

TRIKONOMIKA
Economic Journal

Volume 17, No. 2, December 2018

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Trikonomika published first in 2000, an economic journal articles presenting research results and the latest conceptual ideas that include Economics, Accounting and Management. Trikonomika published twice a year that is June and December. Start from Volume 14, No. 2, December 2015 published in English.

Editorial Address: Jl. Tamansari No. 6-8 Bandung - 40116. Tel. 022-4233646, Fax. 022-4208363 Website: jurnal.fe.unpas.ac.id, E-mail: trikonomika@jurnal.unpas.ac.id
Printing: Books and Journals Publisher Faculty of Economics, University of Pasundan
For subscription and purchase information can contact the editors.

REVIEWERS ACKNOWLEDGEMENT

Thanks and appreciation to the experts who have been reviews Trikonomika Journal Volume 17, No. 2 December 2018. The following is a list of names participating partners:

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ISLAMIC MONETARY POLICY AND ITS IMPACT ON REAL SECTOR

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received: 26/9/18; revised: 10/10/18; published: 31/12/18

Abstract

The essence of the Islamic economic system is strengthening the real sector. This research aims to analyze the effect of Islamic monetary instrument (such as SBIS, PUAS and Islamic bank financing in the real sector. This research uses the Vector Error Correction Model (VECM) as a method of analysis. The finding revealed that based on the VECM estimation test, in the long term SBIS and Islamic bank financing has a positive effect on the Industrial Production Index (IPI). Meanwhile, PUAS has an adverse effect toward Industrial Production Index (IPI). Besides, based on impulse response function (IRF) test, the shock of SBIS and PUAS responded positively by Industrial Production Index (IPI). Then based on the result of FEVD test, the variable of PUAS in the model of this research has the most significant contribution toward Industrial Production Index (IPI).

Keywords: SBIS; PUAS; islamic bank financing; industrial production index (IPI); VECM

INTRODUCTION

The development in the real sector should drive an economy. The monetary sector should be able to support the growth in the real sector (Wisandani et al., 2017). Sugianto et al. (2015) stated that in Islamic economics, the monetary sector must have a direct relationship to the real sector. On the Islamic economic system, there must be a balance between the real sector and the monetary sector. The real sector is a representation of economic activities that occur in society. The imbalance between these two sectors could lead to the bubble economy, which could have an impact on the economic crisis.

Currently, various Islamic monetary instruments are aimed to support the real sector. This study aims to test whether the Islamic monetary policy affects the real sector in Indonesia. This research will use the industrial production index as a proxy for the real sector. The industrial production index is one of the macroeconomic indicators that calculate real production output from mining, manufacturing, and other industries. Figure 1 shows the development of the industrial production index in Indonesia from 2011 to 2015. From Figure 1 that there is an increase in industrial production index from year to year.

The central bank (i.e., Bank of Indonesia) must maintain the stability of the rupiah. Monetary policy

is intended to affect real economic activity and prices through the transmission mechanism. Warjiyo and Solikin (2004) state that the mechanism of changes in monetary policy to affect economic growth and the rate of inflation is called the monetary policy transmission mechanism. There are five monetary policy transmission lines, among others: interest rates, asset price lines, credit lines, exchange rate lines, and expectation lines. Interaction in the transmission of monetary policy takes place through two stages: the interaction between the monetary authorities and banks and financial institutions as well as the interaction between banks and financial institutions with economic actors in the real sector (Sangidi, 2014).

The development of the Islamic banking industry which continued to increase from year to year resulted in the transmission of monetary policy not only affecting conventional banking, but also affecting Islamic banking. Because of this, Bank Indonesia has the responsibility to carry out multiple monetary operations both conventionally and sharia principles (Setiawan and Karsinah, 2016). Although the monetary transmission works through Islamic banking channel is yet controversial (Uddin, 2016). In 2000, from the monetary side, Bank Indonesia introduced the first Sharia monetary instrument, i.e., The Wadi'ah Certificate of Bank Indonesia (SWBI), which uses the

wadi'ah contract. In 2008, Bank Indonesia replaced the SWBI with a better sharia monetary instrument, namely the Sharia Certificate of Bank Indonesia (SBIS).

The financial system in Indonesia dominated by banks. Therefore, transmission of dual monetary policy through credit channels in conventional banks or Islamic bank financing is considered very important. Islamic bank financing is intended for real sector economic activities. For this reason, Islamic bank financing channels are expected to be able to increase the economic growth of the real sector by increasing public productivity in goods and services. However, the financing disbursed by Islamic banking more distributed to consumptive financings, such as Murabahah financing (Haryoso, 2017).

There have been several studies on the effect of sharia monetary policy through Islamic bank financing channels. Ascarya (2012) that said that Islamic variables such as Islamic bank financing, inter-sharia bank money market (PUAS), and the Sharia Certificate of Bank Indonesia (SBIS) had a significant positive effect on the real sector represented by the Industrial Production Index (IPI). Meanwhile, research conducted by Setiawan and Karsinah (2016) shows that financing and PUAS variables have a positive effect on the real sector, while SBIS variables have an adverse effect on the real sector. In contrast to the previous results, Istiqomah (2012) in his research resulted that SBIS variables have a significant positive effect on the real sector represented by Gross Domestic Product (GDP).

The purpose of this study is to examine the impact of Islamic monetary policy through credit channels to the real sector represented by the Industrial Production Index (IPI). One of the contributions in this study is to examine the effect of Islamic monetary instruments on the real sector in the short and long-term.

METHOD

The type of data used in this study is secondary data in the form of a monthly time series. The data used are: (1) Industrial Production Index (IPI) level data obtained from the Central Bureau of Statistics as a proxy for economic growth or representation of the real sector; (2) The data of fees for the sharia certificate of Bank Indonesia (SBIS) obtained from BI SEKI, the yield rate data on inter-sharia bank money market (PUAS) were obtained from SEKI BI; (3) The total data on Islamic bank financing was obtained from Islamic Banking Statistics.

The data analysis method used in this study is the VECM method to analyze the role of Islamic bank financing and sharia monetary instruments, namely SBIS and PUAS on output represented by the Industrial Production Index (IPI) level. VECM analysis is used to see the long-term and short-term relationship between

the dependent variable and the independent variable. The VECM model in general can be written as follows:

$$\Delta y_t = \mu_{0x} + \mu_{1x} t + \alpha \beta y_{t-1} + \sum_{i=1}^{k-1} \tau_k \Delta y_{t-1} + \varepsilon_t$$

Where

- y_t : Vector that include all of the variables
- μ_{0x} : Vector of intercept
- μ_{1x} : Vector of regression coefficients
- t : Time trend
- α : Coefficient of speed of adjustment
- β : Cointegration vectors
- y_{t-1} : Variable in level
- τ_k : Matrix of regression coefficients
- $k-1$: ordo VECM from VAR
- k : lag
- ε_t : Error term

There are several stages in VECM testing, namely VECM estimation, impulse response function (IRF), forecast error decomposition variance (FEVD), and causality test. However, before estimating VECM, there are several steps that must be done, namely pre-estimation testing. These tests include data stationary test, determination of optimal lag, and cointegration test. The stationary data in this research is using the Augmented Dickey-Fuller test.

RESULT AND DISCUSSION

The stationary data testing method used in this study is using the Augmented Dickey-Fuller (ADF) test with a 5% real level. If the ADF test statistic value is smaller than the MacKinnon critical value or if the probability value of the ADF Statistic Test is smaller than Alpha 0.05 then it can be said that the data used is stationary (there is no unit root). Based on the ADF Test, not all data used in this study are stationary at the level. All the data is stationary is significant at the first difference level. Based on the results of the ADF test in this study, only the financing variables of Islamic banks are stationary at the level. While the SBIS, PUAS, and IPI variables are stationary at the level of the First Difference (for detail see Table 1).

Optimal Lag Determination in this study based on the Schwarz Criterion (SC) value, where the lowest lag value with the Schwarz Criterion (SC) value shows optimal lag. In this study testing, the length of the lag is done from lag 1 to lag 8. The test results show that the model in this study has an optimal lag of 1, where the lowest Schwarz Criterion (SC) value is -7.319159 is at lag 1.

The estimation results of the VAR equations that have formed must test for stability. The VAR equation is said to be stable if the modulus value is smaller than 1. Based on the VAR stability test, the modulus value of all roots has a modulus value less than 1 or less than 1

in lag 2, so the model is stable in the lag. This condition indicates that the results of IRF and FEVD are valid.

Cointegration test is used to determine the existence of cointegration between variables and to determine what method will be used. If there is no cointegration between variables, the method used is a VAR model that can only estimate short-term relationships. If there is cointegration between variables, the right method for analyzing long-term and short-term relationships is the VECM method. VECM can estimate long and short-term relationships between variables.

The cointegration test in this study uses Johansen Trace Statistics Test. If the Trace Statistics value is higher than the critical value that is used in this study by 5%, then there is cointegration between variables. The results in Table 2 show that in the model there are three cointegrated equations. Therefore, the VECM method is the right method to be used in this study.

The Granger causality test in this study used to see the relationship between variables whether it has a one-way relationship, two-way or no relationship between the two. Based on the results of the Granger Causality test, it found that there was a one-way relationship between the SBIS variables and PUAS variables. This is in line with the theory which states that the SBIS fee level acts as a rate of sharia monetary policy which will affect the rate of return on the Sharia Interbank Money Market (PUAS). Besides, the results show that there is a one-way relationship between the variables of Islamic bank financing and the Industrial Production Index (IPI) variable. There is a one-way relationship between Islamic bank financing and the Industrial Production Index (IPI) because the financing activities carried out by Islamic banks are directed to encourage the real sector.

However, based on the Granger Causality test, there is no relationship between the PUAS variable on the financing variable. Whereas what should be the rate of return on PUAS can affect the amount of financing channeled by Islamic banking, so that it will make a sustainable transmission mechanism of sharia monetary policy. The result of the Granger Causality in this study is consistent with the research conducted by Ascarya (2012), which the flow of sharia monetary policy transmission with the final goal of output (IPI) shows that there is no continuity of the yield path from the SBIS fee level to the output, where the flow is interrupted at PUAS. SBIS only affects financial markets (PUAS), while Islamic bank financing affects output (IPI).

The absence of continuity in the transmission mechanism of sharia monetary policy in influencing output due to the period of 2011 - 2016 the number of Islamic banking transactions in PUAS is still small. The number of sharia banking transactions in PUAS is always lower than Islamic banking transactions on SBIS instruments. This fact could be due to the higher

yield of SBIS than the yield rate on PUAS.

