance can be effected
Logistic and Warehouse	9) Local Company -Assistant Manager	Transformational -leader communicate top down and bottom up in decision making	Regulatory requirement on goods to be store (e.g. Customs, Department of Environment)	Based on KPI (e.g. customer satisfaction, target sales, defect, compliance of law and supply chain flow)	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Agree
	10) Multinational Company General Manager (DBA holder)	Transformational -Lead through participate, teamwork, and collective responsibility	Chemical product that is dangerous required regulatory control by the competence agency. And if it dutiable, tax have to be paid to Customs	Performance based on long term target (e.g. monthly sales). Short term Performance based on continuous improvement (e.g. customer feedback)	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Agree
Terminal Port Operator	11) Southport -Assistant Manager	Transactional -Leader emphasizes organization objective through specific, measurable, attainable, reliable and timeline.	Regulatory control on metal product need to be inspected by SIRIM before certificate being issue for release by Customs.	Performance based upon how quick service render to the ship and cargo that being set by the company	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Disagree	Agree
	12) Northport -Senior Manager	Transformational -Leader emphasize customer need through simplification of business process and continuous improvement	Goods that need to be release must get clearance from regulatory agencies (e.g. Port Authority, Customs)	Performance based upon how quick service render to the ship, container at yard and cargo release at gate that will transform into monetary gain	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Agree
c)Regulator	13) Port Authority -Executive	Transactional -High level Leader strictly exercise decision making by following establish procedure and regulation Transformational -Leader in the operational level exercise teamwork and group acceptance to follow establish procedure with the only available resources.	To regulate movement of goods in and out of this countries to ensure safety and security of our country	Performance based upon capability level in managing cargo clearance while ensuring the safety of the cargo during transportation stage.	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Not Available	Agree

Organization	Company/Position/	Leadership Description (IV)1	Regulatory Pressure (IV) 2	Organizational Performance (DV)	Effect on Organizational Performance (IV)-(DV) →	In present of Regulatory Pressure- Relationship between leadership and organizational Performance can be effected
<u>Regulator</u>	14) Customs -Assistant Director Company Audit	Transactional - <i>Leader strictly exercise decision making by following directive, establish procedure and regulation</i>	Goods to be regulate is for the purpose of ensuring authenticity of the goods in meeting the standard that being declare	Performance based upon customer satisfaction and then revenue collection, and operational effectiveness	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Not Available
	15) Customs -Assistant Superintendent Border Control	Transactional - <i>Management leader strictly follow enforcement directive without question</i> Transformational - <i>Working leader have to make do with available resources through teamwork and group discussion to suit the operational setting</i>	All goods for import, export and transshipment is fall under the responsible of Customs to ensure the legitimacy of the movement	Performance based on revenue collection , operational success, and customer satisfaction	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Agree	Not Sure
	16) Atomic Energy Licensing Board -Assistant Director- Policy and Legal Unit	Transactional - <i>Leader emphasize customer facilitation and compliance of law</i>	Implementation of safety regulatory framework is to ensure supply chain activities is free from any threat to national security, public health and threat of weapon proliferation.	Performance based upon number of approval that has been issued to the customer, and customer satisfaction on the service that being deliver	-(IV) 1-(DV)= Agree -(IV) 2-(DV)= Not Available	Agree

Legal Protection on Consumers' Right to Information under the Consumer Protection Legislations of Malaysia and Indonesia¹

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Abstract

¹ This paper is part of the ERGS Research, ERGS/1/2013/SSI10/UKM/02/4.

In the present digital age, the roles of consumers are very significant to the economic development of a country and relevant legislations are needed to safeguard the interest of the consumers. It is universally accepted that the consumers have a right to be provided with all relevant information in order to make an informed choice. Consumer protection and right to information are integral part of the life of an individual. Delivering truthful and honest information to consumers is very vital. Lack of information or misleading information will make the ranking of preferences erroneous. This will distort the utility function of the individual. Serious deficiency in information will not only lead to irrational choice but also affect the transactional competence. Adequate product information will make unsafe product safe to be used. Adequate service information will make services beneficial to the consumers. On the other hand, inadequate product information will make product unsafe although it can be made safe if there is adequate information. Inadequate service information will make consumers feel unsatisfactory about the service. The appropriate goal ought to be 'adequate' rather than 'perfect' information. The consumer right to information has been recognised as one of the consumers' right by the Consumers International. This is a universal right and must be respected by traders. The objective of this paper is to analyse the legal protection on consumers' right to information under the Consumer Protection Act 1999 of Malaysia and Law on Consumer Protection 1999 of Indonesia, particularly section 10 and article 9 respectively.

Keywords : consumers' right to in formation, legal protection, goods, services, Malaysia, Indonesia

INTRODUCTION

The consumers' right to information means that the consumers have the right to be informed of the relevant and adequate information about products and services in order to make an informed choice (Panduan Pengguna : 1999). If consumers are not supplied relevant and adequate information about products or services, this may lead to information failure and according to Iain (2007 : 269), information failure is one of the contributing factors to unfairness in consumer transaction. The consumers' right to information is one of the basic rights of the consumers which has been universally recognized. Historically, the consumer right to information has been declared as one of the consumers' rights when the late President John F. Kennedy delivered a message to the American Congress on 15 March 1962 (Mohd Hamdan : 1990). The late President John F. Kennedy in his speech had declared four consumers rights which are right to safety, right to information, right to choose and right to be heard. These four rights were later extended to eight rights by the Consumers International.

In this digital age, products and services information can be obtained through various sources such as Internet, magazines, newspaper, catalogue, labels, advertisements and others. Although this phenomenon is good to consumers, there must be some protection to the consumers' right to information. There are various types of protection that can be imposed, either through soft laws, such as guidelines, policies, or hard laws, such as through legislations. The focus of this paper is protection on the consumers' right to information through hard law, which is legislations. Legal protection is needed in order to ensure that consumers are provided with relevant and adequate information to enable them to make informed choice about products or services. In relation to products, adequate information will make unsafe product safe to be used. On the other hand,

inadequate information will make some products unsafe although they can be made safe if there is adequate information. In relation to services, adequate information will help the consumers to choose the right services according to their needs. In order to ensure consumer safety, it is submitted that manufactures or service provider must provide relevant information accurately, honestly and adequately.

In Malaysia, the Consumer Protection Act 1999 (CPA 1999) was enacted to protect the Malaysian consumers' interest the CPA 1999 covers a wide areas of consumer protection and one of them is false, misleading and deceptive conduct, representation and unfair practices which is applicable to the consumers' right to information. On the other hand, Indonesia was enacted the Law on Consumer Protection 1999 (LCP 1999) to protect the interests of the Indonesian consumers. The LCP also covers wide areas of consumer protection and one of them dishonest information.

LEGAL PROTECTION ON CONSUMERS' RIGHT TO INFORMATION UNDER THE CONSUMER PROTECTION ACT 1999 OF MALAYSIA

Although Malaysia does not give statutory recognizant to consumers' right to information, the government has taken the initiative to protect the consumers' right to information through various legislations and one of them is the Consumer Protection Act 1999 (CPA 1999).

The CPA 1999 contains provisions which can protect consumers' right to information. These provisions contain in Part II of the Act. The aim of Part II is to protect consumers from information or representations which are false, misleading or deceptive. There are 11 sections in Part II. As mentioned earlier, the writer will only be focusing on section 10 for the purpose of this paper. Section 10 covers goods, services and goods and services.

Protection on consumers' right to information in relation to goods

Section 10(1)(a) of the CPA 1999 states that no person shall make a false or misleading representation that the goods of a particular kind, standard, quality, grade, quantity, composition, style or model. Section 8 of the CPA 1999 defines 'false' or misleading in relation to representation includes representation which is capable of leading a consumer into an error. The aim of section 10(1)(a) is to prevent consumers from being misled regarding the kind, standard, quality, grade, quantity, composition, style or model of any goods. The representation about the particular kind, standard, quality or grade of goods may include the suitability of the goods for the uses to which they might reasonably be put or the purity, strength, cleanliness, fitness of the goods. Examples of this representation are an "ex-rental car" car was described as "ex-GMH executive car", a cordial was described as contained fruit extracts when it did not, a car was described as been travelled 25,000 miles when in fact it has travelled 100,000 miles, and many other examples.

Section 10(1)(b) on the other hand, protects the consumers in relation to the particular history or particular previous use of the goods. For some second hands goods, the consumers need to know the previous history of the goods, such as motor vehicle.

The previous history would determine whether the motor vehicle is in good condition or not. The previous history of the motor vehicles would include the previous ownership (whether the previous owner is a male or female), the accident history, the mileage, and the replacement of the motor vehicle components.

Representation that goods is new which in fact is not new, is prohibited by section 10(1)(f). For example, describing a car as 'new' in an invoice for a secondhand car. The primary meaning of 'new' is 'not old' (Anderson v Scrutton : 1934). In relation to consumer goods, the word new would mean the goods have not been used or purchased by any person. the goods may lose its new characteristics when it becomes old and no longer new, and if the mere lapse of time results in deterioration in quality, or depreciation in value, the goods is no longer new according to the ordinary use of the English language (Stephen & Philip 2008 : 343).

Section 10(1) also protects the consumers against false and misleading information regarding the manufacturing, producing, processing or reconditioning details of the goods. This is provided in section 10(1)(g). For some consumers, the information on how the goods are produced or processed is vital to them, especially for those who have certain type of illness. This information is very useful to them in order for them to look after their health.

The consumers are also protected from false and misleading information in relation to the place of origin of the goods under section 10(1)(l). A representation or information concerning the place of origin of the goods could cover, for example a representation that goods were manufactured in a particular place, a representation that the contents of the goods came from a particular place, or a representation that the goods were 'made in', 'the product of' or 'grown in' a particular place (Thomson Reuters 2011 : 1001). Some consumers associate quality with the place of origin of the goods.

Protection on consumers' right to information in relation to services

Section 10(1) does not only give protection to the consumers from false and misleading information in relation to goods, it also protects consumers from false and misleading information in relation to services. Section 10(1)(c) prohibits any person from making false and misleading representation that the services are of a particular kind, standard, quality or quantity. The representations or information that can come under this category are representations about the nature of the services, which could include (Thomson Reuters 2011 : 1002): :

- i. the way in which the services are, have been or might be undertaken, including specific methods or processes; or
- ii. the persons who will or might undertake the services and whether those persons have undertaken the services previously; or
- iii. the correspondence of the actual services or the way in which those services are undertaken with a description of those services.

It is common in trade to claim that a service will be supplied or conducted by skill workers. For example, a maid supplier agency claims that all their maids have been trained to do housework for 3 months before they are released to respective employers. If this representation is not reflected in the way the maid is doing her work, it may

contravene section 10(1)(d). Therefore, whatever is claimed must be reflected in the performance of the service.

Sometimes in trade, there are claims made by traders or suppliers of services that their qualifications are recognized by certain bodies or agencies. For example in a business card of an accountant says that his qualification is recognized by Chartered Accountants Institute which in fact it is a fake. This type of representation contravenes section 10(1)(i). The aim of this provision is to protect the consumers from any false or misleading statement concerning approval, endorsement, sponsorship and affiliation in relation to the traders. The representation that the person making the statement or representation has sponsorship, approval, endorsement or affiliation could cover, the followings (Stephen 2013 : 274):

- i. representations that the person is, in some way, sponsored by, approved of or affiliated with another person or entity. This could include persons or entities not engaged in trade or commerce, such as charities, religious institutions, educational institutions, professional and trade bodies and governments;
- ii. representations that the person or other entity has sponsored, approved of or extend an affiliation to the person, including representations that such an approval is a formal or informal endorsement, certification, qualification or other indication of approval made by a person or entity. This could include persons or entities not engaged in trade or commerce.

Protection on consumers' right to information in relation to goods and services

Section (10)(1)(e) protects the consumers from false or misleading claim about an endorsement of some kind. This may take the form of misleading or deceptive information that another person has agreed to acquire the goods or services. For example, inducing a sportsperson to buy a new type of sporting goods by asserting that competitors had purchased the items when he or she had not (Thomson Reuters 2011 : 1000).

If sponsorship, approval or endorsement is claimed in relation to the goods or services but does not exist, it contravenes paragraph (h) to section 10(1). For example, an electric kettle is claimed to have a SIRIM approval which in fact there is no such approval. The same thing may happen to services when a service is claimed to have compliance with ISO standard which in fact there is no such compliance.

False and misleading representations in respect to the need of any goods or services are prohibited by section 10(1)(j). A representation concerning the need for any goods or services could cover, for example, the followings (Stephen 2013 : 285):

- i. a representation that the goods or services are necessary in particular circumstances or at all; or
- ii. a representation that the goods or services are required in the light of a specific event or as a consequence of specific circumstances; or
- iii. a representation that a failure to provide the goods or services will result in specific things occurring or not occurring.

False and misleading representations concerning the existence, exclusion or effect of any condition, guarantee, right of remedy are prohibited by section 10(1)(k). For example, a manufacturer guarantees that if goods are defective within six month from the date of purchase, a refund will be made to the buyers. It is important for the manufactures

to honour this guarantee if the manufacturer does not want himself to be exposed to prosecution under section 10(1)(k).

The CPA 1999 has provided criminal liability for those who contravene section 10(1) of the CPA 1999. The sanctions for contravening section 10(1) are provided in section 25 of Part IV of the CPA 1999. The sanctions are:

- i. if such person is a body corporate, to a fine not exceeding two hundred and fifty thousand ringgit and for a second or subsequent offence, to a fine not exceeding five hundred thousand ringgit;
- ii. if such person is not a body corporate, to a fine not exceeding one hundred thousand ringgit or to imprisonment for a term not exceeding three years or to both, and for a second or subsequent offence, to a fine not exceeding two hundred and fifty thousand ringgit or to imprisonment for a term not exceeding six years or to both.

LEGAL PROTECTION ON CONSUMERS' RIGHT TO INFORMATION UNDER THE LAW OF CONSUMER PROTECTION 1999 OF INDONESIA

The Law on Consumer Protection 1999 (LCP 1999) has codified the right to information in article 4 where it says that consumers have the right to obtain true, clear and honest information about the condition and guarantee of goods or services. This right is further regulated in articles 9 – 17 of the LCP 1999. However, for the purpose of this paper, the writer will be discussing article 9 only.

Article 9 concerns about the making of representation in dishonest manner, where it states that business entity shall be prohibited from offering, promoting, advertising goods and/or services in a dishonest manner. However the LCP 1999 does not define the meaning of 'dishonest manner'. It is submitted that 'dishonest' means something done with bad intention to deceive a consumer.

The categories of dishonest information regulated by articles 9 are quite similar to section 10 of the CPA 1999 of Malaysia. Therefore it is submitted that the explanation given for section 10 of the CPA 1999, where appropriate, is also applicable to articles 9 of the LCP 1999.

Protection on consumers' right to information in relation to goods

Article 9(1)(a) of the LCP 1999 protects the consumers from dishonest information concerning price discount, quality, standard, style or fashion, certain characteristics, history or function of the goods. For example, it is advertised that the rice cooker is offered at a discount of 25% than the normal price. If it is found that there is no such discount given, the business entity/trader has contravened article 9(1)(a). Paragraph (b) to article 9(1) prohibits dishonest information concerning the condition of the goods. It prohibits business entities from making statement regarding the condition of the goods in dishonest manner. For example saying that the goods is new which in fact it is not.

Paragraph (f) to article 9(1) prohibits the business entities from giving information regarding any hidden deficiencies in goods in a dishonest manner. An example of such statement is a claim which says that the goods are defects free.

It is a common practice nowadays when promoting various types of goods and to increase the volume of sales, the business entity will make a statement by saying that the consumers need two goods instead of one to ensure the effectiveness of the products. For example, in order to be slim within 3 months, a consumer has to consume tablet supplement together with slimming belt. If this type of statement is made in a dishonest manner, for example just to increase the volume of sale, it is prohibited under article 9(1)(g) of the LCP 1999. Meanwhile, article 9(1)(h) of the LCP 1999 concerns about making dishonest statement in relation to the place of origin of goods.

Protection on consumers' right to information in relation to goods or services

Article 9(1)(c) of the LCP 1999 prohibits the making of a representation in a dishonest manner that the goods or services have sponsorship or possession of certain equipment, accessories, benefits. An example of a statement or representation that can come within this provision is a statement which says that this gymnasium is equipped with the latest sauna, in fact only an old sauna is available.

Paragraph (d) to article 9(1) concerns about the making of a representation in a dishonest manner concerning goods or services that have been produced by a company which has been sponsored, approved or affiliated by other organizations. For example, it is advertised that the live telecast of the world cup grand final could be viewed all over the country and is sponsored by XXX Company. In fact XXX Company only sponsors the live telecast in the capital city of the country.

Article 9(1)(e) concerns about the representation made in a dishonest manner in relation to the availability of goods or services. This representation may include the representation that the goods are available until the end of the month. However when a consumer goes to the shop one week before the month ends, the goods are no more available. It would be safe if it is said that the goods are available while stock lasts. If a consumer goes to the shop and finds that the goods are not available, the business entity could say that there is no more stock. The later representation will not be caught under article 9(1)(e). If a business entity advertises in his premises that repair service is available in fact it is not available, then the business entity has contravened article 9(1)(e).

Article 9(1)(f) prohibits any representation made in a dishonest manner which has the effect directly or indirectly of disparaging other goods or services. For example, ABC Company says their products are produced using nano technology and can last longer than products produced by XYZ Company. Another example regarding services is ABC Contractor says that they can install kitchen cabinet within one week compared to the service supplied by XYZ Contractor. By mentioning the name of the comparative company with the intention to disparage them, ABC Company and ABC Contractor have contravened article 9(1)(e).

Business entity is also prohibited from using exaggerating words such as safe, not dangerous, free of risk or no side effect without complete information, such as, absolutely

safe or risks free. If this representation is made, it must be accompanied with information such as, scientific information to support the representation. This prohibited is stated in article 9(1)(j). Meanwhile, article 9(1)(k) prohibits business entity from offering something which contains uncertain promise such as, a promise that a spare parts for an imported car could be obtained within one week although the business entity knows that one week is too short.

The LCP also provides for criminal liability for contravening article 9 of the LCP. If found guilty, the business entity can be imprisoned for not more than five years or fine for not more than five hundred million Rupiah. The sanctions are provided under article 62 of the LCP.

ANALYSIS

The analysis on Malaysian and Indonesian consumer protection legislations shows that both countries adopt criminal law instrument to protect consumers' right to information. Criminal law is widely used as a means of deterring traders and producers from engaging in certain types of trading abuse which operates to the detriment of consumers (David & John : 1997). In other words, the criminal law is used as a means of protecting consumer interest. The principal means of protection is through strict criminal liability. Strict criminal liability offence requires no blameworthiness on the part of the accused (Russell ; 2001). The prosecution is relieved from the responsibility of proving that the alleged offence has the necessary *mens rea* as to one of the elements in criminal law offence. *Mens rea* means the state of mind. What the prosecution needs to prove is *actus reus* which means the guilty act or forbidden conduct. The normal criminal offences require the proof of *actus reus* (forbidden conduct) and *mens rea* (state of mind). The justification for imposing strict liability can be seen in the judgment of Lord Diplock in the case of *Tesco Supermarket Ltd v Natrass*² whereby Lord Diplock has said that:

Consumer protection is achieved only if the occurrence of the prohibited acts or omissions is prevented. It is the deterrent effect of penal provisions which protects the consumer from the loss he would sustain if the offence were committed...The loss to the consumer is the same whether the acts or omissions which result in his being given inaccurate or inadequate information are intended to mislead him, or are due to carelessness or inadvertence. So is the corresponding gain to the other party to the business transaction with the consumer... This I apprehend is the rationale and moral justification for creating in the field of consumer protection...offences of 'strict liability'.

Besides that, as mentioned above, the categories of false, misleading and deceptive information in Malaysia are quite similar to the categories of information made in a dishonest manner in Indonesia. This can be seen in the Table 1 below.

² [1972] AC 153.

PARA	MALAYSIA Section 10(1)	INDONESIA Article 9(1)
a.	Goods of a particular kind, standard, quality, grade, quantity, composition, style or model	Such goods had already met and/or has price discount, special price, certain quality standard, style or fashion, certain characteristics, certain history or certain function
b.	Goods have had a particular history or particular previous	Such goods are in good condition or new
c.	The services are of a particular kind, standard, quality or quantity	Such goods and/or services have obtained or possess a sponsorship agreement, certain equipment, certain profit, job characteristics or certain accessories
d.	The services are supplied by any particular person or by any person of a particular trade, qualification or skill	Goods and/or services are produced by a company that has a sponsorship, agreement or affiliation
e.	A particular person has agreed to acquire the goods or services	Such goods and/or services are available
f.	The goods are new or reconditioned	Such goods did not have any hidden defect
g.	The goods were manufactured, produced, processed or reconditioned at a particular time	Such goods complemented certain other goods
h.	The goods or services have any sponsorship, approval, endorsement, performance characteristics, accessories, uses or benefits	Such goods originated from a certain other goods
i.	The person has any sponsorship, approval, endorsement or affiliation	Either directly or indirectly disparaged other goods and/or other services
j.	Concerns the need for any goods or services	Used exaggerating words such as safe, not dangerous, free of risk or side effect without complete information
k.	Concerns the existence, exclusion or effect of any condition, guarantee, right or remedy.	Offered something containing uncertain promise
l.	Concerns the place of origin of the goods	-

CONCLUSION

From the above discussion and analysis, it can be concluded that both Malaysia and Indonesia, though from different legal tradition, in which Malaysia is a common law tradition and Indonesia is a civil law tradition, when it comes to consumer protection, the consumers in both countries receive the same type of protection. Table 1 shows that the types of information that the consumers are protected from do not show any significant differences. Both countries are upholding the consumers' right to information in the same

way. It is submitted that consumers all over the world should enjoy the same protection in relation to consumers' right to information.

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Halalan Toyyiban Concept in Retailing Management: A Conceptual Paper

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Abstract

The word *halal* is commonly associated with Muslims. This is because Muslims must only consume *halal* products. The emphasis on *halal* products are now growing, and it is becoming a new market force as well as a brand identifier that is currently making its way into the mainstream market. *Halal* products are also widely distributed all over the world and non-Islamic countries have started to acknowledge them. People around the globe are now able to recognize the concept of *halal* product and the need for it. Consequently, manufacturers have changed their mind set regarding *halal* processing, *halal* packaging, and *halal* supply chain. In addition to this positive awareness, it is important to note that not only the product itself should be *halal*, but also the way it is managed and how it is sold to the consumer. This is why the concept of *halal* greatly affects the world of retailing. Hence, the aim of this study is to identify and distinguish the factors which lead to *halalan toyyiban* concept in the retailing industry, namely in Malaysia. In order to achieve this objective, a conceptual model is proposed based on the understanding of the real concept of *halalan toyyiban* which are based on the Holy *Quran* and *Hadith* from Prophet Muhammad PBUH. The study found that; clear understanding, total segregation, acknowledgement and enforcement are three pertinent areas that should be focused on in order to achieve true *halalan toyyiban* in retailing industry. Thus, this paper proposes a conceptual model

and there are bound to be some limitations. Perhaps this paper will help other researchers in clarifying the subject matter in future.

Keywords: halal, halalanan toyyiban, retailing, Islamic management

1. INTRODUCTION

Religious commitment plays an important role in people's lives through shaping their beliefs, knowledge, and attitudes (Shabbir, 2010). Different religious groups such as Muslims, Christians, Buddhists and Hindus have different beliefs, and these beliefs cannot be ignored when a society is analysed (Fam et al., 2002). These religious commitments and beliefs influence the feelings and attitudes of people towards consumption (Jamal, 2003). The *halal* concept is one of these commitments which plays an important role in Muslims' consumption. Furthermore, Islam is the fastest-growing religion in the world, both by birth and by adoption, with the Muslim population estimated to exceed 3.5 billion by 2015 (Kambiz, 2010). *Halal* is no longer a religious issue. It is in the realm of business and trade, and it is becoming a global symbol for quality assurance and choice of lifestyle. *Halal* does not only concern food products, consumption and during point of purchasing per se, but it must be present in the overall supply chain network right from the origin to final consumption, from farm-to-fork (Syazwan, 2012).

When the word *halal* is mentioned, people tend to associate it with food or any food-based product. These products should be free from swine and dogs or anything related to them. This is a common mind-set that most people have. But Islam is not about food only; Islam is a way of life. As Muslims, we should live our life according to the code and conduct of Islam, a total devotion to ALLAH SWT by observing all that has been stated in the Holy *Quran* and *Hadith*. Muslims believe that ALLAH SWT is the Creator, and He knows what is best for His creations. That is why He had sent the Holy *Quran* as a complete guide in our life. Although the term *halal* has never attracted as much attention as in recent time, today, wherever there are Muslim consumers whose tastes and preferences are governed by *halal* rules especially in food, then a *halal* market exists.

i. Retailing Worldwide

Retailing is one of the biggest industries in the world. All products and services must go through the retailing circle in order to complete the selling process; i.e. either store retailing or non-store retailing. Retailing can be defined as an activity that is directly related to the sales of goods and services to the ultimate consumer for personal, non business use – and this has enhanced the quality of our daily lives (Lamb, 2011). Retailing affects all of us directly or indirectly. It does not matter whether we shop for groceries, buy clothes and books, or go to the hair salon to do our hair; we are all involved in retailing. There are millions of goods and services out there in the market provided by retailers just to fulfil our needs and wants. Retailing industries also contribute to a huge number for gross domestic product (GDP). Although most retailers are quite small, there are a few big organizations that dominate the industry. Some of them include retail

operations such as department store, specialty store, supermarkets, drugstores, convenience store, discount store and restaurants. Regardless of the size of the retail operation, it will still require management. From the old-school types of management to the new modern high technology, management still plays an important role in making the retail industry a success. It can be from different philosophy, different culture, different background and different religion, but only a good management will win the race. So in this paper, we will discuss retailing management in the perspective of Islamic retailing management.

ii. Islamic Management

Islamic management in general is an instrument or an important element in the development of *Ummah* that has been shown in *Piagam Madinah*. By analysing the current situation to Muslim communities around the world, the concept of Islamic Management is still unclear and it is not widely accepted. Consequently, these situations will make the application of Islamic Management impossible to be executed.

As Muslims, we should observe that our actions must be parallel with the Islamic code and conduct. In this context, the management of our daily life and all social economic activities should be based on the guidelines that have been stated by the Holy *Quran* and *Hadith*. The problem is: do we really understand what is the guideline that has been stated by the Holy *Quran* and *Hadith* when dealing with social economics? How are these guidelines (through the code and conduct) applied or executed in our daily life? Why conventional management is so dominant even in Muslim communities? Why Islam as a model of prestige management is ignored by the Muslims themselves? Who should be blamed in this and what is the solution to solve this matter?

In Islam, the roles and the importance of management has close connections with the pillars of Islam such as praying, fasting, *zakat* and *haj*. These religious activities need to be organized and managed properly. The concept of Islamic management begins with the form of Islamic government in Medina that had been stated in *Piagam Madinah*. In this doctrine, relationship within the community had been systematically arranged where it fulfils all the needs and wants according to the principles of Islam.

In any civilization in this world, management is the key and it is one of the most important characteristics to that community in order to sustain their social economic and survival. This is because the management will decide how the society intermingles within the community to ensure that they will live in harmony.

This paper assumes that the management style in a society will influence the growth and the development of socio-economics of that particular society. The highlighted Islamic management will lead to *Maqasid Shariah*. However, to influence the whole society to implement the real concept of Islamic management is not an easy feat. The Muslim community has to prove that the Islamic management has strong and reliable characteristics that will make it acceptable. As a result, this will set a good example to other communities as well.

Abdullah bin Umar reported: The Messenger of Allah, peace and blessings be upon him, said, “Every one of you is a shepherd and is responsible for his flock. The leader of the people is a guardian and is responsible for his subjects: a man is the guardian of his family and is responsible for his subjects, a woman is the guardian of her husband’s home and of his children and is responsible for them, and the assistant is a guardian of his master’s property and is responsible for it. Surely, every one of you is a shepherd and responsible for his flock”¹

In this *Hadith*, it is clearly stated that each individual of this *Ummah* will have to bear the responsibilities as a manager. In order to fulfil the duty of managing the trust, we must abide by the rules and regulations that had been stated by ALLAH SWT in the Holy *Quran* and *Hadith*. In other words, we must try to become successful Islamic managers who apply Islamic management in their lives. But first, we must know what management through the Islamic perspective is and how to become a practitioner of Islamic management.

Adnan Alias (2002:21) stated that, “there is no other religion except Islam that encourages its believer to be involved in business. According to Islam, business is a *fardu Kifayah*. Islam not only encourage doing business, but it also had specified a clear framework on how to become a good businessman. Business has a special place in Islam. In fact, the spread of Islam throughout the world is through business trades. In Islamic history, the Prophet PBUH himself is a successful businessman and he is a very good example for practising Islamic management.

2. Halalan Toyyiban Concept Based on Quran and Hadith

i. Halal

Halal is an Arabic word meaning “permissible”. In English, it is mostly referred to food that is permissible according to Islamic law. Its antonym is *haram*. The term *halal* and *haram* are usually used to describe food products, meat products, cosmetics, personal care products, food ingredients, beverages and food contact materials such as the wrapping. However, the real definition for *halal* according to Muslim scholar is anything which is permissible by *syarak* and there is no proof or evidence that it is *haram* [2]. ALLAH SWT said in al-Quran:

يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُبِينٌ

¹ Al-Bukhari, Muhammad Bin Ismail (1980). Al-Jamih al-Sahih. Kaherah: al-Maktabah al-Salafiyah. Jilid 2, Ms 178.

² Ismail, Muhammad Bakr (1997). Al-Fiqh al Wadiah Mina al-Kitab wa al-Sunnah ala Mazahib al-Arba’ah. Kaherah: Dar al-Manar. Ms 20.

“O mankind! Eat of that which is lawful and good on the earth, and follow not the footsteps of Shaitân (Satan). Verily, he is to you an open enemy.”³

Halal products are those which are Shariah compliant; i.e. not involved with the use of *haram* (prohibited) ingredients, exploitation of labour or environment, and are not harmful or intended for harmful use. It has been said clearly by Al-Qurtubi in his writings that a person should know whether something is *halal* or *haram* before it is consumed or used [4]. Prophet PBUH said:

“Halal (the Lawful & Permissible) is clear and Haram (the Unlawful & Impermissible) is clear. Between halal and haram lays some doubtful things. Many people do not know whether it is permissible or not. Whoever leaves out these doubtful things in order to protect his religion and honour, and then he is safe. Whoever indulges in these doubtful things/matters it is very possible that he will fall into haram, similar to a person who grazes his animals near the royal pasture it is very possible that one day he will graze in the royal pasture. Behold! Every king has a royal pasture and the royal pasture of Allah is those things which have been made impermissible.”⁵

ALLAH SWT only accepts everything that is *halal* and clean from human beings. Whatever we do, we should bear in mind that ALLAH SWT is always there observing us. This is why we have to make sure that everything that we are going to do or be involved in must be *halal* and clean. This matter has been narrated from the Prophet PBUH in one *hadith*:

On the authority of Abu Huraira (may Allah be pleased with him), who said: The Messenger of Allah said: “Allah the Almighty is good and accepts only that which is good. Allah has commanded the Faithful to do that which He commanded the Messengers, and the Almighty has said: “O ye Messengers! Eat of the good things, and do right..” (Quran 23:51). And Allah the Almighty has said: “O ye who believe! Eat of the good things wherewith We have provided you..” (2:172). Then he mentioned [the case of] a man who, having journeyed far, is dishevelled and dusty and who spreads out his hands to the sky [saying]: O Lord! O Lord!-while his food is unlawful, his drink is unlawful, his clothing unlawful, and he is nourished unlawfully, so how can he be answered!”⁶

The Prophet PBUH had reminded us that, there will come a day when mankind will not think about *halal* and *haram* anymore in their daily activities. Prophet PBUH said:

³ Al-Baqarah: 168

⁴ Al-Qurtubi, Muhammad Bin Ahmad (2006). Al-Jamik Li Ahkam al-Quran. Beirut: Muassasah al-Risalah. Jilid 3, Ms 11.

⁵ Al-Bukhari, Muhammad Bin Ismail (1980). Al-Jamik al-Sahih. Kaherah: al-Maktabah al-Salafiyah. Jilid 1, Ms 34.

⁶ Muslim, Abi Husain (2001). Sahih Muslim Bi Sharh al-Nawawi. Kaherah: Dar al-Hadith. Jilid 4, Ms 106.

“Sayyidina Abu Hurayrah (radhiallahu anhu) reports that the Prophet (salallahu alaihi wasallam) said, “A time will come upon the people wherein a man will not bother what he intakes; whether from a halal or haram source.”⁷.

The Prophet PBUH also told us to avoid any suspicious action. That is why we need to be firm in our action. Prophet PBUH said:

“The Prophet (salallahu alaihi wa sallam) said, “Avoid whatever you have doubts about in favour of what is not (doubtful).”⁸.

The Prophet PBUH had reminded us about the dangers and threats for those who are involved in *haram* activities. Prophet PBUH said:

Sayyidina Ka`b Ibn Ujrah (radhiallahu anhu) relates that the Prophet (salallahu alaihi wasallam) said, “A body nourished with a haram source will not enter Jannah”⁹.

Sayyidina S`ad (radhiallahu anhu) relates that the Prophet (salallahu alaihi was sallam) said “O S`ad purify your food (and as a result) you will become one whose supplications are accepted. I swear by Him in whose hands the soul of Muhammad lies, verily a servant (of Allah) tosses a haram (impermissible) food morsel in his stomach (due to which) no good deed is accepted from him for 40 days”¹⁰.

In Islam, the *Ussul Fikh* had indicated that, “All things that would lead to *haram*, is considered *haram*”. So the sin of involving in *haram* activities is not only for those who do it, but also for those who are involved with the sinner either directly or indirectly. Alcohol and usury are two such examples, as the Prophet PBUH said:

It was reported by Anas (may Allah be pleased with him), that Prophet Muhammad (pbuh) said: “God’s curse falls on ten groups of people who deal with alcohol. The one who distils it, the one for whom it has been distilled, the one who drinks it, the one who transports it, the one to who it has been brought, the one whom serves it, the one who sells it, the one who utilizes money from it, the one who buys it and the one who buys it for someone else”¹¹.

Narrated by Abdullah ibn Mas`ud: Rasullulah Salallahu Alayhi Wasallam cursed the one who accepted usury, the one who paid it, the one who witness it, and the one who recorded it¹².

⁷ Al-Bukhari, Muhammad Bin Ismail (1980). Al-Jamik al-Sahih. Kaheerah: al-Maktabah al-Salafiyah. Jilid 2, Ms 77.

⁸ Tirmizi, Muhammad Bin Isa (1997). Sunan al-Tirmizi. Riyadh: Maktabah al-Ma`arif. Ms 567.

⁹ Tirmizi, Muhammad Bin Isa (1997). Sunan al-Tirmizi. Riyadh: Maktabah al-Ma`arif. Ms 155.

¹⁰ Ibn Majah, Muhammad Bin Yazid (1997). Sunan Ibn Majah. Riyadh: Maktabah al-Ma`arif. Ms 567.

¹¹ Ibn Majah, Muhammad Bin Yazid (1997). Sunan Ibn Majah. Riyadh: Maktabah al-Ma`arif. Ms 568.

¹² Abi Dawud, Sulaiman As`ath (2004). Sunan Abi Dawud. Maktabah al-Ma`arif. Ms 601.

Islam also prohibits his follower to use contrivance or tricking them to do *haram* things. This has been stated by Prophet PBUH in his *hadith* regarding alcohol:

*There will be a people of my nation who will drink wine by naming it other than its name.....*¹³.

ii. **Toyyiban**

يَأَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُبِينٌ

*“O mankind! Eat of that which is lawful and good on the earth, and follow not the footsteps of Shaitân (Satan). Verily, he is to you an open enemy”*¹⁴.

وَكُلُوا مِمَّا رَزَقَكُمُ اللَّهُ حَلَالًا طَيِّبًا وَاتَّقُوا اللَّهَ الَّذِي أَنْتُمْ بِهِ مُؤْمِنُونَ

*“And eat of the things which Allah has provided for you, lawful and good, and fear Allah in Whom you believe”*¹⁵.

The meaning of *Toyyiban* based on Muslim scholar is a good food for mankind which do not give harm or damage to their body and mind¹⁶. According to Imam As-Shafie, the food must be in good condition, good quality and we must not eat spoiled food¹⁷. These verses of the Holy *Quran* also stated that the concept of *Toyyiban* does not only apply for good food, but also in terms of wants and needs such as drinks, clothes, vehicles and many more¹⁸.

In the Holy *Quran*, the word *Toyyiban* has also been mentioned in other verses. The meaning of the word has been discussed in a much bigger scope. Here Muslim scholars have many interpretations and a lot of discussion has been done just to figure out the real meaning of *Toyyiban*. ALLAH said:

لَقَدْ كَانَ لِسَبَإٍ فِي مَسْكَنِهِمْ آيَةٌ ۖ جَنَّاتٍ عِنْتَهُنَّ النَّجْمَاتُ وَشِمَالٍ ۚ كُلُوا مِنْ رِزْقِ رَبِّكُمْ
وَأَشْكُرُوا لَهُ ۖ بَلَدَةٌ طَيِّبَةٌ ۚ وَرَبُّ غَفُورٌ

¹³ Ibn Majah, Muhammad Bin Yazid (1997). Sunan Ibn Majah. Riyadh: Maktabah al-Ma'arif. Ms 568.

¹⁴ Al-Baqarah: 168

¹⁵ Al-Maidah: 88

¹⁶ Ibnu Kathir, Abi al-Fida' (2000). Tafsir al-Qur'an al-'Azim. Kaherah: Muassasah al-Qurtubah. Jilid 2, Ms 144.

¹⁷ Al-Qurtubi, Muhammad Bin Ahmad (2006). Al-Jamik Li Ahkam al-Quran. Beirut: Muassasah al-Risalah. Jilid 3, Ms 11.

¹⁸ Al-Qurtubi, Muhammad Bin Ahmad (2006). Al-Jamik Li Ahkam al-Quran. Beirut: Muassasah al-Risalah. Jilid 8, Ms 120.

Indeed there was for Saba' (Sheba) a sign in their dwelling place, - two gardens on the right hand and on the left (and it was said to them) "Eat of the provision of your Lord, and be grateful to Him, A fair land and an Oft Forgiving Lord!"¹⁹.

The word *Baldatun Toyyibatun* refers to a country which possesses wealth, a prosperous land, and it receives continuous blessing and forgiveness from ALLAH SWT because all of the social economic activities have been lawfully executed and the people there refrain from *haram* things²⁰. It is a peaceful country with an assurance of safety, where famine does not exist and its people are blessed by ALLAH SWT. They are constantly guided on the right track and they steered clear away from any wrongdoings²¹. It is a country that has a lot of trees and fruits, from which the country becomes developed, and is generated by *halal* income²².

Even though these verses of the Holy *Quran* are referring to the glorious and prosperous Saba' kingdom, it was the implementation of the economic activities based on *halal* application that plays an important role in turning it into a country that ALLAH SWT referred to as *Baldatun Toyyibatun Wa Rabbun Ghafur*. The development of such country flourished from total surrender to the greatness of ALLAH SWT, the social aspects are based on knowledge and faith to ALLAH SWT, and the economic strength comes from the pillars of *tauhid* and *fekah* (fundamentals study of Islam). Also, such country will prioritize people's welfare so that each generation will reap the benefits of the development and prosperity of the nation. All of these characteristics are the important elements in ensuring the country is in the right track to achieve the blessing and forgiveness of ALLAH SWT in order to be *Baldatun Toyyibatun Wa Rabbun Ghafur*.

Research Methodology

The framework proposed in this study is based on two staged of data collection. First stage, five (5) preliminary interviews were conducted in which each interview took more than hour. The questions that were asked covered the informant's background, type of company, experience in the industry and the awareness of Islamic management and Islamic term in managing. Second stage, three (3) Muslim scholars who are experts in Shariah perspective were interviewed in order to identify whether the *halalan toyyiban* concept was applied to the current process of management in the retailing store.

The first stage of the interviews was to identify the current state of management process in small and medium size retailing store. When the existing process was identified, the second stage of interviews was needed to reconfirm whether the existing management process was carried out in accordance to the Shariah compliance. As in this study, Shariah compliance means everything that will be managed in accordance to the Shariah principles and procedures, in which

¹⁹ Saba': 15

²⁰ Al-Qurtubi, Muhammad Bin Ahmad (2006). *Al-Jamik Li Ahkam al-Quran*. Beirut: Muassasah al-Risalah. Jilid 17, Ms 291.

²¹ Tabari, Abi Ja'far Muhammad (2001). *Tafsir al-Tabari*. Kaherah: Dar Hajr. Jilid 19, Ms 248.

²² Syawkani, Muhammad Bin Ali (2007). *Fath Qadir*. Beirut: Dar al-Ma'rifah. Ms 1193.

those process, are consistent with the principles of Islamic laws. Therefore, from the interviews that are conducted, the researcher reached a saturated point in which the proposed framework was developed.

Table 1: The background of informants in the first stage of interviews.

Position	Type of company	Length of experience in the industry	Islamic management process
Owner	Small retail outlet	4-5 years	Not sure
Managing Director	Big chain retailer	More than 20 years	Aware
Manager	Medium retail outlet	More than 10 years	Aware
Owner	Grocery shop	More than 15 years	Not sure
Manager	Restaurant	More than 15 years	Not sure

Table 2: The background of informants in the second stage of interviews.

Position	Industry	Types of company/sector	Length of experience	Islamic management process
Islamic study Lecturer	Education	University	More than 20 years	Aware
Muslim scholar	Islamic department	Public sector/government	More than 15 years	Aware
Muslim scholar	Education department	Public sector/government	More than 15 years	Aware

From the interviews conducted, there were three factors comprising of the knowledge of halalan toyyiban, a total segregation of a product and acknowledgement / enforcement by the government agencies that contributed to achieved halal retailing management.

4. Proposed Conceptual Framework

As the outcome from the study, Table 3 envisions the proposed conceptual framework of the *halalan toyyiban* concept of the retailing management and Malaysia is one of the examples.

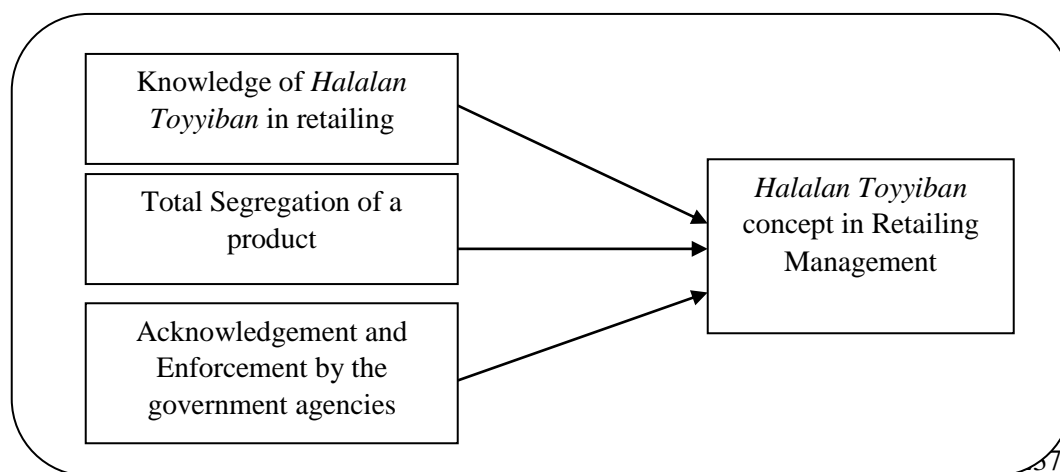


Table 3: Factors determining Halalan Toyyiban Concept in Retailing Management

A *halal* retailing management refers to the activities of retail business like record keeping, banking system, staff management, product arrangement and inventory management.

i. Knowledge of Halalan Toyyiban in Retailing

Knowledge is an important key and play major roles in implementing a specific task; i.e. management job. Without knowledge, all action and transaction will be impeded and will not work according to plan. ALLAH SWT said in Quran:

“ALLAH will exalt those of you who believe, and those who are given knowledge, in high degree; and ALLAH is Aware of what you do”. (QS, Al-Mujadila: 11)

“What! He who is obedient during hours of the night, prostrating himself and standing, takes care of the hereafter and hopes for the mercy of his Lord! Say: Are those who know and those who do not know alike? Only the men of understanding are mindful”. (QS, Az-Zumar: 9)

Knowledge here means everything that you are doing with your life in this world and the hereafter. This is because Islam is a complete religion that does not segregate life in this world and the hereafter. All of our actions in this world will affect our life in the hereafter. Our actions will be properly guided according to the need of Islam with knowledge. It will be our personal governance when we are faced with a tough decision: either to follow Islamic way or conventional way.

Without a strong foundation of Islam; a businessman will easily fall prey into the trap of usury that are usually offered by conventional banks or financial institutions. They also might modify the record keeping just to fulfil their interest and consequently this would lead to cheating in their inventories. In addition, they might oppress their workers. Their end products will be a mixture of *halal* and *haram*, and there is only a thin line between the two. A manager can avoid all this from happening only by pure Islamic governance, and a true knowledge of *Halalan Toyyiban* to be implemented in his management.

H₁ – *It is knowledge of halalan toyyiban that will determine a halal retailing management.*

ii. Total Segregation of non-halal product

The second factor is segregation. Proper segregation will lead to *halal* supply chain. Proper segregation can be classified as handling, packaging, transporting and storing. Handling, packaging, transporting and storing of food must be segregated between *halal* and *non-halal* products so that contamination among the products can be prevented (Harlina, 2011). But when

dealing with *halalan toyyiban*, proper distribution per se is not enough. Total segregation must be implemented in order to ensure the purity of a product.

In management, as a *halalan toyyiban* practitioner, we should avoid from dealing with *non-halal* or *haram* things. This refers to what the Prophet PBUH had mentioned about alcohol and usury.

It was reported by Anas (may Allah be pleased with him), that Prophet Muhammad (pbuh) said: "God's curse falls on ten groups of people who deal with alcohol. The one who distils it, the one for whom it has been distilled, the one who drinks it, the one who transports it, the one to who it has been brought, the one whom serves it, the one who sells it, the one who utilizes money from it, the one who buys it and the one who buys it for someone else".²³

Narrated by Abdullah ibn Mas'ud: Rasullulah Salallahu Alayhi Wasallam, cursed the one who accepted usury, the one who paid it, the witness to it, and the one who recorded it.²⁴

ALLAH SWT will curse those who are involved in any of those actions mentioned in the *Hadith* above as they are totally against the teachings of Islam. In Islamic retailing, selling *haram* items e.g. alcohol or any swine products are totally prohibited. Total segregation of those *haram* items must be executed. It is better if we can have a separate business entity in this matter. To illustrate, non-Islamic retailing management business sells *non-halal* products, while Islamic retailing management business sells only *halal* products that had been approved by the authorities of a government agencies, namely JAKIM. This type of division will ensure our business to be free from the wrath of ALLAH SWT and more importantly, it is Shariah compliant.

H2 - Total segregation of a non-halal product will determine to halal retailing management.

iii. Acknowledgement and Enforcement by the Government Agencies

Islamic Management for Muslims is not new in Malaysia. Wan Liz Ozman (1996) had discussed the subject matter in details regarding the adoption of Islamic culture as an agenda in developing a country. The agenda had been introduced by Malaysian government since 1985. This agenda also is a clear indicator that the Malaysian government intends to promote this Islamic way of life to the Malaysian community especially towards Muslim. The Malaysian government has executed a lot of programs for this subject matter such as development of self-esteem, human capital, concept family in Islam and Islamic motivation (Bakir, 2008). The government also had many books published about the Islamic way of life that highlights values, norm, professional etiquettes and servicing. But all these agendas seem to be left out. Only a few target groups are aware of it while others still live in ambiguity and ignorance. This is because in the past two decades, the concept has not been taught in any tertiary institution in this country. The concept

²³ Ibn Majah, Muhammad Bin Yazid (1997). Sunan Ibn Majah. Riyadh: Maktabah al-Ma'arif. Ms 568.

²⁴ Abi Dawud, Sulaiman As'ath (2004). Sunan Abi Dawud. Maktabah al-Ma'arif. Ms 601.

had just been highlighted recently after the acceptance of Malaysia as a *Halal* Hub by other Muslim countries in the world.

The Malaysian government has to play significant roles in making this *Halalan Toyyiban* concept a success. This concept should be recognized and it should be treated equally like other rules and governance in Malaysia. The government also should encourage higher institutions to take responsibility by introducing the *halal* concept as a subject in their institution. Perhaps by doing this, the knowledge of *Halalan Toyyiban* will be spread to the whole nation and in the long run, it will be accepted by the society. *Akademik Peruncitan* and *Institut Latihan Peruncitan* are two such institutions formed by the Malaysian government which deals directly with the retailing management. They should come up with strong and comprehensive programme in making this concept a reality.

The government's rules and regulations also play a critical part in making the *Halalan Toyyiban* concept in retailing to be fully enforced. In the past three decades, nobody is aware about the concept of Islamic banking, but now it is widely accepted. Even the government itself had imposed a specific law to specialize in this matter: Islamic Banking Act 1983. It is hoped that by having a strong desire and being fully aware of the understanding (plus the responsibilities) to implement *Shari'ah* law (Islamic code and conduct), perhaps we can see another Islamic-based Act to be imposed in Malaysian law of constitution, i.e. Islamic Retailing Act.

H3 - *Acknowledgement and enforcement by the government will lead to the success of halal retailing management.*

5. Conclusion

To conclude, we should follow the example set by the *Saba'* kingdom in order to make the concept of *Halalan Toyyiban* a reality. *Baldatun Toyyibatun Wa Rabbu Ghafu* is achievable by implementing Islamic *Shari'ah* law as the way of life (holistic) including all the rules, code and conduct. The primary objective of *Shari'ah* is the realization of benefit to the people, concerning their affairs both in this world and the hereafter. *Shari'ah* aims at safeguarding people's interest and preventing them from harm and evil²⁵. To achieve these implementations, the ruler should follow the principle of **MAQASID AL-SHARI'AH**, the basic need of *dharuriyah* in taking care of religion, life, mind, descendant, and wealth.

One of the fundamental values under *Maqasid al-Shari'ah* is 'Protection of Property' (*Hifz al-Mal*). Acquiring property is one of the necessities of mankind. Islam has ordered that no one should transgress and acquire the property of others without legitimate reasons and proper contract. Allah SWT says:

²⁵ Kamali, Mohammad Hashim (2009). Principles of Islamic Jurisprudence. Kuala Lumpur: Ilmiah Publisher. Ms 395.

“And eat up not one another's property unjustly (in any illegal way e.g. stealing, robbing, deceiving, etc.), nor give bribery to the rulers (judges before presenting your cases) that you may knowingly eat up a part of the property of others sinfully”²⁶.

In addition, the Holy *Quran* has also warned of severe punishment during the Judgment Day against those who acquire the properties of others unlawfully. Among these ways are by taking usury (*riba*), cheating in transaction, breaking the trust in matters related to the property, stealing the property of others and other similar means prohibited by Allah SWT.

As Muslims, it is our obligation to safeguard our religion so that the Islamic honour is not marred. Previously, this paper had mentioned the ten groups of people who are cursed by ALLAH SWT due to their actions. This shows the importance of keeping our consumer products safe, not only during the point of preparation of the food but also from the point of consumption throughout the supply chain network of material until the product reaches the final consumer. By mixing between *halal* and *non-halal (haram)*, the *non-halal* will definitely prevail. Thus, it is a must for those who are involved, be it the producer, industry player and government, to ensure that there is no connection at all between *halal* and *non-halal* activities in any possible way. Since this paper is conceptual, further research is needed and must be done in order to discover more issues related to *Halalan Toyyiban* concept in retailing management.

“ALLAH has promised to those of you who believe and do good that He will most certainly make them rulers in the Earth as He made rulers those before them, and that He will most certainly establish for them their religion which He has chosen them, and that He will most certainly, after their fear, give them security in exchange; they shall serve Me, not associating aught with Me; and whoever is ungrateful after this, these it is who are the transgressors”. (An-Noor: 55)

In this verse it is clear that ALLAH SWT had promised to make those who obey Him to become a successful *Khalifah* in this world due to his efforts in implementing the law of ALLAH SWT. Only those who have faith in ALLAH will plan for his success in the world as well as the hereafter.

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²⁶ Al-Baqarah: 188

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The Finance Performance of the Autonomous Areas in Bengkulu Province

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INDONESIA

Abstract

There were four autonomous areas before the expansion in Bengkulu province such as Bengkulu city, Rejang Lebong regency, South Bengkulu regency, and North Bengkulu regency. Theoretically, these four areas have higher autonomy of organizing the local revenue due to the good experience and the natural resources they already have. This research aims at evaluating the performance of LKPD from the four autonomous areas by using the measurement of existed ratio. Another aim is to figure out the variables of finance before and after the regional autonomy or OTDA. Several findings of the research have shown that the four autonomous areas had high dependency toward the central government or relied on the balance fund. On the contrary, the contribution of PAD was still low. However, the efficiency ratio was adequately good, whereas the growth ratio got strong fluctuation especially in some major regencies because of the formation of new regencies. In addition, the main variable in measuring the degree of finance decentralization, finance autonomy, efficiency, and the growth of PAD got insignificant at all. There are some significant variables, but not as the main variable, such as Variable X12 (BHPBP:TPD), and variable X13 (SPP:TPD).

Key words: LKPD, APBD, OTDA, PAD, BHPBP,TPD, and SPP.

INTRODUCTION

Preceded by the economic crisis in 1997 which was also the collapse of The New Order power which conquered for more than 30 years, it then calls for regional autonomy (OTDA) extensively. OTDA not only demanded decentralization of power but also has implications for the financial decentralization at local level two. There are at least two reasons that have been perceived by the public. First, the intervention of society in the past has given rise to the problem of low capacity and effectiveness of local government in encouraging the development process and life of democracy in the area. Second, directives and statutory requirements that are too big from the central government lead initiatives and regional initiatives tend to go out so that local governments often make regulatory compliance as an end and not as a means to improve the public service (Mardiasmo, 2004).

The authority of Regional autonomy from the central government gives to local governments to regulate and administer the need of local communities own initiative based on the aspirations of the community in compliance with the applicable legislation. Regional autonomy has many implications, such as; financial decentralization and authority. Financial decentralization and the authority have made some areas act more concerned with personal and group by the local government in power at that time. In managing local finances, Local governments are no longer based on the principles of value for money for the public welfare. There are indications of some wasting financing programs or activities that are not supposed to be financed, for example, the utilization of BANSOS funds that is so large ahead of Election (Kamaludin, 2011). Experience shows that during the time that the financial management area is a concern. Local budgets, in particular spending areas have not been able to participate effectively in pushing the pace of development in the area. On the other hand the budget allocations are found not in accordance with the needs and priorities and less reflecting aspects of economy, efficiency, and effectiveness, because the quality of the local budget planning is relatively weak.

Weak budget planning is also followed by the inability of local governments to increase local revenues on an ongoing basis. Meanwhile local spending continues to increase, so it increased the fiscal gap. This situation would ultimately lead to under financing or over financing which in turn will affect the level of the economy, efficiency and effectiveness of the Local Government work unit.

Law No. 22 of 1999 in conjunction with the Law No. 32 Year 2004 on Regional Government and Law No. 25 of 1999 Jo Law Number 33 Year 2004 on Financial Balance between Central and Local Government is the cornerstone of decentralization in the field of politics, administrative, and fiscal in order to realize regional autonomy. Law No. 22 of 1999 in conjunction with Law No. 32 of 2004 cored division of powers and functions (power sharing) between the central and local governments. Law No. 25 Jo Act No. 33 of 2004 is regulating the distribution of financial resources (financial sharing) between the center and the regions as a consequence of the division of authority. Both of these laws emphasize that the development of regional autonomy was held with regard to the principles of democracy, participation, equity, justice, and considering the potential and diversity of regional resources.

Before the two Laws, No 22 and 25, enacted in 1999, the various activities of government services, especially the development program, even more decided and implemented by the central agency through the vertical instance in the local area (Regional Office and KANDEP). Since the two laws were enacted on January 1, 2001 the area received the great authority. To carry out all the programs, the central government provides a general allocation fund (DAU) which is generally greater than the budget revenue and expenditure (budget) in previous years. The responsibilities of DAU allocation is given entirely to the area. In fact DAU received less than the need to be able to manage the authority of government services as well. In addition to the lack of funds, the local authorities for more than three decades earlier had been accustomed to receive "orders" from the central government, which is why it still needs time to adapt to the new administration system of this government. The time needed to adapt from one region to another is adequately diverse that there is a delay in the implementation of the law.

The implementation of the decentralization policy and OTDA that have lasted more than ten years the chances of success of this new policy is still doubted by many parties. Doubts arise due to various factors inhibiting negative and many indications that occurred in the field so that the implementation of the policy OTDA judged inappropriate with the mandate of legislation. Until now, the central government has not completed its responsibility to make rules and regulations to support the implementation of Law (Act) No.. 22, 1999, on the other hand, the central government has issued several regulations that contradict each other. Provinces and areass / cities do not have the same perception in outlining its authority. Similarly shades of collusion, corruption and nepotism in various areas of government considered more fertile. Meanwhile, the space of participation should be given broadly to society which has not been consistently implemented (SMERU, 2002).

Some researchers have indicated that before creating the OTDA, the financial performance of the autonomous regions had diverse results. Some researchers such as; Akai (2007), Thiessen (2003), Malik et al (2006), Iimi (2005), Fajar Sembiring et al (2007), and Wibowo (2008) suggest the financial decentralization has a positive impact on economic growth. Instead some other researchers found a opposite result, as suggested by Xie et al (1999), Zhang and Zou (1998), and Jin and Zou (2005). Likewise with the financial performance of the autonomous region some researchers also obtained different results depending. Some suggested a relatively good performance sedangkan other states are no better than before the OTDA.

LITERATURE REVIEW

Directions of OTDA in Indonesia

The autonomy granted to regional areas and municipalities are conducted with giving real and broad authority, and responsibility of paragraph proportionally to the local government. This means that the transfer of responsibility will be followed by a sharing arrangement and equitable utilization of national resources, and financial balance between central and local (Mardiasmo, 2004).

The law basically wants to encourage community empowerment, initiative and creativity development, community participation, and developing a functional role of

Parliament. The law also gives full autonomy to local counties and cities to establish and implement policies and initiatives according to the aspirations of its people.

In its way, many have questioned the implementation of the law can realize the autonomous regional government that is efficient, effective, transparent, and accountable on an ongoing basis. Since conducting the OTDA almost all local governments affected by the law case, however, only five areas that have not been tripped by the law case. This indicates that financial decentralization in the areas does not implement all five of these principles. During the OTDA implemented almost all of the areas seek to recruit civil servants as many as possible with a pretext to improve public services. Though, everyone knows that the recruitment is full of Collusion, Corruption and Nepotism.

The law was intended to empower local governments, as the perspective changes a chill in the areas of financial management and local budgets are as follows:

1. The area of financial management should be based on public interest.
2. Clarity of mission areas of financial management in general and in particular the local budget.
3. Decentralization of financial management and clarity of roles related participants, such as; Parliament, Regional Head, Regional Secretary, and others.
4. The legal and administrative framework for the financing, investing and cash management areas based on the rules of the market mechanism, value for money, Transparency and accountability.
5. Clarity about the financial position of Parliament, Head of Region, and regional civil servants, both the ratio and the considerations.
6. Provision about the form and structure of the budget, the budget performance, and multi-annual budget.
7. Principles of procurement and management of local goods more professional.
8. Accounting Principle of local government, the financial statements, the role of Parliament, and public accountants in control, giving opinions and budgetary performance rating, and transparency of budget information to the public.
9. Aspect of coaching and coaching supervision which includes restrictions, association role, and the role of community members to the professional development of local government officials.
10. Development of regional financial information system to provide accurate budget information and the development of the local government's commitment to the dissemination of information so as to facilitate reporting and control, as well as facilitate getting information.

Regional Financial Management

Law No. 22 and No.25 in 1999 which regulates regional autonomy in Indonesia is a very important milestone in the management of local government in Indonesia. Both of those item of law is decentralization which allowing local governments to regulate self-administration and flexible (Sumarsono, 2010). According to Government Regulation No. 58 of 2005 Article 1 in paragraph 5, Local Finance is all the rights and obligations within the framework of local governance areas that can be valued in money including all forms of wealth associated with the rights and obligations of the area. State Finance is all

rights and obligations in the area of regional governance framework that can be valued in money, including all forms of wealth associated with the rights and obligations of the area, in terms of budget and revenue and expenditure (budget). Therefore, understanding of local finance is always attached with the understanding that the budget; an annual financial plan of the area defined by the rules.

According to Mardiasmo (2004), Financial Management can be divided into two parts, namely the management of local revenue and expenditure management area. Furthermore Mardiasmo (2004) also explains that the principles in the areas of budgeting and financial management are comprehensive and discipline, flexibility, and predictable.

Financial Performance of Local Government

Performance measurement is a tool to assess the success of the organization. In the context of public sector organizations eg local government. The success of the organization will be used to gain legitimacy and public support. Society will judge the success of local government through the organization's ability to provide public services are relatively cheap and quality. The public service to make the bottom line in local government (Mahmoodi, 2007).

Performance measurement is an essential part of business process management control or public good. However, due to the nature and characteristics of the different public and private sectors, so that the emphasis and orientation of any performance measurements are different. The purpose of the assessment of performance in the public sector are: determine the level of achievement of the objectives of the organization, providing a means of employee learning, improving the performance of the next period, giving systematic consideration in decision-making, motivate employees, and create public accountability.

Measuring the performance can come from within and outside the public organization. If only use the measurement of internal performance, the assessment is very subjective. Then we should consider the value and perception to the community. It must be considered that the public is society organizations were subjected to the final of the value for the money budgeted by the local government budget. If people do not have any benefit to the program is carried out by a local government that is actually just a waste of budget. In fact, there are many programs that are designed not oriented to public interest.

Determination of performance indicators need to consider the following components (Mahmoodi, 2007): Cost of service, utilization rates, and quality of service standards, service coverage, and community satisfaction. According to the Regulation of the Minister of Home Affairs No. 13 of 2006 Article 1 paragraph 37 definition of performance is the output / result of the activities / programs that will be or has been achieved with respect to the use of the budget by the quantity and quality measured. The financial performance of Local Government is the level of achievement of a work in areas that include finance revenue and public spending by using the financial indicators

set by a policy or statutory provisions for the budget period. Local government performance is the ability of an area to explore and manage the financial resources in filling their needs to support the passage of the system of government, public service and regional development by not depend entirely on the central government and have flexibility in the use of funds for interests of local communities within the limits prescribed legislation. Public sector organization or a government organization that aims to provide public services to the community as well as possible, for example in the fields of education, health, security, law enforcement, transportation and so on. Public services provided because the community is one of the stakeholders of public sector organizations. So the government is not only submit an accountability report to the central government, but also to the wider community. Therefore, the necessary performance measurement system that aims to help public managers to assess the achievement of a strategy by means of financial and non-financial measure.

Measurements of performance according to Ekawarna, et al (2009) is a method or device used to record and assess the achievement of the implementation of activities based on goals, objectives and strategies. The traditional view of measuring the performance of an organization is often only emphasize on minimizing costs (inputs), for example, with operational cost savings. Modern performance measurement system in addition to assessing the inputs and outputs are also assessing the degree of flexibility of the organization serving customers. Thus, measurement of performance be broad in scope because it considers the customer satisfaction (customer satisfactions). In measuring the performance of the government it is proper to leave the traditional view and switch on the modern view. This is because all of the services and products the government aimed to meet the expectations and desires of the community.

According Mardiasmo (2002) performance measurement also has several benefits, namely:

1. Provides an understanding of the measure used to assess the performance of management.
2. Provide direction to achieve performance targets that have been set.
3. To monitor and evaluate the achievement of the performance and compare it with the performance targets and take corrective action to improve performance.
4. As a basis for reward and punishment (reward and punishment). Objectively top achievement as measured in accordance with the performance measurement system that has been agreed upon.
5. As a means of communication between subordinates and leaders in order to improve organizational performance.
6. Helps to identify whether customer satisfaction are met.
7. Helps to understand the activities of government agencies.
8. Ensure that decisions made objectively.

While Mahmudi (2007) explains that the purpose of assessment of performance in the public sector are: determine the level of achievement of the objectives of the

organization, providing a means of employee learning, improving the performance of the next period, giving systematic consideration in decisions giving reward and punishment, motivating employees, and creating accountability public.

Ekawarna, et al (2009), performance indicator is a variable that is used to express quantitatively the effectiveness and efficiency the process or operations based on the targets and goal of the organization. Performance indicator of an organization should be understood in the same way, either by management and stakeholders. The same indicators and the same perception of efficacy assessment are expected to use the same criteria so that more objective. So, through the clear indicators, is expected to create a consensus of various parties, both internal and external to avoid interpretation error during the execution of the program and in assessing the success of a government agency. The use of performance indicators is essential to determine whether an activity or program has been carried out efficiently and effectively.

One of the ways to analyze and manage the financial performance of local government finance to implement local financial is the analyzed ratio of the APBD exist established and implemented (Suprpto, 2006).

Financial ratio analysis is done on the APBD exist by comparing the result achieved from one period compared to the previous period so that it can be seen how the trend is going. Moreover, it can also be done by comparing the ratio of local government finance certain financial ratios or others areas nearby regions are relatively equal potential to be seen how the government's financial position against other local governments (Suprpto, 2006).

PREVIOUS STUDY

The following researchers obtain different result, but there are some similarities as well, especially related to OTDA or decentralization. According to Ahadiyati (2005) the impact of decentralization policy towards autonomous regions is very varied. It can be said that the level of achievement of the performance in the implementation of regional autonomy period 1999-2003 is still low, although in most of the indicators showed a positive change. Meanwhile, according to Azhar (2008) there are differences in performance before and after the OTDA in Aceh and North Sumatera, however, the efficient use of the budget has no significant differences. It means that after OTDA the efficiency budget used became intensified because of the impact of fiscal decentralization. SMERU's Finding (2002) in Lampung showed that financial realization is increasing continuously to the third sectors since OTDA existed although in the perception SMERU there is no significant change. Hofman, et al (2006) considered that fiscal decentralization in Indonesia has an impact on the budget allocation errors and lost the use of the principle of budgetary efficiency. Shleifer and Vishny (1993) said that structure of government and the political process is the most decisive factors level of corruption, weak governance that will affect if difficult to control the bureaucracy. Condition like this happens to the local level in our country, where surveillance is very weak and contains the institutional collusion.

OTDA or the impact of the financial decentralization of some other researchers has different effects. Akai (2007), Thiessen (2003), Malik et al (2006), Iimi (2005), Fadjat et al (2007) and Wibowo (2008) found the fiscal decentralization has a positive effect on economic growth. While the result of study by Xie et al (1999), Ahang and Zou (1998) and Jin and Zou (2005) said that fiscal decentralization has the negative one. Fadjar and Sembiring (2007) and Wibowo (2008) explained that fiscal decentralization happened in Indonesia. Efforts to complete the implementation of fiscal decentralization in Indonesia recently implemented effective in 2001 since issues in Law no. 22 and 25 of 1999 on regional autonomy. With relatively short implementation period, it seems that there are many matters which remain a matter for the central government and implication for the budget of revenues and expenditure domination by the central government. During period 2002-2008, the value of transfers to the regions to central government spending is relatively not too high., the average was only 31,31 percent, while transfers to this area is the largest component in the reception area . Zulyanto (2010) the composition of government revenue areas / city in the province of Bengkulu still shows a high dependence on central government transfers, especially in the form of a general allocation found (DAU) and special allocation found (DAK).

PURPOSE AND THE ADVANTAGE OF OBSERVATION

Based on the problem especially in connection with performance indicator of government finance area, therefore the purpose that will be studied specifically in this observation is:

1. In order to know the fiscal decentralization degree from the autonomous region in Bengkulu province
2. To assess the region finance autonomy in Bengkulu Province
3. To assess the native efficiency of autonomy income in Bengkulu Province
4. To assess the native growth of income in region native of Bengkulu Province
5. To assess the effect for the autonomy region finance performance in Bengkulu Province after OTDA and before OTDA
6. To assess the ratio of financial performance that can make the difference effect in before and after OTDA in Bengkulu province.

Some usefulness which gained from the result of observation, there is an a evaluation material for government to determin the region positioning that relevant as autonomy region to go to finance autonomy and material to determine the wisdom in the future.

THE METHOD OF THE RESEARCH

The observation was done by analyzing the manner based on the finance report of government region. The report has been analyzed before and after enforcing OTDA by the approach of ratio analysis and statistic. The ratio is measured through; decentralization of the fiscal degree, financial autonomy, efficiency of PAD, and the growth of ratio, and also index of financial ability. The analysis statistic approach used the discriminator analysis.

Population in observation is the autonomous areas in Bengkulu province which have ten (10) regions, they are: Bengkulu city; North Bengkulu Regency, South Bengkulu Regency, Rejang Lebong Regency, Muko – muko Regency, Kaur Regency,

The middle of Bengkulu regency, Kepahyang Regency, Lebong Regency and Seluma Regency. In order to remember that all of the ten of regencies were not able to be the sample, it is because of the new autonomy areas and surely no data before OTDA, so that we took the sample using judgment sampling. The criteria of sample was autonomy areas that already have APBD report before OTDA and although after it enforced. Six regions as the last called constitute new autonomy region that is formed after the Law of OTDA until only four autonomy regions which reasonably to be observed, they are: Bengkulu City, North Bengkulu Regency, South Bengkulu Regency, and Rejang Lebong Regency.

Variable Operationalization

These are some variables of observation which are defined operationally and also use some measurement in each variables.

Table 1: Operationalization of Variables

Num.	Research Variables	Operational Definition	Measurement
1	Degree of decentralization fiscal	The Measurement that shows the degree of authority and responsible given by centre government to region government in excavating and obtaining the income	PAD:TPD BHPBP:TPD SPP : TPD
2	Autonomy ratio of region financial	The Measurement that shows how far the acceptance which come from the region in purpose to fulfill the region necessity.	PAD:TKD PAD:TKR PAD+BHPBP:TKD
3	The efficiency ratio of origin region income	The Measurement that shows the degree of efficiency from each of the utilization of region money in order to build the region.	TSA:TBD TPL:TBD
4	PAD Growth Ratio	The Measurement that shows how big the government region ability in maintaining and enhancing the success that already achieve from one period into next period	$RPADX_n - RPADX_{n-1}$: $RPADX_{n-1}$

Description:

RPAD = Actual Source Revenue (*Realisasi Pendapatan Asli Daerah*)

TPAD = Target Local Revenue (*Target Pendapatan Asli Daerah*)

$RPADX_n$ = Actual Receipts Local Revenue this year (*Realisasi Penerimaan Pendapatan Asli Daerah tahun ini*)

$RPADX_{n-1}$ = Actual Receipts Local Revenue prior year (*Realisasi Penerimaan Pendapatan Asli Daerah tahun sebelumnya*)

TSA = Total Time Budget (*Total Sisa Anggaran*)

TBD = Total Shopping Area (*Belanja daerah*)

TPL = Total Other Expenditures (*Pengeluaran Lainnya*)

SPP = Contribution of the central Government (*Sumbangan Pemerintah Pusat*)

PAD = Local Revenue (*Pendapatan Asli Daerah*)

TPD = Total Revenue Regions (*Total Penerimaan Daerah*)

TKD = Total Spending Regions (*Pengeluaran Daerah*)

TKR = Total Expenditure Routine (*Pengeluaran Rutin*)

BHPBP = Tax Sharing / Non-Tax (*Bagi Hasil Pajak/Bukan Pajak*)

To answer the purpose from the first observation until the fifth, we were using ratios of analysis: decentralization fiscal degree, ratio of autonomy finance, Efficiency PAD ration, effectiveness ratio and PAD growth ratio. To measure the degree of fiscal decentralization, the measurement is used as follows.

Table 2: Scale Of Interval Degree Of Fiscal Decentralization

PAD/TPD (%)	Autonomy of region financial
<10.00	Very less
10.01 – 20.00	Less
20.01 – 30.00	Enough
30.01 – 40.00	Average
40.01 – 50.00	Good
>50.00	Very Good

Source: Munir, 2004:106

In order to measure the autonomy in region, the sample used the size as follows:

Table 3: The Criteria Of The Measurement of Local Financial Independence

Percentage of PAD to Fund Balance	Regional Financial Independence
0,00 – 10,00	Better
10,01 - 20,00	Good
20,01 - 30,00	Fair
30,01 - 40,00	Average
40,01 - 50,00	Poor
> 50,00	Very Poor

Source : Tim Litbang Depdagri – Fisipol UGM, 1991

The effectiveness performance of region financial in each autonomy region is measured with criteria as follows:

Table 4: The Criteria of The Effectiveness of Financial Performance

RPAD : TPAD	Financial Performance Effectiveness
Up 100%	Highly Effective
90%-100%	Effective
80%-90%	Fairly Effective
60%-80%	Less Effective
Less than 60%	Not Effective

Source: Ministry of Home Affairs No.690900-327 1996

As for assessing the growth of an autonomous region that is used as a sample by using the following criteria:

Table 5: Growth Criteria of PAD

Growth	Criteria
<10%	Very Less
10%-20%	Less
20,01%-30%	Enough
30,01%-40%	Medium
40,01% - 50%	Good
>50%	Very Good

Source: Tangkilisan and Hessel (2005)

The purpose of the seventh study was using the discriminant analysis. As the given size is more than one variable so some discriminant models are used for selecting the best model. Discriminant analysis model is as follows:

$$D = b_0 + b_1X_{11} + b_2X_{12} + b_3X_{13} + b_4X_{14} + b_5X_{15}$$

where:

D is the discriminant scores before and after the OTDA

b1, b2, b3, b4 is the discriminant coefficient predictor variables X1, X2, X3, X4

X11 is an indicator variable degree of fiscal decentralization

X12 is an indicator variable ratio of financial independence

X13 is an indicator variable efficiency ratio of PAD

X14 is an indicator variable effectiveness ratio of PAD

X15 is variable and the ratio of revenue growth VI.

RESULTS AND DISCUSSION

The Degree of Fiscal Decentralization

The ratio of the degree of fiscal decentralization was using three indicators; firstly the ratio between area income with the total local revenue; second the ratio between the Tax Sharing and Non-Tax Revenue to Total Area and third; the ratio between the central government contribution to total local revenue. PAD. The higher the ratio of local revenue (PAD), means that local governments rely on it to cost regional development. Local government planned to use PAD in APBD as a financial source to support the development cost. On the contrary, the lower the ratio of PAD, means that local governments rely less on admission revenue to finance local development.

Referring to the results of such analysis in Table 6.1, it is known that before and after the OTDA in Bengkulu, South Bengkulu, Rejang Lebong and North Bengkulu, all of this places are categorized as places that has a very less financial capability. Based on three indicators, Bengkulu as one of the region has a worse condition based on fiscal decentralization measurements after OTDA. While all three other regions, namely South Bengkulu, Bengkulu Utara and Rejang Lebong tend to be better than before OTDA seen from PAD:TPD indicators. However, for two other indicators, they have the same conclusion that the post-OTDA has been worse.

The Increasing of PAD from year to year is not significant if this is compared with an increase of central government transfer or balanced fund. The big amount of leakage that happen to the PAD, as reported by some local media which have led to a relatively low contribution basis. It also indicates that the OTDA which gives wide breadth of the financial management areas were not able to significantly increase the contribution of PAD.

Table 6: The Degree Of Fiscal Decentralization

Region	Indicator	Before OTDA			After OTDA			Description
		Mean	Max	Min	Mean	Max	Min	
Bengkulu	1. PAD:TPD	9.39%	14.72%	4.26%	5.38%	7.59%	2.8%	Worse
	2. BHPBP:TPD	7.78%	10.74%	4.64%	5.47%	6.06%	4.69%	Worse
	3. SPP : TPD	75.88%	87.61%	64.54%	83.84%	92.40%	74.03%	Worse
for the category of financial capability, before and after OTDA in Bengkulu City is in the category of very less								
Bengkulu Selatan	1. PAD:TPD	3.42%	8.97%	0.90%	3.45%	6.00%	1.79%	Better
	2. BHPBP:TPD	9.93%	15.34%	7.26%	5.72%	10.03%	1.88%	Worse
	3. SPP : TPD	83.47%	88.62%	67.49%	87.80%	92.33%	80.79%	Worse
in the category of financial capability, Before and after OTDA Areas South Bengkulu is in the category of very less								
North Bengkulu	1. PAD:TPD	2.39%	2.63%	1.98%	3.72%	8.84%	2.06%	Better
	2. BHPBP:TPD	8.86%	10.74%	7.74%	5.91%	11.47%	1.89%	Worse
	3. SPP : TPD	85.75%	87.65%	83.19%	85.99%	95.14%	71.28%	Worse
in the category of financial capability, Before and after OTDA Areas North Bengkulu is in the category of very less								
Rejang Lebong	1. PAD:TPD	3.73%	4.55%	2.02%	4.10%	7.48%	2.71%	Better
	2. BHPBP:TPD	7.37%	11.27%	5.20%	5.09%	7.81%	3.65%	Worse
	3. SPP : TPD	86.25%	87.64%	83.61%	86.50%	91.02%	76.43%	Worse
in the category of financial capability, before and after OTDA Areas Rejang Lebong is in the category of very less								

Sources: Research Findings, 2013

The figures in Table 6 indicate that the general category of financial capability is very less. The low contribution of revenue was also due to one of the new autonomous regional expansion. For example, South Bengkulu has been divided into three autonomous regions, two of which are new autonomous regions, namely Seluma and Kaur. Rejang Lebong and North Bengkulu also have the same conditions. Kepahyang and Lebong separated from Rejang Lebong and Muko-Muko and The Middle of Bengkulu separated from North Bengkulu. However, this factor is not entirely true because in Bengkulu city who doesn't have a new autonomous region, its condition is worse than the condition of all three other areas. Bengkulu town which relies on the service sector and trade seems to have not been able to significantly improve the economic stretching by the City besides the leakage factor as described previously.

Ratio of Regional Financial Independence

Based on all three indicators, the Conditions of Bengkulu after OTDA indicate a worse condition if we compare it with the condition before OTDA. For South Bengkulu, the condition is better after OTDA especially for the 2nd and 3rd indicators, while for the first indicator suggests the same conclusion. For North Bengkulu, its financial independence after OTD is better for all three indicators. Meanwhile in Rejang Lebong, only indicator of PAD: TKD which indicates a better condition after the OTDA.

Table 7: Regional Financial Independence
 Regency/ City Indicators Before OTDA After OTDA Specification

Regency/City	Indicator	Before OTDA			After OTDA			Description
		Mean	Max	Min	Mean	Max	Min	
Bengkulu	1. PAD:TKD	9.98%	16.14%	4.43%	5.48%	7.27%	2.70%	Worse
	2. PAD:TKR	16.37%	26.43%	6.76%	7.09%	10.29%	3.47%	Worse
	3. (PAD+ BHPBP) : TKD	10.40%	16.80%	5.06%	7.46%	12.74%	2.84%	Worse
South Bengkulu	1. PAD:TKD	3.64%	9.92%	0.93%	3.36%	5.88%	1.63%	Worse
	2. PAD:TKR	5.45%	14.20%	1.22%	5.74%	17.02%	2.29%	Better
	3. (PAD+ BHPBP) : TKD	4.75%	11.61%	0.98%	5.10%	10.34%	1.75%	Better
North Bengkulu	1. PAD:TKD	2.35%	2.72%	2.01%	3.84%	9.92%	2.31%	Better
	2. PAD:TKR	4.20%	4.77%	3.65%	5.10%	12.73%	2.44%	Worse
	3. (PAD+ BHPBP) : TKD	4.77%	5.52%	4.34%	6.40%	10.56%	2.31%	Worse
Rejang Lebong	1. PAD:TKD	3.81%	4.65%	2.11%	4.21%	7.62%	2.92%	Better
	2. PAD:TKR	6.15%	7.62%	4.16%	5.44%	9.21%	3.61%	Worse
	3. (PAD+ BHPBP) : TKD	4.96%	5.65%	4.10%	4.84%	8.27%	2.99%	Worse

Sources: Research Findings, 2013

THE RATIO OF LOCAL REVENUE EFFICIENCY

There are two sizes that are used to look at the efficiency of PAD; first is the Total Expenditure Budget toward the total local budget and second is viewed from total Other Expenses to Total Expenses. In general, all four Areas/ City budget shows better efficiency than before OTDA. The main factor that causes the efficiency of the use of the budget is due to the use of performance-based budget and programs so not all of this be absorbed by the budget runs out.

There are two sides in measurement budget absorption, if observed from the side of absorption ability show the good size, but if we measure from the efficiency side of budget utilization it show that we can do budget saving to the next year. The other spending after OTDA incline smaller, because the budget items is already regulated until making the possibility that the budget item can be included in the other budget and pressed it become smaller.

Table 8: The Efficiency The Local Revenue

Regency/City	Indicator	Before OTDA			After OTDA			Description
		Mean	Max	Min	Mean	Max	Min	
Bengkulu	1. TSA:TBD	0.00%	0.00%	0.00%	1.58%	10.17%	-4.20%	Better
	2. TPL:TBD	5.48%	7.05%	3.83%	1.63%	4.78%	0.05%	Better
South Bengkulu	1. TSA:TBD	0.00%	0.00%	0.00%	2.59%	9.08%	0.00%	Better
	2. TPL:TBD	6.19%	11.50%	4.27%	3.02%	11.63%	0.10%	Better
North Bengkulu	1. TSA:TBD	0.00%	0.00%	0.00%	1.95%	19.60%	-12.34%	Better
	2. TPL:TBD	3.93%	4.47%	2.43%	4.58%	24.99%	0.04%	Worst
Rejang Lebong	1. TSA:TBD	0.00%	0.00%	0.00%	0.38%	2.75%	-1.32%	Better
	2. TPL:TBD	4.64%	5.04%	4.16%	2.89%	12.10%	0.16%	Better

Source: Observation Result, 2013

After the OTDA, in fact the fourth of autonomous areas show growth of PAD are better than before OTDA. Based on the existing size, South Bengkulu and North Bengkulu indicate the better growth, while Bengkulu city indicated the growth in average criteria and Rejang Lebong in passably criteria. The real sector growth and service is a little bit already help to push ahead PAD growth moreover with the each of OTDA in every head of region must be driven to increase PAD to fund RAPBD which already planned. But, the increase of that PAD not comparable with outcome increase which caused by some things; there are Civil Servants recruitment in a big amount that is not adjusted with the financial ability of the region, in-efficiency budget, and also some program which do not have priority based.

Table 9: Growth of The Local Revenue

Regency/City	Before OTDA			After OTDA			Description
	Mean	Max	Min	Mean	Max	Min	
Bengkulu	4.54%	70.30%	-41.36%	30.85%	96.97%	-10.17%	Better
Before OTDA Bengkulu City is categorized as Very Less, after OTDA is categorized in Average criteria							
South Bengkulu	-6.90%	52.17%	-50.20%	67.45%	545.60%	-24.91%	Better
Before OTDA South Bengkulu is categorized as very less, after OTDA it is categorized in Better							
North Bengkulu	20.11%	62.72%	-13.75%	69.36%	751.42%	-57.72%	Better
Before OTDA North Bengkulu is categorized as average, after OTDA it is categorized in Better							
Rejang Lebong	16.39%	107.36%	-37.00%	31.57%	137.63%	-19.01%	Better
Before OTDA in Rejang Lebong is categorized as Less, after OTDA it is categorized in average							

Source: Observation Result, 2013

Discrimination Analysis

If this refer to Wilks Lamda and Signification value (Tabel 10) it can be drawn that explanatory variable or predictor able to distinguish between OTDA before and OTDA after. Some of variable that is; fiscal decentralization degree, region financial autonomy ratio, PAD efficiency ratio, and PAD growth ratio. The degree of fiscal decentralization divided into three degree there are: PAD:TPD (X11), BHPBP:TPD (X12), and SPP: TPD (X13). Region financial autonomy ratio it divided into three degree: PAD:TKDSA:TBD (X31), and TPL: TBD (X32). PAD growth ratio only represented with one degree it seem from PAD growth compare with last year.

Table 10: Discriminant Function Test
Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.590	32.445	9	.000

Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	.695 ^a	100.0	100.0	.640

a. First 1 canonical discriminant functions were used in the analysis.

Source: Observation Result, 2013

The output above shows that canonical correlation value is 0,70 and there is a connection between variables that make difference between ratio before OTDA and after OTDA have a tight connection. The certainty of this model in classification before and after OTDA in each of observation is 82%. As for the discrimination function which make difference between before and after OTDA as follow:

$$D = 0,79X_{11} + 0,82X_{12} + 0,08X_{13} - 1,31X_{21} + 0,73X_{22} - 0,01X_{23} - 0,32X_{31} + 0,20X_{32} - 0,26X_{41}$$

The variable which significant to distinguish performance LKPD PEMDA regency/city in Bengkulu province is X12 Variable and X13, meanwhile if the degree of certainty is 90% is X12,X13,X22, and X32. From that similarity, it can be drawn that the four significant variables refer to positive coefficient so that, the four variables also refer to positive effect.

The significant variable for fiscal decentralization is X12 variable and X13 variable. X12 variable=BHPBP:TPD refer to the ratio average more less after OTDA, it is before OTDA with 8,5% average after OTDA with 5,6%. X13 Variable = SPP:TPD the average ratio is bigger after OTDA is 86% compare with 83% before OTDA. The autonomy variable financial only Variable X22 = PAD:TKR refer to the ratio average which lower after OTDA with total 6% it compare to 8% before OTDA. The last significant variable is

financial efficiency is $X32 = TPL:TBD$ refer to the average ratio which lower after OTDA that is 3% compare with 5% before OTDA. Coefficient discriminant function is calculated as follow: $((20 \times 1,272) + (48 \times -0,530))/2 = 25,44 - 25,44 = 0$.

CONCLUSION AND SUGGESTION

Conclusion

Based on the discussion in previous chapter, it can be taken some conclusion. First, the degree of fiscal decentralization after OTDA is worse than before OTDA and the financial ability is in the less category, whether is before OTDA although after OTDA. Both of financial autonomy to South Bengkulu, North Bengkulu, and Rejang Lebong is tend to be better than before OTDA, meanwhile Bengkulu city tends to be worse after OTDA. Thirdly efficiency in the fourth PAD organized by Regency/City tends to be better than before OTDA. Fifthly, ratio of PAD growth tends to be better than before OTDA, and it generally refers to average category until become a better category. Sixthly, there is a space of four variable that distinguish LKP performance in Government city/regency in Bengkulu province as follow: $X12$ (BHPBP:TPD), $X13$ (SPP : TPD), $X22$ (PAD:TKR), and $X32$ (TPL:TBD).

Suggestion

The height of the dependency of local regency government in Bengkulu province especially in Bengkulu city government centre and also in south Bengkulu, North Bengkulu and Rejang Lebong, even from the data that donation from government centre have bigger contribution after OTDA. Contribution average PAD only 2% until 9% from the total of region output. In that financial condition, it needs an effort from the side of increasing income as well as from the side of spending efficiency. The PAD growth is still low because of many things namely; the potential sources for PAD which are not explored optimally and the realization of PAD target that is still lack. As though local media reported that there were found other fact which indicated the PAD leakage. As of the acceptance side it needs an effort and together commitment to increase PAD in each region start from Regent/Mayor until the existed government officers who directly involved in PAD reaping. From side of outlay, the City/regency Government must try to optimize all the civil servants and do not do a recruitment in a very short time. Except done with the purpose to avoid leak and budget inefficiencies, for example the budget is based from priority program, they must decrease the official trip which is not essential. The Low of LKPD financial performance which is described from discriminant analysis in the way to show some main variables does not have differences between before and after OTDA. This condition explained that OTDA's main mission to increase the society welfare and the public service is not reached. After all, this condition makes a big warning for autonomous areas to prepare in all of aspects, especially in effort to optimize APBD in each region which has value for money orientation.

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Ownership Structure and M&A Long-Term Performance

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Abstract

This study investigates the influence of diversification and ownership structure on long-term post-merger operating performance of acquirers. The findings reveal that there is evidence of long-term negative by acquirers. The ownership structure variables reveal no observable significant influence on the operating performance measures. There is an evidence of a negative relationship at higher substantial shareholder ownership levels. However, I do not find any evidence of interaction effects between the ownership structure variables and acquirer firm long-term post-merger performance.

Key Words: Merger and acquisitions, long-term performance

1. INTRODUCTION

Evaluating the bidder firms that engaged in merger and acquisitions (M&A) activities based on operating performance through the use of accounting information provides additional insight into the long-term performance of M&A activities especially in the Australian setting. Sharma and Ho (2002) reports a decline in post-merger operating performance, while recently Lau, Proimos and Wright (2008) report some evidence of improvement in industry-adjusted profitability, cash flows, efficiency and leverage measures, which are consistent with the international findings such as by Dutta and Jog (2009) and Healy, Palepu and Ruback (1992).

2. LITERATURE REVIEW

Mandelker (1974) pioneered the study on long-term M&As performance that incorporated a large sample with a stock return model. Later, followed by other researchers (Brown & Da Silva Rosa, 1998; Gregory, 1997; Langetieg, 1978; Loughran & Vjih, 1997; Moeller, Schlingemann & Stulz, 2004), which concluded that their findings are consistent with the efficient markets hypothesis. On the other hand, studies by Healy, Palepu and Ruback (1992) and Manson et. al. (2000) found that the cash flow operating returns for both targets and bidders of UK firms improved in the five years following mergers, which lends support to the notion that M&A activities are capable of improving firm performance.

The studies on the relationship between concentrated ownership and firm performance have been very encouraging. It is suggested that ownership structure has a significant impact on firm performance (B. S. Black, Jang & Kim, 2006; C. R. Chen, Guo & Mande, 2003; J. Chen, 2001; Denis, Denis & Sarin, 1997; Durnev & Kim, 2005; Gorton & Schmid, 2000; La Porta, Lopez-de-Silanes & Shleifer, 2002). As the ownership stake increases, the block-holders have greater incentives to increase firm value and to monitor management than do dispersed shareholders.

Also, concerted actions by large shareholders are easier to undertake than by small shareholders. That is, large investors have both an interest in getting their money back and the power to demand it. Thus, ownership concentration can be a solution to agency problems and improve firm performance.

However, there are some evidence that indicates an insignificant or even negative influence of concentrated ownership, such as by Demsetz (1983), Demsetz and Lehn (1985), Holderness and Sheehan (1988), and Mulari and Welch (1989). They do not find any evidence of a significant relation between this type of ownership and firm value. They also suggests that there is no difference between firms with concentrated owners and those with dispersed owners.

The recognition of insider ownership as a tool for agency cost reduction was documented by Holderness et al. (1999), Kesner (1987), Kim and Lyn (1988) and Leech and Leahy (1991). They prove that managerial ownership is positively related to performance indicators. Nonetheless, Demsetz (1983) and Fama and Jensen (1983), through the entrenchment hypothesis, argue that a manager who controls a substantial fraction of the firm's equity may have enough voting power to guarantee his employment and may indulge his preference for non-value-maximizing behaviour. On the other hand, Demsetz (1983), Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) argue that ownership structure is an endogenous outcome of competitive selection and conclude that there is no relation between ownership structure and profitability. Alternatively, some researchers view this relationship as being 'non-linear' (Grinblatt & Titman, 1989; Han & Suk, 1998; Holderness, Kroszner & Sheehan, 1999; McConnell & Servaes, 1990; Morck, Shleifer & Vishny, 1988; Short & Keasey, 1999).

The recent trend of increasing institutional ownership (pension funds, mutual funds, insurance companies, and banks) in Australia and USA has encouraged the further development in research on this type of ownership structure and to examine its impact on firm performance (Gillan & Starks, 2000). These statistics were confirmed by Black and Kirkwood (2010) and Duggal and Millar (1999), which identified that the institutional investors may hold up to 50% and 46.5% of the outstanding common stocks in Australian and USA capital markets respectively. McConnell and Servaes (1990) find a significantly positive relation between firm value and the percentage ownership held by outside blockholders. Parrino, Sias and Starks (2003) find support for their argument that institutional investors will sell shares when there are not satisfied with firm's management performance, but also find limited support that some institutional investors abandon the stocks because they believe that governance structures make direct action too costly. Seifert, Gonenc and Wright (2005), however, do not find a consistent relationship between institutional ownership and firm performance across different countries (United States, United Kingdom, Germany and Japan). While, Cornett et al. (2007) and Bhattacharya and Graham (2009), in their analysis, indicate the existence of a positive relation between institutional investors and a firm's performance in USA market and Finland market respectively .

A great deal of evidence shows that conglomerates reduce firm's value. Morck, Shleifer and Vishny (1990) and Byrd and Hickman (1992), finds that the stock price reaction of bidders is significantly higher in acquisitions where the bidder and target firms have the same SIC code than in unrelated mergers. Consistent with agency theory, past studies (Amihud & Lev, 1981; Denis, Denis & Sarin, 1997) have shows that, higher managerial and institutional ownership being associated with reduced levels of diversification. Explicitly, when managers become subject to monitoring or control (by blockholders, lenders or threatening acquirers), they change their strategy towards diversifiable risk and reduce diversification (Berger & Ofek, 1999; Villalonga,

2004) . Briefly, if there is value loss (poor performance) associated to diversification and agency costs, then firm with high managerial (block-holder) ownership will not experience value loss associated to diversification higher in contrast to firms with low managerial (block-holder) ownership. In addition, when there is an institutional monitoring function present to mitigate the agency costs, the firm will experience even lower loss associated with diversification.