Based on the VECM estimation test in Table 3, in the short term, only SBIS variables influence the Industrial Production Index (IPI). This result is consistent with research conducted by Setiawan and Karsinah (2016). According to Setiawan and Karsinah (2016), this shows that Islamic monetary policy requires a time lag to reach the final goal to achieve. Ramadhan dan Beik (2013) said that when there is a monetary shock, the financing of Islamic bank could be recovered and stabilized better than the credit of conventional bank. Rafsanjani and Sukmana (2014), El Ayyubi et al. (2017) also conclude that Islamic banking can affect the economic growth of Indonesia. Besides that, they also found that the impact of SBIS on financing is more significant than SBI. Whereas in the long term the variables of sharia monetary instruments namely SBIS and PUAS as well as Islamic bank financing variables are significant in influencing the Industrial Production Index (IPI).

The Impulse Response Function (IRF) test is used to see how the Industrial Production Index (IPI) response is due to the shock or dynamics of financing variables, SBIS, and PUAS (the detail shows at appendix). Based on the results of the Impulse Response Function (IRF) analysis involving financing variables, SBIS, and PUAS as impulses that were shocked by economic behavior, we can see that the shock of the financing variable appears to have not been responded to by the Industrial Production Index (IPI) variable in the first period. This shock began to be responded negatively by the Industrial Production Index (IPI) in the second period of 0.00017% and began to experience an increase in the 3rd period. The response of the Industrial Production Index (IPI) to shocks that occur in the financing variable starts to stabilize in the 8th period.

The negative response of the Industrial Production Index (IPI) to shocks or shocks that occur in Islamic bank financing variables in this study following research conducted by Sukmana and Kassim (2010). In a study conducted by Sukmana and Kassim (2010), it shows that the total financing variable responds positively to the shock or shock that occurs in the total deposit variable. In the context of the monetary policy transmission mechanism, this can explain when there is an increase in interest rate policies which will then have an impact on the total depreciation of deposits. This movement will then have an impact on reducing total financing, which will then have the same impact on the decline in real output, which indicated by the negative response of the Industrial Production Index (IPI) variable to total financing. According to Sukmana and Kassim (2010), the contractive monetary policy will reduce the ability of banks to channel loans or financing to customers which will then lead to the impact of depreciation in the real sector.

The shocks that occur in the SBIS variable appear to have not been responded to by the Industrial Production

Index (IPI) variable in the first period. This shock began to be responded positively by the Industrial Production Index (IPI) variable in the second period of 0.006%. The response of the Industrial Production Index (IPI) variable decreased in the 3rd period and began to stabilize in the 7th period. On the other hand, the shock or shock that occurs in the SBIS variable is responded positively by the Industrial Production Index (IPI) variable.

These results are consistent with the research conducted by Pratama (2014) and Ascarya (2012). The Changes in SBIS yields have a positive impact on the Industrial Production Index (IPI). According to Ascarya (2012), the reciprocal behavior of the reference of Sharia monetary policy (SBIS) shows the same behavior as other sharia variables such as financing and yields on PUAS which have a positive character in inhibiting and reducing inflation and in encouraging and increasing output or economic growth.

Shocks that occur in the PUAS variable appear to have not been responded to by the Industrial Production Index (IPI) variable in the first period. The shock of PUAS variables began to be responded positively by the variable Industrial Production Index (IPI) in the second period of 0.005% and experienced an increase in the 5th period and began to stabilize in the 8th period. The shock on PUAS variable which was responded positively by the Industrial Production Index (IPI) variable. This result is following the research conducted by Ascarya (2012). According to Ascarya (2012), returns on the sharia money market have a positive impact regarding impacting to increase output and also be permanent. This fact can explain when profit sharing rises; it will cause investment to rise so that it will be able to increase output.

The dynamic structure between variables in a VAR show through the Forecast Error Variance Decomposition (FEVD) analysis, where the pattern of the FEVD tells the nature of multivariate causality among the variables in the VECM model. This sorting of variables in the FEVD analysis based on Cholesky factorization. Based on the FEVD test results in Figure 2, we obtained information that variables that have a significant contribution to the Industrial Production Index (IPI) in the first order are PUAS variables followed by financing variables, and SBIS has the smallest contribution to the Industrial Production Index (IPI).

In the first period, the Industrial Production Index (IPI) fluctuations were still influenced by the Industrial Production Index (IPI) variable by 100%. Then in the final period, fluctuations in the Industrial Production Index were more influenced by PUAS variables of 17.95%. Then followed by financing variables that have a contribution of 13.98%. The SBIS variable has a contribution of 2.51% to the Industrial Production Index (IPI).

This fact shows that the transmission of the financing channel Islamic sharia monetary policy has not yet contributed significantly to the Industrial Production Index (IPI) as a proxy of output in the real sector. This fact can be caused by Indonesia having five channels of monetary policy transmission in influencing output, namely the path of interest rates, exchange rates, expectations, asset prices, and financing channels.

The small influence of financing path variables in the transmission of sharia monetary policy is the ultimate goal of output by the research conducted by Setiawan and Karsinah (2016). According to Setiawan and Karsinah (2016), conventional lane variables have a more significant influence on economic growth compared to sharia lane variables due to the sizeable conventional banking share in Indonesia, where the conventional banking share reaches 95%.

Asnuri (2013), Wisandani, et al. (2017) concludes that today's monetary policy does not get along with the real sector. The economy (including in Indonesia) dominated by the virtual transaction. Although, Widodo (2017) stated that the Islamic monetary policy capable of promoting price stability. Mansur (2013), Permatasari et al. (2013) states that there must be a synergy between monetary and fiscal policy to support the growth of the real sector.

CONCLUSION

This study aims to examine the impact of Islamic monetary instruments to the real sector. Based on the Granger causality test, it can show that the flow of Islamic monetary policy transmission through the financing way has not been following the theory. This fact is due to the interrupted transmission path in the PUAS variable. According to the VECM test, we can see that in the short-run only SBIS variable that had an impact on the industrial production index. This result proves that the monetary policy transmission needs a time lag to achieve the target. In the long run, the variable of Islamic bank's financing and SBIS had a positive effect on the industrial production index, but the PUAS's variable had a negative impact on the industrial production index.

Besides, the IRS's test shows that the industrial production index positively responds to the shocks that occur in the SBIS and PUAS variables. However, the shock in the variable of Islamic bank's financing is negatively responded by industrial production index. Besides that, the FEVD result shows the fluctuation of the industrial production index at the end of the period is still more influenced by the industrial production index variable itself. This fact indicates that the transmission of Islamic monetary policy on the financing channel still has not contributed significantly to the industrial production index.

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Table 1. Summary of Stationarity Test

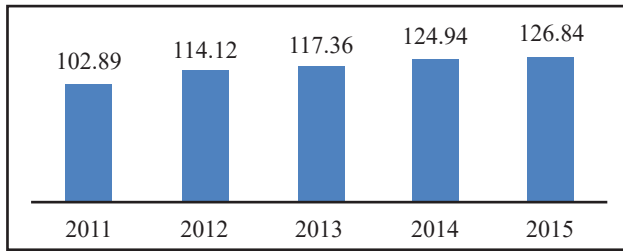
Variable	Level	First Difference
Ln_IPI	Not Stationer	Stationer
Ln_Financing	Stationer	Stationer
SBIS	Not Stationer	Stationer
PUAS	Not Stationer	Stationer

Table 2. The Result of Cointegration Test

Hypothesized	Trace	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.333690	68.32135	55.24578	0.0023
At most 1 *	0.314186	41.11932	35.01090	0.0099
At most 2	0.138274	15.85035	18.39771	0.1097
At most 3 *	0.084014	5.879556	3.841466	0.0153

Table 3. The Estimation Result of VECM

Short-term		
Variable	Coefficient	t-stat
SBIS	0.038294	2.01853
Long-term		
Variable	Coefficient	t-stat
Financing	0.218332	3.09877
PUAS	-0.097313	-4.23735
SBIS	0.069852	3.49409



Source: Central Agency on Statistics

Figure 1. The Development of Industrial Production Index

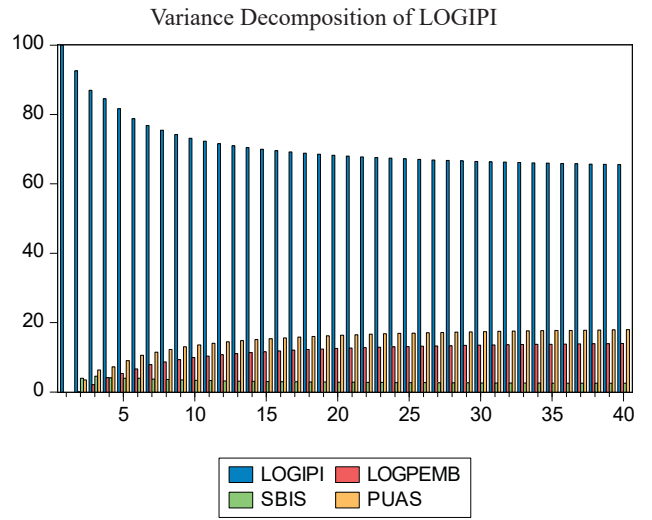


Figure 2. The FEVD Result

MANAGING HUMAN RESOURCE THROUGH GREEN POLICY: WAYS OUT AND ITS IMPLICATION

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received: 23/8/18; revised: 17/12/18; published: 31/12/18

Abstract

This paper attempts to highlight the green policy and its practices for managing the human resource in the organizations and also seeks to ways out some techniques to make green HR policy useful for the organizational practices. In this study, the authors used secondary data through an extensive literature survey form different sources. The significant findings are that all over the world, organizations are trying to practice green management or implementation of green policy for their daily activities as well as to ensure the health and well-being of their human resources. Though the green system is beneficial for both the organizations as well as employees but it costs a lot in the initial stage to meet up the preliminary fixed costs, train the people and to make people ready to work as per green policies. Gathering experiences from different research in advanced countries the authors try to conclude the study by mentioning some ways- how to manage HR through green policy or green human resource management (HRM) techniques.

Keywords: *environment management; green management & policy; green initiatives; HRM*

INTRODUCTION

Human resources are the most prominent assets and also considered as the driving force of any organization whether it is service or manufacturing business. To keep them happy and safe with good health; green issues come to the organizational policy and practice. In the current business practices, all organizations have been showing the greatest interest in making the corporations greener. Nowadays the terms green policy, green management, green HRM, green banking, etc. are most pronounced to make the business organizations livable for their stakeholders. Considering the importance of green policy and environmental issue in the professional domain many ecologists around the world, try to create the mass awareness about the impacts of global warming and find out the possible solution to make the world livable (IDRBT, 2013). Building upon this green concept numerous literatures on Green marketing (Phillips, 2007), Green HRM (Wehrmeyer, 2017), Green management in general (McDonagh & Prothero, 1997), Green accounting (Bebbington, 2000), proactive environmental management (González-Benito

& González-Benito, 2006), and Green retailing (Lai, Cheng, & Tang, 2010) have emerged the field of management. The contemporary attention in green policies globally has risen after specific agreements to fighting against climate change, e.g.; Kyoto 1997, Bali 2007 and Copenhagen 2009 (Victor, 2011). The effective environmental management and firm's environmental performance is an emerging agenda to global business leaders, (Berns et al., 2009; Longoni & Cagliano, 2015).

Green policy can ensure the environmental sustainability through human resource by following the 3D approach- De-materialization, De-carbonization, and De-mobilization in the daily activities of the domains (Z. Chen, Hossen, Muzafary, & Begum, 2018; Hossen, Uddin, & Hossain, 2014). Though it was assumed previously that integrating 'green' into their business strategy would cost money, but they now realize that ignoring negative impacts on the environment will be costly in the future by performing green management, the businesses may earn the better profit than before (Murari & Bhandari, 2011). If the organizations can perform better in their environmental learning and developing employees' environmental competencies,

they will be capable of getting the opportunities of the green market in the shorter period (Svensson et al., 2016). Flammer (2013) have found that several positive outcomes, such as higher profitability, better financial performance, and higher stock prices come due to good environmental performance. Chadwick (2010) argued that HR practices affect organizational performance in three ways: additive effects (when they do not interact represented by the formula: $2+2=4$); substitution effects (when they present equifinality, i.e., $2+2=3$); and synergetic effects (when they reinforce each other, i.e., $2+2=5$). This type of relationship between environmental performance and organizational outcomes has been mediated by intangible resources, such as human capital and culture (Surroca, Tribó, & Waddock, 2010), human resource management research (Bauer, Erdogan, & Taylor, 2012; Jones & Willness, 2013) and practice (DuBois & Dubois, 2012) have given emphasized the relation between HRM practices and environmental management. (Zamil & Hossen, 2012) argued that proper ICT with the green policy of any country plays an enormous role in case of business, commerce, and environmental sustainability.

To implement these green strategies, the business organizations need the active and dynamic leadership and concrete policies is first required (Glavas, Senge, & Cooperrider, 2010). In organization, green teams help to generate the idea, motivate organization learning, identify and resolve conflicts by green policies and practices (Beard & Rees, 2000). According to Mandip (2012), Green HR policy mainly consists of two primary elements namely environment-friendly HR practices and the preservation of knowledge capital. Nowadays, managing HR through green system is considered as one of the key business strategies for the corporations where Human Resource Departments can play an important role 'in the formation of their company's sustainability culture' (Harmon, Fairfield, & Wirtenberg, 2010) as they are dealing with the driving force (HR) of the organization. Jackson, Renwick, Jabbour, and Muller-Camen (2011) argued that the success of Green HRM mostly depends on the HR manager's unique and identifiable patterns of green decisions and behaviors. In the concept of managing people through green policy, the entire functions of HRM is considered in the light of all over. In an organization, green management policies and strategies are the foundation of sustainable business as they are responsible for planning and executing the eco-friendly procedure to create a green atmosphere.

Though there is a numerous research regarding green issues in developed or even developing countries but there are still have a long way to go to ensure the utmost success all over the world. The most mentionable achievements can be found in the western countries and some other developed countries, but developing countries still lag behind. The concept of GHRM is popularly used and practiced in western countries,

and it is an important issue to study for the Asian countries for their environmental management and economic development (D. W. Renwick, T. Redman, & S. Maguire, 2013). Even though there are some developments in the concept but the volume of research focusing on Green policy for HRM remains insignificant and in the primitive stage and there are many gaps to be filled theoretically and empirically as well (Z. Chen et al., 2018; Jackson et al., 2011). So, the researchers think to work on this topic will be a great initiative and the parties related to the issue will be the optimum beneficiary along with the greater society.

The main purpose of this study is to know about the concept of green management and policy for managing HR within the organizations along with the following specific objectives: (1) Provide the basic concepts and highlight the significance of Green policy for HRM; (2) Have an idea about the green policies and practices in managing HR in organizations; (3) Attempt to ways out- how the organization can make effective green strategy for HRM.

Managing people through green policy is popularly known as green human resource management (GHRM). The term Green policy for HRM has become one of the most prominent topics in recent business research all-round the globe. Green HRM is the 'integration of corporate environmental management into human resource management' (Renwick, Redman, & Maguire, 2008), 'the level of greening the functional dimensions of human resource management' (Jose Chiappetta Jabbour, 2011), 'the use of HRM policies to stimulate the sustainable use of resources within organizations' (Marhatta & Adhikari, 2013), 'the use of HRM policies to inspire the sustainable use of resources within corporations and further boosts up employee morale and satisfaction (Mampra, 2013), 'the use of HRM policies, philosophies, and practices to ensure sustainable use of business resources and thwart any untoward harm arising from environmental concerns in organizations' (Zoogah, 2011). The purpose of Green policy for HRM is to create the positive atmosphere within the organizations so that an employee can give a maximum individual contribution on each of the four roles, i.e., preservationist, conservationist, non-polluter, and maker (Opatha & Arulrajah, 2014).

Green HRM is the process of recruiting, hiring, training, compensating, developing, and advancing the firms human capital intending to creating the green workforce that understands, appreciates, and practices green initiative and maintains its green objectives all throughout their activities (Mathapati, 2013). The green HR policy considers every employee to stimulate sustainable environmental practices and upsurge employee consciousness and promises on the issues (Mandip, 2012). It also emphasizes on employee's ecological performance within the organization as well as in their private life (Muster & Schrader, 2011). In

the sense of Opatha and Arulrajah (2014), Green HRM is the way of changing current workforces into green workforces to achieve organizational environmental goals and to make a noteworthy contribution to environmental sustainability. According to Malu, Agrawal, and Jajoo (2014), by introducing sustainable policy, the business organization can play a significant role to preserve the environmental sustainability with the conscious human resources.

Human Resource Management (HRM) is the combination of several functions related to acquisition, development, motivation, and retentions of HR within the organizations. Renwick et al. (2008), argued that reliable and effective policies in the field of HRM systems act as the principal tools for engaging employees with environmental performance of a company. To achieve the environmental sustainability the organization must have an effective HRM practices including strict recruitment strategies (Grolleau, Mzoughi, & Pekovic, 2012; Hossen et al., 2014), appraisal, and reward systems which embrace environmental consciousness and execution it in their performance assessment process (Jabbour, de Sousa Jabbour, Govindan, Teixeira, & de Souza Freitas, 2013) and employee training, development and empowerment programs (Unnikrishnan & Hegde, 2007) which will help to develop a new set of skills, abilities, knowledge and attitudes among the employees of 'pro-green' organizations. Cherian and Jacob (2012) in their research acknowledged that recruitment, selection, training & development, employee motivation, rewards & benefits are essential human magnitudes which subsidize to the enhancement in employee's drives to green management principles. After reviewing different kinds of literatures, the major finding related to the importance of making specific functions green can be listed below:

Acquiring qualified and environment conscious employee is one of the preconditions of effective use of GHRM in the organization but attracting highly-skilled staffs is one of the HR challenges in the 'war for talent' (D. W. Renwick et al., 2013). Nowadays, firms are trying to gain the reputation as a green employer by practicing GHRM in a way to appeal new talents (Stringer, 2010). In the competitive market, job hunters prefer 'Green Organizations' as their working destinations whereas employers are looking for 'Green job candidates' all through their recruitment processes (Hossen, Begum, & Zhixia, 2018; D. W. Renwick et al., 2013), recruiting those candidates who can able their green values within the organizational activities to ensure corporate sustainability (Phillips, 2007; Stringer, 2010). Moreover, several empirical research suggested that green-related information in their company websites and job advertisements attracts the attention of the and improves the probabilities of appealing and employing competent candidates (Bansal & Roth, 2000; Gully, Phillips, Castellano, Han, & Kim, 2013; Jabbour, Santos,

& Nagano, 2010). For these cases, companies should consider the practices GHRM and provide sufficient information on their websites to attract qualified potential employees (C.-C. Chen, Lin, & Chen, 2012; Gregory, Meade, & Thompson, 2013). Grolleau et al. (2012) in their study, found that professionals are more conscious about the sustainable environmental policies and practices of a company. CIPD/KPMG has surveyed on 1000 HR specialists and found 47% professionals stated that they prefer working for those firms that have a robust Green approach, and this would appeal prospective high-skilled workforces (Phillips, 2007).

Green training focuses on the development of employees' such types of abilities and to prevent deterioration of environment management (EM)-related knowledge, skills, and attitudes (Zoogah, 2011). All the employees of an organization should be acquainted with environmental management training as a means of the major success factors of the organizational sustainable environment (Unnikrishnan & Hegde, 2007). Green training and development informed employees to work with the methods that save energy, condense waste, diffuse ecological mindfulness within the organization, and provide the chance to involve employees in environmental decision making and problem-solving (Zoogah, 2011). Green training issues is given prioritized in some developed or even developing countries. In the UK, a CIPD/KPMG study stated 42% of UK organizations providing green training to their employees to make the business activities environment-friendly (Phillips, 2007) and make them capable to works against the threats of climate change and its impacts on firms (do Rosário Cabrita, Cruz-Machado, Matos, & Safari, 2016). In the regime of the Obama administration, the US has been invested £300m in training for Green jobs (Barton, 2009).

Green performance appraisal (PA) consider the issues such as environmental incidents, environmental knowledge, use of environmental responsibilities and the communication of environmental concerns and policy within the employees and organizations (Clair & Milliman, 2017). When HR managers incorporate environmental performance into PM systems they mainly introduce the protection against any damage in the firm's environment management systems (Epstein & Roy, 1997), by introducing organization-wide environmental performance standards, and Green information systems, audit to gain on ecological performance firms try to deal with the issue of PM (Alfred & Adam, 2009; Marcus et al., 2007). A capable performance management system can offer worthwhile feedback to performers and constantly help to the developments in the firm's environmental outcomes (Jackson et al., 2011). Issues related to the environmental PA concern the need for managers to be held accountable for EM performance in addition to broader performance objectives (D. W. Renwick et al., 2013).