In sum, the empirical results show that there is mixed evidence about the value of business combinations for the acquiring company. The type of mergers, whether focused or diversifying mergers, exhibit superior long-term performance is still a debated issue among researchers. On the other hand, ownership structure variables (BOD ownership, substantial ownership and institutional ownership) have been recognised as one form of agency cost reduction tool. However, at higher levels of BOD ownership and substantial shareholder ownership there is evidence of negative effects on firm performance. Thus, many of the discrepancies in the existing studies may be explained by the unique characteristics of firms, different sample periods and the methodologies employed in each of the studies themselves (Barber & Lyon, 1997; Gregory, 1997; Healy, Palepu & Ruback, 1992; Lyon, Barber & Tsai, 1999). Nonetheless, little has been done to study the implication of ownership structure variables and merger type on the outcome of the long-term post-merger performance, which this study will address.

3. METHODOLOGY

This study investigates the influence of diversification and ownership structure (BOD ownership, outside substantial ownership and institutional ownership) and its interaction effect on long-term post-merger operating performance of Australian acquirers. The process of samples selection involves a number of stages. Firstly, all completed M&A announcements that have reported deal values by firms listed on the Australian Securities Exchange (ASX) are considered. These initial samples are collected from the Bureau Van Dijk (Zephyr Database) and Thomson One Banker Deals database (formerly SDC Platinum) over the period from the 1st January 1997 – 30th June 2009. I choose the June 2009 as cut-off in order to provide 3 years of data for each firm after the initial announcement to measure post-merger performance. From those initial populations, I then applied filters as follows:

- The transaction is completed/successful.
- Method of payment is disclosed
- The percent of shares acquired in the deal is 50% or higher, to focus on significant change in control transaction.
- The acquirer has not engaged in another bid within study period. This ensures no firm appears more than once in our portfolios at any point in time.

Then ownership information was hand collected from firms' annual reports. I rely upon the Morningstar DatAnalysis database as the initial source of annual reports. For the missing annual reports, I cross check with the Oriana and Osiris databases provided by Bureau van Dijk Electronic Publishing, and also with Australian Securities Exchange website. The data on firm size and other annual accounting data are obtained from Thomson Financial DataStream.

Summary statistics for the sample are provided in Table 1. Panel A provides information about the individual acquirers, as well as several deal characteristics that are included as cross-sectional variables in the analysis. Sample construction involved several strategies as described above. From the Zephyr database a total of 2,017 completed mergers between January 1, 1997 and Jun 30, 2009 were identified. Of these deals, 512 involving foreign acquirers were exclude. From the remaining deals, I also exclude 329 Australian Proprietary Limited (Pty Ltd) acquirers and 355

acquisitions involving bidding firm with incomplete ownership structure information. Finally, this study is left with 821 sample acquirers.

The observation shows that the number of deals increases from year 2000 onwards, however, the average value of those deals fluctuates from year to year. In term of numbers (Panel B), most of the merger deals are in the services, mining and manufacturing industries, which is consistent with the industrial landscape in Australia. However, in terms of dollar value, mining and holding and other investment offices are dominant industries in merger activity during the study period. Lastly, the majority of merger activity involved Australian target firms, with lowest average transaction of AUD107.508 million indicating involvement of small target firms (Panel C).

Table 1 - Panel A: Sample construction and transaction value (over 1997–2009)

Year	No. of completed Australian M&A announcements	No. of Foreign acquirer	Australian Proprietary Limited (Pty Ltd) acquirer	Australian Public Limited acquirer	No. of completed M&A with governance information	Total transaction value (th. AUD)	Avg. transaction value (th. AUD)
1997	20	13	1	6	2	256,113.65	128,056.83
1998	24	14	4	6	3	80,634.17	26,878.06
1999	40	25	1	14	8	1,339,730.78	167,466.34
2000	129	39	14	76	39	414,593.75	10,630.61
2001	139	44	16	79	49	19,220,178.08	392,248.53
2002	133	41	16	76	38	1,934,352.12	50,904.01
2003	218	42	33	143	95	7,938,597.50	83,564.18
2004	236	57	36	143	101	5,785,210.49	57,279.31
2005	239	47	51	141	98	9,775,125.09	99,746.17
2006	218	51	40	127	93	16,097,899.25	173,095.69
2007	317	73	60	184	132	20,071,119.08	152,053.93
2008	223	42	43	138	126	18,225,032.73	144,643.12
2009*	81	24	14	43	37	2,067,449.21	55,877.01
Total	2,017	512	329	1,176	821	103,206,036	125,707.72

Note: * until end of Jun 2009

Panel B: Transactions by acquirer's primary SIC code

	Transactions		Avg. Transaction value (th. AUD)	Total transaction	
	No.	%		(th. AUD)	%
01-09 Agriculture, Forestry, & Fishing	4	0.49	32,279.31	129,117.32	0.13
10-14 Mining	196	23.87	121,040.98	23,734,031.28	22.99
15-17 Construction	21	2.56	48,596.98	1,020,536.66	0.99
20-39 Manufacturing	144	17.54	69,907.25	10,066,644.36	9.75
40-49 Transportation & Public Utilities	66	8.04	198,565.26	13,105,307.18	12.70
50-59 Trade	46	5.60	137,205.64	6,311,459.68	6.11
60-64 Finance & Insurance	38	4.63	412,491.70	15,674,684.53	15.19
65 Real Estate	17	2.07	119,014.38	2,023,244.49	1.96
67 Holding & Other Investment Offices	82	9.99	239,804.08	19,663,934.82	19.05
70-89 Services	207	25.21	55,493.12	11,487,075.74	11.13
Total	821	100.00	125,707.72	103,206,036	100.00

Panel C: Transactions by targets country

Country	# of Transactions	Total transaction value (th. AUD)	Avg. transaction (th. AUD)
Australia	652	70,095,435.65	107,508.33
New Zealand	18	6,494,046.62	360,724.81
United Kingdom	42	17,496,988.86	416,594.97
US	38	5,800,732.92	152,650.86
Others	71	3,318,832	46,744.11
Total	821	103,206,036	125,707.72

In this study, I adopt the method introduced by Healy, Palepu and Ruback (1992). Similar to Healy, Palepu and Ruback (1992), this study defines operating cash flow (*OCF*) as operating income plus depreciation and goodwill amortization or, in other words, EBITDA. This measure is then deflated by the market value of assets, which is the firm market capitalization plus the book value of net debt. They argue that this measure will ensure the *OCF* is free from accounting methods, tax policy or the method of acquisition financing bias, making it easy to compare traditional accounting returns of the acquirer firms over time and cross-sectionally.

Besides that, this study also will look at different measures in an attempt to identify the sources of synergy from mergers and acquisitions. This is based, firstly, on a profitability indicator, using the return on assets (*ROA*) and return on equity (*ROE*) ratios; second, an indicator of revenue enhancement represented by the total revenue over total assets ratio; and, lastly, a cost saving indicator through examining the variation in selling, general and administrative expenses. The first two profitability measure are also used by Sharma and Ho (2002) and Lau, Proimos and Wright (2008), while the last two variables are additional proxies for operational efficiency and cost saving measurement. Lau, Proimos and Wright (2008) argue that these measures are relevant to shareholders as they may affect the risk and return of merged firms and “they are also cited by management as potential benefits of recommended mergers” (p.172). The performance determinants and their definitions can be summarized as follows:

Table 2: The definition and source of each variable in this study.

No.	Variables	Explanations	Availability
1.	Acquirer Assets (<i>Tsize</i>)	The book value of the firm’s assets as of the most recent annual report prior to the announcement but not more than twelve months prior.	Data Stream
2.	Relative Size (<i>RelSize</i>)	The size of the target total assets relative to that of the acquirer total assets.	Data Stream
3.	Book-to-market equity (<i>Ab/m</i>)	The book to market ratio of the acquirer. Calculated immediately prior to the merger announcement and on a yearly basis. [Cohen, Polk, and Vuolteenaho (2003)]	Osiris
4.	Industry match dummy (<i>Focus</i>)	Dummy variables. An indicator variable equal to 1 if acquirer and target have same two-digit SIC codes.	Zephyr
5.	Cross Border Targets (<i>Cb</i>)	Dummy variables. The value is 1 if the target is from outside Australia and 0 otherwise.	
6.	Payment dummy (<i>Cash</i>)	Transaction payment mode- Cash or others. The value is 1 for cash only payment and 0 for other payment forms.	Zephyr and SDC
7.	Block-holder Ownership (<i>SubsOwn</i>)	The total percentage ownership by outside block-holder investors with 5% or more shares (excluding managerial ownership and institutional ownership if any) as reported at the end of the most recent financial year prior to the announcement.	DatAnalysis

8.	Managerial Ownership (<i>BodOwn</i>)	Managerial ownership defined as the combined ownership of all officers and directors as reported at the end of the most recent financial year prior to the announcement. [Stulz et al. (1990), Song and Walkling (1993), Bauguess et al. (2009)].	DatAnalysis
9.	Institutional Ownership (<i>InstOwn</i>)	The percentage ownership of professional investment managers and financial institutions as reported in the top 20 shareholder at the end of the most recent financial year prior to the announcement.	DatAnalysis
10.	Operating Cash Flow (<i>OCF</i>)	Operating income plus depreciation and goodwill amortization, then deflated by the market value of assets.	Data Stream
11.	Return on Assets Ratios (<i>ROA</i>)	Operating profit divided by average total assets	Data Stream
12.	Return on Equity Ratios (<i>ROE</i>)	Operating profit divided by average shareholders' equity	Data Stream
13.	revenue (<i>REV</i>)	Total revenue divided by average total assets	Data Stream
14.	Selling, General and Administrative Expenses (<i>ADM</i>)	Selling, general and administrative expense divided by sales	Data Stream

Each of the performance determinants will be calculated for six years, three years pre-merger (year -3, -2, -1) and three year post-merger (year +1, +2, +3). Each of the acquirer firms' performance determinants will then be adjusted on a yearly basis by the median industry value based on the firms' SIC codes (Ghosh, 2001; Healy, Palepu & Ruback, 1992) to create industry-adjusted operating performance measures. The processes of creating industry benchmarks are done manually since industry performance benchmarks are not available in Australia. Specifically, each year all Australian Securities Exchange listed firms are divided according to their respective 2-digit SIC industry group for median performance calculation. The acquirer firms are then matched based on the industry of the acquirer at the time of acquisition to their respective industry performance benchmarks for industry-adjusted operating performance calculation. Then, I used the mean difference approach (Healy, Palepu & Ruback, 1992; Sharma & Ho, 2002) to detect differences in pre- and post-merger operating performance, using two-tailed t-statistics to test whether there are significant differences between pre-and-post mergers mean industry-adjusted performance of the acquirers. Furthermore, I will employ multivariate regression models, as in Equations 1- 3 below, to test whether the difference in the industry-adjusted post-merger operating performance is related to the merger diversification strategy and ownership structure characteristics. This section of analysis will provide further evidence regarding whether acquisitions are economically efficient in the long-term, and consistent with the proposition of acquisitions generating positive synergy benefit for acquirers, which will manifest through improvements in operating cash flow, *ROA* ratio, *ROE* ratio, revenue and/or cost saving indicator variables.

$$Performance = f(Ownership\ structure, Diversification, Control\ Variables)$$

$$\begin{aligned}
 Perf = & \beta_1 Cb_t + \beta_2 Cash_t + \beta_3 Focus_t + \beta_4 Tpublic_t + \beta_5 Tsize_{t-1} + \beta_6 Asize_{t-1} \\
 & + \beta_7 Ab/m_{t-1} + \beta_8 RelSize_{t-1} + \beta_9 BodOwn_{t-1} + \beta_{10} SubsOwn_{t-1} \\
 & + \beta_{11} InstOwn_{t-1} + \varepsilon_i
 \end{aligned} \tag{1}$$

Ownership structure variables and control variables are determined at the end of previous financial year, in order to examine the influence of those variables on the acquirer post-merger

performance outcomes. Equation (1) is intended to test the direct effect of individual ownership structure variables on the acquirers' long-term performance. Meanwhile, Equation (2) will incorporate the non-linear relationship specification for the BOD shareholding and outside substantial shareholding variables. However, I do not hypothesize any non-linear specification for the relationship between institutional ownership and acquirer firm long-term performance (Henry, 2008). The following specification adopts this approach:

$$\begin{aligned}
 \text{Perf} = & \beta_1 \text{Cb}_t + \beta_2 \text{Cash}_t + \beta_3 \text{Focus}_t + \beta_4 \text{Tpublic}_t + \beta_5 \text{Tsize}_{t-1} + \beta_6 \text{Asize}_{t-1} \\
 & + \beta_7 \text{Ab/m}_{t-1} + \beta_8 \text{RelSize}_{t-1} + \beta_9 \text{BodOwn}_{t-1} + \beta_{10} \text{SubsOwn}_{t-1} \\
 & + \beta_{11} \text{InstOwn}_{t-1} + \beta_{12} \text{BodOwn}_{t-1}^2 + \beta_{13} \text{SubsOwn}_{t-1}^2 + \varepsilon_i
 \end{aligned} \quad (2)$$

To conduct the investigation of the interaction effect between type of merger (focus or diversification) and ownership structure on the acquirer firm long-term performance, this study employs regression equation (3). It is less likely for moderating effects to be identified at high levels of BOD or substantial shareholder ownership because of entrenchment effects and less effective monitoring, so the interaction effects are only expected to be present at lower ownership levels. As a result, interaction terms incorporating the squared ownership variables are not included in equation (3).

$$\begin{aligned}
 \text{Perf} = & \beta_1 \text{Cb}_t + \beta_2 \text{Cash}_t + \beta_3 \text{Focus}_t + \beta_4 \text{Tpublic}_t + \beta_5 \text{Tsize}_{t-1} + \beta_6 \text{Asize}_{t-1} \\
 & + \beta_7 \text{Ab/m}_{t-1} + \beta_8 \text{RelSize}_{t-1} + \beta_9 \text{BodOwn}_{t-1} + \beta_{10} \text{SubsOwn}_{t-1} \\
 & + \beta_{11} \text{InstOwn}_{t-1} + \beta_{12} \text{BodOwn}_{t-1}^2 + \beta_{13} \text{SubsOwn}_{t-1}^2 + \beta_{14} \text{Focus}_t * \text{BodOwn}_{t-1} \\
 & + \beta_{15} \text{Focus}_t * \text{SubsOwn}_{t-1} + \beta_{16} \text{Focus}_t * \text{InstOwn}_{t-1} + \varepsilon_i
 \end{aligned} \quad (3)$$

4. EMPIRICAL RESULTS

The results show that acquirer have experience statistically significant negative performance during the seven-year period surrounding mergers across all industry-adjusted benchmarks (Table 3), however the performances are getting better after firms undertook merger activity. The acquirers industry adjusted pre-and post-merger performance differences are 0.037, 0.036 and 0.033 for the *OCF*, *ROA* and *ROE* variables respectively. This results support the findings by Lau, Proimos and Wright (2008), which have found that the *OCF*, *ROA* and *ROE* of Australian merger have improved, based on the same-industry-firms as benchmarks. However, these results are in contrast with Sharma and Ho (2002) finding, which using much earlier Australian data. Further analysis shows that the acquirers also have achieved significant improvement over the three-year period after mergers based on the results for the three-year post-merger compared to the performance during the merger years by 0.025 (t-test = 1.671), and 0.079 (t-test = 1.852), according to the *OCF* and *ROE* performance indicator respectively.

Table 3: Operating Performance during the Pre- and Post-merger Period

Year relative to M&A	OCF	ROA	ROE	REV	ADM
-3	-0.242***	-0.104***	-0.103***	0.115***	0.011***
-2	-0.230***	-0.112***	-0.118***	0.136***	0.009***
-1	-0.212***	-0.117***	-0.094***	0.169***	0.010***
0	-0.199***	-0.087***	-0.140***	0.157***	0.008***
1	-0.202***	-0.088***	-0.064***	0.166***	0.009***
2	-0.197***	-0.074***	-0.097***	0.152***	0.011***
3	-0.174***	-0.065***	-0.061***	0.144***	0.008***
Pre	-0.228***	-0.112***	-0.109***	0.141***	0.010***
Post	-0.192***	-0.076***	-0.076***	0.154***	0.009***
Post-pre difference	0.037***	0.036***	0.033**	0.013	-0.002
Three-year post-merger difference	0.025*	0.022	0.079*	-0.013	0.000

Industry adjusted cash flow to total asset (*OCF*) - the average difference of cash flow to total asset between the acquiring firm and industry median for a given year relative to the acquisition year. Industry adjusted return-on-assets (*ROA*) - the average difference in the return-on-assets between the acquiring firm and industry median for a given year relative to the acquisition year. Industry-adjusted return-on-equity (*ROE*) - the average difference in return-on-equity between the acquiring firm and industry median for a given year relative to the acquisition year. Industry-adjusted revenue-to-total assets (*REV*) - the average difference in the revenue-to-total assets between the acquiring firm and industry median for a given year relative to the acquisition year. Industry-adjusted selling, general & administrative expense-to-revenue (*ADM*) - the average difference in the selling, general & administrative expense-to-revenue between the acquiring firm and industry median for a given year. Post-acquisition - the average of industry-adjusted operating performance variables during post-acquisition period (year +1, +2 and +3). Pre-acquisition - the average of industry-adjusted operating performance variables during pre-acquisition period (year -1, -2 and -3). Three-year post-merger difference - the difference of operating performance variable between merger year and three-year post-merger performance. t-statistics and significance level are reported for each mean difference. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels respectively.

Based on 36-month multivariate regression results in Table 4, the acquirers that merge with overseas targets do not achieve any significant operating performance changes, except the Cross-border variable in the *ADM* model registering coefficient values of 0.015 (t-test = 4.04). This result indicates that bidding firm *ADM* ratios are 0.015 higher if they are involved in cross-border acquisitions compared to *ADM* ratio for firms involved in domestic acquisitions. These results, to a certain extent, support the findings of Dos Santos, Errunza and Miller (2008) that international diversification does not destroy firm values, as they also do not find any statistical significant changes in Tobins-q and sales levels of their sample firms.

The results of Cash variable indicate that bidding firm *OCF*, *ROA* and *ROE* ratios are higher if they are involved in cash finance acquisitions compared to the firms involved in script finance acquisitions. These results are consistent with findings of positive relationship between cash finance merger and firms operating performance, such as by Lau, Proimos and Wright (2008) for Australian merger, while Healy, Palepu and Ruback (1992) for US merger.

Target Public variable shows significantly negative coefficients with -0.054 (t-test = -2.27), -0.116 (t-test = -2.71) and -0.101 (t-test = -2.73) in the *OCF*, *ROE* and *REV* models respectively. An indication of public target acquirers has experience lower operating performance compared to private target acquirers during the period of three-year after mergers. However, all Focus merger and Target size coefficients in this regression table are not significant, which suggest that the

focus merger or size of target is not an important determinant of long-term acquirer operating performance.

Table 4: Multivariate Regressions (Model 4) of Post-Merger Operating Performance

3 Year	OCF	ROA	ROE	REV	ADM
Cross border	-0.045	-0.020	-0.037	-0.051	0.015***
Cash	0.062***	0.074***	0.106**	0.062	-0.002
Focus	-0.064	0.080	0.091	0.051	-0.005
Target public	-0.064***	-0.028	-0.078*	-0.067*	0.001
Ln(Target TA)	0.008	0.005	0.001	0.003	0.001
Ln(Acquirer TA)	0.038***	0.041***	0.087***	0.014	-0.001***
Acquirer B/M	-0.016	0.027*	0.065**	-0.046*	-0.001
Relative size	0.001	-0.000	0.003	-0.003	-0.001**
BodOwn	0.006	-0.001	0.106	-0.019	0.011
SubsOwn	0.244	0.099	0.166	-0.109	0.002
InstOwn	0.034	0.050	0.014	-0.244	0.012
BodOwnsq	0.254	0.210	-0.048	0.326	-0.038
SubsOwnsq	-0.419*	-0.134	-0.517	0.075	-0.009
Focus*BodOwn	0.122	-0.043	0.004	0.005	0.005
Focus*SubsOwn	0.163	0.024	0.208	0.143	0.005
Focus*InstOwn	0.047	-0.078	-0.299	0.103	-0.004
Constant	-0.695***	-0.675***	-1.180***	-0.007	0.062***
Adj. R ²	0.131	0.151	0.122	0.015	0.081

*** p<0.01; ** p<0.05; * p<0.10 two tailed

There is a consistent positive relationship between operating performance and acquirers' size. The results indicate that the Acquirer size variable registers highly significant coefficient in the *OCF*, *ROA*, *ROE* and *ADM* models, with unit changes in the size increasing performance by 3.8 percent, 4.1 percent, 8.7 percent, and lowering the cost ratio by 0.5 percent respectively. On the other hand, the relationship between operating performance and acquirers' book-to-market value are inconsistent. The results show a unit changes in acquirer B/M increasing in *ROA* and *ROE* by 2.7 percent and 6.5 percent respectively, but lowering the revenue by 4.6 percent.

The variable representing the relative size between target and acquirer firms do not show any significant influence on operating performance, except in *ADM* model as evidenced by the variable coefficients of -0.001 (t-test -1.98). Here, the firms will experience marginal positive effect of target size, which is the bigger the target firms, the lower the operating costs for acquirers.

The *SubsOwn* variable produced positive coefficients but which were not statistically significant. On the other hand, at higher levels of substantial ownership, as indicated by the squared term for the *SubsOwn* variable, shows a statistically significant influence on *OCF* as indicated by the coefficient values of -0.419 in the 3-year post-merger performance. This result indicates that, at higher levels of substantial ownership, which is more than 29.12 percent, the acquirers will experience adverse operating cash flow effects. This finding can be interpreted as the acquirer

firms' value first increases when shareholdings by blockholders increase which help to align the interests of shareholders and blockholders to focus on maximizing acquisition and wider firm value. However, firm value then declines as substantial shareholder ownership exceeds an optimal level, representing a manifestation of agency problems (Demsetz, 1983; Fama and Jensen, 1983) and entrenchment effects (Morck, Shleifer and Vishny, 1988), and expropriation and self-serving merger motives from these shareholders surpassing any monitoring or synergy-creation benefits associated with mergers. This finding supports the Yen and André (2007) findings of non-linear relationship between concentrated ownership and the level of post-merger operating cash flow among firms from English-origin countries.

Neither the *BodOwn* variable, nor its squared term, enters the models significantly in any instance. This is not necessarily surprising, as previous literature also fails to provide evidence of a linear or non-linear relationship between BOD ownership and merger firm performance, such as Loderer and Martin (1997) and Duggal and Millar (1999). Support can also potentially be extended to the findings of Denis, Denis and Sarin (1997), Craswell, Taylor and Saywell (1997), Demsetz and Villalonga (2001) and Mak and Li (2001), which provide no statistical evidence of linear or non-linear relationships between BOD ownership and wider firm value measures. This finding, however, is in contrast with those of Morck, Shleifer and Vishny (1988), McConnell and Servaes (1990), and Henry (2008) which report significant relationships between BOD ownership and wider firm value measures.

Similarly, no substantial evidence is found to support a relationship between institutional investors and acquirer market performance over the period from 1997 to 2009, with the *InstOwn* coefficient not being significantly related to acquirer abnormal returns calculated using the *OCF*, *ROA*, *ROE*, *REV* and *ADM* benchmarks respectively. These findings support the non-significant influence of Australian financial institutions on firm performance in general observed by Craswell, Saywell and Taylor (1997). However, it is in contrast with Duggal and Miller (1999) which finds a positive relation between bidder gains and institutional ownership, and much of the wider firm performance/value literature such as McConnell and Servaes (1990), Short and Keasey (1997), Han and Suk (1998) and Henry (2008).

However, I fail to find any significant interaction effects between the ownership structure variables and acquirer firm performance over the 3-year post-merger horizon, suggesting an absent of complementary or substituting effect among them to the long-term post-merger performance. The explanatory power of the operating performance regression models is highest with adjusted R^2 values of 15.10 percent in explaining the variability of *ROA*. While the lowest adjusted R^2 values are 1.5 percent in the model explaining *REV*.

5. CONCLUSION

The long-term performance analysis show consistent negative performance during the seven-year period surrounding mergers announcement. A possible explanation for this result could be because the integration costs involved exceed the synergistic gains from M&A, or as a result of hubris infected managers on the merger-auction process as discussed by Roll (1986), Jensen (1986) and Lang, Stulz and Walkling (1991).

The *BodOwn*, *SubsOwn* and *InstOwn* variables reveal no observable significant influence on the *OCF*, *ROA*, *ROE* and *REV* respectively. While there is also no indication of a non-linear relationship between the ownership structure and operating performance variables, except the squared term of *SubsOwn* coefficient (*SubsOwnsq*), an evidence of a non-linear relationship

between substantial shareholder ownership and performance, which is consistent with a negative relationship at higher substantial shareholder ownership levels. However, I do not find any evidence of interaction effects between the ownership structure variables and acquirer firm long-term post-merger performance.

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Spiritual Company as a Company Culture for Competitive Advantage of the Company

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ABSTRACT

Nowadays, globalization makes many companies force a big competitive. Many companies can survive in the competitive global world today if they always do innovation and have certain competitive advantages. The competitive advantage of a company will also make the company more effective than its competitors. This paper focuses on organizational culture as a competitive advantage. Organizational culture is a fundamental importance in a company. This was corroborated by the opinion of Mark Vernon (2011) that the culture puts a crucial role in a variety of business activities. In order for a company be able to have a superior competitive advantage, it is necessary to have good organizational culture in which it will have a positive impact on the company. One of the organizational culture which is used as a solution that is spiritual company. The purpose of this paper is capable of forming a company to know the spiritual culture of an organization is effective for a company, and find out the reason why the company can survive in the competition by spiritual culture. Spiritual formation as a company within a company's organizational culture is inseparable from the role of leader. Here, the role of the leader is very important to establish a culture of spiritual company to be able to be applied in business activity during the company operates. After formulation spiritual formed company, there needs to be outreach to all elements of the organization in it so that all can understand and implement the culture in their daily activities, company hoped a positive impact on the company in the form of better corporate performance. So it becomes a powerful competitive advantage for a company in the competitive industry.

Keywords: Advantage, Company, Spiritual, Cultural, Industry.

1 INTRODUCTION

Globalization led to a huge change on human civilization, as in the case of science, technology, and does not escape also in the business field. With globalization, the world market is growing. World such as moringa leaves, very narrow where merchandise from abroad can easily get around us. This further makes the industrial area

in fierce competition to exist. Rossenfield, et al, (1997) stated that in this era of globalization every organization should formulate its strategy in the global koneks. Many companies conduct a variety of strategies to develop their competitive edge to survive in the midst of competition. It is important to remember that companies that rely on competitive advantage in the form of physical resources, would be very easy to imitate imitators even be more severe than the initial creator. Whereas innovators of course the cost is not small. Of course it is very detrimental to the company. Therefore, companies need to think about non-physical resources are able to be a competitive advantage, such as that delivered by Endah in his article, that the physical resources will be more easily replicated, while the intangible resource is difficult to imitate. One of my sources of organizational culture that is non-physical. In this case emphasized that it is necessary to create a good organizational culture to be able to be culture's organizations are powerful and effective for the company.

In view of RBV or Resource-Based View, the resources owned by the company is more important than the structure of the industry in gaining competitive advantage. This model focuses on the development of resources and capabilities are valuable, that are difficult or impossible to imitate by competitors. The resources in question here is the resources both physical and nonphysical. Nonphysical resource that is emphasized here is the human resource, something that suits imitated by competitors. Currently very important to understanding human resources in the face of global competition (Pakaya, 2011). Management of human resources will be related to organizational culture as they do business activities with reference to organizational culture embraced Padda. And on the development of organizational culture do this is to gain a competitive advantage.

Good organizational culture will have a positive impact on the company. To gain competitive advantage, companies must create a dynamic organizational culture and able to adapt to changes in the situation where the current era of globalization is increasingly uncertain. The people involved in the organization, starting from the top manager to employee security officers need to work together even in the face of competition with the industry by adhering to the prevailing organizational culture. Culture of the organization should be able to make people comfortable working in it so that high corporate performance and competitive advantage are also capable in reach.

2. URGENCY OF THE ORGANIZATIONAL CULTURE WITHIN THE FIRM

Organizational culture is often a topic of conversation as well as a study in the research business. Here's some sense of the culture of the organization. Organizational culture is what employees are perceived and how it creates a perception of a pattern of beliefs, values and expectations (Ivancevich & Matteson, Konopasko, 2011). Edgar Schein defines organizational culture as:

“A pattern of basic assumptions—was invented, discovered, or developed by a particular group while learning to face problems of internal integration and external adaptation— has been running well enough to be considered valid and

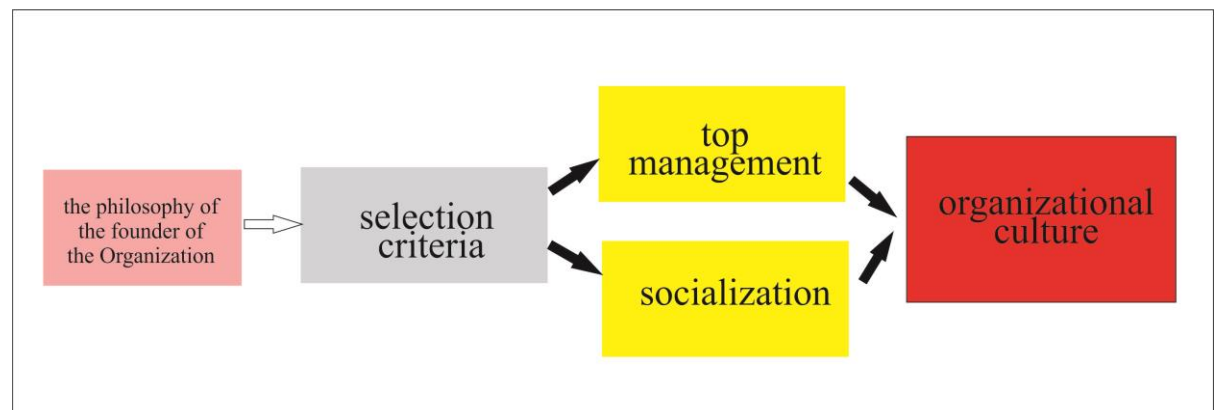
therefore, for teachable to new members as the correct way to perception, thought; and callous with regard to the problems facing it.“

Organizational culture has a very important role, namely to become a guide in the conduct of business activities. It is in line with the opinion of the Ariningsih in his article titled “The influence of cultural organization on the company performance”, that culture is essential for an organization or company, as it will be always in touch with the life that exists within the company. As for example in Google's corporate culture of the organization is able to give direction to the company. It is surely also capable of directing employees. So, if the organizational culture has the power to influence behavior, managers should shape it and manage him (Slocum and Hellriegel, 2007).

2.1 Creating An Organizational Culture

As it has been explained earlier, given the importance of organizational culture in a company, then it needs to be an effective organizational culture created for the achievement of business excellence kometitif. In this regard, the role of the leader is indispensable. The role of a leader is needed starting from the process of creation and implementation of organizational culture in a company. The following table illustrates how the formation of an organizational culture.

Image 1. The process of formation of organizational cultur



Source: Robbins and Coulter (2010: 66)

To create the organizational culture, as has been mentioned above, the leaders have an important role in the implementation of the culture of the organization. He became a role model in the implementation of organizational culture in business activities. Employees will see the behavior of top management as a reference standard for determining the proper behavior they take (Robbins, Judge, 2009).

2.2 The Influence Of Organizational Culture

Because the culture of the Organization to belong together in a live business, it gives influence to the individuals in it. Researchers who conducted a study on the impact of organizational culture organizational culture indicated that provide and encourage stability (Ivancevich & Matteson, Konopasko, 2011). It is supported also by Stephen p. Robbins Timothy a. and Judge (2009), a strong culture that also provide stability for an organization. Reality that occurred when namely the presence of secularism or separation of spirituality with business practices. It is corroborated by Ziglar, a consultant to the United States said the current business world conflicts because the business had forsaken the Lord, separates the business aspects of the spiritual life (Asyhari, 2012).

Whereas secularism has an impact which negarif the onset of chaos and imbalance. Hence the required consistency is changed back from every human being that he has a Lord. Back on the spiritual power of the power of intelligence in addition to emotional intelligence and the intelligence of the intelligentsia. Lately the theme of spirituality began to develop. And it also happens in the business world where at the beginning of the 21st century took place shift that puts the spirituality in business practices. One sign of the emergence of spirituality in the business world can be seen from the publication of the book the Spiritual capital (Marshal and Zohar). In Indonesia, serial “ESQ Power” by Ary Ginanjar Agustian is a new icon grow growing era of spirituality in business (Asyhari, 2012).

2.3 The Spiritual Definition Of Spiritual Company

Company refers to spirituality that is built into a company. In his work, Robbins and Judge explained that spiritual culture in the workplace (spiritual company-ed) which is a feature of the culture of the organization which aims to menumbuhkembangkan the awareness of the meaning of life by running job that is beneficial to the Community (2009).

Various studies have revealed that spiritual organizations usually have five characteristics following organizational culture:

a. Strong Awareness Of The Meaning

Of Spiritual Organizations will build a culture centered on a meaningful purpose. Although profits are considered to be important, but it is not all and sundry for the organization.

b. The emphasis on individual development

Of spiritual Organizations realize the value and dignity of an individual. The organization does not merely provide jobs only; but it also seeks to create a culture in which employees can grow and learn continuously.

c. The trust and openness

To spiritual Organization characterized by mutual trust between its members, honesty and openness. Managers are not afraid to admit his mistakes and tend to behave quite frankly to our employees, customers, partners and suppliers.

d. Empowerment of employees

The managers believe that employees will take the actions that have been primed before it is ripe and daring were responsible for the impacts that may arise.

e. Toleranis against self expression

Of spiritual Organizations employees let people be what they are expressing feelings of and their moods without fear because of sanctions and penalties.

Surely in the execution of business activities that are run, spiritual company has perbedan with the usual business apply without applying spiritual company. In a discussion, Syafrizal Helmi conveyed some of the differences between the spiritual view of the company with the usual business. The spiritual view of difference following company with regular business, namely:

Table 1. The difference between ordinary business with spiritual company

Regular business	Spiritual Company
<ul style="list-style-type: none"> ▪ Lowering Resources ▪ Ignores future generations ▪ Despiritisasi personal ▪ Leadership Egoistik ▪ Trigger Stress ▪ Accentuate self-importance ▪ Ignited riots and terrorism ▪ Raises fears 	<ul style="list-style-type: none"> ▪ Maintain and renew resources ▪ See future generations as stakeholders ▪ On Inspiring ▪ Servant leadership ▪ Rewarded fosters ▪ A dedication ▪ Tackling inequalities and anger ▪ Gave birth to hope

Source: presentation in discussion HMI commisariat FE-USU 4 May 2007 by Syafrizal Helmi

In the midst of a tight industry competition is currently the much needed competitive edge in order to stay afloat even Excel in competition. Is the key to competitive advantage in competition. What dimaksud with a competitive advantage? Kuncoro (2005) perceive it as follows: “A company is said to have a competitive advantage if the company has something that is not owned by a competitor, do something better than any other company, or being able to do something that isn't able to do by other companies.”

3 THREE MODELS ACHIEVE COMPETITIVE ADVANTAGE STRETEGIK

Management experts proposed three alternative models to get the competitive edge:

1. Industrial-Organization, or I/O
2. Resource-based View, or RBV
3. Guerilla

The following table describes the comparison approach of each model are:

Table 2. A comparison of approaches to i/o, RBV and Guerilla

	I/O	RBV	<i>Guerilla</i>
Competitive edge	Positioning in industry	Having a distinctive company assets and capabilities	While
Defining profitability	The characteristics of the industry; the position of firms in the industry	The type, amount, and nature resource company	The ability to change and surprise with strategic actions
Focus	External	Internal	External and internal
A major concern	Competition	Competency	The situation continued to

		resources	change radically
Strategic options	Choose an attractive, industry; the corresponding position	Develop resources and distinctive capabilities	Adjust to the rapid changes and occurs repeatedly; surprise competitors

3.1 Spiritual Organizations to Gain Competitive Advantage

A discussion of spiritual company indeed is still very little and need much development of the research in this area. As expressed from the Academy of Management (2011) stating that research in the field of spiritual still experiencing growth. Research conducted by Mitroff and Denton delivers results of interest despite research methods are simple, namely:

- a. Employees who have more in spirituality aspect, will also have better working involvement
- b. There is agreement on the meaning of spirituality that is the desire to find something that is a staple and the meaning of life as well as to integrate with live life

In research conducted by Wiersma (2002, p. 500) provides evidence on the influence of spiritual intelligence in the world of work. Someone who carries the meaning of spirituality in his working will feel life and work more meaningful (Trihandini, 2005). It will certainly encourage employees to improve their performance on works because they are better interpret their work. The results of this research are the same as what ever done by Biberman and Whittey (1997, p. 324). They posited a relationship between spiritual intelligence to the job. Spiritual intelligence turns out to exert influence on a person's behaviour in the work.

The performance of the employees is capable of being of distinction, something which is difficult to be imitated by other companies. Spirituality is needed for company to gain a competitive advantage. Some research proves spirituality in business to competitive advantage. It is supported by the opinion of Mittof and Denton, that stated aspects of spirituality can be the highest competitive advantage. To be able to make spirituality as the organizational culture that is able to gain a competitive advantage, it required the role of the leader. This is due to that the leaders understand well that the values and beliefs that flourished in the company will establish a corporate performance (Kuncoro, 2005). So, leaders need to

determine what the organizational culture that will be developed in the company and the best choice is spiritual company.

4 CONCLUSION

Based on the description above, it can be put forward some conclusions are an organizational culture is a difficult company's resources to be imitated, In the various studies mentioned that organizational culture strongly influence on company's performance, and than a positive organizational culture is that contains spiritual aspect, so that aspects of spirituality can be the highest competitive advantage. Good organizational culture will have a positive impact on the company. To gain competitive advantage, companies must create a dynamic organizational culture and able to adapt to changes in the situation where the current era of globalization is increasingly uncertain. The people involved in the organization, starting from the top manager to employee security officers need to work together even in the face of competition with the industry by adhering to the prevailing organizational culture. Culture of the organization should be able to make people comfortable working in it so that high corporate performance and competitive advantage are also capable in reach.

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Halal and Tayyib Certification on Processed Food Products of Indonesia's (SMEs): Strategy for Improving The Quality Standard of The SMEs Products

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Abstract

Globalization became a sign of borderless world and open of the information thoroughly. In an economic perspective, globalization is synonymous with trade liberalization that have an impact on competition in various economic lines and business units. Indonesia as the country with the fourth largest population in the world, with the composition of the middle class grows into a potential market share of products from various countries. As a result, Indonesia continued to experience fluctuations in the trade balance deficit due to inability to offset the export side. Meanwhile, SMEs as an important part of Indonesia's economy face a variety of obstacles in the form of unreadiness to compete and loss of confidence from the consumer, especially for the food processing products. So that, labeling and certification of halal and thayyib products on SMEs become an important issue in the era of globalization of trade. This is because the labeling and certification of Halal and Thayyib can be used by consumers in distinguishing one product with another products. With the halal and thayyib certification on SME products, they are expected to be added value for SMEs. So that, the product of Indonesia's SME would be able to compete with foreign products in domestic and global markets and to be able to accommodate the needs of consumers, especially the Muslim. Finally, it can be the tool to increase the export side of Indonesia.

Keywords: Globalization, Certification, SMEs, Halal and Thayyib

INTRODUCTION

In the trade liberalization era, competitiveness of the product becomes the main requirements to compete with the global product. There are two requirements to get the competitiveness, the first is to utilize the domestic raw material and the second is to improve the product's quality (Wardana, 2014). Utilizing the domestic raw material helps us to minimize the uncertainty of the fluctuatif exchange rate. Improving the product's quality will increase the consumer loyalty (Ain, 2014). One of the important product in Indonesia is processed food product. It is called important because of the SMEs products. As we know, SMEs take important rules in Indonesian's

economic activity. Nowadays, there are many problems appears in the SMEs processed food product. The problems are several national food system irregularities still occurred in Indonesia, which was evidenced by the discovery of the circulation of food products that do not meet the requirements, a case of food poisoning, the manufacture of food products by utilizing waste food production and food quality. Data from the Food and Drug Supervisory Agency (BPOM) on domestic food safety performance from 2001 to 2006 show that there were 610 reported outbreaks of microorganisms which includes 116 cases, 66 cases of chemical compounds, not detected 309 cases, and 119 cases no sample. Labeling and certification becomes an important issue in the era of globalization of trade as it is now. This is because the labels and certifications can be used by consumers to differentiate one product with another product. According to Yaumidin (2010), Halal labeling also strongly support the marketing aspects of food products, halal label also gives consumers confidence to buy. Additionally Halal products now have a high selling price. This is proven by the certificate and the halal label on food products can increase the export of such products. However, Halal certification has not been fully carried out by SMEs. Data from BPS (2006), a large-scale food industries, medium, small, and as many as 1,209,172 households. However, according to MUI- LPPOM only 874 enterprises (0.070 percent) are Halal certified, whereas in 2011, based on data from the POM RI products as much as 113.515, which has as many as 41.695 MUI Halal Certificate. It indicates only 36.73% of the outstanding registered products which are certified halal. Thus more than 60% of outstanding products among the people although not toxic but it has not been established halal. To improve the the performance of processed food product of the SMEs, there should be the grandstrategy. The strategy should be built in increasing the Halal sertification for the SMEs.

LITERATUR REVIEW

Halal is defined as the food or product that is permitted to be consumed and appropriate with the Sharia laws (Hanzaee and Ramzani, 2011). Then, thayyib has the terminology good and usefull (Hasan, 2008). The terminology good and usefull means that the products should be hygienic, nice and give the benefit for the consumer. The criteria of the Halal and Thayyib built from the Sharia laws. In this case, the criteria is built from the holy Quran Al-Maidah subsection 3. It encompasses the Halal raw material, Halal processing, Halal substance etc. MUI certification for Halal especially started from a long time, but the awareness of the SMEs is still getting low. Others reasons show that the bureaucracy to register or enroll is so complicated and it becomes the disinsentives. On the other side, quality assurance like Hazard Analysis and Critical Control Point (HACCP) becomes the tools to prevent the problems. WTO applies this method for the international food trade.

METHODOLOGY

This paper employed the qualitative descriptive analysis method. The qualitative analysis focuses on the main problem and create the solution as the specific concept. Descriptive analysis takes to interpret data. It also uses the secondary data from the journals, relevant books and article in the internet.

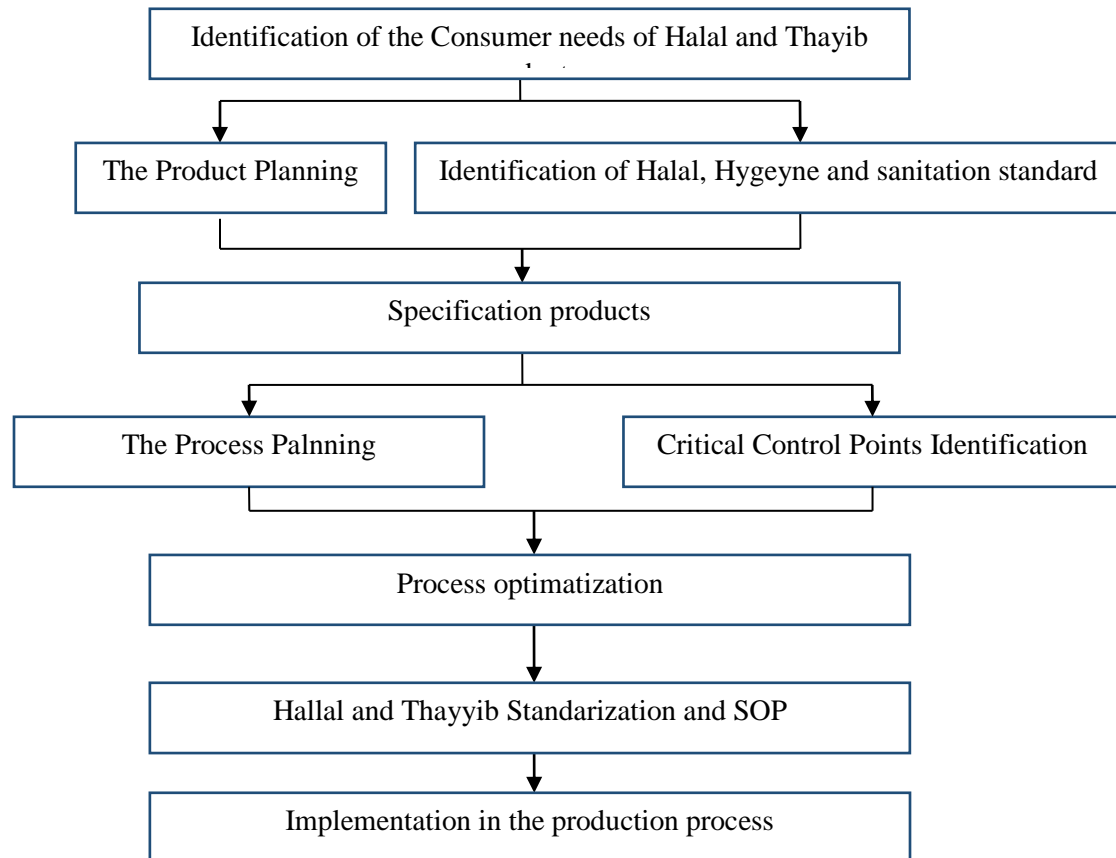
EMPIRICAL RESULTS

Halal certification is very important, especially to engender a sense of comfort for the people who come from the Muslims in the consumption of a food or beverage product. From the observation of MUI, the response of SMEs to the Halal certification is quite good. Many of the SMEs, especially food and beverage manufacturers who have a commitment that Halal labeling is a business strategy that must be accountable to consumers. However, the fact that halal certification on a product does not guarantee the product is safe in terms of content and process. So we cannot fully reflect the good quality products and secure on consumer perceptions, as most SMEs fake halal labeling, so that sales of their products can compete with other products.

Certification Tayyibb is a complement halal certification and labeling by LPPOM MUI. MUI LPPOM in this case in collaboration with the MOH and BP POM in the implementation, monitoring and administration of certification thayyib on the processed food products. Thayyib certification is given to products that have been proven to have been lawful and meets the system identification and control of hazards contained in the food product, that the product is halal besides also proven good quality. In the procedure, the products that have been proven Halal will be identified of food quality assurance system to the international standard HACCP (Hazard Analysis and Critical Control Point). Finally, it is applied in Indonesia known as Thayyib certification.

Implementation and certification documentation thayyib simpler, but certification has Thayyib certain stages, ie before implementation, SMEs should already running system of quality assurance and guidance on how to produce well in accordance with international standards of HACCP. Here are the stages of the manufacturing system and Thayyib standardization. Halal Products that can be carried out by SMEs prior to the registration and certification of Halal MUI Thayyib to LPPOM.

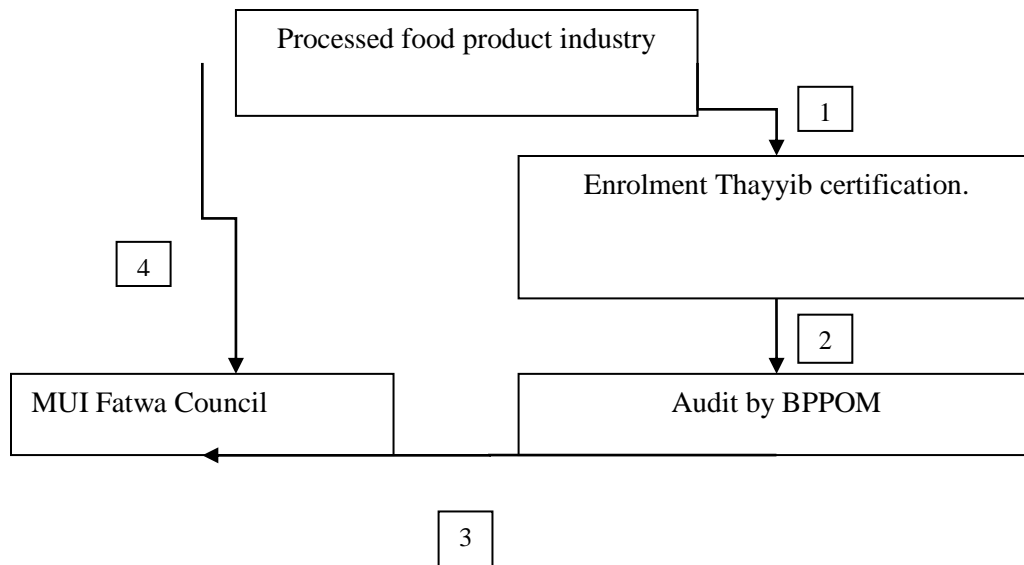
Figure 1. Steps Making Standarization Systems & Halal Tayyib products



Source: Authors, 2014

After doing a security system or Halal standardization and Thayyib on SMEs, and then do a file foreign Halal products and Thayyib to LPPOM MUI. Here are the steps being taken to obtain certification Thayyib after the product proved to be Halal.

Figure 4: Certification of Registration Mechanism Tayeb (Source: Author)



Source: Author, 2014

CONCLUSION

In the free trade era, Indonesia should be able to optimize the competitiveness for the processed food product of SMEs. By implementing a certification and labeling of Halal-Tayyib as quality assurance SME product, it will improve quality standard of the SMEs product. So that, the Indonesia processed food product could compete with the imported product.

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Natural Pattern and Durability of Local Wisdom-Based Creative Industries in Indonesia (Case In Surakarta, Central Java)

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Abstract

Micro, Small and Medium Enterprises (MSMEs) in creative industry is expected to compete in the global era, but weak in the synergy between stakeholders. Therefore local government and stakeholders need to make serious efforts to start making mapping, strategic plans and related regulation for creative industry in Indonesia by taking case in Surakarta, Central Java. The aims of this research were (1) mapping potential of creative industries in the city of Surakarta; (2) To analyze the characteristic of local wisdom-based SMEs of creative industries. Techniques of analysis in this study was a comparative descriptive analysis of the results of this study with previous related research. Mapping results indicate that there is the presence of the natural pattern of grouping and linkage type of business districts within a region. Another important finding is the creative industrial MSMEs in Surakarta have enough competitive with a variety of indicators which have been able to survive and develop their business (durable) for over twenty years in average and empower local communities as workers. The situation faced with various difficulties such as lack of access to finance, lack of guidance from the government, the lack of regulation and strategic plans that support the accelerated development of the creative industries especially in economic uncertainty and even in economic crisis.

Key Words: Creative Industry, Micro Small Medium Enterprises, Competitive, Linkage, natural pattern

INTRODUCTION

Micro, Small and Medium Enterprises (SMEs) play an important role in the Indonesian economy. According to the Central Bureau of Statistics Indonesia (BPS, 2011), the number of entrepreneurs of the sector reached 55.2 million units or 99.99% of all business units in Indonesia and employ 101.7 million workers (97.2%). According to the BPS, in terms of the composition of the existing employment, agriculture sector is still accounted for the largest number (42.8%) followed by trade (22.2%) and social services (15.6%).

Based on the status of main job, almost half of Indonesian work as an entrepreneur and only 30% who work as employees. This fact can be understood that the direction of economic policy would be in favor of the agricultural sector. Unfortunately, facts on the field indicate that the amount of agricultural land is shrinking and high poverty rates in this sector. In addition, rapid urbanization due to industrialization became the main reason why many sectors of the labor force do not choose this as their job expectations. If anything, the majority of those who chose this field because of necessity or lack of creativity. Based on the structure of its business actors, both the sector are more in entrepreneurship topic, so that the study of it becomes urgent to

continue immediately.

To increase employment, the government can no longer expect to the big companies only. That companies usually rely on capital gain (capital intensive) and technology than to recruit new employees. Even in scale and certain conditions the company will do the labor rationalization. One of the pedestal that can be expected the government to be able to absorb the labor force in large numbers is the small-to-medium businesses. In addition, SMEs able to face global competition. Therefore the government should make policies and regulations for the sake of the development of the creative industry of SMEs in Indonesia.

The study of entrepreneurship is relatively small number (Oort and Stam, 2006) especially in creative industry including in the city of Surakarta. This is because the direction of economic studies tend to liberal which government favors big companies. There were limitations detailed data about the other constrain entrepreneurship in this study. Meanwhile, the creative industry of SMEs are expected to compete in the global era, but on the other hand there is weakness in the synergy among stakeholders. Faced with this problem, the Government of Surakarta city should immediately make a serious effort to analyze the existing problems and make a clear masterplan and regulatory strategy especially in creative industry.

Based on the above problems, this study would describe potential mapping of local wisdom-based creative industries in the city of Surakarta. To answer to these problems, the researchers would reviewed the theoretical base on entrepreneurship in advance.

LITERATURE REVIEW

Audretsch and Thurik (2000) proved that a growing number of entrepreneurs were able to reduce the number of unemployed . They refer to this condition as ' Schumpeterian effect' refers to Schumpeter's theory which states that entrepreneurship has a positive effect on employment . Their opinions are contrary to what is revealed by Carree (2002) that entrepreneurship has nothing to do with unemployment . This statement is supported by Barringer's finding (in Christmas , 2009) states that most new companies (start-up companies) have a lot of problems in defense. They fell less than 2 years of existence since its establishment .

It is interesting to examine further relevant difference between the two results of these studies . This difference is a challenge for confirmation of actuality and localities especially for domestic cases.

Surakarta is a trading town in the region of Central Java . This is supported geographically located meeting point of the center lines of the various regions in Central Java, Yogyakarta and East Java . Some factors, such as geographical location, support Surakarta as a strategic area for business development centers all over the turbulence and velocity of money . This is demonstrated by the local revenue (PAD) Surakarta reached about US\$ 10 million in 2009 . PAD is also supported by the high trade in the region . For example , Klerwer Market which became the major icon in Surakarta trade zone turnover is estimated to reach about US\$ 700 thousand per day.

In addition besides a trading city , Surakarta also has a variety of endogenous culture that has long historical roots . As a cultural city, this city became a tourist attraction for domestic and overseas . Even this factor capable of supporting the growth in this city as a trading and tourism city.

Entrepreneurship would be more motivated and thrived in places that are conducive climate , as revealed by Glaeser, Kerr and Ponzetto (2009) . In line with the results of the study, the study showed a trend of industrial agglomeration industrial growth in the certain region has

great potential with fast access to the raw materials (Fajar, et al, 2010). This tendency of agglomeration effect on the course of regional development that occurs almost everywhere . This condition is commonly found in many places in the world as Alfred Marshall 's theory which states agglomeration economies as a decline in industrial production costs because economic activity is at the same location . In this context , Surakarta is a region that is relevant to industrial agglomeration.

Recently, It has developed entrepreneurship varied studies in America. Glaeser, Kerr and Ponzetto (2009) conducted a study about condition , classification and cause of entrepreneurship in America . The results of this study showed that increasing the number of jobs is the largest portion contributed by the growth of new businesses in the community . This study proved that there is a very strong relationship between employment growth and the development of small - scale businesses in the community through the establishment of new enterprises (start-up companies) . In industrialized countries like the United States , the growth of entrepreneurs turned out to be clustered in areas or industrial areas (city - industries) with the establishment of many small businesses . Entrepreneurial growth is also affected by the low cost of a local economy, including low wages , supportive business climate , as well as supply a great entrepreneur . The growth of small businesses are not strongly influenced by existing industrialization , the product cycle and the age of the company. This study also rejected the notion that the establishment of new businesses affected by high production yields (abnormal return to production). Thus this is encouraging people to set up new businesses .

Entrepreneurship endurance performance will be tested naturally by the business environment with a selection of endurance sustainability (going concern) of its company. Gompers , et al (2008) provide evidence of the track record of the successful entrepreneur will determine the next (expansion) as well as its durability. Entrepreneur with a successful track record will likely reap the subsequent success than first time entrepreneurs and those who have failed before. It also proves jargon 'success breeding success ' is true as factual conditions in the field. Gompers , et. al. (2008) exclude outliers in the form of a very successful entrepreneur and very unsuccessful . They were very successful tend to be satisfied , so they do not do innovation and expansion. While the very failure one tend to not able to rise. The study also answer doubts of the critical success factors of entrepreneurship whether as a skill - based or perception - based.

Oort and Stam (2006) have researched on the relationship between economic agglomeration and the formation of new businesses. The results of the study of communication technology industry in the Netherlands showed the following results. First, it shows that compared to a new company, the old company was not positively affected by the competition that exists in the cluster region. Secondly, the form of a concentrated population areas (urbanization) has the effect of different influences on the development of enterprises and the emergence of new business at various scales. Third, agglomeration has a very strong impact on the emergence of the new company, while the old company (incumbent firms) have a development orientation of the wider region.

Christmas (2009) who took the case to the manufacturing industry in East Java on the relationship between economic growth and the level of entrepreneurship have proved that entrepreneurship is a significant and positive effect on economic growth , especially the manufacturing sector into the observation through the mechanism of start-up companies , in addition to other factors such as the input of capital , labor and the quality of Human Resources . These results are consistent with Schumpeter's theory (1934) that economic growth is influenced by the results of the study of entrepreneurship and Zheng , Hu and Wang (2008) which states that economic growth is not only dependent on capital investment but also influenced innovation and new ways of producing which of course obtained of new entrepreneurs . The results of these

studies have taken industrial settings , so that the study of entrepreneurship in other sectors becomes very wide open . The study of entrepreneurship will be more beneficial when related to the configuration of the local economy in order to create the suitability of the facts and development needs , rather than just copy paste to study themes in industrialized countries that tend to be forced .

METHODOLOGY

This research has used an explanatory research, because this research aims to take a position early in the effort to provide quantitative data configuration SME entrepreneurs in the creative industries in the city of Surakarta, Central Java, Indonesia. From the preliminary data obtained would provide a general description descriptive topography SMEs in the creative industries in that city.

Since the main function in the first year of this study is mapping the potential of creative industries in Solo SMEs then we showed that the analysis was descriptive and comparative. Comparative research in question is that this study will provide a comparison with various other previous research results or other conditions equivalent to showcase the fact the differences and strengthen the analysis. Therefore the researcher also used secondary data of various institutions (especially government) as a comparison. With this empirical research was expected to drive the next to unravel unanswered questions.

4. 1. *Types and Data Collection Techniques*

The types of data collected were in the form of qualitative and quantitative profile of the creative industries of SMEs in the city of Surakarta, central java province of Indonesia. The primary data were using questionnaires media . In some cases it can also be used interview techniques to the subject directly . This concept requires the diversification of information and strengthening communication lines to reach the main goal of the study. Technically , researcher optimized cooperation with students and explore existing databases on the internet .

Purposive sampling method are random sampling based on (1) the criteria of creative industry SMEs (2) Their activities involving as many as 30 creative industry SME entrepreneurs (3) Their productions are in one of five districts (Serengan, Laweyan, Banjarsari, Jebres, Pasar Kliwon).

The scope of business which was becoming the observations in this study there were SME in formal and informal sectors . For the formal sector were classified according to the type and scale of the business carried on . As for the informal sector classification is based solely on the type of business or product. The step of sampling conducted by purposive cluster sampling through several stages , the first determination of the district that served the study area . In this stage, the determination districts judgment sampling was done by design , was to see the potential , uniqueness and diversity of SMEs . Second , after the area got a new object taken a number of respondent SMEs with quota sampling design was selected based on certain characteristics .

Table 1. Configuring SME respondents of Creative Industries in the city of Surakarta

aspects of the observations	the Compoition	Percentage
Business Scale	Micro	34%
	Small	44%
	Medium	22%
The Average aoge of MSMEs		22,4 years
Marketing Coverage	Local Orientation	22%
	Regional Orientation	42%
	National Orientation	12%
	Export Orientation	24%
Obstacles	Competition (cluster competition, domestic competition and foreign competition), Smuggling, Economy policty, Price policy, Mastery of technology, Capital, Managerial	
Financing of Banking Access		58%
Government fostering	Not yet Optimal, not yet receive guidance from the authorities	55%
Product Cycle	Introduction phase	2%
	development phase	54%
	Mature stage	34%
	decline stage	10%

(Sumber : Primary Data, processed 2013)

4.2. Operational Definitions and Scope of Research

Operationally, entrepreneurship is defined as the formation of new companies , most experts emphasize aspects of the activity that gave rise to something new , including the growth of the company itself (Oort and Stam , 2006) . While Wennekers (2006) divides entrepreneurship into two categories: static and dynamic sense . Statically, it was defined as concurrent ownership of business management , so that the entrepreneur includes the owner manager , small and medium enterprises (small - medium enterprise) and entrepreneurs (self - employee) . The meaning of the dynamic is the proportion of the number of new companies (start-up companies) of the entire amount of net growth in the size of the company (net start - up rate) . Net start - up rate is calculated from the number of companies that reduced the number of companies born out of the market or industry divided by the total number of companies. While the notion of entrepreneurship is etymologically explained by Christmas (2009) . The word ' entrepreneur ' in modern English refers to a business founder or owner of an innovative company . From this sense of entrepreneurship refers to two things , innovator or pioneer who pursue opportunities (opportunity) new manager or owner , which means leader , manager , risk taker and owner of a business .

EMPIRICAL RESULTS

SMEs in the creative industries Surakarta active in their respective fields of business today turns

out to have a variety of business development duration . In general, there are only 4 years old started his business up there who has 40 years of work retain their business . From the observation the overall mean time kreatifmenjalankan industrial SME entrepreneurs about their business of 22.4 years . The results of these observations is not much different from the results of a survey conducted Solo BI in 2006 that revealed the average age of the observed range of SMEs Solo 22 year.

Based on the report of the Ministry of Cooperatives and SMEs are delivered at the Congress of Indonesian Small Business 9-10 December 2003 stated that the results of the survey in 1998 to 225 thousand SME entrepreneurs at times of crisis , there is a 4 % who discontinued businesses , 64 % unchanged turnover , 31 % experienced a decrease in turnover and 1 % are growing (Djaman , 2006) . This fact proves the resilience of small business entrepreneurs . If we confirm the observations shows that the creative industry SME entrepreneurs in 5 districts have a mean observation stands ranging from 16 years to 25 years . This condition proves that they are strong enough to face various difficulties and obstacles , especially in the current economic storm that hit the country a few times .

5.1. Mapping of Creative Industry Potential SMEs Surakarta

Based on the observations of the researcher, based on the type of creative industry SME although there are different administrative districts based on population, but on average they are clumped together. The details are as follows.

Musical instruments were in Serengan and Laweyan district (Tipes district). Steel and Alumunium (Pasar Kliwon district). wrought iron (Pasar Kliwon district), Bambu Art (Banjarsari district), antiques (Banjarsari district), Batik (Laweyan and Pasar Kliwon district- Kauman), Batok (Coconut) craft and Blankon (Serengan district), Shuttlecock cartoon (Jebres district) while Shuttlecock (Banjarsari, Serengan district), Digital printing & arts (Jebres district), Gamelan (Pasar Kliwon district), carving gebyok (Serengan district), bronze “Gong” (Pasar Kliwon district), stict handicraft (Pasar Kliwon), Jamu Traditional (Laweyan district), carving mirror (Laweyan), bamboo basket (Laweyan district), t-shirts and clothings of Batik (Laweyan), car wood handicraft (Pasar Kliwon district), Animal skin (Banjarsari district), metals and badges (Laweyan), Percussion (Serengan), frame (Laweyan), Rambak snack from cow skin (Jebres), birdcage (Banjarsari & Jebres), Shoes, Sandals & Bags (Banjarsari & Jebres), Wayang from animal skin (Pasar Kliwon) and painting clothes (Pasar Kliwon).

As for the distribution of business if grouped by districts, then each district appears to have the potential of creative industries SMEs as follows.

Tabel 3 The Distribution of Business Type Per-District

Products	Jebres	Banjarsari	Serengan	Ps Kliwon	Laweyan
Tofu, tempe	√				
Shoes, Sandals, Bag	√	√			
Cartoon of shuttle cock	√				
Rambak from skin	√	√			
Birdcage	√	√			
Printing & art digital	√				
Antiques		√			
Handycraft		√			

Alumunium	√			
Shuttle cock	√	√		
Bamboo art	√	√		
Blankon		√		
Music Instrument		√	√	
Percussion		√		
Bamboo brait		√		
Gebyok carving		√		
Batik			√	√
Frame				√
Cooking utilites				√
Bambu basket				√
metals and badges				√
Carving mirror				√
Jamu				√
Handycraft of stick			√	
Wood toys			√	
Batok (coconut) craft			√	
Wayang from skin			√	
wrought iron			√	
Gamelan			√	
steel and aluminum			√	
Painting clothes			√	
Bronze Gong			√	

(Sumber: primary data, processed, 2013)

When viewed from the business sector that is run by creative industries SMEs Surakarta, there are several products intersection in the district of Banjarsari and Jebres i.e. shoes, sandals, handbags, leather rambak and birdcage. While the intersection between districts Banjarsari and Serengan are shuttlecock and bamboo art. The intersection between the districts of Serengan and Pasar Kliwon is a musical instrument. Batik is a product that is in the sub-district Laweyan and Pasar Kliwon.

5.2. Durability

SMEs in the creative industries Surakarta active in their respective fields of business today turns out to have a variety of business development duration . In general, there are only 4 years old started his business up there who has 70 years of work retain their business . From the observation the overall mean time kreatifmenjalankan industrial SME entrepreneurs about their business of 22.4 years . The results of these observations is not much different from the results of a survey conducted Solo BI in 2006 that revealed the average age of the observed range of SMEs Solo 22 years .

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in 1998 to 225 thousand SME entrepreneurs at times of crisis , there is a 4 % who discontinued businesses , 64 % unchanged turnover , 31 % experienced a decrease in turnover and 1 % are growing (Djaman , 2006) . This fact proves the resilience of small business entrepreneurs . If we confirm the observations shows that the creative industry SME entrepreneurs in 5 districts have a mean observation stands ranging from 16 years to 25 years . This condition proves that they are strong enough to face various difficulties and obstacles , especially in the current economic storm that hit the country a few times .

5.3. Regulatory and Strategic Plan

Small businesses are appropriately receive assistance from the government, both financially and coaching (managerial) in addition to policies that favor. Both are important elements in the growth of their businesses. When we asked respondents whether they receive guidance from the government the majority (55%) did not get a reply. There are about 45% who received guidance from the government. These results are not much different from the findings of Solo BI 2006 above the 63.4% of respondents SMEs yet to get guidance from the authorities. No wonder many as 87% of SMEs have limited to thrive. As revealed by Yaniv (1997) small businesses and cooperatives that only raise capital without good management skills or without sufficient access to markets, it would be difficult to experience business growth. Similarly, if you only have the management capability and potential of the market but do not have access to capital will also be difficult to grow.

The government actually has to make policy in the promotion and development of entrepreneurs in general to delegate these tasks to the related ministers. Suppose the Ministry of Mines and Energy is responsible for training and development in the field of industry and business-related fields such ministerial duties, the Ministry of Health is responsible for coaching and development efforts, including in the field, the Ministry of Industry bertanggungjawab in the coaching and development of the industry outside the industry has become target and previous ministerial responsibility. Being the Ministry of Cooperatives and Small and there are usually given special responsibility for the promotion and development of small businesses and cooperatives.

In addition, structurally, the government through the Directorate General of Small Businesses has also created partnerships between small and large businesses with a variety of forms such as: (a) the Trade: small entrepreneurs build great companies in the field of technical, material and quality control in order to help market outcomes production, both for local and export markets; (b) Vendor: big companies buying small production businesses that are not directly related to the final product, (c) Sub-contracting: the parent company gives some of its production to small industries; (d) Company Nucleus (PIR): large companies act as nuclei and small employers as plasma; (e) Franchise: large companies as a franchisee (franchisor) gives the licensing rights (trademarks, logos, symbols, managerial) company to small business as a franchisee (f) Pattern of Development: large companies provide intensive training to small entrepreneurs.

There is also a coaching program's state government. Suppose that based on the Ministry of Finance No. 316/KMK.016/1994 Minister of Finance Decree No. jo: jo 60/KMK.016/1996 Minister of Finance Decree No. 266/KMK.016/1997 establish the following points: (1) Government's Business Unit (BUMN) coaching to small businesses and cooperatives can be of assistance; (a) Education, training, research and apprenticeship; (b) working capital loans and investments; (c) Marketing and promotion of production (d) Development of Security; (e) Investments. (2) Funds coaching BUMN for set aside each year for: (a) small businesses at least 50%, (b) Cooperative / KUD maximum of 50% of which a maximum of 5% for cooperative

employees (Kopkar) SOE concerned, (3) Help given to the partners in the form of: (a) loans, which are used to finance working capital and can be given by 75% of the requirement. (B) grant, used to fund education, training, apprenticeship, promotion, assessment and research, can be given a maximum of 30% of the funds provided each year for each of the partners a maximum of 75% of the requirement. (C) Investments, specifically for venture capital firm established by the Minister of Finance.

However, as a classic problem in bureaucratization of government, there are various obstacles such as lack of coordination, not integrated program, convoluted (complexity) guidance systems and procedures resulting in a variety of difficult to run the program at the level of field application (Arianto, 2001).

Arianto (2001) states that the form of government kabijakan these regulations are essentially public goods that can be used as facilitating in developing and fostering small businesses and cooperatives. Experience shows that the operationalization of the distribution of profits from SOEs and supervision allowance is often a conflict between state enterprises and small businesses as a principal and as a cooperative agent, such as the high cost of monitoring and supervision (control), the difficulty of getting complete information about the performance of small businesses and cooperatives (asymmetric information), the deviation usability of BUMN (collusion, with held, cheating, shirking, etc.), high transaction costs (transaction costs), the number of complaints from the state-owned enterprises and small businesses and cooperatives to use BUMN's profit allowance.

No wonder the program is structured so attractive central government, but not so when we review the direct presence in the field to people who qualify. Based on our observations over the creative industry SMEs only 30% who received coaching or based on the number of Solo BI 2006 of approximately 36% of SMEs that have received training, and even then not optimal. Not to mention the variety of development programs or other partnerships that have been developed previously should also be enjoyed by the common people.

CONCLUSION

Surakarta creative industries in SMEs have enough competitive with a variety of indicators which have been able to survive and develop their business for many years (about 20 years) and empower the local community as workers . The situation is faced with various difficulties such as lack of access to finance , lack of guidance from the government , the lack of regulation and strategic plans that support the accelerated development of the creative industries or economic uncertainty and even crisis storm .

This study could be a contributor and a trigger for curiosity (curiosity) the researchers of the potential creative industry SMEs to accelerate its development can be done through a variety of regulatory and strategic plan set out in the relevant agencies .

In the future research needs to be done to produce a model of the factors critical to the creative industry SMEs . The model can be used as consideration in making regulations and related agency strategic plan to accelerate the progress of the creative industries in the city of Surakarta .

Acknowledgement

Our thanks to the participants of MIICEMA 2014 who have provided comments and suggestions for this article.

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Model Development Potential of Entrepreneurial Management Capacity through PNPM and P2KP Program in Bengkulu City

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Abstract

The purpose of this research is the establishment of a model in order to develop the potential of entrepreneurial management capacity through PNPM and P2KP in the city of Bengkulu. The results of this study (1) the characteristics of individuals and organizations / institutions either partially or together will affect the spirit and entrepreneurial behavior, (2) the entrepreneurial spirit and behavior of a person will affect the decision-making process, (3) business strategy will affect someone in the decision-making process, and (4) decision-making process in the SME business of farmers / fishermen will affect business performance both in technical efficiency and the economic efficiency. Advice (1) shall affect the entrepreneurial spirit of farmers / fishermen in looking at opportunities, define the business objectives, and evaluation of its business (2) business success is not only determined by the entrepreneurial spirit but also management capacities.

Keywords: individual characteristics, entrepreneurial spirit and behavior, decision making process, business strategy, business performance

I. INTRODUCTION

Many government programs have been launched to mengentaskannya but until now the level of poverty is still high. One of the programs undertaken by the government today is PNPM and P2KP, which had begun in 1999. Government in this case the Small and Medium Enterprises (SMEs) with the required capacity and capability of the people that support the prevention poverty. PNPM and P2KP, seeks to encourage the development or community empowerment and capacity building, raising public participation, strengthening microfinance institutions, and income generating.

PNPM and P2KP in the province of Bengkulu held in 2011, spread in 9 districts and 67 villages (SIM PNPM, 2011). Distribution of poor people by district in the city of Bengkulu shown in Table 1.1.

Table 1.1: Number and Percentage of Poor by District in the City of Bengkulu in 2011

No	District	Population		Poor People		Percentage of Poor People	
		Households	Souls	Households	Souls	Households	Souls
1	Ratu Samban	5,057	20,967	1,791	4,176	35	20
2	Teluk Segara	5,953	25,206	2,068	8,434	35	33
3	Muara Bangkahulu	6,133	33,507	3,003	11,394	49	34
4	Selebar	6,411	29,456	1,929	4,661	30	16
5	Gading Cempaka	7,686	38,500	794	3,288	10	9
6	Kampung Melayu	7,434	27,207	2,456	5,949	33	22
7	Singaran Pati	14,185	37,826	3,059	9,434	22	25
8	Sungai Serut	5,071	18,094	1,450	3,303	29	18
9	Ratu Agung	11,859	51,400	2,226	8,771	19	17
Total		69,789	282,163	18,776	59,410	27	21

Sumber: BPS City of Bengkulu, 2011

Based on the above Table 1.1 shows the population of the city of Bengkulu is 282,163 or 69,789 soul families, with a population of 59 410 poor souls, or 21 percent of which consists of 18,776 households, or 27 percent. PNPM Urban (P2KP) through MFIs in order to provide motivation for entrepreneurship in an effort to improve the welfare of society. There are many farmers/fishermen who do not have the entrepreneurial spirit that is the will, and the establishment of self-employment. The development of the business environment both internally and externally has demanded the farmers/fishermen to have sufficient management capacity, have a strategy and entrepreneurial.

Management has become the fourth factor of production after land, labor, and capital. Research and review about farm management much emphasis on the technical aspects, so managerial aspects, social aspects and psychological aspects of farmers/fishermen in the decision-making process often go unnoticed.

1.1. Problem Formulation

The problem formulation of the above description are:

1. To see the influence of personal characteristics and organizational / institutional to the spirit and entrepreneurial behavior for SMEs agriculture/fishing through PNPM Urban (P2KP).
2. To see the influence of the entrepreneurial spirit and behavior management capacity in this decision making process for SMEs agriculture/fishing through PNPM Urban (P2KP).
3. To see the effect of business strategies that can be applied to SMBs agriculture / fishing through the MFI's management capacity (decision process) with PNPM Urban (P2KP).

4. To be able to see the influence of management capacity in this decision-making process on business performance of SMEs agriculture/fishing through PNPM Urban (P2KP).
5. To be able to create a model of the development potential of entrepreneurial management capacity through PNPM Urban (P2KP) in the city of Bengkulu.

1.2. Research Objectives

Objectives to be achieved in this study are:

1. To see the influence of personal characteristics and organizational/institutional to the spirit and entrepreneurial behavior for SMEs agriculture/fishing through PNPM Urban (P2KP).
2. To see the influence of the entrepreneurial spirit and behavior management capacity in this decision making process for SMEs agriculture/fishing through PNPM Urban (P2KP).
3. To see the effect of business strategies that can be applied to SMBs agriculture / fishing through the MFI's management capacity (decision process) with PNPM Urban (P2KP).
4. To be able to see the influence of management capacity in this decision-making process on business performance of SMEs agriculture / fishing through PNPM Urban (P2KP).
5. To be able to create a model of the development potential of entrepreneurial management capacity through PNPM Urban (P2KP) in the city of Bengkulu.

1.3. Benefits of Research

Benefits that will be achieved in this study are:

1. As an input for the government to be able to give extra attention to the poor through other superior programs, especially for farmers/fishermen through independent PNPM Urban (P2KP), so that they have the characteristics of entrepreneurs in running their lives.
2. To increase the repertoire of knowledge in particular areas of entrepreneurship and management.
3. As an input for other researchers interested in examining similar issues in greater details and depth.

II. LITERATURE REVIEW

2.1. Capacity Management

Capacity management is the fourth production factor affecting farm performance. (Rougoor et al., 1998). Wilson et al. (2001) says that the great variation in farm performance in the environmental conditions and the same constraints caused by variations in management. Results elaboration of Rougoor et al (1998) showed that capacity management is something related to personal characteristics and skills to achieve the correct issues and opportunities in the opportunity and the right way. This means that decision-making will seek to optimize the and biological processes such as in Figure 2.1.

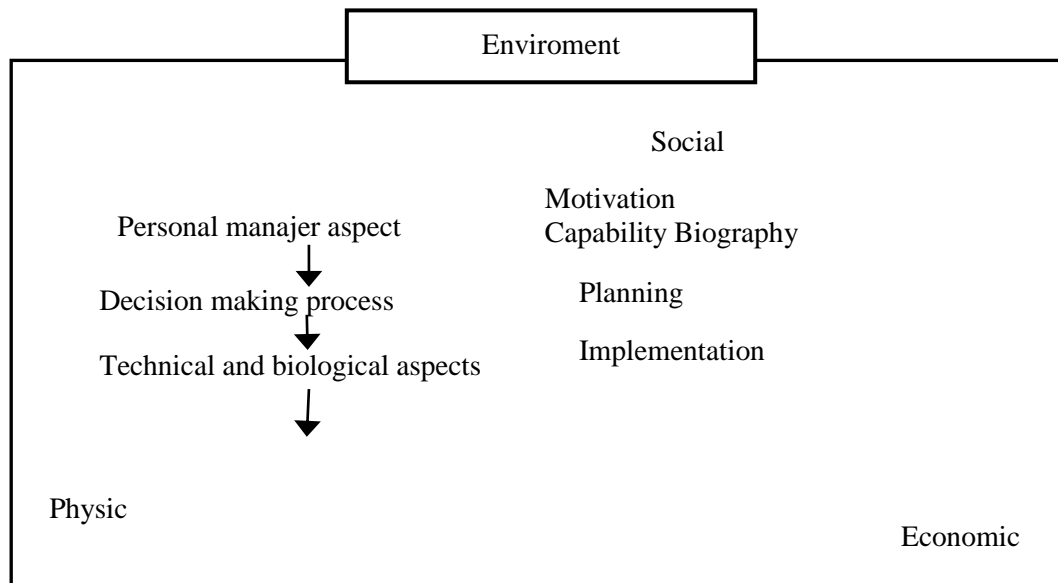


Figure 2.1. Management Capacity in Relation to Environmental and Biological Process of Agricultural Products (Rougoor et al., 1998)

Based on Figure 2.1 that the performance of agriculture is influenced by internal and external factors. Internal factors consist of personal aspects, aspects of the decision-making process, and technical processes and biological aspects. While the external factors consisting of institutional, social, economic and physical aspects as well in determining the performance of agriculture.

Management capacity are grouped in two interrelated components, namely the personal aspects and aspects of the decision-making process. Personal aspect consists of encouragement and motivation, ability and capability, as well as biographies. While the decision-making process is the practice and procedure in the planning, implementation, and control (Rougoor et al., 1998).

Rougoor et al (1998) distinguish the personal aspects of the four main dimensions are (1) institutional environment, (2) social environment, (3) the physical environment,

and (4) the economic environment. Personal characteristics and abilities is an important aspect in a managerial capacity of farmers/fishermen, this aspect can be divided into (1) encouragement and motivation as goals and the response of farmers/fishermen to risk, (2) the ability and capability as cognitive and intellectual abilities, (3) biography farmers/fishermen like background and experience in farming.

Results of research conducted by Priyanto et al. (2001) showed that the process of budgeting and record-keeping efforts also often traversed by farmers/fishermen when they carry out farming. The process of budgeting and recording business is not executed, then there is no control over the efficiency and optimize the use of resources owned by the farmers/fisherman.

2.2. Strategy

The most effective way to cheat and efficiently develop the people's economy is the economy in the agribusiness sector. Currently, only the Indonesian agribusiness sector including SMEs makes it possible to be able to compete to seize market opportunities in the era of free trade (Saragih, 2001).

Continuous adjustments according to changes made so SMEs because of the uncertainties and risks it will face. Adaptation affects its strategic behavior change, increase compensation, and encourage alignment with the organization's environment.

2.3. Entrepreneurship

Saragih (2001) says there are five things that are the traits of successful entrepreneurs, namely: 1) the motivation to move forward, 2) mental strength include: IQ, creative thinking and analytical thinking, 3) the ability to establish relationships, 4) ability to communicate, 5) technical knowledge.

According to Halimah (1992), the reluctance of farmers / fishermen bear the risk is negatively related to the level of welfare or measured by income and extensive land ownership. Education and knowledge also influence a person's rationalization in accepting the risk of failure that may occur.

2.4. Theoretical Framework

Schematically, the pattern of thinking of this research is described as follows:

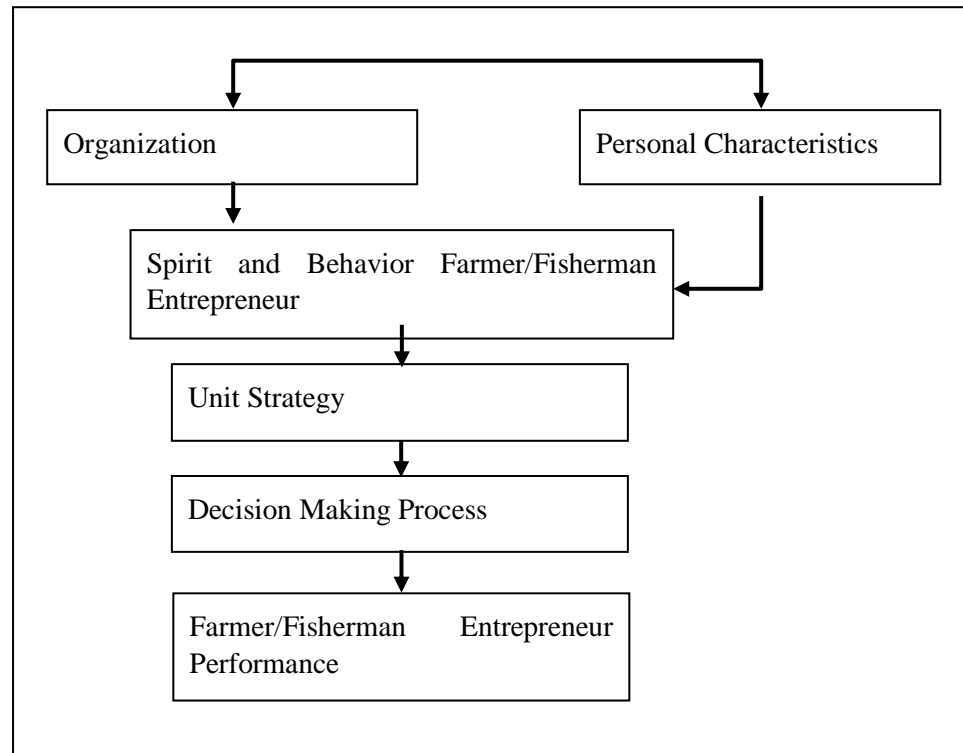


Figure 2.2. Research Framework

2.5. Research Hypothesis

Based on the concept of theory and research that has been previously described, it can be derived several hypotheses as follows:

Hypothesis 1: Aspects of personal characteristics partially or jointly with organizations/institutions will influence the behavior of entrepreneurial spirit and SMEs farmers/fishermen through PNPM and P2KP.

Hypothesis 2: Spirit and behavioral owned entrepreneurial farmers/fishermen will affect the management capacity in this decision-making process through independent PNPM and P2KP.

Hypothesis 3: The strategy will affect businesses owned management capacity of farmers/fishermen in this decision-making process through independent PNPM and P2KP.

Hypothesis 4: Capacity management in this decision-making process in the SME business of farmers/fishermen will affect the performance of its business through independent PNPM and P2KP.

III. RESEARCH METHODOLOGY

3.1. Research Approach

This research uses a survey approach is implemented within a period of 8 months from February - November 2012. Data that will be used in this research are the primary and secondary data.

3.2. Population and Sample

The study population was agricultural SMEs/ fishing through 67 MFIs that have earned the PNPM Urban (P2KP). The sampling method using random sampling methods. Samples were taken as 134 respondents.

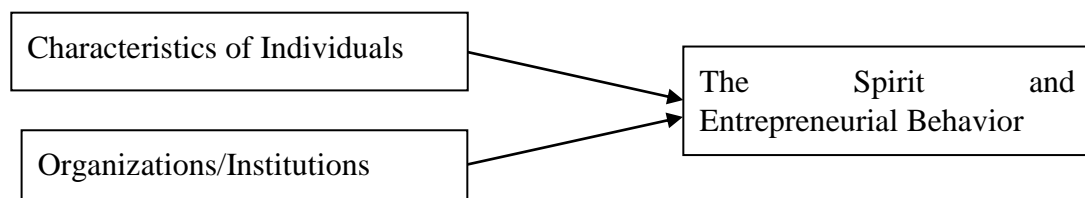
3.3. Methods of Data Analysis

This research is descriptive quantitative and used regression analysis both simple regression and multiple regression.

3.4. Model Development

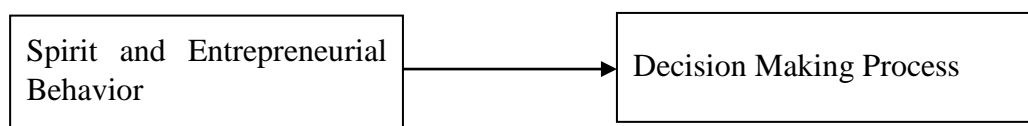
In fostering the entrepreneurial spirit of farmers/fishermen development model can be described as follows:

Model 1:

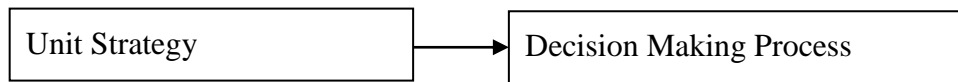


Characteristics of individuals and organizations/institutions will affect the spirit and entrepreneurial behavior of farmers/fishermen through the receiving facility MFI PNPM Urban (P2KP) in the city of Bengkulu.

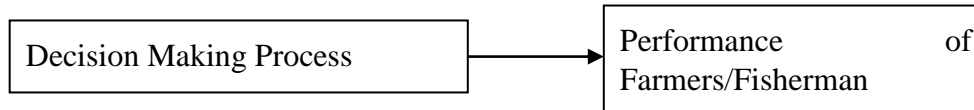
Model 2:



Spirit and entrepreneurial behavior of farmers/fishermen will affect the decision-making process in running a business.

Model 3:

Business strategy taken by farmers / fishermen will affect the decision-making process in running a business .

Model 4:

The decision making process in the SME business of farmers/fishermen will affect business performance both in technical efficiency and economic efficiency.

IV. RESULTS AND DISCUSSION**4.1. Overview of Research Sites**

In the administration of the city of Bengkulu bordering the North and East with Central Bengkulu, southern Seluma the District, and the western Indonesian Ocean; and consists of 8 districts and 67 sub-districts as follows:

Table 4.1. Number of Village by the District in the City of Bengkulu in 2011

No	District	Number of Village
1	Ratu Samban	9
2	Teluk Segara	13
3	Muara Bangkahulu	7
4	Selebar	6
5	Gading Cempaka	5
6	Kampung Melayu	6
7	Singaran Pati	6
8	Sungai Serut	7
9	Ratu Agung	8
Total		67

Source: BPS City of Bengkulu, 2011

4.2. Description of Data

The data in this study were obtained by means of direct deliver questionnaires to 134 respondents spread over 67 MFIs in 9 districts in the city of Bengkulu, the distribution of questionnaires is shown in Table 4.2 below.

Table 4.2. Widespread Distribution of Questionnaires

No	District	Number Questionnaire
1	Teluk Segara	32
2	Muara Bangkahulu	16
3	Gading Cempaka	10
4	Ratu Samban	14
5	Selebar	12
6	Kampung Melayu	10
7	Singaran Pati	8
8	Sungai Serut	22
9	Ratu Agung	10
Total		134

Sources: Primary data, processed, 2012.

4.3. Description of Respondents

Based on the data already collected the questionnaires can look at the demographics of the respondents in the following table.

Table 4.3. Description of Respondents

No	Criteria	Number	Percentage
1	Gender <ul style="list-style-type: none"> • Male • Female 	56	42
		78	58
2	Age <ul style="list-style-type: none"> • 20-30 years old • 31-40 years old • 41-50 years old • > 51 years old 	27	20
		46	34
		41	30
		20	16

3	Education		
	• Not school	13	9.7
	• Primary School	23	17
	• Junior High School	30	22
	• Senior High School	56	56
	• Bachelor/Undergraduate	12	8.3

Sources: Primary data processed, 2012

Views of gender, more female respondents than men. In terms of age, respondents are generally in the range of 31-50 years of age by 86 people, or 64 percent. As for the level of education, general education level of the respondents were junior and senior high school as many as 86 people, or 78 percent.

4.4. Descriptive Statistics

Descriptive study variables as follows:

Table 4.4: Descriptive Statistics of Research Variables

Variables	N	Min	Max	Mean	Std. Deviation
Personal Characteristic	134	15	25	19.73	1.88
Organization	134	11	20	16.01	1.75
Spirit and Behavioral Entrepreneurs	134	21	35	28.38	2.34
Decision Making Process	134	22	26	23.91	0.82
Business Strategy	134	17	28	24.38	2.04
Business Performance	134	18	27	24.16	1.56

Sources: Primary data processed 2012

4.5. Hypothesis Testing

4.5.1. Hypothesis 1

Statistical tests for hypothesis 1 as follows:

Table 4.5: Results of Multiple Linear Regression Test with Spirit and Behavioral Entrepreneurs as Dependent Variable

Variable	Coefficient	Value Coefficient	t-value	Sig.
Constanta	α_1	21.484	7.875	0.000
Personal Characteristic	β_1	0.244	2.317	0.022
Organization	β_2	0.130	1.139	0.257
$R^2 = 0.228$ $F = 3.423$ $P = 0.036$ $N = 134$				

Sources: Primary data processed, 2012

Personal characteristic variables have a significant value (sig) for t-test = 0.022 < alpha value of 0.05 means the individual characteristics of partial and significant influence on spirit and entrepreneurial behavior. While the variable organization / institution has a significant value (sig) for t-test = 0.257 > 0.05 alpha value that an organization / institution is not partial and significant influence on life and entrepreneurial behavior. Significant value (sig) for F = 0.036 < alpha value of 0.05 means the characteristics of individuals and organizations / institutions simultaneously and significant effect on life and entrepreneurial behavior. The coefficient of determination $R^2 = 0.228$ means that the characteristics of the individual and organizational/institutional effect of 22.8 percent against the spirit and entrepreneurial behavior, remaining at 77.2 percent is explained by donations and other variables that are out of this research.

4.5.2. Hypothesis 2

Statistical tests for hypothesis 2 as follows:

Table 4.6: Test Results of Simple Linear Regression with Decision Making Process as Dependent Variable

Variable	Coefficient	Value Coefficient	t-value	Sig.
Constanta	α_2	2.307	7.355	0.000
Spirit and Behavioral Entrepreneurs	β_3	0.395	1.877	0.037
$R^2 = 0,479$ $F = 3.965$ $P = 0.037$ $N = 134$				

Sources: Primary data processed, 2012

Variable Spirit and entrepreneurial behavior has a significant value (sig) for t-test = 0.037 < alpha value of 0.05 means that the spirit and entrepreneurial behavior and a significant influence on the decision-making process.

The coefficient of determination $R^2 = 0.479$ implies that the entrepreneurial spirit and behavior affects 47.9 percent of the decision-making process, the remaining 52.1 percent is explained by donations and other variables that are out of this research.

4.5.3. Hypothesis 3

Statistical tests for hypothesis 3 as follows:

Table 4.7: Test Results of Simple Linear Regression with Decision making process as Dependent Variable

Variable	Coefficient	Value Coefficient	t-value	Sig.
Constanta	α_3	1.386	6.302	0.000
Business Strategy	β_4	0.53	3.867	0.026
$R^2 = 0,647$		$F = 5.673$	$P = 0.126$	$N = 134$

Sources: Primary data processed, 2012

Business strategy variables have significant value (sig) for t-test = 0.026 < alpha value of 0.05 means that the business strategy and significant influence on the decision-making process. The coefficient of determination $R^2 = 0.647$ implies that the effect of business strategy for 64.7 percent of the decision-making process, the rest of 25.3 percent is explained by donations and other variables that are out of this research.