In the modern organizations, compensation and benefits are considered as one of the most influential means to link an individual's interest to that of the organization's together for supporting environmental activities. According to Liebowitz (2010), employee compensation programs can be modified to give bonuses and awards based on their excellent performance in special projects and green management. Green rewards can embrace the use of workplace and lifestyle benefits, alternating from carbon credit offsets to free bicycles, to involve employees in the green management while enduring to acknowledge their contribution (Pillai & Sivathanu, 2014). In the UK, some company practice the use of a 'carbon credit card' and cash incentives for staff to purchase hybrid cars (Davies & Smith, 2007), arrange annual honor dinners to acknowledge exemplary performance in environmental management (Simms, 2007), and financial incentives also paid as reward (such as tax incentives and exemptions to promote loaning bicycles to employees, and the use of a less polluting car fleet) for their environmental performance (Davies & Smith, 2007). A study conducted in the UK by CIPD/KPMG and found that 8% of UK firms were rewarding green behaviors with financial and/or non-financial incentives (Phillips, 2007); and these practices act as an effective tool to motivate employees toward eco-initiatives within the organizations (Ramus, 2002). The best practices of green compensation can be observed in US firms- they paid more their CEO's of eco-friendly firms than non-eco-friendly firms which exhibit the strong relationships between environmental performance and CEO's total pay (Berrone & Gomez-Mejia, 2009).

A good employee relation is an intangible and long-term asset for any organization which can help to achieve a competitive advantage. Employee involvement in Green decision-making process increases the chances of better green management practices and systems. The accomplishment of green results generally depends on employees' eagerness to cooperate (Collier & Esteban, 2007), as often, the best ideas come from the employees who work in that particular area (Casler, Gundlach, Persons, & Zivnuska, 2010). Wider employee participation in EM considered as the important factors to get successful outcomes rather than limiting participation to managers and specialists (Hanna, Rocky Newman, & Johnson, 2000; Remmen & Lorentzen, 2000). Including staffs in environment management (EM) decision-making process has been considered as improving the key outcomes of EM systems, including efficient usage of resources (Z. Chen et al., 2018; Florida & Davison, 2001); decreasing waste and workplaces pollution (Kitazawa & Sarkis, 2000). Different employee involvement programs can be used in EM systems such as newsletters, suggestion schemes and problem-solving groups (D. W. Renwick et al., 2013), work-based recycling schemes (D. Renwick, T.

Redman, & S. Maguire, 2013); forming Green teams to make firms environment friendly (MOHD-YUSOFF & MOHD-YUSOFF, 2015); and inspiring employees to use telecommuting, video conferencing, car-sharing, and home-working (Philpott & Davies, 2007). Employee involvement in green and environment management is also helpful to upsurge the employee's health and safety, as well as the development of eco-friendly staff.

Supportive organizational culture can inspire staffs to make propositions for and the autonomy to participate in the activities that develop the environment of the workplace (Madsen & Ulhøi, 2001). It will not work and give the optimum outcomes in long-term environmental sustainability until changing the corporate culture along with the changes in man, machine, material and other things (Kitazawa & Sarkis, 2000; Stone, 2000). Management should empower employee in the EM systems decision-making process, try to win their 'hearts and minds' to the environmental cause, motivate them to 'buy-in' to taking ownership of energy management use (Trust, 2006). Employee personal values, such as openness to change, are positively correlated with positive attitudes towards the environment (Chun, 2009). However, the long-term problems of supporting pro-environmental cultures, with managerial and supervisory changes damaging employee commitment to environmental management initiatives (Forman & Jorgensen, 2001). Different studies in UK and US companies suggest that employee empowerment acts as the feelings of psychological empowerment which also upsurge their willingness to work proactively for environmental improvements (Kitazawa & Sarkis, 2000). A survey on 232 Australian manufacturing firms reports that there is a positive relationship between the employee's environmental performance and the level of employee empowerment (Simpson & Samson, 2010).

METHOD

The study is mainly descriptive in nature based on an extensive literature survey of secondary data. According to Mugenda (2003), a descriptive survey design helps a researcher to gather, summarize, present and interpret information for clarification. The study has been designed intending to investigate and determine the significance of practices green policy for managing HR within the organization. For secondary data, the researchers have reviewed many articles cited in the databases Sage, Taylor and Francis Online, Elsevier, Springerlink, ScienceDirect, JSTOR, Wiley Online Library, and Emerald related to green management, green HRM or environmental HRM.

RESULTS AND DISCUSSIONS

Green organizational practice is mostly needed in the modern business area as the world climate is changing

and becoming unhealthy for the survival of human being. Every year we face different types of natural disasters such as storms, floods, droughts, earthquake, excessive heat and melting ice, acid rains, red rains, Tsunamis, etc. Ecologists in the world suggested making a natural balance from every corner of the world for the survival of the planet. Green HRM helps to create three pillars like- environmental sustainability, social sustainability, and economic sustainability (Yusoff, Ramayah, & Othman, 2015). Fortunately, some governments, organizations, and individuals including environmentalists and nature lovers come forward and pay serious attention to preserve and conserve the environment. Green HRM is one of the parts of making organization green to make sure the environmental sustainability. Practicing green HRM is helpful for the organization as well as the society in the following ways: (1) Minimizes natural disasters, health diseases, global warming due to pollution; (2) Ensures the survival of humans and business organizations and ecological balance; (3) Increases employee productivity through satisfaction and better efficiency; (4) Lesser consumption of power-energy, water, and raw materials; (5) Attracts best talented HR and ensure to retain them for the longer period; (6) Increase organizational scale sales and areas services; (7) Creating the brand image for the organization that becomes a competitive edge as well; (8) Dropping costs due to electronic documentation, teleworking, video conferencing, recycling of different usable products within the organizations.

These benefits are considered from both economic and environmental perspectives of the organization, and finally it helps to gain the organizational competitive advantage as well as a strategic advantage. The HR Managers of modern organizations are much more conscious about creating the awareness among the young employees of the organizations of Green HRM.

Implementing green policies for human resource need to meet up some requirements otherwise the organizational green target or environmental goals will fail. Green HRM policies mainly require the following things, Figure 1.

Green competencies are essential to the effective implementation of green HR policy for managing the human resource. Without a sufficient amount of knowledge and skills, it is not possible for the employee to become a Green employee. Beside these, the employee needs to have a right attitude of Greening. Right attitude means appropriate beliefs (cognitive), feelings (affective) and intention to behave (behavioral) concerning greening. Finally, green policy implementation required green behavior or positive actions of employees towards achieving organizational green targets. The outcome of green HR policy of an organization leads to better environmental management as well as better employee and customer's satisfaction.

To ensure the optimum outcomes regarding green

issues, every organization needs to adopt some policies to make employees green and achieve green benefits. To ensure optimum productivity through HR, the organizations need to make sure the formulation and proper practices of green policies for each function of HRM. Moreover, Table 1 may help the organization to formulate and practices green policy for the better of the organization as well as their employees' well-being.

Individual as an employee of any organization can play four roles (preservationist, conservationist, non-polluter, and maker) to become a green employee or implementing green policies in the organizations. Preservationist(s) are aware of protecting the environment from harm, loss, or adverse change. Conservationist(s) are very careful of using the environment so that future generations will be able to utilize it. Non-polluter(s) are always trying to prevent air, water, atmosphere, etc. from contamination. Maker(s) are willingly built parks and places which have plants, trees, and grass like a garden. Moreover, an individual can play roles in different ways to make sure the proper implementation of green policy by practicing the following activities: (1) To reduce electricity consumption- an individual employee can drink natural water rather than refrigerated water, keep the computer off when not working, use daylight and/or work with the minimum number of bulbs as much as possible; (2) To save environment and trees- use the electrical filing system rather than printed documents but if needed use both sides of the paper when writing or printing or photocopying; (3) To reduce air pollution- come to work by using public transport or official transport whenever possible, stop throwing wastages outside or anywhere, recycle or re-use some office stationaries items; (4) To keep them safe and healthier- employees can put plants in their workspaces, bring his or her mugs/glass, plates, foods, and also order organic foods for parties; (5) To be the part of the green achievements- every employee should obey the organizational green policy and code of conduct.

In today's organizations, green initiatives for managing HR is considered as a part of the corporate social responsibility and always monitoring the green practices and its achievements. Many organizations all over the world are integrating and working toward executing green policies and practices to achieve competitive benefits in the business domain. There are many issues related to green policy for HR that is to be considered by an organization's HR department before executing green initiatives which are not a task for a single day somewhat continuous process. Considering these things, organizations can take or some organizations have taken different actions as part of their green policy which can be listed below: (1) Adoption of green buildings by organizations while dealing with environmental issues. This building can ensure the uses of sunlight to reduce the electricity consumption; (2)

Mission to make paperless office which encourages digital filing systems and database management and also help to conserve trees, prevent pollution, and reduce wastage; (3) Encourages employees to use public transport or official vehicles for their daily commute to the workplace to save fuel and the environment also; (4) Save the environment by using 3R methods- reduce, reuse, and recycle of wastages and to do it supply recycled trash bins, recycled use of water for gardens and plants; (5) Use energy efficient air conditioners, bulbs and heaters to conserve the power uses; (6) Introduce video conferencing, teleconferencing, teleworking, telecommuting and other internet applications used for meetings thereby bringing down business travel and work from out of office; (7) Arrange a smoking zone and make sure the office is smoke-free for all stakeholders; (8) Train the employees to create green awareness and implement the green policies and also rewards those who are coming up with sustainable green ideas and strategies; (9) Encourage employees to keep some plants in their workspace and centrally follow tree plantation in the compound of the workplace.

CONCLUSION

As we are born and brought up by nature and always getting care by nature, it's our responsibility to preserve the balance of life through ensuring environmental sustainability. Managing people through green policy is one of the extended techniques to provide ecological balance. Though it's the responsibility of HR managers to create awareness to youngsters and other working people about green movement, preserving natural resources and preserving environmental sustainability (Hossen et al., 2014; Mathapati, 2013); but the organization's culture and employee's mindsets are essential to ensure green management within the organization - this is the point why we need green policy. If we can ensure green policy for human resources; of course the working people will bring the most desired result for the environmental achievement in the organizations. If the organization can make sure the successful implementation of green policy for HRM, it can ensure three types of sustainability (environment, social, and economic) for the organizations (Z. Chen et al., 2018; Yusoff et al., 2015). Though many organizations and employees are well-informed regarding green HRM issues but the success is not still remarkable due to lack of investment, inadequate IT supports, proper policy, community, and governmental supports. After finishing the paper, the authors are the optimist about the near future that the day is not so far when all the organization will have a formal green policy for managing their human resources and which will also help the organizations to ensure the environmental sustainability and present a good working environment for their employees.