4.5.4. Hypothesis 4

Statistical tests for model 4 as follows:

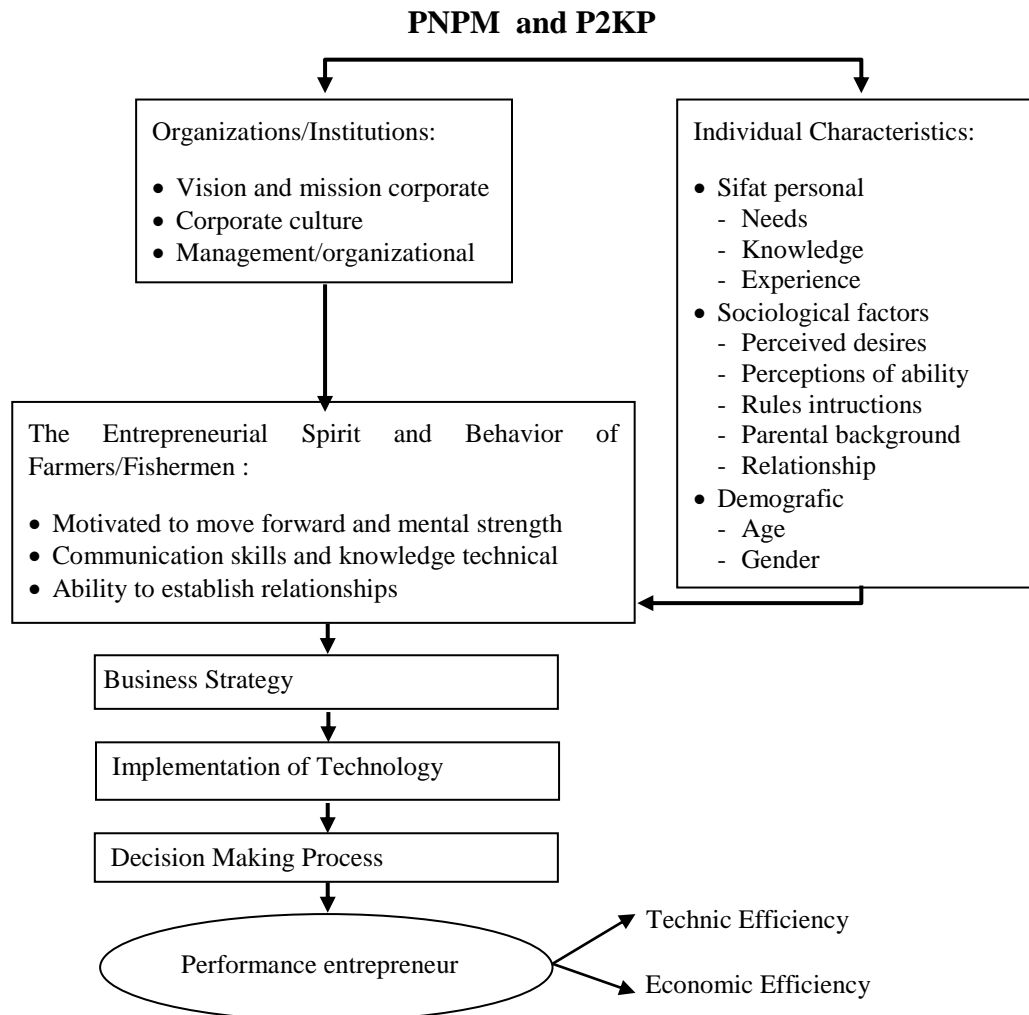
Table 4.8: Simple Linear Regression Test Results with Business Performance as the Dependent Variable

Variable	Coefficient	Value Coefficient	t-value	Sig.
Constanta	α_4	1.854	4.921	0.000
Decision Making Process	β_5	0.628	1.243	0.215
$R^2 = 0.582$		$F = 8.684$	$P = 0.037$	$N = 134$

Sources: Primary data processed, 2012

Decision-making process variables have a significant value (sig) for t-test = 0.215 < alpha value of 0.05 means that the decision-making process and significant impact on business performance. The coefficient of determination $R^2 = 0.582$ implies that the decision-making process affect business performance by 58.2 percent, remaining at 41.8 percent is explained by donations and other variables that are out of this research.

4.6. Model Development Potential Capacity Management Through PNPM and P2KP in the City of Bengkulu



V. DISCUSSION

Aspects of individual characteristics partially or jointly with organizations/institutions will affect the spirit and entrepreneurial behavior. The results showed that the positive influence the characteristics and behavior of individuals with an entrepreneurial spirit. Individual characteristics which personal characteristics (needs, knowledge, experience), sociological factors (perceived desires, perceptions of ability, rules/instructions, parental background, relationships), and demographic (age and gender).

Entrepreneurial spirit and behavioral aspects of a person will affect a person's decision making process. The study findings suggest that the entrepreneurial spirit and behavior of farmers/fishermen are motivated to move forward and mental strength,

communication skills and knowledge technical, ability to establish relationships, in order to meet the needs of achievement, independence, influence the response to someone entrepreneurial risk in decision-making.

Aspects of business strategy will affect a person's decision making process. In running a business, think the changes to products or services, marketing strategies, customer oriented / buyers/consumers, the quality, focus on innovation, and accelerate the time in dealing with the buyer/customers. Adaptation its strategic influence behavior change and improve compensation.

Aspects of decision making in the business of SME farmers / fishermen will affect business performance both in technical efficiency and economic efficiency. Business carried on having a clear vision and goals, have the will and courage in the face of risk, have a plan that is organized, and responsible for the success or failure of the business run.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusion

Based on the analysis conducted it can be concluded that:

1. Characteristics of individuals and organizations/institutions either partially or jointly affects entrepreneurship through PNPM Urban (P2KP)
2. Mental and entrepreneurial behavior of a person will affect a person's capacity in this management decision-making process through PNPM Urban (P2KP).
3. Strategies will affect one's efforts in capacity management in the decision making process through PNPM Urban (P2KP).
4. Capacity management in this decision-making process in the SME business of farmers / fishermen will affect business performance both in technical efficiency and economic efficiency through PNPM Urban (P2KP).
5. Establishment of model of development potential entrepreneurial management capacity through PNPM Urban (P2KP) in the city of Bengkulu, namely institutional and individual characteristics affect entrepreneurial spirit and behavior of farmers/fishermen in implementing the business strategy with the application of appropriate technology for the decision making process of the business performance of SMEs either in terms of technical efficiency and economic efficiency.

6.2. Suggestion

This study has several limitations that need improvement and development in future studies, including:

1. Entrepreneurial soul will affect farmers/fishermen in looking at opportunities, determine business objectives, budgeting, organizing resources and conduct an evaluation of their business activities in determining the manner and style of decision making is done by the receiving facility MFI PNPM Urban (P2KP) in the city of Bengkulu .

2. Success of farmers/fishermen are not only determined by an entrepreneurial spirit, but also that the management capacity related to personal characteristics and skills to achieve that goal.

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The Effects of Attitude toward Money and Credit Card Usage Behaviour on Compulsive Buying Behaviour

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Abstract

This paper examines the effects of attitudes towards money and credit card usage behaviour on consumer compulsive buying behaviour. Compulsive buying is a study of inefficient consumer behaviour which yields adverse psychological and financial consequences. The present research attempts to better understand compulsive buying by examining attitude toward money dimensions and credit card usage as the predictors of consumer compulsive buying. Among four dimensions of attitude toward money, only power-prestige and retention-time are significant predictors of consumer compulsive buying. Credit card usage however fails to show significant effect on compulsive buying among Malaysian consumers.

Key Words: Money Attitudes Scales (MAS), Compulsive Buying, Credit Card Usage Behavior, Malaysia

INTRODUCTION

For many people, buying is a routine and daily activity. A number of people, however, engage in an uncontrolled and excessive buying of goods which results in distress and adverse consequences on individuals' lives (Dittmar, 2005). Such a behavior is called compulsive buying which is increasing around the world (Neuner et al., 2005). Accordingly, researchers have recently turned their attention into this topic more and more. Indeed, they are digging to understand which factors affect compulsive buying behavior. For example Dittmar, 2005; Li et al., 2009 examined the effect of specific factors (e.g., money attitudes, age, gender) on compulsive buying behavior.

One critical factor affects compulsive buying is money attitudes. Phau and Woo (2008) stated that money is an instrument for exchange to facilitate trade. In addition, once an individual's need for safety is not met, they attempt to replace their desires and materialistic values which in turn, lead to excessive buying (Mueller, et al., 2007). Moreover, people who are obsessive in terms of power and prestige which are resulted from having money tend to undue consumption of consumer goods that may result in adverse consequences such as compulsive buying (Roberts & Jones, 2001). Accordingly, a number of researchers (e.g., Roberts & Jones, 2001; Phau and Woo, 2008) examined the effect of money attitudes on compulsive buying.

For decades, the debts incurred by credit cards are much greater than those of other debts (Roberts & Jones, 2001). Therefore, credit cards business are very profitable business that leads

cards issuers to give more credits to people who have less ability to pay. Indeed, Mitchell and Mickel (1999) defined credit card as an expansion of money in which payment could be postponed. This, in turn, leads individuals to purchase extreme products which results in compulsive buying. Some researchers (e.g., Roberts & Jones, 2001) have examined the moderating role of credit card usage on the relationship between money attitude dimension and compulsive buying. In spite of the importance/significance of credit card usage, the direct effect of this factor on compulsive buying has neglected.

On the other hand, it is valuable for marketers to identify which factor has more effect on compulsive buying behavior. To the best knowledge of the researchers, however, there is limited study that investigates the difference impacts of money attitude and credit card usage on compulsive buying behavior. This study therefore intended to fill these gaps. Indeed, the study has two main purposes. First, it aims to examine the effect of money attitude dimensions and credit card usage on compulsive buying. Second, this study examines which factors (i.e., money attitude dimensions and credit card usage) has the greatest effect on compulsive buying. The hypotheses of this study, are explained using theory of planned behavior.

LITERATURE REVIEW

Compulsive Buying - Compulsive buying is viewed as “frequent preoccupation with buying or impulses to buy that are experienced as irresistible, intrusive, and/or senseless” (Muller et al., 2005). Koran et al., (2006) claimed that compulsive buyers attempt to purchase unnecessary items which are more than one could afford to buy. This, in turn, leads compulsive buyers to face adverse consequences such as noticeable anxiety and financial problem. By contrast, Phau & Woo (2008) suggested that compulsive buying is the consumer’s main response to reduce stress, disappointment, lack of self-esteem, and distortion of autonomy in their lives via buying action.

According to Dittmar et al., (2007), compulsive buying includes three characteristics (1) consumers have an irresistible urge to purchase; (2) consumers lose their control over buying behavior; and (3) consumers keep on buying in spite of adverse consequences in their personal, social, or occupational lives, and financial debts. Consistent with Dittmar et al. (2007), Kearney and Stevens (2012) suggest that compulsive buyers attempt to buy due to escape from problems and conditions in their lives. The authors also mention that compulsive buyers may not stop to buy in spite of adverse consequences of the behavior such as financial issues and mental health. Therefore, addressing this behavior is important from researchers’ point of view. In fact, researchers are interested to know what factors influence consumers’ compulsive buying behavior. In this sense, a number of researchers (e.g., Roberts & Jones, 2001; Phau & Woo, 2008; Li et al., 2009) have conducted studies on the factors influence that this behavior. However, none of these studies have been conducted in Malaysia a developing country with unique cultural composition.

Money Attitudes - Most probably, individuals’ perceptions of money start from childhood (Wong, 2010). Indeed, money attitudes are, at the outset, developed by an individual’s experience with parental teaching, surveillance of family money practices, and interaction with others (Wong, 2010). Wong (2010) claimed that even though, talking about sex and drug is very common, debate on the function and importance of money has largely been neglected. Surprisingly, quite a number of young people are not exposed to personal financial management until they entered a university life. Accordingly a number of researchers attempt to measure money attitude (e.g.,

Yamauchi and Templer, 1982; Forman, 1987; Tang, 1992). Among those, Yamauchi and Templer's (1982) Money Attitude Scale (MAS) is the most common used scale to measure money attitude (Roberts & Jones, 2001). Therefore, the present research adopts Yamauchi and Templer's (1982) money attitude scale (MAS). Based on Yamauchi and Templer's (1982) MAS instrument, money attitude has four dimensions, namely power-prestige, retention-time, distrust, and anxiety.

Power-prestige

Power-prestige is the first factor presented in the Yamauchi and Templer's (1982) MAS instrument. All items of the factor point out that people use money to make an impact on others and as a symbol of success (Yamauchi and Templer, 1982). In other words, money plays the role of power for many people. That is, they do not use money so much to purchase some products such as cars, cloths, and house; instead, they use money to buy status, supremacy, and control (Roberts & Jones, 2001). Therefore, money can be viewed as a means to remove impediments that exist in the way of people seeking power.

According to Yamauchi and Templer (1982), people who achieve high score on power-prestige have positive attitudes towards the significance of money to reach power and status. By contrast, people with low score in power-prestige show less concern on money as a symbol of success and status and as a means to impress others. Phau and Woo (2008) stated that nowadays, status is achieved by possession of status goods and services rather than by personal and occupational reputation. Therefore, since individuals could gain the best in the social competition, they must reveal their social power by exhibiting their riches through the ability to buy goods and services (material objects). The reason is that riches is the best pointer of an individual's power and status in today's modern society (Roberts and Jones, 2001).

Moreover, Tang and Arocas (1997) stated that competition results in creating pressure on people in an organization as well as in social living to achieve more material objects to demonstrate their social status. Indeed, the competition in acquiring prestigious goods and services which may result in compulsive buying behavior (Phau & Woo, 2008). On the other hand, some other researchers (e.g., Hoon & Lim, 2001) suggest that people are willing to buy material belongings that grant status and symbolic respect sharply which in turn could result in compulsive buying behavior. Accordingly, we propose that:

H₁: Power-prestige dimension of money attitudes has a significant positive effect on compulsive buying.

Retention-time

The second factor of Yamauchi and Templer's (1982) MAS instrument is retention-time. This factor explains the behaviours concentrated on the future which needs a plan of preparation (Yamauchi and Templer, 1982). According to Yamauchi and Templer (1982), people who achieve a high score on this factor care significantly about the process of preparation as well as the objective of security in the future. In contrast, individuals with low score on time retention dimension reveal a present rather than future orientation and show less anxiety on careful accounting of funds. In other words, individuals holding high score on this dimension worry a lot about the future of their funds so that they strive to make a careful plan on and monitor their financial future. Low score holders, however, have less self-esteem and reflect present rather than future orientation. As a result, they have little concern on careful management of their funds.

Accordingly, people who hold low score on this factor may tend to use compulsive buying. For example, Hanley and Wilhelm (1992) indicated that compulsive buyers hold lower score on retention-time dimension than do non-compulsive buyers. In addition, some other researchers (e.g., Li et al., 2009) showed that there is an inverse relationship between retention-time dimension and compulsive buying. Thus, we hypothesize that:

H₂: Retention-time dimension of money attitude has a significant negative effect on compulsive buying.

Distrust

The third factor included in Yamauchi and Templer's (1982) MAS instrument is labelled as distrust. According to Yamauchi and Templer (1982), individuals who gain high score on this factor can be described as hesitate, suspicious, and doubtful concerning the circumstances involving money. In fact, such people feel insecure and are unsure about their ability to maximize the value of their money via effective purchases (Phau & Woo, 2008). In addition, Roberts and Jones (2001) stated that individuals with high score on this dimension tend to lose their belief towards their ability to make efficient purchase decision. The authors claim that another label for this dimension could be price sensitivity because the items of this dimension concentrate on the individuals' sensitivity to the price paid for products. After all, consumers who are sensitive to the price are less likely to demonstrate compulsive buying behavior. As a result, we predict that:

H₃: Distrust dimension of money attitudes has a significant negative effect on compulsive buying.

Anxiety

The last factor of Yamauchi and Templer's (1982) MAS is labelled as anxiety. People with high score on this factor view money as a source of anxiety and protection from anxiety (Yamauchi & Templer, 1982, Roberts & Jones, 2001). Roberts and Jones (2001) suggested that compulsive buying is viewed as solution for anxiety and that compulsive buyers respond to pressure and stress with higher level of anxiety compared with non-compulsive buyers. In addition, Valence et al. (1988) proposed a model in which anxiety is a central factor for compulsive buying behavior. As predicted, they found that anxiety is a significant predictor of compulsive buying. Moreover, Desarbo and Edwards (1996) clarified that escape from anxiety is the main motivation of people who are addicted to purchase or show compulsive buying behavior. In other words, compulsive buyers attempt to shop and do spending activity to reduce the stress and its related anxiety. In short, compulsive buyers could lower their anxiety through shopping and spending, and they frequently utilize compulsive buying during periods of stress as a way to release. Thus, based on above, we offer the following hypothesis:

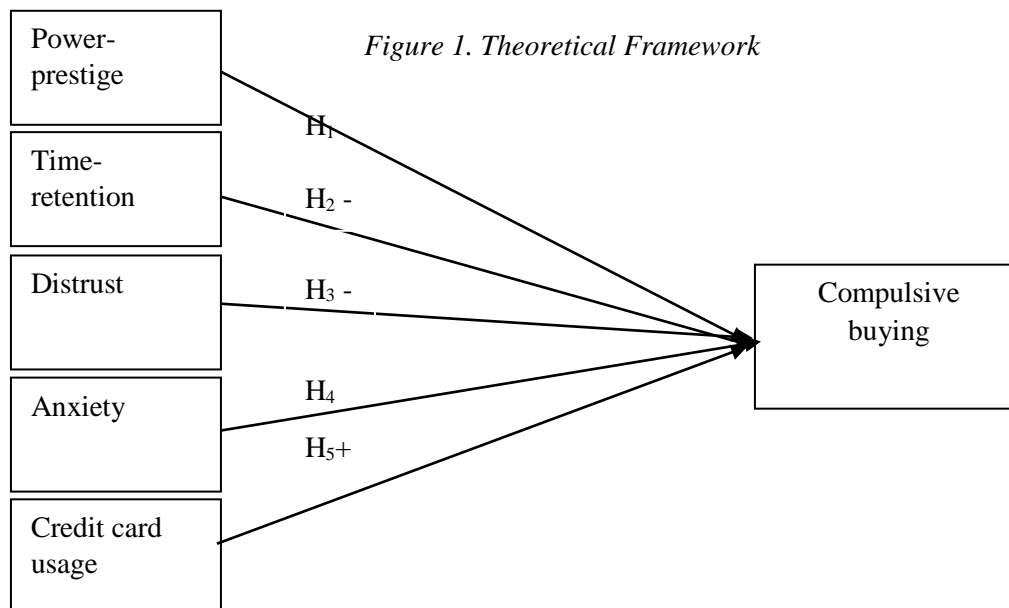
H₄: Anxiety dimension of money attitudes has a significant positive effect on compulsive buying.

Credit Card Usage - Nowadays, usage of credit cards is on the increase in all over the world (Abdul-Muhmin & Umar, 2007). In fact, credit cards, is a significant and integral part of financial systems in modern countries (Abdul-Muhmin & Umar, 2007). Abdul-Muhmin and Umar (2007) claimed that the penetration rate of credit cards especially in developed countries is reaching 100 percent. Nevertheless, there is still a significant variation of credit cards penetration among societies. Penetration rate of credit cards is higher in developed countries with high income (Kaynak & Harcar, 2001) because per capita income and purchase power are high and the basis of payment via credit cards is available entire the country. Accordingly, Some researchers (e.g., Kaynak & Harcar, 2001; Norvilitis & Mendes-Da-Silva, 2013) have conducted studies on consumers' attitudes towards credit cards because understanding individuals' attitudes towards credit cards may influence development of marketing strategies of credit card companies.

However, scholars have identified some advantages and disadvantages for using credit cards. In general, choosing credit card as a payment method is usually incidentally and driven by simple considerations such as “convenience” (e.g., credit cards are often in individuals’ wallet), “acceptability” (e.g., some stores may not accept check), “accessibility” (e.g., in some places automated teller machines may not be available to withdraw cash), and “habit” (e.g., rental is usually paid via checks) (Soman, 2001). Yet, customers are more willing to pay when they use credit cards rather than cash (Prelec & Simester, 2001). In fact, according to Prelec and Simester (2001), credit cards encourage customers to spend. For instance, Hirschman (1979) showed that customers who possess more credit cards make larger purchases. Another disadvantage of usage of credit cards is that customers usually forget the amount spent on their purchases (Soman, 1999). Accordingly, finance experts suggest that people should replace the usage of credit cards with cash in difficult economic conditions (Henegar et al., 2013) because it may lead to a compulsive buying behavior. Based on the above, we offer the following hypothesis:

H₅: Credit card usage has a significant positive effect on compulsive buying.

Based on H₁ to H₅, the conceptual framework is illustrated in figure 1.



Attitudes towards money VS credit card usage behaviour

In the scope of consumer behavior credit cards is viewed as a mean to promote spending by simplifying transactions or to resolve urgent need of money (Roberts & Jones, 2001). For example, Feinberg (1986) indicated that university students who saw credit cards logo in shopping centers were more likely to purchase and spend more money in that shopping centers. According to Roberts & Jones (2001), credit cards induce individuals to spend more money and, compared to cash, credit cards result in greater recklessness. For instance, the introduction of credit cards into restaurants led to greater sales up to 50 to 100 percent than cash transaction (Ritzer, 1995). Since, for many people, the money included in the credit card is unrealistic, they attempt to purchase through credit cards than cash, and increase their debts (Ritzer, 1995). Thus

credit card leads individuals to be involved in compulsive buying behavior. Accordingly, we offer the following hypotheses:

H₆: credit card usage has more effect on compulsive buying than money attitudes dimensions do.

Theory of Planned Behaviour

The present study utilizes theory of planned behaviour to predict consumers' intention to use credit cards or cash. The theory was developed by Ajzen (1991) and suggests that attitudes towards the behaviour, subjective norms, and perceived behavioural control affect actual behaviour. According to Ajzen (1991), attitudes refer to the degree to which an individual has a positive or negative evaluation of the behaviour. Subjective norms refer to perceived social pressure to perform the behaviour (Ajzen, 1991). Perceived behaviour control refers to the degree to which whether performing a behaviour is easy or difficult (Ajzen, 1991).

In the present research, consumers' attitudes towards cash or credit cards are important so that some scholars (e.g., Kaynak & Harcar, 2001) have conducted researches on this topic. Indeed, Attitudes are formed by significant beliefs that influence behaviour (Rutherford & DeVaney, 2009). In addition, Individuals who seek a comparable lifestyle with people around engage in behaviours which are expected by reference groups (Rutherford & DeVaney, 2009). Moreover, according to Rutherford and DeVaney (2009), people who try to conform themselves to the social norm, they engage in impulse purchases which is easy to do with credit cards. Concerning perceived behavioural control, it should be noted that one way to achieve control over credit cards is shopping for credit (Hazembuller et al., 2007). Accordingly, attitudes towards money and credit card usage behaviour could be explained via theory of planned behaviour.

RESEARCH METHODOLOGY

Data Collection

Data was collected data using a structured survey questionnaire. The questionnaire was first pretested with a small sample size (n=30) of the population under the study and experts in the area. In this stage, respondents were requested to comment on the overall structure and clarity of the items of the questionnaire.

According to Roscoe (1975), a sample size between 30 and 500 is appropriate for most researches. Accordingly, we administered 423 questionnaires among credit card holders in Malaysia, based on convenience sampling method, from which 385 questionnaires were usable. Data was collected in February of 2014.

Measurement Instruments

The questionnaire consists of three sections. Section one is about background information of respondents. The second section discovers respondents' demographics profiles. Section three comprised of three subsections, namely consumer compulsive buying, credit card usage, and attitude toward money. Compulsive buyers were identified using clinical screener developed by Faber and O'Guinn (1992). The seven point Likert scale asked the respondents to indicate their agreement with the statement presents as well as the frequency of experiencing a behaviour with the statement present as "Always" to "Never". For credit card usage, we employed a twelve-item five-point Likert scale (anchored by 1= "strongly agree" to 5= "strongly disagree") that were used in Roberts and Jones (2001)'s research. As for attitude toward money, we used the modified version of Yamauchi and Templer's (1982) 29 MAS items to measure respondents' attitudes towards money. Respondents were requested to respond on Seven-point Likert Scale ranging

from always (1) to never (7). As we had two types of scale (i.e., both five and seven point Likert scales), we converted all scales into five-point Likert scale in order to be able to do the calculations.

DATA ANALYSIS

Background Information

An overview of respondents characteristics are detailed in Table 1.

Table 1: Respondents' characteristics and background information

Respondents' characteristics			Background information		
	N	Percentage		N	Percentage
<i>Gender</i>			<i>Credit Card</i>		
Male	187	48.6	Yes	298	77.4
Female	198	51.4	No	87	22.6
<i>Age Group</i>			<i>Purchase frequency</i>		
18-22	47	12.2	Less than once	119	30.9
23-27	78	20.3	Once a month	83	21.6
28-32	115	29.8	2-3 times a month	101	26.2
33-77	70	18.2	4-5 times a month	48	12.5
38-41	37	9.6	6 times and more	34	8.8
More than 41	38	9.9			
<i>Marital Status</i>			<i>Credit Card Ownership</i>		
Single	165	42.9	Supplementary	174	45.2
Married	220	57.1	Principles	208	54.0
			Both	3	.8
<i>Race</i>			<i>Number of Credit Card</i>		
Malay	306	79.5	Only 1	254	66
Chinese	35	9.0	2-3	113	29.3
Indian	21	5.5	4-5	13	3.4
Other	23	6.0	More than 5	5	1.3
<i>Education Level</i>			<i>Income</i>		
SPM/STPM/Cert	98	25.5	Less than MYR3,000	225	58.4
Diploma	124	32.2	MYR3,001 –	111	28.8
Bachelor Degree	125	32.5	MYR5,000	29	7.5
Master	30	7.8	MYR5,001 –	12	3.1
PhD	8	2.0	MYR7,000	8	2.0
			MYR7,001 –		
			MYR9,000		
			More than		
			MYR9,000		

Exploratory Factor Analysis - Exploratory factor analysis was performed to see whether the same four dimensions of money attitudes scales: (1) power-prestige, (2) retention-time, (3) distrust, and

(4) anxiety as suggested by Yamauchi and Templer (1982) emerged in this study. As expected the same four factors emerged in Malaysian respondents with a slight difference. All four dimensions also demonstrate high reliability with Cronbach Alpha higher than .60. Six items loaded highly on the first factor labelled retention-time. The high score on this factor shows that Malaysian respondents are really concern on how they manage their money.

The second factor is similar to Yamauchi and Templer's power prestige, which denotes that Malaysians are similar to those in wealthier country which place a great emphasis towards money as symbol of success and achievement. The third factor identified as anxiety shows that Malaysian respondents treat money as a source of anxiety. The fourth factor identified as distrust, with 5 items loaded highest on this factor and represent a hesitant, suspicious, and doubtful attitude towards situations involved money. Respondents respond to all items were recorded on seven-point Likert scale which ranged from always to never. Then, the scale of all items were converted into five-point Likert scale in order to run a regression analysis between them and dependent variable (i.e., compulsive buying) which is based on a five-point Likert scale. Table 2 contains the final money attitude items and factors retained for the current study.

Reliability Test - To assess internal consistency of constructs, we used the coefficient Cronbach's alpha. As indicated in table 3, all constructs involve a Cronbach's alpha of higher than .6 which support the reliability of constructs. The coefficients are acceptable for further analysis.

Table 3. Cronbach's alpha coefficient for each construct

Construct	Cronbach's alpha coefficient
Power-prestige	.86
Retention-time	.89
Distrust	.77
Anxiety	.80
Credit card usage	.86
Compulsive buying	.66

Hypotheses testing

Multiple regression analysis was used to test the hypotheses. As indicated in table 4, power-prestige has a significant positive effect ($\beta = .303$, $t = 6.039$) on compulsive buying ($P < .001$). Accordingly, H1 is supported. In addition, Based on table 4, retention-time significantly negatively ($\beta = -.117$, $t = -2.353$) affect compulsive buying ($P < .05$). Thus, H2 receive a strong support.

However, table 4 indicates that distrust, anxiety, and credit card usage do not have a significant effect on compulsive buying. As a result, H3, H4, and H5 are not supported. Naturally, H6 is not supported, as well.

Table 4. Coefficients^a

Construct	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
Power-prestige	.294	.049	.303	6.039	.000
Retention-time	-.122	.052	-.117	-2.353	.019
Distrust	.014	.056	.013	.248	.804
Anxiety	.024	.053	.023	.446	.656
Credit card usage	.066	.041	.080	1.630	.104

Conclusion and Future Study

To sum up, the perception of money as an instrument of power-prestige and retention-time tend to reinforce compulsive buying behaviour. The results, however, showed that distrust, anxiety, and credit card usage are not significant predictors of compulsive buying among Malaysian consumers. The results, up to a point, are consistent with several previous researches. For example, Phau and Woo (2008) indicated that power-prestige and credit card usage are significant predictors of compulsive buying among Australian consumers. In addition, they found that there are no significant relationships between distrust, anxiety, and time-retention as independent variables, and compulsive buying behavior as dependent variable.

The findings provide marketers and policy makers with a few implications. Malaysian consumers view money as an instrument of power and prestige which reinforce their self-esteem and ascertain an identity for them. Compulsive buyers show this “excessive desire for things” because they meet their emotional needs for self-worth (Faber & O’Guinn, 1988). In this sense, organizations could do campaigns to appeal more customers. For example, they should attempt to do advertising campaigns to demonstrate image of status and prestige in order to capture more customers.

In addition, Malaysian consumers are concern about managing their funds. This, in turn, results in decreasing compulsive buying. Thus, policy makers should attempt to teach on how to spend their money responsibly, and how to manage their funds. Faber and O’Guinn (1988) stated that compulsive buying behaviour is not just financially impeded but that compulsive buyers’ behavior is more psychological. Hence, consumer education programs can focus more on offering skills rather than information. For example, In the USA, a number of organizations such as Visa and MasterCard educate people who are willing to own credit cards (Norvilitis & Maria, 2002).

As with any other research, the present study has a few limitations. First, our study is cross-sectional. Since, money attitude dimensions and credit card usage may change over time, our findings should be interpreted with caution. Future research could focus on the relationship between money attitude dimensions and credit card usage as independent constructs and compulsive buying as dependent construct based on a longitudinal study for better understanding. Second, our study took credit card usage as an independent construct. Future study, however, could take credit card usage as either mediating or moderating construct between money attitude dimensions and compulsive buying. Finally, the present study only examined the effect of money attitude dimensions and credit card usage on compulsive buying. Future studies may address the effect of other factors (e.g., online purchasing) on compulsive buying behavior.

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Table 2: Exploratory Factor Analysis for Money Attitudes

Item	Retention- time	Power prestige	Anxiety	Distrust
I save to prepare for my old age	.864			
I do financial planning for the future	.846			
I put money aside on a regular basis for the future	.843			
I keep track of my money	.782			
I have money available in the event of another economic depression	.760			
I follow a careful financial budget	.745			
I must admit that I purchase things because I know they will impress others		.807		
In all honesty, I own things in order to impress others		.801		
I use money to influence individuals to do things for me		.784		
Although I should judge success on individuals by their deeds, I am more influenced by the amount of money they have		.751		
Individuals tell me I place too much emphasis on the amount of money a person has as a sign of success		.737		
I seem to find that I show more respect for individuals with more money than I have		.703		
I behave as if money were the ultimate symbol of success		.624		
I show worrisome behaviour when it comes to money			.824	
I shows signs of nervousness when I do not have enough money			.812	
I worry I will not financially secure			.710	
It's hard for me to pass up a bargain			.646	
I am bothered when I have to pass up a sale			.493	
I automatically say "I can't afford it", when I can or not				.749
When I buy something, I have suspicion that I have been taken advantage of				.661
I argue and complain about the cost of things I buy				.650
I hesitate to spend money even on necessities				.629
When I buys things I wonder if I could have gotten the same for less elsewhere				.576

The Survey of Online Mediation in South-East Asia¹

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ABSTRACT

We cannot deny that Information Communication Technology (ICT) is a necessity to commercial industry at this 21st century. Necessity is the mother of all creation and at the current global economy recession, many commercial industries seek recourse to the best alternate resolution mechanism and practices to overcome commercial disputes. Costs and time became the major consideration factors whenever any commercial dispute arises. The widespread use of internet technology in the late 90's in South East Asia has heightened interest in online mediation. Over time, our technologic array has grown, many, if not most South-East Asia, mediators are already using internet to some extent to assist in their mediation business promotion and practice. Many mediators use email to communicate with clients and colleagues and some even use webcam/teleconferencing for this instance. This paper seeks to understand the nature of the online environment, and how this environment affects disputes and dispute resolution. Consequently, in first part of this paper, advantages and disadvantages of traditional mediation will be briefly exposed before presenting the role of mediation through online mediation. Then, the three successful areas of online mediation: business to consumer, business to business and domain names will be examined. Second part will be focused on legal and technical issues surrendering online mediation. The challenges posed by online mediation will be studied separately. In addition, advantages of online mediation through concrete case studies will be presented. Third part, the transformations ahead will be examined: that is to say if online mediation mechanisms are going to replace the traditional mediation or a complement mechanisms, what should be the

¹ This paper has been presented at IAMA 2009 Conference: Resolution and Resilience: ADR in the Global Recession 29th -31st May 2009, Hotel Sofitel, Melbourne, Australia

role of governments and other stakeholders in South-East Asia, and the impact of information technology on the alternate dispute resolution scene. This paper will explore the future of online mediation in South-East Asia. Online mediation is an arena of exploration and experimentation. IT is a rapid changing process and hence, the emergence of effective online mediation will require considerable efforts by the governments and other stakeholders creativities.

-“The mind is like a parachute-to use it we have to open it”

THE GEOGRAPHICAL LOCATION AND HISTORY OF SOUTH EAST ASIA



"To appreciate the present and recognize the future, one must know the past, enough to understand the culture of the people”

Definitions of "Southeast Asia" vary, but most definitions include the area represented by the countries:

- Brunei
- Cambodia
- Indonesia
- Laos
- Malaysia
- Myanmar
- Philippines
- Singapore
- Thailand
- Vietnam
- East Timor

All of the above are members of the Association of Southeast Asian Nations (ASEAN), except East Timor (also known as Timor Leste), which is an ASEAN candidate state. The area, together with part of South Asia, was widely known as the East Indies or simply the

Indies until the twentieth century. Christmas Island and the Cocos (Keeling) Islands are considered part of Southeast Asia though they are governed by Australia. Taiwan is sometimes considered part of Southeast Asia as well as East Asia but it is not a member of ASEAN. Sovereignty issues exist over some islands in the South China Sea. Papua is politically part of Southeast Asia through Indonesia, although geographically it is often considered as part of Oceania.²

Even prior to the penetration of European interests, Southeast Asia was a critical part of the world trading system. The Ryukyu Kingdom often participated in maritime trade in Southeast Asia. A wide range of commodities originated in the region, but especially important were such spices as pepper, ginger, cloves, and nutmeg. The spice trade initially was developed by Indian and Arab merchants, but it also brought Europeans to the region. First the Portuguese, then the Dutch, and finally the British and French became involved in this enterprise in various countries. The penetration of European commercial interests gradually evolved into annexation of territories, as traders lobbied for an extension of control to protect and expand their activities. As a result, the Dutch moved into Indonesia, the British into Malaya, and the French into Indochina.

As a business hub since history, South East Asia has always been active in trading and involved in commercial industrial. The demand of the industry since then has been a known fact and in case of commercial dispute amongst the businessman many resolves such dispute by the traditional method that is through the court system. This has created backlog of cases in the courts. The government of each region has decided to introduce ways and process to overcome the backlogs and the alternate dispute resolution is the mechanism to complement the court process. Alternate Dispute Resolution such as conciliation/mediation, arbitration and adjudication has been introduced in South East Asia legal systems some decade ago and yet this mechanism is always an ever changing tools due to changes in technology advancement and the needs of the people to resolve dispute speedily and cost effective as possible.

We are no longer living in the ice-age but in the 21st century whereby computer and Information Communication Technology (ICT) is a necessity for everyday usage especially in the commercial world. These technological tools have made industries to realize that they cannot move forward without getting themselves involve in the borderless technology era.

² en.wikipedia.org/wiki/Southeast_Asia

INTERNET USAGE/POPULATION DATA IN ASIA³**INTERNET USERS AND POPULATION STATISTICS FOR ASIA**

ASIA REGION	Population (2012 Est.)	Pop. % World	Internet Users 30-June-2012	Penetration (% Population)	Internet % Users	Facebook 31-Dec-2012
Asia Only	3,922,066,987	55.9 %	1,076,681,059	27.5 %	44.8 %	254,336,520
Rest of World	3,095,779,935	44.1 %	1,328,837,317	42.9 %	55.2 %	721,607,440
WORLD TOTAL	7,017,846,922	100.0 %	2,405,518,376	34.3 %	100.0 %	975,943,960

Source: Internet World Statistic

Fixed (Wired) Broadband per 100 inhabitants, ASEAN COUNTRIES

Year	Singapore	Malaysia	Thailand	Vietnam	Brunei
2011	25.5	7.0	5.4	4.3	5.5
2012	26.1	8.4	5.2	5.0	4.8

Year	Philippines	Lao P.D.R	Indonesia	Cambodia	Myanmar
2011	1.9	0.7	1.1	0.2	0.1
2012	2.2	1.5	1.2	0.2	0.0

Source : Malaysian Communications and Multimedia Commission (2014)

It is obvious from the chart above, the subscriptions for cellular phones in South-East East Asia increased in Year 2011/2012. This indicates that, technology in communication heightened in South- East Asia and the users are been exposed to communication technology which make online mediation a good mechanism for alternate dispute resolution in South- East Asia region.

THE MEANING OF ONLINE MEDIATION

Mediation is the “process by which the participants together with the assistance of a neutral person or persons systematically isolate disputed issues in order to develop options, consider alternatives and reach a consensual agreement that will accommodate their needs-Folberg and Taylor, Commercial Mediation, 1984. Mediation is a more affordable and constructive alternative to litigation. In mediation the mediator facilitates a collaborative process in which the conflicting parties create lasting agreement. A mediator facilitates this agreement by serving as a go between helping the parties negotiate a settlement to their dispute. Many times individuals in conflict don't communicate well to each other, a mediator assists the parties to effectively communicate and find common ground. Mediation has been proven effective both in legal situations, where a lawsuit has been filed, and in non-legal situations. As mediation is a non-adversarial process an agreement must be reached by both parties, one party cannot control the outcome alone. Mediation is generally more affordable, quicker, and more effective than litigation. Litigation can last years, while mediation is usually started and completed in a few weeks even for the most complex cases. Additionally, in litigation

³ <http://www.internetworldstats.com/stats3.htm>

there is a winner and a loser and as a result the parties often leave angry and bitter over the results. In mediation, however, the individuals are able to craft their own resolution rather than having them imposed upon them.

The WIPO Arbitration and Mediation Center describes mediation as follows:

Mediation (also known as conciliation) is a procedure in which a neutral intermediary, the mediator, endeavors, at the request of the parties to a dispute, to assist them in reaching a mutually satisfactory settlement of the dispute. The mediator does not have any power to impose a settlement on the parties. Mediation is also voluntary in the sense that either party may, if it so chooses abandon the mediation at any stage prior to the signing of an agreed settlement.

Using the WIPO definition of mediation, in its purest form "online mediation" would then be mediation which is, from the initiation of the process through settlement, totally online. That is, no phone calls, telefaxes, personal meetings, video conferencing, or paper communications of any nature whatsoever at any time. This author's definition of "online mediation" would also include the active intervention of the third party neutral, i.e., the mediator, and not merely the computer facilitation of offers and counteroffers back and forth.

As business moves to the internet, so do commercial disputes. There is an article published by Paula Young on "Online Mediation: Its uses and Limitations". This article was published by the Missouri Lawyers Weekly on November 2000. This article stated that Websites offering mediation and other online ADR services are proliferating. Generally, they fall into two categories: (1) blind bidding and (2) discussion based processing of disputes.⁴

The blind bidding websites, like Cybersettle, CyberSolve, ClickNsettle and Settlement Now, can help settle the dispute when the only question is "how much?" These sites are not helpful if the question is "who is liable?" A party may initiate the process by contacting the website, which in turn contacts the other party to the dispute. The service then begins collecting blind bids from both sides at its password-protected site. The software protects each side's bid from disclosure to the other side. Some sites permit only three rounds of bidding. Some sites offer unlimited rounds of bidding.⁵ The dispute settles if the blind bids are within a pre-agreed dollar range (say \$5,000) or within a certain percentage of each other. The dispute settles automatically for the median amount. If the bids are too far apart, a party can walk away from the process without having disclosed his or her "bottom line" to the other party. Since 1988, when Cybersettle went online, parties have settled 5,000 disputes involving more than \$20 million in claims⁶. Discussion based processing of disputes is also available on the internet at sites like

⁴ K. Marquess, "Point, Click – Settle Quick!" ABA JOURNAL 82 (April 2000); E. Katsh, "The New Frontier: Online ADR Becoming a Global Priority," DISPUTE RESOL. MAG. 6 (Winter 2000); D. Eidsmoe, "Calling Their Bluff: Settlement Rates Low but Hopes Still High for Online Resolution of Personal Injury Claims," DISPUTE RESOL. MAG. 9 (Winter 2000); J. Melamed, "Mediating on the Internet: Today and Tomorrow." www.mediate.com/articles/Melamed5.cfm.

⁵ U.S. Settlement Corp and ClickNsettle offer unlimited rounds of bidding.

⁶ E. Katsh, *supra* at 7.

OnLineMediators or Resolution Forum⁷. These sites are helpful in more complex disputes to convey information between parties who are located several hundred or thousand miles apart. They also can eliminate bias (by the other party or by the neutral) based on race, age, gender or disability⁸. On the other hand, they do not capture as effectively as face-to-face mediation the interests, needs, motives and emotions of the parties. A full understanding of these components of the dispute is often essential to its resolution. And the written text of e-mail puts a greater emphasis on literacy and written communication skills. Some on-line practitioners also note that parties feel more free to exchange inflammatory comments and *ad hominem* attacks that would not likely occur if the parties found themselves in the same room. Some neutrals get permission at the outset of the mediation to filter these types of comments by returning them to the sender for re-drafting before the neutral exchanges them with the other side.

CONDUCTING MEDIATION

Mediation is appropriate at any stage of a dispute. It can be the first step in seeking a resolution of the dispute after any negotiations conducted by the parties alone have failed or it can be used at any time during litigation or arbitration when the parties wish to interrupt the litigation or arbitration to attempt settlement. Another common use of mediation is prevention. Individuals or parties may mediate during negotiations for an agreement when the negotiations have reached an impasse.

WHAT ARE ADVANTAGES TO ONLINE MEDIATION

Online mediation is a convenient alternative to in person mediation. In an online (or virtual) mediation the mediation takes place over the internet as the mediator communicates to both parties using the internet. The mediator then facilitates settlement between the parties and the parties are able to participate in the mediation at the time of day that is the most convenient for them. Specialized computer knowledge is not at all necessary to participate in online mediation, instead all an individual needs to be a party to an online mediation is an internet connection and an e-mail account. I, theorize that the advantages to on-line mediation, even for parties who live in close geographical proximity, include:

- The convenience created by enabling the each party to chose the time when he or she wants to respond or participate; the value in permitting each party to reflect on their view and position before responding, and the luxury of having the time to

⁷ For a description of some of these sites, see E. Katsh, *supra* at 7-8. See generally R. Bordone, "Electronic Online Dispute Resolution: A Systems Approach – Potential, Problems and a Proposal," 3 HARV. NEGOTIATION L. REV. 175 (Spring 1998); G. Friedman, "Alternative Dispute Resolution and Emerging Online Technologies: Challenges and Opportunities," 19 HASTINGS COMM/ENT. L.J. 694 (1997); E. Katsh, "Dispute Resolution in Cyberspace," 28 CONN. L. REV. 953 (Summer 1996); E. Lide, "ADR and Cyberspace: The Role of Alternative Dispute Resolution in Online Commerce, Intellectual Property and Defamation," 12 OHIO STATE J. ON DISP. RESOLUTION 193 (1996).

⁸C. Rule, "Online Mediation: The Next Frontier for Dispute Resolution," 23 SPIDR News 10 (Fall 1999).

explicate carefully the reasons for a position in an environment that insulates each party from the emotional impact of the other.

- The reduction of emotional hostility between the parties. Often in a traditional mediation the dynamics of the interaction between the parties is reproduced in the mediation setting, with one party striving for dominance over the other. A competent mediator will seek to reduce the imbalance of emotional power between the parties. We believe that electronic communication can function as a mediating influence that reduces the amount of emotional conflict that each party brings to the conflict.
- The advantage of allowing each party to fully develop their position before responding without the pressure of the other party's physical .
- The value of providing a clear and complete record of the mediation discussions at each stage of negotiation leading to the settlement of each issue and the overall dispute.
- The ease with which the parties can access legal information to help the participants realistically assess the outcome of a trial on the merits and the advantages of cooperation.
- The promise that on-line mediation can provide a learning experience for the parties in adopting a new mode of communication that can enable them to effectively negotiate and communicate future conflicts.

The advantages of cost effectiveness, the opportunity to undertake thoughtful discussions without the time pressure of an immediate confrontation, convenient access to other expert resources to provide illumination and understanding to resolving conflicts, and the capacity of the mediators to carefully document each stage of negotiation suggests that on-line mediation could evolve as an important venue for the future resolution of certain types of conflicts.

TYPES OF DISPUTES VIA MEDIATION

Construction contractor disputes, business contract negotiations almost all disputes can be handled by mediation all the parties need is the will and the opportunity to work with the mediator to reach an agreement. There is a variety of reasons to try online or in person mediation. Most importantly among these is the fact that mediation enjoys remarkably high rates of success. This is due to the mutual nature of the negotiations. It has been stated that mediation never fails, even if a settlement is not reached, because the parties will always come away knowing more about the dispute and as a result more about how to settle their conflict. Additionally, mediation is low risk. The parties themselves are always in control of the dispute. Either party can terminate the mediation at any time.

PROPOSING THE ARCHITECTURE OF ONLINE MEDIATION FOR SOUTH EAST ASIA REGION

Building a "space" in which mediation will take place that is easy to use; accessible to anyone that has access to the Internet and the World Wide Web; and that provides a variety of "tools" that enhances communication in ways that are not possible in traditional face-to-face mediation.

The approach to project design is to create a service on the Internet that is attractive, interesting, user-friendly and cost-effective for its participants. The "mediation room" will consist of the following components:

THE ONLINE MEDIATION WEBSITE

This web site will be the gateway to the mediation service. It will advertise the availability of the service on the World Wide Web; contain information about the process for prospective parties; collect contact information from prospects in order to assess the suitability for participation in the project; contain mediation rules, a copy of the agreement to mediate; information about the backgrounds of the mediators; and a copy of the mediation handbook.

A LEGAL INFORMATION WEBSITE

In each category of dispute there will be a web site that contains substantive legal information. This web site will contain general discussions of online mediation, supported by visual enhancements and graphics; sample forms and instructions, and tools. Flow charts and graphics will be used to explain complex legal concepts. The generalized discussion will also be annotated with case and statutory references, and there will be links to other sites that provide information on a variety of family law issues. Easy access to cases and other legal materials can be used by the parties to support arguments and clarify their negotiating positions.

A REFERENCE LIBRARIAN AND HELP DESK

The legal web sites will be supported by a staff person with expertise in the underlying substantive law. This person will be able to guide the parties to relevant legal materials in the web site, but will refrain from providing actual legal advice. Another staff person will also provide technical assistance, either by telephone or by e-mail, to help the parties and the mediator utilize the software programs and master any technical barriers that might detract from the mediation itself.

MULTI-THREADED DISCUSSION GROUP CAPABILITY

Another component will be the use of multi-threaded discussion group software as a mechanism for structuring lines of arguments between the parties, and providing the

primary vehicle for the mediator to facilitate discussion and negotiation between the parties. The discussion software can be used to set the agenda for dispute settlement, organize the parties comments around particular issues, and provide a permanent archive of the mediation discussions and the agreements that have been reached. Eg. Facebook/Hi5 can be used to link parties for this matter.

E-MAIL

E-Mail will be used by the mediator to communicate with each of the parties and will enable each of the parties to consult with the mediator as they shaped their negotiating positions. E-mail between the mediator and each of the parties will provide a means to simulate the kind of shuttle diplomacy mediation that some mediators find to be very effective. All filings of exhibits and documents will also be conducted by E-Mail.

INTERNET REALY CHAT (IRC)

Internet Relay Chat can be used to conduct simultaneous discussions between the parties and the mediator as if all the participants were in the same room. Like a telephone conference call, IRC supports real-time conversations and communications. The new version of web browser will support real-time chat capability and well as real-time voice communications. The chat client also supports a white-board functionality which would enable the mediator to either post a document for both parties to discuss simultaneously in real-time, or diagram a concept or a set of issues that both parties can relate to and respond to in real-time. Each mediation room can have its mediator, agenda, moderator, "action" list, and password-protected security. The Mediator can invite a party to a own private room for a one-to-one chat which is totally secure from the other party.

VIDEO TELE-CONFERENCEING

We are exploring the use of video-teleconferencing utilizing the video camera. Enabling desk-top video-conferencing would allow the mediator to see each of the parties and for each of the parties to see each other. Since the capacity to see each other may change the nature of the communication from a purely text-based communication medium to one enhanced by the capacity to observe the other party in real-time, we are considering creating two tests groups, one that has access to video, and one that does not.

DOCUMENT ASSEMBLY TOOLS

The outcome of the mediation will be a settlement agreement. The mediator should be able to cut and paste a settlement agreement together from clauses that have been negotiated by the parties. Each thread of the discussion will deal with a substantive issue that gets resolved by re-framing the conflict into agreed upon language that gets incorporated into a settlement agreement. The mediator will draft the settlement agreement. The resulting agreement-the product of the mediation-can be E-mailed to the parties' respective counsel for advice and evaluation prior to execution.

CONFIDENTIALITY AND CONFIDENCE

There must be some kind of data protection offered to the parties using online mediation. Parties may not want their terms to be exposed to everyone and in such instance parties would prefer to keep their terms in confidential and at the same time feel confidence in mediating online.

RECOMENDATIONS

General consensus seems to be that online mediation is appropriate for the following types of cases⁹:

- Disputants are geographically distant from each other and/or from the neutral and travel for a traditional mediation is not possible or is cost prohibitive.
- Jurisdictional issues make it unclear as to which jurisdiction should prevail and/or would make enforcement of a court decision difficult.
- None of the parties are seeking to set judicial precedent or to clarify existing laws.
- The dispute itself arose from an Internet-based purchase. In these cases the disputants tend to be geographically separated, have no ongoing relationship, and have regular access to the Internet.
- Scheduling difficulties make it impossible for the parties to attend a traditional mediation session.
- Concerns about violence or intimidation between the parties makes a traditional mediation setting inappropriate, but the parties wish to move forward with mediation.
- For other reasons, a traditional mediation is not feasible, yet the parties want the assistance of a third party neutral to help resolve their dispute.

A dispute should display one or more of these characteristics before online mediation is chosen over traditional mediation. In addition, the following conditions should be met before mediation can proceed online.

- The parties must have regular, cost effective access to the Internet. Most ADR centres in South-East Asia offer Internet access for free or at a very low rate. Access to the Internet is widespread in South-East Asia, but when working with disputants in other regions it is not necessarily the case.
- The parties, their representatives and the neutral must be able to communicate in writing in a common language or make arrangements for any necessary translation.
- All disputants, their representatives, and the neutral must have at least minimal computer skills in order to send and receive communications related to the case.

⁹ Dr. Susan Summers Raines, Assistant Professor of Conflict Management Kennesaw State University, *The Practice of Mediation Online: Techniques to Use or Avoid when Mediating in Cyberspace*

- There must be provisions in place to guarantee the confidentiality and security of communications occurring as part of the mediation process. Password protection or other security systems must be in place to ensure that non-parties do not gain access to mediation communications.
- All disputants must be competent to mediate and to enter into a mediated agreement.
- Ground rules must be created by either the neutral, or by the neutral and the parties together. For online Mediation, these ground rules should include expectations surrounding the frequency with which all parties and the neutral will check and respond to messages (if mediation is occurring in an email caucus/shuttle diplomacy style, also known as asynchronous). If mediation will occur through simultaneous (synchronous) communications, then the parties and the neutral must agree to a specific schedule for the mediation session(s).
- Some online mediators ask the parties to stop communicating with each other outside of mediation so that the mediator does not fall “out of the loop”, so to speak.

CONCLUSION

Online mediation in South-East Asia has moved past the stage of asking “can it be done” or “should it be done”. Online mediation, is being done by many mediators in South-East Asia without them realizing, for instance tele-conferencing, video-conferencing, online chat and emails. However, coaching and building the mediators for online mediation is a plan for the future. At this stage, this paper turn our attention to questions of application and technique. South-East Asia is a booming region despite the global economy turmoil and the usage of internet and information communication technology has heightened and this paper meant to discuss how online mediation services can be offered in a way that preserves the integrity and the benefits of the processes during this global economy crisis to many corporate organizations , while making this online mediation process available to disputants in South-East Asia who are unaware of the benefits of online mediation. This paper further enhance the skills of online mediators in that it identifies the advantages and disadvantages of online mediation and also indicating the best practice process for online mediation process in South-East Asia.

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Service Quality Factor for the Success of Home Stay Agro Tourism in Malaysia

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Abstract

The Homestay Agro Tourism is a new concept of vacation offering different experiences to tourists. The increasing interest has provided opportunities for Homestay Agro Tourism businesses and organizations to target new niche markets. One central concern for nature based Homestay Agro Tourism is visitor's intention because it is one of the sources of future revenues for these businesses. Thus, it is critical to understand the factors that influence nature tourists' revisit intentions. Given the important of Homestay Agro Tourism industry, service provider has pointed to the ability to improve the customer service, particularly given expanding and changing nature the service quality. Significantly, detailed case research into major of service quality arrangement must be found to investigate the relationship dimension of the tourist, service quality and Homestay Agro tourism to be a critical and yet complex to understand. In this rapidly changing context, the globalization of the touristic offer and demand has motivated the touristic industry to continuously monitor the tourists' behavior and upgrade the quality of the service being offered. Thus, the purpose of this study to identify the factors and the relationship for success of Homestay Agro Tourism with the relevant attributes of perceived service quality in which would contribute to overall satisfaction as moderator to identifies of the success of Homestay Agro Tourism. Service quality consist of five dimensions there are tangible, reliability, responsiveness, assurance and empathy that ability to influence on the success for Homestay Agro Tourism. The moderator, Overall satisfaction is directly involved to the success of Homestay Agro Tourism.

Key Words: Home Stay Agro Tourism, Overall Satisfaction, Service Quality.

INTRODUCTION

Homestay is very different compared to other modes of accommodation such as a hotel, motel or bed and breakfast which is normally located in the city or suburban areas whereas the location of the Homestay is normally situated in rural areas (Salamiah and Kalsom, 2011) where the whole community is still practicing the traditional way of life and embracing strong culture and

traditional practices. Since the beginning of this concept in Malaysia, some operators have aggressively promoted and marketed their home stay product to the overseas markets. As a result, their Home stays have gained popularity especially among Japanese, Korean and Singaporean tourists (Jamilah, Williams, Paridaen and Dumai, 2007). As the program seems to become more and more popular, it garnered the confidence of many newcomers to join the industry (MOTOUR, 2011).

Agro tourism is the form of tourism vacation by capitalizing on rural place and culture by offering to the tourism real experience as a primary attraction. This concept quiet similar to eco-tourism in general however the different is agro tourism will attract the tourist to cultural experience landscape compare to eco tourism in which offer to the tourist with natural landscape appearance. The homestay agro tourism is a new concept extended from the agro tourism. Homestay agro tourism is an accommodation and agro tourism concepts by mixing both activities in delivering of tourist experience in visiting farm, feel the farmer's daily life and together an accommodation with or surrounding the farmer's plantation in rural area. Homestay means to one type of tourism based from accommodation oriented with pre design activities such as entertainment, education, food, enrichment, hospitality and accommodation components (Levitt, 1999). This is among popular tourism attraction for tourist who want to feel, interact and experience the local life style, social, community and culture in certain country (LTSN, 2003).

Homestay agro tourism is a concept of tourist's vacation with farmer's experience in allowing them to experience's the farmer's daily life together visiting their farms (Eduardo & Javier, 2006). In the world today, the concept of home stay agro tourism becomes popular and largest industries in contributing of economy in particular country. The declining of agricultural economy output in many of developing countries due to human and external factors, homestay agro tourism has been recognized as an alternatives option to diversity in economic growth. Alternately, the agricultural economy has been significantly comparative stagnant over the past three decades (Beus, 2008) in which many of countries have switch the agro economy to competitive concept known as homestay agro tourism. Small enterprises farmers, the only way to stay by two options, first by increase sales volume for maintaining agro business or second by diversify their business to increase incomes.

Homestay agro tourism is a new concept graduate popularity in Malaysia since the country is rich with natural resources and accepted as important tourism asset. Significantly tourism sector has become third largest income in Malaysia (Munan and Yuk, 2001). In early of 2012, Malaysian Prime Minister has been launched of Economic Transformation Programme (ETP) in stimulate Malaysia's aspiration of high income country by 2020 by tapping of the potential growth in tourism (Najib, 2011, New Straits Times, 2010). In order to achieve the vision, tourism has been identified as an important factor for National Key Economic Areas (NKEAs) to propel this economic transformation. Thus, Malaysian Tourism Transformation Programme (MTTP) working together in formulating strategy in generating of RM168 billion by allowing around 36 million of international tourist in term of tourist receipt (Ng Yen Yen, 2011).

The government supported by focusing in many agenda purposely for home stay development because it's significant potentially growth and as a platform in promoting country tourism attraction as well as generate operator's income and communities job opportunities. The homestay program has been proven successful contribution in offering optional accommodation attraction to the tourist with multiple type holiday programs to be chosen compare to other vacation package and gives more choices of flexibility and accommodation for them to travel

(Chan, Liu and Cheong, 2004). In real practice, the choice has been offered by the home stay for tourist is cheapest price charge and with many extra room for tourist lodging. The homestay agro tourism produce significant impact on domestic community for serving of employment opportunity and revenue gained. In few decades, farming industry become increase in technologically advancement and many small scale farmer completely found alternative source of income and agro tourism as an effective option in declines source of income. In fact, agro tourism provides an opportunity for tourist to communicate with local community to experience and appreciate the local culture. The study on impact of home stay agro tourism in local community only focuses on positive impact especially the changes in income aggregate and employment status. Many researchers consistent with the findings of impact agro tourism to income level on community. New England Agricultural Statistics (2005) define that in 2000 and 2002 the total income from agro tourism increased from 86%. This study focuses on the increase of visitor to the Flower Fields in Carlsbad is significantly positive impact in economic to the company and the community has been considerable (Lobo, Goldman, Walker, Schrade and Parker, 2005). There is possibility of increasing the numbers of tourist has been increased the foreign exchange that will generate increases in Gross Domestic Production (GDP) as well as country income (History of Agro Tourism, 2008). Most of agro tourism provides together with home stay in Malaysia. It becomes popular because of variation of races and culture practices that attract many foreigners to feels and experience. This concept offer to tourist in participate the activities and place to stay that fully monitor and arrange by the owner (History of Agro Tourism, 2008).

It was noted that the success of agro tourism programs in certain villages are inter-related to particular operators and communities. Despite many studies reporting on the success of the agro tourism homestay program, there are findings from research undertaken by the Bureau of Innovation and Consultancy UTM (2009) indicating that some agro tourism homestay operators withdrew from being operators due to the lack of demand from visitors and tourists in a given period and therefore, no income generated. This issue has led to the interest for further investigation to understand the underlying causes of this scenario. Despite development funds having been injected by the Government into the community, research has remained to identify this problem in certain areas. Therefore, it is believed that if this problem could not be tackled soon enough, it could significantly impact the Government's objectives in increasing the economy of rural community through the home stay program under the Malaysian Village Action Plan Strategy. Many studies have been focused on the evolution of the tourism events would impact the industry (Soutar, McLeod, 2003). However, there are other factor would create sustainable community development such as communities participation and the agro activities. Generally, the lack of involvement and agro tourism activities from the rural communities and farmers would increase of agro tourism home stay quality (Garrod, Wornell and Youell, 2006). Therefore it is very important to understand the underlying problems relating to the quality factors in which influence customer's satisfaction on agro tourism home stay. Thus, the objective of this study is to explore the customer satisfaction in adopting of homestay agro tourism in Malaysia. The homestay agro tourism providers compete in highly competitive environment with hotel industry, tourism industry, agricultural industry and eco tourism. The direction, decision and strategy are fully sensitive to several issues and challenges shaping the competitive landscape that affects to the long term operating environment and management impact decision. Therefore the term as customer satisfaction in service qualities are very much important to maintain or increase product equity among homestay agro tourism provider in Malaysia.

The researcher indicates and conducts a research on service quality dimension as a part of core factor to win over hospitality industry competitors. Today the service quality becomes the main

concern for many organizations in fast growing customer centric market (Vargo and Kucas, 2004) such as agro tourism industry. Significantly, the rationale of this study gives the clear idea of importance research in explaining specifically in determinant service quality factor that lead to the successful of agro tourism business. Researcher found that there are still subject area to be investigated about the impact on service quality perception and expectation gap on customer's satisfaction.

Hence the objective of the study is to determine key attributes for the success of home stay agro tourism in Malaysia. The objectives are as follows:

1. To investigate the factors that contribute to the success of home stay agro tourism in Malaysia.
2. To examine the relationship amongst factors concerning customer satisfaction on home stay agro tourism in Malaysia.

While the major factors are clearly defined, this study will try to answer following research questions:

Q1: What are the factors will contribute to the success of home stay agro tourism in Malaysia?

Q2: What are the relationships amongst factors concerning customer satisfaction on home stay agro tourism in Malaysia?

LITERATURE REVIEW

The success of homestay agro tourism service provider is determined by various factors including of internal and external factor that associated with the company's competencies and capabilities. The competencies and capabilities can be perceived the generic and applicable across industries. The company's internal competencies and capabilities are seems to be most important factors (Olorunniwo and Udo, 2006). This statement was consistent finding by Levina and Ross (2003) suggested that homestay agro tourism service provider capabilities element is most important factor in the successful of homestay services which recognizing of capabilities in technical competence in the services being offered, maintaining the relationship management and identifying of customer's business requirement. These include of expectation gap between the customers and homestay agro tourism service provider in delivering better service quality to the potential and existing customers. Basically, this study is focusing in the common dimension of homestay agro tourism service success which taking into consideration that the home stay achievement.

Service quality refers to an overall judgment of a particular service. It is based on the difference between expected quality and perceived quality. When quality is higher than expected, it can be termed as superior service. When the expected quality of a service equals a perceived service level, it is referred to as the general service quality. When the perceived service level is higher than the expected, it is referred to as better service quality. When the perceived service level is lower than expected, it is referred to as worse service quality (Iqbal, 2009). Service quality is a critical component of the customers' perception of value that determines the customers' satisfaction. Customers perceive greater value for their money when they experience a high level

of quality (Oh, 2000). By giving a good quality is an essential to the long term profitability for the healthcare provider. This is the key to improve profitability towards the organization (Anisah, Chew and Mohd Shahrudin, 2008). Within the agro tourism industry, a competitive advantage is best attained through service quality and customer's satisfaction. As a result, service quality can be used as a competitive strategy. To achieve service excellence, agro tourism providers must strive for "zero defects," retaining every customer that they can profitably serve. The hospitality can use service quality to create a competitive advantage by emphasizing on the responsiveness and consistency of the service delivery.

In homestay agro tourism service provider, perceived service quality is tools in generate customer's satisfaction in making organization profit (Donabedein, 1996). The customer word or mouth regarding the service quality affect to the customer's behavior such as loyalty, preference and decision. As such satisfying them is better rather than receiving their complaint in which saves the time and money. Rauyruen and Miller (2007), on the other hand, identified positive relationships between overall service quality, purchase intention and attitudinal loyalty. Similarly, Woo and Ennew (2004), found that service quality links with behavioral intention and customer satisfaction. Doney and Cannon (2007) argued that overall service quality affects trust, which in turn is recognized by many researchers as a key factor affecting successful relationship building (Rauyruen *et al*, 2007). In the home stay context, similar implications can be found. For example, Molinari, Abratt and Dion (2008) found that service quality is positive correlated with word of mouth, which can be considered one of the most effective types of marketing communication, by Zeithaml & Bitner (2003).

Service is intangible, heterogeneous, produced and consumed simultaneously, unable to keep in stock and different from normal physical products. Accordingly service is a process whereby involves interaction often existed between customers and service provider. As such, there are almost a relationship can be used as a basis for marketing (Gronroos, 2000). SERQUAL developed by Parasuraman, Zeithaml and Berry (1998) has been used to measure the differences between customer expectation and perceptions cross five determinants as follows:-

Tangibles refers to anything can be observed physically by customer from various line of service provider who is purchasing a service, including physical facilities, equipment, personnel, materials and appearances. Tangible is anything in a service provider that physically observed by customer, who is purchasing a service, including equipment, personnel, physical facilities, materials and appearance. A well equipped home stay will definitely can handle an customers' who mostly demand for a better or highly professional services. This includes home stay equipment being updated and renewed frequently to maintain high technological standards, comfortable rooms and facilities together with the neat appearance of home stay staff personnel. A home stay location is also considered a tangible attribute. This statement was cited by Zarina Ismail 2009, as the appearance of physical facilities, equipment, personnel, and communication material of an organization is the tangibles. Parvez (2005) added that customers look for quality in the equipment, facilities, and communication materials used to provide the service. These qualities provide concrete cues for customers to evaluate the capability of the service provider. Well-skilled first line personnel, the quality of products, brochures and cards, may represent home stay agro tourism provider tangibles.

Reliability refers to the putting trust to company's ability in performing proper way of service such as acting according to promises and declarations. The reliability is a trust to company's

ability of performing service in a proper way, such as acting according to promises and declarations. This reflects the ability to perform a service dependably and accurately. It is one of the most important service components for customers (Berry & Parasuraman, 1991). Sarina Ismail (2009) reliability is defines as the ability to perform the promised service dependably and accurately is the reliability. Churchill and Peter (1999), stated that customers want performance to be consistent and dependable. A reliable home stay provider means the competency to provide superior products or services that are working at desired level of throughput, without significant failures, according to declarations and agreement between home stay service provider and user.

Responsiveness refers to service provider's willingness to help customers and provide prompt service. It represents the willingness of staff personnel to provide services promptly and in a timely manner. As mention by Zarina Ismail (2009) responsiveness is the willingness to help customers and provide prompt service. Churchill *et al.*, (1999), added that customer must see service provider as ready and willing to perform their said service. It can be measured by the amount of time needed to deal with customers' reported problems and the response duration once the customer filed a service request. For example, responsiveness of home stay service provider evaluates the time taken to response with customer's complaints on problem solving and feedback to the customers.

Assurance refers to the knowledge, courtesy of employees and their ability to create trust and also confidence. This reflects the knowledge and courtesy of staff personnel and their ability to inspire trust and confidence in using the English Language for communication. It includes the ability to provide clear explanations before care is given together with the explanations of service to customers before they are discharged. As Zarina Ismail (2009), assurance means the knowledge and courtesy of employees and their ability to convey trust and confidence. Since risk (such as money loss) is involved when customer decides to acquire service from a service provider, assurance is important to demonstrate cue to increase customer's trust and confidence. Home stay service provider may demonstrate assurance to customers by behaving courteously and by providing essential knowledge to guide customer's problems.

Empathy refers to the caring, individualizes intention by Home Stay Agro Tourism to its customers. It involves caring, individualized attention of staff personnel, where communication in the English Language is also a factor. Cited by Zarina Ismail (2009), empathy means the provision of caring, individualized attention to the customer.

The concept of customer satisfaction has highlighted to the attention of many service provider in early of 1970's and in most of advance countries has becomes as major important determinant of customer's satisfaction. The customer's satisfaction is a concept that drawn a measurement to better understanding the criteria that meeting the customer's expectation. These criteria include the customer's demographic, staff behavior, the service being offered, the environment and hardware that will result to the quality of service. From the marketing view for service sector it has encouraged the concept of customer satisfaction in homestay agro tourism. It has drawn a measurement to better understand what criteria lead to the customer's satisfaction. In measuring the customer's satisfaction, there are a construct to be used as a requirement. Currently the customer's satisfaction is measure by using the attitude of regular or experienced of customers. With experience, it is assumed that they have formed a positive attitude because they have experience with the services rendered to them. . It will definitely reflect back to the provider about the quality of services. The study takes the customers' experience that using the same service provider. The customers who use the services provided by the home stay will directly

relate to the service quality. Customers that been using the same provider more than one time will have a good experience because they will reflex the good service quality of the provider. In determining the customer's satisfaction, the provider will revise the attitude shows from the customers. Thus, to revised perception towards service quality satisfaction will moderates it and becomes a part of service quality and this goes on and on (Sharma and Hardeep, 1999). Hamburg, Lewis and Boom (2008), suggested that customer satisfaction has been a crucial issue in marketing fields in the past decades since satisfied customers are able to offer to the continuous profitability, trust and customer loyal. If this customer satisfaction did not meet then customer feels dissatisfied and disappointed. Literature had result to the concept of customer's satisfaction but no specific approach has been devised for its measurement. Due to the limitation, some authors have criticized that customer's satisfaction is directly supported by the relationship between expectations and perception.

The success of home stay agro tourism arrangement is determined by numerous factors. According to Olorunniwo *et al.* (2006), capabilities and competencies seem to be some of the most important. For instance, Levina and Ross (2003) showed that capabilities of organization have been recognised as the most important factors for the success of organization. According to them, organization's capabilities comprise its technical competence in term of product and services offered, understanding the customer's business requirement, and relationship management. These capabilities and competences can be perceived as generic and applicable across industries. However, one has to be careful because for different industries one may expect to find different capabilities and competences that count for winning and renewing the business contract for instance, in the case of hospitality industry, as in Feeny, Lacity and Wilcox. (2005) proposed that there are 12 competences grouped within 3 capabilities that are very important for winning the business. Those competences are area expertise, business management, behaviour management, sourcing, technology exploitation, process re-engineering, customer development, planning and contracting, organizational design, governance, programme management and leadership. They are grouped within three major capabilities that each outsourcer should be looking for i.e., service delivery, relationship or partnership and transformation.

RESEARCH METHODOLOGY

Methodology can be a documented process for management of projects that contains procedures, definitions and explanations of the techniques used to collect, store, analyse and present information as part of a research process in a given discipline. Methodology may refer to nothing more than a simple set of methods or procedures, or it may refer to the rationale and philosophical assumption that underlie a particular study relative to the scientific method. According to the American Heritage dictionary, methodology can be properly referred to as the theoretical analysis of the methods, appropriate to a field of study or to the body of methods and principles related to a branch of knowledge. This study identifies the success factor for home stay agro tourism with the relevant attributes of service quality and customer's satisfaction. Each variable may have different effect as on determinant factor that could lead the success of home stay agro tourism. The framework was developed based upon the review of the literature which illustrates the relationship between both the independent and dependent variables that have a direct impact on the success of home stay agro tourism.

Hypotheses were logically conjectured relationships between two or more variables expressed in the form of testable statements. A hypothesis is a specific statement of prediction. It describes a

concrete (rather than theoretical) term of what you expect to happen in the study. The relationships were conjectured based on the conceptual framework formulated for this research in the previous section. The hypotheses test would help to prove the theories proposed in the study. After the theorizations of theories, conclusions will be made and provide better guidance for readers and future researchers.

Research Model

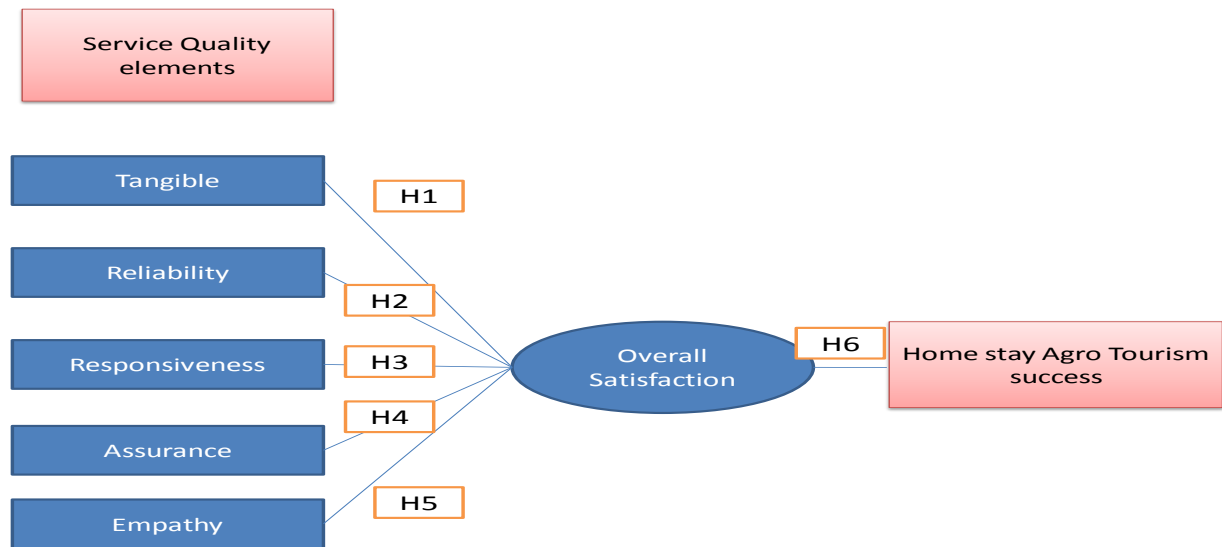


FIGURE 1: The Research model

Five hypotheses were formulated to test whether there are significant relationships between the service quality determinants of tangible, reliability, responsiveness, assurance and empathy; and customer's perception of success homestay agro tourism. The five (5) hypotheses have been developed to help answering answer the key questions pertaining to the customer satisfaction on factor for the success home stay agro tourism.

- H1: Tangible has a significant positive relationship on the customer satisfaction
- H2: Reliability has a significant positive relationship on the customer satisfaction.
- H3: Responsiveness has a significant positive relationship on the customer's satisfaction.
- H4: Assurance has a significant positive relationship on the customer satisfaction.
- H5: Empathy has a significant positive relationship on the customer satisfaction.
- H6: Customer satisfaction has a significant positive relationship on the success of home stay agro tourism.

This exploratory study, investigation of the determinant factors for the success of Homestay Agro Tourism was evaluated. The study carries out using of simple random sampling technique. The research instrument used for the study was based on questionnaire comprising of two parts and total of 43 statements. The first part is about respondent's background profile. The second parts contain all seven variables in the research model with total 35 statements. Several items on each construct are developed and adopted from relevant literatures and all of the items were measured by using a five-point Likert-type response scales, anchored at 5 strongly agree and 1 strongly disagree.

The questionnaire were distributed to 260 respondents were mailed and 200 questionnaire were returned after duration of nearly twelve week, which yielded about 76.92% response rate which are considered sufficient for meaningful data analysis. Pilot study was conducted prior to research made on larger volume to check the reliability and validity of the scale. A total of 40 respondents are chosen for the pilot test randomly to determine the reliability to measure the variable for this research before performing data collection in order to archive the objectives and the data are using SPSS version 17. The Cronbach's alpha coefficient for all the items for constructs under study were ranging from 0.713 to 0.856 (Tangibles=0.831, Reliability=0.665, Responsiveness=0.749, Assurance=0.901, Empathy=0.895, Customer Satisfaction=0.899 and Home Stay Agro Tourism Success=0.732).

To test the hypotheses developed in this research, inferential statistics is being employed. Inferential statistics for this research included correlation analysis, Pearson Correlation, multiple regression, one way ANOVA and independent t-test were done to enable researcher to correctly and meaningfully interpreted the data in answering the objectives of the research.

ANALYSIS AND FINDINGS

TABLE 1: Correlation Matrix for Service Quality Variables vs IT Service Provider Success Correlations

	Tangibles	Reliability	Responsiveness	Assurance	Empathy	Satisfaction	Success
SUCCESS Pearson Correlation	.726**	.647**	.454**	.679**	.868**	.709**	1
Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
N	200	200	200	200	200	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

The results for the correlation between the Success of Home Stay Agro Tourism and six factor of Service Quality factors are shown in Table 1 and is reported significant positive correlation was found between Homestay Agro Tourism and Tangible factors which the correlation is $r=0.726$ and $p\text{-value}<0.05$, Reliability factors which the correlation is $r=0.647$ with $p\text{-value}<0.05$. Significant positive correlation was found between Home Stay Agro Tourism and Responsiveness factors which the correlation is $r=0.454$ and $p\text{-value}<0.05$, Assurance factor which correlation is $r=0.679$ and $p\text{-value}$ for 0.00. Empathy factor which the correlation is $r=0.868$ and $p\text{-value}$ for 0.00 and Overall Satisfaction factor which the correlation is $r=0.709$ and $p\text{-value}<0.05$.

The data analysis to test the all hypotheses was made using Multiple Regressions. In table 6 revealed the results showed that Homestay Agro Tourism Service Provider Success and five independent variables that are Tangibles, Reliability, Responsiveness, Assurance and Empathy; and interaction between these five independent variables with one moderating variable that is Overall Satisfaction. The model as shown by the P-value is significant at 0.01 levels. Total explained variation is 51.5% as shown by adjusted R-squared. As shown in Table 2 **Error! Reference source not found.**, all variables are significant at 0.01 levels. Both the interaction variables are also significant at 0.01 levels.

TABLE 2: Multiple Regressions between Success of Home Stay Agro Tourism and Service Quality and Overall Customer Satisfaction as Moderating Variable.

Model		Coefficients ^a					Model Summary	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	Adjusted R Square
		B	Std. Error	Beta				
1	(Constant)	-.183	.107		-1.708	.089	0.944	0.891
	Tangibles	.318	.032	.346	9.958	.000		
	Reliability	.007	.032	.008	.230	.818		
	Responsiveness	.009	.028	.008	.302	.763		
	Assurance	.168	.033	.175	5.075	.000		
	Empathy	.557	.034	.580	16.300	.000		
	Satisfaction	.013	.035	.014	.356	.722		

a. Dependent Variable: SUCESS

The data analysis to test the all hypotheses was made using Multiple Regressions. In table 2 revealed the results showed that Success of Home Stay Agro Tourism and five independent variables that are Tangibles, Reliability, Responsiveness, Assurance and Empathy; and interaction between these five independent variables with one moderating variable that is Overall Satisfaction. The model as shown by the P-value is significant at 0.05 levels. As shown in Table 2, Tangibles, Assurance and Empathy variables are significant at 0.05 levels. The results from the table shows that Beta of tangibles is 0.318, reliability is 0.007, responsiveness is 0.009, assurance is 0.168, empathy is 0.557 and overall satisfaction is 0.13. It means that every 1 percent increase of independent variable will effect by Beta for each variable. Based on the result, assurance and empathy has the highest impact on overall satisfaction. The five independent variables explain 94.4 percent of the variance in success of home stay agro tourism. After inter-correlation R square (0.944) is generated actually the square of R (0.891)². This means that 94.4 percent of five independent variables and one mediate variable have impact on the dependent variable. In other word, 94.4 percent of variance in success of home stay agro tourism was explained by the independent variables. Based on rule of thumbs, the remaining of 5.6 percent cannot explain by the regression analysis.

DISCUSSION

First hypothesis of tangible was accepted because the multiple regression analysis between Tangible and IT service provider was positively significant at $r=0.726$ at $p=0.000$. Therefore this hypothesis was accepted. This quality provide concrete cues for customers to evaluate the

capability of the service provider and according to Ismail (2009), well-skilled first line personnel the quality of products, brochure and cards may represent Home Stay Agro Tourism tangibles. Second hypothesis is Reliability was accepted due to standard coefficient of the reliability variable was found $r=0.647$ with $p=0.000$ which is less 0.01. Study show that reliability would influence people in building confident in making of satisfaction. Sarina Ismail (2009) mentioned that service provider have to become more reliability for better meeting customer's needs and achieving greater satisfaction. Finding efficiency of home stay agro tourism is basically a reliability problem and reliability is directed to customer's satisfaction. Third hypothesis is Responsiveness shown the results of $r=0.454$ at $p=0.000$. Thus this hypothesis was accepted. Kotler (1999) indicated that responsiveness is the willingness to help customers and provide prompt service. Furthermore, Olsen (2004) has founded the most important factor that influence customers' satisfaction and purchasing includes price or cost, convenience or availability and knowledge. Thus in this study was consistent with previous researchers that attributes such as price or cost, convenience or availability, knowledge and suitability are significant contributor of responsiveness. Indeed, technology enhancement by introducing of new upgrade system and capacities has become commercially successful attraction to increase customer intention.

Forth hypothesis is Assurance reported the $r=-0.679$ and $p=0.000$. Thus this hypothesis is accepted. Bitner and Zeithaml (2003) found that assurance negatively influence of service provider success. Parvez (2005) argue that assurance is a significant differentiator and the most powerful competitive weapon in which all services industries want to possess. Significantly, this implies to the assurance in which organization used their internal ability such as maximize staff potentiality in deliver high quality customer service in increasing customer's trust, comfortable and confidence with the data service provider via information, knowledge, staff and reputable of the company, many people would increase confident level and at the same time suggest it to their family, relative, neighbor and friends. This is strong variable which is people make "mouth to mouth" informational marketing on behalf of the company to anybody without any increase cost and the information is available. Thus assurance and customer satisfaction is also hypothesized to examine the relationship among them and how their influences between each others.

Hypothesis sixth s Empathy and founded that $r=0.868$ with $p=0.000$. This hypothesis is accepted. The result is consistent with the present study by Shaari and Arifin (2010). This can be concluded that people experience on organization's customer service can influence trust towards customer satisfaction. In today business world intensive customer service has advantage capability to increase trust towards of customer satisfaction to perform intention to purchase. It shows that when customers have gained more quality of knowledge they will makes satisfaction towards intention to purchase of home stay agro tourism; they would have more intention to buy it. This is consistent with Andaleeb and Conway (2006) that has knowledge has significantly positive influence on belief. Seventh hypothesis is Overall Satisfaction has been founded the value of $r=0.709$ and $p=0.000$ which is below than 0.01. Therefore, this hypothesis is accepted. This is one of the most important and desired qualities between a satisfaction and its customers Matzler, Grabner, Hrauter and Bidmon (2006). It shows that when customers have gained knowledge, information, benefit, individual attention, caring and experience on the quality of customer satisfaction they will makes intentional behavior towards home stay agro tourism provider; they would have more intention to buy it.

As conclusion this study has been summarized the research findings related to the research problem, research questions and the hypotheses. It has also achieved its objectives because the outcomes of the study provided answer to the research problem and research questions.

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Analysis of the Efficiency of Nigerian Insurance Companies: A DEA and LGCM Approach

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ABSTRACT

The main purpose of this paper was to investigate the performance of Nigerian insurance companies using Data Envelopment Analysis (DEA). Because of unavailability of the required data, the study was limited to ten Nigerian insurance companies for the period of five years period from 2008 to 2012. The input employed were commission expenses and management expenses, while premium and investment income were used as the output. Data was sourced from the respective insurance website and African financial website. DEA was the main methodology used in analyzing the data of this study while ratio analysis (liquid asset to total asset, total equity to total asset and return on asset) was also used in addition to the DEA. The overall result of the Total Factor Productivity (TFP) shows that Nigerian insurance industry were less efficient and this was caused by low level of Technical efficiency (EF) change including Technological change (TECH), this was also confirmed by the result of LGCM which revealed that their efficiency over the period was declining. However, some of the leading insurance companies in terms of the performance (TFP) are Leadway insurance, Standard Alliance insurance, Sovereign Trust insurance among the insurance firms. The results of the ratio on the other hand revealed that Leadway is the highest in terms of the profitability, Aiico was more liquid compare to the other firms and Oasis insurance finance its asset with shareholder's fund more compare to other insurance firms.

Keywords: *DEA, Efficiency, LGCM, ROA and Nigerian insurance companies.*

1.1 INTRODUCTION

Analyzing the efficiency of insurance companies has been of interests to the researchers in the recent period, this is due to the crucial role this sector of financial institution play in the economy. Study the efficiency of the insurance companies is highly important because it helps in determining how the insurance companies respond to the various challenges and how many of them are likely to survive those challenges in the event of its occurrence (Berger & Humphrey, 1993). Efficiency of Nigerian Insurance companies can be ascertained by using an appropriate measure such as Data Envelopment Analysis (DEA) to analyze their efficiency over a certain period of time. Knowing the efficiency of the insurance companies is highly important because of their important roles in the country. According to Kubai (2011), insurance industry provide financial security as well as financial intermediation to both individuals and businesses in the economy, hence, improving the nation's financial and economic development. This important roles played by the insurance companies is not limited to an individual country but to the entire world.

Interestingly, Nigerian insurance market together with South Africa have been acknowledged as part of the most developed insurance market in the African countries (Barros & Obijiaku, 2007). This is due to the fact that Nigerian insurance market consist 103 insurance companies and 350 insurance brokers as at the time when their study was carried out. However, following the 2006 recapitalization of Nigerian insurance industry, their number declined to 49 from 103.¹⁰ This recapitalization was to ensure and enhance the efficiency of the insurance industry. It is believed that company will be able to achieve efficiency and growth if there is increment in its capital base (Orea & Kumbhakar, 2004).

Giving the important role of the Nigerian insurance industry, few studies have been carrying out that analyze the efficiency of this industry especially after the recapitalization that took place in 2005/2006. Out of this study, none of them uses DEA in their study to analyze the efficiency of the insurance companies in Nigeria giving its robustness in analyzing the efficiency of the company. In this regard, study the efficiency of the Nigerian insurance companies is highly important to the Nigerian because one of the main objectives of the recapitalization was to improve the efficiency of the industry. Thus, this recapitalization was expected to increase the efficiency of the industry. This study is therefore the first study that used Data Envelopment Analysis (DEA) in analyzing the performance of the Nigerian insurance companies especially after the recapitalization of 2005/2006 as far the researchers is aware.

Recent recapitalization of Nigerian insurance industry was aimed to increase the efficiency of the industry. Due to this recapitalization, the number of the insurance companies have decreased to just 29 as at 2009 according to Ibrahim & Abubakar (2012) and after then increased to 49 as at 2012 as mentioned. This decrease has led to the high performance of the industry, increase competition as well as impacting the economic growth of the country (Richard & Victor 2013). However, study the performance of the insurance industry in aggregation will certainly not reveal the individual efficiency of these insurance companies. Therefore, this study empirically investigates the efficiency of the selected companies among the Nigerian insurance companies.

¹⁰ Adeoye T. B. (2012), [Recapitalization of the Nigeria Insurance Industry](http://adeoyebabatola.wordpress.com/2012/02/23/recapitalization-of-the-nigeria-insurance-industry), available: <http://adeoyebabatola.wordpress.com/2012/02/23/recapitalization-of-the-nigeria-insurance-industry>, accessed on 29 April, 2014.

The main objective of this paper is to analyze the performance of the Nigerian insurance companies using Data Envelopment Analysis. As part of this performance analysis, the study also used ratios to study the performance of the sample companies as well as Latent Growth Curve Modeling over the period covered. This study aimed at making a distinctive contribution to the Nigerian insurance industry. More so, carrying out this research will not only improve individual performance of Nigerian insurance companies but also the performance of the Nigerian insurance industry as a whole which in turn will uplift their contribution to the national economic development.

1.2 Overview of Nigerian Insurance Industry

The concept of insurance in its modern form was introduced into Nigeria through the establishment of what was known as Nigeria agent by the British in the 19th century, Badejo (1998) as cited by (Richard & Victor, 2013). Richard and Victor argued further that the first indigenous insurance company (African insurance company) was established in 1958. The paramount reason for the establishment of this insurance was to provide both life and non-life insurance cover in the country. Life insurance offered covers that are related to risk of life, pension funds administration services and annuities, while non-life insurance on the other hand provide risk of damage or loss of the property (Hamadu & Mojekwu, 2010).

Promulgation of the Nigerian Insurance Decree 1976 and creation of the National Insurance commission (NAICOM) 1997 were some of the main development that took place in the Nigerian insurance industry since it was established. Section 86 of the insurance Acts of 2003 states that NAICOM shall be responsible for the enforcement and the administration of the insurance Act. In 2003, recapitalization was introduced by Section 9(4) of Insurance Acts 2003. Based on this recapitalization, capital based requirement for the Life insurance was ₦15m, ₦200m for the General insurance and ₦350m for the composite insurance and reinsurance. Following 2003 recapitalization exercise, the capital based requirement was raised to ₦2billion for the Life insurance, ₦3billion for the non-life insurance and ₦10billion for the reinsurance (Richard & Victor, 2013).

Merger and acquisition was used for the recapitalization which eventually caused the decreased of Nigerian insurance company from over 100 to 49 and reinsurance from 4 to 2. Above all, Nigerian insurance industry has contributed to the development of the economic growth through managing the risks of the firms as well as the households including mobilization of fund from the surplus unit to the deficit unit.

This study is structured into five main Chapters including this introduction. Various literatures reviewed by the researchers are discussed in Chapter two, Chapter three contained the methodology adopted for this study including the data gathering process. Chapter four presents the analyses and findings of this study, while the last Chapter concludes this study.

2.1 LITERATURE REVIEW

This chapter discusses the previous studies that are pertinent and were within the scope of this study. These discussions cover both conventional insurance as well as takaful because takaful is not new to the Nigerian insurance companies as most of them are now offering takaful product in order to satisfy the demand of Muslims in the country. Many researchers all over the world have been using Data Envelopment Analysis (DEA) to analyze the performance of the insurance companies across the world. Before delve into the empirical review on insurance industries, it is pertinent to discuss theoretical review that are underpinning efficiency.

Previously, many researchers have defined the concept of efficiency according to the objective of their study. For instance, according to Farrell (1957) efficiency refers to the proper use of the available resources in order to maximize firms production of goods and services, this

efficiency measures the relationship between the input employ to generate the output. There are two types of efficiency according to Farrell (1957) and these are technical efficiency and allocative efficiency. Technical efficiency which is further decomposed into scale efficiency and pure technical efficiency is refers to as the firm's ability to maximize the output given a set of input with lower cost and no waste of materials. Allocative efficiency on the other hand deals with optimal use of the inputs given their respective prices.

The findings from various literatures on the efficiency of insurance companies from different parts of the world have significant implication for the insurance operators in the area of their competitive strength, policymakers, insurance industries regulators and also to create the efficient financial institutions (Saad, 2012). Obviously, the two methods that are used wildly to measure the insurance industries efficiency are Stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA) (Aigner, Lovell, & Schmidt, 1977). Some of the studies that used these methods across the countries are discussed in this section.

Saad (2012) compare the efficiency of takaful and insurance companies in malaysia using DEA, his study covered from 2007 to 2009 and included 28 general or non-life insurance and takaful operators. The outputs employed into his study were premium and net investment income while the inputs were commission and management expenses. He found that insurance companies out performed the takaful operators over the period of his study and that only one takaful operator (Prudential BSN Takaful Bhd) recorded total factor productivity (TFP) performances over the industrial average.

Also, Abduh, Omar, & Tarmizi (2012) measured the performance of insurance industry in Malaysia over the period of 2008 to 2010 using both ratio analysis and the DEA in analysing the performance of 12 takaful and insurance companies. Liquid asset to total asset, return on asset, total equity to total asset and premium and reinsurance receivables to total asset were all used in their ratio analyses, however, premium and net investment income were employed as their outputs while commission and management expenses were used as the inputs.

Whereas, Arif, Nawi, Muhamad, Ahmad, & Aleng (2012) focused on the stochastic frontier analysis approach (SFA) in analyzing the efficiency of 26 general insurance companies in Malaysia from 2007 to 2009. They argued that the relative efficiency of the general insurance companies increased from year to year over the period of their study. It was reiterated in their study that Oriental Capital Assurance Bhd (OCA) posted the highest relative efficiency among the general insurance companies included in their study over the period of their study (2007-2009)

Owusu-Ansah, Dontwi, Seidu, Abudulai, & Sebil (2010) studied the technical efficiencies of 10 Ghanaian general insurers using DEA for the period of 2002 to 2007. They used premium earned, and claims and investment income as their outputs while the debt capital, equity capital and management expenses were used in their study as the inputs. Their results shows that Ghanaian general insurers on average were operating at 68% overall efficiency, 78% technical efficiency and 78% scale efficiency. They concluded that good number of the Ghanaian insurance companies are operating with high level of managerial skills.

Barros & Obijiaku (2007) studied the technical efficiency of 10 Nigerian insurance companies from 2001 to 2005 using DEA. They used profit or loss for the year, net premiums, settled claims, outstanding claims and investment income as the outputs while total capital, total operative costs, total number of employees and total investment as their inputs. Their result showed that some of the Nigerian insurance companies were inefficient, although there was a just a margin for them to upgrade their efficiency. They also argued that all the companies considered in their study did not display an equivalent efficiencies.

Bawa & Ruchita (2011) analysed the efficiencies of health insurance business in India for 10 general insurance companies and 4 public sector companies over the period of 2003 to 2010

using DEA. The inputs of their study were equity capital and labour (including agent's fees, commission and other expenditure, while the output is net premium). They found that on average, the technical efficiency of the health insurance business was 73%, the scale efficiency was 78% and pure technical efficiency was 92%. They argued that public sector companies were becoming mature and now having the decrease return to scale because of the competition with the private sector companies given the improvement in private sector.

Another study of Dalkılıç & Ada (2014) studied the efficiencies of Life/Pension Insurance Industry in Turkey from 2010 to 2011 using DEA. There were 20 sample companies and the input used were operating expenses, shareholders' equity, number of agencies and number of staff employed by insurance companies while the output were net gross written premiums, net claims incurred and net technical provisions. There was a decrease in the average scale efficiency of 20 companies included in their study from 92% in 2010 to 87.7% in 2011. However, the life insurance companies average scale efficiency increased from 94.8% in 2010 to 98.6% in 2011.

Last but not the least is the study of the Eling & Luhn (2010) which compared the efficiency of 3,831 companies across 91 countries from 2002 to 2006 using DEA and SFA. Labour, debt capital business services and material and equity capital were used as the inputs while net incurred claims plus additions to reserves was used as a proxy for the output. By employing different methodologies for different countries, organizational forms and company sizes, life and non-life insurers were compared for the stated period. They revealed that there was a steady growth in the technical and cost efficiency in the international insurance market starting from 2002 to 2006. Based on ranking, Denmark and Japan were the top in terms of average efficiency. Whereas Philippines was ranked as the lowest country.

Thus, literatures revealed that DEA has been employed in different countries to study the efficiency of the insurance industry, but there is no study that use this method to study the efficiency of the Nigerian insurance companies after the 2005/2006 recapitalization that took place on this industry as far as the researchers is aware. Moreover, study the efficiency of Nigerian insurance industry in the recent period is of paramount interest of Nigerians in order to evaluate the effectiveness of the industry after recapitalization. This study was indeed carried out in order to reveal the efficiency of Nigerian insurance industry especially after the industry recapitalization.

3.1 DATA AND METHODOLOGY

This study adopted non-parametric approach in evaluating the performance of Nigerian insurance companies as well as ratio analysis. The non-parametric used was Data Envelopment Analysis (DEA), it also used Latent Growth Curve Modeling (LGCM) and the ratios used were liquid asset to total asset, total equity to total asset and return on asset (ROA) in addition to DEA. Researchers believed that using this three approaches will revealed the efficiency of the selected insurance companies. These set of ratio analysis were employed in order to be in line with the previous studies such as Akhter & Zia-ur-Rehman (2011) and Abduh et al., (2012), the mean and standard deviation are presented for each company for the entire period in the next chapter. Following the discussion of Abduh et al. (2012), these ratio analysis are discussed as follows:

1. Liquid asset to total asset ratio: - This ratio was used to identify how liquid each company is over the period of the study compare with the firm total assets, it was measured by dividing cash in hand and bank and financial asset with total asset of the firms.
2. Total equity to total asset ratio: - This ratio was used to measure the amount of the shareholders equity that was used in financing the firm's asset over the period of study, and it was arrived at by dividing the total equity by the firm's total asset.

3. Return on asset (ROA): - This was used to determine the ability of the firm's management in generating profit from its investment in asset, it was calculated by dividing the return of the firms by the total asset of the firm.

Another ratio used in the previous study mentioned above was premium and reinsurance receivable to total asset ratio which is not included in this study. This ratio was excluded because the required data needed to calculate it was not specifically mentioned by most of the selected companies.

As mentioned, DEA is one of the frequently used methods to analyze the effectiveness of the insurance companies around the world. Since 1978 that DEA was introduced, researchers from different fields have recognized it as an excellent method for modeling operational process for evaluating performance because the method required few assumptions and its friendly (simple) (Cooper, Seiford, & Zhu, 2011). In using DEA for performance evaluation, the appropriate inputs and outputs choices play a significant role both for insurance industry as well as other industry (Owusu-Ansah et al., 2010). The inputs and outputs choices for this study is discussed below.

In accordance with the study of Ismail, Alhabshi, & Bacha (2011), Saad (2012), Abduh et al., (2012) and many others, this study used two inputs and two outputs. The inputs are commission and management expense, while the outputs are earned premium and investment income. In order for this study to be consistent with the Färe, Grosskopf, Norris, & Zhang (1994), study used an enhanced decomposition of the Malmquist index, efficiency change component decomposition, calculated relative to constant returns to scale technology into pure efficiency component (calculated relative to the variable returns to scale (VRS) technology) and a scale-efficiency change component which captures changes in the deviation between the VRS and constant-returns-to-scale (CRS) technology. Also, the subset of pure efficiency change measures the relative ability of operators to convert inputs into outputs, while scale efficiency measures the extent to which the operators can take advantage of returns to scale, by altering its size in the direction of the optimal scale (Saad, 2012).

3.2 Data Source and Sample Size

The sample for this study comprises 10 companies out of Nigerian insurance industry. These companies were selected because of two important reasons. firstly, they are currently part of the leading insurance companies in the country, and secondly, they are data were available for the period covered. Initially, researchers selected 20 insurance companies from National Insurance Commission (NAICOM) and intended to study their efficiency for the 10 years period from 2003 to 2012.

However, due to the availability of data required for the inputs and outputs, the study was limited to 10 insurance companies¹¹ for five years (50 observations) from 2008 to 2012. Data for selected companies were sourced from the respective annual reports downloaded from the each company's website but in a situation where annual reports were not available from the company's website, research proceeded to download it from the African financial website¹², and all data were in Naira (₦) values.

3.3 Latent Growth Modelling (LGCM)

This study also employed latent growth curve model in order to investigate the trend or changes in the efficiency of Nigerian insurance companies. Researchers used this model (LGCM) because of the dynamic associations among multiple causes and effects of insurance company's efficiency cannot be sufficiently elucidated by conventional regression methods but this can be best assessed

¹¹ Find the lists of selected companies under the Appendix 1

¹² At http://www.africanfinancials.com/Company_list.aspx?countryUID=11

by growth curve modeling (Marathe, Wan, Zhang, & Sherin, 2007). This model assumed that the two growth components; intercept (the initial status) and slope (the change) in the efficiency measures are not independent and are related (Marathe et al., 2007). Under this analysis, the outputs of the constant return to scale (CRS) and variable return to scale (VRS) presented in the above section was used. Also, it was assumed that the efficiency measurement will increase linearly with time for each firm with separate slope and intercept for each firm

4.0 DATA ANALYSIS AND FINDINGS

The analysis for both ratio analysis and DEA results are presented in this section. It was previously mentioned that the researchers used three ratios in complementing the DEA analysis. The result for the ratio analysis are first of all presented then followed by the main focus of the analysis (Data Envelopment Analysis).

4.1 Ratio Analysis

Based on vivid discussion in the previous section, it was said that liquid asset to total asset was calculated by dividing liquid asset (cash, bank and financial assets) by the total asset. LA/TA represents this ratio in the Table 4.1, Aiico insurance PLC has more liquid asset with (28.35% mean), followed by Leadway Assurance with (26.32% mean). However, the least in terms of this ratio was African Alliance insurance with (8.8% mean). Based on the information from the Table 4.1, Aiico insurance also has the highest Std. Deviation of 29.73% which means that this company is more volatile for the period covered in this study (2008-2010).

TE/TA in the Table 4.1 represents total equity to total asset ratio and it was calculated by dividing the total equity by the total asset for each company over the period of the study. Oasis insurance has the highest of 339.65% mean compare with other Nigerian insurance companies, follow by Unity Kapital assurance with 89.69% mean, follow by Consolidated Hallmark insurance with 73.46% mean, while the least insurance company is Aiico insurance with 44.49%. This means that these insurance companies financed their assets more with shareholders' funds compare with other companies. Therefore, this ratio indicated that the higher this ratio is, the lesser risky is the firm compare with other insurance companies.

Table 4.1

Ratio analysis for 2008-2012 IN (%)					
S/N	COMPANY'S NAME		LA/TA	TE/TA	ROA
1	Consolidated Hallmark Ins	Mean	14.18	73.46	5.08
		Std. Deviation	15.73	6.54	1.12
2	Aiico Insurance	Mean	28.35	44.49	3.87
		Std. Deviation	29.73	10.22	0.57
3	Cornerstone Insurance	Mean	23.19	56.42	1.01
		Std. Deviation	27.66	6.86	4.6
4	Leadway Assurance	Mean	26.32	29.52	10.8
		Std. Deviation	27.83	8.65	2.23
5	Mansard Insurance	Mean	22.09	63.33	5.33
		Std. Deviation	27.17	12.55	3.47
6	Oasis Insurance	Mean	18.66	339.65	-39.77

		Std. Deviation	18.14	349.39	82.23
7	Sovereign Trust Insurance	Mean	17.97	55.13	4.84
		Std. Deviation	22.07	15.97	10.8
8	Unity Kapital Assurance	Mean	19.04	89.69	1.7
		Std. Deviation	21.72	2.05	2.51
9	Standard Alliance Insurance	Mean	14.44	58.6	7.26
		Std. Deviation	15.74	3.99	9.19
10	African Alliance Insurance	Mean	8.8	60.29	-5.27
		Std. Deviation	11	14.73	27.45

Finally, the ROA in Table 4.1 represents the return on asset and it was calculated by dividing the annual return by the total asset of the each company throughout the period of the study. This ratio measured the overall profitability of each company over the period of the study and the leading insurance company using this ratio was Leadway Assurance with 10.8% mean, followed by Standard Alliance insurance with 7.26% mean, followed by Mansard insurance with 5.33% mean, and the least in terms of this ratio was Oasis insurance with -39.77% mean. Most of these companies have very low ROA may be because of the competition with other growing insurance companies in the country or the management are less efficient in managing the asset investment.

4.2 Data Envelopment Analysis (DEA)

There are two input and two output used in this study and they are commissions and management expenses for the inputs, while premium earned and investment income were used for the outputs. These inputs and outputs were employed in order to study the efficiency of the Nigerian insurance companies. Under this heading, descriptive analysis is presented first in order to describe sample companies.

4.3 Descriptive Statistics

Table 4.2 below reports the descriptive statistics of the inputs and outputs of the 10 insurance companies that were selected for this study over the study period. For the outputs, it seems that Aico insurance has the highest amount of the premium and Leadway insurance has the highest amount of the investment income, while Sovereign Trust insurance has the highest amount in terms of commission expenses whereas Leadway assurance has the highest amount in terms of management expenses as in inputs. On average, the amount of the commissions and the management expenses were ₦1, 929,404 and ₦2, 582,153. Meanwhile, the average premium and investment income were ₦4, 038,978 and ₦1, 213,441. Overall, the total premium, total investment, total commission expenses and total management expenses used in this study were ₦323, 118,270, ₦49, 144,342, ₦78, 140,869 and ₦104, 557,185 respectively.

Table 4.2

	OUTPUT		INPUT	
	Premiums (₹ mill.)	Investment income (₹ mill.)	Commissions (₹ mill.)	Mgt expenses (₹ mill.)
Total	323,118,270	49,144,342	78,140,869	104,577,185
Mean	4,038,978	1,213,441	1,929,404	2,582,153
Median	3,104,014	429,693	620,558	1,171,403
Std. Deviation	3,547,918	631,690	1,262,430	709,110

4.4 Production Frontier and Efficiency

Since measuring efficiency is the basic component of the Malmquist productivity index, the efficiency of the 10 insurance companies that were selected for this study were reported in Table 4.3 and 4.4 under the constant returns to scale (CRS) and variable return to scale (VRS) over the period of the study. According to Färe et al. (1994), feasible output under the constant return to scale is achieved when the average productivity which is output divided by the input is maximized. Any value under the CRS and VRS that is greater than 1 indicates efficient, while the less than 1 indicates that the firm is below the frontier or technically inefficient. Therefore, the smaller the value is from 1, the more inefficient the firm is compare with the value closer to 1 (Saad, 2012).

As reported in Table 4.3 and 4.4 for the period covered, Leadway and Mansard insurance were more efficient compare with others under the CRS as they demonstrated efficiency four times each over the period of the study. Under the VRS, Leadway Assurance was consistently efficient over the period of the study. Other insurance companies that were efficient in recent period were Aiico insurance in 2011, 2012 both under CRS and VRS, Unity capital insurance in 2010, 2011 under CRS and 2008, 2010, 2011 under VRS, and Consolidated Hallmark in 2011, 2012 under VRS.

The weighted geometric means in Table 4.3 and 4.4 represent the average efficiency for these insurance companies. This average efficiency decreases for the period 2009 to 42.6% from 77.5% in the previous year, increase to 65% in year 2011, but decrease again to 47.6% in 2012. Under the VRS, the geometric mean decrease to 49% from 83% in year 2008, increase through 2010 and 2011 but there was a slight decrease to 67% in 2012 from 70.1% in the previous year. On the average, the efficiency of the Nigerian insurance companies is relatively higher under the VRS than the CRS.

Table 4.3

Efficiency of the Insurance Companies, 2008-2012 (Constant Returns to Scale)						
S/N	Insurance Company	Year				
		2008	2009	2010	2011	2012
1	Consolidated Hallmark Ins	0.691	0.2170	0.1380	1.0000	0.3350
2	Aiico Insurance	1.000	0.6360	0.0540	1.0000	1.0000
3	Cornerstone Insurance	1.000	0.0470	1.0000	0.3790	0.0920
4	Leadway Assurance	1.000	1.0000	1.0000	1.0000	0.3610
5	Mansard Insurance	1.000	1.0000	0.1000	0.1060	1.0000

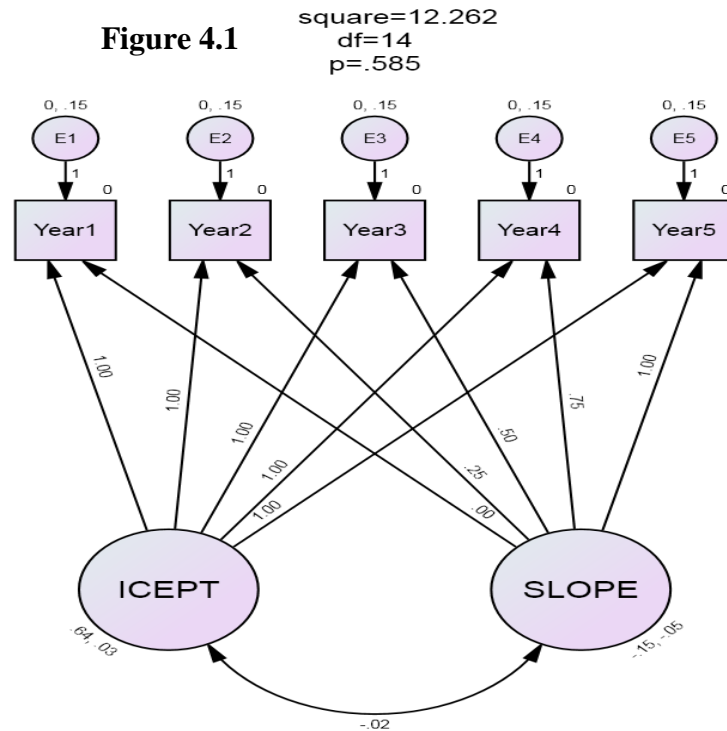
6	Oasis Insurance	1.000	1.0000	0.5340	0.8760	0.3130
7	Sovereign Trust Insurance	0.091	0.2810	0.2200	0.3040	0.3810
8	Unity Kapital Assurance	0.961	0.0310	1.0000	1.0000	0.1030
9	Standard Alliance Insurance	0.009	0.0320	0.5300	0.3470	0.9180
10	African Alliance Insurance	1.000	0.0150	0.2480	0.4820	0.2620
	Mean	0.775	0.4260	0.4820	0.6490	0.4760
	Standard deviation	0.394	0.4373	0.3917	0.3575	0.3385

Table 4.4

Efficiency of the Insurance Companies, 2008-2012 (Variable Returns to Scale)						
S/N	Insurance Company	Year				
		2008	2009	2010	2011	2012
1	Consolidated Hallmark Ins	0.781	0.273	0.203	1.000	1.000
2	Aiico Insurance	1.000	1.000	0.074	1.000	1.000
3	Cornerstone Insurance	1.000	0.117	1.000	0.379	0.094
4	Leadway Assurance	1.000	1.000	1.000	1.000	1.000
5	Mansard Insurance	1.000	1.000	0.145	0.111	1.000
6	Oasis Insurance	1.000	1.000	1.000	0.905	0.753
7	Sovereign Trust Insurance	0.299	0.314	0.220	0.310	0.421
8	Unity Kapital Assurance	1.000	0.046	1.000	1.000	0.110
9	Standard Alliance Insurance	0.227	0.037	1.000	0.362	1.000
10	African Alliance Insurance	1.000	0.068	0.274	1.000	0.282
	Mean	0.831	0.485	0.592	0.707	0.666
	Standard deviation	0.307	0.452	0.434	0.366	0.375

Latent Growth Modeling On CSR and VRS

The output of constant returns to scale was used under this section. Using this model (LGCM), the efficiency measurement is assumed to increase linearly with time for each firm with separate slope and intercept for each firm is presented. Figure 4.1 present the output of LGCM under CRS and as evidenced, the chi-square test for the overall model fit was statistically insignificant, this means that the model is absolutely fit well (chi-square = 12.262, df= 14, p = .585). Also, the value of intercept mean of 0.64 indicated that the average starting point for the efficiency of each firm is 64 percent while the value of slope mean of -0.15 on the other hand revealed that efficiency of MFIs declined by 15 percent on average. More clearly, the efficiency of the Nigerian insurance companies under this study is expected to have declined by 15 percent for each period of time starting from 64 percent. As shown in Table 1 of Appendix 2, the variances of the intercepts were statistically significant means that there was a non-trivial variation in the efficiency of this firm at the starting point. However, the variation in the slope value was statistically insignificant and this suggests that efficiency of these companies was not varied over the period of the study. Report of this model under the VRS was not presented here because it was very similar to the one presented here under CRS.



4.5 Productivity Performance of Individual Insurance Companies

From the Table 4.5 to Table 4.7, the performance of the individual company were reported from 2008 to 2012 in terms of Total Factor Productivity (TFP) change and its components {Technical Efficiency change (EFFCH) and Technological change (TECHCH)}. The value of the Malmquist TFP productivity index and its components that is greater than 1 indicate an improvement of productivity in the relevant aspect, whereas any value less than 1 imply a deterioration or decrease in the productivity. In addition to the relevant time period and relevant performance measures, these measures also capture the performance relative to the best practice in the sample.

Table 4.5

Insurance Firms Relative Malmquist TFP Change between Time Period t and t + 1, 2008-2012					
S/N	Insurance Company	Year			
		2008-2009	2009-2010	2010-2011	2011-2012
1	Consolidated Hallmark Ins	2.396	1.000	0.180	1.000
2	Aiico Insurance	1.734	1.000	0.057	1.000
3	Cornerstone Insurance	0.261	1.000	0.000	1.000
4	Leadway Assurance	2.544	1.000	1.206	1.000

5	Mansard Insurance	6.375	1.000	0.028	1.000
6	Oasis Insurance	4.182	1.000	0.093	1.000
7	Sovereign Trust Insurance	15.479	1.000	0.222	1.000
8	Unity Kapital Assurance	0.059	1.000	14.570	1.000
9	Standard Alliance Insurance	14.906	1.000	4.648	1.000
10	African Alliance Insurance	0.040	1.000	4.698	1.000
	Mean	1.446	1.000	0.000	1.000

The above Table 4.5 presents the calculated changes in the Total Factor Productivity index based on Malmquist. The results show that Unity Kapital Assurance and African Alliance Insurance displayed a positive trend up to 2011 in productivity changes before deteriorating in 2012. In contrast, Consolidated Hallmark, Aiico, Cornerstone, Mansard, Oasis, Sovereign Trust insurance deteriorated up to 2011 in productivity before improved in 2012. More so, Sovereign Trust has the highest average TFP growth in 2009 with annual average rate of 1,447.9% while Unity Kapital experienced highest average TFP growth in 2011 with annual growth rate of 1,357% and none in 2012. More importantly, the overall geometric mean shows that all the firms have not increased their TFP on average for the period of the study (2008-2012).

As part of the above, the Malmquist TFP index is further decomposed into technical change as well as technological change. The results for both technical and efficiency changes are therefore reported in the Table 4.6 and Table 4.7.

Starting from the Table 4.6 which reports the index values of technical progress or regress of these firms as measured by the average shifts in the best-practice frontier beginning from period t to $t+1$. The firms that experienced technical progress over the period of this study were Leadway, Mansard Standard Alliance insurance, whereas other firms experienced both technical progress as well as regress. Standard Alliance recorded the highest technical growth rate in 2008-2009 with 249.3%, while Unity Kapital recorded the highest technical growth rate in 2010-2011 with 3,085.7% but none in 2012.

Another noticeable thing from this table was the technical progress for the grouped periods, 3 firms experienced technical progress for the period of 2008-2009, all firms in 2009-2010, 5 in 2010-2011 while all experienced it during the period of 2011-2012. Overall, the average technical progress for these firms was -63% for the period 2008-2009, 83% for the period 2010-2011 while there was neither technical progress nor regress for the period of 2009-2010 and 2011-2012.

Table 4.6

Insurance Firms Relative Technical Change between Time Period t and $t + 1$, 2008-2012					
S/N	Insurance Company	Years			
		2008-2009	2009-2010	2010-2011	2011-2012
1	Consolidated Hallmark Ins	0.315	1.000	0.635	1.000
2	Aiico Insurance	0.636	1.000	0.085	1.000
3	Cornerstone Insurance	0.047	1.000	21.374	1.000
4	Leadway Assurance	1.000	1.000	1.000	1.000

5	Mansard Insurance	1.000	1.000	0.100	1.000
6	Oasis Insurance	1.000	1.000	0.534	1.000
7	Sovereign Trust Insurance	3.075	1.000	0.782	1.000
8	Unity Kapital Assurance	0.033	1.000	31.857	1.000
9	Standard Alliance Insurance	3.493	1.000	16.361	1.000
10	African Alliance Insurance	0.015	1.000	16.538	1.000
	Mean	0.371	1.000	1.827	1.000

The second components of the TFP (technological change) was reported in the Table 4.7 for the individual company. Over the period of the study, only Leadway experienced technological progress while others experienced both technological progress as well as regress. For the period 2008-2009, Sovereign Trust recorded highest technological progress with 403.5% while Leadway recorded the highest technological progress for the period 2010-2011 with 20.6%. All the sample firms experienced technological progress in the period 2008-2009, 2009-2010 and 2011-2012 but only one firm experienced it during 2010-2011. Overall, there was 289.9% technological progress in the 2008-2009, none in the period 2009-2010, 2011-2012 and inefficient in 2010-2011.

Table 4.7

Changes in Firms Relative Efficiency Change between Time Period t and t + 1, 2008-2012					
S/N	Insurance Company	Year			
		2008-2009	2009-2010	2010-2011	2011-2012
1	Consolidated Hallmark Ins	7.617	1.000	0.283	1.000
2	Aiico Insurance	2.728	1.000	0.674	1.000
3	Cornerstone Insurance	5.587	1.000	0.000	1.000
4	Leadway Assurance	2.544	1.000	1.206	1.000
5	Mansard Insurance	6.375	1.000	0.280	1.000
6	Oasis Insurance	4.182	1.000	0.174	1.000
7	Sovereign Trust Insurance	5.035	1.000	0.284	1.000
8	Unity Kapital Assurance	1.804	1.000	0.457	1.000
9	Standard Alliance Insurance	4.267	1.000	0.284	1.000
10	African Alliance Insurance	2.663	1.000	0.284	1.000
	Mean	3.899	1.000	0.000	1.000

Technical efficiency change was further decomposed into pure efficiency change and scale efficiency change in order to determine the change in scale efficiency over the period of the study. The results for these decompositions is therefore reported in the Table 4.8.

As presented in the Table 4.8, one firm (Leadway insurance plc) experienced no change in both scale and pure efficiency annual growth over the period of the study compare with others, follow by Oasis with a deterioration in annual growth under scale efficiency change within the period of the 2010-2011. Specifically, 4 firms experienced annual growth in both scale and pure efficiency in period of 2008-2009, 3 firms in 2010-2011, while all firms recorded annual growth in both scale and pure efficiency for the period of 2009-2010 and 2011-2012. Over the period of the study, year 2010-2011 is identified as the year of improvement in both pure and scale efficiency.

Table 4.8

Changes in Efficiency Components by Firms between Time Period t and t + 1, 2008-2012									
S/N	Insurance Company	Year							
		2008-2009		2009-2010		2010-2011		2011-2012	
		Pech	Sech	Pech	Sech	Pech	Sech	Pech	Sech
1	Consolidated Hallmark Ins	0.350	0.899	1.000	1.000	0.744	0.853	1.000	1.000
2	Aiico Insurance	1.000	0.636	1.000	1.000	0.074	1.143	1.000	1.000
3	Cornerstone Insurance	0.117	0.400	1.000	1.000	8.549	2.500	1.000	1.000
4	Leadway Assurance	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
5	Mansard Insurance	1.000	1.000	1.000	1.000	0.145	0.690	1.000	1.000
6	Oasis Insurance	1.000	1.000	1.000	1.000	1.000	0.534	1.000	1.000
7	Sovereign Trust Insurance	1.050	2.929	1.000	1.000	0.702	1.114	1.000	1.000
8	Unity Kapital Assurance	0.046	0.705	1.000	1.000	21.58 1	1.476	1.000	1.000
9	Standard Alliance Insurance	0.162	21.537	1.000	1.000	27.17 0	0.602	1.000	1.000
10	African Alliance Insurance	0.068	0.221	1.000	1.000	4.051	4.082	1.000	1.000
	<i>Mean</i>	0.342	1.085	1.000	1.000	1.606	1.137	1.000	1.000

Note: PEch = Pure Efficiency Change, and SEch = Scale Efficiency Change.

4.6 PRODUCTIVITY PERFORMANCE OF THE INDUSTRY

The performance of the Nigerian insurance companies was summarized in the Table 4.9 covering the period of the study (2008-2012). On the average, Standard Alliance insurance recorded the highest growth in TFP, EFF, PE and SE with 186 percent, 175 percent, 45 percent and 90 percent respectively, while other firms were Leadway Assurance and Sovereign Trust insurance. Moreover, Leadway has the highest growth in TECH with 32.4 percent. On average, the TFP of

the Nigerian insurance industry was mainly affected due to the -9.3 percent contributed by the efficiency change and -98.7 percent contributed by the technical change. More so, the efficiency was mainly affected because of the -13.9 contributed by pure efficiency and close to 1 due to the 5.4 percent contributed by the scale efficiency.

Table 4.9

Malmquist Index Summary of Insurance Firm Means (2008-2012)						
S/N	Insurance Company	TFPch	EFFch	TECHch	PEch	SEch
1	Consolidated Hallmark Ins	0.810	0.669	1.212	0.714	0.936
2	Aiico Insurance	0.561	0.482	1.164	0.522	0.923
3	Cornerstone Insurance	0.000	1.000	0.000	1.000	1.000
4	Leadway Assurance	1.324	1.000	1.324	1.000	1.000
5	Mansard Insurance	0.650	0.563	1.155	0.617	0.911
6	Oasis Insurance	0.789	0.855	0.923	1.000	0.855
7	Sovereign Trust Insurance	1.362	1.245	1.094	0.927	1.344
8	Unity Kapital Assurance	0.963	1.010	0.953	1.000	1.010
9	Standard Alliance Insurance	2.885	2.750	1.049	1.449	1.898
10	African Alliance Insurance	0.658	0.706	0.933	0.724	0.975
	<i>Mean</i>	0.012	0.907	0.013	0.861	1.054

5.1 CONCLUSION

The main purpose of this paper was to investigate the performance of Nigerian insurance industry. Because of unavailability of the required data, the study was limited to ten insurance companies for the period of five years from 2008 to 2012. Researchers used DEA, LGCM as well as the ratio analysis (liquid asset to total asset, total equity to total asset and return on asset) in analyzing the performance of this industry. As discussed, study the performance of Nigerian insurance industry is highly important especially during this period in order to see the effectiveness of the 2005/2006 Nigerian insurance industry recapitalization.

The result of the ratio analysis revealed that Aiico insurance was the highest on average in terms of liquidity asset to total asset, Oasis insurance in terms of total equity to total asset, while Leadway leads with regarding return on asset. The interpretation of the ratio results is that, Aiico insurance was on average more liquid compare to the other sample firms, Oasis used more shareholders fund to finance its asset and Leadway insurance was the most profitable on the average compare to the other firms included in this study for the period covered.

DEA analysis is the main analysis used for this study. As mentioned, DEA has been proved to be one of the most frequently used in analyzing the performance of the insurance industry due to its robustness. This analysis as comprehensively discussed in the previous section, revealed on average that some insurance firms were progressing while some were regressing.

Some of the leading insurance companies in terms of the performance are Leadway insurance, Standard Alliance insurance, Sovereign Trust insurance among the insurance firms included in this study in terms of TFP.

Overall, the efficiency Nigerian insurance companies were found to be very low throughout the period of this study and this suggests that they are less efficient. Also, LGCM result using CRS output suggested that their efficiency of each firm were deteriorated over the period of the study. The results of this study should help the insurance companies in improving their efficiency in order to be able to compete favourably both at the local as well as internationally. Also, improving in the Nigerian efficiency will help in attracting investors both within the country as well as from the foreigners. Nevertheless, the finding of this study support the study of Barros & Obijiaku (2007) which found that Nigerian insurance companies were less efficient.

5.2 RESEARCH IMPLICATION

Therefore, the findings of this study have significant implications for the Nigerian insurance companies and the government. As the TFP was deteriorated for these companies, the Nigerian insurance companies need to improved their technical components as well as the technological efficient in order to maximize the output and so as to improve their performance. The implication of this study to the government is to ensure an enabling environment as well as support to the insurance industry in the country.

Finally, this study was limited to the 10 insurance companies because of the data for the intended number of the companies within the industry as well as the period proposed to study was not available. Hence, more study is required to carry out in the nearest future that will study the performance of Nigerian insurance industry as a whole as soon as the data are found available for more firms of this industry.

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Psychological Capital, Performance and Growth Intentions of Entrepreneurs: Some Propositions

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Abstract

This paper presents some propositions based on positive psychological capital and its effects on entrepreneurial performance and entrepreneurs' growth intentions. Entrepreneurs normally operate: with minimal financial and human resources, in dynamic and competitive environment and with limited volitional control. Higher positive psychological capital (PPC) can equip entrepreneurs with believe that they can create their own success (efficacy and hope), good things will happen to them (optimism), have strong behavioral control (efficacy), and are more impervious to setbacks (resilience). Thus PPC may serve as an important resource for entrepreneurs in their entrepreneurial endeavor. This paper presents a review of the effects of psychological capital on performance and future growth intentions of entrepreneurs. It calls for the research on psychological capital in entrepreneurial context and presents some propositions regarding the influence of psychological capital performance and growth intentions of entrepreneurs. This study has implications for the current and prospective entrepreneurs as well as government and private bodies working on regulating, developing, encouraging and enhancing entrepreneurship.

Keywords: Psychological capital, growth intention, entrepreneur, performance

INTRODUCTION

Growth is usually thought as the core to entrepreneurship (Sexton and Smilor 2000; Stevenson and Jarillo 1990). Numerous researches (e.g. Davidsson et al., (1996); Delmar & Davidsson (2005); Estrin et al. (2013); Kirchoff (1994); Reynolds & White (1997) revealed that small firms' growth is the most considerable source of new job creation. It is also a significant indicator of venture success (Delmar et al., 2003) and economic replenishment (Davidsson and Henrekson 2002). That is why, venture growth has gained substantial consideration in the field of entrepreneurship (Delmar et al., 2003; Acs and Evans 1993) and the factors affecting venture growth have been attracting researchers since recent past.

Venture growth, in economic literature, has been considered as an expected phenomenon occurring for increasing profit (Verheul & Mil, 2011). On the other hand, in social psychology and entrepreneurship literature, venture growth is seen as a consequence of deliberate individual decisions (Wiklund and Shepherd, 2003; Liao and Welsch, 2003, Verheul & Mil, 2011). Previous research highlighted venture creation as a deliberate founders' decision based on the owners' initiation and operation of their ventures in order to pursue different targets (Delmar, 1996; Storey, 1994). Likewise expansion and growth of a venture is also a deliberate decision of the entrepreneurs (Kolvereid, 1992; Verheul & Mil, 2011; Wiklund and Shepherd, 2003). In the same vein, growth intention has also been regarded as an important and valid predictor of entrepreneurial venture growth and performance. Researchers have also commended that the performance of small firms is affected by the intentions, aspirations or motivations of entrepreneurs (e.g., Bird, 1988; Baum and Locke, 2004; Cooper, 1993; Delmar & Wiklund, 2008; Isaksen, 2006; Kolvereid, 1992; Stenholm, 2011). Moreover, Ajzen (1991) described intention as a cognitive state which comes immediately before the targeted behavior (i.e. the decision to act) and is the best indicator of the succeeding behavior (Ajzen, 1991). Therefore, it can be argued that, as far as the future growth of a venture is concerned, it is mostly determined by the future growth intention of entrepreneurs.

In addition, it is also well known that the successful organizations manage their resources effectively. Organizations, in the due course of maximizing their traditional sources of capital and its return to stakeholders, take help from reengineering and quality movement. In recent past, organizations shifted their focus more towards human and social capital. However, more recently, organizations have started turning their attention towards the development of Positive Psychological Capital (PsyCap) as another important source of productivity and competitive advantage (Luthans & Youssef, 2004). It is an equally interesting fact that where human capital defines "what you know" and social capital defines "who you know" the psychological capital is said to define "who you are" (Jessen & Luthans, 2006). This modern development is based on the belief that positive workplace is more productive workplace. It is both theoretically and empirically evident that the psychological capital (hope, optimism, resilience and self-efficacy) has a considerable positive effect on the individuals' performance (Luthans and Youssef, 2004; Norman et al. 2010) and substantial negative impact on individuals' intention to quit (Avey et al., 2011). Individuals high in PsyCap anticipate good things to happen to them (optimism), suppose they can create their own success (efficacy and hope), possess strong behavioral control (efficacy), and are more resistant to setbacks (resilience) when compared to the others lower in PsyCap.

Hmieleski & Carr (2008) proposed that psychological capital is an important individual entrepreneurial characteristic required to lead their ventures through the entrepreneurial process. Yet, very little empirical research has investigated the application of positive psychological

capital on entrepreneurs. Furthermore, it is being argued that psychological capital is positively linked with desirable attitudes and negatively linked with the undesirable attitudes (Avey et al., 2008; Avey et al., 2011; Beal et al., 2013). Unfortunately, researchers has neglected the positive attitude of entrepreneurs' i.e., their future growth intention. As PsyCap, theoretically and empirically, have relations with higher performance related outcomes and lower quit intentions so it will be interesting to investigate its effects on entrepreneurs' positive attitude which is opposite to quit intention i.e., Intention to remain and/or future growth intentions.

LITERATURE REVIEW

Growth Intention

Various definitions of intentions have been proposed by numerous scholars. Bird (1988) defines intention as "a state of mind directing a person's attention (and therefore experience and action) towards a specific object (goal) or a path in order to achieve something (means)" (p. 442). In the same way, Angelle (2006) describe intention as a purposeful attitudinal construct based upon intrinsically held personal values. She discussed that the intention is an individual's determination to act in a certain way. Whereas, some other scholars contend that intentions are the prelude part of behaviour as there is considerable evidence showing that intention is a main predictor of succeeding behaviour (Adriaanse et al. 2011; Ajzen, 1991; Eagly and Chaiken 1993). Eagly and Chaiken (1993) discussed intention as an individuals' motivation with regard to their mindful plans to put efforts to perform certain behaviour. Here, the intentions correspond to the motivations as part of decisions or plans to put forth efforts to perform behaviour (Cook et al., 2005; Ozabaci, 2011). Thus, it is assumed that intentions detain the motivations that affect an individual's behavior (Ajzen, 1991). In contrary, Greve (2001) contented that, instead of predictor of behaviour, intention should be understood as component of action as actions should have been intentional which are performed for specific reasons. Pertaining to intention and planned behaviour relation, he argues that as action is intentional so it should be more correctly used instead of the term behaviour.

The debate is on; however, whether intention is part of attitude, behaviour, or action, it is a core concept of entrepreneurship (Fitzsimmons and Douglas 2011) as it is an important predictor of subsequent entrepreneurial behaviour (Shane et al. 2003). According to Bird (1988), intentions guide entrepreneurs' with respect to their entrepreneurial work, communication, commitment and their goals settings. She contended that intentions set the direction and form of an entrepreneurial venture at the time of its inception and during their growth, survival, development and change phases. Therefore, intention to grow is deemed as an essential characteristic of entrepreneurial behaviour (Dunkelberg and Cooper, 1982; Sadler-Smith et al., 2003) which plays important role in the subsequent real growth of ventures (Covin and Slevin, 1991; Wiklund and Shepherd, 2003).

Krueger et al (2000) emphasized on the vital importance of studying intentions. Furthermore they stated that, as a way of thinking, entrepreneurship puts emphasis on opportunities more than threats and is an intentional process that allows better prediction and explanation of entrepreneurship. Therefore, intention to grow the business is the essential aspect of entrepreneurial behavior (Sadler-Smith et al., 2003) which is positively related with venture performance and growth (Baum et al., 2001; Bellu and Sherman 1995; Davidsson, 1989; Delmar and Wiklund 2008; Kolvereid and Bullvag 1996; Orser et al., 1998).

However, growth intention attracts relatively little attention of entrepreneurship researchers. Although growing ventures are important in economic stability and development, the understanding regarding entrepreneurs' growth intention is limited (Knockaert et al., 2011). Dutta & Thornhill (2008) also asserted that significant gaps exist in the understanding regarding the intentions of entrepreneurs after establishing the businesses.

Positive Psychology

Sheldon and King (2001) defined positive psychology as “nothing more than the scientific study of ordinary human strengths and virtues” and it “revisits the ‘average person’ with an interest in finding out what works, what is right, and what is improving.” (p. 216). Seligman and Csikszentmihalyi (2000) argued that psychology, in past, has remained unable to produce “knowledge of what makes life worth living” (p. 5). Seligman (1999) called to turn the focus on building positive qualities instead of only repairing the worst things in life and thus improving lives of people, prospering organizations, flourishing communities, and creating a just society (Seligman and Csikszentmihalyi, 2000). Latest positive psychology movement emerged from this call to persuade research in this historically neglected area. Several notable researchers (like: Ed Diener, 2000; Luthans, 2002; Peterson, 2000; Snyder, 2000; Wright, 2003) responded to this call - attention to building strengths - and the field of positive psychology has witnessed the remarkable developments since last decade.

Seligman (2002) pointed out “three pillars” of positive psychology which are positive individual characteristics, positive subjective experience and positive institutions and communities. In conjunction with these, there have been increased efforts put forth on the value of positive psychology in the field of human resource management and organizational behavior (for review: Luthans, 2002). Further, positive psychology research has also enjoyed a great deal of new research in the fields of management and leadership (Hodges, 2010). In this course, a group of researchers focused their attention on the application of positive psychology to the workplace at micro and/or individual level of analysis and on the processes that can be leveraged for performance improvement. Introduced by the earlier work of Fred Luthans (2002a, 2002b) this stream is called as positive organizational behaviour (POB).

Positive Organizational Behaviour

Luthans (2002b) defined the Positive Organizational Behavior (POB) as “the study and application of positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today's workplace” (p. 59). Positive organizational behavior does not assert to discover the significance of positivity at workplace rather it only calls for attention to be drawn on relatively positive, state-like constructs existing at individual and/or micro level with strong theoretical foundation and valid measurement and which have work related performance impact (Luthans, 2002a, 2002b; Wright, 2003; Youssef & Luthans, 2007).

This call clearly set the inclusion criterion and working boundary for the positive psychological resource capacities to be the part of positive organizational behaviour stream. Although, other concepts like emotional intelligence and subjective wellbeing were initially anticipated as prospective positive organizational behaviour concepts (Luthans, 2002b) but, drawing from theory and by using the working boundary and inclusion criterion, Luthans and colleagues (i.e., Luthans, 2002a; Luthans, Youssef & Avolio, 2007) have identified the four concepts of hope (Snyder, 2000), optimism (Seligman, 1998), resilience (Masten, 2001), and self-efficacy

(Bandura, 1997) as being particularly relevant to POB and have attracted most of the attention of positive organizational behaviour researchers.

Hope

Hope is conceptualized as positive expectations about goals and future (Edwards, 2009). Snyder and colleagues (1991) conceptually define hope as a “positive motivational state that is based on an interactively derived sense of successful (1) agency (goal-directed energy) and (2) pathways (planning to meet goals)” (p. 287). The fundamental assumption of Snyder’s hope theory is that humans have goal directed behaviours (Snyder 1989; Snyder et al 2002) and to be hopeful, a person should perceive himself as being able to visualize multiple workable paths to goals attainment (pathway thinking) and should also perceive him as being capable to use these pathways to attain their desired goals (agency thinking). In case of hurdles encountered during one’s goals pursuit, the pathway thinking give confidence of being able to visualize alternative route to goal attainment while the agency thinking helps the person to apply the necessary motivation to the alternative route for desired goals attainment. Agency is the motivational component of hope theory (Snyder et al 2002) and high-hope people are in fact high in both pathway and agency thinking (Snyder et al., 1998; Snyder, Harris, et al., 1991). Goals, agency, and pathways are all essential components of Hope.

Researchers have found theoretical and empirical relationships between Hope and different positive outcomes. For example, hope has been found to have positive impact on higher academic performance and lower academic dropout rate (Curry et al., 1997; Snyder et al 1999; Snyder, Shorey et al., 2002). Positive effects of hope have also been found on athletic performance (Curry et al 1997), life satisfaction (Valle et al 2004), self- worth and low levels of depression (Snyder et al., 1996; Snyder et al, 1997). Hope is considered to serve as buffer against psychological distress (Ong et al, 2006) and is viewed as beneficial in dealing with stressful events (Alexander & Onwuegbuzie, 2007). On the other hand, low hope is found to have relationship with reduction in well-being (Diener, 1984). In relation to workplace settings, hope is identified as having relationships with performance (Adams et al 2002; Jensen & Luthans, 2002; Luthans et al., 2005; Peterson & Byron, 2007; Youssef & Luthans, 2007), profitability (Adams et al., 2002), retention (Peterson & Luthans, 2003), management (Snyder, 1995), leadership (Luthans et al., 2005), managers sense of responsibility toward employees and towards societal issues (Andersson et al., 2007), job satisfaction (Luthans & Youssef, 2004), work happiness, and organizational commitment (Youssef & Luthans, 2007).

Optimism

Generally, optimism to “a mood or attitude associated with an interpretation about the social or material – one which the evaluator regards as socially desirable to his [or her] advantage, or for his [or her] pleasure” (Tiger 1971, p. 18). In relation to positive psychology, Seligman (1998), drawing from attribution theory, has defined optimism as an attribution style which considers positive events (e.g., goal attainment) as internal/personal, stable and pervasive while negative events as external, unstable and situation-specific (e.g., unaccomplished task). Here, optimism as an explanatory style deals with how people explain the reasons of positive or negative events. The theory behind explanatory style holds that the difference between an optimist and a pessimist is their flexible or rigid explanation pattern (Peterson & Seligman, 1984; Seligman, 1991) i.e., their perception about a variable’s degree of permanence and perseverance (Seligman 2002). An optimist considers the cause of positive event as global and cause of negative event as situation specific and not applicable to all events (Seligman 2002). If explanations of a negative event are

global (i.e., work everywhere) then the expectancy will be for negative outcomes across various aspects of life as the underlying reasons are at work across many aspects of life.

In contrast, in case of situation-specific explanations the future expectancy for other areas will be positive as the reasons of negative event do not apply to other areas. Optimist also considers a positive event as permanent while negative event as temporary with expectations that future event will be positive despite of present situation (Seligman 2002). If explanations of a negative event are stable then the future expectancy for similar events will be for negative outcomes as the cause is perceived as somewhat permanent and thus likely to stay in force. On the other hand, if explanations are unstable then the future expectancy for similar events will be for positive outcomes as the cause is perceived as unstable and thus may no longer stay in force. Thus, in case of negative outcomes or adversity, optimists remain motivated toward success (goal attainment) as they perceive the cause of negative outcome or failure as situation specific, external and unstable and believe that the further effort will likely not lead to failure again (Avey et al 2008).

In addition to Seligman's theory of optimism, a parallel description of optimism based on expectancy value theories have been given by Scheier & Carver (1985). According to Scheier & Carver (2009), optimist and pessimist are different to each other in a manner that optimist expect good things to happen to them in future (e.g., goals attainment) while pessimist look forward to bad things to happen to them (e.g., non-accomplishment of tasks). This positive or negative future outcome expectancy influences successive behavior in a manner that, if future expectancies are positive then the result will be superior efforts towards goal attainment but if their future expectancies are negative then the result will be reduced efforts or probably disengagement from further effort to goals attainment (Scheier & Carver, 1985). This approach used to directly measures expectancies by simply asking people about the extent of their positive or negative believe of future outcomes.

Although both explanatory and expectancy based views of optimism have some theoretical distinctions (for review see: Peterson & Chang, 2003) still, both share the theme that the future actions of a person are derived by the expectations about the future he holds (Carver et al., 2009). On the other hand, optimism also shows some state-like propensity. Though only up to certain limits, but optimism has some room to increase over time. Seligman (1990) suggested that although individuals experience optimism in fixed ranges, however, it can be developed within individuals over the period of time through training to the higher end of ranges. Scheier & Carver (1987) contended that optimism may be dispositional with only around 25-30% of the variability because of genetic factors (Scheier & Carver, 2009) but it can be improved through cognitive-behavior therapies centered on development of positive thoughts within individual (Carver et al., 2009).

Researchers have found variety of consequences of optimism. For example, optimists have found to enjoy superior physical and psychological well-being than the people who are pessimist or low in optimism (Peterson & Bossio, 2001). Scheier & Carver (1985) proposed that optimism may also have health-related consequences. Later on, other researchers have found the positive effects of optimism on health related issues like on heart surgery (Fitzgerald et al 1993) and cancer (Carver et al 2003) etc. Further, in their research on college students, Brunstein and Olbrich (1985) stated that optimistic students think more about solutions in response to a failure.

Optimism also found to have performance impact. Martin-Krumm, et al (2003) stated that, after a failure feedback, optimist improved in performance contrary to pessimist who did not improve.

When directly applied to the workplace settings, optimism has been found to have links with many workplace outcomes. Luthans et al (2007) contended that optimism provides a motivational tendency which persuade the amount of efforts spent on job and in turn enhance job performance. Luthans et al., (2005) found optimism to have significant positive relationship with Chinese factory workers' performance. Optimism of insurance sales agents also found to have significant positive relationship with their performance (Seligman, 1998), higher productivity and lower turnover (Seligman & Schulman, 1986). Similarly, employees' optimism has been found to have positive relationships with their performance, job satisfaction, work happiness, and organizational commitment (Youssef & Luthans, 2007).

Resilience

Resilience, like entrepreneurship, is troublesome by definition as still there is little consensus on its unified definition. However, the common inclination of researchers that has been seen over the years denotes it with the personal capacity of individuals to successfully cope despite adversities and significant risks (Masten, 2001; Stewart et al. 1997). Resilience, therefore, can be regarded as the capacity to recover or bounce back from adversity (Davidson et al., 2005). This capacity further enhances the adaptability to stressful and varying circumstances (Tugade & Fredrickson, 2004). Masten (1999, 2001) considered it as something that may bring good outcomes despite of significant risks. He described resilience as a manifest competence under stressful conditions and /or recovery from trauma. So a resilient is an individual who experienced some kind of adversity or serious threat(s) and has ability to overcome from these adversities and/or threats (Masten, 1999).

In the workplace context, resilience is defined as "positive psychological capacity to rebound, to 'bounce back' from adversity, uncertainty, conflict, failure, or even positive change, progress and increased responsibility" (Luthans, 2002a, p. 702). In accordance to the workplace settings, a resilient is an employee who has the capability to adapt challenging situations as well as the capability to prosper in these circumstances (Page & Donohue, 2004). Sutcliffe & Vogus (2003) considers that as "relatively ordinary adaptive processes that promote competence, restore efficacy, and encourage growth" (p. 95) and it can vary from situation to situation depending upon presented situations of that time (Staudinger et al., 1993). Thus resilience seems to be a significant factor of organizational life (Hodges, 2010).

At individual level, resilience is developable (Luthans & Youssef, 2004) as psychologists asserted that after every setback or adversity, an individual come back to the level beyond homeostasis and thus his resilience increases (Richardson, 2002). So resilience can develop over time as an individual gains extra resources and strengths to successfully cope up and/or bounce back from risks, adversities and stresses (Sutcliffe & Vogus, 2003). Past studies also show positive emotions as a factor which may improve resilience in the face of adversity (Tugade et al., 2004). Further, Masten (2001) contended that adaptive process is required to develop resilience. Luthans et al. (2004), however, suggested that both clear picture of reality and tendency to draw meanings from events are also required to develop resilience in addition to adaptive process and these allows building "bridges from present-day hardships to a fuller, better constructed future", (Coutu, 2002, p. 50).

Variety of consequences, especially in the field of clinical psychology focused on children, has been demonstrated in past studies. Earlier resilience research used to focus on those children who suffer some adversities in their lives, for example poverty or negative family environments (Garmezy, 1993; Garmezy et al., 1984), and they demonstrate their ability to overcome these

hardships and lives reasonable lives (Masten & Garmezy, 1985). It is recommended that people high in resilience are likely to be more effectual in diverse situations (Coutu, 2002; Masten, 2001). Bandura (1998), while arguing about the positive effects of efficacy, stated that “success usually comes through renewed effort after failed attempts. It is resiliency of personal efficacy that counts” (p. 62). Still there has been little attention given to resilience in workplace literature (Hamel and Välikangas, 2003; Horne and Orr, 1998; Page, & Donohue, 2004; Reivich and Shatte, 2002). However, responding to the call of positive psychology movement (Seligman, 1999, 2002), there now has been an increasing number of research studies focusing on relationship between resilience and workplace outcomes. In this course, resilience has been found to be positively related with factory workers job satisfaction (Larson and Luthans 2006) while highly resilient employees who are facing downsizing in their firm also have been found to maintain their happiness, health and performance (Maddi 1987). Similarly, it is being found that employees’ resilience is related to their happiness, satisfaction and commitment (Youssef and Luthans, 2007). In relation to work performance, Luthans and colleagues (2005) have found that resilience has significant relationship with Chinese workers’ rated performance. They propose that this relationship is due to the fact that employees who are high in resilience are more likely to be high in change adaptation, creativity, persistence in dealing adversities and thus are able to generate improved performance in speedily changing workplace.

Self-Efficacy

With roots in Social Learning Theory (Bandura, 1977b) and Social Cognitive Theory (Bandura, 1986), perceived self efficacy is conceptualized as “beliefs in one’s capabilities to organize and execute the courses of action required to produce given attainments” (Bandura, 1997, p. 3). This perceived self efficacy reflect an individual’s confidence on his abilities to activate the cognitive resources, motivation and courses of action which are required to fulfill the demands of a given situation (Stajkovic & Luthans, 1998b; Wood and Bandura 1989). Bandura (1986) also contended that these beliefs (self efficacy) are about what an individual can achieve by exploiting his given skill set and are not the beliefs about the skill set itself. People use to put together and assess the information regarding their abilities and on the basis of these considerations and assessment regulate their preference and efforts.

In positive organizational behaviour, draws on the theory and research of Bandura (1997), self efficacy (confidence) is defined as an individual’s “convictions (or confidence) about his or her abilities to mobilize the motivation, cognitive resources, and courses of action needed to successfully execute a specific task within a given context” (Stajkovic & Luthans, 1998b, p. 66). Self efficacy, in this context, only represent positive beliefs and not the actual abilities and, as Page & Donohue (2004) stated, it does not give any especially beneficial cognitive process rather it only offers openness to challenge and willingness to expand efforts in pursuit of goals attainment. Highly efficacious people have the belief that they have necessary competencies and skills to attain their goals and they are expected to put forth extra efforts in the face of adversities and persevere at their goals (Dixon & Schertzer, 2005).

Self efficacy is a state-like characteristic which is developable (Bandura, 1997) and generally increases with experience and performance attainment (Bandura, 1977a; Phillips & Gully, 1997). Successful goal attainment or coping with adversity enhance the belief of individuals that they can repeat it again and thus contribute to the development of self efficacy. Although mastery experience is the primary source of self efficacy, other sources like vicarious learning or behavioral modeling (Bandura, 1977a; Luthans 2002a), verbal persuasion (Gist, 1987), psychological and emotional arousal (Bandura, 2007) are also considered helpful in self efficacy development.

Bandura (2002) argued that people with low self efficacy have very modest motivation to persevere or proceed in face of adversities. Thus high self efficacy is considered important for individuals' performance (Bandura, 1997; Bandura et al., 1999; Sequeira et al., 2007). In fact more the ten meta analysis provide support to that self efficacy is important for most of the human functioning (for review: Bandura & Locke, 2003). For example, Bandura (1993) found positive relationship between high self efficacy and students' academic success. Self efficacy also found to have significant and positive relationship with workplace performance (Bandura, 2000; Bandura & Locke, 2003). In their meta analysis of 114 studies, Stajkovic and Luthans (1998a), found evidence for the significant relationship between self efficacy and work related performance. At least three other meta analysis of Judge et al., (2007), Judge & Bono (2001) and Sadri & Robertson (1993) also supported this relationship. Positive relationships of self efficacy have also been found with work satisfaction (Dormann et al., 2006; Judge and Bono, 2001), work engagement (Salanova, et al., 2011); creativity (Tierney & Farmer, 2002), leadership development (Chemers et al., 2000), goal choice (Locke et al., 1984), effective organizational change efforts (Avey et al., 2008) and work attitudes (Luthans et al., 2006).

In entrepreneurship context, Carsrud and colleagues (1987) suggested that changing important attitudes like perceived self efficacy is important for encouraging entrepreneurial thinking. Baum et al., (2001) and Hmieleski and Corbett (2008) have found that entrepreneurs' self efficacy is positively related to their venture's growth. Johnson and Delmar (2010) stated that entrepreneurs with higher perceived self efficacy perform better than the entrepreneurs with lower perceived self efficacy. Here, the performance measures were profitability, venture survival and customer satisfaction. Further, self efficacy has also been found to have positive relationship with entrepreneurs' intentions to start a new venture (De Noble et al., 1999; Laguna, 2006a), job satisfaction (Bradley & Roberts, 2004; Hmieleski & Corbett, 2006), choice of entrepreneurial activity (Chen et al., 1998), annual income (Markman et al., 2002), new venture performance (Forbes, 2005) and venture formation decision (Markman et al., 2002). These findings suggest that highly efficacious entrepreneurs' are expected to set challenging growth expectations and shows perseverance in their entrepreneurial endeavor.

Psychological Capital

The above discussion shows that all of these factors have valid measures and strong theoretical foundations. With uniqueness to positive organizational behaviour, all are applicable to micro/individual level of analysis. Although, there may be some upper limits for the development of these factors but still most of the people can achieve some development in these factors. Thus, these factors are state like and developable. Similarly, it is being established that all of these factors are positively related with workplace performance, task (goal) attainment, well being, satisfaction and other desirable attitudes and behaviours.

From here, the positive organizational behaviour approach has lead to the identification of a core second order construct of psychological capital (Luthans & Youssef, 2004). Luthans & Youssef (2004) argued that Psychological Capital is a second order core construct which is made up of four first order discriminant constructs of hope, optimism, resilience and self efficacy. First order constructs are the constructs which have observable measures (items in the measure) as their indicators while, as the indicators, second order constructs have some other unobserved first order constructs. These second order constructs have the shared variance of their first order constructs.

In this course, psychological capital incorporates the shared variance/mechanism of four first order, discriminant constructs of hope, optimism, resilience and self efficacy. Psychological capital especially uses psychological resource theory (Hobfoll, 2002) as explanatory foundation to explain the second order core construct of PsyCap and its working. This theory suggests that some individual constructs may have discriminant and predictive validity but they may be best understood and more beneficial as indicators of something broader and core construct.

Thus, drawn from Hobfoll's psychological resource theory (2002), these four first order constructs have been presented in the theoretical consideration of psychological capital which, as a multidimensional construct, has the shared variance and mechanism of these four first order constructs (Avey et al., 2011). Further, these constructs are by themselves described in a way which demonstrates their shared variance and mechanism. Bandura (1998), for instance, stated that the people well-being and accomplishments "require an optimistic sense of personal efficacy" (p. 56) while success can be achieved with improved endeavors after unsuccessful efforts and "it is resiliency of personal efficacy that counts" (p. 62). Snyder (2002) also stated that optimism, like hope, is a goal based cognitive process which came into operation whenever the outcome is perceived to be of considerable worth. Thus psychological capital is considered as a multidimensional construct made up of four first order constructs of hope, optimism, resilience and self efficacy. Furthermore, the multidimensional nature of psychological capital has also been supported by the empirical evidence.

With the use of competing confirmatory factor analytic model comparisons, Luthans et al. (2007) found that psychological capital is best modeled as a second order construct with convergent validity among the first order constructs and relatively high correlations ranging between 0.6 to 0.7. All four first order constructs were separately modeled in different groupings and also collectively in overall PsyCap model. It is being found that overall PsyCap model with PsyCap as second order core construct best fit the data. It is also found that, in predicting performance, PsyCap as second order core construct demonstrate the better predictive power over and above its individual first order constructs of hope, optimism, resilience and self efficacy. Similarly, with the help of confirmatory factor analysis, other researchers like Avey et al., (2010), Gooty et al., (2009) and Luthans et al., (2008) found the composite model (PsyCap as second order core construct) to best fit the data. Thus, the combination of hope, optimism, resilience and self efficacy has conceptually (Luthans & Youssef, 2004; Luthans et al., 2007) and empirically (Avey et al, 2009; Luthans et al., 2007; Luthans et al., 2008) been represented as a second-order, core construct called psychological capital (Avey et al., 2008) and the four first order constructs as indicators of this single latent factor (Avey et al., 2010; Larson et al., 2013)

Luthans et al., (2007) comprehensively define the psychological capital (PsyCap) as "an individual's positive psychological state of development characterized by: (1) having confidence (efficacy) to take on and put in the necessary effort to succeed at challenging tasks; (2) making a positive attribution (optimism) about succeeding now and in the future; (3) persevering toward goals and, when necessary, redirecting paths to goals (hope) in order to succeed; and (4) when beset by problems and adversity, sustaining and bouncing back and even beyond (resilience) to attain success." (p. 3). It is also proposed that PsyCap goes beyond the commonly acknowledged human capital (see: Stewart, 2001; O'Leary et al., 2002) and social capital (see: Adler and Kwon, 2002; Cohen & Prusak, 2001). While human capital is concerned with 'what you know' and social capital is concerned with 'who you know', the PsyCap is concerned with 'who you are' and 'who you are becoming' (Jensen & Luthans, 2006; Luthans et al., 2006).

Under the positive organizational behaviour stream, psychological capital is conceptualized as a psychological resource which may facilitate growth and performance improvement (Luthans et al., 2005) and also have positive effects on attitudes and behaviours (Luthans et al., 2007). It is suggested that the people who possess the combination of hope, optimism, resilience and self efficacy are high in psychological capital (Luthans and Youssef, 2004) which in turn has positive effects on their attitudes, behaviours and performance (Luthans et al., 2007).

Several empirical studies demonstrate the relationships of psychological capital with performance, desirable attitudes & behaviours and undesirable attitudes & behaviours. For example, with a sample of 422 Chinese factory workers from both public and private sector, Luthans and colleagues (2005) found positive relationships between individual positive states (hope, optimism and resilience) and workers' performance but relatively higher relationship was found between the core construct of psychological capital and workers' performance. They concluded that psychological capital, as a core factor having better predictive power, is more realistic than using individual states for predicting employees' performance.

In another study, Luthans et al., (2007) have only found mixed support for the relationship of the individual components of psychological capital with performance and job satisfaction. On the other hand they found the positive relationship of core construct of psychological capital with performance and job satisfaction. They contended that psychological capital, as a core construct, is a better predictor of performance as well as job satisfaction than the individual components. In their study on a sample of 336 employees from different organization and jobs, Avey et al., (2010) have found that employees' psychological capital is positively related with their desirable attitudes and behaviours (i.e., organizational citizenship behaviour) and negatively related with undesirable attitudes and behaviours (i.e., counter productive work behaviour, cynicism, and intention to quit).

Beal et al., (2013), in a sample of 100 employees of government organization, found that the employees' psychological capital is positively related with their organizational citizenship behaviour. They also found that resistance to change moderates the relationship of PsyCap and organizational citizenship behaviour. In a U.S based study on 132 employees selected from broad cross section of organizations and jobs, Avey et al., (2008) found positive impact of psychological capital on employees' attitudes and behaviours. This relationship was tested with positive emotions as a mediator. They found that the employees' positive psychological capital was related with positive emotions which in turn was related with employees' engagement and cynicism (attitude) and organizational citizenship and deviance (behaviour). They contended that the psychological capital and positive emotions, as positive resources, are positively related with desirable attitudes like emotional engagement and desirable behaviours like organizational citizenship. On the other hand these individual resources help buffering against negative attitudes and behaviours like cynicism and deviance.

In the meta analysis of 51 independent samples with 12,567 participants, Avey et al., (2011) found that psychological capital is related with multiple workplace outcomes. They coded these work related outcomes in five mutually exclusive categories. These categories were: (1) employee performance (2) desirable employee attitudes (3) desirable employee behaviours (4) undesirable employee attitudes and (5) undesirable employee behaviours. They found that employees' positive psychological capital is positively related with employee performance (objective, self rated, supervisor rated), desirable attitudes (psychological well being, organizational commitment, job satisfaction) and desirable behaviours (organizational

citizenship). On the other hand psychological capital is negatively related with undesirable attitudes (stress, cynicism, turnover intentions) and undesirable behaviours (deviance). Other than these categories, they also found transformational leadership and positive emotions related with PsyCap but as there were less than three correlation found for these relationship so these variables were not then included in this meta analysis.

Considering the entrepreneurial context, Baron et al., (2013) found that entrepreneurs' psychological capital is negatively related to their stress level which in turn is negatively related to their subjective well being. They further indicate that psychological capital is related positively with subjective well being of entrepreneurs and this relationship is partially mediated by entrepreneurs' perceived stress. Further, Hmieleski & Carr (2008) argue that the entrepreneurs' psychological capital is positively related to the performance of their new ventures. With the U.S. based random sample of 216 entrepreneurs, they found that entrepreneurs' psychological capital explains significant amount of variance in their ventures performance above and beyond the more traditional forms of financial, human and social capital. They further contended that entrepreneurs usually operate in dynamic environment where they are required to make quick strategic decisions under high level of uncertainty and risks. They used to face scarcity of traditional forms of financial, human, and social capital and have to heavily rely on themselves in their entrepreneurial endeavor. Therefore, with limited resources, their psychological capital may act as a very critical factor in their new venture success.

Although, it is suggested that psychological capital is an important individual characteristic needed by the entrepreneurs in leading their ventures through the entrepreneurial process (Hmieleski & Carr, 2008) yet, unfortunately, the field of entrepreneurship has only been minutely studied in PsyCap literature. Through detailed search of articles published on psychological capital it is identified that past studies have tested different types of work related performances like supervisor rated performance, sales people performance, quality and quantity of manufacturing and creative performance in different contextual settings like manufacturing and services but the performance of entrepreneurs is a neglected research area.

Further, it is suggested that, along with the impact on individuals' performance, psychological capital also have impact on individual's attitudes and behaviours (Luthans et al., 2007) where it is related positively with desirable employee attitudes and behaviours whereas related negatively with undesirable employee attitudes and behaviours (Avey et al., 2008; Avey et al., 2011; Beal et al., 2013). Youssef and Luthans' (2008, 2009) also presented a conceptual framework which demands the integration of work related attitudes, behaviors and behavioral intentions. This integrative model recommended the need of investigating the effects of psychological capital on both desirable and undesirable attitudes and behaviours such as behavioral intentions.

Empirically, past research has found negative relationships between psychological capital and undesirable attitudes like stress, cynicism, and turnover intentions (see: Avey et al., 2011). On the other hand, previous studies also found positive relationships between psychological capital and many desirable attitudes and behaviours like psychological well being, organizational commitment, and job satisfaction. However, growth intention as a positive attitude of entrepreneurs has never been studied earlier. Past research of psychological capital is mainly focused on quitting intentions of employees and managers but the intentions of entrepreneurs especially their future growth intention as their positive attitude and behaviour has not been given attention in past research literature.

As PsyCap, theoretically and empirically, have positive relation with performance related outcomes, desirable attitudes and behaviours and negative relations with quit intentions, undesirable attitudes and behaviours so it seems plausible to expect that positive psychological capital together with the synergetic potential of self-efficacy, resilience, hope, and optimism is a powerful predictor of entrepreneurial performance and entrepreneurs' growth intentions. Therefore, this study proposes the investigation of impact of positive psychological capital on entrepreneurial performance and entrepreneurs' growth intentions. Following are these propositions:

Proposition 1: There is a relationship between entrepreneurs' psychological capital and their venture performance.

Proposition 2: There is a relationship between entrepreneurs' psychological capital and their future growth intentions.

SUMMARY

This paper highlights the importance of studying positive psychological capital in entrepreneurship context and calls for the research in entrepreneurship field with respect to the psychological capital of entrepreneurs. Further this paper calls for the investigation regarding the influence of positive psychological capital on entrepreneurs' future growth intentions. The empirical investigation of these propositions will extend our knowledge of entrepreneurship, entrepreneurs' growth intention and inturn subsequent growth. As growth of entrepreneurial ventures is considered as significant source of employment generation and economic development thus it is important for academic and professional researchers to investigate the possible antecedents of entrepreneurs' growth intention. Furthermore, PsyCap is a state-like construct. Establishing the link between PsyCap and growth intention will facilitate the chances of boosting entrepreneurs' future growth intention and inturn subsequent venture growth through development of psychological capital resources. Therefore, the empirical investigation on PsyCap as antecedent of entrepreneurs' growth intention is significant not only from academic point of view but also for current / prospect entrepreneurs and government and private sector agencies interested in entrepreneurial development and growth.

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Risk Management Efficiency and Organizational Form: Takaful Versus Conventional Insurance

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Abstract

The takaful operator and conventional life insurer is said to be faced with different risk exposure through underwriting, pricing and investment activity practiced. This is most likely due to the nature of operations and different governing Act. Thus, it is expected that the performance of the risk management of both markets are most likely to be different. Because of these differences, it is essential to investigate the impact of organizational form on risk management efficiency of both players. This study will use two-stage data envelopment analysis (DEA). It is found that takaful operators are having better risk management efficiency than their conventional counterparts. Some differences in operational practices in takaful systems verify that takaful operators expose to lower risk than conventional insurers. The low risk environment of mutual insurers that is embedded in the takaful operator strengthens this finding. Apparently, the finding of this study relating to organizational form and risk management efficiency does not support the

expense preference behavior hypothesis, but however supported the managerial discretion hypothesis.

Key Words: DEA, efficiency, takaful, risk management, organizational form

INTRODUCTION

The Malaysian insurance market comprises of conventional insurers and takaful operators, which is governed by different legislative and regulation. Takaful operators are governed by the Takaful Act 1984, whereas the conventional life insurer is guided by the Insurance Act 1996. These different Acts give the impression that some aspects of the operation of conventional insurance and takaful are different. For instance, the takaful operator has the unique characteristics of the underwriting and pricing practices when compared with conventional systems (Kwon, 2007). Underwriting process is carefully implemented to the extent that some takaful companies only accept participants (insured) with standard risk or in a more rigorous situation, they will be put in a different class even if only differ in the year of their entry into the plan (Ali, 1998). Furthermore, the existence of two different accounts namely special accounts (tabarru') and individual accounts managed to explain the allocation of contributions (premium) paid by the participants in more detail and accurate. Thus, for someone with a higher risk, he will be asked to either increase the amount of the special account or the contributions to individual accounts would be reduced. Apart from the unique underwriting, suicide clause does not apply under takaful policy because suicide is strictly against to Shariah law. On top of that, family takaful offer a policy loan option that is more attractive and practical in which policyholders are not subject to the interest rate on the loan amount. Justification for this is that the policyholders actually "borrow" their own money which is being managed by the takaful operator. In addition, under The Takaful Act 1984, all investments must be in activities and instruments allowable under the Syariah. The investment risk that might be confronted by the takaful operator is limited investment options, lack of high-quality investment instruments and shortage of market liquidity for Islamic securities (Frenz et al., 2008; Abouzaid, 2007). This leads to low investment returns, slow product innovation and increase liquidity risk. In fact, the victory of the takaful operator is highly dependent on the ability of Islamic asset management industry (Frenz et al., 2008). Based on these practices, the conventional insurers and takaful operators are most likely vulnerable to different risk activities. Thus, as two types of the organizations coexist in Malaysia and also has been described that both organizational forms are having different risk activities, it is sensible to examine the issue of the effect of organizational form (conventional versus takaful) on risk management efficiency of both players in the industry.

The remainder of this study proceeds as follows: section 2 discusses the literature on previous studies; section 3 describes the methodology, data and model specifications; section 4 explains the basic features of takaful operator and mutual insurer; section 5 discusses the experimental results; and, finally, section 6 concludes.

LITERATURE REVIEW

Two organizational forms or ownership structures that are commonly found in insurance are stock insurer and mutual insurer. Dorfman (2008) defined that the stock insurer is a for-profit company. Owners of the stock insurer are the shareholders who provide capital to establish and operate the company. The shareholder is entitled to financial results whether favourable or unfavourable. On the other hand, the mutual insurer is a non-profit company. The owners of the mutual insurer are the policyholders insured by the company. In addition, the policyholders of the

mutual insurers have the same rights as owners of the stock insurers. Many previous researchers have been investigating the relationship between insurance firm efficiency and organizational form empirically and their findings were mixed. For instance, Brockett et al. (2005; 2004), Hussels and Ward (2007) and Cummins (1999) revealed that the stock insurers were more efficient than mutual insurers. However, the findings by Eling and Luhnen (2010), Eckles (2003), Carr (1997) and Attiea et al. (2009) found otherwise. Meanwhile, Greene and Segal (2004), Cummins and Zi (1998), Fukuyama (1997) and Gardner and Grace (1993) found that mutual and stock insurers to be equally efficient. The results presented by Boose (1990) was quite different in which she did not reveal which organizational form is more efficient, but she empirically confirmed there was a difference in expenses between mutual and stock insurers. However, she could not deny that this is likely due to the differences in sales force expenses.

Many previous literatures justified the relationship between organizational form and firm efficiency through the agency theory (Fama and Jensen, 1983a, 1983b; Mayers and Smith, 1994; 1988), adverse selection problems (Smith and Stutzer, 1990) and the efficiency of risk-sharing arrangements (Doherty and Dionne, 1993; Doherty, 1991). From the agency theory point of view, there are 2 relevant hypotheses that can explain the characteristics of these organizational forms namely the expense preference hypothesis and managerial discretion hypothesis. The expense preference hypothesis states that in a firm where there is a separation of ownership and management, managers do not act in a manner to maximize shareholder's wealth, but rather to fulfil their own interest or, stated differently, maximizing their own utility (Fields, 1988; Williamson, 1963). Fama and Jensen (1985) provided some clues and argue that monitoring managers in mutual insurers is more difficult as the policyholders are also the owners of the firms. Mayers and Smith (1981) also explained that mutual owner is likely has less corporate control over their manager and as a result, the degree of autonomy afforded to mutual manager and the cost of controlling management is significantly higher for mutual insurer as compared to stock insurer. Conversely, with stock insurers, the amount of monitoring by owners is substantial. Therefore, the expense preference hypothesis suggests that stock insurers are more efficient than mutual insurers. Continuing on the same notes, the managerial discretion hypothesis (Mayers and Smith, 1994; 1988; 1986; 1981) have pointed out that mutual insurers will be more successful in business or activities that involve relatively little managerial discretion such as lines with standardized policies or good actuarial tables (Cummins and Weiss, 2000), while the stock insurer is expected to be more noticeable in the book of business or activity that requires a lot of management discretion such as complex commercial coverage and international operations.

Smith and Stutzer (1990) who discussed the problem of adverse selection finally demonstrated that on average, mutual insurers are providing protection to customers who have a lower risk than stocks insurers. The reason given was that the policies offered by mutual insurers are participating policies in which the insurance premiums are determined ex post and therefore the policyholder together bear the overall operating risk of the insurer and will enjoy the residual claims. In contrast, the stock insurers were offering nonparticipating policies where the premiums will be determined ex ante and the insured does not share in the overall operating risk. They further confirmed that nonparticipating policy will be purchased by higher-risk customers. Based on the same idea with Smith and Stutzer (1990), Doherty and Dionne (1993), and Doherty (1991) however, lead to a different conclusion. Doherty and Dionne, (1993), and Doherty (1991) acknowledged that mutual ownership is indeed more efficient in risk-sharing arrangements than stock ownership by combining policy and equity claims in one package such as participating policy. Thus, the efficient risk-sharing hypothesis claimed that mutual companies should underwrite high-risk business lines more efficient than their stock counterparts.

TAKAFUL VERSUS MUTUAL

Most of the distinguished Risk Management and Insurance textbooks did not explain about the classification of the takaful operator as this market does not exist in the United States at that time. But, The Islamic Fiqh Academic under Resolution No. 9 Concerning Insurance and Reinsurance provided some clues in which it has strongly emphasized that the alternative contract (Islamic insurance) that complies with the principles of the Islamic law is a co-operative insurance contract which is based on charity and co-operation (Frenz et al., 2008). A cooperative principles and the concept of tabarru' (donation) are the foundation of takaful business. Takaful participants (policyholders) donate their takaful contribution to a common pool to mutually assist the members against a defined and unpredictable misfortune. It is a mutual sharing of risk based on the concept of Taawun (Mutual Protection). Against this background and according to typical organizational forms' definition, it is regarded that the takaful operator is formed on the basis of cooperation among the participants – the participants owned the corporations and this attribute similar to the conventional mutual insurers. Abdul Kader et al. (2010) also acknowledged that there is similarity between the operations of takaful and conventional mutual insurance operations. Thus, all takaful operators in Malaysia can be treated as mutual insurance firm due to the way the business is being conducted and all the life conventional insurers are the stock firms.

METHODOLOGY

This study implements the two-stage method¹ in order to determine the effect of organizational form on the risk management efficiency of insurers/takaful operators. According to Coelli et al. (2005), the first stage involves obtaining the efficiency scores via data envelopment analysis (DEA) that requires only the traditional inputs and outputs. In the second stage, the regression analysis is conducted where the efficiency score obtained from the first stage is treated as dependent variable, while the organizational form as independent variables.

The first-stage – slack-based measure (SBM)-DEA

The SBM model is a variant of the additive DEA model, which was first presented by Tone (2001). As in the additive model, the SBM differs from the Charnes-Cooper-Rhodes (CCR) model (Charnes et al., 1978) and Banker-Charnes-Cooper (BCC) model (Banker et al., 1984) as it combines both orientations in a single model, i.e. input-oriented model and output-oriented model. SBM focuses on maximizing the non-zero slacks in the optimal objective. The slacks give the estimate of input excess and output shortfalls that could be improved without worsening any other input and output.

The SBM model will be applied to obtain the efficiency score of risk management of each firm under observation. Throughout this study the decision making unit (DMU) refer to the risk management of the life insurers and takaful operators. According to Tone (2001), for each DMU_j ($j = 1, \dots, n$) and input matrix $X = x_{ij} \in R^{m \times n}$ used by DMU_j and amount of output matrix $Y = y_{ij} \in R^{s \times n}$ yielded by DMU_j, with the assumption, the data set is positive $X > 0$ and $Y > 0$, the production possibility set for SBM is defined by:

$$P = \{(x, y) | x \geq X\lambda, y \leq Y\lambda, \lambda \geq 0\}$$

(1)

¹ Advantages of applying the two-stage method can be found in Coelli et al. (2005, page: 194)

where λ is a nonnegative vector in \mathbf{R}^n . In an attempt to estimate the efficiency of a DMU (x_o, y_o) , the following fractional program (FP) is formulated:

$$(SBM_{FP}) \min_{\lambda_j, s_i^-, s_r^+} \rho = \frac{1 - \frac{1}{m} \sum_{i=1}^m s_i^- / x_{io}}{1 + \frac{1}{s} \sum_{r=1}^s s_r^+ / y_{ro}} \quad (2)$$

subject to

$$\begin{aligned} x_o &= X\lambda_j + s^- \\ y_o &= Y\lambda_j - s^+ \\ 0 &\leq \lambda, s^-, s^+ \end{aligned}$$

The optimization in Eq. (2) is over the variables λ, s^-, s^+ . x_{io}, y_{ro} represent the corresponding input and output values for DMU_o, the DMU whose efficiency is to be evaluated. The vectors $s^- \in \mathbf{R}^m$ and $s^+ \in \mathbf{R}^s$ represent the input excess and output shortfall respectively, and are called slacks. The SBM index of efficiency ρ actually portrays the ratio of average input and output mix efficiencies with the upper limit, $\rho = 1$, that will be achieved only when slacks are zero in all inputs and outputs². Consequently, DMU_o is said to be fully efficient if and only if all slacks are zero at optimum (4.7). This implies that for this DMU_o no other DMU (or combination of DMUs) can produce the same output with smaller amounts of inputs, or can use the same set of inputs to produce more output. This study will also use the SBM-constant return to scale (CRS) model. According to Yao et al. (2007), the key objective of a firm is to operate at CRS. They added further that if the assumption of CRS is waived, the number of DMU that will be efficient is high, especially for a small data set and this cause a problem of comparing and improving the efficiency scores obtained.

After due deliberation on the previous studies, this study will use the underwriting risk, investment risk and leverage as input variables (Ren, 2007). The value-added approach is more suitable to be applied in determining the output of risk management. The most common output variable under this approach is incurred benefit plus additions to reserves. The input and output variables of risk management as well as their measurements are summarized in Table 1.

TABLE 1: Input and output variables and measurements of risk management

Variable	Measurement
Input	Investment risk = Variance of investment return Underwriting Risk = Variance of (Benefit paid/Premium) Leverage = Liability/Asset
Output	Net incurred benefit plus reserves

The second-stage analysis – Tobit regression analysis

The second-stage analysis is used to determine separately the effect of organizational form on efficiency. It is noted that the dependent variable is the efficiency score of risk management which lies in the range 0 to 1 and is obtained from the first stage analysis (SBM-DEA). The regression analysis that can take into account the dependent variables with such limited value is censored regression model or also known as Tobit model (Gujarati, 2011; Greene, 2003 and Wooldridge, 2002). Tobit analysis was proposed by Tobin (1958) which it is assumed that the

²For details, please see Cooper et al., (2007, p. 100)

dependent variable is clustered or censored at a limiting value, which is usually 0. Hoff (2007, p. 428) summarized what was stated by Wooldridge (2002) that Tobit analysis is appropriate when the dependent variable is bounded by the lower or upper limit or both, “with positive probability pileup at the interval ends, either by being censored or by being corner solutions”. In relation to DEA efficiency score as dependent variables, Pasiouras (2008), Hoff (2007), Coelli et al. (2005), Ruggiero and Vitaliano (1999), Carr (1997), Cilingerian (1995), Oum and Yu (1994) and Bjurek et al. (1992) suggested to apply the Tobit analysis in the second-stage DEA approach. Given that DEA efficiency scores resemble corner solution variables (Hoff, 2007), this study also will employ two-limit Tobit regression to estimate the effect of organizational form on the risk management efficiency. The relationship may be described by the model:

$$Y_i^* = X_i\beta + \mu_i \quad (3)$$

where $\mu_i \sim N(0, \sigma^2)$. Y_i^* is a latent variable following censored normal distribution with mean $X_i\beta$ and variance σ^2 . X_i is a $k \times 1$ vector of observations on the constant and $k - 1$ efficiency factor explanatory variables; β a $k \times 1$ vector of unknown coefficients³. The data generating process (DGP) – (equation 3) postulates that Y_i is the observed SBM-DEA efficiency score and the censored values of Y_i^* with censoring below 0 and above 1 (McDonald, 2009). Y_i is defined by the following measurement equation:

$$Y_i = \begin{cases} Y_i^*; & \text{if } 0 < Y_i^* < 1 \\ 0; & \text{if } Y_i^* \leq 0 \\ 1; & \text{if } Y_i^* \geq 1 \end{cases} \quad (4)$$

Ordinary least square (OLS) appears to be less accurate in estimating censored regression models (Gujarati, 2003; Wooldridge, 2002). Therefore, the Tobit model is usually estimated using the maximum likelihood (ML).

For a data set with N observations, the ML function is:

$$L = \prod_i^N \left[\frac{1}{\sigma} \phi \left(\frac{Y_i - X_i\beta}{\sigma} \right) \right]^{d_i} \left[1 - \Phi \left(\frac{X_i\beta}{\sigma} \right) \right]^{1-d_i} \quad (5)$$

In general, the Tobit analysis is preferred over other regression techniques because it will take into account all observations to estimate the regression line, including those at the limit and those above it, while, for the other techniques, estimation of regression line is based on observations above the limit (McDonald and Moffit, 1980).

Meanwhile, similar to previous literatures, this study adopts dummy variable to represent the difference in organization form, takaful operator is represented by 0, while conventional life insurer is represented by 1. Since the difference in size is obvious among the players in the insurance and takaful industry, size of the firm is also included as independent variable in order to act as a control variable. In agreement with most of the previous studies, this study will use the natural logarithm of life/family takaful total assets as a proxy to the size of the insurer/takaful

³ Definition of each of the variables extracted from the study by McDonald (2009)

operator. Table 2 summarizes the independent and dependent variables, as well as the measurements that are used in the Tobit analysis.

TABLE 2: Dependent and independent variables used in Tobit analysis

Dependent Variable	Measurement
Risk management efficiency	SBM-DEA risk management efficiency score (lies in a range 0 – 1)
Independent Variable	Measurement
Organizational form	0 – takaful operator; 1 – conventional insurer
Size	Natural logarithm of total asset

DATA

Data for this study involves 20 firms which include 16 conventional insurers (life and composite) and 4 takaful operators. For the composite insurers and takaful operators, which offer general and life/family takaful products, the data is segregated between the two lines of business and can be obtained from the companies' financial report. The study also totally excluded the new entrants during the study periods. The sample accounts for approximately more than two-thirds of the total assets of life insurance fund and family takaful fund assets in the overall life insurance and takaful industry respectively and also represents about 91% of the total players for the study period. The analysis will be conducted on the unbalanced panel data set of 20 firms for the period of 2003-2007. The 5 year time span of 2003-2007 is considered as this period is after the financial crisis of 2001 and 2002, and before the global credit crunch in 2008. As Zurich Financial Services (2007) reported that when the stock market dropped substantially between 2000 and 2002 and the level of corporate bond weakens, the insurance company has suffered severe losses in their investment portfolios. The same thing happened during the credit crisis in 2008, where insurers posted USD239 billion in write downs and credit losses worldwide from the global credit crunch in 2008. These extreme cases have to be excluded in order to avoid biased results. The firms under observation according to the type of business are depicted in Table 3.

TABLE 3. The list of insurer/takaful operator⁴ under observation 2003-2007

No.	Name of Firm	Type of Business
1	Allianz Life Insurance Malaysia Berhad (Allianz)	Life
2	Uni. Asia Life Assurance Berhad	Life
3	Manulife Insurance (Malaysia) Berhad	Life
4	Asia Life (M) Berhad	Life
5	Mayban Life Assurance Bhd	Life
6	Great Eastern Life Assurance (M) Berhad	Life
7	Commerce Life Assurance Berhad	Life
8	Tahan Insurance Malaysia Berhad	Composite
9	Hong Leong Assurance Berhad	Composite
10	AmAssurance Berhad	Composite
11	MCIS Zurich Insurance Berhad	Composite
12	Malaysian National Insurance Berhad	Composite
13	Malaysian Assurance Alliance Berhad	Composite
14	Takaful Nasional Sdn. Bhd.	Composite

⁴ Insurers/takaful operators' name refers to the recent registration

15	Takaful Ikhlas Malaysia Sdn. Bhd.	Composite
16	Syarikat Takaful Malaysia Berhad	Composite
17	MaybanTakaful Berhad (MTak)	Composite
18	Prudential Assurance Malaysia Berhad	Composite
19	ING Insurance Berhad	Composite
20	American International Assurance Company, Ltd	Composite

RESULTS

The first-stage results – SBM-DEA

In Table 4, the average efficiency score of risk management increased from 59.6% to 77.9%, although decreasing from 67.5% to 62.9% in the period from 2004-2005. The increment in the average efficiency score indicates increased competition (Cummins, 1999) among insurers/takaful operators especially with the advancement of computing and communications technology as well as dynamically changes in various type of risks. In addition, it implies that the average insurers/takaful operators have to improve from 22.1% to 40.4% if it were to perform the best risk and investment management practice respectively.

Table 4. Summary of SBM-DEA results for risk management activity

	2003	2004	2005	2006	2007
Average score	0.596	0.675	0.629	0.688	0.779
Standard deviation	0.305	0.328	0.313	0.309	0.245
Max of efficiency score	1	1	1	1	1
Min of efficiency score	0.031	0.162	0.167	0.134	0.238
% of efficient insurer/takaful operator	27.8	44.4	33.3	44.4	50.0

Moreover, the standard deviation declined during the period of 2003-2007. This is particularly encouraging because it shows that the insurers/takaful operators are converging towards the best practices (Cummins, 1999). However, the decreasing rate is quite slow and this condition is reasonable because there are some insurers that show very low efficiency score of risk management which is in the range of 0.031 to 0.238. The result indicates that the insurers/takaful operators are most likely not put an enough effort to compete intensively with each other to achieve efficient risk management. It is also found that from Table 4, the percentage of insurers/takaful operators that are identified to have efficient risk management in 2003-2007 is approximately 28%, 44%, 33%, 44% and 50%. This clearly shows that the number of insurers/takaful operators that are having inefficient risk management is approximately more than 50% over the period of 2003-2007. It is also found that, overall, inefficiencies in risk management are mostly caused by the failure to manage all three inputs at optimum level. The insurers/takaful operators have dealt with excessive leverage, underwriting and investment risk. It is significant to note that, the efficiency of risk investment management is achieved by different insurers/takaful operators for each year from 2003-2007. According to Table 5, it is obvious that insurer K is the only insurer that has been on the frontier for the entire years. In addition, the performance of insurer N and P are also encouraging as for achieving efficient risk management for 4 times. Apart from insurers H, J, M, and O, other insurers/takaful operators are enjoying efficient risk management at least for one year.

From the above observations, it is likely that an efficiency variation among insurers/takaful operator are exists. Yao et al. (2007) claimed that the efficiency score itself is not be able to

provide information on the difference in value achieved. Thus, the Tobit regression analysis is

2003		2004		2005		2006		2007	
DMU	Score	DMU	Score	DMU	Score	DMU	Score	DMU	Score
A	0.6496	A	1.0000	A	0.2960	A	0.6072	A	1.0000
B	0.4815	B	1.0000	D	0.4650	B	0.5993	B	1.0000
C	1.0000	C	0.9334	E	1.0000	C	0.4911	C	0.5040
D	0.5051	D	0.3747	F	1.0000	D	1.0000	D	1.0000
E	0.5842	E	0.3942	H	0.3895	E	1.0000	E	0.7466
F	0.4606	F	0.3727	I	0.8498	G	1.0000	F	0.6337
H	0.3765	G	1.0000	J	0.3824	H	0.1340	G	1.0000
I	1.0000	H	0.3175	K	1.0000	I	0.6005	I	1.0000
J	0.8292	I	0.4200	L	0.4299	J	0.3883	J	0.6015
K	1.0000	J	0.5967	M	0.2994	K	1.0000	K	1.0000
L	0.3739	K	1.0000	N	1.0000	L	1.0000	L	0.5634
M	0.2256	L	1.0000	O	0.1674	M	0.3472	M	0.5315
N	0.6349	M	0.2279	P	1.0000	N	1.0000	N	1.0000
O	0.0312	N	1.0000	Q	0.3416	O	0.2600	O	0.2379
P	1.0000	O	0.1617	S	0.8144	P	1.0000	Q	1.0000
Q	0.1926	P	1.0000			Q	0.2545	R	0.7621
R	1.0000	Q	0.3569			R	1.0000	S	1.0000
T	0.3911	T	1.0000			S	0.7008	T	0.4453

performed to verify the relationship between the efficiency of risk and the organizational form.

TABLE 5. SBM-DEA (individual results) – efficiency score for risk management for individual insurer/takaful operator

Note: The efficient insurer/takaful operator is in bold

The second-stage results – Tobit analysis

Table 6 shows that the organizational forms are significant at 1% critical level. The results imply that the takaful operator (mutual) are more efficient than conventional insurers (stock) in terms of risk management.

TABLE 6. Tobit regression results; (dependent variable = efficiency score)

Variables	Coefficients	z-Statistic
Constant	-2.407	-3.307
Size	0.163	4.479**
Organizational form	-0.375	-2.880**

Note: ** significant at 1%

When discussing the efficiency of the firm as a whole, this finding is consistent with Eling and Luhn (2010), Eckles (2003) and Carr (1997) who claimed that mutual companies were more efficient than stock companies. Attiea et al. (2009) also agreed that the mutual were relatively cost efficient than their stock counterparts. Contrary, Brockett et al. (2005, 2004) and Cummins (1999) found that the stock companies were more efficient than mutual companies, thus supporting the expense preference hypothesis. On top of that, Cummins and Zi (1998), Fukuyama (1997) and Gardner and Grace (1993) confirmed that there was no significant efficiency differences between stocks and mutual companies. Most of the literatures that have been mentioned (Eling and Luhn, 2010; Cummins and Rubio-Misas, 2006; Greene and Segal, 2004;

Lai and Limpaphayom, 2003; Cummins, Rubio-Misas and Zi, 2004; Cummins and Weiss, 2000; Cummins, 1999; Cummins and Zi, 1998; Gardner and Grace, 1993) associated the overall efficiency of the insurers' operation with the organizational form but, so far, none is examining the direct relationship between risk management efficiency of the firm and organizational form.

This result is consistent with the managerial discretion hypothesis, incentive conflict (Mayers and Smith, 1981) and the theory of adverse selection (Smith and Stutzer, 1990). The managerial discretion hypothesis (Mayers and Smith, 1994; 1988; 1986; 1981) suggests that the mutual ownership is likely more efficient than the stock ownership. The hypothesis have pointed out that mutual insurers will be more successful in business or activities that involve relatively little managerial discretion such as lines with standardized policies or good actuarial tables (Cummins and Weiss, 2000). Eckles (2003) justified that mutual insurers have a lower chance of making mistakes which in turn increases their efficiency based on arguments by Cummins (1999) and Mayers and Smith (1986) who posited that the mutual insurers are more focused in standard and less complex policies. Standardized or less complex products do not require more input to produce, particularly in underwriting and sales (Carr et al., 1999). On the contrary, the stock insurer is expected to be more noticeable in the book of business or activity that requires a lot of management discretion such as complex commercial coverage and international operations. The larger percentage of total premiums for stock insurers came from the health and group policies than do mutual insurers (Spiller, 1972). Both policies are identified as policies that could offer opportunities for faster growth, but with higher risk.

In addition, Mayers and Smith (1981) explained that mutual owner is likely has less corporate control over their manager and as a result, the degree of autonomy afforded to mutual manager and the cost of controlling management is significantly higher for mutual insurer as compared to stock insurer. Accordingly, mutual company will be involved with the activities in which "the costs of expanding and contracting assets is lower and in which the costs of valuing those assets are lower" (Fama and Jensen, 1983a, 1983b). Differently stated, the financial mutual firms were facing with less uncertain future cash flows than financial stock firms. Another empirical evidence on this issue was provided by Lamm-Tennant and Starks (1993) in which they verified the future cash flows of the stock insurers were more risky than mutual insurers. Baranoff and Sager (2003) who examine the relationship between organizational and distribution forms and capital, and asset risk structures in the life insurance industry also ratified that mutual ownership was associated to lower asset and financial risk taking than the stock ownership.

On top of that Mayers and Smith (1981) justified the difference in efficiency experienced by stock and mutual companies were due to the incentive conflict that exists between the owners and managers and between policyholders and owners which is also associated with the expense preference hypothesis. There are 3 parties that have always had an interest in an insurer, namely managers, owners and policyholders. Efficiency of an insurer is highly dependent on the extent of the insurer's ability to control the incentive conflicts between these 3 parties and they suggested that the choice between stock and mutual companies is an appropriate control mechanism of such conflict. In this context, Field (1988) explains that mutual companies are more efficient than stock companies as it minimized the incentive conflict between policyholders and shareholders by uniting both parties in a single entity. Furthermore, due to the conflict between owners and policyholders is lower, hence, mutual company is said to have more stable prices and provide better services (Cummins et al., 2004).

Smith and Stutzer (1990) who discussed the problem of adverse selection finally demonstrated that on average, mutual insurers are providing protection to customers who have a lower risk than stocks insurers. The reason given was that the policies offered by mutual insurers are participating policies in which the insurance premiums are determined ex post and therefore the policyholder together bear the overall operating risk of the insurer and will enjoy the residual

claims. In contrast, the stock insurers were offering nonparticipating policies where the premiums will be determined *ex ante* and the insured does not share in the overall operating risk. They further confirmed that nonparticipating policy will be purchased by higher-risk customers. Based on the same idea, Doherty and Dionne (1993), and Doherty (1991) however, lead to a different conclusion. Doherty and Dionne, (1993), and Doherty (1991) acknowledged that mutual ownership is indeed more efficient in risk-sharing arrangements than stock ownership by combining policy and equity claims in one package such as participating policy. Thus, the efficient risk-sharing hypothesis claimed that mutual companies should underwrite high-risk business lines more efficient than their stock counterparts.

From another point of view, differences in exposure to the risk profile experienced by mutual are most likely attributable to Islamic principles practiced by *takaful* operators. Obviously, the *takaful* operator has unique characteristics of underwriting and pricing practices when compared with conventional insurance system as described by Kwon (2007) and Ali (1998). In addition, there are several clauses in conventional insurance as suicidal clauses and policy loans are not applicable and modified in the *takaful* system. This makes *takaful* policies less complicated than conventional insurance. In addition, the *Takaful* Act 1984 which provides guidance on the practice of *takaful* operations, particularly in terms of investment practices reduce problems in the *takaful* operations. On top of that, double surveillance system from Shariah Advisory Council (established in BNM) and Syariah Supervisory Council (formed by *takaful* operator) guarantee the *Takaful* Act 1984 is complied. In this way, inefficiency in each operation of *takaful* operators can be minimized.

Based on the above situations, mutual insurers are most likely expose in a lower-risk business environment from the perspective of line of businesses, future cash flows, prospective customers, underwriting and pricing practices, investment risk through prudent and stringent investment policy and Shariah guidelines. This is strengthened by the study by Genetay (1999) which verified that the mutual insurers were characterized by having lower risk. According to the study by Schmit and Roth (1990), the performance of risk management (cost effectiveness) increased when an industry is in the low-risk environment. Consequently, the finding of this study that the risk management performance is higher for the mutual insurers is appropriate and acceptable.