To make sure of proper implementation and grand success of green policy the organizations need to need to adopt new methods, technologies, and tools to create a positive impact towards the environment. Support from top management, mindset of working people, skilled people with green competencies, social awareness, a comprehensive reward system, continuous training and development programs would ensure that employee's wholehearted participation towards environmental sustainability across the organization.

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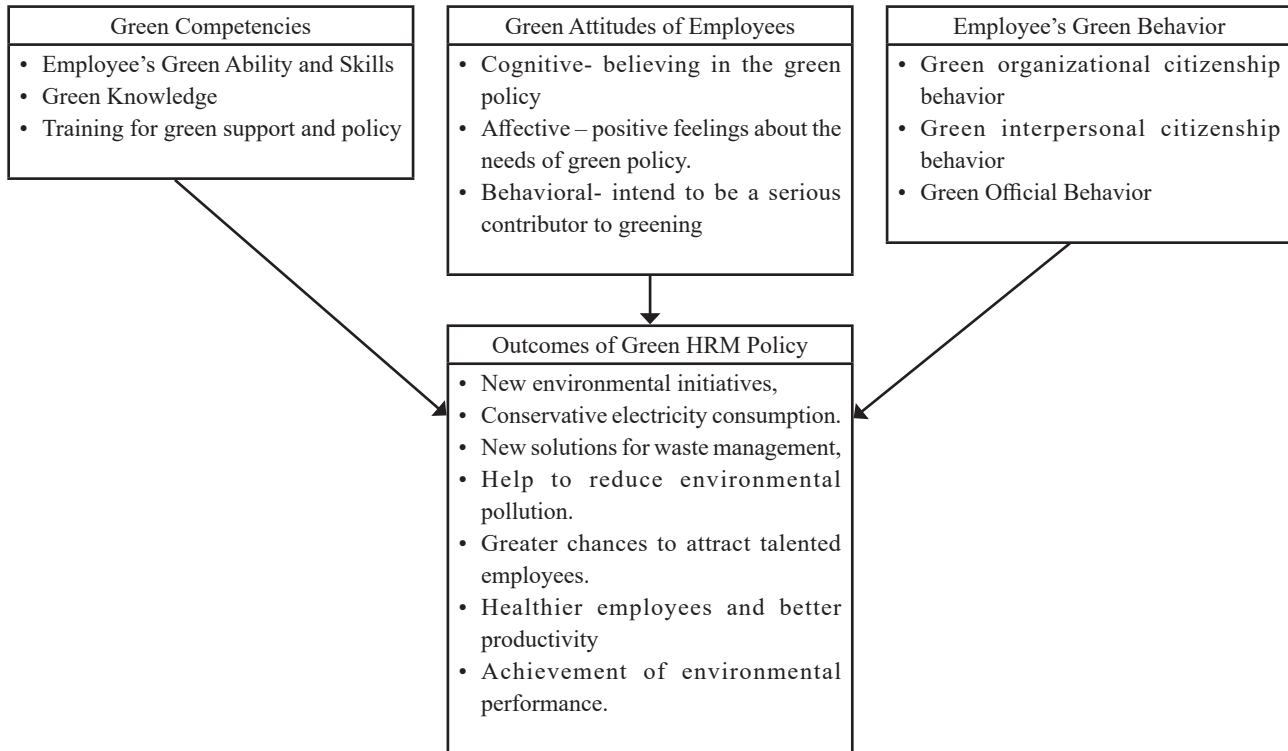
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(Source: Compiled by authors)

Figure 1. Requirements of Green HRM Policy

Table 1. HR Function and Strategies/Suggestions to make the HR Function Greener

HR Functions	Strategies/ suggestions to make the HR function greener
Acquisition functions: (HRP, Recruitment, Selection, Socialization)	<ul style="list-style-type: none"> • Developing green employer image and mention the greening endeavors in organization's websites. • Considering green competencies and environmental dimension in job specification and job descriptions. • Providing green issues in the job advertisements and communication it all through the recruitment process. • Listing green standards for screening the candidate and also consider the resumes of 'Green-aware' candidates for the first list. • Selecting those candidates who are adequately aware of greening and practicing greening as consumers under their private life domain. • Introducing green efforts of the organization in the induction process and showing Green citizenship behavior of current employees.
Training and Development	<ul style="list-style-type: none"> • Considering the green training needs when analyses the training needs. • Provide the right knowledge about greening through an exclusive training program about green roles and green HR functions. • Forming a 'green teams' to produce general awareness and specific training in Environmental Management (EM). • Providing chances to improve green personal skills through job rotation, job sharing, and other techniques. • Training future green managers on aspects of safety, energy efficiency, waste management and recycling. • All the training programs will be paperless and technology concern.
Motivation Functions: (Compen- sations, Employee involvement, and empower-ment)	<ul style="list-style-type: none"> • Rewarding the eco-performers financially or non-financially (awards, praises and recognition). • Offering benefit package for acquiring skills of green leadership, green initiatives, waste-reduction, recycling practices of employees. • Promoting suggestion schemes for innovative ideas, encouraging leadership to motivate others to green activities and rewarding these. • Ensuring the employee involvement and empowerment to make them happy and feeling psychologically empowered. • Assisting management and employees to remove their own carbon emissions through e-HR. • Ensuring a green office (with enough light and air) which is environmentally sensitive, resource efficient and socially responsible. • Introducing an employee help-line and wellness program for guidance in green matters.
Maintenance Functions: (Performance management, Discipline management, and Employee relations)	<ul style="list-style-type: none"> • Integrating green standards in the performance appraisal system and judge employee's according to the mentioned green criteria. • Communicating an individual's roles, responsibilities and targets in achieving green-targets. • Developing green information system and audits and also Penalizes for non-compliance of standards and targets. • Employing ecologist or experts to formulate and implement environment management systems and policies. • Developing green commuting habits like e-work, video conferencing, flexi-hours, car-pooling, free or discounted transportation passes, etc. to reduce travel and emission. • Promoting green printing through adopting '3R' approach to 'Reduce-Recycle-Reuse' resources. • Developing a code of conduct of green issues with mentioning disciplinary system to punish employees who violate the rules. • Conducting an exit interview to measure employee's perceptions on organizations green practices when any dismissal or breach of tenures. • Acting within local government expectations and environmental laws to align strategies with those of suppliers to avoid fines.

Source: Compiled by authors

THE IMPLEMENTATION OF DRINKING WATER SUPPLY SYSTEM IN DECENTRALIZATION ERA

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received: 5/9/18; revised: 18/9/18; published: 31/12/18

Abstract

This study aims to analyze the system of drinking water management in the decentralization era and to analyze of the difference of community accessibility to drinking water between before and after the era of decentralization. The analytical method used is descriptive method, which is analyzing the implementation of drinking water supply systems (DWSS) in the decentralization era and average difference test to determine the development of community accessibility to drinking water before and after decentralization era. The result shows that decentralization provides a positive development towards the implementation of the drinking water supply system, namely by increasing the number of districts/cities that have DWSS planning documents but statistically the decentralization era did not increase the growth of drinking water coverage.

Keywords: *supply; system; drinking water; implementation; decentralization*

INTRODUCTION

Drinking water is one of human basic needs which is necessary to improve the quality of human life a region. The availability of clean water or drinking water is closely related to the level of welfare of people in a region or country. Along with increasing the population growth, it increases the need for clean water. There is a tendency for countries with higher income levels to tend to have higher levels of water use. Meanwhile, the availability of water resources may be limited (Sullivan, 2002).

Drinking water in the economic context has an important role, namely as an indicator of poverty. The decline in poverty and inequality remains an important policy goal in most countries, especially in developing countries. (Sepulveda & Martinez-Vazquez, 2011) Poverty is defined from a variety of dimensions, the population is said to be poor not only as a result of shortcomings in meeting their minimum physical needs, but also because of low accessibility to the provision of infrastructure, including clean water or drinking water.

Based on the World Bank in study in Honduras (2011) showing that increased access to clean water through a water pipeline program increased the average income of households with access to clean water by 7.32 percent. While the Sri Lanka (1998) study found that the economic benefit of providing access to clean water is

the time substitution of housewives to the labor market. Prior to the clean water project, most housewives spent time to lift water from a spring or river. After water access has been channeled to the villages, there has been an increase in the participation of female labor force, especially housewives to formal and informal employment markets. This increase in female labor participation is predicted to increase household income by almost 20% per month (Sukartini & Saleh, 2011).

There are several mechanisms for the transmission of water access points on economic aspects such as: 1. Productivity and income lines, 2. sanitation and health lines, 3 education channels. In the transmission of productivity and earnings increases, the linkage of access to clean water with increased productivity and income opportunities, obtained from participating reporting that increased access to clean water in urban and rural areas, especially among the poorest (Sukartini & Saleh, 2011).

Therefore, increasing availability of clean water or drinking water is closely related to poverty alleviation. One of the national development priorities is to reduce poverty, increasing the availability of drinking or clean water will reduce poverty. How important poverty alleviation is, Indonesia together with 190 other countries have agreed on 17 sustainable development agendas set out in the Sustainable Development Goals (SDGs). The first agenda is to end poverty in all its

forms everywhere, related to and the sixth agenda is to ensure the availability and management of sustainable water and sanitation for everyone (GTLRG, 2016).

With the implementation of autonomy, districts and cities has the authority to formulate policies and programs development in accordance with regional aspirations and needs. District and city governments are expected to become more responsive in responding to various problems that develop in the area so that development programs are implemented according to the needs and problems in the region. Regions also have the authority to allocate budgets according to priorities and regional needs. With conditions like this, the program and district and city government policies will be better able answer community needs (Hamid, 2014).

Along with SDGs targets, Indonesia has a policy to achieve 100% access to safe drinking water by 2025. Existing conditions indicate that in 2013 the coverage of drinking water services in Indonesia was 67.73% in 2017 to 72.04% so within 4 year increased by 4.31% (BPS, 2018). Therefore, it requires the acceleration of the Development of Drinking Water Supply Systems (DWSS) to achieve targets in accordance with the Government's targets and SDGs.

In accordance with the spirit of regional autonomy as stated in the Law of the Republic of Indonesia Number 23/2014 concerning Regional Government, which was then followed up with Government Regulation No. 16/2005 concerning Development of Drinking Water Supply Systems (DWSS) which confirms that the implementation of drinking water services is the duty and responsibility of the Central Government and Regional Governments. This paper tries to explain how the authority of the central and regional governments in the provision of drinking water and whether there are significant differences in the acceleration of the coverage of drinking water services in the era of decentralization.

The starting point of the thought of regional autonomy is as an effort to create a maximum public service system (Kabir, 2016). Indonesia as a country with thousands of islands has different characteristics in each region. These differences encourage differences in community needs, differences in development in each region (Sianturi, 2011). The existence of differences in public service preferences in each region, the standard services provided by the central government are considered less efficient. Therefore, local governments are more suitable to provide services because local governments are assumed to understand the unique preferences of each region (Zakaria, 2013). Therefore the implementation of regional autonomy which has been immediated since 1999 as fulfillment of the indonesian people's demands in the framework of accommodating the variety of indonesian community needs.

Decentralization is the submission of Government Affairs by the Central Government to autonomous regions based on the Autonomous Principle (UU Otonomi Daerah nomer 23 tahun 2014). Thus the implementation of government based on decentralization can also be seen as a reduction in the dominance of the central government and giving up some authority to the regional government (Martinez-Vazquez & McNab, 2003). The devolution of authority is accompanied by financial transfer, both revenues and expenditures which are called fiscal decentralization.

Decentralization will affect the implementation of the public sector, both quantity and quality. Fiscal decentralization will encourage the allocation of public sector resources more efficiently. Differences in preferences and community needs for public services in each region will be more appropriate if provided by the local government. Tiebout (1956) states that not all public service provision must be provided by the central government, some public services are more appropriate if provided by local governments such as education, hospitals, etc. As well as Oates (1993) The basic concept of fiscal decentralization is the improvement of economic efficiency in the provision of public goods in accordance with the tastes and circumstances of the region, this will result in higher levels of community welfare (Hanim, 2018).

The development of Drinking Water Supply System (DWSS) is an activity that aims to build, expand and/or improve the physical (technical) and non-physical (institutional, management, financial, community and law) systems in a unified whole to implement drinking water supply to the society towards better condition. In relation to the provision of drinking water, the law mandates that DWSS development is the task of government, both central and regional governments. Given the critical importance of drinking water supply to the entire community, various laws and regulations are issued for the implementation of DWSS development.

Authority and responsibility of DWSS Development is the responsibility of the the central and regional government to ensure the right of every person in getting drinking water for basic daily needs to meet a healthy, clean, and productive life. The authority and responsibility of the government in the development of DWSS is set forth in the Government Regulation of the Republic of Indonesia No. 16/2005 on Development of Drinking Water Supply System article 38,39 and article 40 as shown in Table 1.

The implementation of DWSS development in the decentralization era regulated in Government Regulation No. 16/2005 and No. 38/2007, which contain the authorities and responsibilities of local governments in the development of DWSS, namely: (1) Arranging Regional Strategic Policy of DWSS development; (2) Arranging Regional Regulation about the Formation of Regional State Owned Enterprises; (3)

Arranging Guidelines for the development of DWSS Master Plan; (4) Preparing Feasibility Study of DWSS Development; (5) Establishing Technical Planning of DWSS Development; (6) Arranging regulations/legal products related to the action plan of application acceleration of Minimum Service Standards (MSS).

METHOD

In this study, the author used secondary data, data requirements are obtained from Basic Health Research Book of 2013 published by Ministry of Health, Performance Book of Drinking Water Supply Institution Region I - IV issued by Ministry of Public Works Supporting Agency for Development of DWSS and Result of National Recap of June 13, 2014, from Directorate of Improving Drinking Water of Public Works year 2014 and drinking water coverage data in districts in Indonesia before the decentralization era (1993-1999) and after the decentralization era (2000-2010). basic consideration for determining the 2000-2010 period, because in 2011 until now the calculation of drinking water coverage is worth using a new method.

This research is a descriptive study which aims to analyze the implementation of the drinking water system in Indonesia in the era of decentralization. the method carried out is by analyzing the authority of the central and regional governments in the implementation of the development of drinking water supply system based (DWSS) on the laws and regulations. Analysis of the development of drinking water service coverage before and after the decentralization era, was carried out by examining the differences in the average growth of decent drinking water coverage between before and after the decentralization era, namely using the average difference test.

Indicators used in PDAM performance evaluation are the result of perfection in 2010 which was done by using Balance Score Card approach by measuring the health level of PDAM. Some indicators used to measure PDAM performance are financial, service, operational and human resources aspects of PDAM. Each aspect is broken down into several service indicators for the development of drinking water supply systems, and the results of the assessment are categorized into 3 (three) criteria, ie healthy PDAMs, less healthy PDAMs, and not healthy PDAMs.

RESULTS AND DISCUSSION

In 2012, performance evaluation was conducted on 328 PDAMs throughout Indonesia, the results showed that the number of healthy PDAMs was 52.13% out of 328 PDAMs, while the percentage of PDAMs with less healthy performance was 30.79% and the PDAM with not healthy performance was 17,07%. In its development, the number of PDAM conducted

by performance evaluation by Supporting Agency for DWSS for three years has decreased. As the number of PDAMs evaluated decreases, it will cause changes in the number and percentage of each criterion.

Within 3 (three) years, the number of healthy PDAMs showed a positive trend. Based on existing data, the number of healthy PDAMs in 2010 as many as 142 PDAMs, in 2011 increased to 144 PDAMs and in 2012 increased significantly by 171 PDAMs. In other words, in 2011 the percentage of healthy PDAM increased by 1.41% and in 2012 increased by 18.75%. In line with the increasing number of healthy PDAMs, it is expected that there will be an increase in the quality and quantity of PDAM services to the community. The improvement of PDAM performance evaluation results for 2010, 2011 and 2012 can be seen in the Table 2.

Table 2. The Improvement of PDAM Performance in Indonesia Period 2010-2012

Performance	2010	Growth	2011	Growth	2012
Healthy	142	1,41	144	18,75	171
Less Healthy	129	(18,60)	105	5,71	111
Not Healthy	70	22,86	86	(34,88)	56
Jumlah	341		335		328

Source: Book of PDAM Performance Year 2012, Supporting Agency of DWSS

Clean water service is a very important component in public services. Water is a basic need that can not be separated from human life. The provision of clean water to the special attention of every country in the world is no exception in Indonesia. Population growth, development growth, and rising standards of living cause the increasing need for clean water. This makes the quality of service providers and managers of clean water is needed by the community.

In the era of regional autonomy, decentralized water resources management aims to bring the service closer together, strengthen control and participation of communities on the use of water and springs (sources), water pollution and environmental degradation. The decentralization of local government that occurs in clean water is left entirely to PDAMs that have the authority to manage and distribute water to the people of Indonesia. To meet the water needs of the community, PDAM uses water from water sources or water management (Pranata, Soeaidy, & Hanafi, 2015).

Drinking Water Supply Institution (PDAM) shall carry out the main duty to manage and give service of clean water to improve the welfare of the community in accordance with the Law no. 23/2014, on Regional Government. As one of the regional-owned enterprises, they should strive to be able supporting the realization of the mission and functions. Therefore, the management of drinking water system should be done properly and correctly and should meet technical and economic norms

in accordance with predefined criteria standards. Based on average coverage of PDAM services in Indonesia in 2014, none reached 50%. Even the highest coverage of drinking water services by PDAM is 45.28% in Central Java Province, followed by PDAM Riau Islands Province of 40.88% while the lowest coverage of drinking water services by PDAM is Lampung Province which is only 3.44% (Table 3).

In accordance with the mandate of Government Regulation No. 16/2005 regarding the obligations of district/city governments in DWSS development, among others stated that the hours of drinking water services to the community reach 24 hours a day. Based on the data of drinking water services obtained from the Directorate of Drinking Water of Cipta Karya the Ministry of Public Works, shows that the average hours of drinking water services by PDAM are less than 24 hours a day. Only the PDAM of DKI Jakarta Province provides 24 hours daily service. The province with the fewest hour of PDAM service is Riau Province with service only 9 hours per day.

Clean Water Supply has an important role in regional development, chapin in 1995 revealed that there are three city infrastructure that is very influential for the development of the city of transportation, clean water and sewage. These three types of infrastructure should be available for the construction of a city to proceed as planned. Thus the provision of clean water is one of the most important things since clean water is a basic necessity that is always consumed by the community (Susanti, 2010).

The availability of clean water will encourage the availability of appropriate drinking water for the community. the availability of drinking water is closely linked to poverty, therefore the target of all communities in Indonesia can access safe and proper drinking water to be one of Indonesia's agenda in Sustainable Development Goals (SDGs).

Achieving the target of 100% safe drinking water by 2019, this region needs careful planning as a reference in the implementation of drinking water supply. Decentralization has a positive impact on the development of the water sector, in the planning aspect, decentralization has encouraged regions to develop the DWSS master plan. Regions must prepare planning documents within the DWSS development framework for the 20-year planning period, namely RISPAM. Most districts/cities in Indonesia are in the process of drafting the DWSS Master Plan. in 2014 there were 106 districts/cities that had compiled the DWSS Master Plan (Ditpam, 2014). In 2017 there was a large increase, from 508 districts/cities, only 32 districts/cities that had not completed the DWSS Master Plan document (RISPAM) (Ciptakarya, 2017).

Whereas the outcome aspect can be seen based on the growth of decent drinking water coverage by households. Comparing the average growth of adequate

drinking water coverage between the period before and after decentralization shows that decentralization has no difference in the growth of household drinking water coverage. Statistically obtained t statistic values of -0.05 and p value of 0.478.

The statistically insignificant value shows that decentralization has no effect on public services, this is in line with the research conducted by Sulistyarini (2004). His research on the impact of decentralization on the quality of public services in the case of the health sector in the City of Yogyakarta. important conclusions include the health sector is only still a source of regional retribution and the Yogyakarta City Government does not have a comprehensive and operational health development management in the long term and relevant to the needs of the community. Likewise research conducted by Huda & Sana (2013) on the effect of fiscal decentralization on school participation rates, the resulting effect was found to be insignificant.

Thus the local government is also required to fix its infrastructure with regard to technical implementation, procedures, systems and working mechanisms between all stake holders in the implementation of drinking water supply. The spirit of reform and regional autonomy that spreads across all segments of society today, would be the right momentum to implement the ideas of development and improve the quality of public services, especially related to the drinking water sector (Hamid, 2014).

CONCLUSION

The authority and responsibility in DWSS development becomes the authority of Central Government when the location of activities, users, benefits are cross-provincial, when the use of resources shall be more efficient if carried out by the central government; and/or when it is strategic role for the national interest. The authority and responsibility in DWSS development becomes the authority of the Provincial Government when the location of activities, users, benefits are cross-district and when the use of resources is more efficient if carried out by the provincial government. The authority and responsibility in DWSS development becomes the authority of the District/ City Government when the location of activities, users, benefits are cross-district and then the use of resources is more efficient if carried out by the district/ city government.