Besides, Table 6 also exhibits that size is found to be significant at 1% critical level and has a positive effect on risk management efficiency. Thus, this result suggests that size is a significant driver to the risk management efficiency of insurers/*takaful* operators. The result also means that from the risk management perspective, large insurers/*takaful* operators tend to be more efficient. The discussion of this variables is limited as the size is a control variable

CONCLUSION

It is found that *takaful* operators are having better risk management efficiency than their conventional insurer counterparts. Under the agency problems, adverse selection problems and the efficiency of risk-sharing arrangements, the unequal risk management performance of conventional insurers and *takaful* operators can be attributed to the difference risk characteristics inherent in these both types of organizational form. *Takaful* operators are likely contend with minimum incentive conflicts, low-risk insurance prospects, lower chance of doing mistakes due to standard and less complex policies and less risky future cash flows. The performance of risk management increased when an industry is in the low-risk environment. This finding provides a status on the efficiency of both players in the industry in terms of risk management. Thus, it may be useful to regulators and managers to take the appropriate action to spur the efficiency of risk management, which in turn protect the interests of all stakeholders. For a future study, a number of other variables including macroeconomic variables and firm-specific characteristics can be included as a determinant of efficiency.

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The Mediating Role of Psychological Contract Violation on the Relations Between Psychological Contract Breach and Workplace Deviance

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Abstract

The purpose of this paper is to examine the mediating role of psychological contract violation on the relationship between psychological contract breach and workplace deviance. Specifically, this study hypothesized both direct relation between psychological contract breach and workplace deviance, and indirect relation between the variables via psychological contract violation. To test the hypotheses, Structural Equation Modelling (SEM) statistical technique was employed to analyse the survey data collected from four hundred seventy seven (477) nurses. Confirmatory factor analysis and structural model were used to test the validity of the measurement model and to test the hypotheses. Consistent with Morrison and Robinson's (1997) framework, the results showed that psychological contract violation fully mediates the relation between psychological contract breach and workplace deviance. Theoretically, this study contributes to the existing literature by expanding the utility of psychological contract theory in explaining workplace deviant behaviors. Practically, this study proposes several prescriptions to managers in minimizing workplace deviance such as providing a realistic job preview, especially related to their expectations towards employer, for candidates during the recruiting process.

Keywords: psychological contract, breach, violation, workplace deviance

INTRODUCTION

Workplace deviance is a significant issue facing today's organizations. It has been the focus of academicians and practitioners because it brings about serious negative impacts to organizations, as the organizations have to bear the cost resulting from such behavior (Coffin 2003), and decrease in productivity and morale, increased in fear and job insecurity as well as psychological and physical pain experienced directly by employees who become targets of deviant behavior (Coffin, 2003; Griffin, O'Leary-Kelly & Collin, 1998; O'Leary-Kelly, Griffin & Glew, 1996).

One of the focuses in research in workplace deviance is experiences in the working environment as the antecedents of workplace deviance. Past researches, for example, have found that situational factors in the workplace such as job satisfaction, perceived injustice, abusive supervisor (Judge, Scott & Illies, 2006; Tepper, Carr, Breaux, Geider & Hua, 2009), and financial pressures, social pressures, inequities, unfair treatment, poor work conditions, organizational changes (Robinson & Bennett, 1997) as predictors to workplace deviance. These antecedents trigger and lead to employees feeling a sense of disparity (i.e., a notion is that the current

conditions facing employees is not as it should be) or a sense of outrage (i.e., an emotional state such as anger or disappointment that follows disparity and also direct from situational factors), or both (Robinson & Bennett, 1997). This will trigger employees to engage in deviant behavior (Colbert et al., 2004; Robinson & Bennett, 1997). Thus, we can argue that understanding those antecedents are significant not only theoretically as they provide more to our understanding of those predictor variables, but also practically because they help organizations in devising HR programs to reduce this kind of counter-productive behaviors among employees. To add to the existing literature the present study will examine the role of psychological contract breach and violation in predicting workplace deviance. This is relevant considering the relationship between employee and employer in the workplace. When people join an organization they are automatically involved in an employment relationship. This relationship can be seen as an exchange relationship between the employee and employer (Shore & Tetrick, 1994). Psychological contract theory is an pivotal point in this relationship because it provides an explanation of the terms of exchange relationship from the employee's perspective (Shore & Tetrick, 1994; Taylor & Tekleab, 2004).

LITERATURE REVIEW

Psychological Contract, Breach, and Violation

Rousseau (1989) defined psychological contract more explicitly as an employee's belief regarding the terms and conditions of a reciprocal exchange agreement between him and his employer. These beliefs are based on the employee's perceptions regarding his organization's obligations to him as well as his own obligations to the organization (Rousseau, 1989). Here, the focus is on the specific kind of obligation, which is based on perceived promises. The psychological contract is viewed as "an individual's belief that a promise of future return has been made, a consideration or contribution has been offered (and accepted), and an obligation of future benefit exists" (Rousseau, 1989, p. 126). In psychological contract, the breach is probably the most important concept, because how the psychological contract negatively affects the employee's feelings, attitudes and behaviours can be explained through this concept (Conway & Briner, 2005). There are two models of psychological contract violation which can explain the understanding of the psychological contract breach.

The first model defines violation as a failure to comply with the terms of a contract (Rousseau, 1995). Violation is a perception of an employee that the organization has failed to fulfil one or more obligations of the contract (Robinson & Morrison, 1995; Rousseau & McLean-Parks, 1993). Violation is a cognition that reflects the employee's thinking, evaluation and comparison of what the employees received from the organization with what has been promised by the organization. Violation also involves feelings of betrayal, deeper psychological distress, anger, and resentment (Rousseau, 1989). We can thus conclude that according to Rousseau, both cognition and emotion are included in violation.

The second model was developed by Morrison and Robinson (1997). Arguing that cognition and emotion should be differentiated from each other, they differentiated between the two in their violation model. The cognition part was referred to as "psychological contract breach" and the emotion part as "psychological contract violation". The breach is an employee's cognition in comparing what he has received from an organization and what the organization has promised, whereas violation is an affective or emotional reaction that follows the breach. Specifically, they defined psychological contract breach as "the cognition that one's organization has failed to meet one or more obligation within one's psychological contract in a manner commensurate with one's contribution" (Morrison & Robinson, 1997: 229), and the psychological contract violation as an

emotional or affective reaction such as feeling of anger, betrayal, and frustration that follows cognitive appraisal of breach (Morrison & Robinson, 1997; Raja, Johns & Ntalianis, 2004; Robinson & Morrison, 2000; Rousseau, 1989). Thus, according to this model, psychological contract influences the attitudes and behaviours of employees through the concept of psychological contract breach and psychological contract violation.

Consistent with this view, Conway (1999) argued that the latter conceptualisation of violation is more favourable since the use of the term 'breach' to describe the unfulfilled obligation is more precise, and in line with legal contracts, than using the term 'violation' to refer to the event. In addition, Thus, in this context, Morrison and Robinson's (1997) conceptualisation might be more useful to explain the discrepancy. The distinction between contract breach and contract violation was also supported by an empirical research which found that psychological contract violation mediated the relationship between psychological contract breach and employees' behaviours (Suazo, Turnley, Mai, 2005). Thus, based on the arguments, the present study will use Morrison and Robinson's (1997) conceptualisation of psychological contract violation.

Psychological Contract Breach, Violation and Workplace Deviance

In terms of outcomes of psychological contract breach, Conway and Briner (2005) argued that the breach may lead to attitudes and behaviors of employees. According to social exchange theory (Blau, 1965), the exchange process between employee and organization in an employment relationship could be based on the basis of negative reciprocity. Thus, when employees think there is a breach, in which the organization does not fulfill its promises or obligations, they perceive that the organization has given them negative treatment. It will motivate them to engage in organizational and interpersonal deviance to reciprocate the negative treatment. Empirically, studies have supported the relationship between psychological contract breach and organizational deviance (Bordia et al., 2008; Chiu & Peng, 2008; Kickul, 2001) and interpersonal deviance (Chiu & Peng, 2008).

Hypothesis 1: There is a direct positive relationship between psychological contract breach and organizational deviance.

According to the violation model proposed by Morrison and Robinson (1997), psychological contract breach and psychological contract violation are two different concepts. The former is employees' cognition that there is a discrepancy between what they perceived as the organization's obligations to them and what they have actually received from the organization. The latter, on the other hand, refers to feelings such as anger, betrayal and frustration that follow the breach. Therefore, when an employee thinks that the organization has failed to fulfil its promises, it could evoke feelings of anger, betrayal and frustration. Empirical research and meta-analysis study have provided evidence that psychological contract breach has a positive relationship with psychological contract violation (e.g., Bordia et al., 2008; Dulac et al., 2008; Suazo et al., 2005).

The psychological contract violation which occurs as a result of perceived psychological contract breach may, in turn, influence the behaviors and attitudes of employees (Morrison & Robinson, 1997). When an employee feels angry, betrayed and frustrated because of his belief that the organization has breached its promises, he might engage in organizational and interpersonal deviance to express or release those feelings (Robinson & Bennett, 1997). Past studies have found that psychological contract violation is significantly related to attitudes and behaviors (e.g.,

Bordia et al., 2008; Dulac et al., 2008; Suazo et al., 2005). Therefore, this study proposes that psychological contract violation has a positive relationship with workplace deviance.

Thus, based on these arguments, this study predicts that violation may act as a variable that serves as an intermediary explanation of the relationship between breach and workplace deviance.

Hypothesis 2: Psychological contract violation will partially mediate the relationship between psychological contract breach and workplace deviance.

METHOD

Measure

The workplace deviance was measured using scale developed by Bennett and Robinson (2000) consists of twelve items measuring organizational deviance and seven items measuring interpersonal deviance. Respondents were asked to rate the extent to which they have participated in each behavior on a 5-point Likert-type scale ranging from 1(never) to 5 (always). Sample items include: “Take property from work without permission” and “Spent too much time fantasizing or daydreaming instead of working” (organizational deviance) and “Made fun of someone at work” and “Said something hurtful to someone at work”.

Psychological contract breach and psychological contract violation were measured using scale developed by Robinson and Morrison (2000). Sample items for the breach were “Almost all the promises made by my employer during recruitment have been kept so far (reversed-coded)” and “My employer has broken many of its promises to me even though I’ve upheld my side of the deal”. Sample items for violations were “I feel that the organization has violated the contract between us” and “I feel betrayed by my organization”. Respondents were asked to rate the extent to which they agree on each statement and to indicate their response on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

RESULTS

Table 1 presents the means, standard deviations, correlations and reliabilities (Cronbach’s alpha) for the study variables. All measurements for the study had adequate level of reliability with internal consistency estimates ranging from .82 to .87.

TABLE 1: Means, Standard Deviations, Composite reliability and Zero-order Correlation

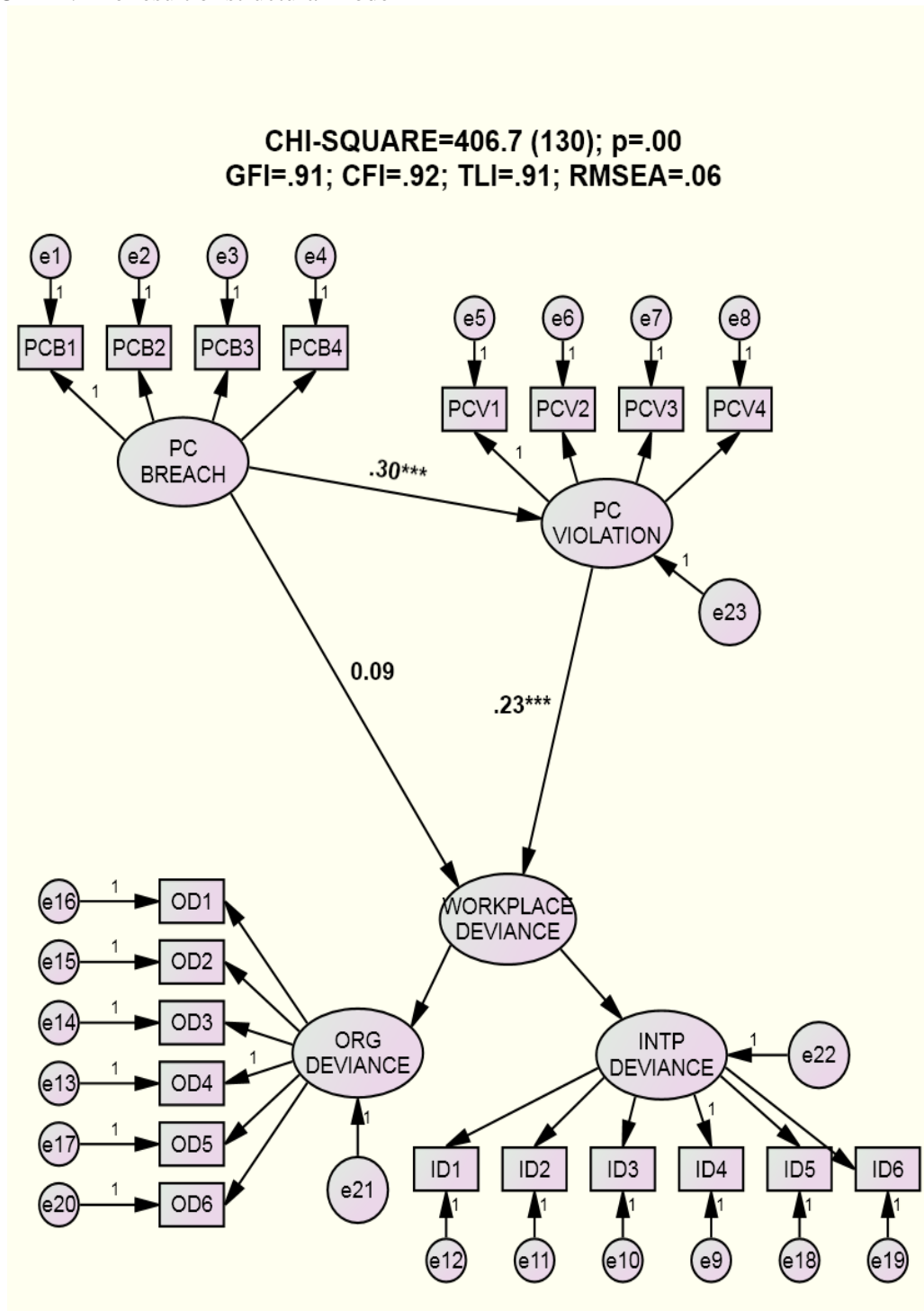
Variable	Mean	S.D	1	2	3
1. Psychological contract breach	2.75	.82	(.82)		
2. Psychological contract violation	2.43	.65	.23**	(.80)	
3. Workplace deviance	1.28	.41	.16**	.21**	(.87)

Notes: ** Significance at $p < .01$; Figure in brackets represent Reliability of each construct

Following Anderson and Gerbing's (1988) two-step procedure, the measurement model was assessed independently and before that of the structural model. The results of the CFA of measurement model suggested an adequate fit to the data with $\chi^2_{(184)} = 491.9$ $p < .001$, CFI = .93, TLI = .93, GFI = .91, RMSEA = .06. Even though the Chi-square statistics was significant, other measurements of fit show a recommended level of indices. Standardized loadings for items are all above .70. The Chi-square difference test was conducted to assess discriminant validity of the measurements (Anderson & Gerbing, 1988). The result indicated that the difference of the Chi-square of the 3- factor model has a significant improvement of fit over the three other models, suggesting that discriminant validity of measurement model was achieved.

A confirmatory structural model was conducted in assessing the model fit of the proposed model. The results (Figure 1) showed that the model has a $\chi^2_{(130)} = 406.7$ at $p < .00$; CFI = .92; TLI = .91; GFI = .91; RMSEA = .06 .,. Even though the Chi-square statistics was significant, other measurements of fit show a recommended level of indices.

FIGURE 1: The result of structural model



The results show that non-significant path from psychological contract breach to workplace deviance (hypothesis H1 was not supported). On the other hand, the results show significant paths between psychological contract breach and violation (standardized coefficient = .30; at $p > .00$),

and between psychological contract violation and workplace deviance (standardized coefficient = .23; at $p > .00$). The finding is supported by the mediation test in which the comparison of nested models suggests the mediation is in the form of full mediation rather than partial mediation as proposed earlier (see table 2).

TABLE 2: Comparison of the Alternative Models

Model	χ^2	d.f.	$\Delta \chi^2$	GFI	CFI	TLI	RMSEA
Model 1 (full mediation)	406.7	185		.91	.93	.92	.06
Model 2 (partial mediation)	431.9	189		.90	.92	.92	.07
Differences (Model 1 – Model 2)			25.2				
Model 3 (non-mediation)	501.4	195		.85	.91	.90	.09
Differences (Model 3 – Model 2)			94.7**				

** Significant at $p < .01$. The significant level of chi-square differences test is set at $p < .01$ (for 1 d.f., χ^2 corresponds to 6.63) in order to be more confident that any modification to the hypothesized model is less likely to be an artifact of the sample used in the study.

DISCUSSION

In regard with the relationship between psychological contract breach and workplace deviance, the finding showed no relationship between those variables. This finding was not consistent with previous research which found the significance of the relationship between psychological contract breach and workplace deviance (e.g., Chiu & Peng, 2008; Kickul 2001). One possible explanation is how the relationship between variables is being examined in the model. Previous empirical research has only examined the direct relationship between psychological contract breach and workplace deviance without including psychological contract violation in the model (e.g., Chiu & Peng, 2008; Kickul 2001). The findings found a significant direct relationship between psychological contract breach and workplace deviance. Meanwhile, present study has examined the direct and indirect relationship by including psychological contract violation in the model. The finding shows no direct relationship between psychological contract breach and workplace deviance. Instead, the relationship is indirect through psychological contract violation. Additionally, a closer examination of zero order correlation (Table 1) shows a significant relationship between psychological contract breach and organizational deviance. However, examination by including psychological contract violation in the model shows that the relationship between psychological contract breach and organizational deviance lost its significance. It means the relationship between psychological contract breach and organizational deviance is not direct relationship but indirect through psychological contract violation.

Theoretically, the findings demonstrated the mediating role of psychological contract violation in linking psychological contract breach to organizational and interpersonal deviance. The mediating role of psychological contract violation is consistent with psychological contract theory which states that the psychological contract breach will be followed by psychological contract violation in affecting attitudes and behaviors (Morrison & Robinson, 1997). Therefore, when employees perceived that the organization has breached its promises, they will feel angry, betrayed and frustrated (i.e., violation) and this affective reaction, in turn, motivates them to engage in organizational and interpersonal deviance. These deviant behaviors are considered as

an attempt to release or vent their feeling of violation (Robinson & Bennett, 1997). Another way to explain the mediating role of psychological contract violation on the relationship between psychological contract breach and workplace deviance is based on Affective Events Theory (Weiss & Cropanzano, 1996). According to this theory, working events evoke affective reactions, which in turn influence attitudes and behaviors. Therefore, when employees perceive a breach (i.e., working event), it raises the feeling of anger, betrayal, and frustration toward the organization (i.e., affective reaction), and this would motivates them to engage in either organizational or interpersonal deviance.

In term of practical contributions, the findings from this study shows that workplace deviance occurrence can be minimized by having intervention strategies such as providing a realistic job preview that will help employees develop a realistic or objective perception of the promises that the organization should fulfil and what their obligations to are the organization in their exchange relationship (Shore & Tetrick, 1994). More specifically, realistic job preview will influence employees in developing their expectation of how managers or the organization should treat them. Such realistic expectations would help to minimize psychological contract breach. Another form of intervention could be also conducted during routine work interaction. During this routine interaction, managers should develop effective communication with employees to avoid incongruence or misperception about the organization's promises. Morrison and Robinson (1997) argue that incongruence contributes to psychological contract breach building. Thus, effective communication between managers and employees will results in both parties having convergent perception of the organization's promises.

Psychological contract breach when not contained can escalate to psychological contract violation, and manager can play a role in ensuring that this does not occur. This could be achieved by communicating to the employees the reason why the organization failed to meet its promises. This is in line with Robinson and Morrison's (2000) argument that when employees blame the organization for contract breach, feelings of violation will be less intense if they are treated with dignity and respect. Therefore, explaining politely, respectfully and expressing regret for the failure of the organization to meet its obligation would reduce the employees' anger and frustration. Finally, managers could minimize employee's engagement in deviant behavior by providing interventions or supports. This could be in the forms of counselling or religious program, organizing family/recreation program so as to reduce their anger and frustration and thus minimize workplace deviance.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

First, the use of convenience sampling in this study may limit the generalizability of the findings. Thus, the interpretations must then be made with caution. Future studies should use random sampling technique, and conducted in other different settings. Second, the variables were assessed using participants' self-report which may raise the social desirability bias. To overcome this limitation in future research should assess organizational and interpersonal deviance using others-report such as peer-report, supervisor-report, and subordinate-report. Third, the present study employed the cross-sectional data in which the data was collected in a single point in time. The weakness of using this data is it does not detect the possibility of causal relationship between variables. Thus, future research using the longitudinal design is an advantage because it can overcome the weakness of cross-sectional design. In addition to the above limitations and suggestions to overcome those limitations, we also have identified several suggestions for future research. Considering that most of the research has been conducted in individualistic culture,

investigating deviant behavior in a collectivist culture such as this research is fruitful in order to make the generalization of the findings. Therefore, the avenue for future research includes comparative study of deviant behavior within groups of employees from different national cultures experiencing psychological contract breach and violation, and an investigation on how individual cultural orientation moderates such relationships.

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The Experience of Small and Medium Enterprises (SMEs) in Managing Halal Supply-Chain

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Abstract

This case study is one of the preliminary findings on the study of two small and medium enterprises (SMEs) in food and beverages (F&B) industry on how they managed their supply chains. The writing process of this case study is based on interview sessions with the companies' owner and secondary data obtained from the companies as well as the related websites especially on halal matters. The data was analyzed by using the case study methodology. This case revolved around the issue of halal supply chains, one of the important elements for these SMEs in order to make sure that the products that they served to the customers is considered halal. These cases were highlighted based on actual story. The findings revealed that there are several approaches adopted by these two companies in managing their supply-chain activities and making sure that they are providing halal products to their customers. As for the conclusion, SMEs also not excluded from having the need of producing halal products to be consumed by the customers. By right, every companies must strive to get the halal certification from the authority so that there are no doubt for the products to be consumed. Hopefully, these two actual cases can inspire and be referred by other F&B companies on how to make sure the *halalness* of the products they manufactured in term of supply-chain management and the impacts of having halal certification in advancing the sale of the companies' products.

Keywords: SMEs, F&B, halal, supply-chain management system, suppliers' relations

1. Introduction

The importance of SMEs to the nation's economy has been well established. They are considered the most dynamic businesses in both the developed and developing countries. SMEs also exert a strong influence on the economies of all nations and have been the source of employment creation worldwide (Ghobadian & Gallea, 1996; Ladzani & Van Vuuren, 2002). In the developing countries, SMEs' contributions include (a) addressing poverty by creating jobs and increasing income, (b) dispersing economic activities in the countryside, and providing broad-based sources of growth, (c) serving as suppliers and providers of support services for large enterprises, (d) stimulating entrepreneurial skills among the populace, and (e) acting as incubators for developing domestic enterprises into large firms (Habaradas, 2008). SMEs are also very important in Malaysia. Statistics show that 99.2 per cent of the total businesses establishments in Malaysia are SMEs (Amry, 2009; Ang, 2010). SMEs have been the backbone of economic

growth of an economy in driving industrial development (Normah, 2007), and SMEs also are the backbone of the nation (StarBiz, 2009). Thus, SMEs in Malaysia continue to remain significant in the country's economy and this importance is even more significant as Malaysia moves towards realizing the objective of becoming the developed country status by the year 2020 (SMIDEC, 2008).

SMEs definitions in Malaysia are applied for the following sectors:

- (1) Primary agriculture
- (2) Manufacturing (including agro-based)
- (3) Manufacturing-related services (MRS); and
- (4) Services (including information and communication technology).

The full definitions is presented below.

SME definitions based on number of full-time employees and annual sales turnover

Sector	Primary Agriculture	Manufacturing (including Agro-Based) & MRS	Services Sector (including ICT)
Micro	Less than 5 employees OR less than RM200,000 of annual sales turnover	Less than 5 employees OR less than RM250,000 of annual sales turnover	Less than 5 employees OR less than RM200,000 of annual sales turnover
Small	Between 5 and 19 employees OR between RM200,000 and less than RM1 million of annual sales turnover	Between 5 and 50 employees OR between RM250,000 and less than RM10 million of annual sales turnover	Between 5 and 19 employees OR between RM200,000 and less than RM1 million of annual sales turnover
Medium	Between 20 and 50 employees OR between RM1 million and RM5 million of annual sales turnover	Between 51 and 150 employees OR between RM10 million and RM25 million of annual sales turnover	Between 20 and 50 employees OR between RM1 million and RM5 million of annual sales turnover

Source: Secretariat to National SME Development Council (2005)

Apart from that, halal issues are also very important nowadays. This is because consumers are more alert on what they consume daily and they also demanded for all of the products taken are halal. It is not only for F&B industry, but also to other products such as pharmaceuticals, cosmetics, toiletries and many more. Therefore, most of the manufacturers of these types of products would apply for halal confirmation certification from Jabatan Kemajuan Islam Malaysia (JAKIM).

JAKIM's halal confirmation certification can be apply online and the service charge fees are according to the size of the business / company and is subject to change. Basically, for industry / factory / product category, there are three types of fees for each category, whether small industry, small and medium industry (SME) or multinational. For product manufacturing industry, small industry will be charged RM100.00/year. Whereas SME will be charged RM400.00/year and multinational industry RM700.00/year. JAKIM Halal Portal explained the criteria for a company to be considered as either small, SME or multinational industry. For slaughter house, small slaughter house will be charged RM100.00, medium RM400.00 and big slaughter house RM700.00. There are also specific criteria on how the slaughter house to be considered either

small, medium or big. For food premise / restaurant/ catering and hotel, per unit premise and kitchen is RM100.00. This mean that, if a hotel has two kitchens, it should pay RM200.00 for the fees. The fee imposed for halal certification is valid for the duration of two years. Payment is imposed on every renewal application.

To be considered as halal, it is not primarily on the ingredients being used in the production. It is also related to the process, transportation and storage (to name few), or better known as from farm to fork. To be considered religiously lawful and thus certified halal, the consumable products must fulfill the following requirements, such as:

- 1) Does not contain any parts or products of non-halal animals (animals which are not allowed to be eaten by Muslims);
- 2) Does not contain any parts or products of halal animals (such as cattle, goats, sheep and poultry) that were not slaughtered according to Islamic law (*syariah*);
- 3) Does not contain any ingredients that are *Najs* (filthy or unclean) according to *syariah*;
- 4) Is safe and not harmful (does not contain physical, chemical or biological / microbial hazards);
- 5) Is not prepared, processed or manufactured using equipment that is contaminated with things that are *Najs* according to *syariah*;
- 6) The ingredients do not contain any human parts or its derivation (such as hair); and
- 7) During its preparation, processing, packaging, storage and transportation, the product is physically separated from any other product that does not meet the requirements stated above or any other things that have been decreed as *Najs* by *syariah*.

There are several reasons why some companies were not granted halal confirmation certification from JAKIM. Among the reasons are:

- The company is producing and distributing halal and non halal products;
- Product is not halal;
- Natural substances that do not involve any processing;
- Drugs or products that are categorized as pharmaceutical products by the Ministry of Health Malaysia;
- Hair colorant / hair dye;
- Processed products manufactured overseas;
- Products that are labeled with names synonymous with confusing terminology such as 'bak kut teh' and so on, and;
- Fertilizer and animal feed.

Having discussed the above, therefore, the aim of this particular case study is on looking at how some SMEs managed their supply-chain to ensure the halalness of the products sold to the consumers. This preliminary findings are from two SMEs operated in Nilai, Negeri Sembilan.

2. Methodology

This research has been conducted using case study method in order to gain in-depth information on how selected SMEs in this study managed their supply-chain in order to make sure that it is halal for their products to be considered as halal (Yin, 2009). In the process of writing this case study, the researchers focused are on the main research question: how does these SMEs make sure that their supply-chains are halal. Primary data were gathered from the interview sessions

conducted with the owner of the company. Apart from that, secondary data such as company's records and several related agencies' websites were also used in constructing this case study.

Then, the researchers applied five-phased cycle by Yin (2011) in analyzing qualitative data, namely: (1) compiling; (2) disassembling; (3) reassembling (and arraying); (4) interpreting and (5) concluding. This is being done to the output from the interview session and available supported documents given by the company.

3. Analyses and Findings

There are two companies, which are mostly micro in size, participated in this preliminary study conducted between September to December 2013. The real name of the companies would not be revealed, so these companies are going to be addressed as Company A and Company B. One of the companies had already being certified as halal producers but the other one is not (is going to be mentioned in this case, if the company's products has been certified halal).

Company A

Operated since 1985, Encik Ismail (not a real name) is a sole proprietor producing "cendol" – one of the famous Malaysian drinks or desserts. He started with mobile stall, which use a three wheel bicycle at the early establishment before converted to three wheel motorcycle. In year 2000, he owned a hawker's stall. From only one worker, now the company has four workers to serve customers efficiently. There are five types of "cendol" being served from the stall – *Cendol Pulut Semangkok*, *Cendol Kacang Semangkok*, *Cendol Jagung Semangkok*, *ABC Semangkok* and *Cendol Special Semangkok*. It is being sell at RM2.50 each.

Encik Ismail obtained raw materials to make "cendol" from various sources such as from villagers, groceries stores, market and mart. Among the raw materials needed are: pandan leaves, creamer, brown and white sugar, sweet corn, red bean, coconut milk, corn flour and many more. Encik Ismail is using many suppliers strategy in getting the required raw materials, so that he is not depending on one source of supplier (minimize the risk of not enough or inability of the supplier to send the required materials). He is also producing his own "cendol" – the greenly flour ingredients used to prepare "cendol" drinks or desserts and become the major supplier of "cendol" to other "cendol" sellers in his area.

How Encik Ismail does to make sure that all of the raw materials needed or used in preparing "cendol" is halal in term of its supply-chain? He generally buy the ingredients by its own, so that he can make sure that it is halal. Pandan leaves are bought from the villagers, ice block has been supplied by a company that already has halal confirmation certification, coconut milk is directly from suppliers at the fresh market and other ingredients such as creamer, brown and white sugar, sweet corn, red bean and corn flour are from nearby groceries stores and marts. He bought all these ingredients that has halal certification from JAKIM so that he can confirms that the ingredients used in producing his "cendol" is halal.

Thus, Encik Ismail is very sure that the "cendol" he produces are halal although it is not being certified by JAKIM. However, he does not use any halal logo or symbol on the plastics containers he used to serve his customers or at the display glass of his stall because he knows the implication of using the logo without proper certification by the authority would cause more harms to his business.

Company B

Specializing in producing home-made breads, this company has been established since the year 2000 with the beginning capital of RM20, 000. 00. It is owned by a married couple, Encik Badul and Puan Maryam (both are not a real name). Encik Badul was a Navy before and he decided to retire early due to certain reason and Puan Maryam was a fulltime housewife before they started this journey. The business started from operating at a small kitchen of the owners' house – producing in a small scale, and now they have their own production facilities nearby their house. The company produces several types of breads and buns, cookies, muffins, cakes and lots more.

The couples faced the ups and downs in business but they never gave up. They work very hard to achieve what they have now. Encik Badul and Puan Maryam collaborated with several government agencies such as Ministry of Agriculture (MoA) and SME Corporation Malaysia for their machineries, building and construction needed in realizing their production facilities. Apart from that, this company also has been granted halal confirmation certification from JAKIM and cooperated with SIRIM for food quality and packaging.

In managing their supply-chain, the companies conducted suppliers' evaluation in order to find potential suppliers and to determine the likelihood of them in becoming good suppliers. They choose their suppliers through JAKIM's halal portal and also with some advice from JAKIM, so that they saved their time in choosing good suppliers. Of course, the lists provided by JAKIM is the companies that had been granted halal confirmation certification. One of the important factor being considered in choosing supplier is the proximity of the supplier itself. Encik Badul and Puan Maryam need to save on transportation cost so that they can sell their products at a cheaper price than their competitors.

For Encik Badul and Puan Maryam, they are much concerns about the halalness and price of raw materials and ingredients rather than the races of the suppliers. They had an experience of dealing with Malay suppliers but the price is much more expensive. So that they decided to use Chinese suppliers but of course these suppliers were listed by JAKIM as halal suppliers for the raw materials and ingredients needed.

In term of what strategy or approaches Encik Badul and Puan Maryam use in managing their supply-chain, they prefer to have few suppliers instead of many suppliers for certain ingredients such as bread yeast and sausages. For non-critical raw materials and ingredients such as flour, egg, milk, sugar and salt, they rely on many suppliers too because sometime some suppliers can offer them better prices rather than other suppliers.

Encik Badul and Puan Maryam applied halal confirmation certification from JAKIM at the early stage of their operation at the new premise (production facility). They were right when they expected the consumers are going to be very picky and demanded on halal products and they worked on it. Their expectation were pay off when the sales of their breads and buns, cookies, muffins and cakes increased tremendously after they were granted halal confirmation certification.

4. Conclusion

Having shared these two companies' approaches in managing their halal supply-chain, there might be more approaches being adopted by other companies as well. However, the findings can be some insight to others in the related industry on how to manage halal supply-chain. These two companies mentioned above applied two most common strategies in managing their supply-

chain: many suppliers and few suppliers' approaches. It really depending upon which types of raw materials and ingredients are suitable to use few suppliers or many suppliers. In many cases, normally few suppliers deals with critical ingredients where as many suppliers are not.

To those companies with halal confirmation certification from JAKIM, not much has been doubted by the consumers because the consumers might feel safe when consuming halal accredited products. However, to other companies (in this case Company A), of course they are making sure that all raw materials and ingredients used are halal in nature so that their products are halal too. It is just there is no authority to confirm that it is truly and certified halal. Then, it is up to the consumers to decide whether they want to consume the products or not.

Consuming halal products are compulsory for Muslims all over the world. Malaysia halal logo, certified by JAKIM is being recognized internationally. Thus, many producers and manufacturers of F&B, pharmaceuticals, cosmetics, toiletries and many more are striving very hard to get halal confirmation certification for their products. It can be said that by having certified halal by JAKIM, the products can easily being accepted by Muslims and others, plus there is an opportunity to market the products overseas especially to the Muslims countries, where halal products market is very lucrative.

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Efficiency-Profitability Mapping of Privatized State-Owned Enterprises : the Case of Indonesia

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Abstract

State-Owned Enterprises (SOEs) should increase their performance in facing the global challenges. This research aims to analyze efficiency-profitability mapping of Indonesian privatized State-Owned Enterprises (SOEs) using efficiency-profitability matrix. This research uses Return on Assets (ROA) as profitability proxy and Data Envelopment Analysis for the measurement of efficiency (overall technical efficiency, pure technical efficiency, and scale efficiency). The results of this research show that not all of the technically efficient SOEs are scale efficient. This research also finds that not all of the SOEs that have high profitability are also having high efficiency. Most of the SOEs are included in the Dog quadrant, means that most of the SOEs have high efficiency but low profitability. Several SOEs are included in the Sleeper quadrant, which is not a good sign from long-term perspective. Meanwhile, some of the SOEs are included in Question Mark quadrant which have a low level of profitability and efficiency. These SOEs have the potential to achieve higher level of profitability and efficiency.

Key Words : efficiency, profitability, data envelopment analysis

INTRODUCTION

State-Owned Enterprise (SOE) is a business entity that is wholly or partly owned by the government. Some SOEs in Indonesia have been privatized by offering shares on the stock exchange. Currently, there are sixteen SOEs that have been listed on Indonesian Stock Exchange. Privatization aimed to improve the competitiveness, value, and performance of the SOEs.

The developments of the privatized SOEs in Indonesia for the last five years can be quite rapid. In 2009, total assets of the privatized SOEs reached 74 trillion rupiah and increased to 139 trillion rupiah in 2013. Although the assets of privatized SOEs have increased, SOEs profitability indicated by Return on Assets (ROA) was experiencing a decrease. Profitability of the SOEs indicated by ROA in 2009 was 7.4%, became 9.2% in 2011, but decreased to 5.9% in 2013.

The decrease of Indonesian privatized SOEs profitability becomes the background of this efficiency-profitability mapping research. Based on Noor and Ahmad (2012), there is a positive correlation between efficiency and profitability. It means that Decision Making Unit (DMU) which has high level of efficiency will have high profitability. Meanwhile, according to Abu-Alkheil, Burghof, and Khan (2012), not all of Decision Making Units (DMUs) which have high efficiency are also having high profitability. Research on efficiency and profitability of Indonesian privatized SOEs will determine whether there are a lot of inefficient SOEs and whether the inefficient SOEs are also having lower profitability than the more efficient SOEs. So, there will be a map about efficiency-profitability of Indonesian privatized SOEs. The analysis of efficiency and profitability will be useful for the development of the SOEs.

To measure profitability, this research uses Return on Assets (ROA), while the efficiency measurement uses non-parametric approach that is Data Envelopment Analysis (DEA). DEA is a linear programming method that is used to measure the efficiency of a Decision Making Unit (DMU). DEA formed a standard that a DMU is efficient compared to other inefficient DMU (Said, 2013). The DEA model uses Constant Returns to Scale (CRS) and Variable Returns to Scale (VRS) assumptions. These assumptions are used to determine the overall technical efficiency, technical efficiency without scale efficiency (pure technical efficiency), and whether the inefficiency is caused by SOEs that is not in the optimum scale yet (scale inefficiency).

Some previous researches have studied about SOE's efficiency but those previous researches did not analyze whether the efficient SOEs are also having high profitability. Some previous researches are as follows. Bozec and Dia (2007) studied about board structure and technical efficiency of Canadian state-owned enterprises. Viverita and Ariff (2008) have done research on production efficiency of Indonesian state and non-state firms. The research of Kong, Marks, and Wan (1999) was about technical efficiency of Chinese State-Owned Enterprises. Meanwhile, Vu (2003) studied about technical efficiency of Vietnam SOEs, and Meenakumari and Kamaraj (2008) analyzed the efficiency of State Owned Electric Utilities in India using Data Envelopment Analysis.

This research aims to analyze profitability and efficiency of privatized SOEs in Indonesia. Using efficiency-profitability matrix, this research will show whether SOEs which have high efficiency are also having high profitability. The result of this research will enrich the literature about efficiency and profitability of the privatized SOEs. The finding of this research will contribute in the development of the SOEs in facing the global challenges.

Differences of this research over previous researches are as follows. First, this research measures overall technical efficiency, pure technical efficiency, and scale efficiency of Indonesian privatized SOE using Data Envelopment Analysis (DEA). Second, this research gives analysis of efficiency-profitability mapping using efficiency-profitability matrix.

LITERATURE REVIEW

Some researchers have studied about efficiency of SOEs in several countries. The study of Chirwa (2001) in Malawi evaluates the impact of privatization on technical efficiency of six privatized enterprises, three state-owned enterprises and six private enterprises competing in three oligopolistic manufacturing industries in which privatization took place. Technical efficiency scores are computed using Data Envelopment Analysis (DEA). The results show that privatization in Malawi is associated with high technical efficiency in privatized enterprises. But the results also show evidence that the competitive process is more important than privatization in increasing the technical efficiency of all enterprises competing in the same industries.

Bozec, Dia, and Breton (2006) study about profitability and technical efficiency of Canadian state-owned enterprises (SOEs), commercialized and/or privatized between 1976 and 2001. The results show that privatization has no impact on firm's technical efficiency, the only positive impact being related to a change in the objectives of the firm while using profitability measures. The results of this study raise the question on the validity of comparison between SOEs and private firms when using profitability indicators. The study also calls into question the assumed relationship between efficiency and profitability, and the legitimacy of privatization, a reform often justified to improve the performance of SOEs.

Zheng, Liu, and Bigsten (2003) investigate the productivity performance of Chinese SOEs using Data Envelopment Analysis and Malmquist index. The empirical results show that the average technical efficiency was low for these firms.

According to Vu (2003), industrial state-owned enterprises (SOEs) in Vietnam have recorded a rather high level of technical efficiency, as well as a moderate improvement in technical

efficiency between 1997 and 1998. Of the possible factors, the share of skilled workers, location in Ho Chi Minh City (formerly Saigon) and engagement in export activities were considered the most important in determining the technical efficiency level.

Meenakumari and Kamaraj (2008) use two different DEA models to evaluate the relative efficiency of State Owned Electric Utilities (SOEUs) in India. The DEA method was applied to find the overall efficiency, technical efficiency and scale efficiency. The results of this study show that there is an existence of inefficiency in 22 SOEUs. Most of the inefficient DMUs suffered from scale inefficiency rather than technical inefficiency. A majority of the SOEU does not seem to operate on the optimum level of operation.

Some of previous researches show that SOEs have high efficiency, but some of them indicate that SOEs have low efficiency. Some of researchers also question about the relationship between efficiency and profitability. This research investigates further the efficiency of privatized SOEs and the relationship between efficiency and profitability using efficiency-profitability matrix.

METHODOLOGY

Profitability and Efficiency Measurement

This research uses data from 2011-2013 financial reports of Indonesian privatized SOEs to get recent analysis about Indonesian privatized SOEs efficiency and profitability. The proxy of profitability is Return on Assets (ROA). This research uses Data Envelopment Analysis (DEA) to measure technical efficiency, pure technical efficiency, and scale efficiency of Indonesian privatized SOEs. DEA is a linear programming method that is used to measure the efficiency of a Decision Making Unit (DMU). DEA forms a standard that a DMU is efficient compared to other inefficient DMU (Said, 2013).

The measurement of overall technical efficiency uses Constant Returns to Scale (CRS) model. CRS model or CCR (Charnes, Cooper, and Rhodes) model is a DEA model that was first introduced by Charnes, Cooper, and Rhodes in 1978. CRS model uses constant returns to scale and optimal scale operations assumptions. This model is a weighted ratio of output and input. This would indicate that the more output generated by a particular input, the more efficient a DMU. CRS model measures the overall technical efficiency of a DMU. Overall technical efficiency is a combination of pure technical efficiency and scale efficiency.

The measurement of pure technical efficiency uses Variable Returns to Scale (VRS) model. VRS models or BCC (Banker, Charnes, and Cooper) model was made by Banker, Charnes, and Cooper in 1984 and was an improvement of CRS model by adding variable returns to scale assumptions. VRS model provides a measurement of pure technical efficiency, which is technical efficiency without scale efficiency.

Scale efficiency can be calculated using the ratio between overall technical efficiency and pure technical efficiency. Which is the ratio between CRS technical efficiency and VRS technical efficiency. The difference between overall technical efficiency and pure technical efficiency will show that the DMU is not scale efficient.

DEA-model in this research consists of three inputs and one output. This research uses total fixed assets, operating costs, and number of employees for the inputs, as used by Yu, Barross, and Yeh (2012). The output is operating revenue, as used by Nanka-Bruce (2011). So, this research uses non-negativity variables.

Efficiency-Profitability Matrix

SOE's efficiency-profitability mapping uses efficiency-profitability matrix that has a structure such as the product portfolio matrix (Abu-Alkheil, Burghof, and Khan, 2012). Efficiency-profitability matrix consists of four quadrants as follows:

1. Star quadrant : consists of a DMU which has a high level of profitability and efficiency, which is the best DMU.
2. Sleeper quadrant : consists of a DMU which has high profitability but low efficiency, which is not a good sign from long-term perspective. The high profitability is due to primarily more favorable environmental conditions than good management.
3. Question Mark quadrant : consist of a DMU which has a low level of profitability and efficiency. This DMU has the potential to achieve higher level of profitability and efficiency.
4. Dog quadrant : consists of a DMU which has a low level of profitability but high efficiency. The DMU is efficient but still make less profit. The DMU operates efficiently but has low profitability due to unfavorable environment.

Table 1: Efficiency-Profitability Matrix

Profitability		
High	Sleeper	Star
Low	Question Mark	Dog
Efficiency	Low	High

Star quadrant consists of SOEs that have high efficiency and profitability. Dog quadrant consists of SOEs that have high level of efficiency but low profitability. Sleeper quadrant consists of SOEs that have low level of efficiency but have high profitability. While Question Mark quadrant consists of SOEs that have low efficiency and profitability.

The criteria for high or low level of profitability and efficiency is based on the mean value of the overall profitability and efficiency data (Tsolas, 2011). Privatized SOE which has a higher profitability or efficiency than the mean value or equal with the mean value is a privatized SOE with high level of profitability or efficiency. While privatized SOE which has a lower profitability or efficiency than the mean value is a privatized SOE with low level of profitability or efficiency.

EMPIRICAL RESULTS

The results of profitability (ROA) and efficiency (overall technical efficiency, pure technical efficiency, and scale efficiency) measurements using average data from 2011 to 2013 of the privatized SOEs are as follows. Average profitability of the privatized SOEs is 7.86%. Only six SOEs that have profitability level above average. Average efficiency level from overall technical efficiency is 0.875. Only nine SOEs that have overall technical efficiency level above average. Meanwhile, average efficiency level from pure technical efficiency and scale efficiency are 0.933 and 0.938, respectively. Only ten SOEs that have pure technical efficiency level above average and only eleven SOEs that have scale efficiency level above average.

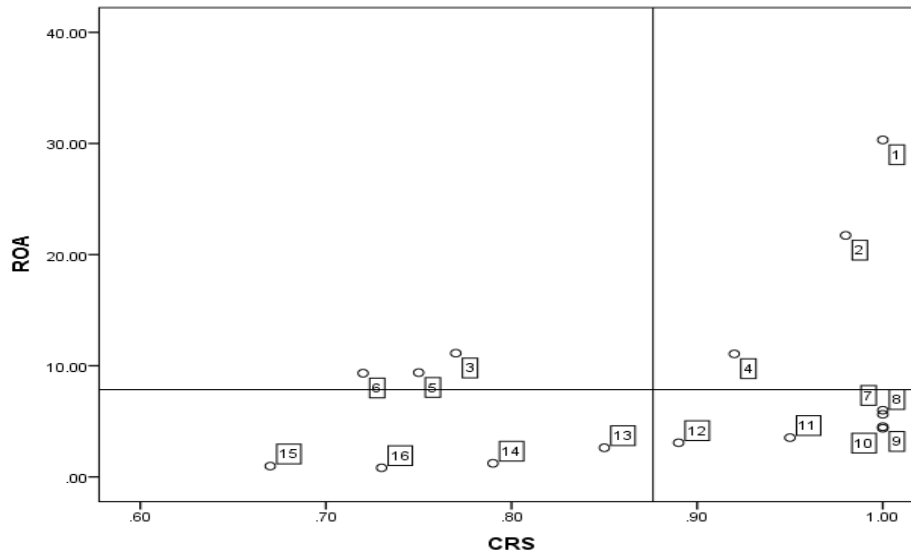
SOEs profitability and efficiency table shows that not all of the SOEs that have high profitability are also having high efficiency. It also shows that not all of the SOEs that have technical efficiency are also having scale efficiency. The number of the technically efficient SOEs is more than the number of scale efficient SOEs.

Table 2: Profitability and Efficiency of the SOEs using 2011-2013 Data

	SOE	Profitability (ROA)	Overall Technical Efficiency	Pure Technical Efficiency	Scale Efficiency
1	PGAS	30.32	1	1	1
2	PTBA	21.73	0.978	0.987	0.991
3	ANTM	11.13	0.773	0.795	0.972
4	TLKM	11.07	0.920	1	0.920
5	KAEF	9.38	0.750	0.880	0.850
6	TINS	9.33	0.717	0.753	0.954
7	ADHI	6.00	1	1	1
8	JSMR	5.63	1	1	1
9	BBRI	4.52	0.996	1	0.996
10	WIKA	4.37	1	1	1
11	BMRI	3.53	0.946	1	0.946
12	BBNI	3.07	0.886	0.911	0.972
13	GGIA	2.62	0.849	1	0.849
14	BBTN	1.22	0.789	0.810	0.974
15	INAF	0.97	0.665	1	0.665
16	KRAS	0.82	0.733	0.791	0.927

Only four SOEs (PT Gas Negara (PGAS), PT Adhi Karya (ADHI), PT Wijaya Karya (WIKA), and PT Jasa Marga (JSMR)) are efficient in all types of efficiency, indicates that those SOEs have technical and scale efficiency. Meanwhile, five other SOEs (PT Telekomunikasi Indonesia (TLKM), PT Bank Rakyat Indonesia (BBRI), PT Bank Mandiri (BMRI), PT Garuda Indonesia (GGIA), and PT Indofarma (INAF)), are just efficient in pure technical efficiency, indicates that those SOEs are not scale efficient. All SOEs that are scale efficient also technically efficient. SOE that has highest profitability (PT Gas Negara (PGAS)) is efficient in all types of efficiency. After calculating the profitability (ROA), and efficiency based on overall technical efficiency, pure technical efficiency, and scale efficiency, the profitability and efficiency are then grouped into the high and low groups of efficiency and profitability. Efficiency-profitability mapping in the efficiency-profitability matrix based on the high and low groups of efficiency and profitability will show which SOE that is included in the Star quadrant, Dog quadrant, Sleeper quadrant, or Question Mark quadrant.

Efficiency-profitability mapping based on 2011-2013 data of privatized SOEs from overall technical efficiency (CRS) are as follows.



Note: the numbers on the dots show the SOEs as in Table 2.

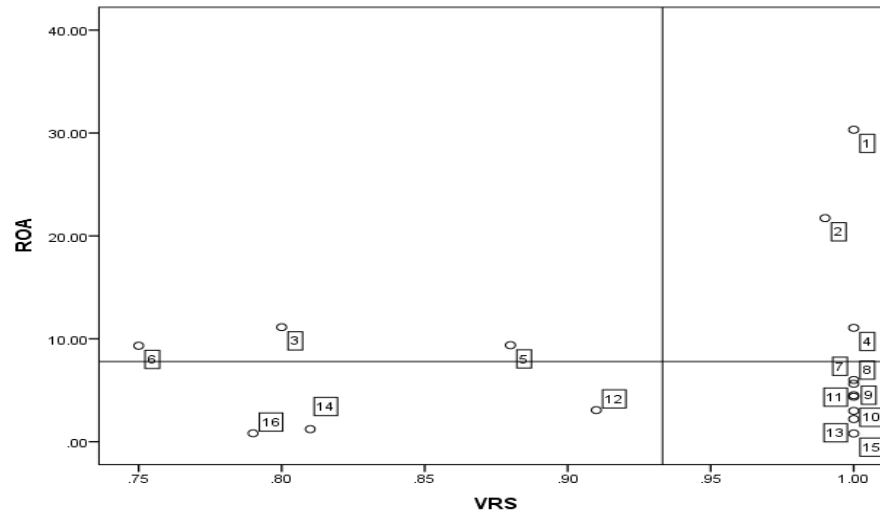
Figure 1: Efficiency-Profitability Matrix of 2011-2013 Data from Overall Technical Efficiency

Based on efficiency-profitability matrix above, most of the SOEs are included in the Dog quadrant. There are six privatized SOEs that are included in Dog quadrant based on overall technical efficiency which are PT Adhi Karya (ADHI), PT Wijaya Karya (WIKA), PT Jasa Marga (JSMR), PT Bank Mandiri (BMRI), PT Bank Negara Indonesia (BBNI), and PT Bank Rakyat Indonesia (BBRI). Dog quadrant consists of SOEs which have a low level of profitability but high efficiency. The SOE is efficient but still makes less profit. The SOE operates efficiently but has low profitability, probably because of unfavorable environment such as tight competition. Sleeper quadrant of efficiency-profitability matrix above shows that there are three SOEs that are included in Sleeper quadrant from the overall technical efficiency which are PT Aneka Tambang (ANTM), PT Kimia Farma, and PT Timah (TINS). Sleeper quadrant consists of SOEs which have high profitability but low efficiency compared to other SOEs, which is not a good sign from long-term perspective. If the SOEs can not get higher level of efficiency, the high profitability is due to primarily more favorable environmental conditions than good management (Abu-Alkheil, Burghof, and Khan, 2012).

Privatized SOEs that are included in Question Mark quadrant based on overall technical efficiency are PT Garuda Indonesia (GGIA), PT Bank Tabungan Negara (BBTN), PT Indofarma (INAF), and PT Krakatau Steel (KRAS). Question Mark quadrant consists of SOEs which have a low level of profitability and efficiency. These SOEs have the potential to achieve higher level of profitability and efficiency if they get more favorable environment and additional appropriate resources.

There are three SOEs that are included in Star quadrant from the overall technical efficiency which are PT Perusahaan Gas Negara (PGAS), PT Bukit Asam (PTBA), and PT Telekomunikasi Indonesia (TLKM). Star quadrant shows SOEs that have a high level of profitability and efficiency, which are the best SOEs.

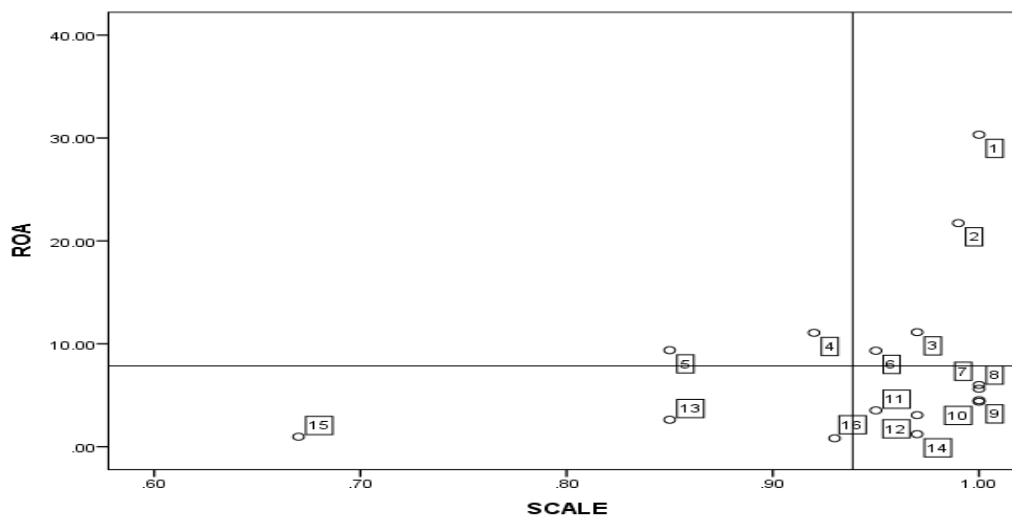
Efficiency-profitability mapping based on 2011-2013 data of privatized SOEs from pure technical efficiency (VRS) are as follows.



Note: the numbers on the dots show the SOEs as in Table 2.

Figure 2: Efficiency-Profitability Matrix of 2011-2013 Data from Pure Technical Efficiency

Efficiency-profitability matrix in Figure 2 above shows efficiency-profitability mapping of the privatized SOEs from pure technical efficiency (VRS). SOEs that are included in Star and Sleeper quadrants of Figure 2 are same with the SOEs in Figure 1. There are more SOEs included in the Dog quadrant and less SOEs included in Question Mark quadrant compared to Figure 1. Efficiency-profitability matrix from pure technical efficiency above also shows that most of the SOEs are included in the Dog quadrant or having high technical efficiency but low profitability. Efficiency-profitability mapping based on 2011-2013 data of privatized SOEs from scale efficiency (SCALE) are as follows.



Note: the numbers on the dots show the SOEs as in Table 2.

Figure 3: Efficiency-Profitability Matrix of 2011-2013 data from Scale Efficiency

Efficiency-profitability matrix in Figure 3 above shows efficiency-profitability mapping of the privatized SOEs from scale efficiency (SCALE). Figure 3 above shows that most of the SOEs are

included in the Dog quadrant, indicates that most of the SOEs are having high scale efficiency but low profitability. The results of Figure 3 are different from Figure 2. The results show that not all of the SOEs that technically efficient are also scale efficient, vice versa.

SOEs that consistently included in Star quadrant of the matrix in Figure 2 and Figure 3 or have high profitability and high technical and scale efficiency are PT Perusahaan Gas Negara (PGAS) and PT Bukit Asam (PTBA). SOE that has high profitability and technical efficiency but low scale efficiency is PT Telekomunikasi Indonesia (TLKM). SOEs that have high profitability and scale efficiency but low technical efficiency are PT Aneka Tambang (ANTM) and PT Timah (TINS).

Meanwhile, SOEs that have low profitability and scale efficiency but high technical efficiency are PT Indofarma (INAF) and PT Garuda Indonesia (GGIA). SOEs that have low profitability and technical efficiency but high scale efficiency are PT Bank Negara Indonesia (BBNI) and PT Bank Tabungan Negara (BBTN). The result also shows that PT Krakatau Steel (KRAS) is consistently included in the Question Mark quadrant of Figure 2 and Figure 3, means that it has low profitability, low technical efficiency, and low scale efficiency.

Robustness Test

This section investigates whether the result of efficiency-profitability mapping using each year data will find similar results with the mapping using average three years data (2011-2013). In general, the results of efficiency-profitability mapping using each year data show similar result (see appendix) with the analysis above. Not all of the SOEs that have high efficiency are also having high profitability and not all of the SOEs that technically efficient are also scale efficient. PT Gas Negara (PGAS) consistently becomes the SOE that has highest efficiency and profitability. The results also find that most of the SOEs are included in the Dog quadrant or having high efficiency but low profitability.

CONCLUSIONS

Based on the result and analysis of efficiency-profitability mapping of the privatized SOEs above, not all of the SOEs that have high profitability are also having high efficiency. This result supports previous research by Abu-Alkheil, Burghof, and Khan (2012) that not all Decision Making Units (DMUs) which have high efficiency are also having high profitability.

SOE that has highest profitability (PT Gas Negara (PGAS)) is efficient in all types of efficiency. This SOE also consistently has the highest efficiency and profitability.

Most of the SOEs are included in the Dog quadrant, means that they have high efficiency but low profitability. Most of the SOEs operate efficiently but have low profitability. These SOEs should have more favorable environment to increase their profitability.

Some of the SOEs are consistently included in Star quadrant of the efficiency-profitability matrix, means that they have high profitability and high technical and scale efficiency. The SOEs that are in the Sleeper quadrant should improve their management because they have high profitability but low efficiency.

Meanwhile, this research finds that not all of the SOEs that technically efficient are also scale efficient. Several SOEs have high profitability and scale efficiency but low technical efficiency. Those SOEs operate in optimum scale but do not technically efficient. There is an SOE that has high profitability and technical efficiency but low scale efficiency, means that the SOE should reach its optimum scale.

Several SOEs have low profitability and scale efficiency, but high technical efficiency. Some of the SOEs have low profitability and technical efficiency but high scale efficiency. The result of

this research also shows that there is an SOE that consistently included in the Question Mark quadrant, means that it has low profitability, low technical efficiency, and low scale efficiency. Meanwhile, the analysis of this research using each year data shows similar result with the analysis using average three years (2011-2013) data. Not all of the SOEs that have high profitability are also having high efficiency and most of the SOEs are included in the Dog quadrant.

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Appendix

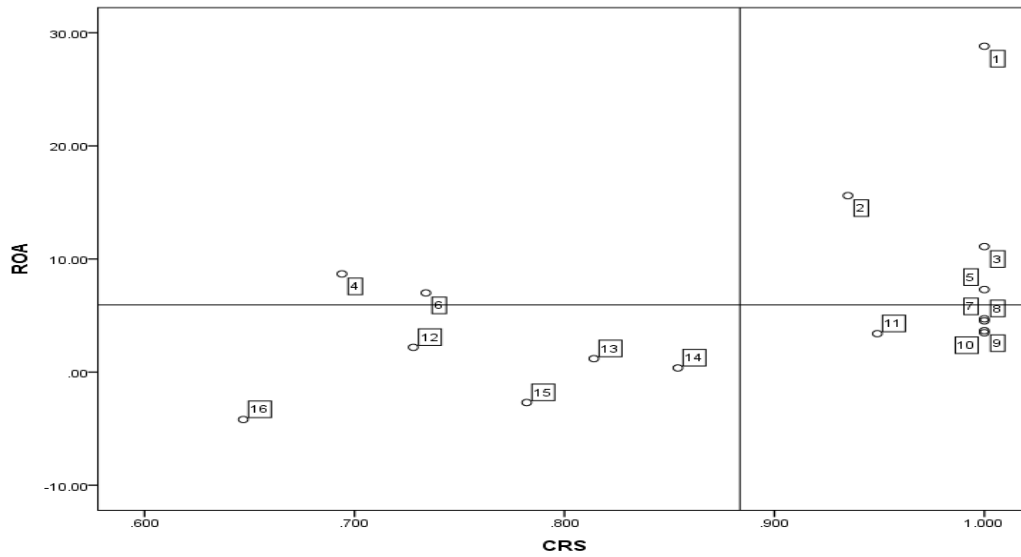


Figure 4: Efficiency-Profitability Matrix of 2013 Data from Overall Technical Efficiency

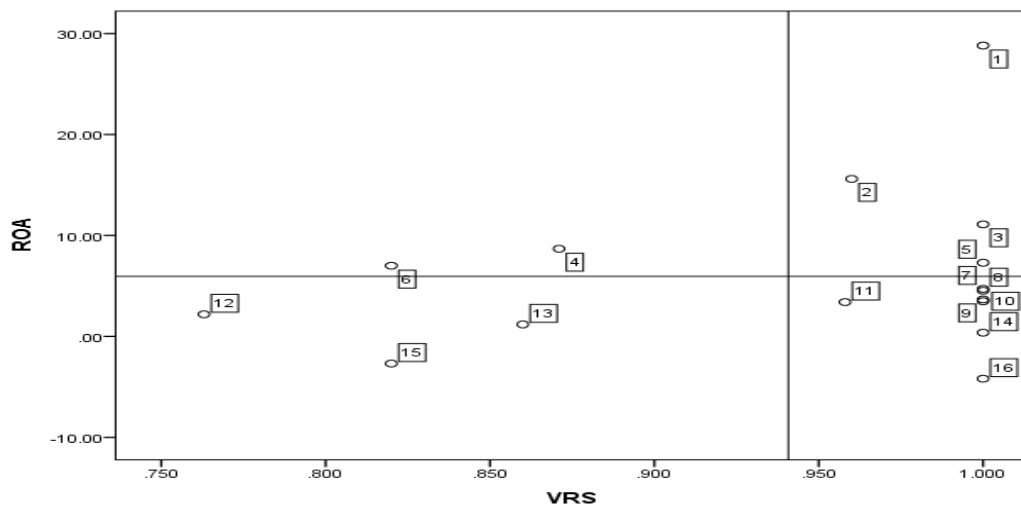


Figure 5: Efficiency-Profitability Matrix of 2013 Data from Pure Technical Efficiency

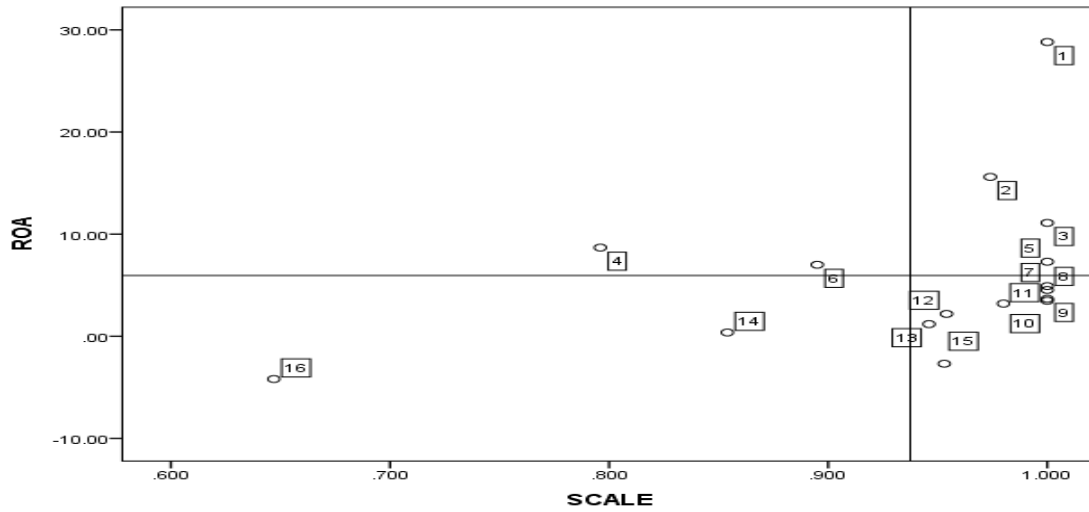


Figure 6: Efficiency-Profitability Matrix of 2013 Data from Scale Efficiency

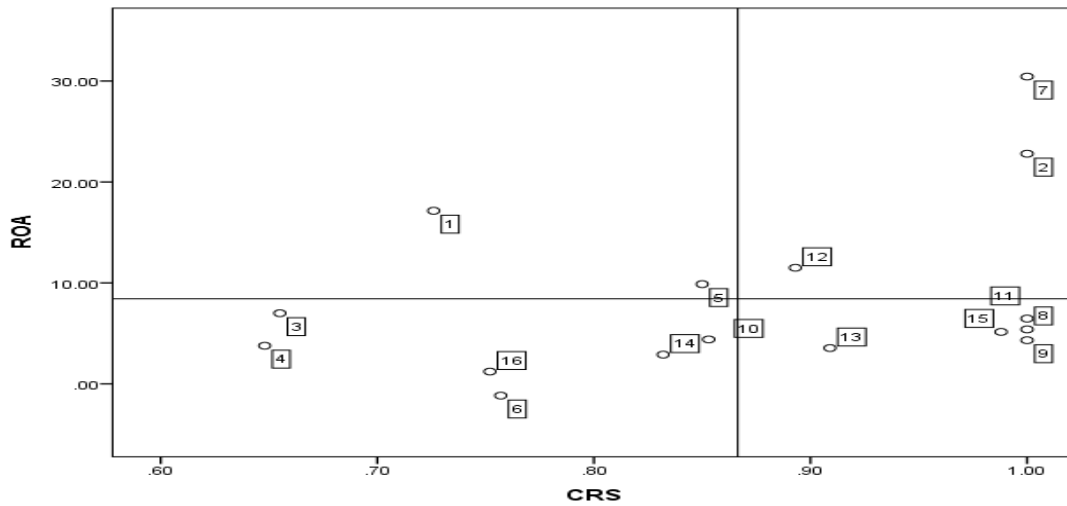


Figure 7: Efficiency-Profitability Matrix of 2012 Data from Overall Technical Efficiency

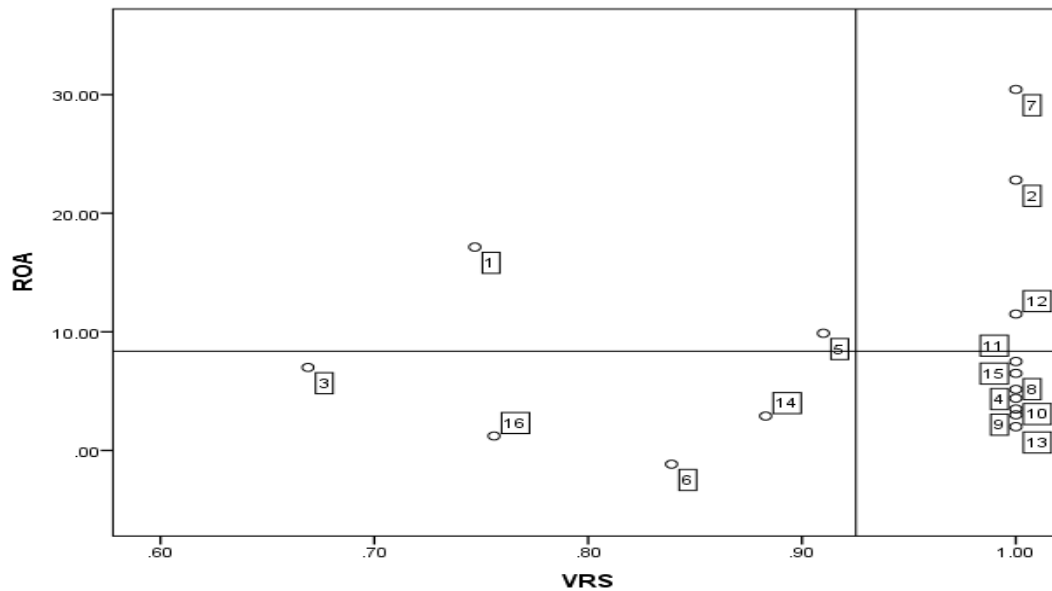


Figure 8: Efficiency-Profitability Matrix of 2012 Data from Pure Technical Efficiency

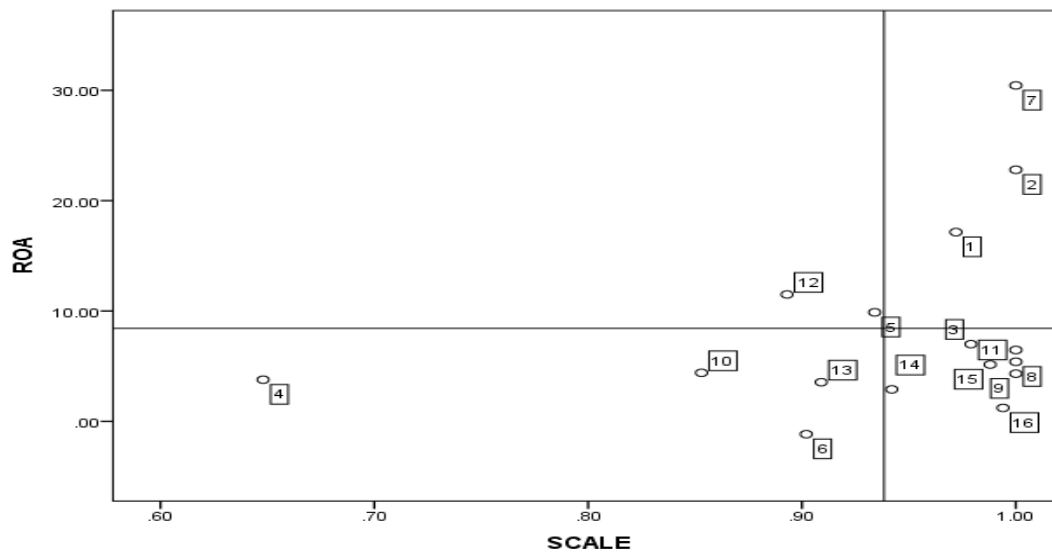


Figure 9: Efficiency-Profitability Matrix of 2012 Data from Scale Efficiency

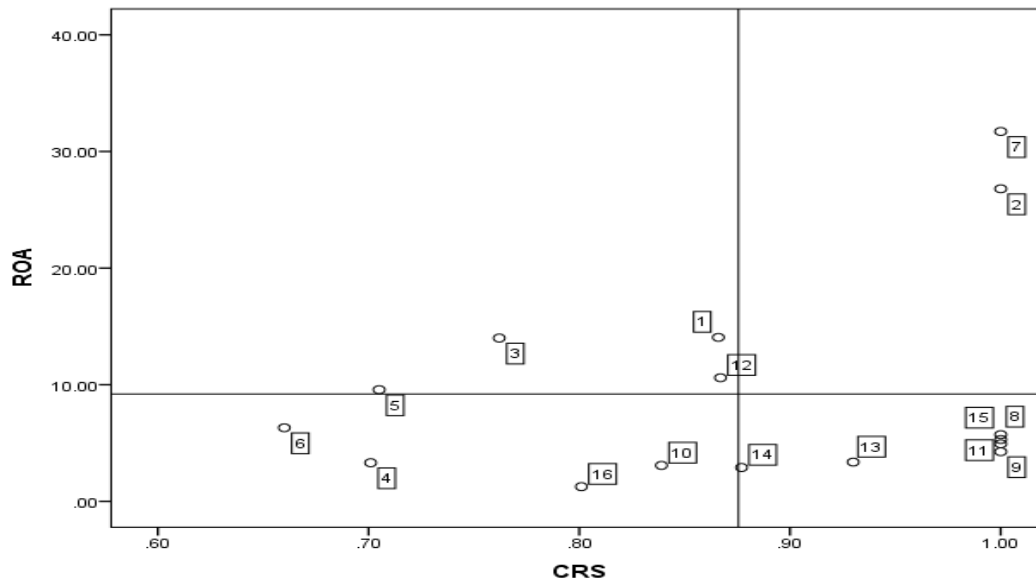


Figure 10: Efficiency-Profitability Matrix of 2011 Data from Overall Technical Efficiency

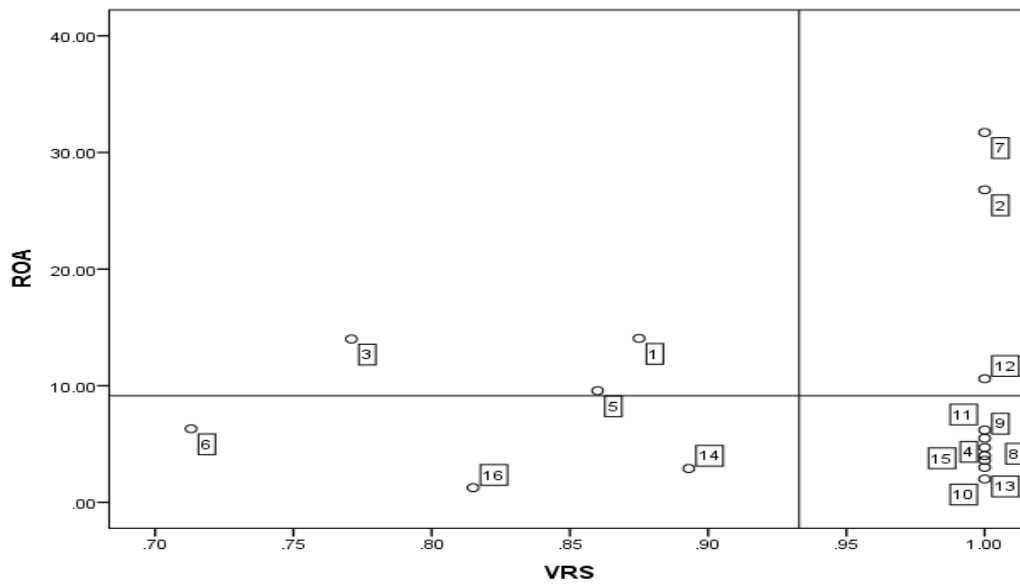


Figure 11: Efficiency-Profitability Matrix of 2011 Data from Pure Technical Efficiency

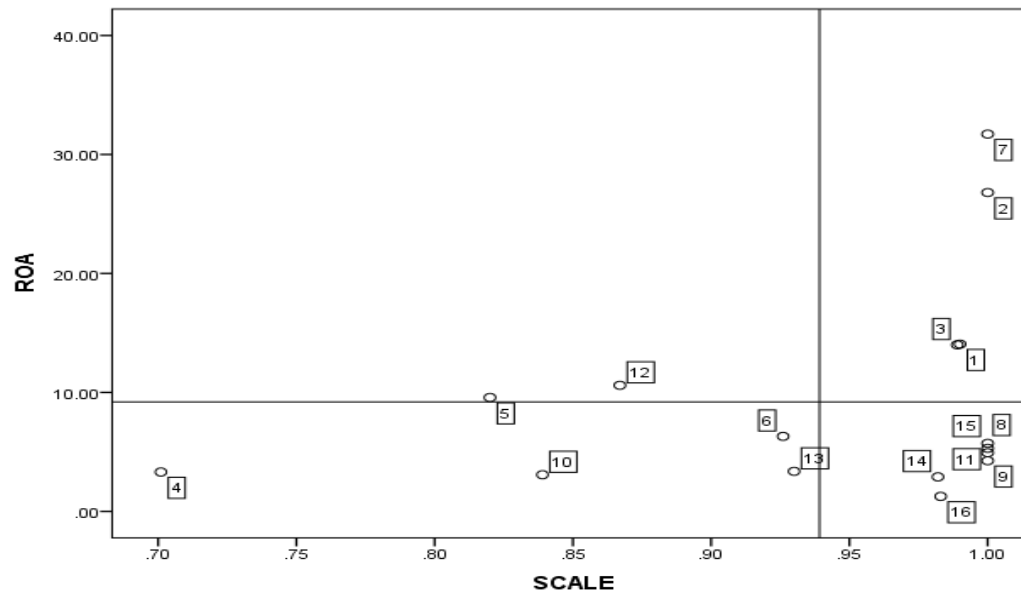


Figure 12: Efficiency-Profitability Matrix of 2011 Data from Scale Efficiency

Literature Review on Relationship between Islamic Work Ethics (IWE) and Organizational Citizenship Behavior (OCB)

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Abstract

Religion and work related issues are not extensively discussed. Researchers are finding the relationship between religion-based factors and their impact on different work behaviours such as Organisational citizenship behaviour (OCB). Individuals' ethics play an important role in engaging OCB. In the extant literature, secular ethics and religion-based ethics such as Protestants work ethics has taken more importance and the concept of Islamic work ethics (IWE) has been less emphasized in management research. Based on this gap, this study will discuss the previous studies that focuses on the ethical factors, and attempts to link IWE which is different from other religion-based ethics and is infrequently discuss in management literature. There are two objectives of the existing study; first it will provide brief literature review on the ethical factors and OCB. Second, it will seek to link IWE (based on the Quran, Ahadith, and Sunnah) and OCB taking into consideration the existing literature. To fulfil these objective, the current study focuses only on last ten years studies through Google scholar search engine since 2003 to 2013 by using key words. The contribution of the current study is to link ethical factors and IWE with OCB. In addition to the above contribution, the study highlights the existing gaps based on the previous literature. The study concluded that there is need to conduct future research on IWE and OCB.

Keywords: Islamic Work Ethics (IWE), Organizational Citizenship Behavior (OCB), Quran, Ahadith, and Sunnah.

INTRODUCTION

Organisational citizenship behaviour (OCB) is a modern managerial term, which is defined as the voluntary and optional behavior (Al-Hyasat, Al Shra'ah, & Rumman, 2013). OCB is considered as additional role and is beyond formal and official work. OCB is related with several indicators of organizational effectiveness (P. M. Podsakoff, Ahearne, & MacKenzie, 1997). In addition, OCB effects employees' performance, directs employees' behavior, improves their loyalty, and increases work effectiveness and efficiency. This important behaviour is the outcome of many factors such as compulsory citizenship behavior (Zhao, Peng, & Chen, 2013), transformational leadership behaviour (Ritz, Giauque, Varone, & Anderfuhren-Biget, 2014), human resource practices (Watty-Benjamin & Udechukwu, 2014), organisational justice (Al-Hyasat et al., 2013) and Islamic work ethics (Alhyasat, 2012).

Among these factors Islamic work ethics came under the researchers' discussion in the late 1980's (A. Ali, 1988). IWE concept was based on the Islamic beliefs and codes of conducts from Islamic perspective. Several studies argued that IWE emphasized more on work behaviours and attitudes rather than end results such as knowledge sharing behaviour (Kumar & Rose, 2012) and OCB (Alhyasat, 2012). Among these behaviors, OCB is a voluntary behavior that plays an important role in organizational effectiveness and performance. The extant literature relates the concept of OCB with individual's ethics such as justice (Al-Hyasat et al., 2013; Greenberg,

1993), Protestant work ethics (PWE) (Ryan, 2002), religiosity (Kutcher, Bragger, Rodriguez-Srednicki, & Masco, 2010) that have given more importance than IWE. Hence, the concept of IWE was less emphasized in extant literature.

Individuals ethics plays an important role to engage in OCB (D. Turnipseed, L., 2002). However, ethical factors such as justice, which is considered as one aspect of Islamic work ethics had taken more importance in the behavioural research (Lin, 2007) and the concept of IWE that includes many ethical aspects has been less emphasized in behavioral research. In addition, most recent study of Podsakoff, MacKenzie, Maynes, and Spoelma (2014) suggest that there is need of further research on OCB. Based on this gap, this study discusses the previous studies focused on these ethical factors, especially, IWE which is different from PWE and is rarely discussed in behavioral studies. The main objectives of the study provide a literature review of the studies emphasized on the relationship between ethics and OCB, specifically IWE and OCB. The next sections will explain the details about the definition of OCB and IWE and their relationship explained in previous studies. Therefore, the current study has two research objectives: first, it will provide brief literature review on the ethical factors and OCB and second, it will seek to link IWE (based on the Quran and Sunnah) and OCB takes into consideration the existing literature.

LITERATURE REVIEW

Organizational Citizenship Behavior

OCB is a multidimensional concept that has been defined as to engage in behaviors voluntarily with discretion to promote organizational interest and effectiveness (Brief & Motowidlo, 1986; D. Organ, W., 1988). This multidimensional concept is well explained by Lovell et al. (1999) that OCB is perceived to perform through activities which are not considered as the basic job requirements and accomplished for the welfare of employees and organisation. In the same direction, Chu, Lee, Hsu, and Chen (2005) explains three characteristics of OCB. First, the employees' behavior should be voluntary. Second, it should be multidimensional in nature and third, it should be accumulated through individuals and time. Precisely, OCB is a set of behaviors that are beyond employees' formal duties. Some of the studies further divided this set of behaviors into in-role behavior and extra-role behavior (Kwantes, Karam, Kuo, & Towson, 2008; Van Dyne, Graham, & Dienesch, 1994). In-role behavior is an official behavior based on the employment contract and explicitly rewarded by the organization, whereas extra-role behavior is beyond job requirements and is a discretionary behavior (Koster & Sanders, 2006; Dennis W Organ, 1990). Both types vary across and between employees at the same and different levels (Kwantes et al., 2008). These variations are also confirmed by previous studies (Hui, Lam, & Law, 2000; Pond, Nacoste, Mohr, & Rodriguez, 1997; Vandenberg, Lance, & Taylor, 2005; Vey & Campbell, 2004). Based on these studies, it can be concluded that there is difference in both OCB behaviors in work environment but extra-role behaviors benefits more than in role behavior (Vandyne, Cummings, & Parks, 1995) because it is mindful and based on internal choice rather than a fixed job responsibility reflected through in-role behavior (Farh, Zhong, & Organ, 2004). However, both types of OCB are related to employees work behavior. Walter C Borman and Motowidlo (1993) emphasized on the importance of OCB because it supports the social, organisational and psychological environment to facilitate individuals to fulfil their tasks.

There are several reasons for the importance of OCB within an organization. First is, OCB plays an important role in organizational success. Second is, it increases employee productivity and can be used for productive efforts. Third is, it helps in directing employees' activities and decrease their turnover. Last is, it increases the performance stability.

Previous studies found several antecedents of OCB such as personality factors (Walter C. Borman, Penner, Allen, & Motowidlo, 2001; Dennis W. Organ & Ryan, 1995), cultural factors (Hui, Lee, & Rousseau, 2004; D. L. Turnipseed & Murkison, 2000), organizational commitment (Yildirim, Uzum, & Yildirim, 2012), psychological empowerment (Aksel, Serinkan, Kiziloglu, & Aksoy, 2013), organizational silence (Çınar, Karcioğlu, & Alioğulları, 2013), self-management skills (Asghari, Poor, & Zadeh, 2012), organizational culture (Asghari et al., 2012), social beliefs and relational identification (Cem Ersoy, Born, Derous, & van der Molen, 2011; Kwantes et al., 2008), corporate ethical values religious teaching (Khani, Fallah, & Ghasemi, 2013), organizational justice (Al-Hyasat et al., 2013), and IWE (Abbasi & Rana, 2012; Alhyasat, 2012).

Islamic Work Ethics

Work ethics states the employees beliefs, morals and values that shapes their attitude and behaviors towards their work (Shamsudin, Kasim, Hassan, & Johari, 2010) and are indispensable for every organisation to manage their employees (Yunus, Rahim, Shabuddin, & Mazlan, 2011). The individuals' work ethics are based on their beliefs and values guides their life for positive behaviour. Previous research has found that work ethics is predictor of positive behaviors and work outcomes. Hence, individuals who has more work ethics can enjoy their life better than those do not have.

Work ethics can vary based on people's religion such as Islam, Christianity, Hinds, and others. These religions based work ethics helps to handle problems and challenges at work place.

Islamic work ethics (IWE) are based on the adequate set of beliefs and codes of conduct which guides their believers for their working life (A. Ali, J, 1992; Beekun, 1997) and for their right or wrong behaviours (Alhyasat, 2012). These beliefs and code of conducts help employees to engage in workplace behaviors with appropriate manners according to the Islamic perspective (Rokhman, 2010). Islamic perspective regards work as virtue in an individual's life (Rizk, 2008). The Islamic codes of conduct guide Muslims for their moral behaviors such as truthfulness, honesty, proficiency, sincerity, and fairness (Muhammad et al. 2008). Furthermore, Islamic codes emphasises on effort, competition, transparency, and morally responsible conducts (A. J. Ali & Al-Owaihian, 2008).

Previous studies link Islamic work ethics with positive outcomes such as business performance (Abbasi, Rehman, & Bibi, 2011), job satisfaction (Haroon, Zaman, & Rehman, 2012), organisational commitment and job performance (Hayati & Caniogo, 2012; Mohamed, Karim, & Hussein, 2010), innovation capability (Kumar & Rose, 2012), work outcomes (Rokhman, 2010), marketing and customer satisfaction (Shamsudin et al., 2010), attitude towards organisational change (Danvish A. Yousef, 2000), job satisfaction (Darwish A Yousef, 2001; Zaman, Nas, Ahmed, Raja, & Marri, 2013) and organisational citizenship behavior (Alhyasat, 2012). It is evident from these empirical studies that IWE plays a significant role in shaping the ethical values at work environment. Although, Islamic ethics existed for more than 14 centuries ago, still there are few studies being conducted on IWE and its impact on individuals' behavior such as OCB (Abbasi & Rana, 2012; Alhyasat, 2012).

Islamic Work Ethics and Organizational Citizenship Behaviour

There is a few studies that examined the direct relationship between IWE and OCB such as (Abbasi & Rana, 2012; Alhyasat, 2012). Abbasi and Rana (2012) found 58% impact of IWE on employees' citizenship behavior of employees which was more than work environment and reward system using social exchange theory and Islamic beliefs and codes of conducts. They defined citizenship behavior with its two main facets; altruism and compliance. Altruism is closer

to the extra-role behavior where individual are motivated for monetary rewards while in compliance involved impersonal carefulness. Compliance is meant for doing right and proper things for the sake of social exchange. According to the authors, both facets represent different citizenship behaviors. The study argued that IWE promotes ethical behaviors including citizenship based on the Quran and Hadith which emphasized on doing the right things and forbid wrong doings. In addition to above study, Alhyasat (2012) also examined the impact of IWE on OCB in Jordanian organizations based on more aspects using justice theory. The study defined OCB as the voluntary work beyond job description including altruism, cordiality, sportsmanship, general obedience, and civilized behavior. The commitment to IWE was based on proficiency, tenderness, and tolerance in dealing with employees and customers, giving advice to Muslims, creativity in public service, sense of responsibility, justice and fairness, integrity and teamwork, obeying people in power and observing dignity, and honor of the profession. He found a significant effect of IWE dimensions; tenderness and tolerance, obeying people and observing dignity, and honor of the profession whereas the dimensions of proficiency, giving advice to Muslims, sense of responsibility, justice and fairness, integrity, and teamwork are not significantly related to OCB among the Jordanian press employees. The study recommended to promote creative thought among the employees through organizational support. The study showed that each dimension should be emphasized as a significant factor to measure the influence on OCB.

Other studies also measured the relationship between religious beliefs, teachings, ethical conducts, organizational justice on OCB (Cem Ersoy et al., 2011; Farh, Earley, & Lin, 1997; Khani et al., 2013; D. Turnipseed, L., 2002)

Greenberg and Colquitt (2013) argued that individuals adjust themselves according to justice and injustice within organisation which is considered as one of the dimension of IWE. In extant literature, the relationship between organisational justice and OCB is well documented. For instance, Farh et al. (1997) found a strong relationship between organizational justice and OCB. The organizational justice is based on the belief that employees are treated and rewarded fairly within the organization and their behavioral reactions are termed as organisational justice. The most recent study of Al-Hyasat et al. (2013) also confirmed that there is a relationship between three dimensions of organizational justice; distributive, procedure, and interactional justices and OCB in Jordanian organisations and recommended that there is a need to implement organizational justice within the organization. Islamic beliefs are also based on justice and equality which is fair distribution of goods and work without consideration of ethnicity. Justice is also considered as one of the important dimensions of IWE which is strongly related to OCB. Islam emphasized on the role of justice through moral principles or code of conduct for the development of society. This is also emphasized that justice is fundamental to the Muslim believers. In Islam, employees are governed by Justice and fairness in Islamic region (Possumah, Ismail, & Shahimi, 2013). Alhyasat (2012) also included justice and fairness as the dimensions of IWE. So the studies emphasized that justice is closer to the concept of IWE and is related with OCB.

For Instance, Kwantes et al. (2008) also measured the religiosity as the religious beliefs did not predict any OCB dimensions among undergraduate students from the ethnic backgrounds such as White- European, Asian, and African. However, Cem Ersoy et al. (2011) used religiosity based on religious beliefs as the concern for helping others and found that it is related with OCB among Blue-collar employees using social exchange theory. The most recent study of Khani et al. (2013) also measured the impact of religious teaching on OCB. They defined extra-role behavior of OCB as the voluntary and spontaneous behaviours, including dutifulness, benevolence, chivalry,

respect, and honor. The study believed that the religious approach is closer to IWE as “it encourages Muslims to show more commitment, participation, consultation, forgiveness, and pardoning towards an organization”. The study found no relationship between religious teaching and OCB but found a direct relationship between internal orientation and OCB.

D. Turnipseed, L. (2002) in his exploratory study, found that ethical conduct is related with individuals' OCB at individuals and organizational level. The ethical behaviors were defined as consistent performing of personal values. The study measured OCB through extra-role behavior because it has a more favorable response and found that obedience behavior is more related to productivity. Uygur (2009) explores the relationship between religious belief and individuals work attitudes and concluded that IWE emphasized more on attitudes and behaviors while the other religion based ethics emphasized more on the economic activities. Furthermore, the study also concluded that justice is also a part of IWE.

Chiaburu and Lim (2008) measured the impact of interactional justice explained as fairness in the treating the other people by controlling the effect of procedural, distributive justice, and trust and found positive relationship between interactional justice and OCB. The study suggested to extend research considering trust in OCB. Baker, Hunt, and Andrews (2006) proposed that individuals with own values expected to have greater OCB and suggested to conduct further studies on ethical behavior and OCB. Cropanzano, Bowen, and Gilliland (2007) argued that justice is crucial for organisation because it maintains employees trust, respect, provides excellent business opportunity, and stronger employee commitment.

CONCLUSION

OCB is deemed as one of the ethical behaviour which is used to prevent work-related issues. However, the OCB literature overemphasized on the role of justice, ethical conducts, that are considered as aspects of IWE (Uygur, 2009) and few studies emphasized on the concept IWE that comprises of truthfulness, honesty, proficiency, sincerity, fairness, effort, competition, transparency, and morally responsible conduct and also emphasises on balanced approach in life (A. J. Ali & Al-Owaihah, 2008). Therefore, there is a need to conduct research on finding relationship between OCB and IWE. This is also suggested by N. P. Podsakoff et al. (2014) that there is need to conduct research in finding mediators and moderators. In the same vein, (Baker et al., 2006) suggests future studies on OCB. The studies measured the relationship between IWE and OCB recommend to consider the effect of each dimension of IWE on OCB. In summary, the current study based on the review of previous studies suggests future research between IWE and OCB by considering Mediators and moderators.

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An Examination of the Demand for Family Takaful Protection

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Abstract

The main objective of this study is to identify the determinants of family takaful demand in the Malaysian marketplace. The takaful market in Malaysia is grossly under-tapped and what drives the demand for takaful is still not well understood. This study applies the ARDL approach to cointegration to examine the relationship between family takaful demand and a set of theoretically identified variables. Using annual time series data for the period 1986 through 2008, three versions of the demand model were developed and estimated to provide evidence on the long- and short-run relationships between family takaful demand in Malaysia. The empirical results suggest that income has a significant influence on family takaful consumption in the long-run, but its effect is less obvious in the short-run. The number of dependents, level of education, savings in the Employees' Provident Fund (EPF), life expectancy and price of insurance are among the other factors that have a significant impact on the demand for family takaful. The results also show the beneficial role of financial development in stimulating the growth of takaful sector.

Keywords: Family Takaful, Cointegration, ARDL Bounds Approach

Introduction

The most important function of life insurance is to provide financial security to individuals and families. The loss of income following the premature death of the main income earner of a family may result in dire financial consequences to the surviving family members. Life insurance allows potential financial loss resulting from the death of the insured to be alleviated through the payment of specified benefits.

Takaful is an Islamic insurance system that was introduced to meet the needs of the Muslim public aspiring for an Islamic alternative to the conventional. Insurance and takaful industry is an integral part of the Malaysian financial system. While the beginning of insurance in Malaysia can be traced to the colonial period between the eighteenth- and nineteenth-centuries, takaful is still relatively young. Takaful was first introduced in Malaysia in 1985 with the establishment of the first takaful operator, inspired by the growing needs of the Muslim consumers for an insurance protection that conforms to Islamic law, or *Syariah*.

The key factors that motivate an individual to purchase life insurance have been the focus of a significant amount of academic literatures over the last 50 years. The quest to understand the factors influencing life insurance demand continued with many recent empirical studies searching to identify these factors (see for instance Beck and Webb, 2003; Hwang and Greenford, 2005; Savvides, 2006 and Li *et al.*, 2007). Much of the research examined the various economic, demographic and psychographic factors that determine life insurance consumption, while some were extended to explore political and legal aspects. Variations in life insurance consumption, which are apparent among different nations, have evoked interest in investigating the key factors affecting the consumption of life insurance across countries since the 1980s. Many previous studies are American based while cross-country studies are internationally based. With Malaysia

enjoying considerable growth in the insurance sector, a study that investigates the key factors influencing insurance purchase specific to Malaysia and whether these factors are similar to findings from other studies is most opportune.

Literature Review

Income is the most important factor found in many empirical studies to influence the demand for life insurance. As income increases, the ability to pay life insurance premium improves and insurance becomes more affordable. On top of this, a more significant income leads to a higher loss in terms of the expected income for the beneficiaries in the event that the breadwinner dies prematurely. Hence, the need for life insurance is likely to rise with income as it safeguards future consumption of the dependents. The positive impact of income on life insurance consumption has been validated by many U.S. based studies. Among them are Fortune (1973), Fisher (1973), Headen and Lee (1974), Cargill and Troxel (1979), DePamphilis (1977), Campbell (1980), Ferber and Lee (1980), Burnett and Palmer (1984), Lewis (1989), Showers and Shotick (1994) and Gandolfi and Miners (1996).

Support for a positive relationship between the demand for life insurance and income has also been validated by many recent cross-country researches, using either cross-sectional or time series data. Among these studies are Beenstock *et al.* (1986), Truett and Truett (1990), Browne and Kim (1993), Outreville (1996), Ward and Zurbruegg (2002), Beck and Webb (2003), Hwang and Greenford (2005), Savvides (2006) and Li *et al.* (2007).

The desire to protect dependents from financial difficulties following the death of the main income earner is the major motivation for life insurance purchase. Using the ratio of the population below 15 years old to the population between the ages of 15 and 64 (the young dependency ratio), Lewis (1989) demonstrated that the consumption of life insurance increases with the anticipated value of the beneficiaries consumption in their lifetime. Consistent with these findings, many other studies also provide empirical evidence suggesting a positive correlation between the number of dependents and the need to purchase life insurance coverage (see Burnett and Palmer, 1984; Beenstock *et al.*, 1986; Truett and Truett, 1990; Bernheim, 1991; Browne and Kim, 1993; Showers and Shotick, 1996; Ward and Zurbruegg, 2002; Hwang and Greenford, 2005; and Savvides, 2006, Li *et al.* (2007)).

Greater awareness stems from a greater level of education in terms of the values of insurance and of its functions in providing economic security. Thus, a higher level of education has been linked with a greater amount of willingness to spend on insurance products (Browne and Kim, 1993). Furthermore, a higher level of education has also been linked to a significant desire for one to provide security for one's beneficiaries and maintain a certain level of comfort in terms of lifestyle, resulting in a higher demand for life insurance (Truett and Truett, 1990). Empirical findings in many recent studies echo those of earlier studies in that the level of education has a positive impact on life insurance consumption (see Ward and Zurbruegg, 2002; Hwang and Gao, 2003; Hussels *et al.*, 2005; Hwang and Greenford, 2005; Savvides, 2006; and Li *et al.*, 2007).

As demonstrated in Lewis's (1989) theoretical development, social security has the effect of reducing insurance consumption. Various researches have suggested that the need for private life insurance declines as social security benefits become more generous (Hammond *et al.*, 1967; Anderson and Nevin, 1975; Beenstock *et al.*, 1986). In developed countries, empirical research has found a negative link in terms of the demand for life insurance and social security, since social security expenditure is a kind of compulsory insurance scheme that reduces the need for private insurance (see Fitzgerald, 1987; Ward and Zurbruegg, 2002). It has also been argued in the literature that as government spending on social security increases, the need for individuals to arrange private provisions, such as life insurance, reduces (Hussels *et al.*, 2005).

It is generally assumed that the longer the life expectancy, the greater is the demand for life insurance since people are expected to live longer (Hussels *et al.*, 2005). Outreville (1996) argued that longer life expectancy is expected to show a direct impact on the consumption as it reduces insurance price, hence, life insurance can become a mechanism to generate savings and wealth. Browne and Kim (1993) and Beck and Webb (2003), however, found that life expectancy is not a significant predictor of the demand for life insurance. Under the utility maximization theory developed by Lewis (1989), life insurance consumption is postulated to rise with the probability of death of the wage earner. Since life expectancy is inversely related to the chance of death, as suggested by Lewis (1989), life expectancy has a negative impact on life insurance demand.

The premium paid by the consumers for the insurance coverage, which is the price of insurance, is determined based on estimated mortality rates, interest rates and expenses rate (Black and Skipper, 2000). It has been argued that premiums charged for a similar product may vary across insurers due to differences in these estimations. Furthermore, comparing the prices of insurance is not without challenge, as there is a wide variety of insurance products, all with their own differing structures (Burnett and Palmer, 1984; Hwang and Greenford, 2005). Beenstock *et al.* (1986), and Outreville (1996) found a positive relationship between “actuarially fair price of insurance” and the demand for life insurance. Hwang and Greenford (2005) found an insignificant relationship between insurance price and the demand for life insurance.

Beck and Webb (2003) tested the influence of banking sector development on life insurance consumption. Well-functioning banks boost the confidence of consumers in other financial institutions, such as insurance companies while providing insurers with an efficient payment system. Savvides (2006) argued that by increasing the efficiency of the financial system through risk transfer and financial intermediation, investment opportunities and, hence, the profitability of insurance companies can be improved, resulting in higher returns to policyholders and a more favorable insurance price (also see Beck and Webb, 2003 and Hussels *et al.*, 2005). Li *et al.* (2007) found that financial development is a positive and significant predictor of life insurance consumption in OECD nations.

The negative effect of inflation on life insurance demand has been reported in many studies. The results of a study by Fortune (1973) indicated that the expected rate of inflation is negatively related to consumer confidence and, hence, to the optimal level of insurance purchased by the household. Babbel (1981) argued that inflation erodes the value of life insurance, making it less attractive to the consumers during periods of high inflation. The studies of Browne and Kim (1993) and Outreville (1996) suggested that expected inflation is inversely related to life insurance consumption. Beck and Webb (2003) argued that monetary insecurity has a significant negative effect on the expected returns of life insurance benefits over the long term.

Life insurance may be an alternative for financial assets such as equities, and, therefore, life insurance demand can be affected by an individual’s financial asset portfolio decisions (Headen and Lee 1974). Mayer and Smith (1983) argued that the decision to purchase insurance could be affected by the decision to make other financial investments, such as savings. Flows of savings to life insurance companies are believed to react positively to earnings on life insurance savings and negatively to returns on competing assets (Black and Skipper, 2000). Competing assets of life insurance are savings deposits, savings certificates and government bonds as well as corporate bonds. Logically, savings through the banks are a substitute for savings through life insurance (Black and Skipper, 2000). Beck and Webb (2003) found that the savings rate is negatively correlated to life insurance in private savings, but positively correlated to life insurance penetration. Savvides (2006) found private savings to be negatively correlated with insurance penetration and insurance density.

Methodology

This study employs the bounds testing approach to cointegration within the Autoregressive Distributed Lag (ARDL) framework, for exploring the cointegration relationship between the life insurance demand and some theorized macro fundamental variables. The ARDL approach is a recent econometric technique developed by Pesaran and Pesaran (1997), Pesaran and Shin (1999) and Pesaran, Shin and Smith (2001). The ARDL procedure involves two stages in its testing and estimation:

(1) Test for Cointegration:

This is the procedure for testing for the presence of a long-run relationship among the variables under study. This procedure is conducted by computing the F -statistic for checking the significance of the lagged levels of the variables in the error correction form within the fundamental ARDL model.

(2) Estimation of Long-Run Equilibrium

This procedure involves estimating the coefficients of the long-run model and the error correction model, which corresponds to the selected ARDL model. This stage is only undertaken if the long-run relationship between the variables to be estimated is not spurious.

Model Development

The literature review suggests that the possible determinant set of life insurance demand function is indeed large. Although trying to best represent the actual insurance market is much desired, the number of determinants set has to be limited due to the availability of data and statistical requirements.

Empirical Model of the Demand for Family Takaful

The appropriate form of the relationship between family takaful demand and its explanatory variables cannot be specified from *a priori* considerations, however, empirical results from previous studies may be used to deduce a particular form of relationship (Hammond *et al.*, 1967). Given the hypotheses as specified in the previous section, and following Browne and Kim (1993), Ward and Zurbruegg (2002), Savvides (2006) and Li *et al.* (2007), the general regression model examined in this study considers family takaful demand to be a function of some economic and demographic determinants. A general form of the functional relationship between family takaful demand and its determinants is proposed as follows:

$$\text{TAKAFUL} = f \{ \text{INC, DEP, EDU, EPF, PEN, LIFX, URB, TPRI, INF, FD, INT, IFSAV} \} \quad (1)$$

The full list of the variables examined in this study, their measurements and hypothesized signs are provided in Table 1.

Table 1

Abbreviation	Variable	Measurement	Source of Data
TFUL	Demand for family takaful	Contributions of family takaful	Takaful Annual Report, BNM, 1986-2008
INC	Disposable Income	Nominal GDP per capita	World Development Indicator (WDI) Database, World bank
DEP	Dependency Ratio	Population under 15 to total population	WDI Database, World bank

EDU	Level of Education	Enrolment in tertiary education	Annual Statistics Report, Department of Statistics
EPF	Employees' Provident Fund	Contributions to EPF	Bank Negara Annual Report, 1970-2008
INF	Inflation	Percentage of annual price changes in CPI	WDI Database, World bank
SAV	Savings	Rate of return on savings account	Bank Negara Annual Report, 1970-2008
IFSAV	Interest-Free Savings	Rate of return on interest-free savings account	Bank Negara Annual Report, 1970-2008

In the empirical analysis of this study, all the variables are transformed by taking the logarithm to allow the estimated parameters to be interpreted as elasticities. Three models are constructed to examine the demand for family takaful. The demand for family takaful is first examined for both the demographic and economic variables. Next, specific contributions of the demographic and of the economic factors are examined in separate models. Following Browne and Kim (1993), Ward and Zurbruegg (2002), Li *et al.* (2007), and Ahking (2009), and on the basis of the general functional relationship described in equations (1), the regression equations of the family takaful demand are proposed as follows:

Model 1: Demographic and Economic Model of Family Takaful Demand

$$\log(TFUL_P) = \beta_0 + \beta_1 \log(INC) + \beta_2 \log(EDU) + \beta_3 \log(EPF) + \beta_4 \log(TPRI) + \beta_5 \log(INF) + \varepsilon \quad (2)$$

Model 2: Demographic Model of Family Takaful Demand

$$\log(TFUL_P) = \beta_0 + \beta_1 \log(INC) + \beta_2 \log(DEP) + \beta_3 \log(EDU) + \beta_4 \log(PEN) + \beta_5 \log(LIFX) + \varepsilon \quad (3)$$

Model 3: Economic Model of Family Takaful Demand

$$\log(TFUL_P) = \beta_0 + \beta_1 \log(INC) + \beta_2 \log(INF) + \beta_3 \log(IFSV) + \beta_4 \log(TPRI) + \beta_5 \log(FD) + \varepsilon \quad (4)$$

Equation (2) describes the long-run relationship between the variables of the family takaful demand function of Model 1. To capture the short-run effects, the short-run dynamic adjustment process is incorporated in equation (2) by specifying it in an error-correction model format. Accordingly, the error correction model within the ARDL framework of the family takaful demand Model 1 is formulated as follows:

ARDL Representation of Model 1

The error correction representation of the ARDL model for equation (2) is specified as follows:

$$\begin{aligned}
 \Delta \log TFUL_P = & \alpha + \sum_{k=1}^n \beta_{0,k} \Delta \log TFUL_P_{t-k} + \sum_{k=0}^n \beta_{1,k} \Delta \log INC_{t-k} + \sum_{k=0}^n \beta_{2,k} \Delta \log EDU_{t-k} \\
 & + \sum_{k=0}^n \beta_{3,k} \Delta \log EPF_{t-k} + \sum_{k=0}^n \beta_{4,k} \Delta \log TPRI_{t-k} + \sum_{k=0}^n \beta_{5,k} \Delta \log INF_{t-k} \\
 & + \delta_0 \log TFUL_P_{t-1} + \delta_1 \log INC_{t-1} + \delta_2 \log EDU_{t-1} + \delta_3 \log EPF_{t-1} \\
 & + \delta_4 \log TPRI_{t-1} + \delta_5 \log INF_{t-1} + \mu_t
 \end{aligned} \tag{5}$$

ARDL Representation of Model 2

Similarly, equation (3) can be rewritten in an error-correction modeling format as below:

$$\begin{aligned}
 \Delta \log TFUL_P = & \alpha + \sum_{k=1}^n \beta_{0,k} \Delta \log TFUL_P + \sum_{k=0}^n \beta_{1,k} \Delta \log INC_{t-k} + \sum_{k=0}^n \beta_{2,k} \Delta \log DEP_{t-k} \\
 & + \sum_{k=0}^n \beta_{3,k} \Delta \log EDU_{t-k} + \sum_{k=0}^n \beta_{4,k} \Delta \log PEN_{t-k} + \sum_{k=0}^n \beta_{5,k} \Delta \log LIFX_{t-k} \\
 & + \delta_0 \log TFUL_P_{t-1} + \delta_1 \log INC_{t-1} + \delta_2 \log DEP_{t-1} + \delta_3 \log EDU_{t-1} \\
 & + \delta_4 \log PEN_{t-1} + \delta_5 \log LIFX_{t-1} + \mu_t
 \end{aligned} \tag{6}$$

ARDL Representation of Model 3

The unrestricted conditional ECM of the ARDL modeling for specification (4) is given as follows:

$$\begin{aligned}
 \Delta \log TFUL_P = & \alpha + \sum_{k=1}^n \beta_{0,k} \Delta \log TFUL_P_{t-k} + \sum_{k=0}^n \beta_{1,k} \Delta \log INC_{t-k} + \sum_{k=0}^n \beta_{2,k} \Delta \log INF_{t-k} \\
 & + \sum_{k=0}^n \beta_{3,k} \Delta \log IFSV_{t-k} + \sum_{k=0}^n \beta_{4,k} \Delta \log TPRI_{t-k} + \sum_{k=0}^n \beta_{5,k} \Delta \log FD_{t-k} \\
 & + \delta_0 \log TFUL_P_{t-1} + \delta_1 \log INC_{t-1} + \delta_2 \log INF_{t-1} + \delta_3 \log IFSV_{t-1} \\
 & + \delta_4 \log TPRI_{t-1} + \delta_5 \log FD_{t-1} + \mu_t
 \end{aligned} \tag{7}$$

where Δ is the first difference operator.

Empirical Results

To examine the null hypothesis of the absence of cointegration relationship, the order of lags on the first differenced variables must be decided upon. The calculated F-statistic is determined by the number of lags imposed on every first differenced variable. Since annual data is used in this study, the highest number of lags in the ARDL analysis is typically set at 2 (Narayan 2004). Therefore, to compute the F-statistic for testing the joint significance of the lagged levels of variables, lag of order 1 and 2 are imposed on the first differenced of every

variable. The calculated F-statistics for each order of lags for all the models under investigation are reported in Table 2.

Model 1 examines the demographic and economic factors affecting family takaful demand, Model 2 only examines the influence of demographic factors on family takaful demand, and Model 3 investigates the influence of economic factors. In these three models, family takaful consumption is measured by the family takaful premium expenditures. In takaful system, premiums are also known as contributions.

Table 2

Calculated F-statistic for Testing the Existence of a Cointegration Relationship

The Demand Model	Number of regressors	Order of lag	
		1	2
Family Takaful Model 1	5	9.7616***	-
Family Takaful Model 2	5	7.8918***	-
Family Takaful Model 3	5	6.4398***	-

***, ** and * indicate significance at the 1%, 5% and 10% level, respectively (i.e. the F-statistic falls above the upper bound of the critical value band)

Long-Run Coefficient Estimates for Model 1

The long-run coefficient estimates of Model 1 are displayed in Table 3. As hypothesized, the coefficient of income is shown to be positive and statistically significant, implying that a rise in income induces a growth in family takaful consumption. The income coefficient is, however, inelastic; an increase of 10 percent in income is likely to result in an increase of 9.94 percent in family takaful premium expenditures. The level of education is not significantly related to family takaful consumption in the long-run. The coefficient of EPF is positive, contrary to the expected negative sign, and is significant at the 10 percent level. The coefficient of takaful price is negative as hypothesized, but not significant. The coefficient of inflation is negative and statistically significant, suggesting that inflation is detrimental to family takaful demand in the long-run.

Table 3

Estimated Long Run Coefficients using the ARDL Approach (Model 1)

 ARDL(1,1,0,0,1,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is logTFUL_P

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
logINC	.99410	.28619	3.4736[.005]***
logEDU	.010437	.25877	.040335[.968]
logEPF	.52337	.26320	1.9884[.070]*
logTPRI	-8.2633	4.6377	-1.7818[.100]
logINF	-.10190	.029658	-3.4358[.005]***
Constant	-5.2341	1.7869	-2.9292[.013]**

***, ** and * indicate significance at the 1%, 5% and 10% level, respectively.

Short-Term Coefficient Estimates of Model 1

In the short-run, the coefficient of the change in income is found to be statistically insignificant (see Table 4). This result suggests that income is not related to a change in family takaful consumption in the short-run. The level of education is also found to not affect family takaful consumption in the short-run. The change in EPF has a positive sign and is significant at 10 percent. The change in takaful price is not statistically significant, suggesting that price does not influence family takaful consumption in the short-run. The result indicates that inflation rate negatively affects family takaful demand at the 5 percent level.

The coefficient of the error correction term is found to be relatively large in magnitude. At -0.7337, it has the correct negative sign and is statistically significant at 5 percent. This result reaffirms the cointegration relationship between the variables in Model 4. It also suggests that the speed of convergence to equilibrium is quite rapid, with over 70 percent of the imbalance of the year's shock adjusting back to the long-run equilibrium in the following year.

Table 4

Error Correction Representation for the Selected ARDL Model (Model 1)

 ARDL(1,1,0,0,1,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is Δ logTFUL_P

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
Δ logINC	-.10347	.29576	-.34983[.731]
Δ logEDU	.0076583	.19078	.040142[.969]
Δ logEPF	.38401	.18147	2.1161[.051]*
Δ logTPRI	1.4226	5.1441	.27655[.786]
Δ logINF	-.044914	.013056	-3.4402[.004]**
Δ Constant	-3.8404	1.9636	-1.9558[.069]*

ecm(-1)	-.73373	.17182	-4.2704[.001]**
R-Squared	.81463	R-Bar-Squared	.67560
S.E. of Regression	.051465	F-stat. F(6,15)	8.7892[.000]
Mean of Dependent Var.	.13280	S.D. of Dependent Var.	.090359
Residual Sum of Squares	.031784	Eq. Log-likelihood	40.7217

** and * indicate significance at the 5% and 10% level, respectively.

Long-Run Coefficient Estimates of Model 2

The result of the long-run estimates for Model 2 is outlined in Table 5. As expected, the coefficient of income is elastic, has a positive sign and is statistically significant. The coefficient of income suggests that an increase of 10 percent in income is likely to induce a growth of 13 percent in family takaful demand. The coefficients of dependents and education also have the hypothesized positive sign and statistically significant at 1 percent. Both the coefficients are inelastic. The results suggest that an increase of 10 percent in the ratio of young dependents leads to about 0.8 percent increase in family takaful premium expenditures, whereas an increase of 10 percent in the number of tertiary level enrolment results in a growth of about 7 percent in family takaful premium expenditures. The result further shows that government's pension scheme does not have an impact on family takaful consumption, while life expectancy is shown to have a positive and significant affect on demand in the long-run.

Table 5

Estimated Long Run Coefficients using the ARDL Approach (Model 2)

ARDL(1,0,0,0,0,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is logTFUL_P

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
logINC	1.3272	.32663	4.0634[.001]***
logDEP	.0837	.01968	4.2520[.001]***
logEDU	.74877	.11895	6.2946[.000]***
logPEN	1.4645	1.0212	1.4333[.181]
logLIFX	.66675	.18050	3.6939[.002]***
Constant	-78.5570	15.3365	-5.1235[.000]***

*** indicates significance at the 1% level.

Short-Run Coefficient Estimates of Model 2

The short-run dynamics of Model 2 are displayed in Table 6. The coefficient of a change in income is significant at the 5 percent level, implying that income is likely to affect family takaful demand in the short-run. The coefficient of a change in dependents also has the hypothesized positive sign and is statistically significant at 5 percent. This result suggests that changes in the number of dependents are linked to a change in family takaful consumption in the

short-run. Likewise, a change in education is shown to have a positive impact on family takaful demand, while a change in pension is not significant in the short-run. The coefficient of a change in life expectancy has the anticipated positive sign, and is significant in the short-run.

The coefficient of the ECM term obtained under this model is relatively large and is statistically significant. The negative sign suggests the existence of a cointegration relationship between the variables. The coefficient of the ECM term is -0.5675, suggesting a rapid adjustment process. The result indicates that about 57 percent of the disequilibria in one year is corrected to the long-run equilibrium in the following year.

Table 6

Error Correction Representation for Selected ARDL Model (Model 5)

ARDL(1,0,0,0,0,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is $\Delta \log TFUL_P$

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
$\Delta \log INC$	.75315	.30958	2.4328 [.028]**
$\Delta \log DEP$	.21838	.044194	4.9413 [.000]***
$\Delta \log EDU$	.42490	.13853	3.0673 [.008]***
$\Delta \log PEN$	-.82732	.85872	-.95310 [.353]
$\Delta \log LIFX$	.15204	.050273	3.0242 [.009]***
$\Delta Constant$	-44.5889	8.7861	-5.0749 [.000]***
ecm(-1)	-.56745	.13304	-4.2654 [.001]***

R-Squared	.81395	R-Bar-Squared	.60929
S.E. of Regression	.056481	F-stat. F(6,15)	7.2913 [.001]
Mean of Dependent Variable	.13280	S.D. of Dependent Var.	.090359
Residual Sum of Squares	.031901	Eq. Log-likelihood	40.6812

*** and ** indicate significance at the 1% and 5% level, respectively.

Long-Run Coefficient Estimates of Model 3

The long-run results described in Table 7 show that income is a robust determinant of family takaful consumption. The coefficient of income is positive, elastic and highly significant. The estimated coefficient of inflation has the hypothesized negative sign, and is highly significant in the long-run. The interest-free savings rate has a negative sign and is statistically significant at the 5 percent level. The coefficient of takaful price is found to be statistically insignificant in the long-run. The country's financial development level has a positive sign and is a significant predictor of family takaful demand.

Table 7

Estimated Long Run Coefficients using the ARDL Approach (Model 3)

ARDL(1,1,0,0,1,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is logTFUL_P

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
logINC	1.7651	.059090	29.8710 [.000]***
logINF	-.13072	.020578	-6.3523 [.000]***
logIFSV	-.060026	.026636	-2.2536 [.044]**
logTPRI	-5.8999	5.0628	-1.1653 [.267]
logFD	2.1019	.92345	2.2761 [.042]**
Constant	-5.0720	1.1839	-4.2840 [.001]***

*** and ** indicate significance at the 1% and 5% level, respectively.

Short-term coefficient estimates of Model 3

Table 8 reports the short-run dynamics of Model 3. The ECM result shows that the coefficient of a change in income is not statistically significant, suggesting that income does not determine the demand for family takaful in the short-run. The change in inflation is negative and significant at the 1 percent level in the short-run. Similarly, the coefficient of the change in interest-free savings rate is negatively associated with the change in family takaful demand. The change in takaful price and financial development are found to be statistically insignificant, implying that these variables are not likely to have an impact on the demand for family takaful in the short-run. The coefficient of ECM term is -0.5657, and statistically significant, suggesting that the disequilibrium that occurs due to a shock adjusts back at a speed of about 56% a year.

Table 8

Error Correction Representation for the Selected ARDL Model (Model 6)

ARDL(1,1,0,0,1,1) selected based on Schwarz Bayesian Criterion
 Dependent variable is Δ logTFUL_P

Regressor	Coefficient	Standard Error	T-Ratio[Prob]
Δ logINC	-.40265	.24117	-1.6696 [.116]
Δ logINF	-.073943	.011415	-6.4780 [.000]***
Δ logIFSV	-.033955	.015373	-2.2087 [.043]**
Δ logTPRI	2.2473	4.1205	.54540 [.593]
Δ logFD	.34963	.31773	1.1004 [.289]
Δ Constant	-2.8690	1.0533	-2.7238 [.016]**
ecm(-1)	-.56567	.10216	-5.5370 [.000]***
R-Squared	.87782	R-Bar-Squared	.78619
S.E. of Regression	.041781	F-stat. F(6,15)	14.3698 [.000]
Mean of Dependent Variable	.13280	S.D. of Dependent Var.	.090359
Residual Sum of Squares	.020948		

***, ** and * indicate significance at the 1%, 5% and 10% level, respectively.

Conclusions

Empirical evidence shows that in the long-run, the number of dependents, education level, life expectancy and financial development play a direct significant role in family takaful consumption. The interest-free savings rate and inflation rate are found to be inversely related to family takaful growth. In the short-run, the number of dependents, education and life expectancy are observed to have a positive relationship with the demand for family takaful, whereas inflation and interest-free savings rate are negatively related to the demand.

This paper provides evidence concerning the short- and long-run relationship between life insurance and family takaful demand in the Malaysian context, which extends the existing literature in the related discipline. The major contribution of this study lies in its empirical discovery of the determinants of the demand for family takaful and their short- and long-run relationships by applying the recent ARDL approach to cointegration.

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Does Goal Attainment Influence Intention to Remain in the Business? A Study of Small Business Owner in Malaysia

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Abstract

This study investigates the relationship between goal attainment and intention to remain in the business among Malaysian small business owners. Using a theoretical framework built on content theories of motivation, process theories of motivation and Entrepreneur's Goal Attainment Theory, the study proposes that business owner's goals attainment would associate positively with intention to remain in the business. A total of 285 small business owners were surveyed and completed self-administered questionnaires. Multiple Regression Analysis shows Intrinsic Rewards, Economic Gain, and Family Concern goals associate positively with owner's intention to remain in the business. Surprisingly, marital status is also influence owner's intention to remain in the business. In general, Entrepreneur's Goal Attainment Theory is useful in understanding the relationship between goal attainment with intention to remain in the business. While people are motivated by their own personal goals in starting businesses, it is clear that the obvious indication for them to remain associates with the personal satisfaction, economic goals and family goals. Moreover, marital status has also shaped small business owner perception on their future outlook of the business. Finally, contribution, implications and limitations of the study are reviewed and some recommendations for future research are presented.

Keywords: small business owner, Malaysia, goal attainment, intention to remain, Entrepreneur's Goal Attainment Theory

INTRODUCTION

Entrepreneurship is an important source of economic development (Audretsch and Thurik 2004; Minniti and Lévesque 2008; Wennekers and Thurik 1999). They contribute towards economic development through their capacity of generation and application of innovative ideas, enhancing competitiveness and increasing productivity (Audretsch and Thurik 2004; Minniti et al. 2005). Entrepreneurship is also a significant source of job creation (Fölster 2000; Storey 1994). That's why government nowadays have policy to promote entrepreneurship for its apparent economic benefit (O'Connor 2012). In Malaysia, for example, entrepreneurship skill is one of the important soft skills that have always been stressed by the Ministry of Education for the university students (Ahmad et al. 2012).

Historically, Malaysia was a resource based economy, depended heavily on natural resources and exploitation of the land after independence (First Malaysian Plan 1966-1970). The industrialization thrive transformed the Malaysian economy from resource and agriculture based to industry based. The country's industrial strategy planned at achieving international competitiveness. Malaysia pursued two distinct industrialization strategies. First, the import substitution industrialization (ISI) during the 1960s, and, second, the export oriented strategy during the 1970s and 1980s aimed, especially, at sectors like textiles and electronics (Ching, 2004). This targeted at reducing poverty and correcting economic imbalances. The introduction of the New Economic Policy (NEP), 1971-90 put great emphasis on the development of Small and Medium Enterprises (SMEs). The Malaysian's government aim for SMEs development always focused on creating a balanced economic and socio-economic growth for the nation. The real importance to SMEs in the country was given during the 1980s, when the government started bridging SMEs and larger enterprises. The government has been strengthening the performance of SMEs by initiating many programs and incentives during the Seventh and Eighth Malaysian Plans, as well as during the Second Industrial Master Plan (Second Industrial Master Plan 1996-2005; IMP2).

Under IMP2, the government tried to balance economic and socio-economic development via infrastructures, building capacity and capability and through enhanced access to finance. Malaysian government tried to increase SME contributions to GDP in 2006 from 32% to 37% and total exports from 19% to 22% by 2010 (Khoo Cheok Chin 2010; Oxford Business Group). The National SME Development Council (NSDC) was founded in 2004 for the highest policy making body. Its function was to devise the strategies and direct the policies for a better development of SMEs in Malaysia. It focused on small businesses in all sectors of the economy. SMECORP became the Central Coordinating Agency and the Secretariat to NSDC in 2009. It took over the role from Bank Negara Malaysia, becoming a new entity renamed as SME Corporation Malaysia.

Over the last few years, the SME development agenda has been driven mainly by the Government through the National SME Development Council (NSDC). The National SME Development Council is responsible for a more holistic approach in SME development in the country. The SME Master Plan, released in July 2012, charts the policy direction for SMEs until year 2020. This Master Plan embarks at catalyzing growth and income. The aim is to bring SMEs to the next level by accelerating growth through productivity gains and innovation. The SME Master plan is considered to be the 'game changer'. It will speed up the growth of SMEs. Malaysia, through this Master Plan, is likely to achieve the high income nation status by 2020. This Master plan will cater for all SMEs in Malaysia regardless of sector, gender and geographical region. Successful implementation of the Master Plan will result in raising the contribution of SMEs to the economy.

THE IMPORTANCE OF SMES IN THE MALAYSIAN ECONOMY

The success of majority of developed countries has been facilitated by SME's of those countries. For example, out of 27 million total businesses in USA, 99.9% are SME's which employed nearly 50% of total 120 million workers (U.S. Bureau of the Census, 2010). Further almost 98% of total US exporters are SME's which contribute US\$ 380 billion in total exports. Similarly, SME's accounted for more than 99% of total businesses in Europe and employed 67% of total workforce. Next, according to SME Development Blueprint 2004-2014, 75 to 90 % of the workforce is employed in SMEs in ASEAN region. Specifically, in Malaysia, more than 97% businesses belongs to SME sector which employed more than 52% of the workforce in the country and contribute 32% of GDP (SME Census, 2011).

SMEs play a critical role in stabilizing the Malaysian economy during economic shocks and in some sectors, SMEs remain resilient and agile during the economic downturn. There are 645,000 SMEs operating in Malaysia, which represent 97.3% of total business community. Most of the SMEs are microenterprises, forming 77% of total SMEs in Malaysia in 2010 as compared to 79.3% in 2003. Small-sized SMEs accounted for 20%, while medium-sized SMEs constitute the balance 3%. SMEs are also the major source of employment in Malaysia. Out of total workforce of 7.97 million, SMEs provide employment to around 4.6 million (57.3%) in year 2011 as compared to 2009 when out of 6.9 million, 4.1 million (59.4%) were being employed in SMES (Department of Statistics, Malaysia, 2012). These figures show the contribution of SMEs in the employment generation of Malaysian economy.

Further SMEs have been recognized as a source of innovation and contributor to forward-thinking ideas that can enhance the economic growth of the country. When the Malaysian economy registered real Gross Domestic Product (GDP) growth of 5.1% in 2011, the SME GDP continue to expand at a faster pace of 6.8% than the overall economy. SMEs overall contribution to GDP is 32.5% in 2011 as compared to 29.4% in 2005 (SME Census, 2011). The contribution and importance of SMEs for sustainable economic development of Malaysia is very evident from above discussion. Besides the proper implementation of SME Master Plan 2012, it is important to understand the motivation of entrepreneurs to stay in the business as well. As Master Plan 2012 plan has emphasis on SME growth, this current study is very important as it is an effort to understand the motivation of entrepreneurs to stay in their businesses. This study will reveal the relationship between personal goals of entrepreneurs and their intention to remain in the businesses.

LITERATURE REVIEW

Content and Process Theories of Motivation

Content theories of motivation emphasize what motivates people (Naylor 2003) and analyze fundamentals of human needs (Daft 2012). These needs translate an inner drive that motivates particular behaviours in an attempt to satisfy the needs (Daft 2012). Content theories are important as they provide useful insight in terms of i) what motivates people to become entrepreneur and ii) what are those needs/goals people want to achieve through his or her involvement as an entrepreneur. On the other hand, process theories of motivation concern the thought processes that influence behaviour (Daft 2012) and view behaviour as the result, at least in part, of human decision processes (Porter et al. 2003). Several premises in process theories which are useful for the hypotheses development are i) an individual is basically goal directed and his/her choice of actions will be such as to satisfy this set of goals (Vroom, 1964; Vroom's

theory) ii) human action is purposeful and directed by conscious goals (Locke & Latham 1994; Goal Setting Theory) and iii) Satisfaction is important to organizations because the more satisfied the people, the less likely they are to leave their business organization (Porter & Lawler 1968; The Integrated Expectancy Theory).

Entrepreneurship Research

In entrepreneurship research, Naffziger et al. (1994) suggested that the role of entrepreneurial goals in motivating business founders to sustain their pursuit of entrepreneurial activity. They contended that entrepreneurs examine the probabilities of goal accomplishment and are motivated to sustain entrepreneurship to the extent that they believe their behaviour will lead to or continue to lead to the accomplishment of personally relevant goals. Shane et al. (2003) suggested how motivations might influence some people to make different decisions from others in the entrepreneurial process. Previous studies indicated a positive relationship between motivation (need for achievement) and entrepreneurship (Johnson 1990). Entrepreneurs with a higher need for achievement are more likely to be successful (Johnson and Ma 1995). In Canada, Zhang and Bruning (2011) found positive influences of need for achievement and need for cognition on firm performance. Also, Jayawarna et al. (2011) found the relationship between motivation and business resources, behaviour and performance. When looking at 89 entrepreneurs in the U.S., De Tienne et al. (2008) found that extrinsic motivation has a relationship on decision to persevere with an under-performing firm. Lastly, Rahman and Rahman (2011) suggested that motivational needs have affected people to leave factory jobs, launch business activities and achieve success in their ventures. In brief, previous discussion shows that motivation accomplishment will influence entrepreneurial process, either theoretically (Naffziger et al. 1994; Johnson and Ma 1995; Shane et al. 2003) or empirically (De Tienne et al. 2008; Jayawarna et al. 2011; Johnson 1990; Rahman and Rahman 2011; Zhang and Bruning 2011).

Entrepreneur's Goal Attainment Theory

Entrepreneur's Goal Attainment Theory (EGAT) is discovered by Hizam-Hanafiah (2012) in his PhD thesis at University of Essex, United Kingdom. EGAT explains the relationship between the entrepreneur's goal attainment and business outcome. EGAT is based on the principle that entrepreneurs have their own personal goals to be attained in a business venture and the attainment of these goals would associate with business outcome. Personal goals are slightly different than normal business performance indicators such as financial indicators (Turnover; Return on Investment; Return on Assets) or other indicators (Market share; customer loyalty). Personal goals are the motivation that drives people to become an entrepreneur and influences them to sustain in the business. EGAT is based on assumptions of Content Theories and Process Theories of motivation, but focus on entrepreneur motivation. In general, assumptions of EGAT are:

- a) Entrepreneurs are human beings whose needs and goals guide their behaviour.
- b) Entrepreneurs enter new venture creations with a goals set relevant to them personally, financial and non-financial, and include but are not limited to performance-oriented goals.
- c) Entrepreneurs are basically goal directed. They will strive to engage in actions that they perceive as leading to their important goals. Their choice of actions and behaviour will be such as to satisfy this set of goals.
- d) Goals are valued or desired outcomes. Entrepreneurs as human beings possess the highest form of consciousness, the capacity to reason. So, entrepreneurs have power to choose their own goals and pursue long-range purposes.

- e) Goals will influence an entrepreneur's willingness to invest time and effort in accomplishing what has been targeted. Further, goals serve to channel an entrepreneur's time and energy in a particular direction.
- f) Every entrepreneur's goal is within a continuum perspective and entrepreneurs try to attain it throughout their business venture.
- g) Satisfaction is an important key to an entrepreneur's goal attainment. The more entrepreneurs are satisfied with the attainment of their goals, the more likely they will be to make a commitment to a business venture.
- h) Entrepreneurs are rational and evaluate the best possible ways to engage in business and maximise their goals attainments.
- i) Without denying the influence of other internal and external factors, or other factors being held constant, goals attainments play a critical role in the entrepreneurial process.

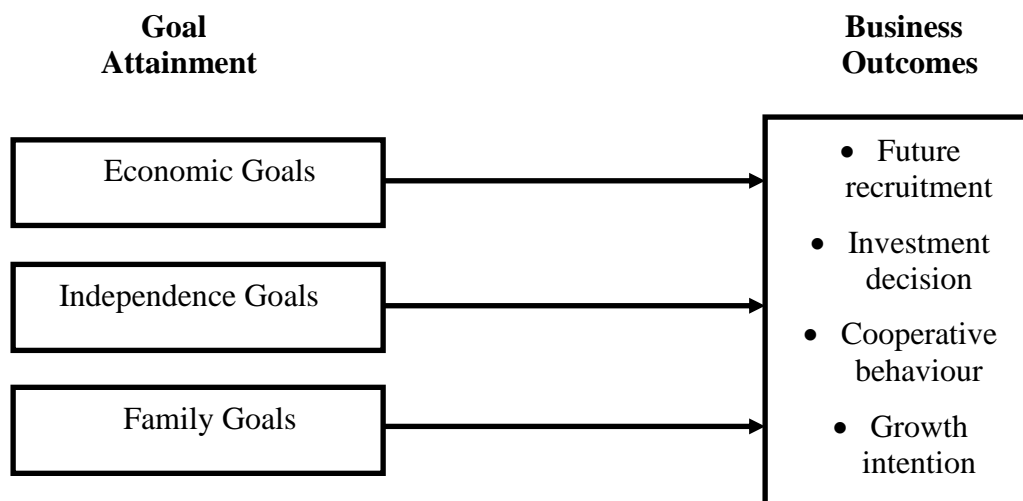


Figure 1: Entrepreneur's Goal Attainment Theory

Figure 1 displays the basic relationship of EGAT. The central proposition of EGAT is that entrepreneur's goals attainments are associated positively/negatively with the business outcome of the business venture. Based on the evidence of Hizam-Hanafiah thesis and for preliminary purposes, three propositions are proposed, namely the economic goals proposition, the independence goals proposition and family goals proposition. Next, business outcome is action or behaviour which is needed for the sustainability and competitiveness of the business venture. Business outcome at individual level can be a perception or actual result in the business venture and it can be in positive aspect or negative aspect. Positive action can be a decision to employ more workers, a decision to expand the business, open a new branch or invest more money in the business. Negative action can be a decision to close a branch, downsize and a decision to sell the business to another party. Positive behaviour can be a cooperative behaviour within business-to-business relationship and growth intention. Negative behaviour can be non-supportive behaviour within a collaborative arrangement or propensity to leave the business relationship. EGAT has received empirical support. Besides Intention To Remain factor as a dependent variable in Hizam-Hanafiah thesis (2012), Perceived Entrepreneurial Success is another dependent variable discovered by Hizam-Hanafiah (2014). It shows that Economic Gain and Perceived Autonomy have significant influence on Perceived Entrepreneurial Success among Malaysian franchisees.

DEVELOPMENT OF HYPOTHESES

Development of hypotheses in this paper is based on theories of motivation, entrepreneur motivation and EGAT. In general, individuals are basically goal directed and strive to engage in activities and actions that satisfy his/her set of goals. Further, their goals satisfaction should have a significant relationship with the outcome of the business. The relationship between goal attainment and business outcome are supported by empirical evidences (i.e.: Kuratko et al. 1997; Segal et al. 2005; (Baum et al. 2001; Hechavarría et al. 2011; Westhead et al. 2005). Specifically, EGAT shows that entrepreneur personal goal attainment will have significant relationship with business outcome. Till now, two empirical studies among franchisees in franchising study supported EGAT (Hizam-Hanafiah 2012; Hizam-Hanafiah 2014) and two dependent variables namely Intention To Remain and Perceived Entrepreneurial Success are proven as significant business outcome.

Traditionally, the entrepreneurial goals have been considered to be economic (Schumpeter 1934) and entrepreneur is a person who does something for economic gain, and that notion has persisted since (Carsrud and Brannback 2009). This is shared with another scholar such as Raposo et al. (2008) who contended that economic motivation may completely dominate behaviour while other objectives may be sacrificed in initial development stages of business. Also, Churchill and Lewis (1983) clearly mentioned that the entrepreneur's goals are economic, the survival and growth of the organization. Hitt et al. (2001) used the words 'strategic wealth creation' as a common motive for any entrepreneur. Kuratko et al. (1997) used the words 'extrinsic rewards' to reflect entrepreneur's goals which include personal income, income opportunities, personal wealth or other tangible rewards.

Conceptually, several scholars noted that the main goal of an entrepreneur is the opportunity to make more money (Barrow 1998; Moore et al. 2010) and others mentioned money as a secondary entrepreneur goal (Hodgetts and Kuratko 2002; Schaper and Volery 2007; Urlacher 1999). In empirical studies, economic gain was the strongest motivator in studies by Benzing and Chu (2009), Benzing et al. (2009); Benzing et al. (2005), Chu et al. (2007), Chu et al. (2010), Mann and Thorpe (1998) and Shinnar and Young (2008). In Germany, Hinz and Jungbauer-Gans (1999) also found that better income was perceived to be important by business founders (52 percent), money was ranked fourth by entrepreneurs in study by Cromie (1987) and Mitchell (2004). Further, Feldman and Bolino (2000) did find that self-employed people with greater annual salaries and gross business incomes were also more likely to have positive job attitudes and remain self-employed.

Researchers used several terms to reflect monetary and financial gain such as extrinsic rewards, financial motivations, self-betterment, and materialism (Benzing and Chu 2009; Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Robichaud et al. 2001; Wang et al. 2006). In this paper, the words 'economic gain' is more accurate and reflects the economic and financial aspect of the entrepreneur's goals. Economic Gain can reflect all aspects under extrinsic rewards/financial motivations/self-betterment/materialism factors. Since economic gain is perceived to be central to the business survival and consistently appeared as one of the main goals of the entrepreneur, the following hypothesis is suggested.

Hypothesis 1 –Small Business Owner's goal attainment of Economic Gain is positively associated with intention to remain in the business.

Besides Economic Gain, a desire to be independence or achieve independence is considered the most important goal by some scholars (Cromie 1987; Douglas and Shepherd 2002; Hatten 2009;

Hodgetts and Kuratko 2002; Schaper and Volery 2007; Stokes and Wilson 2010), and the most frequently cited motivation why people start a business (Stokes and Wilson 2010; Vinturella 1999). This goal is regarded as more important than money as an entrepreneur can plan and run the business in the way they want (Barrow 1998). This autonomy is associated with the target to seek personal rewards (Boyd and Gumpert 1983), independence (Burch 1986), independence from others (Hellriegel et al. 2004), freedom by being one's own boss (Knight 1984), controlling one's own future and satisfying the need for achievement (Bird 1988). Autonomy is also associated with controlling their own employment destiny, having flexibility in their lifetime and working at their preferred place.

Empirical studies by Benzing and Chu (2009), Gelderen and Jansen (2006) and Shinnar and Young (2008) reflected that the desire for autonomy is the strongest motivation for entrepreneurs than monetary rewards. In other studies by Chu et al. (2010), Kuratko et al. (1997), Robichaud et al. (2001) Shane et al. (1991) and Wang et al. (2006), autonomy/independence was the second main motivation besides the monetary factor. Several terms used to reflect a desire to be independence such as autonomy, independence, and flexibility (Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001; Shane et al. 1991; Wang et al. 2006).

In this paper, the term 'Perceived Autonomy' is employed as no full independence can be achieved by any types of entrepreneur or business people. Entrepreneurs still have to meet the legal requirements, fulfil their obligations with customer, maintaining certain standard with their suppliers/agents, in which all mean no total independence can be achieved in business but a degree of perception of independence/autonomy exist in reality. Since Perceived Autonomy is considered one of the important goals to be achieved and sustained by business people, next hypothesis is suggested.

Hypothesis 2 –Small Business Owner's goal attainment of Perceived Autonomy is positively associated with intention to remain in the business.

Profit maximization and monetary gain are not the only objective of business owners (Westhead 1997) and entrepreneurs (Monroy and Folger 1993). Previous studies support the belief that many entrepreneurs are motivated by and sustained through other means than simply money (Schaper and Volery 2007). Boyd and Gumpert (1983) stated that entrepreneurs also enjoy the opportunity to seek personal rewards and satisfying the need for achievement (Johnson 1990; Moore et al. 2010). Kuratko et al. (1997) used the words 'intrinsic rewards' to reflect the entrepreneur's goals of having more control over one's destiny and having ultimate responsibility for the success of the venture. Some entrepreneurs believed that satisfaction they experience from running their own businesses is very important and may be even important than money, maybe even more than independence (Moore et al. 2010).

Several terms are used to reflect self-satisfaction such as intrinsic rewards, personal development, recognition, external validation and achievement (Benzing and Chu 2009; Benzing et al. 2009; Jayawarna et al. 2011; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001; Shane et al. 1991; Wang et al. 2006). Nevertheless, empirical entrepreneurship studies endorse that intrinsic rewards/self-satisfaction are one of the important goals sought by the entrepreneur (Berthold and Neumann 2008; Kuratko et al. 1997; Robichaud et al. 2001; Shane et al. 1991; and Wang et al. 2006) and is deemed to be the second most important goal by entrepreneur (Benzing and Chu 2009; Chu et al. 2007). The examples of intrinsic rewards are feelings of achievement,

personal growth, accomplishing a complex task, overcoming a serious problem that brings a feeling of satisfaction and self-esteem.

In this study, 'Intrinsic Rewards' are used to indicate the satisfactions a person receives in the process of performing a particular action (Daft 2012), derived from the process of performing a particular function (Naylor 2003) or personal satisfying outcomes (Hellriegel et al. 2004). Intrinsic rewards are not given by someone, they are self-granted and are an internally experienced payoff (Sheena and Lepper 1999). Entrepreneur will become satisfied as their dream to become self-employed has been achieved, and they can directly observe on how their time, effort and investment have been compensated emotionally and intellectually. Thus, the third hypothesis is proposed.

Hypothesis 3 –Small Business Owner's goal attainment of Intrinsic Rewards is positively associated with intention to remain in the business.

The last goal is linked with family matters. As stated by Schaper and Volery (2007) and emphasized by Hatten (2009), family matters are also important. As family becomes a more important factor in business, Zahra (2005) found that family ownership and involvement promote entrepreneurship. Further, through entrepreneurship, entrepreneurs seek the employment security which firm ownership affords for them and their families (Aronoff and Ward 1995) and as a means of balancing work and family demands (Carr 1996). Moreover, children who work in a family business learn the skills necessary for them to assume ownership when the parents retire or die (Sklar 1977).

Empirical studies show that Family Concern is an important factor as identified by Benzing and Chu (2009), Kuratko et al. (1997) and Robichaud et al. (2001). Being an entrepreneur, the family will get some benefits of employment opportunities (Hodgetts and Kuratko 2002; Kaplan 2003; Schaper and Volery 2007) and monetary rewards (Kaplan 2003; Schaper and Volery 2007). Two terms used before to manifest family factor namely family factor or family security (Benzing and Chu 2009; Benzing et al. 2009; Kuratko et al. 1997; Lambing and Kuehl 2000; Robichaud et al. 2001).

Besides, family adaptability within a business is a positive and significant predictor of organizational commitment, work satisfaction and life satisfaction (Lee 2006). Furthermore, family relationships have a substantial influence on the attitudes and behaviours of the second generation working in family business (Lee 2006), the family factor can provide job security (Benzing et al. 2005) and many entrepreneurs enjoy continuing their family tradition in doing business (Berthold and Neumann 2008). Nevertheless, 44.6 percent of entrepreneurs in a study by Shinnar and Young (2008) wanted to involve family members. Based on the previous discussion, as long as small business owners achieved their goals related to the family factor, they would strive to sustain their endeavour as an entrepreneur. Therefore, the fourth hypothesis is proposed.

Hypothesis 4 –Small Business Owner's goal attainment of Family Concern is positively associated with intention to remain in the business.

METHODOLOGY

Sampling

This study employs a *non-probability sampling technique* since the individual members of the population do not have an equal chance or predetermined chance of being selected as a member of the sample (Jackson 2008; Sekaran 2003). Convenience sampling is the only and might be the best alternative available of the sampling method. This is due to unstructured and unavailable sufficient data of small business owner information in Malaysia (Cooper and Schindler 2008), and “refers to the collection of information from members of the population who are conveniently available to provide it” (Sekaran 2003: 276). The sample selection process is continued until the required sample size has been reached (Saunders et al. 2009). Enumerators were used to collect data through self-completion questionnaire which were cheaper to administer, quicker to administer, absence of interviewer bias, no interviewer variability and convenience for respondents (Bryman 2008).

Unit of Analysis

Three criteria were proposed in selecting the targeted respondents. The first criterion is the respondents of this study should be the owner or one of the owners of the business companies. The second criterion is that he or she should be actively involved in managing the company, not a sleeping partner or inactive shareholder (Dant and Gundlach 1999; Morrison 1996; Strutton et al. 1995). These criteria are also aligned with entrepreneurship studies where normally the respondents are the business owners who were actively in the management of operations rather than passive investors (Aidis and Praag 2007; Steward et al. 2003). The third criteria are the SME entrepreneur should be in the business with a minimum period of one year. Filter questions will be constructed in self-completion questionnaire to screen the respondents.

Measurement and Operationalization of Variables

The operational definition for Intention to Remain is the small business owner intention to stay in the current business for a long period of time and contemplates no future moves (based on Hizam-Hanafiah 2012). Five questions were used to measure the intention to remain variables as appears in Table 1.

Table 1: Characteristics of Intention To Remain

No.	Questions	Adapted/Adopted from
1	I wish to remain in the current business	Hizam-Hanafiah (2012; $\alpha=0.948$)
2	I plan to be with this business five years from now.	Hizam-Hanafiah (2012; $\alpha=0.948$); Morrison (1997; $\alpha=0.86$)
3	Although I can look for other business, I still consider the current business as my first priority.	Chiou et al. (2004; $\alpha = 0.9326$); Hizam-Hanafiah (2012; $\alpha=0.948$)
4	It is important to me personally that I spend my career in this business organization rather than some other organization	Morrison (1997; $\alpha =0.86$); Hizam-Hanafiah (2012; $\alpha=0.948$)
5	I intend to build a sustainable business for the future	Newly constructed

One question was constructed ‘Please indicate, either by ticking or circling the relevant numbers in the right-hand column, the extent to which you agree or disagree with the following statements based on this scale. (0 - Irrelevant; 1 – Strongly disagree; 7 – Strongly agree). For independent variables, respondents were asked to what extent they satisfied or dissatisfied with the goals based on the scales (1 – Strongly Dissatisfied; 7 – Strongly Satisfied). All constructs for independent variables (Table 2, 3, 4 and 5) are based on Hizam-Hanafiah (2014).

Table 2: Questions for Economic Gain

Questions	Adapted/Adopted from Entrepreneurship Studies
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Received a salary based on merit	Choo and Wong (2006); Gauzente (2003; $\alpha=0.8939$); Inma (2005; $\alpha=0.79$); Kolvereid and Isaksen (2006; $\alpha=0.70$)
Increase my personal income	Basu (1998); Chaganti and Greene (2002; $\alpha=0.77$); Kaufmann (1999); Kuratko et al. (1997; $\alpha=0.74$)
Want profit from my endeavours	Basu (2004; mean=4.54/5); Chaganti and Greene (2002; $\alpha=0.82$); Dickey and Ives (2000); Guilloux et al. (2004); Kolvereid and Isaksen (2006; $\alpha=0.70$); Morris et al. (2006); Peterson and Dant (1990); Taormina and Lao (2007; $\alpha=0.76$)
Improve my financial status	Basu (1998; 98% yes); Taormina and Lao (2007; $\alpha=0.76$);
Acquire personal wealth	Amit et al. (2000); Basu (1998); Kuratko et al. (1997; $\alpha=0.74$); Oakey (2003)
Achieve long-term financial security	Alstete (2002); Choo and Wong (2006); Morris et al. (2006)

*Based on Hizam-Hanafiah (2012)

Table 3: Questions for Perceived Autonomy

Questions	Adapted/Adopted from Entrepreneurship Studies
Control my own time	Mitchell (2004; mean=3.60/5); Choo and Wong (2006); Taormina and Lao (2007; $\alpha=0.76$)
Schedule my own work activities	Kolvereid and Isaksen (2006; $\alpha=0.82$); Strutton et al. (1995; $\alpha=0.703$);
Making my own decisions	Gauzente (2003; $\alpha=0.8939$); Kolvereid and Isaksen (2006; $\alpha=0.82$); Morrison (1996); Taormina and Lao (2007; $\alpha=0.76$)
Personal control of business	Kolvereid and Isaksen (2006; $\alpha=0.82$); Morrison (1996); Swierczek and Ha (2003; $\alpha=0.76$)
Freedom of being my own boss	Kolvereid and Isaksen (2006; $\alpha=0.82$); Kuratko et al. (1997; $\alpha=0.80$); Lashley and Rowson (2002; top motive); Morrison (1996); Wilson et al. (2004); Choo and Wong (2006)
Maintain my personal freedom	Alstete (2002); Buttner and Moore (1997); Chaganti and Greene (2002); Hinz and Jungbauer-Gans (1999); Kuratko et al. (1997; $\alpha=0.80$); Morris et al. (2006)
To control my own employment destiny	Alstete (2002); Kolvereid and Isaksen (2006; $\alpha=0.82$); Kuratko et al. (1997; $\alpha=0.80$)
Greater control over my life	Chaganti and Greene (2002); Feldman and Bolino (2000; mean=4.45/5); Morris et al. (2006); Mitchell (2004; mean=3.67/5); Morrison (1996); Alstete (2002)

*Based on Hizam-Hanafiah (2012)

Table 4: Questions for Intrinsic Rewards

Questions	Adapted/Adopted from Entrepreneurship Studies
Excitement of running one's own business	Alstete (2002); Buttner and Moore (1997); Grunhagen and Mittelstaedt (2005; $\alpha=0.88$); Kuratko et al. (1997; $\alpha=0.73$); Lashley and Rowson (2002); Tregear (2005); Peterson and Dant (1990)
To pursue a challenge in my life	Jambulingam and Nevin (1999; $\alpha=0.76$); Kuratko et al. (1997; $\alpha=0.73$); Morris et al. (2006); Suzuki et al. (2002; mean=3.7/5);
To prove I can do it	Kuratko et al. (1997; $\alpha=0.73$)
Satisfy my desire for hands-on experience	Grunhagen and Mittelstaedt (2005; $\alpha=0.87$)
Gain a feeling of pride as a result of my work	Grunhagen and Mittelstaedt (2005; $\alpha=0.88$)

Gain more respect	Kuratko et al. (1997; $\alpha=0.73$); Buttner and Moore (1997)
Personal growth	Alstete (2002); Jambulingam and Nevin (1999; $\alpha=0.78$); Kuratko et al. (1997; $\alpha=0.73$)

*Based on Hizam-Hanafiah (2012)

The operational definition for economic gain is economic and financial gain by a small business owner from their involvement in the business (Hizam-Hanafiah 2012). The operational definition for perceived autonomy is a desire for independence and freedom and to be in control in business within the current business environment (Hizam-Hanafiah 2012). Intrinsic rewards are defined operationally as the satisfaction and internally experienced outcomes a person receives in the process of performing a particular action or task (Hizam-Hanafiah 2012). Lastly, the operational definition of family concern is the franchisee's personal goals associated with their family (Hizam-Hanafiah 2012).

Table 5 : Questions for Family Concern

Questions	Adapted/Adopted from Entrepreneurship Studies
Flexibility to accommodate both business and family responsibilities	Alstete (2002); Morris et al. (2006); Tuunanen and Hyrsky (2001); Wilson et al. (2004)
Help you family members	Kaufmann and Stanworth, (1995); Lafuente and Salas (1989)
More money for family	Dickey and Ives (2000); Swierczek and Ha (2003; $\alpha=0.76$)
Increased family status	Basu (1998); Mitchell (2004; mean=3.85/5); Swierczek and Ha (2003)
Secure future for family members	Alstete (2002); Kuratko et al. (1997; $\alpha=0.66$); Mitchell (2004; mean=4.51/5); Swierczek and Ha (2003);
To build a business to pass on	Alstete (2002); Basu (2004; mean=3.07/5); Kuratko et al. (1997; $\alpha=0.66$); Morris et al. (2006)

*Based on Hizam-Hanafiah (2012)

RESULTS

Data Collection

Data collection by Field Workers (FW) were conducted through self-completion questionnaire forms. All eleven FW had been given two months to accomplish their jobs. During the period, the researcher had always contacted and monitored the FW through email and phone. Overall 500 questionnaires were printed and distributed among FW. Among the 500 questionnaires distributed among active field workers, 307 answered questionnaires were returned by 11 field workers (with an average of 27.91 questionnaires for each FW). Next, 193 questionnaires were returned blank. According to the field workers, this is due to the difficulty in asking small business owners to cooperate. Since the response rate is higher than 30 percent ($307/500=61.40$ percent), therefore, the value and validity of this method and results is considered satisfactory (Gillham, 2000). Eventually, 22 questionnaires were dropped because of the small business owner involved in the business less than one year and the respondents were not the owner manager of the business. After data editing process, only 285 questionnaires are usable and fulfil the study requirement.

Personal and Business Background

Personal background information is displayed in Table 6. As it appears, the majority of respondents are male (61.8 percent), but the number of female entrepreneurs is not low with 109 entrepreneurs (38.2 percent). In terms of age, 218 respondents (76.5 percent) are less than 46

years old and about 22 respondents (7.8 percent) are older than 55 years. The majority of respondents are married (78.6 percent) and 76.8 percent of the respondents are ethnic Malay with 17.2 percent are Chinese. Next, 118 entrepreneurs (41.4 percent) attained diploma or higher degree. This means entrepreneurship is a popular choice among university and college graduates. Subsequently, 148 entrepreneurs have five or less employees and 107 entrepreneurs have 5-19 employees. Only 27 entrepreneurs have more than 19 employees in the business. Practically, the majority of the entrepreneurs (89.4 percent) are small businesses since they employed less than 20 full-time staff.

Table 6: Personal and Business Backgrounds

Characteristics	Category	Number (Percentage)
Gender	Male	176 (61.8)
	Female	109 (38.2)
Age (in years)	19-25	32 (11.2)
	26-35	98 (34.4)
	36-45	88 (30.9)
	46-55	45 (15.8)
	56-65	21 (7.4)
	66 and above	1 (0.4)
Marital Status	Single	54 (18.9)
	Married	224 (78.6)
	Others	7 (2.5)
Ethnicity	Malay	219 (76.8)
	Chinese	49 (17.2)
	Indian	12 (4.2)
	Others	5 (1.8)
Educational Level	Malaysian Certificate Education	139 (48.9)
	High School Certificate	28 (9.8)
	Diploma	58 (20.4)
	First degree/professional qualification	50 (17.5)
	Post graduate degree (Master, PhD)	10 (3.5)
Number of employees	Self plus less than 5 full-time staff	151 (52.98)
	Self plus 5-19 full-time staff	107 (37.5)
	Self plus 20-50 full-time staff	21 (7.4)
	Self plus 51-150 full-time staff	6 (2.1)

Validity and Reliability Analysis

As shown, all variables have Kaiser-Meyer-Olkin's value of more than 0.8 (Except Intention To Remain). It seems that all independent variables are meritorious and the dependent variable as it receives KMO's value of 0.756 can be considered good (Kaiser 1974 in Norusis 2008a). Further, all independent and dependent variables have significant Barlett's Test, thus validity is not an issue for all measured variables.

Table 7: Validity Analysis of Independent and Dependent Variables

Variable	KMO	Barlett's Test	Cronbach's Alpha
Economic Gain	0.834	0.000	0.847
Perceived Autonomy	0.887	0.000	0.896
Intrinsic Rewards	0.905	0.000	0.878
Family Concern	0.876	0.000	0.895
Intention to Remain	0.756	0.000	0.769

In this test, Cronbach's alpha is applied to confirm that all variables have high reliability since it is the most widely used measure (Hair et al. 2006). In general, the acceptable lower limit for Cronbach's alpha is 0.70 (Hair et al. 2006), but Norusis (2008a) states that a good scale has values larger than 0.8. Table 7 shows that all independent variables have the Cronbach's alpha of larger than 0.8 except dependent variable has 0.769, still above the acceptable lower limit.

Multiple Regression Analysis

Multiple regression analysis (MRA) is employed in this study as it is the most widely known statistical technique among the multivariate techniques (Hair et al. 2006) and known as prediction analysis or explanation analysis (Vogt 2007). Based on previous studies, gender (Klyver 2011; Terjesen et al. 2011), age (DiPietro et al. 2007), marital status, ethnicity, education (Bates 1998; Jambulingam and Nevin 1999; Hizam-Hanafiah 2014) and number of employees (Chaganti and Greene 2002; Hinz and Jungbaeur-Gans 1999; Hizam-Hanafiah 2012; Hizam-Hanafiah 2014) are personal and business background variables chosen to become control variables. Dummy variables were created for gender, marital status, and ethnicity. To test the conceptual framework, hierarchical multiple regression is applied. Personal and business background variables are entered in Block 1 and independent variables are entered in Block 2. As appears in Table 8, ANOVA results suggest that Model 1 and Model 2 do have a linear relationship and significance around 99 percent.

Table 8: ANOVA Table for Hypotheses Proposed

Model	Sum of Squares	df	Mean Square	F	Sig.
Model 1					
Regression	15.132	6	2.522	3.478	.002 ^a
Residual	199.392	275	.725		
Total	214.524	281			
Model 2					
Regression	80.444	10	8.044	16.259	.000 ^b
Residual	134.080	271	.495		
Total	214.524	281			

Note: Dependent Variable: INTRMN

a. Predictors: (Constant), nEmployee, dMarital, dEthnicity, dGender, Education, Age

b. Predictors: (Constant), nEmployee, dMaritalS, dEthnicity, dGender, Education, Age, Economic, Autonomy, Intrinsic, Family.

To confirm whether multicollinearity is an issue, statistical results in Table 10 show some indications. As discussed before, the cut-off threshold of tolerance value should not be less than 0.10 and VIF value should not be more than 10 (Hair et al. 2006; Norusis 2008a). According to Table 10, all tolerance values are more than 0.10 and all VIF values are less than 10. Therefore, multicollinearity is not an issue in this model.

Table 9: Model Summary

Model	R	R square	Adjusted R square	Std error of est	R square change	F Change	df1	df2	Sig. F Change
1	.266 ^a	.071	.050	.85151	.071	3.478	6	275	.002
2	.612 ^b	.375	.352	.70339	.304	33.002	4	271	.000

Note:

- a. Predictors: (Constant), nEmployee, dMaritalS, dEthnicity, dGender, Education, Age
- b. Predictors: (Constant), nEmployee, dMaritalS, dEthnicity, dGender, Education, Age, Economic, Autonomy, Intrinsic, Family.

According to Table 9 and Table 10, the Multiple R is 0.612 and means that the score on the entrepreneurs' Intention to Remain can be explained from scores from their goals attainment. Then, the R Square is value at 0.375 and adjusted R² is 0.352 with t value of 6.035 and significant level at 99 percent. Since R square is the percentage of total variation of DV explained by the regression model (Hair et al. 2006), therefore, the percentage of total variation of intention to invest explained by the model is 37.5 percent and is considered medium (Kinnear and Gray 2009). As can be seen in Table 10, the proposition related to Perceived Autonomy is not supported. Further, marital status ($p < 0.01$) has relationships with intention to remain in the business.

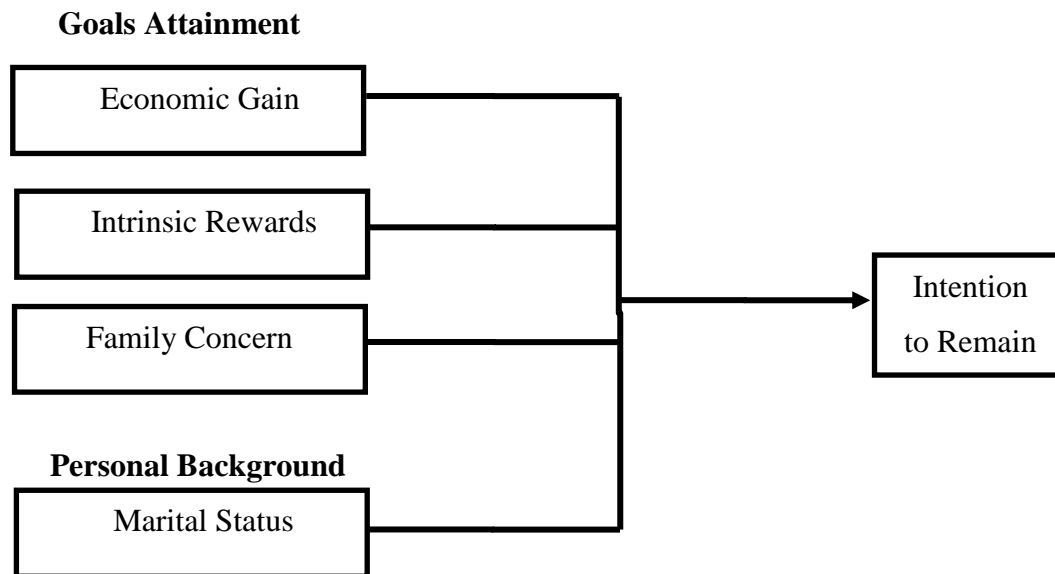
Table 10: Coefficients Table

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	2.144	.355		6.035	.000		
Gender	-.033	.090	-.018	-.366	.715	.921	1.086
Age	.169	.161	.062	1.053	.293	.675	1.482
MaritalS	-.395	.128	-.178	-3.089	.002	.694	1.441
Ethnicity	.012	.102	.006	.117	.907	.944	1.059
Education	-.053	.034	-.079	-1.567	.118	.903	1.107
Employee	.006	.063	.005	.095	.924	.866	1.154
Economic Gain	.258	.074	.266	3.478	.001	.396	2.527
Perceived Autonomy	-.114	.078	-.110	-1.456	.147	.401	2.497
Intrinsic Rewards	.315	.094	.275	3.351	.001	.342	2.920
Family Concern	.200	.087	.195	2.292	.023	.318	3.144

Dependent Variable: INTRMN

Empirically, the attainment of goals related with Economic Gain ($p < 0.01$), Intrinsic Rewards ($p < 0.01$) and Family Concern ($p < 0.05$) are associated positively with the entrepreneur's intention to remain with t values of 3.478, 3.351 and 2.292. The Beta value (in Table 10) demonstrates that Intrinsic Rewards has the highest relationship with the entrepreneur's intention to remain followed by Economic Gain and Family Concern. Furthermore, Marital Status ($p < 0.05$) has also significant relationship with entrepreneur's intention to remain in the business. A T Test analysis between single respondents and married respondents shows that married entrepreneurs have higher intention to remain in the business (mean=5.8366; std. dev. = 0.7653; n=224) compared to single entrepreneurs (mean=5.3630; std. dev. 1.1447; n=54) with a t value of -3.670 and significant at 99 percent. Figure 2 displays the empirical results.

Figure 2: Empirical Model of the Relationship between Goal Attainment and Intention to Remain



DISCUSSION

In brief, parts of content theories and process theories are supported through this study as entrepreneurs as human beings are motivated by attainment of their goals and try to satisfy these goals. Even when these small business owners are directed by their goals, not all goals associate positively with their behaviour, particularly their behavioural intention. Empirically, this study finds partially an explanatory value of EGAT in describing business outcome, particularly a relationship between entrepreneur's goal attainment and their intention to remain in the current business. While Hizam-Hanafiah (2014) showed that Economic Gain and Perceived Autonomy have significant relationship with franchisee intention to remain in the franchise system, this study shows that Intrinsic Rewards, Economic Gain and Family Concern have significant relationship with intention to remain amongst small business owners.

It is a big surprise that Perceived Autonomy is not significantly related with intention to remain as Perceived Autonomy is known as the most important goal by some scholars (Cromie 1987; Douglas and Shepherd 2002; Hatten 2009; Hodgetts and Kuratko 2002; Schaper and Volery 2007; Stokes and Wilson 2010), the most frequently cited motivation why people start a business (Stokes and Wilson 2010; Vinturella 1999), the strongest motivator (Benzing and Chu 2009; Gelderen and Jansen 2006; Shinnar and Young 2008) and second strongest motivator (Chu et al. 2010; Kuratko et al. 1997; Robichaud et al. 2001; Shane et al. 1991; Wang et al. 2006) in several entrepreneurship studies. As can be seen in Table 6, Perceived Autonomy has not significantly associated with intention to remain (Beta value= -.110; t value = -1.456; p=0.147). It seems that small business owners did have satisfaction with the independence and flexibility they have as an entrepreneur but these goals do not influence them to remain in the business. Probably these goals are important when entrepreneur start-up a business but not more important when entrepreneur being in a business for a while. Further, entrepreneurs may think they can achieve Perceived Autonomy goals without current business as they can start another business venture.

It is also a big shock when Intrinsic Rewards which was not significant in a study by Hizam-Hanafiah (2014) is found to be the strongest predictor of intention to remain among small business owners. As can be seen in Table 6, Intrinsic Rewards does associate positively with entrepreneurs' intention to remain in the business (Beta value= .275; t value = 3.351; p=0.001). This evidence supports the general belief that profit maximization and monetary gain are not the only objective of business owners (Westhead 1997; Monroy and Folger 1993), but entrepreneurs are also motivated by and sustained through other means than simply money (Boyd and Gumpert 1983; Schaper and Volery 2007). On differences between franchisee entrepreneur (Hizam-Hanafiah 2014) and this study, most probably small business owners have different goals to be achieved within the business contrasted with franchisee entrepreneur since both business concepts have many differences.

It is obvious that entrepreneurs enjoy satisfaction they experience from running their own businesses, have a feeling of achievement, and opportunities to learn and grow, seek personal rewards and self-esteem (Berthold and Neumann 2008; Coulter 2001; Hatten 2009; Johnson 1990; Kuratko and Hodgetts 2002; Moore et al. 2010; Scarborough and Zimmerer 2003; Schaper and Volery 2007; Urlacher 1999). Moreover, besides Intrinsic Rewards is an important motivation for entrepreneur to start a business (Alstete 2002; Benzing and Chu 2009; Berthold and Neumann 2008; Buttner and Moore 1997; Chu et. al. 2007; Lashley and Rowson 2002; Morris et al. 2006; Shane et al. 1991; Suzuki et al. 2002; Tregear 2005; Wang et al. 2006), these goals are also significant in influencing their intention to remain in the business. This is aligned with opinion that some entrepreneurs believed that Intrinsic Rewards goals are very important and may be even important than money and independence (Moore et al. 2010). It is apparent that entrepreneur highly valued these goals and placed them as the most important personal goal to be sustained in the business.

Then, Economic Gain is persisting as one of the significant predictor of intention to remain. This supported general contention that entrepreneur goal is always monetary and financial gain (Carsrud and Brannback 2009; Churchill and Lewis 1983). It is clear that received a salary based on merit, increase personal income and profit are the short term goal to be achieved by entrepreneur. In long term, entrepreneurs have targeted to improve their financial status, have more personal wealth and achieve long term financial security. It also obvious that without sufficient money gained in the business, no entrepreneur would remain in the business. Specifically, Economic Gain has associated positively with intention to remain (Beta value = .266; t value=3.478; p<.01). This result does not support several empirical studies where Economic Gain was the strongest motivator (Benzing and Chu 2009, Benzing et al. 2009; Benzing et al. 2005; Chu et al. 2007;, Chu et al. 2010; Mann and Thorpe 1998; Shinnar and Young 2008). Nevertheless, since Intrinsic Rewards is the strongest predictor of intention to remain, this mean that money is perceived as a secondary entrepreneur goal as quoted by several scholars (Hodgetts and Kuratko 2002; Schaper and Volery 2007; Urlacher 1999). Besides the importance of Economic Gain in the business, entrepreneurs do perceive these goals will also influence them to remain in the business. This indicates that people set their own economic goals when choosing to become an entrepreneur and as long as they attain these economic goals, they will remain in the business. This is also aligned with findings by Feldman and Bolino (2000) that self-employed people with greater annual salaries and gross business incomes were also more likely to remain self-employed (remain in the business).

Lastly, as shown before, Family Concern is associated positively with intention to remain (Beta value = .195; t value = 2.292; $p=.023$). Thus, this evidence shows that people are motivated by family associated goals when becoming entrepreneur, and these family associated goals have also influenced them to remain in the current business. The results do confirm the existing entrepreneurship literature. Firstly, the results do support the assertion that Family Concern is one of the motivators for people to join a business (Kuratko and Hodgetts 2002) or to become an entrepreneur (Hatten 2009; Kaplan 2003; Schaper and Volery 2007). Within empirical studies, this evidence supports studies where entrepreneurs considered Family Concern to be important to them (Benzing and Chu 2009; Kuratko et al. 1997; Robichaud et al. 2001; Shinnar and Young 2008). Further, Family Concern goals are also an important explanatory variables of entrepreneurs' intention even though it was only considered as secondary goals (Hatten 2009; Kaplan 2003). This indicate that flexibility to accommodate both business and family responsibilities, helping family members, gain more money for family and build a better future for family are an important goals for entrepreneurs. Further, this result support Lee's (2006) comment that family adaptability within a business is a positive and significant predictor of organizational commitment, as reflected by intention to remain factor.

Surprisingly, one personal background variable namely 'Marital status (beta= -.178; t value=-3.089 and Sig=0.002) is significant in explaining intention to remain. Statistical analysis shows that married entrepreneurs have higher intention to remain in the business than single entrepreneur. This is logic as married people have more responsibility than single entrepreneur. They have to think about themselves, their spouse, and most probably their children. They have to have better and sustainable income and therefore can't easily think to leave the current business.

CONCLUSION, IMPLICATION AND RECOMMENDATION

Conclusion

Many entrepreneurship studies indicated the importance of personal satisfaction, economic, autonomy and family goals for the entrepreneur but the effect of these goals on entrepreneur behaviour or business outcome are rarely investigated. This study provides some answers. In entrepreneurship literature, no study mentioned Intrinsic Rewards as the most important goal or the strongest motivator for entrepreneur. Only Benzing and Chu (2009) and Chu et al. (2007) found this goals as the second most important goal by entrepreneur in their empirical studies. Obviously, this study found that Intrinsic Rewards is the main predictor of entrepreneurs' intention to remain in the business. Further, this study discovered that economic goals do motivate people to become an entrepreneur but also associate positively with entrepreneur's intention to remain in the business. Again, Economic Gain is the second strongest reason why entrepreneurs perceive to remain in the current business. Next, Family goals are crucial for entrepreneur to start a business and also significant for them to remain in the business. Even if Perceived Autonomy is considered as a key motivator for people to become an entrepreneur, but this study finds that Perceived Autonomy has no significant relationship with business outcome (intention to remain). Next, Marital Status is observed as an important factor in determining entrepreneurs' intention to remain in the current business. More studies should be conducted to investigate this issue as these results are rarely studied in entrepreneurship context. In summary, the results indicate that entrepreneurs have common in terms of their personal goals in the business. To answer the research question of whether goals attainments have any relationship with Intention To Remain, this study indicates that entrepreneurs' intention to remain can be explained by their satisfaction with Intrinsic Rewards, Economic Gain and Family Concern goals.

Hence, this evidence suggests further studies to explore the depth of these issues and its applicability on other types of entrepreneur and business outcomes.

Contribution of the Study

First, this paper shows that SME entrepreneurs in Malaysia share similar goals with other forms of entrepreneur in other countries. Secondly, this paper strengthening EGAT as a new entrepreneurship theory since previous study (Hizam-Hanafiah 2014) conducted in franchising business environment. Thus, the explanatory value of EGAT has increased. Thirdly, when Perceived Autonomy, Family Concern and Economic Gain were important variables in affecting franchisees' Perceived Entrepreneurial Success (Hizam-Hanafiah 2014), this paper shows that Intrinsic Rewards, Economic Gain and Family Concern are important in shaping Intention To Remain amongst small business owners. Therefore, it seems that similar business outcome has different antecedents and these antecedents are different in terms of their strength in explaining the business outcome. Besides, while education level, franchise status and number of employee were important background variables in predicting franchisees' Perceived Entrepreneurial Success (Hizam-Hanafiah 2014), this study add new background variable, namely 'Marital Status' in foreseeing entrepreneurs' intention to remain.

Implications and Recommendation

The findings of this research implicitly support the importance of Intrinsic Rewards, Economic Gain and Family Concern goals in shaping intention to remain, especially among small business owners in Malaysia. Whatever goals to be achieved by entrepreneurs, this study shows that self-satisfaction, pursue a challenge, pride of own work, attain more profit, obtain sufficient income, improve financial status, achieve long-term financial security, assist and increase family status and build a future for family are an important personal goals in order to sustain in the current business. Business performance can be improved, strategy of the company may change, but the entrepreneur as the driver of the company must also ensure the outcome of the business meeting or exceeding their personal goals. Lastly, for those people who intend to become a entrepreneur, they should know that to have a successful business venture most probably depends on how the business can benefit their desire for internal satisfaction, economic goals and family foals rather than fulfil the independence provide by the business. Therefore, people intending to become entrepreneur have to know their personal objectives in the business and analyse whether these objectives can be attained within the intended business venture.

Limitations of the Study

Several limitations of this study are discussed as follows. First, a cross-sectional study means no information on the variations of goals attainment and intention to remain over a period of time can be discovered. Second, the scope of the present study is confined to respondents from Malaysia only, thus no generalisations applicable to the general population of entrepreneurs in the world. Third, the employment of non-probability sampling also will not allow generalisations applicable to the general population of small business owners in Malaysia. Another limitation is that the scope of the present study is confined to examine the relationship between goals attainment and intention to remain and it is not possible to incorporate other variables into the design and give explanations of the findings. Findings of the relationship between personal goal attainment and intention to remain in other studies of entrepreneurs and countries may produce similar or differences results. Recognizing these limitations is considered important as they provide a direction for further large-scale research to advance the understanding of entrepreneur's intention in the business. Some recommendations for future research are suggested in the next section.

Recommendations for Further Research

With the insight drawn from the findings of the present study and the discussion of their implications and limitations, some recommendations for further research are presented. Firstly, similar studies that utilize the same questionnaire can be replicated to other countries and other types of entrepreneurs and this can widen the scope of the present study, enhance the generalization of the results, strengthen the relationship between goals attainments and intention to remain and improve the validity and reliability of the questionnaire. Secondly, new studies can be conducted to incorporate mediating variables between goals attainments and intention to remain. Thirdly, future research within the same purposes should be directed toward longitudinal studies as longitudinal studies can offer the changes of goals and perception within the passage of time and will be of great use in the field of entrepreneurial studies specifically. Fourthly, a qualitative research is recommended for future research. Differences of ontology, epistemology and axiological aspects between the quantitative and qualitative approach can provide new knowledge on the same subject matter. Lastly, more entrepreneurship studies should be conducted to endorse Entrepreneur's Goal Attainment Theory (EGAT) proposed in this study. Hopefully, future studies would back up the general assumptions of EGAT, verify and increase the propositions suggested, supply more evidence of relationships between goal attainment and business outcome and lastly enhance the explanatory value of EGAT within entrepreneurship research.

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Behavior of Reading Nutrition Fact Label on Undergraduate Students of Bogor Agricultural University, Indonesia

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Abstract

Nutrition fact label was a label containing information on nutrition amount in food product that became a very important media to transfer information on characteristics of a food product. The purpose of this writing was to analyze the influence of individual characteristics, family characteristics, knowledge, perception, and attitude toward the behavior of reading the nutrition fact label of food products on undergraduate students of Bogor Agricultural University (IPB). The design of this research used cross-sectional study by survey method conducted in the campus of IPB, Dramaga district, Bogor Regency. This research involved 400 of IPB students chosen by using the technique of multistage random sampling with the layer of faculty and gender. The results of this research showed that there was significant difference between male and female respondents in their knowledge, as for the perception, attitude, and the behavior of reading the nutrition fact label was not significantly different. The attitude influenced the behavior of reading the nutrition fact label.

Keywords: nutrition fact label, knowledge, attitude, behavior of reading the label.

INTRODUCTION

Good food product has surely aligned with the stipulation given by the government regarding the condition of products or the traded content and product packaging containing information related to products, one of them is by mentioning the label. Annunziata and Vecchio (2012) stated that label was an important tool to transfer information regarding product characteristics to consumers. The labeling has become one of the business doers' obligations as stated in the Law of Indonesian Republic No. 8 1999 regarding consumer's protection, that business doers give correct, clear, and honest information regarding their products, as well as for imported products as arranged in the Indonesian Republic Law No. 18 2012 regarding food in article 97.

Apart from giving or determining regulations for business doers, the government also applied the same thing for consumers. Based on the Law of Republic of Indonesia No. 8 1999 regarding Consumers, there is also regulation for consumers stating that the consumers'

obligation is to read or follow the information guidance and procedures of usage or utilization of a product. However, it is not as expected in reality, The National Board for Consumer's Protection (BPKN) of food section related to consumers' protection has carried out studies discovering that there were only 6.7 percent of consumers paying attention to the labels on food (BKPN 2007).

Nutrition fact label is a label that states information on the nutrition amount contained in food product. The Directorate of Standardized Food Products of National Agency of Food and Drug Control (BPOM) stated that the nutrition fact label on food product did not get attention and tended to be ignored by our costumers (Kartika 2013). This may also happen to students. Some previous research stated that reading the nutrition fact label among students can be said as not good (Zahara 2009; Al-Jannah 2010). Wojcicki and Heyman (2012) stated that more than 50 percent of teenagers in America did not have good behavior towards reading the nutrition.

Searching for nutrition information or using nutrition fact label assumption as consumer activity in search information which included in orderly products (Al-Jannah 2010). Precise and understandable information is very important for the costumers as it has powerful influence for the behavior in choosing products (Wills *et al.* 2009). One of the factors is knowledge. Someone knowledge can be people more pay attention to information which get included in products case used. In that case same with Jacobs, de Beer, and Larney (2010) that less knowledge about important read label can influence consumer in read label. Consumer knowledge can influence to some perception, included to use nutrition fact label. Grunert and Wills (2007) stated that consumer will connect information which they get with their self-knowledge or knowing before or used for interpret meaning. That case caused knowledge has influence to consumer perception. Research products by Shi Zeng, Pei Xu, and Zhigang Wang (2011) is showing level perception about nutrition label which has relationship and positive influence to label used.

Attitude and consumer behavior can have a role in habit and desire for search information which used in get decision. That case appropriates with Montazeri *et al.* (2013) that attitude important factor and affective in consumer attitude. Results in line with Zahara (2009) stated that there are connection between attitude and read nutrition fact label to food products package. That is same too with result of research Petrovici *et al.* (2010) which get the factor consumer attitude has significant influence to used nutrition fact in food label. Because that this research is doing for : (1) identify knowledge, perception, attitude and respondent behavior of reading the nutrition fact label food products. (2) Analyze the difference of perception, attitude and behavior in reading nutrition fact label of respondents based on gender, and (3) Analyze influence internal factor, external factor, knowledge perception and attitude towards behavior of reading nutrition fact label of respondents' food products.

LITERATURE REVIEW

Consumer Behavior

Theory carrying in this research is "Blooms Taxonomy" which explains behavior and measure with appear to someone. Beginning of this taxonomy expanded for education, to be tools for understand learning process. This theory has domain which influence, that are cognitive (information processing, knowledge, and skill mental), affective (attitude and feeling), and psychomotor (manipulative, manual, or skill physical) (Churches 2012).

Kotler and Keller (2009) states that there are factors that affect consumer's behavior namely (culture, sub-culture, and social class), social factors (groups, families, roles, and status), personal factors (age and stages of life cycle, occupations and economic condition, lifestyle and

value, personality and self concept), and psychological factors (motivation, perception, learning, and attitude).

Apart from that, there are researches related to factors affecting consumers' behavior. The consumers' external factors has influence towards consumer's reading attention or behavior, while the internal factors (age, religion, gender, expenses level, and knowledge) has not influenced (Susanto 2008; Singla 2010). However, it is not in line with the research stating that internal factors (age, gender, income) also has influence towards consumers in reading labels (Cowburn & Stockley 2004; Drichoutis, Lazaridis, and Nayga 2006; Drichoutis *et al.* 2008; Ranilovic & Baric 2011). Reading label behavior is also influenced or in line with the level of education or knowledge of particular consumers (Cowburn & Stockley 2004; Grunnert & Wills 2007; Al-Jannah 2010; Ranilovic & Baric 2011). Similar statement based on the research conducted by Shi Zeng, Pei Xu, and Zhigang Wang (2011) states that perception level, age, experience, family size, consciousness, and attention have significant influence towards product usage or consumer's behavior. Hidayat, Sumarwan, and Yulianti (2009) also stated that there were real relation between perception and attitude towards time length of products usage. This shows that apart from consumers' perception, attitude factors also influencing behavior and consumers' buying decision (Hidayat, Sumarwan, and Yuliati 2009; Sulaeman 2009; Petrovici *et al.* 2010).

Knowledge

Consumer's knowledge can decrease uncertainty and confusion in choosing appropriate information to their needs (Setiadi, 2008). Precise and understandable information is very important for the costumers as it has powerful influence for the behavior in choosing products (Wills *et al.* 2009). Cowburn and Stockley (2004) in their research showing that costumers with high knowledge will find more useful information in choosing a product compared to low knowledge costumers. Their judgment results will direct them in choosing products. Low understanding and knowledge regarding products will become constraints in using the products (Signal *et al.* 2008). It is in line with the statement from Osei, Lawer, and Aidoo (2012) stating that the level of costumers' understanding and usage regarding particular product, has significant influence and positive relationship with their buying decision. Based on the research by Jacobs, De Beer, and Larney (2010) is also known that the lack of knowledge can influence consumers in their behavior. It is because knowledge has positive and significant influence in consumer's decision making (Muflikhati, Yuliati, and Maulanasari 2011).

Perception

Grunert and Wills (2007) states that consumers will connect information they receive with their prior knowledge and use it to interpret meaning, it is because knowledge has influence towards consumers' perception. Ginting (2006) shows significant and positive relationship between the time lengths of their education and knowledge with their perception as well as significant and negative relationship occurs between per-capita per-month expenses used for food with consumers' perception. Apart from that, the research also discovered that consumers; characteristics had no influence towards perception (Septian 2013)

Perception is considered to be more important than reality, because perception influence consumer's actual behavior. It is in line with the research by Shi Zeng, Pei Xu, and Zhigang Wang (2011) stating that the perception level has positive and significant impact towards consumers' behavior. The level of good perception can be influenced by descriptive belief, informational, and inferential. Descriptive belief is achieved from the experience believed by costumers. Informational belief is achieve through information coming from believed source by consumers (indirect information), and inferential belief is belief that preceding the received

information by consumers. Apart from that, the results of research also discovered that there is significant relationship between perception and attitude towards the length of using products (Hidayat, Sumarwan, and Yuliati 2009). This shows that perception and attitude influence consumer's behavior and buying decision.

Attitude

Consumer's attitude is an important factor in influencing consumers' decision (Sumarwan 2011). It is in line with Montazeri *et al* (2013) stating that attitude is an important and effective factor in costumer's behavior. According to Fishbein and Bentler-Speckart model stated that attitude is strongly related to belief concept and behavior. Attitude is also said as consumer's feeling expression (like or dislike) of an object, and also can describe consumer's belief towards attribute and benefit of the object. Belief is an important component that directs consumer to make an action. Attitude is strongly related to the level of belief, because of the strong relation between attitude and behavior can be influenced by the level of belief. Based on the research by Drichoutis *et al.* (2008), it is known that the high level of belief influences consumer in using a product. Prinsloo *et al.* (2012) stated that the usage of food product attributes is a form of belief and consumer's feelings towards the products. According to Anic (2010), attitude is a complex system consisted of belief, feelings, and tendency of consumer's action towards objects that include them into aspects of cognitive, affective, and conative, as well as representing consumer in reacting towards stimulations.

Attitude can be developed for a long time though learning process influenced by several things, such as the influence of family, peer group of friends, experience, and the consumers' personality themselves. Attitude towards certain brand can also influence product buying, whether consumer intend to buy or not. It is in accordance with the research by raspberry *et al* (2005) stated that consumer's attitude towards product attributes becomes one of the foundations or consumer's factor in choosing products. Apart from that, factors of age, number of source information, knowledge, and *control believe* also influence consumer's attitude towards a product (Retnaningsih, Utami, and Muflikhati 2010). Generally, environment factor has strong powerful in forming consumer's attitude based on type, number, information quality, and available experience. Attitude is eternal because it tends to last forever (Solomon 2002).

Nutrition fact Label

One of the matters that consumers need to take concern is regarding nutrition contents in a product consumed. Customers, who are without adequate knowledge on nutritious food and disregard it, thus will be high possibility to have the risk of infected by diseases. Therefore, it is necessary for the costumers to be concerned on the importance of using the nutrition fact label in order to stay healthy (Aygen 2012). This is in accordance with Borra (2006) stated that consumers admitted that nutrition fact on food packaging is a tool to help them in improving their health and one of the used strategies that is with the behavior of food label reading. The National Agency of Drugs and Food Control (BPOM) defines nutrition fact or more popular known in English as Nutrition Fact is an example of information that is obligatory to be stated if food label make certain information. The inclusion of nutrition fact on food packaging is then known as nutrition labeling.

Based on the government Regulation no. 69 year 1999 on Label and Food commercials in article 32 stated that the inclusion of information on nutrition fact on label food packaging it is obligatory to food with vitamin, mineral, or other nutritious substance contained in the products. Some of the things that is required to be included in food label packaging namely; serving size, amount per serving, content of energy per serving, protein per serving (gram), content of

carbohydrate per serving (gram), and content of fat preserving (gram), and the percentage of suggested nutrition adequacy number.

The research results by Annunziata and Vecchio (2012) stated that label is an important tool to transfer information on product characteristics to costumers. The reason is because the information label is the most important resource to give new knowledge that can help consumers in shopping. Label is also used by costumers to make decision (Grunert & Wills 2007) and read as well understanding label is an important process in consumption (Singla 2010). However, in reality it is not the way as it is expected. The research discovered that the majority of costumers rarely read the information label or may be once during shopping. (Osei, Lawer, and Aidoo 2012). The reason why they do not read the label, among others are because, it is not interesting, no time to read, no responsibility towards the food they consume, and generally because is difficult or do not have the ability to understand the information in the food label (Signal *et al.* 2008; Mannel *et al.* 2006; Singla 2010; Annunziata & Vecchio 2012; Aygen 2012; Ranilovic & Baric 2013). In addition, another reason that the consumer always buy the same brand, so with a good experience of the brand, consumer assume no need to read the label, the assumption that the products they purchase healthy and assumption that the price is more important and the only factors that influence purchasing decisions (Aygen 2012).

Signal *et al.* (2008) added a lack of understanding and knowledge about nutrition labels become obstacles for the consumer to use the label. Therefore, some research suggests that consumer with high knowledge is more frequent in using nutrition fact labels than the consumer with less knowledge or low levels of education (Drichoutis, Lazaridis, and Nayga 2006; Grunert and Wills 2007; Osei, Lawer, and Aidoo 2012; Merwe *et al.* 2012; Petrovici *et al.* 2012). In addition, Souiden *et al.* (2013) in his research explains that the consumer has different behavior, level of involvement, understanding and attitude towards the use of nutrition labels. The research also showed that female consumers paid more attention to nutrition criteria than male consumers (Grunert *et al.*, 2010; Sanlier & Karakus 2010). Wimala (2011) mentions the factor composition and nutritional value contained in the product is the most important factor when costumers chooses products. Consumer use labels to compare the two products to be bought (Wills *et al.* 2009). That is because the nutrition label has a positive and significant influence on buying interest factor, as well as the use of labels help the consumer in making a purchase decision (Wills *et al.* 2009; Kolodinsky *et al.* 2008; Osei, Lawer, and Aidoo 2012; Prinsloo *et al.* 2012).

METHODOLOGY

This study used a cross-sectional study design with a survey method conducted on the campus of Bogor Agricultural University (IPB), District Dramaga, Bogor Regency, which is determined by purposive. Data were collected within two weeks in April 2014. Samples in this study were 400 IPB students selected using multistage random sampling technique with layers of faculty and gender, whereas sample in the test as many as 40 students. The data collected in this study included primary data and secondary data. The primary data obtained from respondents to self-report tools such as questionnaires which consisted of structured statements related to the studies variables. The reliability value and validity of research instruments include: knowledge (0631; 15 valid statement), perception (0844; 14 valid statement), attitude (0728; 13 valid statement), and reading behavior (0918; 34 valid statement). Secondary data used in the form of data that the number of students in an active status in IPB odd semester 2013-2014 school year. Secondary data were obtained from the relevant parties, namely the Directorate of Educational Administration IPB.

The information that has been collected was analyzed using Microsoft Office Excel and Statistical Package for Social Science (SPSS). Scores were then indexed into a 0-100 scale. Data were analyzed by descriptive and inferential. Descriptive statistical analyzes were used include

the analysis of the frequency distribution of the data, the average, maximum value, minimum value, and standard deviation. Inferential statistical analysis includes multiple linear regression to examine the effect, as well as test of different independent sample T-test and Mann-Whitney test.