Actually the implementation of regional authority in the provision of clean water in planning aspects has been implemented. Most districts/cities have compiled a master plan for the development of drinking water. However, if it is chosen from the development of growth in the coverage of drinking water services, it indicates that decentralization has not been able to accelerate the growth of drinking water coverage. for this reason,

cooperation between the central and provincial and district/city governments is needed to find solutions to improve the coverage of decent drinking water. One of main of problem occurred in district/city related to DWSS Development is raw water because the tendency is cross district/city. Therefore, facilitation from the Central Government and Provincial Government is needed to accelerate the settlement of inter-regional conflict related to raw water.

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Table 1. Authority and Responsibility of Government in DWSS Development According to Government Regulation No. 16/ 2005

Central Governmen (Article 38)	Province Government (Article 39)	District/City Government (Article 40)
a. Establishing national policies and strategies;	a. Arranging policies and development strategies in its territories based on national policies and strategies;	a. Arranging policies and strategies in their regions based on national policies and strategies and provincial policies and strategies;
b. Establishing norms, standards, guidelines and manuals;	b. Facilitating DWSS development across districts/cities;	b. Can form a Regional-Owned Enterprises to provide DWSS development;
c. Establishing SOEs operating DWSS; facilitating resolution of problems among provinces, which are specific, strategic, both national and international;	c. Establishing a provincial Regional Owned Enterprises as a provider of DWSS;	c. Fulfilling the drinking water needs of the community in its territory in accordance with specified minimum service standards;
d. Providing technical assistance and conduct controls, as well as supervision of the organization;	d. Solving problems between districts/cities;	d. Fulfilling the needs of sanitation services to improve the health of the community in its territory in accordance with established minimum service standards;
e. Granting inter provincial licenses;	e. Conduct monitoring and evaluation of the districts/cities;	e. Ensure the continuity of DWSS development in its territory;
f. Determining raw water allocation for DWSS development needs in accordance with defined water use rights; and	f. Submitting reports on results of monitoring and evaluation of the implementation to the Government and Supporting Agency for DWSS Development;	f. Carrying out the procurement of construction services and / or the establishment of DWSS development in areas not yet reached by Regional-Owned Enterprises services;
g. Facilitating the fulfillment of raw water requirements for DWSS development needs in accordance with their respective authorities.	g. Giving permission for cross-district/city administration;	g. Providing technical assistance to the subdistrict, village government, and community groups in the region regarding to the implementation of DWSS development;
	h. Facilitating the fulfillment of raw water requirements for DWSS development needs in accordance with their respective authorities.	h. Conduct monitoring and evaluation of the implementation of DWSS development in its territory;
		i. Submitting reports on results of monitoring and evaluation of the implementation to the provincial government, central government and Supporting Agency of DWSS Development;
		j. Supervising the implementation of DWSS development in its territory;
		k. Provide permission to implement DWSS development in its territory; and
		l. Facilitating the fulfillment of raw water requirements for DWSS development needs in accordance with their respective authorities.

Table 3. Service Hours of PDAM in Indonesia based on Province in 2014

No	Service hours of PDAM	Number of Province	Province
1	9	1	Riau
2	10	2	Sumatera Selatan , Papua Barat
3	11	3	Jambi, Lampung, Bangka Belitung
4	13	1	Kalimantan Tengah
5	15	4	Aceh, NTT, Kalimantan Timur Dan Sulawesi Tenggara
6	17	6	Sumatera Utara, Kalbar, Kalsel, Gorontalo, Sulbar dan Sumbar
7	18	2	Sulawesi Utara dan Papua
8	19	3	Kepulauan Riau, DIY dan Sulawesi Selatan
9	20	4	Sumatera Barat, Banten, Bengkulu dan NTB
10	21	2	Jawa Tengah dan Maluku Utara
11	22	2	Jawa Barat dan Sulawesi Tengah
12	23	1	Bali
13	24	1	DKI Jakarta

Source: Ditpam, 24th Februari 2014, processed

PROMOTIONAL STRATEGY ANALYSIS IN IMPROVING THE ROOMS IN ZODIAK HOTEL KEBON KAWUNG

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received: 21/6/18; revised: 19/11/18; published: 31/12/18

Abstract

This research aims to analyze the appropriate promotional strategies in increasing the occupancy of the Zodiak Kebon Kawung Hotel Bandung. 15 respondents were taken as a sample of research using purposive sampling from employees of executive sales and executive e-commerce at Zodiak Kebon Kawung Hotel. The analysis used is a SWOT analysis consisting of internal factor analysis factor (IFAS) matrix, external factor analysis summary (EFAS) matrix, external-internal matrix (IE), cartesian diagram and SWOT matrix. These are the position of growth strategy with IFAS score = 2.21, EFAS = 2.50, dan SWOT Matrix; 1) SO strategy ie accessibility of adequate means of transportation, modern hotels; 2) ST strategy that is not expensive and supported by security; 3) WO Strategy that is to improve human resources, facilities and infrastructure of water and sewage treatment, improvement of in-room facilities; 4) WT strategy is to avoid the transfer of educated and experienced personnel.

Keywords: *promotion strategy; SWOT analysis; SWOT matrix*

INTRODUCTION

The high influence of the tourism industry on foreign exchange earnings of the country makes it as one of the sectors to consider its development. Based on data obtained from the branding Wonderful, the competitiveness of Indonesian tourism experienced a sharp jump from 2013 to 2017, which is from the 70th to the 42nd (Liputan6.com (Ibo,2018)). This is also in line with the increasing number of foreign and domestic tourists who visit Bandung to enjoy the various destinations and attractions that are available.

The rapid development of tourism activities in Bandung, utilized by entrepreneurs and stakeholders to invest funds in the development of accommodation services, in the form of development of hotels with various levels and facilities. For example, Zodiak Kebon Kawung Hotel is one of the budget hotels located at Jalan Kebon Kawung No.54 Pasir Kaliki Cicendo Bandung, managed by Kagum Group and operated since 2011. This hotel has 2 type of room, function, meeting room, ballroom, restaurant, and room facilities that sufficient with budget hotel type. This hotel also

has many similar competitors that are located not far from the hotel.

The hotel's ranking position (Table 1) is determined based on reviews provided by guests who have dropped in to stay in accordance with the service, cleanliness, timeliness of check-in and special requests by room bookers at each hotel through Tripadvisor.com. This may affect the rating of the hotel so that every hotel should make improvements to the system, improvement of services, food and beverage products, hygiene, security, and promotions provided to increase the occupancy rate of rooms in these hotels.

Hotel Zodiak Kebon Kawung continues to conduct annual evaluations to continue to improve the promotion and service quality in order to improve room occupancy and not be left behind by other hotel competitors. However, until now the occupancy rate of the targeted Zodiak Kebon Kawung Hotel has not reached the target despite making some efforts in the promotion strategy (Table 2).

Room occupancy rates in the last four years, namely from 2011 to 2015, decreased presentation (Table 2). The problem that caused the decline is the possibility of many

competitors. This is seen based on the growing number of hotels with various types of hospitality concepts. The problems faced by the hotel must have a better promotion strategy so that customers always use hotel products (services). As expressed by (Chandra, S. M., & Tielung, M. V., 2015) that hotel management in achieving residential targets, must have a strategy to increase attractive promotional efforts. Because, the promotion has an important role in contributing to increasing hotel room occupancy (Anderson, C. K. 2012).

The main goal in conducting promotions is to increase the occupancy space that is consumers and satisfaction. As stated by (Mandasari, K., & Soesanto, H. (2011) which states that the most important goal of the strategy is consumers' satisfaction, conditions that must meet consumer expectations. increasing the hotel room occupancy are the distance from the city center, hotel size, and hotel price level in increasing the hotel room occupancy. general in the city where the hotel is located (Radojevic, T., Stanisic, N., & Stanic, N., 2015).

The company's goal in increasing room occupancy is to maintain survival, develop and earn profits. The efforts made besides increasing promotion also increase competitive advantage, in this case, are cost and differentiation. Molina-Azorin, et al., 2015 shows that quality management and hotel environments can enable competitive advantage in terms of cost and differentiation.

Cost is one of the important factors in a company to make a profit. Every business actor tries to set affordable prices for their competitors. Many companies go bankrupt because they set prices that don't match the market. The price set must be in accordance with the consumer economy so that consumers can buy goods and services (Gulla, R., Oroh, S. G., & Roring, F., 2015). In addition, hotel management must pay attention to the best service, because it will have an impact on the customer's attitude towards the hotel and can spread online (Zervas, G., Proserpio, D., & Byers, J. W., 2017).

Kebon Kawung Zodiac Hotel has both promotional and online designs. This shows that the Kebon Kawung Zodiac Hotel has a promotional strategy to increase room occupancy. However, the target room occupancy guests have not been reached (Table 2). Therefore, in-depth search and analysis of marketing strategies are needed at the Zodiac Kebon Kawung Hotel to increase room occupancy using SWOT analysis.

METHODS

Research Design. This research was conducted to analyze the promotion strategy used by Zodiac Kebon Kawung Hotel using SWOT analysis. The instrument used in this study is a questionnaire filled by employees of executive sales and executive e-commerce related to

the promotion strategy of Zodiac Kebon Kawung Hotel. Furthermore, the data obtained from the questionnaire is recapitulated and tabulated to obtain a basis in determining the promotion strategy in increasing the occupancy of Zodiac Kebon Kawung hotel room.

Target research. This research uses purposive sampling as a method in determining the sample research so that it can be concentrated on the subject of research (Etikan, Musa & Alkassim., 2016). The determination of sample selection is based on the research needs of respondents who understand about the state of the hotel, both internally and externally, so that the number of respondents used in this study is 15 people.

Data collection technique. The questionnaire used consisted of 10 indicators in internal indicators and 10 external indicators. Questionnaires were supplied by respondents to give weight and rating. Data collection technique. The questionnaire used consisted of 10 indicators in internal indicators and 10 external indicators. Questionnaires were supplied by respondents to give weight and rating. Determining the performance score of an object is by way of judgment (judgment value). The score of positive factor, the score given starting from SL (very weak) = 1, L (weak) = 2, K (strong) = 3, SK (very strong) = 4, and for the negative penalty factor threat) The scale of the negative penalty factor, the score given from SK (very strong) = 1, K (strong) = 2, L (weak) = 3, SL (very weak) = 4 (Brahmanto, Hermawan, & Hamzah, 2017). Weight assessment of promotional strategy can be seen from the total value of the maximum weight. This is to facilitate the scoring and weighting in the internal factors analysis summary (IFAS) table and external factors analysis summary (EFAS).