EMPIRICAL RESULTS

Results

Internal Factors

Respondents and Family Characteristics

More than half (60.7%) of respondents were female and 39.3 percent as much as the male sex. Average age of male respondents 20.34 (sd 1.04) and female aged 20.20 (sd 1.00). Male respondents have pocket money to the average Rp930 477.71 (about USD 77.5) per month (sd Rp328 115.14 or about USD 27.3 per month), while the female respondents had an average stipend of Rp1 009 053.50 (about USD 84.1) per month (sd Rp444 549.56 about USD 37.0 per month). Average food expenditure of male respondents Rp600 127 (about USD 50.0) per month (sd Rp213 262.17 or about USD 17.8 per month) and the average female respondent at Rp598 111.11 (about USD 49.8) per month (sd Rp249 248.74 or about USD 20.8 per month).

A total of 43.3 percent of fathers of male respondents and 38.4 percent of female respondents, their last education are undergraduate. More than one-third of respondents' mother both male (33.1%) and female (34.8%) are senior high school graduates. One-third of male respondents' fathers (29.3%) worked as a civil / military / police, while 28.0 percent of female respondents' father worked as private employees. A total of more than one third of the mothers of male respondents (46.1%) and more than half (59.5%) of female respondents only as housewives. More than half (53.5%) male respondents families have as many as the number of family dependents ≤ 2 , while 50.2 percent of female respondents had a number of family dependents as many as 3-5 people, and there's significant difference between male and female respondents family. A total of 60.5 percent of male respondents had a family income by an average of Rp 4 421 182.80 (about USD 368.4) per month (sd Rp 4 516 158.28 or about USD 376. per month), while as many as 53.1 percent of female respondents had a median family income of Rp 5 284 156.61 (about USD 440.3) per month (sd Rp 5 072 867.66 or about USD 422.7 per month).

External Factors

Source Information of Food Products Label

This source information of label consist ever not get information about food products label, kinds source information, and count source information. More 62.4 percent male respondent and 71.2 percent female respondent point out ever get information about food products label. Source information consist of internet, mass media, (newspaper, magazine, and tabloid), electronic media (television and radio), friends, family, and guidelines, seminar or

discussion. More than 37.0 percent respondent get information about food products label from one source among another source.

Respondent choose kinds of source information more than one source. Based on result is know that internet is kind of source most used by male or female respondent for get information about food products label. Three from ten (male=35.0% and female=34.2%) respondent get information about food products label from internet.

Accompanied Study about Consumer and Food Products Label

Accompanied study about consumer and label. Female respondent (32.1%) more than male (27.4%) whom ever accompanied study about consumer. Female respondent more ever accompanied study about label (37.4%) while male respondent just 24.8 percent who accompanied study about label.

Consumer's Rights and Responsibilities

Consumer's Rights. More than half of the respondents still lack an understanding of the rights that can be obtained as a consumer. It is marked on only 22.0 percent of respondents who answered correctly in mentioning content of consumer's rights.

Consumer's obligations. Only 22.8 percent of respondents who answered correctly regarding consumer liability. It also proves the low knowledge of respondents regarding the obligations that they have to do as a consumer.

Knowledge about Nutrition Label Information

Consumer's knowledge is all the information the consumer has about the products and services (Sumarwan 2011). More than half of respondents (67.5% male and 79.5% female) had a very good knowledge about the nutritional information labels. Average knowledge of female respondents (mean 82.02; SD 10.89), higher than males (mean 78.09; SD 13.31), and there's significant difference ($p = 0.001$) between male and female respondents.

Perception of the Nutrition Label Information

Perception is the process by which a person chooses, regulate, and translate the information gained to create a picture that has meaning (Kotler & Keller 2009). A total of seven out of ten male and female have a better perception of the nutritional information labels. Average perception of female respondents (mean = 68.51; SD = 10.14), higher than males (mean = 66.60; SD = 10.27), but did not differ significantly ($p = 0.067$) between male respondents and female.

Attitude towards Label Nutritional Information

Attitude is an expression of the feeling of the consumer (like it or not) toward an object, and can also describe consumer's trust towards the attributes and the benefits of such objects (Sumarwan 2011). More than half (79.6%) male respondents and the majority of female respondents (83.5%) had a good attitude towards nutritional information labels. There is no significant difference attitude between male respondents and female ($p = 0.252$) with an average attitude of female (mean = 60.39; SD = 8.81) than males (mean = 59.35; SD = 9.02).

Nutritional Information Label Reading Behavior

More than half of respondents (65.5%=male and 70.0%=female) have a nutritional information label reading behavior in the poor category. Average reading behavior of male

respondents (mean = 44.17; SD = 11.29) higher than female (mean = 43.35; SD = 11.42). However, there was no significant difference ($p = 0.483$) between the two groups of respondents.

Priority Rating Label Food Products. The first priority of the label items considered by 61.2 percent of respondents when buying food products are names of products with significant difference ($p = 0.001$) between male and female respondents. The second priority is the item of different types of products that are not significant ($p = 0.459$), followed by information and time expiry as the third priority in the presence of significant differences ($p = 0.038$). A total of 22.2 percent of respondents chose the nutritional information label as the seventh priority that will be considered in the presence of significant differences ($p = 0.048$) between male respondents and female.

Influence knowledge, perception, and attitude towards behavior of reading nutrition fact label of respondents' food products

Before do regress test, research data should fulfill requisite called assumption classic test. Assumption classic test consist of normality test, multikolienaritas test, heterokedastisitas test, and autokorelasi test. Based on the result normality test, point out research data didn't distribution expect variable behavior of reading nutrition fact label. Case method conduct for solve that is with transformation data with "Ln", so that data can used to regression test. Variables of the research must free from multikolienaritas to use in regression test. Result multikolienaritas test point out that variable of the research free from multikolienaritas with tolerance value, more than 0.1 and Variance Inflation Factors (VIF) value less than 10. Variable of research must free from heterokedastisitas for can regression test. In this research variable was free from heterokedastisitas, which sign from the dots in scatterplot which spread on an under Y. Beside that, requisite for point out regression test is variable of the research must free from autokorelasi. This variable of the research was free from autokorelasi, that case can appear from Durbin-Watson value approach +2.

In partial, gender influence positive and significant toward knowledge about nutrition fact label as big as 15.1 percent ($\beta=0.151$; $p<0.01$) and knowledge about nutrition fact label influence positive and significant by amount source information with influence as big as 11.0 percent ($\beta=0.110$; $p<0.05$) knowledge about nutrition fact label positive and significant with influence as big as 11.0 percent ($\beta=0.110$; $p<0.05$) and influence attitude to nutrition fact label 10.9 percent ($\beta=0.109$; $p>0.01$). Attitude to nutrition fact label influence positive and significant by perception to nutrition fact label as big as 63.6 percent ($\beta=0.636$; $p<0.01$). In the model 1 of dependent variable behavior of reading nutrition fact label, attitude to nutrition fact label influence positive and significant toward behavior of reading nutrition fact label as big as 43.1% ($\beta=0.431$; $p<0.01$) (Table 1).

Table 1 Factors that has impact on knowledge, perception, attitude, and behavior of reading nutrition fact label on food products

Variables	Knowledge	Perception	Attitude	Reading behavior	
				Model 1	Model 2
β Standardized					
Internal factors:					
Age (years old)	0.048	0.058	-	0.031	
Gender (0:male; 1:female)	0.151**	0.074	0.069	-0.056	
Pocket money (Rp/month)	0.088	-	0.024	-0.045	
		0.050	0.015		
External factors:					
Account of source information (source)	0.110*	0.080	0.059	0.036	
Accompanied study about consumer (0:never; 1:ever)	0.004	0.053	0.003	-0.007	
Knowledge (score)		0.110*	0.109**	-0.055	-0.064
Perception (score)			0.636**	0.075	0.075
Attitude (score)				0.431**	
					0.434**
F	4.188	2.761	44.755	15.138	39.170
Adj. R ²	0.038	0.026	0.434	0.221	0.223
Sig	0.001**	0.012*	0.000**	0.000**	0.000**
Durbin-Watson	2.020	1.953	1.854	1.918	1.932

Ket: * significant at $p < 0.05$; ** significant at $p < 0.01$

The dependent variable of reading behavior Adjusted R² value of 0.221, meaning 22.1 percent of the nutritional information label reading behavior is influenced by by internal factor include individual characteristics (old, gender, money), external factors (account of source information and accompanied study about label), knowledge about nutrition fact label, perception to nutrition fact label, and attitude to nutrition fact label were investigated in this study. A total of 77.9 percent is explained by other factors not examined.

Regression test was also conducted to see the effect of the variables between the study of the behavior of reading the nutritional information label, in the absence of characteristics of the individual and family characteristics of the respondents (Model 2). Based on the results, the factors that influence the behavior of reading is the attitude. Attitudes affect the reading behavior of 43.4 percent ($\beta = 0.434$, $p < 0.01$). Adjusted R² values for the dependent variable reading behavior (Model 2) is equal to 0.223, which means 22.3 percent of the nutritional information label reading behavior is influenced by variables in the regression model and the remaining 77.7 percent is influenced by other variables not examined in the study. Another factor that can influence the behavior of reading the nutritional information labels include lifestyle, reference group, the value of the respondent. Kotler and Keller (2009) stated factors-factors that influence consumer behavior are cultural factors (culture, sub-culture, social class), social factors (group, family, roles and status), personal factors (age and stage of life cycle, employment and economic

circumstances, lifestyle and values, personality and self-concept), and psychological factors (motivation, perception, learning, attitude).

Discussion

Nutritional information label is a label that contains information about the nutritional content contained in a product. Consumer information on product attributes that will be bought will affect the selection and consumption behavior (Mtimet et al. 2011). “Bloom’s Taxonomy” which explains behavior and measure with appear to someone. Base on taxonomy is purpose learning consisting of three domains that is cognitive (information process, knowledge, and mental skill) affective (attitude and feeling) and psychomotor (manipulative, manual physic skill) (Churches 2012).

The results of the study Prinsloo et al. (2012) stated that consumer product knowledge influences their ability to interpret the information and use it. Based on Bloom’s taxonomy, knowledge include in domain cognitive, process learning for someone (Churches 2012). Peter and Olson (2010) said the product knowledge to every consumer is different. The results showed more than half of men and female have a very knowledge with good category. These results are consistent with Sulaeman (2009) and Zahara (2009) that the majority of respondents has good knowledge on the label. Formation of knowledge can be influenced by characteristics factors of the respondents. Based on the results of the study, gender give a significant positive effect on knowledge. This is in line with Xiaoli Chen et al. (2012) that the respondent information about understanding food labels can be influenced by gender. The results also showed low knowledge respondents about their rights and responsibilities as a consumer. It is evident from the low percentage in mentioning the contents of the rights and obligations of the consumer correctly. These results are consistent with Purwandoko (2004) that the consumer did not know the rights and obligations.

Another factor that can influence the consumer behavior is a perception (Shi Zeng, Pei Xu, and Zhigang Wang 2011). Perception is one of category in more psychomotor based on Bloom’s taxonomy (Churches 2012). The results of this study showed more than half of men and female have a perception of the nutritional information label with good category. This is contrary to Grunert and Wills (2007) that the consumer perception of nutrition information on the label is low or poorly categorized. Perception is influenced by consumer's experiences and knowledge. Consumer will connect with the information received with previously owned product knowledge and use it to interpret labels (Grunert & Wills, 2007; Prinsloo et al. 2012). This study found that knowledge also has an influence on the perception of respondents. These results are in line with Grunert and Wills (2007) that knowledge is also an impact on consumer perception regarding nutritional labeling.

Knowledge and perception about a product (labels of nutritional information on food product) within the consumer, then the consumer will form the attitude that directs the action (read the nutritional information label). Bloom’s taxonomy stated that attitude include to affective domain (Churches 2012). This study found an effect of knowledge on attitude. This is consistent with the findings that knowledge can affect consumer attitude toward a product (Retnaningsih, Utami & Muflikhati 2010). Research has found a positive effect and significant perception of the attitude. These results are in accordance with Hidayat, Sumarwan, and Yuliati (2009) that the degree of a good attitude is suspected because of the high perception. Attitude of the research respondents is varied. Souiden, Abdelaziz, and Fauconnier (2013) stated that the consumer has different behavior, level of involvement, understanding, and attitude towards the use of nutrition labels. Most respondents - men and female - have a good attitude towards nutritional information labels. These results are in accordance with Sulaeman (2009) that the attitude of respondents to label nutritional information categorized as good. Research shows that there are significant and

positive attitude toward behavior of reading nutritional information labels. In line with several previous studies that stated that the attitude and behavior also affect consumer purchasing decisions (Hidayat, Sumarwan, & Yuliati 2009; Sulaeman, 2009; Petrovici et al. 2012).

The label information is the most important resource to provide new knowledge that can help the consumer at the time of shopping. Labels can be used by the consumer to make a decision (Grunert & Wills, 2007), and read and understand the label is an important part of the process of consumption (Singla 2010). That is because the nutrition label and a significant positive effect on buying interest factor, as well as the use of labels help the consumer make a purchase decision (Wills et al. 2009; Kolodinsky et al. 2008; Osei, Lawer & Aidoo 2012; Prinsloo et al. 2012). However, the reality is not as it is expected. The results of this study found that more than half of the respondents have a nutritional information label reading behavior with poor category. Other studies have also found similar results that the majority of the consumer read the label information only occasionally or only occasionally when buying food (Ranilovic & Baric, 2011; Osei, Lawer, & Aidoo 2012). The reason the consumer does not read the nutritional information labels, among others, because it is not interested and lazy to read the nutritional information label because it is difficult to understand. The reason according to the results of previous studies, where the consumer feels the nutritional information label does not draw attention and more important to look at the price, the lack of time to read, there is no sense of responsibility towards food consumed, have the thought of having been frequently buying and consume the same brand and felt had a good experience with the product, and in general is because it is difficult or does not have the ability to understand the information found on food labels (Mannel et al. 2006; Signal et al. 2008; Singla 2010; Annunziata & Vecchio 2012 ; Aygen 2012; Ranilovic & Baric 2013).

Some research suggests that consumer with the knowledge or higher education will be more likely to use nutritional information label consumer compared with less knowledge or low educational level (Drichoutis, Lazaridis & Nayga 2006; Grunert & Wills, 2007; Osei, Lawer & Aidoo 2012; Merwe et al. 2012 Petrovici et al. 2012). Shi Zeng, Pei Xu, and Zhigang Wang (2011) also expressed significant levels of perception affect the use of the product or consumer behavior. However, this study did not find an effect between knowledge and perception towards the reading behavior. These results are in line with Susanto (2008) that knowledge is not factor influencing consumer behavior. This is presumably due to the characteristics of the study's respondents tend to be homogeneous. In addition, although respondents had knowledge, perception, attitude and behavior are high but they are low in reading nutritional information labels. This is presumably because the respondent did not perform significant action to read the label (action) and the lack of concern of respondents to the food it consumes, so that even though the respondents are aware of the importance of considering the label of food products consumed, but the respondents did not realize that it has been well known and believed through their daily behavior. Based on result of the research related with domain Bloom's taxonomy, just affective domain (attitude) has influence to read attitude nutrition fact label.

Contribution this research for student and public commonly is giving information about important to read nutrition fact label from food products which is a obligation for consumer to read information about products that they consume, as well as the right for consumers to obtain information about products that they consume. Contribution for seller and producer is giving information that inclusion true food products label, clearly and honest which is obligation as information that must be accepted and known by consumer, so that can be decision in buying products. Besides that, for science can add and rich literature in consumer field. Especially related consumer behavior about food products label and can be reference information for further research.

Limitations of this research that are lack of control in filling out the questionnaire by means of self-report that caused respondents can accessing the internet to find information to answer correctly, especially related to information knowledge about nutritional fact label. In addition, individual characteristics of the study that tends to be homogeneous can make research data becomes not representative or not representing all other characteristics among college students.

CONCLUSION

Respondents were men and female categorized as having very well knowledge, perception and attitude of respondents classified in well category. However, the behavior of respondents in reading the nutritional information label is still quite lacking. Its meaning respondents not apply all information who they trust in their life. Knowledge about nutrition fact label between male and female has significant difference, meanwhile perception behavior and attitude read nutrition fact label not significant difference.

Individual characteristic (gender) influences to knowledge about nutrition fact label. Knowledge about nutrition fact label by female respondent better than male respondent. Many more sources about information to be used by respondent to know information about food products label, so more good respondent knowledge about nutrition fact label. Good knowledge about nutrition fact label will be perception and respondent behavior to nutrition fact label better too. That case cause knowledge about nutrition fact label influence perception and attitude to nutrition fact label. Perception to nutrition fact label can be influence attitude to nutrition fact label, so, better perception to nutrition fact label, better attitude to nutrition fact label, so attitude read nutrition fact label will be good. This cause attitude to nutrition fact label influence attitude read nutrition fact label.

Respondents are expected to be more concerned about the food products they consume, namely by watching and reading the labels of the food product nutritional information. Respondents are also expected to have and increase self-awareness of the importance of reading the nutritional information labels. This study found that knowledge has no influence on the reading behavior. This is presumably because respondents' characteristics tend to be homogeneous. Therefore, it is recommended for future studies to analyze the heterogeneous characteristics of respondents, for example by having housewives as respondents. The lack of control when filling out the questionnaire was a limitation in this study, so for further research are expected to be able to use the method of collecting the questionnaires with respondents at a time in the room and the same time to avoid fraud when filling out the questionnaire by respondents. In addition, further research is expected to analyze other factors that can affect reading behavior that has not been investigated in this study.

Advice for the government (Ministry of Commerce, National Agency of Drug and Food, Indonesian Consumers Foundation) and other related institutions are expected to make a program to introduce and educate the public on information related to labeling of food products, rights, and obligations of consumers, so as to raise self awareness and awareness of the importance of reading food labels, as well as the rights and obligations as a consumer. The programmed should be case or media who have high interesting to attention by consumer and easy to understand to make awareness for consumer, example with used interesting advertisement and must be show in television, radio, and another media. Furthermore, such information may also be addressed to the manufacturer, so the manufacturer knows and understands its importance and is an obligation for the company to include information related to the product label for food products produced.

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Relationship between Appraisers' Communication Styles in Performance Appraisal System and Appraises' Job Satisfaction

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Abstract

According to the literature pertaining on performance management, appraisers' communication styles in performance appraisal systems consist of two effective components: feedback and treatment. Extant studies in this field show that the ability of appraisers (i.e., managers and supervisors) to appropriately implement communication in appraising employee performance may have a significant impact on appraisal outcomes especially on job satisfaction. The nature of this correlation is interesting but the role of appraisers' communication styles as an important determinant is not adequately discussed in the workplace performance management model. Therefore, this study was undertaken to examine the relationship between appraisers' communication styles in performance appraisal systems and appraises' job satisfaction using self-administered questionnaires collected from employees who work in public universities in Sarawak, Malaysia. The outcomes of SmartPLS path model analysis revealed that the ability of appraisers to appropriately implement constructive feedback and favorable treatment in appraising employee performance does act as an important determinant of appraises' job satisfaction in the studied organization. In addition, discussion, implications and conclusion are elaborated.

Key Words: Feedback, treatment, job satisfaction, Malaysia

INTRODUCTION

Performance appraisal is often viewed as an important performance management issue where it is formally designed by employers to enable managers and/or supervisor (appraisers) to yearly evaluate the competency of their followers (appraises) in carrying out duties and responsibilities based on particular performance criteria (Ismail et al., 2007, 2013; Marie, 2003;

Mondy et al., 2009). The outcomes of these appraisal systems provide very useful information to be used by management to achieve short and term organizational objectives. For a short term objective, it is often used to identify employees' strengths and weaknesses, provide recognition to high performing employees, retain and assess human resources, and update human resource information system for planning and developing employee talents (Jawahar, 2006; Sogra et al., 2009; Walsh & Fisher, 2005). With respect to long term objective, the outcomes of performance appraisal system can be used by management to plan employees' career development, staff motivation programs, staff performance management, and staff attitudinal changes (Ismail et al., 2007; Kavanagh et al., 2007; Noe et al., 2009; Sabeen & Mehboob, 2008).

In the early of 19th and 20th century of industrial revolution in North America and European countries, performance appraisal systems are first developed based on cognitive model as a mean to identify, measure, and develop employee performance who work different job groups within manufacturing firms (Edward et al., 1995; Fletcher & McDowall, 2004; Sabeen & Mehboob, 2008). In this appraisal system, managers and/or supervisors are given much formal power and authority by their stakeholders to assess employee performance, identify employees' strengths and weaknesses, and determine the types of punishment. In the administration of this appraisal system, they often use single-source feedback, non-participative decision making, and boss centered approach to assess their employee performance (Erdogan, 2002; Marie, 2003; McCarthy & Garavan, 2001).

In today organizations, most employers have not only evaluated employee performance based on their goals, but also considered the capability of employees in meeting customers' needs and expectations. This challenging situation has motivated most employers to change the paradigms of performance appraisal from a top-down to multiple evaluation criteria (Mondy et al., 2009; Sabeen & Mehboob, 2008; Sogra et al., 2009). Under a multiple evaluation criteria paradigm, employee performance is assessed based on perceptions of co-worker, customer and suppliers besides their managers in order to obtain accurate and reliable information for developing human resources' necessary knowledge, up to date skills, new abilities and positive attitudes (Jawahar, 2006; McCarthy & Garavan, 2001; Erdogan, 2002). In order to support the implementation of new appraisal systems, employers have encouraged their managers to actively practice communication openness in order to increase transparency, decrease inequality gap among evaluators, and improve unclear responsibilities and biasness among employees and management in the appraisal systems. As a result, it may lead to enhanced positive employee attitudes and behavior, especially job satisfaction (Behery & Paton, 2008; Kalb et al., 2006; Kelly et al., 2008).

Although the nature of this relationship is significant, the role of appraisers' communication styles as an important antecedent is ignored in the workplace performance appraisal model (Brown et al., 2010; Ismail et al., 2011; Pettijohn et al., 2000). Many scholars argue that this condition is due to previous studies have over emphasized the internal properties of appraisers' communication, employed a simple correlation as a method to assess general respondent perceptions on particular appraisers' communication styles, and neglected to elaborate the magnitude and nature of the relationship between appraisers' communication styles and employee outcomes in the workplace. Consequently, these studies have not provided adequate recommendations to be used as guidelines by practitioners in understanding the complexity of performance appraisal systems, and formulating performance appraisal policies and procedures to enhance employee performance in competitive organizations (Brown et al., 2010; Kalb et al.,

2006; Kelly et al., 2008; Ismail et al., 2011). Hence, this situation motivates the researchers to further investigate the nature of this relationship.

This study has twofold objectives: firstly, is to investigate the correlation between feedback and job satisfaction. Secondly, is to investigate the correlation between treatment and job satisfaction.

EXPLANATION OF THE CONSTRUCTS

This study highlights two important variables: appraisers' communication styles and job satisfaction. In a performance appraisal perspective, appraisers' communication consists of two influential styles: feedback and treatment (Cook & Crossman, 2004; Kavanagh et al., 2007). Feedback is important to define staff workplace behavior (Ahmad & Bujang, 2013). It is often defined as a key ingredient of management by objective and performance management where individuals usually receive information from one and/or multisources as a result of their behavior. Individuals may easily accept corrective feedback if they receive information from trustworthy and credible sources (e.g., necessary in a particular condition, specific, relevant, timely, sufficient frequent and credible). This feedback may lead to an enhanced positive attitudinal and behavioral outcomes (e.g., performance, satisfaction and commitment) (Cook & Crossman, 2004; Kluger & DeNisi, 1996; Renn & Fedor, 2001; Waldersee & Luthans, 1994). In a performance appraisal system, feedback is often defined as appraisers deliver the information about appraisee performance (e.g., advise, encouragement and warning) whether after, during and/or before conducting formal and/or informal performance appraisal sessions (Desimone et al., 2002; Marie, 2003; Mondy et al., 2009; Noe et al., 2009).

Moreover, treatment is an important tool to create positive organizational changes (Daoanis, 2013). It is usually seen as a crucial dimension of interpersonal communication and organizational justice theory, which refer to the style used by appraisers (e.g., manager and/or supervisor) while making decisions or solving problems. Individuals may easily accept decisions if they perceive that their appraisers use comfortable interaction in dealing with their jobs (e.g., respect and accountability). As a result, it may lead to an enhanced positive personal outcomes (e.g., performance, satisfaction and commitment) (McShane & Von Glinow, 2005; Miller, 2001; Roberts & Markel, 2001; Skarlicki & Folger, 1997; Viswesvaran & Ones, 2002). In a performance appraisal system, treatment is often defined as appraisers often use comfortable styles in dealing with appraisees (e.g., explanation, discussion, and decision making styles) while conducting formal and/or informal performance appraisal systems (Desimone et al., 2002; Mondy et al., 2009; Murphy & Cleveland, 1995).

Further, job satisfaction is often viewed as a general attitude of the workers about their job and different aspects of their jobs (Ambrose et al., 2008; Postrel, 1999), the affective and cognitive attitudes held by employees concerning various aspects of their work (McShane and Von Glinow, 2005; Weiss and Cropanzano, 1996; Wong et al., 1998), and positive feelings resulting from the pleasure of employees derive from the job (Locke, 1976; Jo & Shim, 2005; Maathis and Jackson, 2000). Darehzereshk (2013) has mentioned on his study that the practitioners and researchers nowadays are keen to consider the quality of performance appraisal activities as an initiative to decrease the job dissatisfaction in organizations. Within the workplace performance appraisal, many scholars concur that feedback; treatment and job satisfaction are distinct, but strongly interrelated concepts. For example, the ability of appraisers to implement constructive feedback and comfortable treatment in evaluating employee

performance and determining their performance ratings may lead to greater job satisfaction in organizations (Behery & Paton, 2008; Brown et al., 2010; Ismail et al., 2011).

LITERATURE REVIEW

The relationship between appraisers' communication styles and job satisfaction is consistent with the motion of Leventhal's (1976) self-interest model which suggest six justice rules in making decisions, namely decisions based on accurate information, apply consistent allocation procedures, do correct decisions, suppress bias, practice moral and ethical standards in decision-making and ensure allocation process meet recipients' expectation and needs. The essence of this theory gained strong support from the performance appraisal research literature. For example, several recent studies used a direct effects model to examine the role of communication style in performance appraisal systems based on different samples, such as perceptions of 155 retail salespeople (Pettijohn et al., 2000), perceptions of over 50 nurses from Public Health-Seattle and King County, Washington (Kalb et al., 2006) and perceptions of 150 employees who work at national post office in Malaysia (Ismail et al., 2011). Outcomes of these studies showed that feelings of justice decision making had increased when appraisers able to properly practice constructive feedback and favorable treatment in performance appraisal systems. As a result, it could lead to an enhanced job satisfaction in the respective organizations (Kalb et al., 2006; Ismail et al., 2011; Pettijohn et al., 2000). Based on the literature, it was hypothesized that:

H1: Feedback is positively related to job satisfaction.

H2: Treatment is positively related to job satisfaction.

MATERIALS AND METHODS

This study used a cross-sectional research design where it allowed the researchers to integrate performance appraisal research literature, the pilot study and the actual survey as a main procedure to gather data for this study. As advocated by many researchers, the use of such methods may gather accurate data, decrease bias and increase the quality of data being collected (Sekaran, 2003). This study was conducted at government owned universities in Sarawak, Malaysia. At the initial stage of data collection procedure, the researchers had drafted the survey questionnaire based on the workplace performance appraisal literature. After that, a pilot study was performed by discussing the survey questionnaire with one HR manager and several human resource staff in order to understand the nature and characteristics of managers' communication in performance appraisal systems and job satisfaction, as well as the relationship between such variables in the organizations. Information gathered through this study was used to verify the content and overall format of survey questionnaire for an actual study. Hence, a back translation technique was used to translate the survey questionnaire into English and Malay languages in order to increase the validity and reliability of research findings (Cresswell, 1998; Sekaran, 2002).

The survey questionnaire had two sections: firstly, the feedback had 9 items and the treatment had 7 items that were developed based on the workplace performance appraisal research literature (Brown et al., 2010; Ismail et al., 2011; Kalb et al., 2006; Kelly et al., 2008; Sabeen & Mehboob, 2008; Sogra et al., 2009). The dimensions used to measure feedback are explanation, clarification, exchange experience, praise, and advice. Conversely, the dimensions

used to measure treatment are discussion, suggestion, debatable, and appeal. Secondly, job satisfaction section had 8 items that were developed based on Warr's (1979) job satisfaction scale. The dimensions used to measure this construct are satisfaction with intrinsic and extrinsic job facets. All items were measured using a 7-item scale ranging from 'strongly disagree/dissatisfied' (1) to 'strongly agree/satisfied' (7). Demographics variables were used as controlling variables because this study focused on individual attitudes.

A convenient sampling technique was employed to distribute 200 survey questionnaires to employees who work in different faculties and departments in the organizations. This sampling technique was chosen because the list of registered employees was not given to the researchers and this situation did not allow the researchers to choose randomly respondents in the organizations. Of the total number, 138 usable questionnaires were returned to the researchers, yielding yielding a 69 percent of response rate. The survey questionnaires were answered by participants based on their consents and a voluntarily basis. This figure meets a good decision model as suggested by Krecjcie and Morgan (1970), and exceeds the minimum sample of probability sampling, showing that it can be analyzed using inferential statistics (Sekaran & Bougie, 2010). Further, the SmartPLS 2.0 as recommended by Henseler et al. (2009) was employed to determine the validity and reliability of instrument and test the research hypotheses.

RESULTS

In terms of sample profile, the most respondents were males (58.7%), aged between 20 to 29 years old (39.1%), MCE/SPM holders (34.1%), the length of service from 2 to 5 years (34.1%), and management group (46.4%).

The confirmatory factor analysis was conducted to determine the psychometric of survey questionnaire data. Table 1 shows the results of convergent and discriminant validity analyses. All constructs had the values of AVE larger than 0.5, indicating that they met the acceptable standard of convergent validity (Barclay et al., 1995; Fornell & Larcker, 1981; Henseler et al., 2009). Besides that, all constructs had the values of $\sqrt{\text{AVE}}$ in diagonal were greater than the squared correlation with other constructs in off diagonal, showing that all constructs met the acceptable standard of discriminant validity (Henseler et al., 2009; Yang, 2009).

Variable	AVE	Feedback	Treatment	Job Satisfaction
Feedback	0.6230	0.7893		
Treatment	0.5618	0.747453	0.7495	
Job Satisfaction	0.6508	0.718295	0.723904	0.8067

Table 1: The Results of Convergent and Discriminant Validity Analyses

Table 2 shows the factor loadings and cross loadings for different constructs. The correlation between items and factors had higher loadings than other items in the different constructs, as well as the loadings of variables were greater than 0.7 in their own constructs in the model are considered adequate (Henseler et al., 2009). In sum, the validity of measurement model met the criteria.

Table 2: The Results of Factor Loadings and Cross Loadings for Different Constructs

Construct/ Item	Feedback	Treatment	Job Satisfaction
<u>Feedback</u>			
FD1	0.738187	0.581162	0.583629
FD2	0.828931	0.597328	0.699128
FD3	0.748435	0.637416	0.563255
FD5	0.756712	0.580687	0.513433
FD6	0.811136	0.588097	0.661286
FD7	0.755524	0.559474	0.469836
FD8	0.829609	0.587558	0.495401
FD9	0.798099	0.584298	0.534212
<u>Treatment</u>			
TR1	0.668176	0.723045	0.560021
TR2	0.550613	0.725046	0.411827
TR3	0.495187	0.782495	0.582832
TR4	0.529537	0.773234	0.534804
TR5	0.582780	0.761568	0.500516
TR6	0.536617	0.760398	0.562289
TR7	0.570639	0.742610	0.677945
<u>Job Satisfaction</u>			
JS1	0.564647	0.486792	0.782195
JS2	0.664479	0.514171	0.831983
JS3	0.556649	0.502962	0.743257
JS4	0.609462	0.705203	0.885538
JS5	0.514637	0.570134	0.805639
JS6	0.608439	0.615417	0.759658
JS7	0.493623	0.528800	0.745349

Table 3 shows the results of reliability analysis for the instrument. The values of composite reliability and Cronbach's Alpha were greater than 0.8, indicating that the instrument used in this study had high internal consistency (Henseler et al., 2009; Nunally & Bernstein, 1994).

Table 3: Composite Reliability and Cronbach's Alpha

Construct	Composite Reliability	Cronbach Alpha
Feedback	0.936875	0.924382
Treatment	0.911078	0.889724
Job Satisfaction	0.936879	0.922605

Table 4 shows that the mean values for each variable are between 5.3 and 6.4, indicating the levels of feedback, treatment and job satisfaction ranging from high (4) to highest level (7). The correlation coefficients between the independent variable (i.e., feedback and treatment) and the dependent variable (e.g., job satisfaction) were less than 0.90, showing the data are not affected by serious colinearity problem. While, the constructs had value 1 as shown in a diagonal, indicating that the constructs met the reliability estimation. These statistical results confirm that the instrument of this study has met the acceptable standards of validity and reliability analyses (Hair et al., 1998).

Table 4: Correlation Matrix

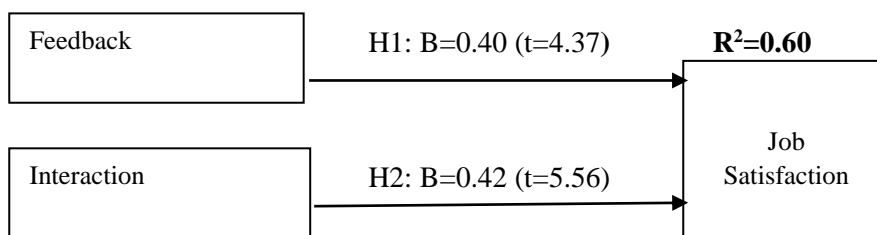
Variables	Mean	Standard Deviation	Pearson Correlation Coefficients		
			1	2	3
1. Feedback	5.3	.98	1		
2. Treatment	6.4	.97	.78**	1	
3. Job Satisfaction	5.4	.93	.72**	.68**	1

Note: Significant at ** $p < 0.01$

Figure 1 presents the outcomes of testing a direct effects model using SmartPLS. In terms of explanatory power, the inclusion of feedback and treatment in the analysis had explained 60 percent of the variance in dependent variable. Specifically, the results of testing hypothesis displayed that feedback and treatment positively and significantly correlated with job satisfaction ($\beta = 0.40$; $t = 4.37$; $\beta = 0.42$; $t = 5.56$, respectively), therefore H1 and H2 were supported. This result demonstrates that appraisers' communication styles act as important antecedents of job satisfaction in the hypothesized model.

Independent Variable

Dependent Variable



Note: Significant at * $t > 1.96$

Figure 2. The Outcomes of SmartPLS Path Model Show the Relationship between Appraisers' Communication Styles and Job Satisfaction

In order to determine a global fit PLS path model, we carried out a global fit measure (GoF) based on Wetzels et al.'s (2009) guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)}$ = 0.60, indicating that it exceeds the cut-off value of 0.48 for large effect sizes of R^2 . This result confirms that the PLS path model has better explaining power in comparison with the baseline values (GoF small=0.1, GoF medium=0.25, GoF large=0.36). It provides strong support to validate the PLS model globally (Wetzel et al., 2009).

DISCUSSION

This study shows that appraisers' communication styles act as important antecedents of appraises' job satisfaction in the studied organization. In the context of this study, the majority respondents perceive that the levels of feedback, treatment and job satisfaction are high. This situation explains that appraisers actively use constructive feedbacks like conversation via mobile phones, and face-to-face and group meeting in order to enhance employees' understanding and decrease their misinterpretations about the appraisal systems. Besides that, appraisers also practice comfortable treatment such as pay attention, empathy, respect and accountable in handling their appraises' criticisms and demands. As a result, this appraisal practice may lead to an increased appraises' job satisfaction in the organization.

This study provides major implications: theoretical contribution, robustness of research methodology and practical contribution. In terms of theoretical perspective, the findings of this study confirm that feedback and treatment have been important antecedents of job satisfaction in the studied organizations. This result is consistent with empirical studies done by Pettijohn et al. (2000), Kalb et al. (2006), Kelly et al. (2008), Behery and Paton (2008), Brown et al. (2010), and Ismail et al. (2011). With respect to the robustness of research methodology, the survey questionnaires used in this study met the acceptable standards of validity and reliability analyses; this could lead to produce accurate and reliable findings.

Regarding on the practical contributions, the findings of this study may be used as guidelines by management to improve the administration of performance appraisal systems in organizations. In order to achieve such objectives, management needs to focus on certain potential aspects: firstly, transformational leadership should be promoted in order to enhance employee talents and guide their talents to achieve the organizational agenda. Secondly, performance appraisal training content and methods for appraisers and appraises should be improved in order to help them understanding, respecting and obeying the goals, policies and procedures of performance appraisal systems. Thirdly, performance measures of the various job content and procedures for different job categories should be revisited in order to minimize errors in evaluating employee performance. Finally, the type, level and/or amount of rewards according to employee performance should be upgraded in order to fulfil competent employees' expectations and increase their motivations to perform job targets. If such suggestions are given attention this may motivate employees to appreciate and support the organizational performance appraisal goals.

CONCLUSION

This study tested a conceptual framework based on the performance appraisal research literature. The measurement scales used in this study met the acceptable standards of validity and reliability analyses. The outcomes of SmartPLS path model analysis confirmed that appraisers' communication styles (i.e., feedback and treatment) significantly correlated with job satisfaction, therefore H1 and H2 were supported. This result shows that appraisers' communication styles acts as important antecedents of appraises' job satisfaction in the studied organization. These findings have supported and broadened performance appraisal research literature mostly published in Western organizational settings. Therefore, current research and practice within performance management models needs to incorporate feedback and treatment as key dimensions in the performance appraisal domain.. These findings further suggest that the ability of appraisers to properly implement constructive feedback and comfortable treatment in performance appraisal systems will strongly increase positive subsequent employee outcomes (e.g., trust, justice, engagement, stay with organization, performance and ethics). Thus, these positive outcomes may lead to maintained and support organizational growth and competitiveness in an era of globalization.

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Religiosity and Purchase Intention for Halal Labeled Non-Food Products: Case of Malaysian Gen Y's

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Abstract

This paper reports on a study of a special market segment: the Malaysian Gen Y consumers. Based on responses received from 300 Malaysian Gen Y's and using the Religiosity Scale developed by Kraus et al., the study finds that several personal characteristics of respondents are significantly related to purchase behavior for halal labeled non-food products. The study also finds a significant relationship between religiosity and purchase intention for halal labeled non-food products among Gen Y respondents. This is a new finding and therefore contributes to the limited literature on purchase behavior for Halal labeled non-food products. It also contributes to the literature on Gen Y decision making when considering purchase of non-food products which carry the Halal label.

Keywords: Religiosity, Halal labeled products, generational cohort, Malaysian Gen Y's.

INTRODUCTION

The objective of this paper is to examine the influence of religion on the buying behavior of a generational cohort, the Malaysian Gen Y consumers, in relation to non food products which are labeled as halal. Consumers today are spoiled for choice when making decisions to select products for consumption for there is an array of similar products available for purchase. Not only are there many choices but consumers and producers are distant in time and place from each other making their identities unknown to each other. One way of overcoming this distance is through the use of product labels to inform consumers about the products as well as the producers. For Muslim consumers labeling products as permissible in accordance with the Islamic religion takes on a heightened dimension in product selection for consuming products containing forbidden ingredients (haram) would make a Muslim less likely to lead a life in compliance with Islamic religious tenets. Global trade today is changing the way we perceive the origin of products and brands and their permissibility under Islamic Sharia laws. This apparently has serious implications for international companies operating in food, cosmetics and pharmaceutical products. However, the desire to comply with the commandment in consuming only halal products would also mean consumer involvement and factors that will influence consumer's purchase decision in choosing what product they consume. As far as Muslims in Malaysia are concerned, they are beginning to question and avoid products with no halal certification, especially foreign products (Aliman and Othman, 2007). Hence understanding purchase behavior of Muslim consumer regarding halal labeled products is therefore imperative for marketer doing business in a Muslim country. While many marketing texts recognize that religion can have important effects

on international marketing decisions for example O’Cass et al. 2013 and Fam et al. 2002, religion as a consumer characteristic in its own right has been relatively under-researched. However, it is also understood that religion has no equal effect on two individuals. Thus, one can argue that the magnitude of religious influence will also vary from person to person for Muslim consumers. Therefore, it is not only the religion that matters the most in the consumption world but also the intensity of one’s religious affiliations known as religiosity. The greater the intensity of one’s religious affiliation, the higher will be the chances that he or she will strive to conform to his/her religious obligations in the consumption world. This paper will look at the relationship between religiosity and purchase behavior specific to a generational cohort, the Gen Y, as this is a generation identified as the future leaders as well as being consumers who are globally cultured (Pricewaterhouse Coopers, 2008). Prior studies on Malaysian Gen Y buyer behavior are limited. Wong (2010) for example has studied Gen Y purchase behavior in relation to green brand perception, whilst. Phuah and Wan Jusoh (2013) investigated the awareness and usage intention of students towards Halal labelled cosmetics and personal care products. Since Halal is synonymous with the Islamic religion it is posited that how religious a person is can influence purchase intention. Given the unique profile of the Gen Y consumers, how does different level of religiousness affect their buying intention of halal labelled non- food products? Non food products is selected as it is considered the third largest market for halal products after food and banking services and is considered a market where there is a growing market segment for consideration of ingredient selection (Hunter, 2011). It is therefore the objective of this paper to examine the relationship between religiosity and purchase intention for halal labelled non- food products among Malaysian Gen Y consumers. The paper contributes to the literature on Gen Y as a generational cohort with distinct buying behavior pattern. The paper also makes a new contribution to the literature on religion because it hypothesizes level of religious intensity, religiosity, rather than religion per se as a moderating factor between Gen Y characteristics and purchase intention. The rest of the paper is organized as follows: the next section reviews the literature followed by a brief description of the methodology employed. The results are then presented and discussed and the paper concludes.

LITERATURE REVIEW

Religiosity

Religion has been identified as a significant factor to explain buyer behavior (Al-Hyari et al, 2010). However, religion has many facets and to capture its multi dimensions, we have to consider the practices and commandments of the religion as individuals may vary as to how strongly he or she feels or practices such beliefs. Worthington et al (2013) identifies religiosity as comprising two components: adherence to a particular group called religious affiliations and the second component religious commitment which describes how committed one is to the beliefs and priorities of the religion and uses this in one’s daily living. Religiosity is an intricate concept and a variegated human phenomenon, and seems to cover considerable ground such as behaviors, attitudes, beliefs, feelings and experiences. Religious scholars and sociologists do not agree on whether adequate measures of individual religiosity can be developed and therefore such measures are subjectively devised by researchers to fit their research objectives. Thus, the content and number of religious dimensions vary considerably and may depend on the nature of the research, purpose and context. Worthington et al (2003)’s measure of religiosity was however not specific to measuring Islamic religiosity. Khraim (2010) later developed applied this dual dimension of religiosity to Islam where he identified need to distinguish between what is obligatory in Islam from what is recommended.

Religion is not a fad that can be dismissed by marketer as a short-term change, but rather it is a long-term phenomenon, therefore it is considered a valuable construct in understanding consumers. Religion is an important cultural factor to study because it is one of the most universal and influential social institutions that have significant influence on people's attitudes, values and behaviors at both the individual and societal levels (Khraim, 2010). Religion and its associated practices often plays a pivotal role in influencing many of the important life transitions that people experience (e.g. births, marriages and funeral rites), in values that come to be important to them (e.g. moral values of right and wrong), in shaping public opinion on social issues (e.g. cohabitation, premarital sex, family planning, organ donation, and the like), in what is allowed and forbidden for consumption (e.g. restriction on eating and drinking) and in many other aspects that pertain to everyday life.

Religion is said to comprise both internal and external dimensions. Internally, people can have religious identities, goals for religious development and religious attitudes, values and beliefs. People can evolve over time in terms of both their concepts and subjective experiences of religion. They can also perceive religion as an important means of coping with life's challenges. Externally, religion can be expressed by religious affiliation, devotional practices and membership in a religious community or attending religious functions. Religiosity is important as it is capable of influencing an individual cognitively and behaviorally. Religious persons have value systems that differ from those of the less religious and the non-religious. The supposition is that a highly religious person will evaluate the world through religious schemas and thus will integrate his or her religion into much of his or her life. If followers strongly accept the doctrine of their religion, they tend to abide by the rules and codes of conduct set by their religious doctrines, for example, attending regularly weekly worship services and being strictly committed to the religious practices and membership of the group. If, on the other hand, their belief in religious tenet is weak, they might feel free to behave in other ways. Hence, how strongly consumers are committed with their religiosity should be considered in understanding the nature of consumer behavior.

As noted by Stark and Glock (1968), "the heart of religion is commitment" (p. 1). Because of their strong commitment to their faith, highly religious individuals are sometimes characterized as being closed-minded or dogmatic (Delener, 1994). Alternatively, these individuals could be more positively viewed as having the courage of their convictions. This notion of commitment is strongly represented in the fundamentalist aspect of religiosity, as fundamentalists believe in strict adherence to the doctrines of their faith. There is evidence that the expression of religious commitment may extend beyond religion itself, with highly religious individuals exhibiting commitment in many aspects of their life, including family, relationships and consumption behavior (Mokhlis, 2009). Religiosity has been found to be a significant factor to explain boycotting of certain international products by Muslim consumers (Al-Hyari et al., 2010) in the United Kingdom. Essoo and Dibbs (2004) also report that religion is a significant influence on shopping behavior. Thus from the literature religion plays an influential role in human decision making but religion has to be measured on a multidimensional scale to capture the level of one's religious commitment.

Purchase Intention

The literature on purchase behavior is anchored on the work of Azjen (1991) who developed the theory of planned behavior to explain how consumers make decisions to buy a product or service. The actual purchasing decision is preceded by a state of having a favourable or unfavourable attitudes towards the products for example in the purchase of halal products it is posited that consumers would have a favourable attitude towards the products as purchasing the products would ensure that they have fulfilled their role as good Muslims and deserve the reward in life

hereafter. Attitudes are antecedents to purchase. Alam and Sayuti (2011) report a significant positive relationship between attitudes and intention to purchase Halal products among selected consumers in Malaysia. The next element in the model is subjective norms. These are social pressures and Karijin et al (2007) found that in France subjective norms is significantly related to intention to purchase halal meat in France. Similar findings are also reported by Lada et al (2009) who identified subjective norms as originating from families, friends, colleagues who provide strong reference points. The last element in the model is perceived behavioral control however studies have shown mixed results as to its association with purchase intention. Alam and Sayuti (2011) it as not significant as a predictor of purchase intention. However Kim and Chung (2011) report otherwise.

Gen Y

In formulating its marketing strategy all businesses need to identify their target markets first before deciding on the marketing mix of products, price, promotion and place (the pattern (Norum, 2003). According to Beldona et al.(2009), a generational cohort is a group of individuals four P's). Target markets have their own unique characteristics and one way of identifying unique market niches is by way of dividing the market or segmenting it according to generations, the generational cohorts. Generational cohorts is seen to be a better way of segmenting a market than other demographic variables (Eastman and Liu, 2012, Schewe et al., 2000) and generational cohorts exhibit different buying behavior who have shared similar experiences and unique characteristics around the experiences. They are significantly influenced by external events when they were coming of age (Schewe et al, 2000). Norum (2003) and Schewe et al (2000) identify the members of Gen Y as those born from 1977 to 1987 whilst Markert (2004) puts the dates as those born in 1986 and up to 2005, labelling them as Millennials. For the most part, they share a number of common character traits, having all grown up in the same environment of unprecedented economic growth, prosperity and technological interconnectedness. In China they number 200 million, in Japan around 15 million and in Singapore well over 500,000. India alone graduates almost 5 million Gen Ys from university every year, and all these numbers combine to make Generation Y a vitally important part of Asia's national economies and cultures. Generation Y is also referred to as the Net. Generation, Millennials, Echo Boomers, iGeneration, MyPod Generation, Baby Boomlets, Boomerang Generation, Trophy Generation, and First Digitals. The term "Generation Y" was first used in 1993 by Advertising Age, which is a magazine focused on marketing and media data and analysis. They have cell phones, computers, and technology with immediate access to global information 24/7 their entire life. In a 2007 survey of more than 7000 college students, 97% of students owned a computer, 94% owned a cell phone, and 56% owned an MP3 player. Three-fourths of those surveyed used instant messaging, and 92% multitask while instant messaging. Students spoke with their parents an average of 1.5 times a day about a wide range of topics.

Although the Baby Boomer generation began with a historical event, Generation Y did not begin or end with a particular event, but instead, several cultural events have influenced this generation. First, as youth, this generation witnessed September 11, 2001. Generation Y grew up in a time of economic uncertainty. Even though this generation was raised during one of the most prosperous times of the past 100 years, they experienced the oil bust of the 1980s and the sharp swings in the stock market with the current recession and energy crisis. Global warming would be the downfall of this generation. Ultimately, Generation Y lives in fear resulting in the need for community and connectivity. Gen Y has been of particular interest because they grew up, and were exposed to, a lifestyle that is fundamentally different from its predecessors. Gen Yers are techno-savvy, having grown up in an era of pervasive technology and the internet revolution. Information is a given to this generation habituated to internet-at-a-touch through the numerous

electronic devices available at their disposal. They are a product of a life-long exposure to diverse points of view and infinite possibilities that technology offers. (Pricewaterhouse Coopers, 2009).

The Generation Y has grown up with more leisure options available than ever before, and expensive tastes to go with them (Eastman and Liu, 2012). They tend to spend available funds on leisure and have few savings. Even those from Generation Y still at school or college, typically have part-time jobs in retail or elsewhere (Jackson et al. (2011). Thus, most have the ability to finance independent leisure choices. Being children of the baby-boomers, they are also the “latch-key” generation from the rise of dual-income families. Left to their own devices and taught to take care of themselves when both parents were away at work, Gen Yers are independent and many hold a self-confident. While their baby-boomer parents are imbued with long-term orientation values such as perseverance, thrift, adaptiveness, and self-discipline; Gen Yers hold values that are in direct contrast to their parents, often leaving them clueless for answers to their behavior. Whilst Wong (2010) has looked at Malaysian GenY and preference for green products and Phuah and Wan Jusoh (2013) looked at purchase intention and religion neither studies examined religiosity as an independent variable. O’Cass et al (2013) has further divided the Gen Y market into Muslim and non –Muslim consumers in order to better capture the effect of religion on Gen Y purchase behavior. Based on the literature therefore it is hypothesized that:

H1: Religiosity is associated with Gen Y purchase behavior for halal labelled non-food product

H2: Religiosity moderates the relationship between Gen Y personal characteristics and purchase behavior for halal labelled non food products

METHODOLOGY

Examining the relationship between relative and contextual factors, religiosity and consumer buying behavior should contribute to our knowledge of the relationships that exists between them. To date, there has been little effort made to study the potential mediating effect of religiosity at the individual level, relating to Muslim consumer buying behavior. Owing to the dearth of studies relating religiosity on consumer buying behavior literature, it is timely to investigate the mediating influence of religiosity on the relationships between independent factors and buying behavior.

The research data will be collected by means of a survey. Prior to the distribution of the survey instrument, a pilot sample of twenty respondents will be chosen to test the appropriateness of the instrument in collecting the data. The targeted population is within Kuala Lumpur and Selangor which makes up the majority urban population of Gen Y. The group population would be under the middle and upper income group working within the Klang Valley area. About 1200 questionnaires will be distributed towards the population aged between 20 - 30 years old. This target population has been selected because of their purchasing power and decision maker factors which can influence the market. Apart from demographic profile, the questionnaires will consist of questions which attempt to measure level of religiosity using a Likert Scale. In measuring and indicating religiosity, this would assist in developing more valid measures and helps to increase its reliability to form a conclusion at the end of the study. Both descriptive and statistical analysis will be used to analyse the data..

A cross-sectional research design will be used to examine the relationships between independent factors, religiosity and the purchase behavior. Independent factors would consist of peer pressure, media effects, product origin, brand name and product quality. The influence of religion will be tested only on cosmetics and pharmaceutical products. This is because the products might need different degree of involvement by the individuals. Furthermore, most of studies been conducted on religiosity were solely focused on food products. The process of

analysis and interpretation of the quantitative data would link to the understanding of Generation Y's Muslim of a specific purchasing behavior experience. In this endeavor, the values and beliefs regarding the samples' purchase behavior of products and will allow marketers and academicians initial insight into this profitable and powerful market segment.

Measurement of religiosity

Prior to assessing the differences in religiosity among young Muslims in Malaysia, a religiosity model and instrument reflective of the *tawhidic* worldview of Islam was developed by Krauss *et al.* (2007). The model was created to reflect the unique *tawhidic* (divine unity) worldview of the Islamic faith. This religiosity model from the Islamic perspective can be understood according to two main constructs. Under the Islamic religiosity, it is then further divided into two components which are the Islamic Worldview and the Religious Personality.

The Islamic worldview construct reflects the Islamic *tawhidic* paradigm (doctrine of the divine unity/ oneness of God) and is measured or assessed primarily through the Islamic creed (*aqidah*), which details what a Muslim should know, believe and inwardly comprehend about God and religion as laid down by the *Qur'an* and *Sunnah* (way) of the Prophet Muhammad, representing the two primary sources of the Islamic religious law, belief and practice within Islam. Thus, the MRPI survey items developed for the 'Islamic Worldview' construct aimed to ascertain one's level of agreement with the statements relating to the Islamic pillars of faith (*arkan al-Iman*) (i.e. belief in: God, Angels, Messengers and Prophets, Books of Revelation, The Day of Judgment and the Divine Decree), which represent the foundation of the Islamic creed (*aqidah*).

Meanwhile, as for the Religious Personality component, it represents the manifestation of one's religious worldview in the righteous works (*amalansaleh*), or the particular ways that a person expresses his or her traits or adapts to diverse situations in the world - the manifested aspects of a personal identity, life definition and worldview - that are guided by the Islamic religious teachings and motivated by God consciousness. The Religious Personality includes behaviors, motivations, attitudes and emotions that aim to assess personal manifestation of the Islamic teachings and commands. This construct is represented by item statements relating to the formal ritual worship or 'special *ibadat*', that reflects one's direct relationship with God; and the daily *mu'amalat*, or the religiously-guided behaviours towards one's family, fellow human beings and the rest of creation i.e., animals, the natural environment, etc. known as the general worship or 'general *ibadat*'.

RESULTS AND DISCUSSION

A total of 300 respondents participated in the survey, data being obtained from majority of students from all parts of Malaysia who are studying in KL/Selangor area including a number of working young adults. The main objective was to determine the factors influencing customers purchasing intention towards halal-labeled non-food products. 55% of respondents are female. 93% are below 26 years of age. 73% of respondents report earning a monthly income of less than RM2000 per month whilst only 4% earn more than RM4000 per month. Hence respondents are generally not in the high income bracket group. Two levels of statistical analysis were conducted with two different steps. The first level involved the use of basic descriptive statistics. The second level involved two main statistical analyses, analysis of difference (t-test and one way ANOVA) and analysis of relationship and influences (correlation and regression analysis). Religiosity was measured based on extent of compliance with Syahadah, obligatory prayers, fasting during Ramadhan, Zakat, performing the Hajj, the 6 pillars of Iman and six dimensions of forbidden acts: drinking liquor, eat prok, stealing, adultery, disobeying parents and maintaining *sillatul*

Rahim. Purchase intentions were captured by 24 statements depicting the two dimensions of attitude and subjective norms in the Planned Behaviour theory of Azjen (1991). Scores on each statement were based on a Likert Scale of 1 to 6 where 1 indicates strongly disagree and 6 strongly agree. Based on the statistical tests conducted, both the hypotheses are accepted. Regression test also shows that the four independent variables, namely environmental concern, social influence, self- image and man-nature orientation were vital in determining the customers' halal purchasing intention. Both hypotheses 1 and 2 are accepted whereby religiosity is significantly associated with halal purchase intention ($p=0.000$) and religiosity mediates the relationship between Gen Y characteristics and purchase intentions.

CONCLUSION

This paper reports on a survey of Malaysian Muslim Gen Y's from all states in Peninsular Malaysia and its relationship to religiosity and intention to purchase halal labeled non- food products. Using Azjen (1991)'s theory of planned behavior the study finds that religiosity is significantly related to intention to purchase halal labeled non- food products, a new finding and therefore a contribution as prior studies use religion as a predictor without breaking it into the multi dimensions of religiosity for Islam specifically. The study also finds that religiosity mediates the relationship between purchase intentions and personal characteristics of the consumers. This is also a new finding and therefore is one of two contributions of the study: first to the literature on buyer behavior for halal labeled non- food products and second to the literature on generational cohort, the Malaysian Gen Y's. Future studies may consider extending purchase behavior of halal labelled non- food products other generational cohorts as religiosity may differ across generations.

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Understanding the Influence of Shopper-Based Mall Equity On Loyalty

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Abstract

Understanding the antecedents of shopper mall loyalty remains one of the crucial issues for both mall managers and retailing researchers. We propose a conceptual model that explains the psychological process by which shopper-based mall equity (perceived value, sales promotion, mall awareness and mall image) generates mall loyalty. A total of 185 questionnaires were collected via convenience sampling from consumers in Malaysia. The findings revealed that of the four mall image, environment, service quality and convenience make a statistically significant contribution to customer satisfaction while, only service quality and product quality are positively related to self-congruity. In term of mall loyalty, both customer satisfaction and sales promotion are related to loyalty.

Keywords: shopper-based mall equity, self-congruity, satisfaction, commitment and loyalty

INTRODUCTION

The significance of shopping mall in retailing is more pronounced as its attraction does not only capture local customers but also tourist. Superregional malls such as Malls of America in Minnesota and Galleria in Dallas are specifically targeting tourists in their marketing programs. Kinley et al.(2000) has stressed tourists as well as locals, often seek more diverse and rich experiences through new adventures and new locations to satisfy their shopping experience. With the rise of retailer as a brand (Grewal et al., 2004) shopping mall also needs to strengthen their mall equity in order to create favorable image and awareness to customers in order to be the top shopping destination. To gain customer loyalty towards the shopping mall is even more challenging in today's competitive retail environment. According to Caylor (1999), a well-positioned branded shopping mall offers a competitive retail niche and provides consumers with a unique and identifiable shopping experience.

Recognizing the significant role of shopping mall in retail environment, El Hedhli and Chebat (2009) have proposed a new retailing concept referred to as shopper-based mall equity (SBME)

which is defined as the differential effect of mall knowledge on shopper response to the mall marketing activities. Prior study on mall loyalty has covered on the limited SBME factors (mall awareness and mall image) (Chebat et al., 2009). To date, there is no research that examines the four SBME factors (sales promotion, perceived value, mall awareness and mall image) together in the same conceptual model, particularly in Malaysia. Ligas and Chaudhuri (2012) highlighted the significance of sales promotion and perceived value in today retailing context. Consideration of these for independent variables in combination might give a new perspective on how SBME generates mall loyalty among Malaysian consumers. Hence, in an attempt to bridge these gaps, this study examines how SBME (sales promotions, perceived value and mall awareness) and mall image influence mall loyalty. Furthermore, this study also investigates the relationship between self-congruity, commitment satisfaction and mall loyalty. The variables of this study have been identified based on an extensive review of literatures. The findings of this study implicate that customer satisfaction together with SBME factor play major role in retaining mall loyalty.

LITERATURE REVIEW

Apart from fulfilling consumers shopping needs, many consumers regard shopping mall as community center for economic and social activities (Ahmed et al., 2007), and source of entertainment (Kim et al., 2005) and shopping values (Babin et al., 1994). For retailers, mall or store loyalty is arguably the most important concern. Bloemer and Ruyter (1998) defined store loyalty as the 'biased (i.e., non random) behavioral response (i.e., revisit), expressed over time, by some decision-making unit with respect to one store out of a set of stores, which is a function of psychological (decision making and evaluative) processes in brand commitment'.

Malaysia's consumer lifestyle has been evolving and changing due in part to rising material comfort and education levels. Following the study of Global Retail and Consumer Study from Beijing to Budapest Malaysians are becoming more westernized, sophisticated and cosmopolitan (Price Water House Coopers, 2005). The study also indicated that continuing and stable liberalization of the market, declination of domestic production, increasing reliance on food imports and rising tourist visits are the key growth factors for Malaysian retail industry. After the entrance in 1990s, foreign-owned hypermarkets are rapidly gaining popularity in Malaysia, attracting customers with their 'one-stop' and 'all under-one-roof' concepts. Since their arrival, foreign retailers have been expanding fast. To date Malaysia has 121 hypermarkets, 113 superstores and 133 departmental stores run by local and foreign players, e.g. Tesco, Carrefour, Giant, Mydin, Eonsave, AEON and The Store (Pemandu, 2010). The development of new shopping malls has brought an increased number of shops with good quality products frequently at surprisingly low prices. According to (Euromonitor International's review in January 2011, retailing in Malaysia was becoming increasingly mature and sophisticated. That said retailers with expanded retail brands entered the country, offering a wider choice selection to consumers by in terms of both brands and styles. New retailing formats, products and services have been introduced, catering to the demands of more educated and discerning consumers. Euromonitor International also added that, with so many retailers and retail brands already established in Malaysia, retailing is moving towards saturation.

Taking into consideration the significance role of shopping mall in retailing, this research intends to examine the potential role of SBME in creating mall loyalty among consumers. Accordingly, this research investigate four factors that influence mall loyalty: perceived value, sales promotion, mall awareness and mall image, and examine the roles of self-congruity, satisfaction and commitment to the mall to retain the mall loyalty.

Mall Image

Adapting the conceptualization of store image, mall image reflects consumers' perception of a mall in terms of functional and psychological attributes (Chebat et al., 2009; Martineau and Eau, 1958; Mazursky and Jacoby, 1986). Chebat et al. (2006) and Sirgy et al. (2000) have pointed out, that shoppers usually have stereotype images of different shopping malls. This means that shoppers are likely to distinguish malls based on typical customers or patrons and this supported by Sirgy et al. (2000)'s retail patron image. Another strategy that has not received adequate attention in the retailing literature is attracting tenants that perceive a mall to be positive on five major dimensions, first proposed by Ailawadi and Keller (2004) in relation to stores: access, atmosphere, price and promotion, cross category assortment, and within-category assortment. This study argues that these store-image dimensions are also applicable to malls and therefore can be used similarly to capture mall image.

- **Convenience**

Convenience refers to location of the store and accessibility of the store from consumer's neighborhood or office. Shopping centers that are easily accessible to shoppers are perceived more favorably and frequently by the consumers.

- **Environment**

Environment refers to aesthetics and ambience of the mall. Factors such as color, music, crowdedness plays an important role in attracting consumers' frequent visit. Malls with pleasant and moderately arousing atmospheres more likely increase the visit of the customers. Babin et al. (1994) has stressed that environments influence customer's behavior because it has a strong influence on one's feelings. Pleasure and arousal are two basic emotional states that manipulate consumer behavior in environmental situations.

- **Product Quality**

Product quality refers to excellence of quality of a product compare with other stores for the same product. It also refer to the excellence of quality relative to the price of the product. Cronin et al. (2000) also indicated the importance of product quality on consumer decision making.

- **Service Quality**

Service quality refers to the kindness of the sales person in providing the product and related information. Consumers are more likely to visit the same store when they satisfied with the sales person and the services provided by the store. Excellent customer service plays an important role customers store patronage.

- **Customer Satisfaction**

Customer satisfaction is a measure of how products and services supplied by a company meet or surpass customer expectation (Reichheld and Sasser Jr, 1989). According to Oliver, (1999), satisfaction is one of the important drivers in developing and maintaining customer loyalty. Customers overall satisfaction can be defined as a collective, global valuation of the organization as a result from customer experience with an organization (Homburg et al., 2005).

Anderson and Sullivan (1993) has stressed that store image is one of the more frequently accredited factors of satisfaction. Retailers also agreed that store image significantly influence customer satisfaction (Eskildsen et al., 2004). Stanley and Sewall (1976) posited that there is a direct effect of store image on satisfaction. Thus, satisfaction represents a customer's overall evaluation of the experience in a store. A consumer who perceives a positive image of a particular store is more likely to be satisfied with a store than a consumer who perceives a less positive image. Therefore the below hypothesis formulated:

H1a-H1d : Higher mall image leads to a higher level of satisfaction

Self-congruity

Self-congruity refers to the match or mismatch of a shopper's actual self-image which is how a shopper sees himself/herself with the corresponding image of the typical shopper or patron who shops at the same shopping mall (Sirgy et al., 2000). This process is also referred to as 'self-image congruence', 'self-image/store image congruity', or 'self-congruity' for short (e.g. Kressmann et al., 2006; Sirgy and Samli, 1985; Sirgy et al., 2000). It is well known, that shoppers have stereotypic images of different shopping malls (Chebat et al., 2006; Sirgy et al., 2000). Shoppers' self-congruity is made more likely because shoppers make inferences about the stereotype image of the typical mall shopper based on their perception of mall image aspects such as the mall environment, the quality of products and services offer within the mall and so on. This leads to the hypothesis:

H2a-2d : Higher mall image leads to a higher level of shopper's self-congruity.

Mall Awareness

According to El Hedhli and Chebat (2009), mall awareness measures consumers' recognition of mall's name and the characteristic they recall and associate with the mall's name. Apart from being part of mall equity measurement, mall awareness is one of key factor determining which shopping mall to be visited (Kim et al., 2012). Shopper's positive awareness of the mall characteristics influences his/her commitment to the mall. In addition, resistance to switch the mall will be stronger if user can mindfully remember some positive and special attributes of the mall.

Commitment to the Mall

Commitment involves the desire or intention to maintain a valued relationship into the future (Gundlach et al., 1995; Leverin and Liljander, 2006; De Wulf et al., 2001). According to Kiesler and Sakumura (1966) commitment to specific behavior has its root in a resistance to change tendency. Moreover, Crosby and Taylor (1983) and Pritchard et al.(1999) have elaborate conceptualization of commitment similar as Kiesler et al., (1967) which emphasizing the tendency to resist changing a given preference. Commitment is built gradually during the development of a relationship, and parties can be committed for different reasons.

A study done by Chebat et al.(2009) shows significant relationship between mall awareness and commitment to the mall. However, Kim et al. 2012 found insignificant relationship between mall awareness and commitment to the mall for rationally and socially oriented customer but significant for fashion oriented customer. Mall awareness is in essence reflective of an informational process. Thus, one would expect a significant relationship between mall awareness and mall commitment, the higher the level of positive mall awareness, the greater the commitment to the mall. The need to maintain consistency in what one thinks and feels about a preferred brand - that is his or her awareness of that brand, strengthens resistance to change that preference (Crosby and Taylor, 1983).

Extant studies show direct relationship between self-congruity and commitment to the mall (Chebat et al., 2009; Kim et al., 2012). Self-congruity is an identification process and it is expected to be related to commitment. Specifically, shoppers who identify with the typical shopper of a given mall are likely to develop higher levels of commitment to that mall than those who do not identify with the mall patrons.

Satisfaction has been recognized as direct antecedent to commitment (Gustafsson et al., 2005; Morgan and Hunt, 1994). According to Geyskens et al. (1996), commitment has both affective and cognitive components, which will be influenced by satisfaction. Positive satisfaction with the shopping mall is expected to lead to a more committed relationship with the shopping mall.

Based on previous literature, we state the following hypothesis:

H3a : Mall awareness will positively influence shoppers' commitment to the mall

H3b : Self-congruity will positively influence shoppers' commitment to the mall

H3c : Higher level of satisfaction leads to a higher commitment to mall

Perceived Value

Perceived value is defined as the outcome of the evaluation between perceived benefits and sacrifices by the customer (Ruiz-Molina and Gil-Saura, 2008; Zeithaml, 1988). El Hedhli and Chebat (2009) contended that SBME is a richer, more comprehensive concept of the mall's perceived value relative to the mall image concept. Grewal et al. (2009) posited that the brand equity of the store determines the perceived values and the images of the store. Accordingly, customer perceived value for the mall can be increased by providing reliable product, appropriate price, discount, special promotion and others (Koo, 2003). Extant empirical studies indicates perceived value as main driver to customer loyalty (Chahal and Kumari, 2011; Sirdeshmukh et al., 2002; Yang and Peterson, 2004).

Sales Promotions

Sales promotions have been used to attract and increase customers purchases for specific point in times (Kotler and Keller, 2012). Prior studies distinguished between monetary (free product, price deal, and coupons) and non-monetary (sweepstakes, contests, point of purchases and free sales promotions (Palazón-vidal and Delgado-ballester, 2005). With uncertain economic condition affecting the South Asia Pacific region, Malaysian customers are more cautious with their spending which prompted them to be motivated by sales promotional offers (AC Nielsen, 2011).

Apart from the impact of inflation, consumers are being exposed to a greater number of creative sales promotional offers as retailers and brand owners step up the momentum to gain share and/or retain their customers (AC Nielsen, 2011). Hu (2011) posited that sales promotions are effective in encouraging patronage and purchases from price conscious customers. Sirohi et al. (1998) find that perceptions of a store's sales promotions correlate positively with perceived value and store loyalty.

Mall Loyalty

Mall loyalty is a shoppers' attitudinal tendency consisting on intentions to continually patron the mall in terms of repeat shopping at the mall and willingness to recommend the mall (Chebat et al., 2009). Satisfied customers tend to have a higher usage level of a service than those who are not satisfied (Bolton and Lemon, 1999; Ram and Jung, 1991). They are more likely to possess a stronger repurchase intention and to recommend the product/service to their family and friends (Zeithaml et al., 1996). Some researchers have found that there is direct relationship between customer satisfaction and mall loyalty. Baumann et al., (2005) finds that loyalty is a key factor and it does effect customers' spending in a mall. Correspondingly, Rust et al., (2002) argues that when customers' satisfaction improves, customers' loyalty and pocket share will grow as well. According to Bloemer and Ruyter (1998), satisfaction has been described as processes and outcomes which have become a key determinant of for loyalty.

However, prior research (e.g. Bandyopadhyay & Martell, 2007; Day, 1969; Fullerton, 2005; Rauyruen & Miller, 2007) have argued that commitment is the root for loyalty. Bloemer and Ruyter (1998) propose that for store loyalty to occur store commitment is a vital condition and the absence of which leads to unauthentic loyalty. A consumer becomes committed to the store and,

thereby, becomes store loyal based on the explicit and extensive decision making as well as evaluative processes done towards the considered store (Bloemer and Ruyter, 1998). Committed customers are satisfied with the store offering, expressing a positive attitude and eager to provide consistent patronage (Duveen-Apostolou, 2006). Loyalty influences customer behavior which consequently increases purchasing behavior and high price insensitivity (Rowley, 2005; Silva and Alwi, 2008). Therefore we can expect that commitment will be an immediate antecedent to loyalty.

Consistent with the evidence presented by previous researchers, we therefore postulate that:

H4a : Customer satisfaction will positively influence mall loyalty

H4b : Commitment to the mall will positively influence mall loyalty

H4c : High perceived value leads to a higher level of mall loyalty.

H4d : Sales promotional has a positive influence on mall loyalty.

RESEARCH OBJECTIVES AND RESEARCH MODEL

The objectives of the study are as follow:

- To determine if the following four factors: perceived value, sales promotion, mall awareness and mall image contribute to mall loyalty.
- To determine if the following mall image factors: convenience, environment, product quality and service quality, contribute to customer satisfaction among shopping mall consumers.
- To examine the relationship between mall image and self-congruity among shopping mall consumers.
- To examine the relationship between commitment to the mall and mall loyalty among shopping mall consumers.
- To verify if satisfaction contribute to commitment to the mall and mall loyalty.

The relationship between all these factors has shown in the schematic diagram of theoretical framework below in Figure 1. This theoretical framework is where the overall study foundation is based upon. The research model is based on past studies (Baker et al., 1992; Beatty and Kahle, 1988; Chebat et al., 2009; Levesque and McDougall, 1996; Sirgy et al., 1997; Yoo et al., 2000)

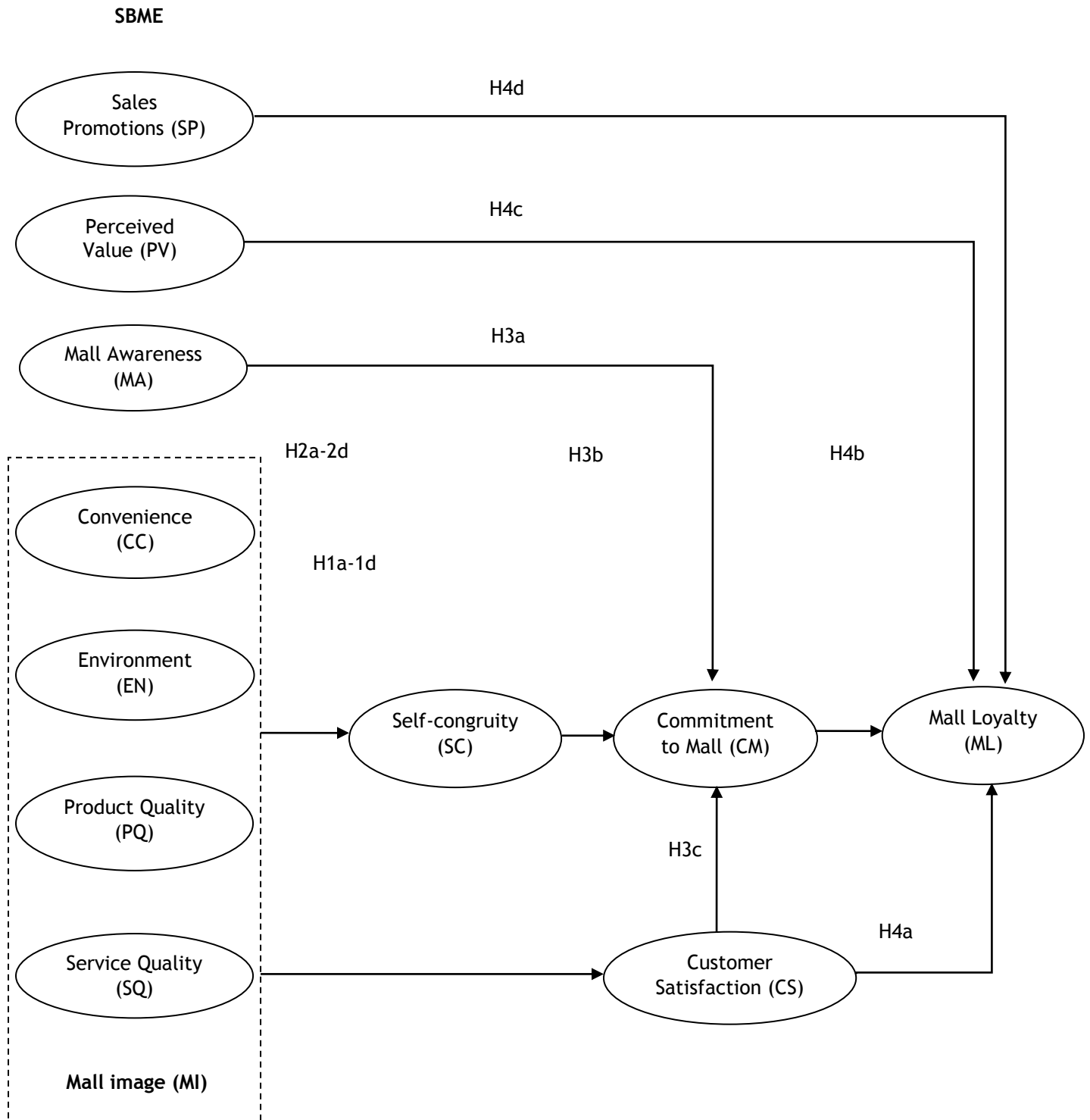


Figure 1: Research Model

RESEARCH METHODOLOGY

Sampling Design and Procedures

A self-administered questionnaire survey was distributed using convenient sampling to collect the empirical data. The target population comprises of consumers from Malaysia especially in Klang Valley. Klang Valley is where the capital city of Malaysia, Kuala Lumpur, is situated. The Federal Territory of Kuala Lumpur has the highest population density in the Malaysia i.e., about 6,500 people per square kilometre. This metropolitan city is situated in the state of Selangor, which is one of the 14 states in Malaysia that is experiencing the fastest rise in population density as it benefits from the rapid development of Kuala Lumpur and the spill over of residents across the state boundary which surrounds the Federal Territory (Euromonitor International, 2011).

A total of 200 responses were collected. After data cleaning and editing, the final count of questionnaires with no missing values for all variables under analysis was 185, representing a response rate of 92 percent. In this study, majority of respondents are female, which makes them 69.2% and the rest are male with 30.8%.

About 48.1 percent of the respondents were from the 31-40 age group followed by 41.1 percent from the 21-30 age groups, giving a total of 89 percent of total respondents. Majority of the respondents (41%) were ethnic Malay, 31 percent were ethnic Chinese, while 25 percent were ethnic Indians and the “other” ethnic groups. Most of the respondents held executive posts or higher. The occupations explained their income levels. Nearly half of the respondents earned RM2,001-RM3,999 per month, about a quarter earned RM4,001-RM5,999 while 26 percent earned more than RM6,000. There were nearly 50 percent of the respondents who attained a Bachelor degree. the majority 150 out of 185 respondents or 81.1% willing to spend only RM 101 – RM 1000, for monthly shopping. 27.0% of the respondents visit shopping mall only once a month and this followed by 25.4% visitors on weekly basis, 24.3% on less than once month and 23.2% visits once in two weeks. Since the survey was conducted generally in Klang Valley, Sunway Pyramid shopping centre leads the respondents list for most frequently visited malls with 21.1%, follows by Midvalley Megamall with 33 responses and 31 for Jusco. Other malls that responded by the respondents are Tropicana City Mall, Tesco, Pavilion, Alamanda, IOI Mall, Sogo and Mydin.

Leisure facilities, such as cinema, restaurant, bowling, indoor games, has become the primary reason for respondents to visit the shopping mall with 86 responses. This followed by good choice of goods, good quality environment, good choice of shops and lower price. Respondents choose to visit the same malls persistently because the mall is close to home / office, according to 45.9% responses. Other key reasons to re-visit the same mall are quality products and brands, with 44.9% respondents, low prices and discounts, according to 76 respondents and convenience of parking with 40.5% respondents. Large books stores within the mall have also become one of the reasons for a respondent to re-visit the mall.

FINDINGS

Relationship on customer satisfaction

Table 1 depicts an explanation of the multiple regression analysis of the hypotheses relationship of the Mall Image (product quality, service quality, convenience, and environment) and customer satisfaction.

The coefficient of determination (R^2) provides information about the goodness of fit of the regression model. The regression model fits the data well since the adjusted R^2 for the model is 0.646. The highest tolerance value is 0.806, well above 0.10, and the highest Variance Inflated factor (VIF) value is 1.797, less than 10. Both results indicate multi collinearity is absent. Hypothesis 1a-1d examines the relationship of mall image and customer satisfaction among mall shoppers. The result shows that the largest beta coefficient is 0.315, which is environment. This means that environment makes the strongest unique contribution in explaining customer satisfaction when all variance explained by all other variables in the model is controlled for. This is followed by service quality (0.298), convenience (0.191) and products quality (0.129). The Sig value of each variable of mall image (convenience, products quality, service quality and environment) is checked to determine which variable is making a statically significant unique contribution to the prediction of customer satisfaction.

Table 1. Influence of mall image and customer satisfaction

	Standardized Beta Coefficients	t	Sig.	Collinearity Statistics	
				Tolerance	VIF
Convenience	.191	3.012	.003	.806	1.241
Products Quality	.129	1.697	.091	.564	1.772
Service Quality	.298	3.904	.000	.557	1.797
Environment	.315	5.123	.000	.857	1.166
Adjusted R^2	0.646				
F	32.175				
Sig. F	0.000				

Note: * $p < 0.05$

The result of the analyses indicate that environment ($t=5.123$, $p=0.0001$, $\beta=0.315$), service quality ($t=3.904$, $p=0.0001$, $\beta=0.298$), and convenience ($t=3.012$, $p=0.003$, $\beta=0.191$) make a statistically significant contribution to customer satisfaction. Therefore, the most significant contribution of mall image variable to customer satisfaction is environment, followed accordingly by service quality, convenience and product quality. However, products quality ($t=1.697$, $p=.091$, $\beta=0.129$) not significantly related to customer satisfaction.

Relationship on Self-Congruity

Table 2 depicts an explanation of the multiple regression analysis of the hypotheses relationship of mall image (product quality, service quality, convenience, and environment) and self-congruity.

The adjusted R^2 for the model is 0.256, which means that almost 26% of the variance self-congruity is explained by mall image. The highest tolerance value is 0.806, well above 0.10, and the highest Variance Inflated factor (VIF) value is 1.797, less than 10. Both results indicate multicollinearity is absent. Hypothesis 2a-2d examines the relationship of mall image and self-congruity among mall shoppers. The result shows that the largest beta coefficient is 0.304, which is service quality. This means that service quality makes the strongest unique contribution in explaining self-congruity when all variance explained by all other variables in the model is controlled for. This is followed by product quality (0.176), convenience (0.126) and environment (0.027). The Sig value of each variable of mall image (convenience, products quality, service quality and environment) is checked to determine which variable is making a statically significant unique contribution to the prediction of self-congruity.

The result of the analyses indicate that service quality ($t=3.522$, $p=.0010$, $\beta=0.304$), product's quality ($t=2.061$, $p=0.041$, $\beta=0.176$), and convenience ($t=1.755$, $p=0.081$, $\beta=0.126$) make a statistically significant contribution to self-congruity. However, environment ($t=.0383$, $p=0.703$, $\beta=0.027$) is not significantly related to self-congruity.

Table 2. Influence of mall image and self-congruity

	Standardized Beta Coefficients	t	Sig.	Collinearity Statistics	
				Tolerance	VIF
Convenience	.126	1.755	.081	.806	1.241
Products Quality	.176	2.061	.041	.564	1.772
Service Quality	.304	3.522	.001	.557	1.797
Environment	.027	.383	.703	.857	1.166
Adjusted R^2	0.256				
F	15.47				
Sig. F	0.000				

Relationship on Commitment to the Mall

Table 3 shows an explanation of the multiple regression analysis of the hypotheses relationship of mall awareness, self-congruity, customer satisfaction and commitment to the mall.

The regression model fits the data well since the adjusted R^2 for the model is 0.498. The highest tolerance value is 0.893, well above 0.10, and the highest Variance Inflated factor (VIF) value is 1.406, less than 10. Both results indicate multicollinearity is absent. The result shows that the largest beta coefficient is 0.567, which is customer satisfaction. This means that customer satisfaction makes the strongest unique contribution in explaining commitment to the mall when

all variance explained by all other variables in the model is controlled for. This is followed by self-congruity (0.356) and mall awareness (0.142).

Table 3. Influence of mall awareness, self-congruity, customer satisfaction and commitment

	Standardized Beta Coefficients	t	Sig.	Collinearity Statistics	
				Tolerance	VIF
Mall Awareness	.142	2.331	.021	.757	1.321
Self-Congruity	.356	6.346	.000	.893	1.120
Customer Satisfaction	.567	9.034	.000	.711	1.406
Adjusted R ²	0.498				
F	59.174				
Sig. F	0.000				

Note: *p<0.05

The Sig value of each variable (mall awareness, self-congruity and customer satisfaction) is checked to determine which variable is making a statically significant unique contribution to the prediction of the commitment to the mall. The result of the analyses indicate that customer satisfaction (t=9.034, p=0.0001, beta=0.567), self-congruity (t=6.346, p=0.0001, beta=0.356) and mall awareness (t= 2.331, p=0.021, beta= 0.142) make a statistically significant contribution to commitment to the mall. Therefore, H3a, H3b and H3c are supported.

Relationship on Mall Loyalty

Table 4 depicts an explanation of the multiple regression analysis of the hypotheses relationship of customer satisfaction, commitment, perceived value, sales promotion and mall loyalty. The coefficient of determination (R²) provides information about the goodness of fit of the regression model. The regression model fits the data well since the adjusted R² for the model is 0.708. The highest tolerance value is 0.450, well above 0.10, and the highest Variance Inflated factor (VIF) value is 3,490, less than 10. Both results indicate multi-collinearity is absent.

This study uses the beta values to determine which of the variables included in the model contribute to the prediction of mall loyalty. The result shows that the largest beta coefficient is 0.634, which is customer satisfaction. This means that customer satisfaction makes the strongest unique contribution in explaining mall loyalty when all variance explained by all other variables in the model is controlled for. This is followed by sales promotion (0.231), perceived value (0.036) and commitment to the mall (0.001). The Sig value of each variable (customer satisfaction, commitment, sales promotion and perceived value) is checked to determine which variable is making a statically significant unique contribution to the prediction of the dependent variable (mall loyalty). The result of the analyses indicate that customer satisfaction (t=10.510, p=0.0001, beta=0. 634) and sales promotion (t=3.135, p=0.002, beta=0..231) make a statistically significant contribution to mall loyalty. However, commitment to the mall (t=0.019, p=0.985, beta=0.001) and perceived value (t=0.479, p=0.633, beta=0.036) are not significantly related to mall loyalty. With the support of H4a and H4d, this study has established that the higher the level of customer satisfaction and sales promotion the higher the level of mall loyalty.

Table 4. Influence of customer satisfaction, commitment, perceived value, sales promotion and mall loyalty

	Standardized Beta Coefficients	t	Sig.	Collinearity Statistics	
				Tolerance	VIF
Customer Satisfaction	.634	10.510	.000	.450	2.222
Commitment to the Mall	.001	.019	.985	.414	2.417
Perceived Value	.036	.479	.633	.287	3.490
Sales Promotion	.231	3.135	.002	.301	3.318
Adjusted R ²	0.708				
F	108.08				
Sig. F	0.000				

Note: *p<0.05

DISCUSSION AND CONCLUSION

The findings of this study make significant contribution to the understanding of mall loyalty among Malaysians. First, the findings show the mall loyalty directly related to sales promotion and customer satisfaction. Baumann et al. (2005) has stated that loyalty is a key factor and it does effect customers' spending in a mall. Correspondingly, Rust et al. (2002) argues that when customers' satisfaction improves, customers' loyalty and pocket share will grow as well. Satisfied customers tend to have a higher usage level of a service than those who are not satisfied (Bolton and Lemon, 1999; Ram and Jung, 1991). They are more likely to possess a stronger repurchase intention and to recommend the product/service to their family and friends (Zeithaml et al., 1996).

The findings also indicate that service quality leads to customer satisfaction. A satisfied customer is the only true asset of the business enterprise and represents the sole justification of the business enterprise's existence (Cant et al., 2006). The notion of service quality is very important in customer satisfaction (Gee et al., 2008). There is a direct positive link between service quality and customer behavioural intentions and strong customer service leads to customer satisfaction, which will in turn, lead to loyal behaviour.

More specifically three out of the four dimensions of mall image positively and significantly predicted self-congruity, namely the perception of the convenience, products quality, and services quality. Only the mall environment dimension (e.g., lightings, music, busy environment) of the mall had no significant impact on self-congruity. This latter result intuitively makes sense: Shoppers may not experience self-congruity because mostly, Malaysia shopping centers are busy not only by shoppers but also frequently visited by entertainment seekers and restaurant customers.

The main goal of this study was to propose and to test a conceptual model designed to explain the psychological processes related to mall loyalty. As such, the current study is an important step in gaining an understanding of mall loyalty and is unique in that it presents a mall loyalty model investigating a set of previously untested relationships.

LIMITATION AND RECOMMENDATION FOR FUTURE STUDY

While this study has provided evidence that the proposed model replicates well across Malaysian consumers, additional studies are needed to further enhance the generalizability of the model. For example, only urban malls shopping were considered in the current study. Accordingly, additional research using other types of shopping malls (e.g., factory-outlet malls; sub-urban malls, regional malls, super-regional malls; community shopping centers) would be helpful in enhancing the generalizability of the model.

Research on loyalty acknowledges two distinct types of loyalty, namely attitudinal loyalty and behavioral loyalty. However, our mall loyalty measure captures only the attitudinal aspect of loyalty. We recognize this as a limitation of this study. In this study we examined the moderating role of gender, income status and education level only. Future research may examine other moderators shopping values (e.g., utilitarian versus hedonic), and other personality variables such as deal proneness.

Sirgy et al. (2000) suggested that there are four types of self-congruities: Actual, ideal, social, and ideal social self-congruity. However, in this research, we only considered actual, which reflect the self-congruity. Future research is needed to examine the role of other self-congruities in relation to mall loyalty. Future research is also needed to identify the elements of the mall mix-retail environment that may influence self-congruity. More particularly, we need to identify which factor of the mall mix-retail environment interacts with shoppers' gender to influence self-congruity.

Furthermore, though this study focused on Malaysians as overall respondents, it only has been focused on Klang Valley residents. Besides that, due to time constrain the study only conducted on 185 respondents. In future, it will be best if the study covered Malaysians from all states with extended time and respondents. Moreover, there may be other indicators of the construct that would improve the content and convergent validity, although this study used construct from previous established measures.

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APPENDIX

Measurement of Instruments

Variable	Source of Item	Items
Mall Awareness	Chebat, El Hedhli, & Sirgy (2009); El Hedhli & Chebat (2008)	<ol style="list-style-type: none"> 1. I am aware of the mall name that I often visit. 2. I can recognize the mall name that I frequently visit among other competing malls. 3. Some characteristics of the mall that I often visit come to my mind quickly.
Convenience	Chebat, El Hedhli, & Sirgy (2009); El Hedhli & Chebat (2008)	<ol style="list-style-type: none"> 1. The mall that I often visit is very close to my home. (New) 2. The location of this mall from my house is very convenient for me. 3. The location of this mall from my place of work is very convenient for me.
Product Quality	Chebat, El Hedhli, & Sirgy (2009); El Hedhli & Chebat (2008)	<ol style="list-style-type: none"> 1. Merchandise at the mall that I often visit is of a very good quality. 2. This mall has good brand names with high quality. 3. There is a high likelihood that items bought at this mall meet my quality standard. 4. The quality of merchandise at this retailer consistently meets my expectation. 5. The quality of merchandise at this mall is higher than similar merchandise at other mall/stores.
Service Quality	Chebat, El Hedhli, & Sirgy (2009); El Hedhli & Chebat (2008)	<ol style="list-style-type: none"> 1. This mall provides excellent services to its customers. 2. This mall is known for excellent services. 3. The mall staffs give caring and individual attention. 4. The mall staffs have the skills necessary to help me. 5. I receive prompt service when I shop at this mall.
Perceived Value	Levesque & McDougall (1996)	<ol style="list-style-type: none"> 1. Compared to alternative malls, this mall offers attractive product / service costs. 2. Compared to alternative malls, this mall charges me fairly for similar products / services. 3. Compared to alternative malls, this mall provides more free services. 4. Comparing what I pay to what I might get from other

		competitive malls, I think this mall <i>provided</i> me with good value.
Sales Promotion	(Gedenk, Neslin, and Ailawadi., 2006)	<ol style="list-style-type: none"> 1. Most of the products in this mall have a great value for the money that I would spend. 2. Most of the products in this mall have good sales. 3. Sales promotions are the main reason I visit this mall.
Self-Congruity	Chebat, El Hedhli, & Sirgy (2009); Sirgy, Grewal, & Mangleburg, (2000); Chebat, Sirgy, & St-James (2006)	<ol style="list-style-type: none"> 1. I can identify with the typical customer who shops at this shopping mall. 2. The typical customers at this shopping mall are very much like me. 3. I can relate to this mall in a way I can't relate to any other malls. 4. This mall reflects my image as how I like to be seen by others.
Commitment to the mall	Chebat, El Hedhli, & Sirgy (2009); Beatty, & Kahle (1988); Baker, Levy & Grewal (1992) Yoo, Donthu, & Lee (2000)	<ol style="list-style-type: none"> 1. When shopping, this mall is my first choice 2. I will not shop at other malls if I can buy the same item at this mall 3. Even when items are available in other malls, I tend to shop at this mall 4. It makes sense to shop at this mall instead of another mall even if the items are the same 5. If there is another mall as good as this mall, I would still prefer to shop at this mall 6. If another mall is not different from this mall in any way, it seems smarter to shop at this mall
Customer Satisfaction	Oliver (1999); Bloemer and Ruyter (1998)	<ol style="list-style-type: none"> 1. I am satisfied with my decision to purchase from this mall 2. My choice to purchase from this mall was a wise one. 3. I feel badly regarding my decision to buy from this mall. 4. I think I did the right thing by buying from this mall 5. I am unhappy that I purchased from this mall
Mall Loyalty	Chebat, El Hedhli, & Sirgy (2009); Baker, Levy & Grewal (1992)	<ol style="list-style-type: none"> 1. I'm very likely to purchase merchandise from this mall in the future 2. I would be willing to buy gifts at this mall 3. I would recommend this mall to my friends 4. I visit this mall more frequently than other shopping mall 5. I consider this mall as my first choice of mall. 6. I have a strong preference for this shopping mall.
Environment (Semantic differential scale)	Chebat, El Hedhli, & Sirgy (2009)	<ol style="list-style-type: none"> 1. Uncomfortable – Comfortable 2. Depressing – Cheerful 3. Plain – Colorful 4. Un-lively – Lively 5. Dull – Bright 6. Uninteresting - Interesting

The Effectiveness of Supply Chain Management Programme: An Evaluation Framework

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Abstract

Supply chain management has become a major competitive advantage in today business cycle. A growing number of companies have realized how important it is to be prominent in managing their supply chain in order to compete effectively. Therefore, many companies are increasingly building their expertise in this function. However, developing an expertise in supply chain management is not a simple task. Companies are facing many obstacles in achieving excellence in their supply chain management system. One major obstacle is the shortage of trained supply chain management professionals at all levels. On the one hand, there is an increase demand of graduates in this subject, but on the other hand, there are very few universities that offer the supply chain management programme that really can address the need of the industries. In this paper, the author is essentially focusing on building a framework to evaluate how supply chain management programmes have been designed to produce supply chain professionals according to what actually required by industries. But before that, the study of supply chain management talent will be discussed first in order to get an insight into what skills-set supply chain managers need.

Key words: Supply chain management, Talent, Skills-set, Programme Evaluation.

Introduction

Supply chain management is the management of the interconnection of organizations that relate to each other through upstream and downstream linkages between the different processes that produce value in the form of products and services to the ultimate consumer. It is a business approach that focuses on integration and partnership in order to meet the customers' need on timely basis, with relevant and high quality product, produced and delivered in cost-effective manner.

Traditionally, the operations of supply chain have been managed internally focused. However, current interest in supply chain management is ever-expanding as the need of world-class organizations to purchase, produce, and move and market goods on global basis. Now, supply chain managers have to look beyond an internal view if they want to manage their supply chain operations effectively. As business organisations outsource many of their activities and buy more of their activities and services and materials from outside specialists, the way they manage the supply of products and services to their operations become increasingly important. To add the complexities, supply chain leaders also facing a challenge with globalization which increases the scope of their responsibility.

Moreover, companies also view and manage their supply chain function in different ways. It is commonly found that supply chain/operations managers have different role in every company. They have different responsibility and have diverse span of control. This has made it difficult to establish a more defined of skills-set needed for an operations manager. This situation

has been a concern among industries and universities as it has hindered the establishment of a more standardized university curriculum for the supply chain management program.

This study is essentially interested in compiling the scope of supply chain management. Furthermore, it goes on the specific topic of interest about the skills-set required to become a supply chain manager. The University of Liverpool becomes the primary research of this project to identify how its MSc in Operations and Supply Chain Management program has been designed to equip students with necessary skills to become a supply chain manager.

Literature Review

Definition of Supply Chain Management

The term SCM was originally introduced by consultants in the early 1980s and has subsequently gained tremendous attention (La Londe, 1998). Basically, SCM was built upon the framework of logistics which is essentially a planning orientation and framework that seeks to create a single plan for the flow of product and information through a business (Christopher 2005). Until late 1990s, most practitioners, consultants and academics viewed SCM as not appreciably different from the contemporary understanding of logistics management. That is, SCM was viewed as logistics outside the firm to include customers and suppliers. In fact, SCM is a wider concept. It seeks to achieve linkage and co-ordination between the processes of other entities in the pipeline, i.e. suppliers and customers, and the organization itself.

The concept of supply chain management has brought a great impact on how most business organizations view themselves and it has been a major competitive advantage in the modern business. Today, individual businesses no longer compete as solely autonomous entities, but rather as supply chains. Business management has entered the era of internetwork competition. Instead of brand versus brand or store versus store, it is now suppliers-brand-store versus suppliers-brand-store, or supply chain versus supply chain. In this emerging competitive environment, the ultimate success of the single business will depend on management's ability to integrate the company's intricate network of business relationships (Christopher, 1998). The management of these multiple relationships across the supply chain is being referred to as "supply chain management" (SCM) (Christopher, 2005).

A broad and rather general definition of supply chain management as follows:

“Supply chain management is defined as the systematic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purpose of improving the long-term performance of the individual companies and the supply chain as a whole.”⁵

Thus supply chain is not a chain of businesses with one-to-one, business-to-business relationships, but a network of multiple business and relationships. SCM offers the opportunity to capture the synergy of intra-and intercompany integration and management. In that sense, SCM deals with total business process excellence and represents a new way of managing the business and relationships with other members of supply chain. The mission of this managerial effort is to set the level of business activities so as to make products and services available to customers at the time, place, and in the condition and form desired, in the most profitable or cost-effective way.

⁵ John T. Mentzer, William DeWitt, James S. Keebler, Soonhong Min, Nancy W. Nix, Carlo D. Smith, and Zach G. Zacharia, "Defining Supply Chain Management," *Journal of Business Logistics*, Vol. 22, No. 2 (2001), pp. 1-25

Scope of Supply Chain Management

Since the early 1990s, academics have attempted to give structure to SCM (Stevens, 1989; Towill et al., 1992). Along with the business environment changes such as competition in global market, demanding customer, the need to deliver value and advances in technology, SCM has also expanded its scope to a wider integrated concept of management. However, not all the activities in this scope apply to every business organizations. Every business has its own capacity and complexity. It is vary from firm to firm.

The scope of supply chain management encompasses the following (Adebanjo, 2007):

Sourcing and procurement of raw materials, Inventory management (raw materials, WIP, finished goods), Site selection and facilities layout, Demand management, Production planning (MPS, MRP), Order processing, Transportation, Warehouse/distribution centre management, Retail distribution/ delivery, Information systems management and customer service.

Supply Chain Management Talent

One of the largest barriers to successfully managing a supply chain is the human element. Supply chain managers are not only required to be capable handling the technical aspects in the supply chains. A broad knowledge in technical issues such as sourcing and procurement raw materials, inventory management, demand management, production planning, order processing, transportation and warehouse management is not the only skills needed to perform the tasks as a supply chain manager. One example is communication aspect. The importance of being good at building and maintaining trust and communication is very significant. Since many of the firms in a supply chain do not have a history of cooperation, dealing with these issues is a challenge as achieving the trust necessary for supply chain management is a time-intensive task. Furthermore, failure to correctly manage these issues will abort any attempt to manage a supply chain. When there is a lack of trust and communication, the supply chain's members will soon succumb to greed or suspicion that other members of the supply chain are profiting at their expense. When the communication is not adequate, the supply chain will not improve its response enough to increase profits for its members. Without an increase in profits, the efforts to manage the supply chain will be reduced, because there will be no reward for actively managing it.

Therefore, tasks for a supply chain manager are quite multifaceted. And this is not only the case. Since supply management organisations have been in flux for the past decades and will continue in that state over the next decade, the demands on and for supply professionals also have changed, although sometimes unnoticed (L. Carter and R. Carter, 2007). In the future, much will be expected from supply management professionals. They will be charged with developing and executing strategies that find new value in the supply base. Importantly, this value must be delivered as quickly as possible within the cost parameters defined by the demand market and must maximise the return to the company. To do this, supply management professionals will need the skills and capabilities to understand and interpret supply market dynamics, analyse complex supply options and risks; and develop innovative value-acquisition strategies that integrate with and support business and functional strategies. Supply leaders will also be asked to create and manage collaborative supplier relationships and lead global cross-functional and cross-organisational teams. In this chapter the author explores and identify skills-set needed for a supply chain manager to perform the tasks of a supply chain manager in order to successfully manage the whole system in the supply chain.

The Role of the Supply Chain Manager

Managing a supply chain is not a simple task. It is much more complex than managing an individual firm. Where in an individual firm the business processes can be managed by each

function with a defined task and role, supply chain management requires an unprecedented level of cooperation between the members of the supply chain. Collaborative efforts between each member of the supply chain in order to satisfy customer demand is the major factor to gain the competitive advantage of a supply chain management system. In addition, it also requires an open sharing of information so that all members know they are receiving their full share of the profits. The key aspects of the job of a supply chain manager are outlined below (Hill, 2005).

Managing the Short and Long Term

The main task of supply chain managers includes ensuring the provision of goods and services in a short-term function. A day's lost output will never be recovered without additional costs being incurred. Customers who go elsewhere are lost business, sometimes forever. It is thus essential that the day-to-day activities are well controlled and coordinated, and meet budgeted outputs. As these kinds of job are always challenged with substantial pressure managing the short-term goals are demanding jobs. They include:

- The job is problem-oriented and solution driven. Supply chain manager need to react quickly to resolve problems at source. Handling the symptoms as they appear will only bring temporary respite. The causes need to be identified and handled
- It is a job that requires practical outcomes, 'indeed in this sense its practicability is overwhelming'
- 'pressure is also a distinctive feature of the job due to the tasks involved, the time constraints imposed and the dependency upon a whole range of activities, some of which are outside the direct control of the operations function either because of the organisation's reporting system or because they are externally sourced.

However, it is also equally important that the longer term requirements do not take a secondary role. In a function that controlling such a large portion of revenue expenditure, the longer term developments of the operations function need to be given the necessary time and attention, because, here, small percentage improvements invariably lead to large actual savings.

Managing Technology

The supply chain manager is a manager of technology, product, service and process. However, the degree of technology will differ from sector to sector. In most instances, the supply chain manager needs not so much to understand the technology itself but more importantly the business trade-offs that can be delivered by the technology in place being proposed. In this way, supply chain uses technology to provide services or make products for a company's markets, with technical expertise provided by support staff.

Coordinating the Whole

Like managers of other departments, the supply chain manager breaks down the total task into subsystems as a way to control the whole. This is essential in order to cope. However, the supply chain manager's role is to control these subsystems while also controlling the total system. But, as the operations task is large, the subsystems will usually be numerous and interrelated, making this coordinating role all the more difficult.

In addition, the activities of many of the support and specialist functions that form part of an organization will be to help operations complete its tasks. Therefore, it is equally important for supply chain managers to be involved with and contribute to the specialist's tasks and activities as far as they relate to their own area of responsibility. They need to set the agenda for these support activities and be proactive in establishing directives, agreeing the tasks and specification for the work on hand, and facilitate the essential relationship between and with them.

Managing the Flow of Work and Money

Supply chain is responsible for the flow of work through a business and the flow of money. The fundamental tasks involved in providing services and producing products concern managing the flow of work from inputs to outputs. The flow of money involves managing costs in the form of purchases and processing costs, that is, money flowing out of the organization. When services are provided or products are made and then sold, customers pay for these at the time or at a later date and money flows back into the organization. Meeting customer lead times while keeping costs and other expenditure, such as inventory, under control is a core task within any business. Supply chain is responsible for managing both these flows, as the one is tied to the other.

Managing the Process through People

At the core of this role is the task of managing the supply chain process through people. Managing this key resource in order to meet both the short- and long-term dimensions of the task, while also addressing the wide range of development needs and career expectations of those involved, is central to the role of supply chain management.

Linking the Thinking and Doing Ends of a Business

The supply chain function provides the essential link between the corporate view and operational task. On the strategy dimension, it links direction to action. Without action, strategic discussion and debate has little value. Thus, translating strategy into action is fundamental to the ongoing success of a business and supply chain has a key role in getting this done. In the same way, supply chain links corporate philosophies and values with the views of work held by those who complete the task. It is essential to link the top and bottom of business as this helps to forge the coherence and cooperation essential for the success of the enterprise.

Managing Complexity

Supply chain concerns the management of complexity. The size and diversity of the tasks involved and the implications of decisions in terms of investment, cost and people are significant in size and fundamental in nature. The challenge of the job comes not from the nature of the individual tasks and decision for which supply chain manager is responsible, but from the complex interrelationships activities and departments that exist.

Skills-set for Supply Chain Manager

The author divides skills-set for an operations manager into three main categories. They are basic management skills, functional skills and cross-functional and cross-cultural skills.

Management Basics

Management basics involve general business management skills needed for a manager to effectively and efficiently manage a business organization. Managers work in organisations, which are systems of people organised to perform some function. Managers are those people organized to perform some function. Managers are those people in the organization who direct the activities of other people in the organization. So, managers are people in organisations who get things done through and with other people. Managers are usually evaluated both on how efficient they are and how effective they are. Efficient managers whose outputs meet or exceed the planned outputs or alternately the managers who achieve the most output for a given input. Effective managers are those who do the right things. The ideal manager is both effective and efficient.

Basically, the functions of a manager are to:

1. Plan

2. Organize
3. Lead
4. Control
5. Improve

The first basic function is to plan. This requires the manager to develop objectives, a strategy to meet the objectives, and plans to accomplish the goals necessary to implement the strategy. To do effective planning, it is useful to have a vision of the goals of the firm, to have concepts and principles for guidance on how to get there, and have tools that help to sort among alternative courses of action. This vision is converted into specific plans for the functional areas of the firm, of which supply chain is one. These plans require making many specific decisions. Regarding the supply chain, these decisions include locating warehouses, setting inventory policies, designing order-entry system, and selecting transportation modes. Many of these may be aided by the application of various concepts for supply chain and decision-making techniques available to the supply chain manager. The planning takes place at three levels: strategic, tactical, and operational. The major difference between them is the time horizon for the planning. *Strategic planning* is considered long-range, where the time horizon is longer than one year. *Tactical planning* involves an intermediate time horizon, usually less than a year. *Operational planning* is short-range decision making, with decisions frequently made on an hourly or daily basis. Strategic planning works with data that are often incomplete and imprecise and it uses more general approach. Operational and tactical planning works with very accurate data and often requires an intimate knowledge of the particular problem and specific approaches. For example, Inventories decision area. The strategic planning for inventories is stocking locations and control policies. Then the tactical planning is safety stock levels. And the operational planning which might be made on an hourly or daily basis is replenishment quantities and timing. Similarly for warehousing, handling equipment selection and layout design is strategic, seasonal space choices and private space utilization tactical and order picking and restocking is operational planning.

Basically, supply chain planning is a design problem. The network is to be constructed as a configuration of warehouses, retail outlets, factories, deployed inventories, transportation services, and information processing systems that will achieve an optimum balance between the revenues resulting from the level of customer service established by the network design and the costs associated with the creation and operation of the network. Ballaou (Figure 1) divided primary planning decisions into three main categories which is called primary decision triangle of location, inventory, and transportation, with customer service being the result of these decisions.

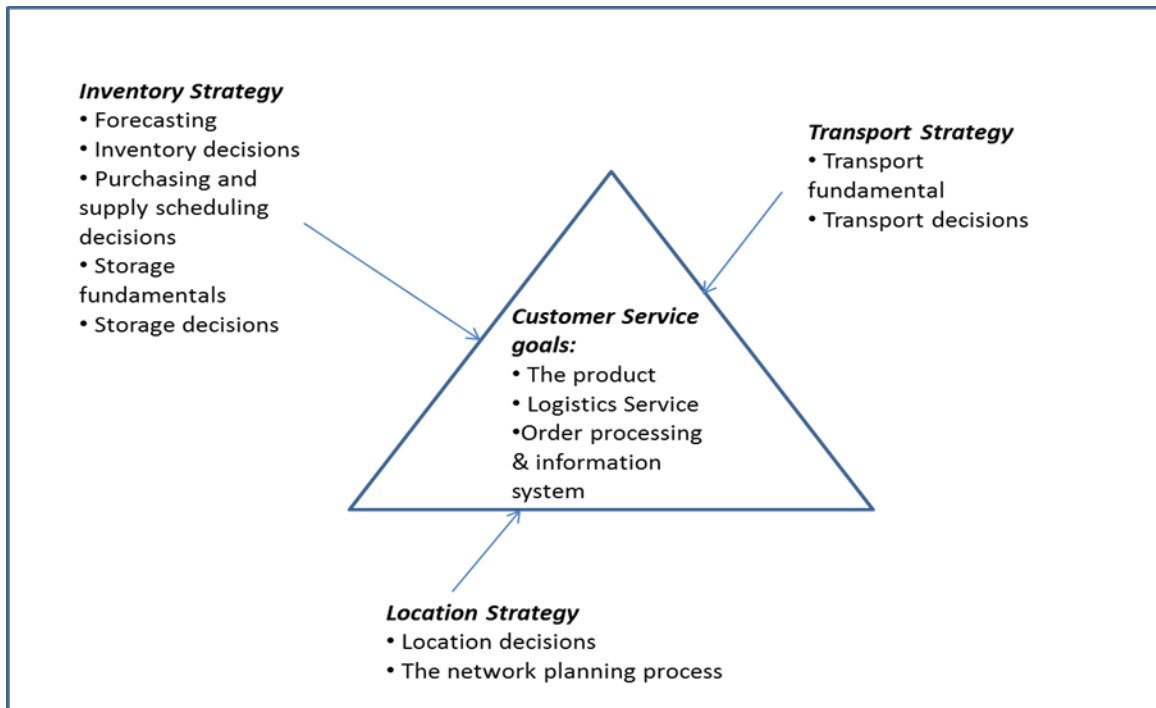


Figure 1. The Planning Triangle in Relation to the Principal Activities of Supply Chain Management.

Once they have plan, managers perform their second function. They determine how to organize the firm. To do this, they must identify what tasks need to be done and who will do them. They then create a structure that positioning people in the firm who are responsible for supply chain activities in a way that encourages coordination among them which is used for controlling the process later. Such organizational arrangements promote efficiency in the supply chain system. Providing some organizational structure to supply chain activities also defines the necessary lines of authority and responsibility to ensure that goods and information are moved accordingly to plan and that replanning is carried out when needed. A supply chain manager is often needed to coordinate their combined operations. Only the manager has the scope to balance these operations to achieve the highest level of efficiency.

Since managers do their jobs through people, they must lead these people. This requires the manager to understand how to motivate his/her employees, how to direct their activities, how to communicate effectively, and how to resolve conflicts as they arise.

The fourth function of the manager's job is control. Control is to ensure accomplishment of intended goals. This function is the process where planned performance is brought into line, or kept in line, with desired objectives. In the supply chain system, the manager seeks to control planned supply chain activities (transportation, warehousing, inventories, materials handling, and order processing) in terms of customer service and activity costs.

Supply chain manager should provide a control mechanism to ensure the accomplishment of desired goals. The control mechanism includes the audits and reports about system performance, the goals established for performance, and some means for initiating corrective action. In the control function, managers monitor performance by comparing it to the established goals and then determining what actions must be taken to eliminate any significant deviations from the established goals. Managers exert this control by using a control system. The control

system is a method of collecting the necessary data and information analyzing it so that appropriate action can be taken.

And the final element of the manager's job is to improve. This means that over time the firm must increase the productivity of each process. Benchmarking is one technique that can be used to seek improvement opportunities by comparing against others. Benchmarking has been referred to as a process with definable steps. It is a continuous process of measuring and evaluating supply chain performance and practices against others in the industry. The purpose is to identify differences that can lead to improvement. Another technique for identifying improvement opportunities is called SCOR (supply chain operations reference). SCOR model provides a way of defining supply chain activities in a standardized format, analysing the supply chain inter-organisationally at the product level, and comparing performance with statistics derived from Supply Chain Council's membership companies. The SCOR model is primary a tool for communicating among practitioners, which leads to improved control over the supply channel.

Functional Skills

Supply chain leaders are no longer experts in a functional area but rather a discipline with a much broader expanse of knowledge (Global life sciences executive). However, since supply chain manager always have to deal with daily activities within the operations department, a deep understanding and knowledge about the technical aspects of each function in supply chain activities will give a reasonable view and perspective in making decisions. Therefore, supply chain manager should have a broad knowledge and skills about all the functional aspects within a supply chain management system. A recent research carried out by AMR Research in 2008 has established a supply chain talent model which assist in identifying major functional areas of responsibility in a supply chain system. There are 11 stations in the Supply Chain Talent Model. The model features major established functional stations including plan, source, make and deliver. Furthermore, the model offers a place for new elements which integrate some functions into a supply chain management system. The new elements reflect the expanded scope of responsibility of a supply chain manager. These functions are new product development (NPDL), post-sales support, customer management, strategy and change management, performance measurement and analytics, technology enablement, and governance. Figure 2 represents the 11 functional stations adapted from AMR Research which describes functional skills-set in a supply chain system.

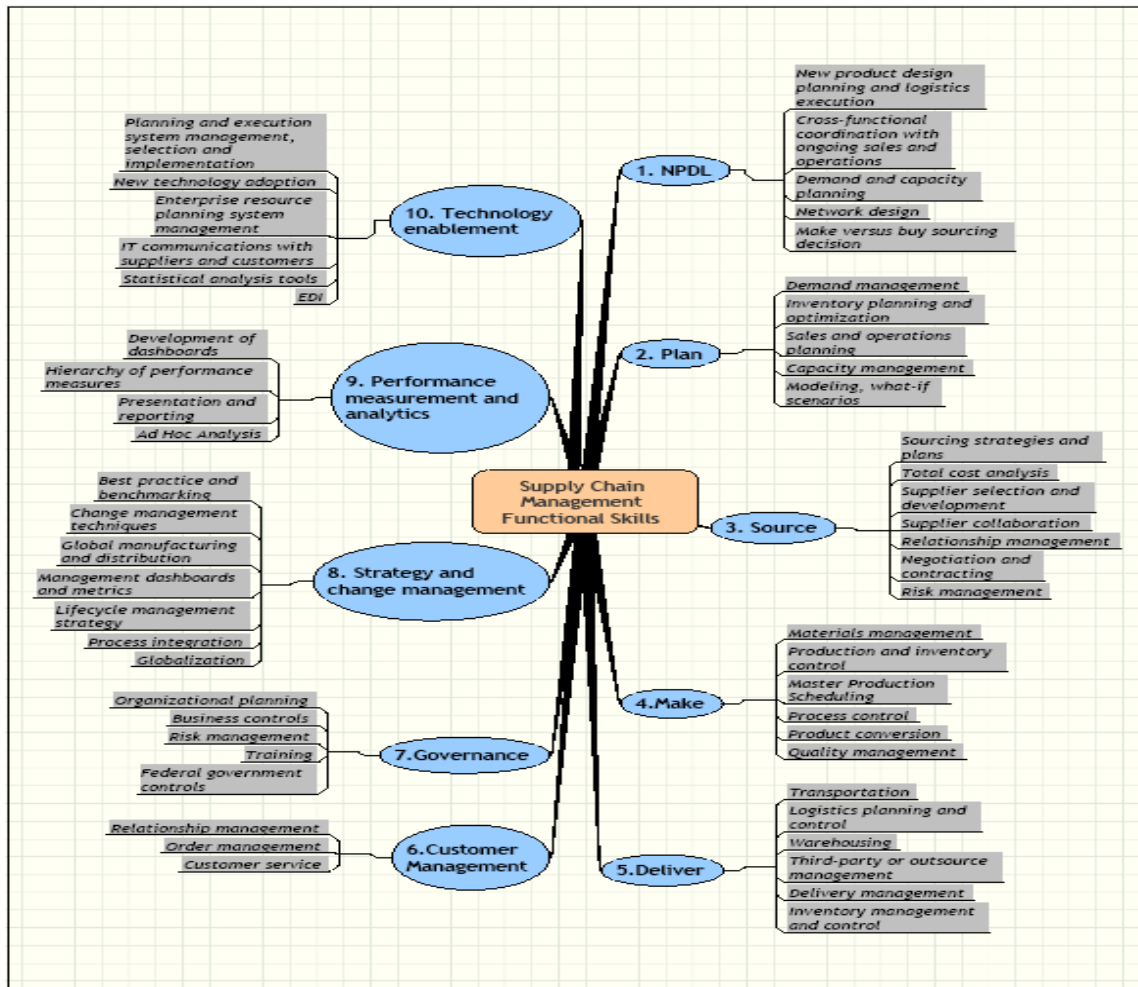


Figure 2. Model for functional skills-set for a supply chain management system.

Cross-Functional and Cross-Cultural Skills

Skilled and talented people with diverse functional and cultural backgrounds will be needed to power tomorrow's supply management organization. Supply management professionals will increasingly need both broader general business knowledge and multi-discipline skills. Understanding how their own business operates and competes will be key to identifying and delivering new value-creation opportunities from supply management. Similarly, understanding how key suppliers operate and compete will help enhance overall value receive, reduce costs, and ensure business continuity.

Compare to other jobs such as marketing and finance jobs, jobs in operations and supply management require more interaction with people. Many marketing entry-level jobs focus on actually selling products or managing the sales of products. These individuals are out on the front line trying to push product to potential customer. And in entry-level finance (and accounting) jobs are often in large public accounting firms. These jobs often involve working at a desk auditing transaction to ensure the accuracy of financial statement. Other assignments often involve the analysis of transactions to better understand the costs associated with the business.

However, in operations and supply management jobs the operations and supply manager is out working with people to figure out the best way to deliver the goods and services of the firm. Sure they work with marketing folks, but rather than being on the selling side, they are on the buying side: trying to select the best materials and hiring the greatest talent. They will use the data generated by the finance people and analyse processes to figure out the best way to do things. Operations and supply management jobs are hands-on, working with people and figuring out the best way to do things.

Since the role of operations managers much involves managing the people interface outside the organization at both supplier and customer end of supply chain, the ability to work cross-culturally will become more important as companies further expand geographically and continue to offshore activities and pursue suppliers in the next wave of low-cost countries. Today, there has been a dramatic surge in the outsourcing of parts and services that had previously been produced internally. This has been encouraged by the availability of fast, inexpensive communications. A whole new breed of contract manufacturers that specialize in performing focused manufacturing now exists. The success of this kind of traditional outsourcing has led companies to consider outsourcing other major corporate functions such as information systems, product development and design, engineering services, packaging, testing, and distribution. The ability to coordinate these activities is a significant challenge for the operations manager of the future. Therefore, operations managers are expected to have a broader understanding of how to work in different settings, and will act as a bridge between cultures.

An Evaluation Framework

Universities have a big role in providing graduates who are competent and capable enough to meet the industry standards. However, supply chain is an ever-changing function, as more and more corporation expanding globally either for sourcing materials and manufacturing or seeking new market opportunities across countries border. Universities are facing a challenge how they can provide the supply chain management program which really can address what actually skills supply chain managers need to perform their tasks in the continuously change business environment.

Here the authors are presenting a framework for evaluating the effectiveness of a supply chain management programme. The evaluation process is conducted by collecting primary data through the distribution of a standard questionnaire. The questionnaire is designed to get qualitative data by obtaining personal opinions of participants. Respondents are asked to give their opinions and judgments with questions by filling a box provided for each single question with a cross (X) in the box they feel the most appropriate. The research questions are designed to expose the course content in a supply chain management programme for a master level degree in terms of how the content of the course has been designed to prepare students with necessary skills to become a supply chain manager. The target respondents are past students who already worked in industry with tasks related to managing supply chain activities.

The questions are focused to cover all the three skill categories discussed earlier. They are management basics skills, functional skills, and cross-functional and cross cultural-skill. And each of these skill categories has 4-7 questions to be answered. Management basics which concern with general business management knowledge as well as decision-making skills are addressed in questions 1-7. The focus is not only management for a specific supply chain management function, rather the questions also explore managerial skills and knowledge required in order to perform well in a business organisations. Question 8-12 ask the respondents how deep and breed the course delivers each topic within a supply chain function. And question 13-17 expose the issues of inter-functional and inter-cultural aspects within a supply chain system. The overall outcome of the course in order to know how well the course provides them with necessary

skills and competencies to perform their current job is asked in question 18. Table 1 represents a standard questionnaire for evaluating the effectiveness of supply chain management programme.

	Very Less	Less	Satisfactory	Good	Very Good
1. Your understanding about managing a supply chain system from this course					
2. The knowledge you gained about managing people in organisations					
3. Your experience working in a team from this course					
4. How good the course in terms of building up your skills in designing a supply chain systems					
5. How comprehensively the course covered the topics about organising business processes in a firm					
6. How much you learned about decision-making tools for supply chain management in the course					
7. Your understanding about manufacturing planning and control system for supply chain management					
8. How well the course was structured in terms of building up your technical skills in managing a supply chain?					
9. The depth of knowledge you gained about each function in a supply chain system (distribution, warehousing, inventory, etc)					
10. The breadth and depth of knowledge you gained about daily production activities within a company					
11. How well technology issues related to supply chain and operations management was introduced to you (Software, MPS, ERP, SAP, etc)					

12. How well the course made you understand about the flow of work from input to output, as well as the flow of money in a supply chain					
13. How well the course tested your written and oral communication skill					
14. Your experience working with other people from different cultural background					
15. Your understanding about interrelated activities between functions in a firm and between organisations in a supply chain					
16. The issue of global manufacturing and distribution system covered in the course					
17. How well the course tested your ability to work under pressure					
18. Overall, how well the course has provided you with basic professional skills and knowledge in order to perform your current jobs					
Comments					
19. Please comment on any gaps between the content of the course and your experiences of real operations and supply chain practices					

Table 1. Standard Questionnaire for Evaluating the Effectiveness of Supply Chain Management Programme

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The Effect of Career Programs and Career Needs on Career Outcomes

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Abstract

This study was aimed at measuring the correlation between career program, career needs and career outcomes. It gathered the data by using self-report questionnaires of employees of a government owned security-based higher learning institution in Malaysia. The outcomes of SmartPLS path model analysis of the data produced four significant findings: first, relationship between career planning and career needs was positively and significantly correlated with job satisfaction. Second, relationship between career management and career needs was positively and significantly correlated with job satisfaction. Third, relationship between career planning and career needs was positively and significantly correlated with commitment with career choice. Fourth, relationship between career management and career needs was positively and significantly correlated with commitment with career needs. This result also confirms that fulfillment of career needs does act as an important mediating variable in the relationship between career program and career effectiveness in the organizational sample. Further, this study offers discussion, implications and conclusion.

Keywords: Career planning, career management, job satisfaction, commitment with career choice

INTRODUCTION

Career program in organizational context is generally viewed as a crucial human capital management function (Ismail et al., 2013; Wilkens & Nermerich, 2011). It refers to an employer's design and administration of career programs that link employees' interests and capabilities with organizational opportunities, as well as adjustment to current and future organizational changes. This initiative will motivate employees to select occupations or professions that not only due to salaries, but also to enjoy progress in their career paths (Baruch, 2004; Greenhaus et al., 2000; Martin et al., 2001; Theodossiou & Zangelis, 2009). A review of current literature pertaining to human capital development shows that career program consists of two salient features: career planning and career management (Conger, 2002; Nachbagauer et al., 2002; Post et al., 2007). Career planning is defined as administrators plan on current career program activities for their employees using proper assessment tools (e.g., vocational counseling, workbooks and/or career resource centre) in order to identify career options and preferences, setting up of development objectives and establishment of action plans to help employees match their interests and capabilities with organizational opportunities (Appelbaum & Shapiro, 2002; Greenhaus et al., 2000; Mondy et al., 2002; Puah & Ananthram, 2006). Conversely, career management is usually defined as administrators continuous monitoring career program activities in order to enable employees to adapt themselves with organizational changes (e.g., turbulent working environment, job stability and security, flexible work practice and multi- skilling) and to achieve higher career ladders in organizations (Greenhaus et al., 2000; Martin et al., 2001; Whymark & Ellis, 1999).

Extant studies in the organizational career program reveal that the ability of administrators to properly plan and manage career programs may have a significant impact on employee outcomes, especially job satisfaction (Wilkens & Nermerich, 2011; Ismail et al., 2013), and commitment with career choice (Ferreira et al., 2007; Hirschi, 2009). From organizational behavior perspective, job satisfaction is normally interpreted as a form of behavior towards work of conditions, employees' judgment and employees process of thoughts regarding with their jobs, facets or aspects (Linz, 2003; Mobley et al., 1978; Weiner, 1982), individuals' positive emotional state, pleasurable feelings and/or attitudes towards job resulting from their appraisals about the extrinsic and intrinsic job characteristics (Appelbaum & Shapiro, 2002; Gregson, 1987; Linz, 2003; McShane & Von Glinow, 2005). On the other hand, commitment with career choice is usually interpreted as high level of willingness among individuals who attach, identify and involve in achieving their career goals (Chen *et al.*, 2004; Herr, 2001; Mondy *et al.*, 2002).

Surprisingly, a detailed review of current organizational career literature reveals that effect of career program on career outcomes is indirectly contributed by meeting employees' career needs. From the perspective of a human capital development, meeting career needs is often interpreted as individuals perception that career programs initiated by administrators are beneficial to enhance their career paths in organizations (Chen, Chang and Yeh, 2004; Ismail, Daud and Madrah, 2011; Mondy, Noe and Premeaux, 2002; Puah and Ananthram, 2006). For example, the ability of administrators to appropriately plan and manage career programs based on job needs and expectations will fulfill employees' career needs. Consequently, this may lead to induced positive career outcomes like job satisfaction (Ismail et al., 2013; Puah & Ananthram, 2006), and commitment with career choice (Andekola, B., 2011; Ismail et al., 2013).

Within the workplace career program model, most researchers think that career planning, career management, career needs and commitment with career choice are distinct, but strongly interrelated concepts. For example, the ability of administrators to appropriately plan and manage career programs based on job needs and expectations will help employees to fulfill career needs. As a result, this may lead to enhanced positive career outcomes, especially job satisfaction and commitment with career choice. Even though the nature of this relationship is fascinating, the role of fulfillment of career needs as an important mediating variable has been ignored in the workplace career research literature (Andekola, B., 2011; Ismail et al., 2013). Many scholars argue that this condition is due to preoccupation of the previous studies on the internal properties of career program, employment of a simple correlation analysis method to describe respondent attitudes toward general career program dimensions, and assessment of the degree of association between career program and specific employee outcomes, as well as lack of attention to measure the effect size and nature of the correlation between career program, career needs and career outcomes in the workplace (Hirschi, 2009; Theodossiou & Zangelisa, 2009; Wilkens & Nermerich, 2011). As a result, these studies have provided insufficient useful findings to assist practitioners in clearly understanding about the complexity of career program and designing strategic action plans that suit with highly competitive organizations in an era of global economy (Andekola, B., 2011; Ismail et al., 2013). Thus, this situation stimulates the researchers to further discover the nature of the relationship among key variables.

OBJECTIVE OF THE STUDY

This study has four major objectives: first, to measure the relationship between career program and job satisfaction. Second, to measure the relationship between career program and commitment with career choice. Third, to measure the relationship between career program, career needs and job satisfaction. Fourth, to measure the relationship between career planning, career needs and commitment with career choice.

LITERATURE REVIEW

Analysis of trends in many previous studies shows that researchers have been using an indirect effects model to examine organizational career program based on different samples, such as perceptions of 445 respondents in Portugal (Ferreira et al., 2007), perceptions of 330 Swiss eighth graders in Switzerland (Hirschi, 2009), 5500 household taken from British Household Panel Survey (Theodossiou & Zangelisa, 2009), 620 students from Portuguese school system (Janeiro, 2010), 13 in-depth interviews with workers from knowledge intensive working context (Wilkens and Nermerich, 2011), and 140 employees in a Sabah local government in Borneo (Ismail et al., 2013). The results of these surveys reported two important findings: first, the ability of administrators to properly plan (e.g., set up goals and policies) and manage (e.g., monitoring the progression of employees in career paths) career programs had motivated employees to enhance their job satisfaction (Theodossiou & Zangelisa, 2009; Wilkens & Nermerich, 2011; Ismail et al., 2013), and commitment with career choice (Ferreira et al., 2007; Hirschi, 2009). In view of all these, the current study hypothesized that:

- H1: Career planning is positively related to job satisfaction
- H2: Career management is positively related to job satisfaction
- H3: Career planning is positively related to commitment with career choice
- H4: Career management is positively related to commitment with career choice

In addition, several recent studies were done using an indirect effects model to investigate organizational career program based on different samples, like perceptions of 367 R&D personnel from Hsinchu Science-based Industrial Park in north Taiwan (Chen et al., 2004), 505 employees of a leading international Singaporean hotel in Singapore (Puah & Ananthram, 2006), employees of Nigerian Banks (Andekola, B., 2011), and 140 employees in Sabah local government (Ismail et al., 2013). The results of these surveys reported two important findings: first, the ability of administrators to properly plan career programs (e.g., set up goals and policies) and manage career programs (e.g., monitoring the progression of employees in career paths) based on job needs and expectations had fulfilled employees' career needs. Consequently, it could lead to greater employees' job satisfaction (Chen et al., 2004; Ismail et al., 2013; Puah & Ananthram, 2006), and commitment with career choice (Andekola, B., 2011; Chen et al., 2004; Ismail et al., 2013; Puah & Ananthram, 2006).

The empirical studies support the underlying fundamentals of motivation theory. For example, Herzberg's (1959, 1966) motivator-hygiene theory posits that work characteristics as important factors that enhance individual motivations. While, Alderfer's (2002) Existence, Relatedness and Growth theory explains that job needs as essential factors that enhance individual motivations. Further, McClelland's (1962) learned needs theory highlights that need for achievement, need for affiliation and need for power serve as important predictors of individual motivations. Application of these theories in a career program model reveals that the ability of administrators to appropriately plan and manage career programs based on job needs and expectations (Alderfer, 2002; Herzberg, 1959, 1966; McClelland, 1962) will fulfill employees' career needs. As a result, it may lead to greater job satisfaction (Theodossiou & Zangelisa, 2009; Wilkens & Nermerich, 2011; Ismail et al., 2013) and commitment with career choice (Ferreira et al., 2007; Hirschi, 2009). Therefore, it was hypothesized that:

- H5: Relationship between career planning, meet career needs will positively impact job satisfaction.
- H6: Relationship between career management, meet career needs will positively impact job satisfaction.
- H7: Relationship between career planning, meet career needs will positively impact commitment with career choice.
- H8: Relationship between career management, meet career needs will positively impact commitment with career choice.

METHODOLOGY

This study employed a cross-sectional research design because the latter permits the researchers to integrate the organizational career literature, the unstructured interview, the pilot study and the actual survey as a main procedure to gather data. As suggested by prominent researchers (Cresswell, 1998; Sekaran, 2000), this set of methods is able to gather accurate, less bias and high quality data in social science research. The location of this study was a defense-oriented tertiary educational institution in Malaysia. At the initial stage of this study, survey questionnaire was drafted based on the workplace career program literature. Next, the semi-structured interview was conducted involving two experienced HR managers and two experienced supporting staff in the human resource department of the organization. The information gained from the interview method helped the researchers to understand the features and nature of career planning, career management, career needs, job satisfaction, and commitment with career choice, as well as the correlation between such variables in the context of this study. After that, a pilot study was

conducted by discussing the survey questionnaire with the interviewed participants in order to verify the content and format of the questionnaire for an actual study. Subsequently, a back translation technique was employed to translate the survey questionnaires into Malay and English versions in order to enhance the validity and reliability of the research instrument (Hulland, 1999; Wright, 1996).

The survey questionnaire consisted of four major sections: first, career planning had 4 items; career management had 3 items that were adapted from career program literature (Hirschi, 2009; Ismail et al., 2013; Janeiro, 2010; Theodossiou & Zangelis, 2009; Wilkens & Nermerich, 2011). The dimensions used to measure career planning are design, goal and interest. While, the dimensions used to measure career management are assistance, opportunity and appraisal. Second, career needs had 3 items that were adapted from career development support literature (Chen *et al.*, 2004; Herr, 2001; Ismail et al., 2013; Jepsen & Dickson, 2003; Puah & Ananthran, 2006). The dimensions used to measure meet career needs are expectation and support. Third, job satisfaction had 7 items that were adapted from job satisfaction literature (Chen et al., 2004; Hackman & Oldham, 1980; Ismail et al., 2013; Linz, 2003; Nachbagauer & Riedl, 2002). The dimensions used to measure job satisfaction are responsibility, recognition, freedom, and task variety. Fourth, commitment with career choice had 5 items that were adapted from career commitment literature (Chen et al., 2004; Colarelli & Bishop, 1990; Nachbagauer & Riedl, 2002). The dimensions used to measure commitment with career choice are valuable, inspiration, caring and pride. All these items were measured using a 7-item scale ranging from “strongly disagree/dissatisfied” (1) to “strongly agree/satisfied” (7). This study highlights employee attitudes toward career program, career needs and career outcomes, thus demographic variables were only used as controlling variables.

A convenient sampling technique was employed to distribute 200 survey questionnaires to employees in all departments/faculties of the studied organization. This sampling technique was selected because the institution could not provide the list of registered employees to the researchers for confidential reasons, and this condition did not allow the researchers to randomly choose participants in this study. From the survey questionnaire distributed, only 92 usable questionnaires were returned to the researchers, yielding a 46 percent response rate. Despite this, the sample size allows the researchers to use parametric statistical tests. The survey questionnaires were answered by participants based on their consent and a voluntarily basis. The number of this sample meets the requirement of probability sampling technique, showing that it can be analyzed using inferential statistics (Sekaran, 2000; Leedy & Omrod, 2005). Further, the SmartPLS version 2.0 was recommended by Henseler *et al.* (2009), and Ringle et al. (2013) to assess the psychometric of survey questionnaire data and test the research hypotheses. This statistical package is very useful because it able to produce latent variable scores, avoids small sample size problems, estimate every complex model with many latent and manifest variables, hassle-stringent assumptions about the distribution of variables and error terms, as well as handle both reflective and formative measurement models (Henseler *et al.*, 2009).

RESULTS

Sample profile reveals that most respondent characteristics were males (52.2 percent), aged between 28 to 32 years old (47.8 percent), diploma holders (39.1), employees who have served from 1 to 5 years (88 percent), and those whose monthly salaries range from RM1001 to RM2000 (41.3 percent).

The outcomes of confirmatory factor analysis were shown in Tables 1 and 2. Table 1 shows the results of convergent and discriminant validity analyses. All constructs had the values of average variance extracted (AVE) larger than 0.5, indicating that they met the acceptable standard of convergent validity (Barclay et al., 1995; Fornell & Larcker, 1981; Henseler et al., 2009). In addition, all constructs had the diagonal values of $\sqrt{\text{AVE}}$ were greater than the squared correlation with other constructs in off diagonal, showing that all constructs met the acceptable standard of discriminant validity (Henseler et al., 2009).

TABLE 1: The Results of Convergent and Discriminant Validity Analyses

Construct	AVE	Career Planning	Career Management	Meet Career Needs	Career Satisfaction	Commitment With Career Choice
Career Planning	0.6369	0.7981				
Career Management	0.7535	0.4548	0.8680			
Career Needs	0.8037	0.4874	0.6417	0.8965		
Job Satisfaction	0.7747	0.2612	0.7163	0.6114	0.8802	
Commitment with Career Choice	0.7279	0.3259	0.6382	0.7031	0.6726	0.8532

Table 2 shows the validity and reliability of constructs. The correlation between items and factors had higher loadings than other items in the different constructs. The variables loaded more strongly on their own constructs in the model, exceeding the specified minimum, 0.7 (Chin, 1998; Fornell & Larcker, 1981; Gefen & Straub, 2005). This result shows that the measurement model met the acceptable criterion of validity analysis. While, the composite reliability and Cronbach's Alpha for all constructs had values greater than 0.8, signifying that the instrument had high internal consistency (Henseler et al., 2009; Nunally & Benstein, 1994).

TABLE 2: The Results of Factor Loadings and Cross Loadings for Different Constructs

Construct/Item	Career Planning	Career Management	Meet Career Needs	Job Satisfaction	Commitment With Career Choice	Composite Reliability	Cronbach Alpha
<u>Career Planning</u>						0.874339	0.817777
CP1	0.705246	0.270745	0.189641	0.273224	0.249775		
CP2	0.811515	0.235951	0.306569	0.210761	0.173536		
CP3	0.903551	0.431009	0.511613	0.233898	0.320134		
CP4	0.758527	0.440893	0.417642	0.161298	0.273426		
<u>Career Management</u>						0.901457	0.835871
CM1	0.299704	0.911767	0.634566	0.718069	0.655678		
CM2	0.310703	0.876647	0.477711	0.640633	0.506582		
CM3	0.583239	0.812739	0.538527	0.494305	0.478791		
<u>Career Needs</u>						0.924669	0.877953
CD1	0.435332	0.524414	0.873913	0.501392	0.651305		
CD2	0.432583	0.513031	0.914519	0.488262	0.616808		
CD3	0.441767	0.673467	0.900495	0.640607	0.622959		
<u>Job Satisfaction</u>						0.960065	0.951342
JS1	0.368795	0.610461	0.518133	0.852927	0.498362		
JS2	0.295576	0.707373	0.496874	0.830439	0.549667		
JS3	0.113169	0.569546	0.488538	0.910326	0.615459		
JS4	0.239079	0.676942	0.648141	0.908407	0.634028		
JS5	0.154204	0.654347	0.520116	0.909349	0.658816		
JS6	0.287943	0.586908	0.508719	0.853927	0.581906		
JS7	0.152820	0.600544	0.555830	0.892068	0.597717		
<u>Commitment with Career Choice</u>							
CC1	0.173364	0.462839	0.462412	0.536384	0.799364		
CC2	0.149198	0.484576	0.492013	0.585224	0.866580		
CC3	0.265549	0.620627	0.655604	0.630008	0.926576		
CC4	0.429213	0.569554	0.639342	0.567196	0.843706		
CC5	0.353219	0.584077	0.758992	0.591195	0.820413		

Analysis of the Constructs

Table 3 presents the results of Pearson correlation analysis and descriptive statistics. The mean values for the variables are between 5.0 and 5.8, signifying that the levels of career planning, career management, meet career needs, job satisfaction and commitment with career choice ranging from high (4) to highest (7). The correlation coefficients for the relationship between the independent variable (i.e., career planning and career management) and the mediating variable (i.e., career needs), and the relationship between the independent variable (i.e., career planning and career management) and the dependent variable (i.e., job satisfaction and commitment with career choice) were less than 0.90, showing that the data were not affected by serious collinearity problem (Hair et al., 1998). All constructs had the r values equal with 1 (as shown in the diagonal), indicating that the constructs met the acceptable criterion of reliability analysis. Further, these statistical results confirm that the constructs used in this study met the acceptable standards of validity and reliability analyses.

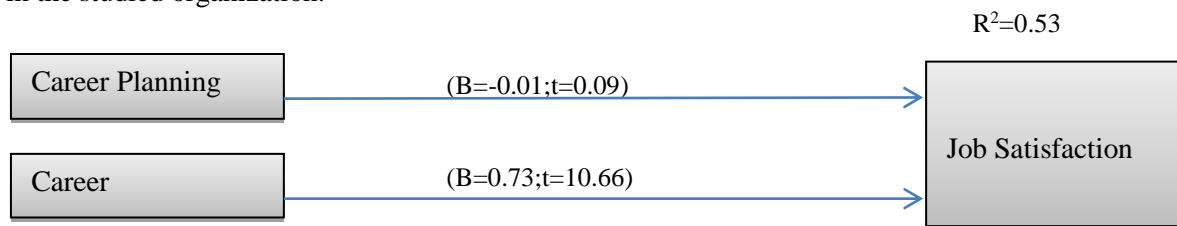
TABLE 3: Pearson Correlation Analysis and Descriptive Statistics

Construct	Mean	Standard Deviation	Pearson Correlation Analysis				
			1	2	3	4	5
1. Career Planning	5.8	.73	1				
2. Career Management	5.2	1.08	.44**	1			
3. Meet Career Needs	5.1	1.26	.45**	.63**	1		
4. Job Satisfaction	5.1	1.24	.27**	.71**	.61**	1	
5. Commitment with Career Choice	5.0	1.26	.32**	.63**	.70**	.68**	1

Note: Significant at ** $p < 0.01$

Outcomes of Testing Hypotheses 1 and 2

Figure 1 presents the results of SmartPLS path model analysis. The value of R^2 is used as an indicator of the overall predictive strength of the model. It is interpreted as follows: 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998). In terms of explanatory power, the inclusion of career planning and career management in the model analysis had explained 53 percent of the variance in job satisfaction. Specifically, the outcomes of testing research hypothesis showed two important findings: first, career planning positively and insignificantly correlated with job satisfaction ($\beta = -0.01$; $t = 0.09$), therefore H1 was not supported. Second, career management positively and significantly correlated with job satisfaction ($\beta = 0.73$; $t = 10.66$), therefore H2 was supported. Overall, this result confirms that career planning does not act as an important predictor of job satisfaction, while career management does act as an important predictor of job satisfaction in the studied organization.



Note: Significant at $t > 1.96$

FIGURE 1: Outcomes of SmartPLS Path Model Analysis

Further, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels et al.'s (2009) global fit measure guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)}$. The results of GoF test will be used to explain power of the SmartPLS path model in comparison with the baseline values ($GoF_{\text{small}} = 0.1$, $GoF_{\text{medium}} = 0.25$, $GoF_{\text{large}} = 0.36$). In this study, the value of GoF was 0.38, showing that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result provides adequate support to validate the PLS model globally (Wetzel et al., 2009).

Outcomes of Testing Hypotheses 3 and 4

Figure 2 presents the results of SmartPLS path model analysis. The value of R^2 is used as an indicator of the overall predictive strength of the model. It is considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998). In terms of explanatory power, the inclusion of career planning and career management in the model analysis had explained 53 percent of the variance in job satisfaction. Specifically, the outcomes of testing research hypothesis showed two

important findings: first, career planning positively and insignificantly correlated with commitment with career choice ($\beta=0.04$; $t=0.67$), therefore H3 was not supported. Second, career management positively and significantly correlated with commitment with career choice ($\beta=0.61$; $t=8.46$), therefore H4 was supported. In short, this result confirms that career planning does not act as an important predictor of commitment with career choice, while career management does act as an important predictor of commitment with career choice in the studied organization.

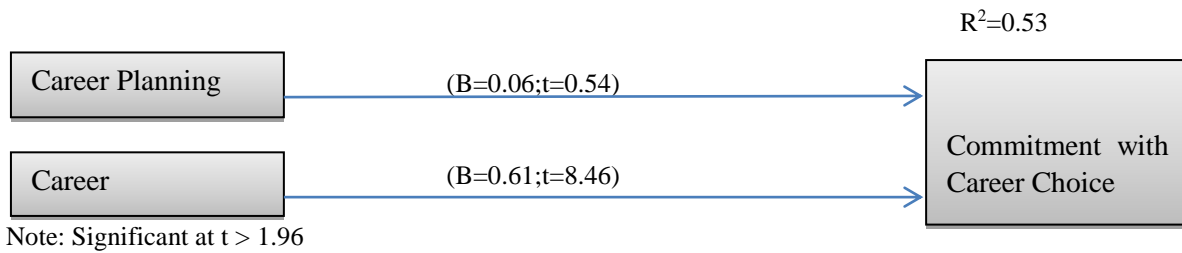
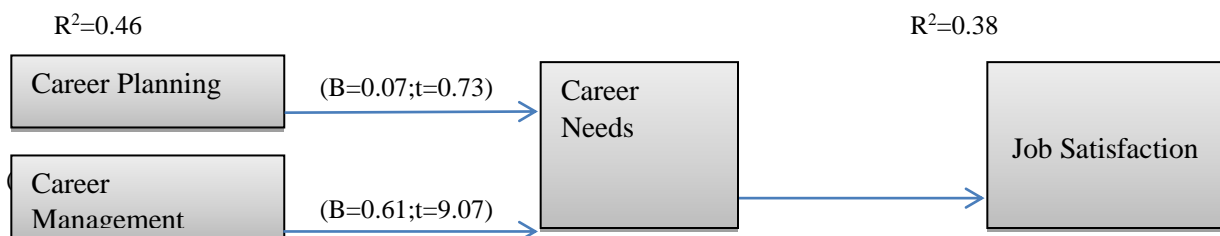


FIGURE 2: Outcomes of SmartPLS Path Model Analysis

Hence, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels et al.'s (2009) global fit measure guideline as follows: $GoF = \sqrt{\{MEAN(Community of Endogenous) \times MEAN(R^2)\}}$. The results of GoF test will be used to explain power of the SmartPLS path model in comparison with the baseline values ($GoF_{small}=0.1$, $GoF_{medium}=0.25$, $GoF_{large}=0.36$). In this study, the value of GoF was 0.40, indicating that it exceeds the cut-off value of 0.36 for large effect sizes of R^2 . This result provides adequate support to validate the PLS model globally (Wetzel et al., 2009).

Outcomes of Testing Hypotheses 5 and 6

Figure 3 presents the results of SmartPLS path model analysis. The value of R^2 is used as an indicator of the overall predictive strength of the model. It is viewed as follows: 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998). In terms of explanatory power, the inclusion of career planning and career management in the model analysis had explained 38 percent of the variance in job satisfaction. Specifically, the outcomes of testing research hypothesis showed two important findings: first, relationship between career planning and career needs was positively and insignificantly correlated with job satisfaction ($\beta=0.61$; $t=7.62$), therefore H5 was supported. Second, relationship between career management and career needs was positively and significantly correlated with job satisfaction ($\beta=0.61$; $t=7.62$), therefore H6 was supported. In sum, this result confirms that fulfillment of career needs does act as an important mediating variable in the relationship between career program and job satisfaction.



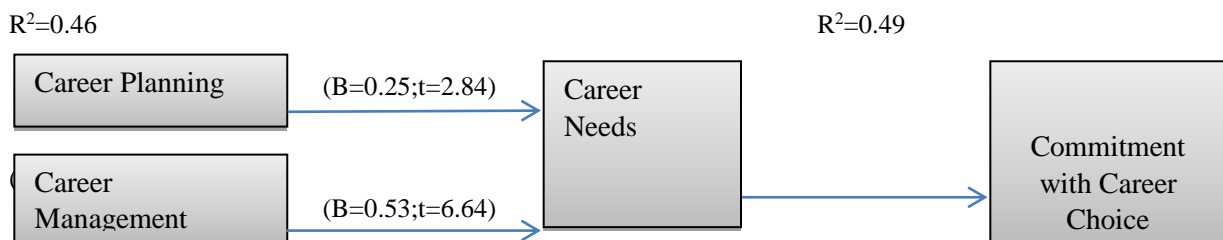
Note: Significant at $t > 1.96$

FIGURE 3: Outcomes of SmartPLS Path Model Analysis

Besides, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels et al.'s (2009) global fit measure guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)}$. The results of GoF test will be used to explain power of the SmartPLS path model in comparison with the baseline values (GoF small=0.1, GoF medium=0.25, GoF large=0.36). In this study, the value of GoF was 0.36, showing that it meets the cut-off value of 0.36 for large effect sizes of R^2 . This result provides adequate support to validate the PLS model globally (Wetzel et al., 2009).

Outcomes of Testing Hypotheses 5 and 6

Figure 4 presents the results of SmartPLS path model analysis. The value of R^2 is used as an indicator of the overall predictive strength of the model. It is considered as follows; 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Chin, 1998). In terms of explanatory power, the inclusion of career planning and career management in the model analysis had explained 49 percent of the variance in commitment with career choice. Specifically, the outcomes of testing research hypothesis showed two important findings: first, relationship between career planning and career needs was positively and significantly correlated with commitment with career choice ($\beta=0.70$; $t=11.63$), therefore H7 was supported. Second, relationship between career management and career needs was positively and significantly correlated with commitment with career choice ($\beta=0.70$; $t=11.63$), therefore H8 was supported.



Note: Significant at $t > 1.96$

FIGURE 4: Outcomes of SmartPLS Path Model Analysis

Further, a global fit measure is conducted to validate the adequacy of PLS path model globally based on Wetzels et al.'s (2009) global fit measure guideline as follows: $GoF = \sqrt{\text{MEAN}(\text{Communality of Endogenous}) \times \text{MEAN}(R^2)}$. The results of GoF test will be used to explain power of the SmartPLS path model in comparison with the baseline values (GoF small=0.1, GoF medium=0.25, GoF large=0.36). In this study, the value of GoF was 0.36, showing that it exceeds the cut-off value of 0.60 for large effect sizes of R^2 . This result provides adequate support to validate the PLS model globally (Wetzel et al., 2009).

DISCUSSION

This study confirms that career needs does not act as an important mediating variable between career program and career outcomes in the organizational sample. In the context of this study, majority of the respondents perceive that the levels of career planning, career management, career needs, job satisfaction and commitment with career choice are high. This situation posits that the

ability of administrators to appropriately plan and manage career programs based on job needs and expectations have fulfilled employees' career needs. As a result, this may lead to greater job satisfaction and commitment with career choice in the organization.

This study provides three important implications: theoretical contribution, robustness of research methodology, and practical contribution. In terms of theoretical contribution, the results of this research reveal that linking career program (i.e., planning and management) to meet career needs has been an important predictor of job satisfaction and commitment with career choice in the studied organization. This finding also has supported and broadened organizational career program studies by Ferreira et al. (2007), Hirschi (2009), Theodossiou and Zangelisa (2009), Wilkens and Nermerich (2011), and Ismail et. al. (2013). With respect to the robustness of research methodology, the survey questionnaires used in this study have satisfactorily met the criteria of validity and reliability analyses. This may contribute towards accurate and reliable research findings. Further, regarding practical contributions, the findings of this study may be used as supporting evidence by management to improve the administration of career programs in organizations. In order to emphasize this objective, management needs to pay attention on the following aspects: first, management should update career training content and methods order to enhance the awareness of employees in planning and managing their future careers. Second, management should disseminate information about the advantages and consequences of engaging in the workplace career program to increase employees' understanding and involvement. Third, participative decision making should be encouraged in order to tap employees' bright ideas that may help management to design and administer career programs that match the various job categories. Finally, the level of pay based on performance should be revised in order to attract, retain and motivate high performers continuously support their organizational strategic missions. If these suggestions are considered seriously they may increase employees' support and trust to organizational career strategy and goals a reality.

CONCLUSION

This study tested a theoretical framework based on the workplace career program research literature. The instrument used in this study satisfactorily met the standards of validity and reliability analyses. The results of SmartPLS path model analysis showed that integrating career program (i.e., planning and management) with career needs was significantly correlated with job satisfaction and commitment with career choice; therefore the result lent full support to H5, H6, H7 and H8. This result also demonstrates that the willingness of administrators to properly plan and manage career programs based on job needs and expectations will help employees to fulfil career needs. Consequently, this may lead to greater job satisfaction and commitment with career choice in the studied organization. This finding also is consistent with and extends previous studies mostly published in Western and non-Western organizational settings. Thus, current research and practice in the human capital development models need to consider career planning and career management as critical success factors of the workplace career program domain. Hence, this research further suggests that the capability of administrators to appropriately plan and manage career programs based on job needs and expectations will induce subsequent positive attitudinal and behavioral outcomes (e.g., proactive, performance, fairness, trust and ethics). Therefore, these positive outcomes may lead to sustained and enhanced organizational performance in an era of global competition.

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Financial Literacy and Investment Decisions

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Abstract

In today's advance and more complex financial landscape, financial literacy is essential for it is widely known to have impact on financial decision makings thus financial wellbeing and it also enhances the social and economic development of a country. This paper examines financial literacy level in Malaysia and United Kingdom and also reviews studies on the link between financial literacy and investment decisions. For financial literacy levels we utilise the results of the survey from the questionnaire developed by the OECD. We also consider other demographic and socio-economic factors that could influence financial literacy levels. On the financial literacy, overall the level is low and necessary measures should be taken by government to increase awareness about financial related matters. On the reviews of literatures that link financial literacy to investment decisions we observe that i. demographic, economic, social, and psychological factors are the determinants ii. some common themes appear in literature that covers the impact, demographic factors, sources of knowledge, methodology and program effectiveness iii. the review reveals the gaps in the literature of financial literacy in Malaysia like the different types of investment, different types of risk tolerance, measurement and method and sources of knowledge. The study provides guidelines for policy makers, administrators and educators in instilling suitable components of financial literacy in their training endeavours.

Key Words: Financial literacy, financial decision making, investment decisions, traditional finance theory, behavioural finance model.

JEL Classification: G21, O16, O50

1. INTRODUCTION

Financial decision makings has been widely acknowledged as one of the important factors that influence financial capability and financial wellbeing. Thus, identifying factors that are significantly associated with financial decisions is relevant and one of the crucial issues for individual and national development. With the dynamism in nature of the current financial landscape, not only it highlights the importance of research in investment decisions but also on the levels of financial literacy and its impact on financial decision. Moreover, wealth accumulation has been identified as important implications for the relative well-being of households. Prior research suggests that deficiencies in financial literacy is one of the causes of inertia and suboptimal financial decision-making. While studies have found that financial literacy in general is low (Lusardi and Mitchell, 2011), studies on the demographic and socio-economic factors such as gender, education, income and inequality are still a debatable issue and warrants for further studies. Moreover studies on the impact of financial literacy on investment decisions

also have provided mix conclusion and is relevant to the current advancement of financial climate.

Several research on the impact of financial literacy have focused on the relationship between financial literacy and investment decisions. Recent research development in examining the factors that influence investment decisions has utilized the behavioural finance theory rather than relying on the traditional finance theory. Behavioural finance is the study of the influence of psychology on the behaviour of finance practitioners and the subsequent effect on markets (Sewell, 2010). Whereas the latter theory states that investors think rationally and make deliberate decisions, based on various estimations or using economic models. According to the behavioural finance theory, investors are human beings with unique creatures and in various situations make decisions in their own way since their rational thinking is hampered by their own attitudes, psychological condition and biases, and not only following traditional financial rules, hence highlights the weaknesses and deficiencies of the traditional finance theories. This was confirmed by behaviour finance supporters such as Jureviciene & Jermakova (2012) who provide evidence on the impact of financial behaviour on investment decisions. Given the complexity of current financial instruments with new high technology investment instruments, reviews on literatures that link financial literacy on investment decisions that rely on this behavioural finance theory could provide better insights on the research development in this topic.

Thus the main objective of our study is to examine the level of financial literacy and provide reviews on its link to investment decisions. We focus on three main components of financial literacy namely financial knowledge, financial behaviour and financial attitude. Our study also cover the socio-economic factors that could influence financial literacy and its link to investment decisions such as income, gender occupation etc. This study reviews research studies and literature to gain knowledge about key factors that influence investment behaviour in different countries in relation to financial literacy and the ways these factors impact investment risk tolerance and decision making process. Enhanced theoretical and empirical understanding of the factors that are particularly associated with active or passive investment choice decisions would enable development of well-targeted financial education programs.

The paper starts with the introduction and followed by literature review which discuss the concepts, financial literacy levels, the link between financial literacy and investment decisions and the determinants of the relationship. Methodology is presented in Section 3 followed by findings and discussion in Section 4 and finally conclusion and implication is presented in Section 5.

2. LITERATURE REVIEW

2.1 Financial literacy

The working definition of financial literacy given by the Organisation for Economic Co-operation and Development, 2005 (OECD) is a combination of awareness, knowledge, attitudes and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. This definition highlights the three components of financial literacy namely financial knowledge, attitude and behaviour.

The significance of financial literacy on financial decision makings as highlighted in the report of The World Bank include i). Financial literacy can help to prepare consumers for tough financial times, by promoting strategies that mitigate risk such as accumulating savings, diversifying assets

and purchasing insurance. ii). Financial literacy reinforces behaviours such as timely payment of bills and avoidance of over-indebtedness which help consumers to maintain their access to loans in tight credit markets. More financially literate consumers increase the demand for, and responsible use of, financial services, help to underpin financial market stability, and contribute to wider economic growth and development. iii). Financial literacy is critical for promoting access to finance by creating incentives and environment that promote desired financial behaviors such as saving, budgeting or using credit wisely. Financially savvy consumers are more likely to save their money, compare financial products and services and discuss money matters with their families

Research interest on financial literacy has developed more than a decade ago in which research undertaken has mainly been conducted for developed countries such as in the United States of America (USA) and the United Kingdom (UK). Although there appears consensus regarding the importance of financial literacy especially on the economic development, empirical research on financial literacy is limited (Greenspan, 2001).

In Australia, the first study measuring the financial literacy of Australians was conducted in 2004 by the Commonwealth Bank Foundation, in collaboration with universities and research institutes. The Foundation commissioned research to investigate people's ability to make informed and responsible financial decisions and analysed the relationship between financial literacy and its impact on individuals. The research displayed a profile of those Australians with the lowest levels of financial literacy and demonstrated significant potential benefits for both individuals and the economy from improved financial literacy. The results showed that i). Annual personal and household income were related to financial literacy; ii). The higher a person's financial literacy score, the higher their annual income; iii). Those with higher financial literacy were significantly more likely to own a business; iv). The higher their financial literacy score, the more confident people were of their ability to raise 10 per cent of their annual income within a week, boosting their ability to withstand sudden financial pressure and v). The lower financial literacy scores were directly related to respondents having been unable to pay their mobile phone, utility and credit card bills in the last 10 years.

Most of the studies on financial literacy levels not only provide evidence on the levels but look beyond that to look for the factors that influence the levels. For instance, using US data, Hogarth (2002) explored the financial literacy of adults using 28 true/false type questions on topics related to personal finance. The study showed that, in general, less financially knowledgeable respondents were more likely to be single, relatively uneducated, relatively low income, minority, and either young or old (not middle aged). For Australian perspective, Beal and Delpachitra (2002) measured financial literacy of Australian students and found that university students were neither skilled nor knowledgeable in financial matters. Beyond this level of financial literacy, they found that students with higher financial literacy scores were more likely to be male, have greater work experience and have a higher income. Also study using Australian data, Worthington (2006) used logit regression models to predict financial literacy of Australian adults. Results of the study suggests that financial literacy is found to be highest for persons aged between 50 and 60 years, professionals, business and farm owners. Financial literacy is lowest for unemployed, females and those from non-English speaking background.

Besides US and UK, significant economic importance of financial literacy has motivated research to be examined for other countries including developed, developing countries and emerging markets for instance Australia, Korea, India, Indonesia and UAE. Using Korean data, Sohn et al

(2012) examined relationships between financial socialization agents, financial experiences, money attitudes, demographic characteristics, and the financial literacy of adolescents using the 2006 Korean National Financial literacy Test Survey for Adolescents. The findings yielded that those who chose media as their primary financial socialization agent, and those who had a bank account, demonstrated higher levels of financial literacy. In addition, they found that those who regarded money as good or as a reward for efforts reported higher level of financial literacy than those perceiving money in terms of avoidance or achievement. Students with mid-range monthly allowances showed higher level of financial literacy than the highest allowance group.

Focusing on financial literacy levels among investors, Al-Tamimi and Kalli (2009) assessed financial literacy for UAE investors and found that the financial literacy far from the needed level. The financial literacy is found to be affected by income level, education level and workplace activity. In contrast for Indian investors of Hyderabad city, Agarwal et al. (2010) evaluated financial literacy online and the findings suggest that these investors are generally financially literate. They also discover that variations in financial literacy level were observed across demographic and socio-economic groups. Differences in terms of demographic and socio-economic groups also has been observed by Volpe et al. (2002) who examined investment literacy of 530 online investors for Australia. They found that level of investment literacy varied with people's education, experience, age, income and gender. Specifically, women had much lower investment literacy than men and older participants performed better than young participants. These studies provide observation that financial literacy level among investors are mixed and the characteristics of the literacy also varies among countries and different demographic and socio-economic factors.

Several other studies have raised the suggestion that gender is a significant variable impacting on the level of financial literacy (Chen and Volpe, 2002). These findings suggest that women, in comparison to men, are more risk-averse and less confident when making financial decisions, and are consequently less financially literate. Lack of confidence level may explain why men are more financially knowledgeable than women. By deduction, a lack of financial knowledge, confidence and a reluctance to take risk are factors likely to impact on women's financial ability. However, another possible reason for the lack of confidence and risk taking displayed by women in financial skills may be due to their traditional role. Women, as part of society, undertake homemaker and carer duties. This role may be more significant in affecting their financial decision makings.

2.2 Financial literacy and investment decisions

On the aspects of investment decisions, most of the theories used have been focusing on the traditional finance which includes portfolio allocation based on expected return and risk; risk-based asset pricing models such as the CAPM and other similar frameworks; the pricing of contingent claims and the Miller-Modigliani theorem. These theories were all derived from investor rationality and have been focussing on the corporate finance. The theory of behavioural finance has been introduced to overcome the limitations of the corporate finance theories in explaining the personal finance behaviour such as in understanding the issues on why do individual investors trade, how do they perform and how do they choose their portfolios. Hence, behavioural models are based on how people actually behave based on extensive experimental evidence, and could explain evidence better than traditional ones from the individual decision making perspectives.

Personal finance literatures have highlighted the significant impact of financial literatures on economic development for instance through the effects of financial illiteracy on financial decision making (Marcolin and Abraham, 2006; Lusardi & Mitchell, 2005, 2007). Given the complexity of current financial instruments and the financial decisions required in everyday life, such as comparing different financial instrument to invest, deciding how much to save, when and where to invest, when and where to get the financing, individuals need to know how to read and write financially. Furthermore, the needs for financial literacy have become increasingly significant with the deregulation of financial markets and the easier access to credit; the rapid growth in marketing financial products and the Government's encouragement for its citizens to take more self-responsibility for their investment and retirement incomes (Marcolin & Abraham, 2006; Binswanger & Carman, 2012). Ignorance about basic financial concepts can be linked to lack of retirement planning, lack of participation in the stock market, poor borrowing behavior and also as a determinant of excessive borrowing or attaining high-cost mortgages. Hence, the cost of poor financial decision-making and planning often gets shifted to other members of the community, state and nation through higher prices for financial products and diversion of economic resources. On these issues, individual with less financial knowledge had more negative opinions about finances and made more incorrect financial decisions. On similar ground, other studies found that many individuals who lack financial literacy have been deterred from embracing innovative financial products, making sound financial planning decisions as well as giving serious consideration and commitment to their financial plans. The findings, thus, suggest that acquiring a low level of financial knowledge limits their ability to make informed decisions.

Alleyne and Broome (2010) have examined the investment decisions among students using the theory of planned behaviour and risk propensity among future investors. Based on this theory as a significant predictor of investment intentions, the findings show that attitudes and referent groups (peers, family and significant others) and beliefs about potential obstacles and opportunities significantly predict intentions to invest. They also found that the influence of friends and relatives, and easy access to funds are significant predictors of investment intentions of students.

Previous studies have also documented that gender and age has some implication on investment decisions. For instance Schmidt & Sevak, (2006) describes how household wealth in the United States varies by gender and family type. They found that women's investment has historically been lower than men's for several reasons, including social and various demographic concerns. Their study shows that large differences is documented in observed wealth between single-female-headed households and married couples. The wealth holdings of single females in the US, controlling for characteristics such as income and education, are also significantly lower than the wealth holdings of single males. In contrast, observed wealth gaps between genders in a sub-sample of young households disappear when controlling for observable characteristics, suggesting either that in the US these gaps are disappearing for younger households or that these gaps do not emerge until later in life.

For lesser developed countries, Cole et al. (2008) examine financial literacy level, its determinants and the effect of financial literacy on the demand for financial services using data from India and Indonesia. Strong relationship between financial literacy and financial behaviour is observed and the study also demonstrates that financial literacy is an important correlate of household financial behaviour and household wellbeing.

Previous studies have examined the impact of financial literacy on different types of investment decisions such as retirement Yoong et al (2012), (Almenberg & Soderbergh, 2011); Klapper &

Panos, 2011; Lusardi & Mitchell, 2011; Dvorak & Hanley, 2010) and stock market investment (Van Rooij et al., 2011). Almenberg and Soderbergh (2011) examined the relationship between financial literacy and retirement planning of Swedish adults. Financial literacy levels were found lower among older people, women and those with low education or earnings. For Russia, Klapper and Panos (2011) found that higher literacy is positively related to retirement planning and investigating in private pension funds. The influence of financial literacy on retirement planning in the United States, focusing on the extent to which Americans were equipped to make decisions in the pension and financial landscape and whether they were sufficiently knowledgeable about economics and finance to plan for retirement were analysed by Lusardi & Mitchell (2011). The study used the new National Financial Capability Study based on U.S. dataset, known as the 2009 National Survey on 1,488 American adults. The findings showed problems with the current state of financial knowledge in the United States in which many respondents lacked the key knowledge of critical financial concepts including interest compounding, inflation, and risk diversification and failed to plan for retirement, even when retirement was close at hand, only 5-10 years off. The reason was attributed to debt illiteracy which refers to respondents' lack of knowledge about the workings of credit cards and interest compounding, which could justify the relationship between financial illiteracy and the lower retirement wealth accumulation. Financial literacy was also found particularly low among the young, women, and the less-educated, older individuals. In addition, the study also linked illiteracy problems with different ethnicity in which Hispanics and African-Americans scored the least well on financial literacy concepts. However, all groups rated themselves as rather well-informed about financial matters, not withstanding their actual performance on the key literacy questions. They also showed that people who scored higher on the financial literacy questions were also much more likely to plan for retirement, which is likely to provide them a better life for old-age. Also study using US data, Dvorak and Hanley (2010) found that participants demonstrated a fairly good knowledge of the basic mechanics of the plan, but were unable to distinguish a variety of investment options. Analysing various investment options such as short-term versus long-term bonds, growth versus value, index versus managed, they were able to compare the current higher levels of knowledge than previously examined. In terms of demographic factors, women, low income and low educated employees demonstrated low score on knowledge. However, personal contributions were shown to lead to more knowledge. These results enhanced plan designs which consist few investment options and encourage personal contributions. For Malaysia, Yoong et al (2012) examined financial literacy and retirement planning. The first study analysed the impact of financial learning on retirees' retirement financial planning preparation. The results found that there was a significant relationship between financial learning and behavioral assessment of personal finance. In addition, the study also detected the impact of age differential in which the older age groups (> 50 years) influenced the relationship between financial learning and subjective perception of satisfaction with personal finance.

For stock market investment, Van Rooij et al (2011) devised two special modules for De Nederlandsche Bank (DNB) Household Survey to measure financial literacy and study their links to stock market participation. They found that the majority of respondents demonstrated a basic financial knowledge and had some grasp of concepts such as interest compounding, inflation, and the time value of money. However, many respondents could not distinguish between bonds and stocks, the link between bond prices and interest rates, and the basics of risk diversification. They concluded that financial literacy influenced financial decision-making in which those with low literacy were much less likely to invest in stocks.

3. METHODOLOGY

In examining financial literacy levels, our study utilised the information from the Organization of Economic Cooperation Development (OECD) results of 2012 survey based on the questionnaire provided by the organization. Recognising the importance of measuring levels of financial literacy, the OECD International Network on Financial Education (INFE) has developed and fielded a questionnaire designed to create an international and broad based measure of financial literacy. The questionnaire focuses on three main aspects of financial literacy namely knowledge, attitudes and behaviours. This questionnaire has been used by many countries as their initial step towards improving financial literacy level.

For financial knowledge, eight questions were designed to test for this aspect covering different aspects of knowledge which includes knowledge on division, time value of money, return earned on the loan, calculation of interest plus principle, compound interest, risk and return, inflation and diversification. These questions is considered sufficient to capture essential aspects of a person's basic knowledge. For the purpose of this study, these questions are also related to the knowledge on the basic concepts in investment.

With regards to financial behaviour, the questionnaire asks the respondents on questions in which responses to these questions will reflect information on their behaviour, for instance about the ways they manage their money, including whether they can afford to buy something, paying bills on time and monitoring over their financial spending, saving and borrowing habits and setting financial goals, household budget and choosing financial products. Incorporating all of these information into an overall score ensures a nuanced indicator that provides a good indication as to the extent to which individuals are behaving in a financially literate way. The score is created with nine points for showing evidence of certain positive financial behaviours and for reporting purposes it has been rescaled from 0 to 100.

For financial attitude component, three attitude statements are used. Exploratory factor analysis indicates that the three attitude statements capture an underlying attitude, indicating whether the respondents tends towards short term gratification, or long term security. An average attitude score has therefore been created by adding together the responses to each of the three statements and then divided by three.

4. FINDINGS AND DISCUSSIONS

4.1 Financial literacy levels

Financial knowledge

Table 1: Correct responses to knowledge questions

	Question	Note	Score Malaysia %	Score UK %
1	Division	Open response and a correct answer is therefore a good indicator of applied numeracy	93	76
2	Time value of money	Multiple response	62	61
3	Interest paid on a loan/ return earned on a loan	Open response and a correct answer is therefore a good	93	90

		indicator of understanding		
4	Calculation of interest plus principle	Open response and a correct answer is therefore a good indicator of applied numeracy	54	61
5	Compound interest	Multiple response	30	37
6	Risk and return	Yes/no question	82	77
7	Definition of inflation	Yes/no question	74	94
8	Diversification	Yes/no question	43	55
	Total score		51	53

For Malaysia and UK, the findings show that more than half of the respondents gave correct responses to at least $\frac{3}{4}$ of the questions. High score on the division (93%) especially in Malaysia show that most of the respondents could use mental arithmetic to undertake a simple division. On the follow-up question designed to identify those who understand how time difference could affect the value of money in relation to the investment, compounding and discounting concepts, fewer respondents gave a logical answer for both Malaysia (62%) and UK (61%). The concept of interest being paid on a loan or the term return earned a loan specifically used for Malaysia to reflect the duality of the financial system appears to be widely understood; indeed in both countries more than 90 percent gave a correct response. This question requires a simple arithmetic with an open ended response in order to minimise the possibility that respondents give the answer by guessing. Respondents found it more difficult to calculate a percentage than the question on division in which around half of the respondents gave a correct answer on the calculation of interest plus principle. The following question on the compounding of interest or return was found to be harder still for both Malaysia (30%) and UK (37%). On the concept of risk and return, which are the central paradigms of investment, respondents in both countries were most likely to understand the basic concept of risk and return, 82 % for Malaysia and 77% for UK. For the question on inflation, over 90 percent of respondents in UK knew that high inflation meant that cost of living was increasing, suggesting an awareness of the simple economic terms as compared to Malaysia (74%). On diversification, another important concept of investment, only 43 percent of respondents in Malaysia gave the correct answer as compared to 55 percent in UK. For the overall score on the aspect of financial knowledge, respondents from both countries demonstrate an average levels of financial literacy, Malaysia (51%) and UK (53%).

Financial behaviour

Table 2: Scores for financial behaviour

	Question	Score Malaysia %	Score UK %
	Behaviour statements		
1	Carefully considers purchases	92	77
2	Pays bills on time	69	89
3	Keeps close watch on personal financial affairs	78	80
4	Sets long term goals and strives to achieve them	64	43
5	Responsible and has a	74	43

	household budget		
6	Has been actively saving or buying investments in the past year	97	68
	Financial product choice		
7	After gathering some info	39	29
8	After shopping around and using independent info or advice	3	16
9	Has not borrowed to make ends meet	79	91
	Total score	67	51

On the statements used to reflect the financial behaviour, a financially literate person will always have an idea of the amount of money they can afford to purchase things. The first behaviour statement shows that respondents in Malaysia (92%) typically did consider whether they could afford potential purchases as compared to UK (77%) indicating that 23 percent of the respondents tended not to consider affordability in their purchase .

Financial literacy also requires individual organisational skills in meeting their financial obligations and thus avoid problems such as reduced access to affordable credit or fines for non-payment. The question asks is whether the respondents usually pay their bills on time. Most respondents in UK reported that they did, however a sizeable proportion of respondents in Malaysia (31%) indicated that they were not paying many bills on time. These response is supported by the report saying that Malaysians have problem with their debts. Such findings may be due to a variety of reasons including insufficient funds, lack of access to e-payment facilities or a tendency to be disorganized or unwilling to meet responsibilities on time. This case suggest that a sizeable proportion of consumers could be encouraged to improve this aspect of financial behaviour.

The third question is with regard to how often respondents keep a close personal watch over their financial affairs. This is important since for those who use financial products, it is essential to be aware of anticipated withdrawals from their account and checking their bank statements in order to detect fraudulent activity, such as unauthorized use of credit cards. This behaviour is also essential in order to keep savings safe, smooth expenditure and pay bills on time. Majority of the respondents in Malaysia (78%) and UK (80%) suggesting that they are aware on their own finances.

On the setting of long term financial goals, this behaviour may be related to accruing money for specific expenses for instance education fees, wedding, investment strategies, saving for retirement, business and careers. In UK, this behaviour does not appear to be widespread in which only 43 percent of the respondents are the most likely to set long term goals, as many as one in five respondents as compared to Malaysia (64%). The next question relate to the information on the extent to which the respondents take responsibility for household finance and budgeting. More than 3 quarter of respondents in Malaysia are financially responsible and do budgeting as compared to UK (43%).

Building financial security and reducing heavy reliance on credit are related to saving behaviour and is one of the important elements of financial literacy. Respondents were asked on their savings for the past 12 months in terms of types of saving namely saving money at home, informal savings, saving accounts and investment instruments. In Malaysia 97 percent respondents reported that they had been saving indicating a clear culture of saving. Conversely in UK, only 68 percent responded positively.

How people behave when they want to buy financial products is another aspect of financial literacy. In order to meet their needs and wants in an optimal way, people will more likely to choose appropriate products if they use independent advice or make an informed decision by shopping around. On this aspect shopping around and gathering information are behaviours that are most relevant. Consumers in UK were most likely to have made active financial products choices by shopping around and using independent information or advice, whereas for consumers in Malaysia only 3 percent have done so.

Financial literate person will have strategies to smooth income flows and have a tendency to avoid using credit for basic needs such as food and utilities. A reliance on credit for basic needs can become very dangerous. The results show that respondents in Malaysia (21%) and UK (9%) were unlikely to have resorted to credit use to make ends meet. The score on financial behaviour show that Malaysia has higher numbers of positive financial behaviours (67%) as compared to UK (52%) which indicates an average levels of financial behaviour.

Financial attitudes

Table 3: Scores for financial attitude

Questions	Score Malaysia %	Score UK %
I find it more satisfying to spend money than to save it for the long term		
I tend to live for today and let tomorrow take care of itself		
Money is there to be spent		
Percentage of respondents with average score over 3	53%	49%

For the first statement, the results suggest that respondents in UK found equal satisfaction in spending and saving. The responses to the second statement show that in most countries respondents tended not to live for the day. The third attitude statement relates specifically to individual's attitude towards money. The distribution of scores show that Malaysia and UK have a much more positive attitudes towards the long term that are considered to be positively related to financial wellbeing.

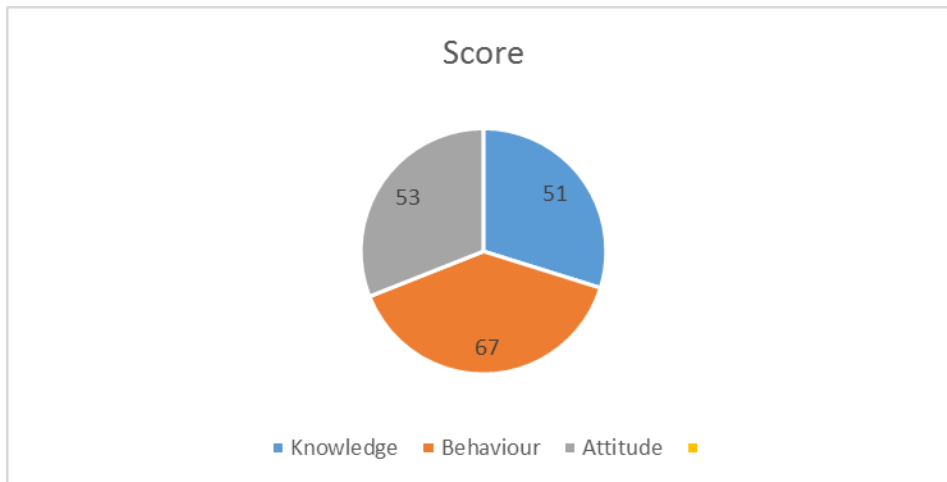


Figure 1 Score for Malaysia

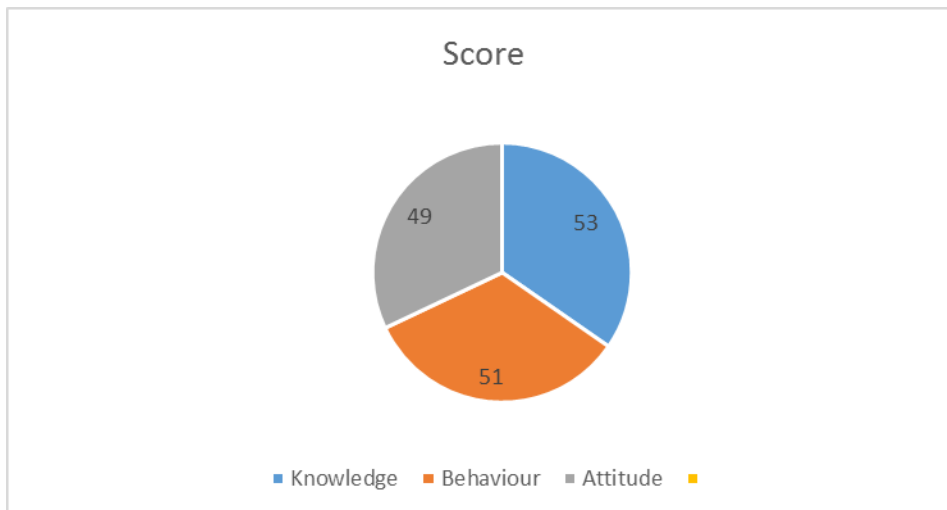


Figure 2 Score for United Kingdom

In general, the findings for Malaysia show that a country wide financial levels are higher in terms of behaviour. As compared to knowledge and attitude. For the UK, financial levels are higher in terms of knowledge.

Socio-demographics perspective

It is clear that levels of financial literacy vary between countries and it is therefore useful to provide a clear picture on how they vary across particular socio-economic groups. The most important is gender differences, followed by age and income. In some countries middle age is associated with higher levels of financial literacy whilst the oldest and youngest respondents are more likely to have no high scores. Regression analysis confirms that higher income respondents are more likely to gain high scores than lower income groups.

Studies have also shown a positive relationship between education and financial literacy. Higher educated individuals are more likely to exhibit positive behaviours and attitudes as well as show advanced levels of knowledge.

Gender differences

Financial literacy: Women display lower financial knowledge than men in most of the countries surveyed. In particular, young woman, widows, less educated and low income women lack financial knowledge the most. Gender differences in financial knowledge are in part, but not entirely, related to demographic and socio-economic factors.

The overall financial literacy level of 58.30% for Malaysia and for United Kingdom among all respondents is not encouraging. This shows that in these countries people are still not much aware about their finance related issues. The results suggest that level of financial literacy varies significantly among respondents based on various demographic and socio-economic factors. It can be concluded that financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it does not get affected by age and geographic region.

4.2 Financial literacy and investment decisions

On reviewing the existing literature on financial literacy, a number of salient points emerge. Factors that have been identified to influence individual investor behaviour are:

Demographic Factors: Investor's gender, age, marital status, education, income and occupation.

Stock Fundamentals: Beta, past return, risk, EPS, firm size, share price, share turnover and book to equity ratio.

Lifestyle Characteristics: Personal ability, confidence level and dependency level of investors.

Psychological Influences: Desires, goals, prejudices, biases and emotions that guide the investor's decision.

Personal Values: Socially and religiously expressive characteristics.

Advocate Recommendation: Advice or recommendation from the Broker, Family members, Friends and Stock holder.

Personal Financial Needs: Diversification needs, Easy availability of the funds whenever needed, Need to minimize the risk and loss and maximize the return.

Neutral Information: Information about government holders, Information from Internet,

Fluctuations in the stock market, coverage in press, Recent price movements.

Other Factors: Inflation, Social Responsibility

- Most of the work is done in US, Australia, UK and other developed nations. Limited research studies have been carried out in developing countries; few studies on India and UAE.
- Target population in most of the studies is college students rather than adult population.
- Very few studies used all the areas of personal finance in order to measure the level of financial literacy namely the financial knowledge, financial attitude and financial behaviours.

Figure 3 provide the research focus areas on the link between financial literacy and investment decisions. From the table, it is clearly shown that the focus is on five main issues namely the impact of financial literacy (the impact on financial behaviour, financial decision making including retirement planning, investment), the demographic factors and financial literacy (gender,

ethnicity, education, age), evaluation of program effectiveness and the instrument tools for financial literacy.

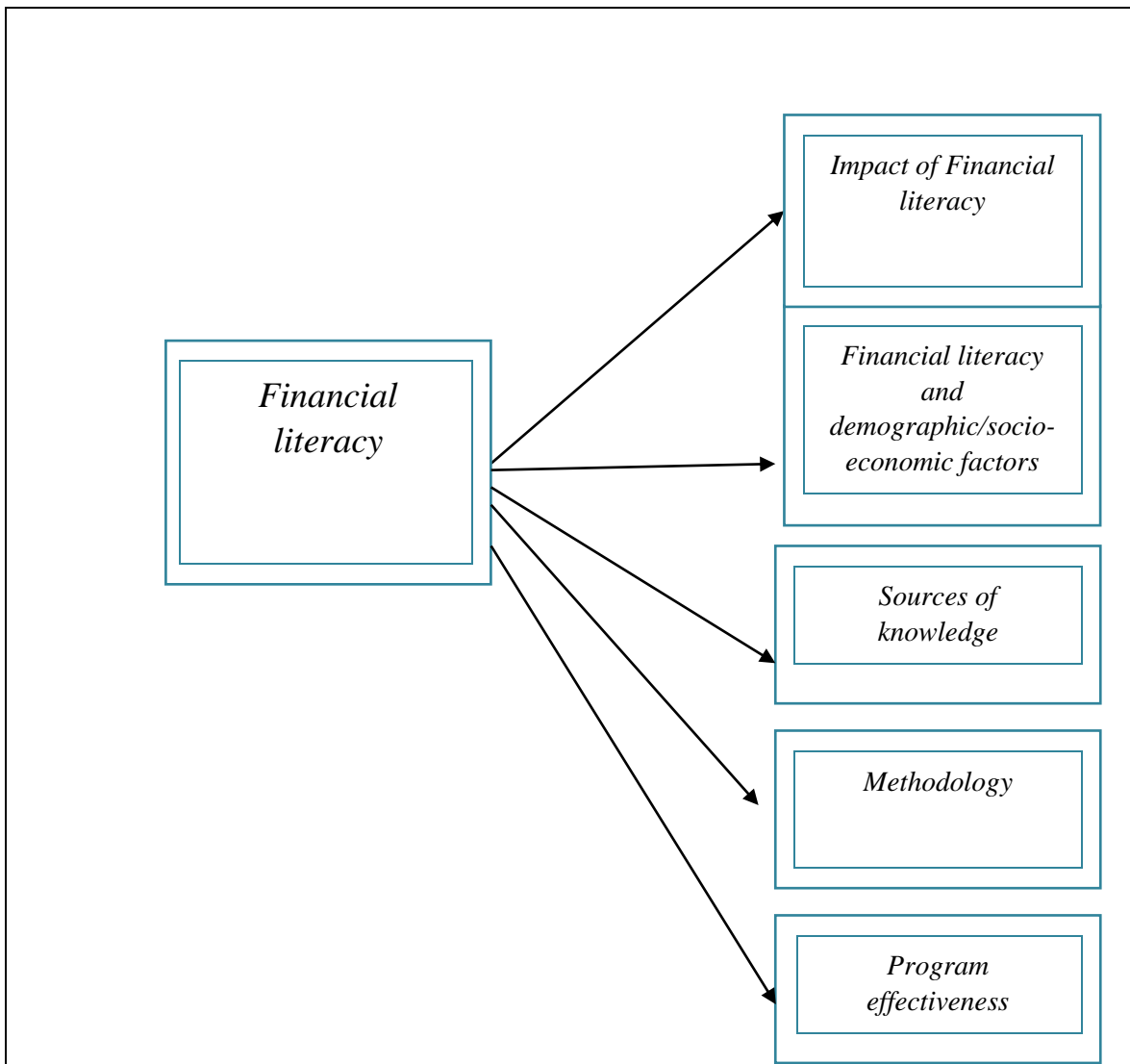


Figure 3: Research focus areas between financial literacy and investment decisions

4.3 Research Gaps And Potential Future Research Opportunities

The gaps provide potential future research opportunities in the following areas.

Types of investments

Most of the studies have focused on retirement and few on stock market investment. Studies should consider different types of investment instruments that are unique Malaysian financial system like the conventional and Islamic financial instruments.

Types of risk tolerance

The concepts of risk and return are crucial in investment decisions. Investors are human beings with unique creatures and in various situations make decisions based on whether they are risk averse type or risk takers. Limited studies of previous studies that consider this risk tolerance of investors provide great potential for future research endeavours.

Measurement of financial literacy

Currently there are no standardized instruments to measure financial literacy. The measurements used in previous studies were mostly adopted from studies for other countries. With differences in socio-demographic and economic level among different countries in the world, the use of such measurements might be biased and do not reflect the true level of literacy. In addition, the focus of the measurements on numerical and information literacy disregard other aspects of financial literacy which includes monetary (the competencies necessary for management of cash and cashless money), price (the competencies necessary for understanding the price mechanism and inflation), legal and budget literacy. For budget literacy, it involves the competencies necessary for the management of the personal or family budget (for instance the ability to make a budget, to specify the financial objectives and to decide about the allocation of the financial sources) and includes the ability to manage a variety of life situations from a financial point of view. It also includes administration of financial assets (e.g. deposits, investments and insurance) and administration of financial liabilities (loans or leasing). These two components assume very good orientation on the market of the different and complicated financial products and services and the ability to compare different products or services and choose the most appropriate one. The measurement should consider financial instruments that are unique to Malaysian financial system like the Islamic financial instruments such as Takaful and Sukuk.

Sources of financial knowledge

Enhanced understanding on the sources of financial knowledge is relevant on the study of financial literacy and investment decisions. For instance, if the knowledge is acquired from parents or through interaction with others, it may be particularly beneficial to target the relevant group in providing financial education. This is important because from the findings of previous study, those participants whose parents did not have a college degree and lacked financial sophistication were less likely to know about risk diversification, an essential concept for making saving and investment decisions.

5. CONCLUSION

On the financial literacy, overall it can be concluded that financial literacy level is low and necessary measures should be taken by government to increase awareness about financial related matters. On the reviews of literatures that link financial literacy to investment decisions it is concluded that generally financial literacy relates to investment decisions and that there are numerous determinants that influence the individual investor's behaviour. Some factors influence majorly while other have slight role in influencing the behaviour of an individual investor. The factors can be grouped into demographic, economic, social, and psychological in nature. The review uncovers some common themes in the developed countries' literature of financial literacy ; the impact, demographic factors, sources of knowledge, methodology and program effectiveness. Moreover, the review reveals the gaps in the literature of financial literacy in Malaysia like the different types of investment, types of risk tolerance, sources of

knowledge, data, measurement and method. The study provides guidelines for policy makers, administrators and educators in instilling suitable components of financial literacy in their training endeavours. Future research should identify the gaps in the current studies and investigate the aspects using a triangulation method as to gain a rich data with regards to the respective issues.

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