Data analysis used were internal factors analysis factor matrix (IFAS), matrix of external factor analysis summary (EFAS), and SWOT matrix. SWOT analysis is used to look at the factors that are the strength of the object (strengths), weakness of the object (weakness), opportunities of development (opportunities) and possible external factors that threat (treatments) (Rangkuti, F., 2011); (Brahmanto, Hermawan, & Hamzah, 2017), (Wijaya, Priyono, & Santoso, 2018)) in promotion strategy in the improvement of room occupancy in Hotel Zodiac Kebon Kawung.

Data analysis used next is to use a type of quadrant strategy consisting of four possible strategies, namely strength and opportunity and simultaneously can minimize the weakness and threat ((Rangkuti, F., 2011); (Wijaya, Priyono, & Santoso, 2018)). It is expected to be able to balance between internal conditions, namely: strengths and weaknesses with external conditions in opportunities and threats that are then implemented in the SWOT matrix to get the best strategy. The positioning in the Internal-External (IE) matrix is as follows:

RESULTS

The calculation uses the SWOT matrix (Table 3) internal factors analysis summary that the power internal factor has a total of 1.37 of the weighted product, the insider's internal factor rating has a total of 0.84, from the weighted and rating results, if the strength factor set aside by the weakness factor will result the weight of 0.53 on the axis of strength is based on the requirements applicable to the SWOT analysis theory of external factors analysis summary. Total value of IFAS = 2.21. This indicates that the position of Hotel Zodiak Kebon Kawung at the stage of growth and has medium.

The calculation uses a SWOT matrix of external factors analysis summary (Table 4) that the external factor of opportunity has a total of 1.67 of the weighted and rating multiplications while the external threat factor has a total of 0.83 of the weighted and rating results, if the probability factor is set aside by the threat factor will result weights 0.84 on the axis of opportunity, this is based on the requirements applicable to SWOT theory analysis of external factors analysis summary. Total value of EFAS = 2.50. This indicates that the position of Hotel Zodiak Kebon Kawung at the stage of growth and has medium.

Based on data of internal factor analysis factor matrix (Table 3) and matrix of external factors analysis summary (Table 4) it can be concluded that Zodiak Kebon Kawung hotel position is in quadrant V that is growth strategy. Quadrant V diagram can be seen in Figure 2.

Based on Figure 1 in the Cartesian diagram can be deduced by looking at the reduction of internal factors; strengths, weaknesses, and external factors; the threat possibility of producing the first quadrant is the growth with the final weight of the axis of opportunity is at 0.84, and the axis of strength is at 0.53.

SWOT analysis is used to see the factors that become the strength of the object of strengths, weakness, opportunities and the possibility of external factors becoming treats in promotion strategy in increasing occupancy room at Hotel Zodiak Kebon Kawung (Figure 4).

DISCUSSION

Based on the analysis of internal factors analysis matrix analysis (Table 3), matrix of external factors analysis summary (Table 4), external-internal matrix (Figure 2) and cartesian diagram (Figure 3), it is found that the main strategy of Zodiak Kebon Kawung hotel is growth strategy where the hotel Zodiak Kebon Kawung can develop its hotel by developing facilities and utilizing a better promotion that is by paying attention to the effect on the price of several characteristics associated with different locations for each type of accommodation.

This is in line with the results of research which reveal that the findings of the effect on the price of some site-related characteristics have important implications for private managers and public policy makers in the hospitality industry (Saló, et al., 2014).

The results of the paired analysis with SWOT compilation components of the strategy and indicators in the promotion strategy (Figure 4). This is in the form of a product that can affect the decision to stay in the hotel (Pristanto, Wahyuni, & Handini, 2012). This is done because the concept and implementation of various strategies and marketing relations strategy either partially or simultaneously (Wardhana., 2013).

Based on Figure 4, the promotion strategy has various alternatives to increase the residence of Zodiak Kebon Kawung Hotel Bandung is as follows; 1) SO strategy: strategy to utilize all hotel strength that is accessibility of adequate transportation modes, modern hotel concept, foreign and domestic tourist promotion target to visit DTW Bandung; 2) Strategy ST: Strategy to improve the strength of the hotel is adequate transportation accessibility, modern hotel with low rates for tourists, foreign and domestic tourists to visit DTW Bandung will increase. Therefore, the security is required both inside and outside the Hotel; 3) WO Strategy: improving competent human resources (HR) by regular training, adding and renewing facilities and infrastructure of clean water and sewage treatment of hotel waste, seeking revamping of in-room facilities. All strategies are strategies to improve hotel room occupancy by being responsible for products and environment. This is in line with the results of the research (Han & Yoon, 2015) which asserts that the customers are increasingly interested. Therefore, hoteliers should monitor the influence of industrial power to maintain strength, seize opportunities, avoid threats, and overcome weaknesses (Law, Tavitiyaman, & Zhang, 2015).

CONCLUSIONS

Based on the implementation of the promotion strategy in increasing room occupancy rates at Zodiak Kebon Kawung hotels are: 1) based on internal matrix analysis factors, external matrix factor analysis summary, external matrix and cartesian diagram, it can be found that the main strategy of the Zodiak Kebon Kawung hotel is a growth strategy where Zodiak Kebon Kawung has developed hotels, utilizing promotions need to be improved so that they have a better impact on increasing hotel room occupancy. In addition, the hotel must pay attention to and maintain the price factor by trying to be superior to competitors; 2) Based on the SWOT matrix, we can conclude strategies through internal factors, summary factors, which can be useful for progress of the Zodiak hotel in Kebon Kawung.

The results of the promotional strategies in increasing

room occupancy at the Zodiac Kebon Kawung hotel can be used for the development of marketing management science in particular. It is recommended to analyze price variables, promotion and service quality in influencing consumer satisfaction in the strategy of increasing hotel room occupancy and discussing other factors that have not been studied in this study.

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Tabel 1. Budget Hotel in Bandung

Rangking/ Popularity	Hotel Name	Experience from Guest					Total Review
		Exellent	Very Good	Avarange	Poor	Terrible	
1	Ibis Budget Bandung Asia Afrika	25	59	49	10	9	159
2	Hotel Citradream bandung	26	63	36	4	0	129
3	Zodiak kebon Kawung	14	35	61	13	6	129
4	Hotel Mutiara	10	54	40	16	5	125
5	Cihampelas Hotel 2	31	20	36	11	12	109

Tabel 2. Room Occupancy Rate Hotel Zodiak Kebon Kawung

Year	Target Visitor	Number of Visitor	Presentation
2011	4000	3314	83%
2012	4000	3112	78%
2013	4000	3203	80%
2014	4000	2644	66%
2015	4000	2112	53%

Total Score Internal Factors Analysis Summary (IFAS)

Total Score External Factors Analysis Summary (EFAS)	High	4.0	3.0	2.0	1.0	
	I	Growth	II	Growth	III	Shrinkage
	IV	Stability	V	Growth	VI	Shrinkage
	VII	Growth	VIII	Growth	IX	Liquidity
	Low	1.0				

(Rangkuti, F., 2011)

Figure 1. Positioning in External Internal Matrices (IE)

Total Score Internal Factors Analysis Summary (IFAS)

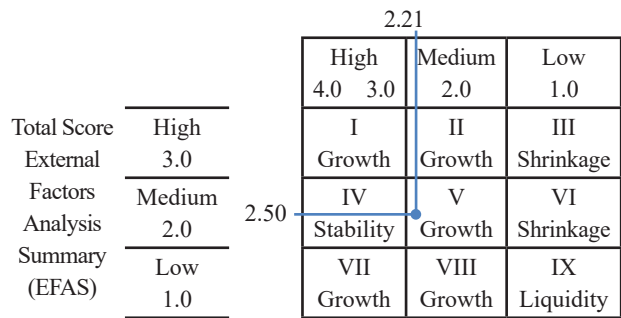


Figure 2. Positioning Results in External Internal Matrices (IE)

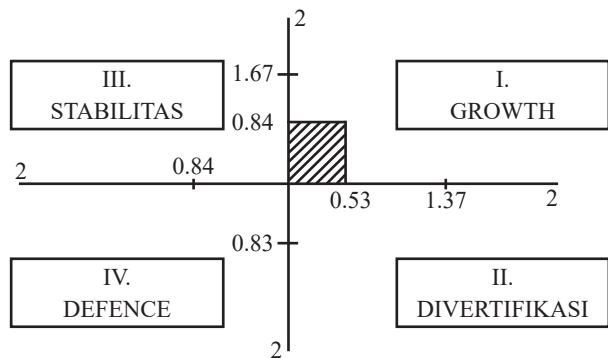


Figure 3. Cartesian Diagram

Table 3. Internal Factors Analysis Summary (IFAS)

Internal Strategic Factors	Quality	Rating	Bobot X Rating	Comment
Strengs				
Meeting Room & Ball Room maximum 200 pax	0.05	3	0.15	Meeting rooms are flexible in concept settings
Access to the Airport and Railway Station is easy	0.10	3	0.30	The distance is approximately 10 minutes to the mode of transportation
Large parking area	0.06	2	0.12	Can park the bus
Internet connection facility	0.20	2	0.40	Internet up to 32 Mbps
The concept of a modern hotel at a bargain price	0.20	2	0.40	Interesting young guests
Total	0.61		1.37	
Weakness				
Less competent human resources	0.2	2	0.40	Fluctuating service in serving guests
The facilities have not been maintance well	0.08	2	0.16	There are still some rooms that facilities less well maintained
Do not have international promotion network	0.03	3	0.09	Promotion to the international area has not been maximized
Differences of opinion between management and oprasional	0.05	2	0.10	Differences in the management and operational mindset in the common interest
Organizational structure tailored to the needs of budget hotels and the presence of institutions that take care of innovation in the field of service and product	0.03	3	0.09	There is still a lack of effectiveness in the organization of company employees
Total	0.39		0.84	
Grand Total	1.00		2.21	

Table 4. IExternal Factors Analysis Summary (EFAS)

Exnternal Strategic Factors	Quality	Rating	Bobot X Rating	Comment
Opportunities				
Event in Bandung	0.05	1	0.05	Foreign and domestic tourists who attend various events in Bandung
Bandung area of cultural tourism destination, culinary, nature	0.10	3	0.30	Domestic and foreign tourists feel comfortable with the tours as well as the culinary provided
The rapid economic growth of Asian and Malaysian countries, Singapore, China	0.06	2	0.12	With the increasing purchasing power of domestic tourists, local economic growth is increasing
Hussein Sastranegara International Airport	0.20	3	0.60	The airport has already opened foreign arrivals gateway since 1994
Chinese / Chinese tendencies celebrate weddings at the Hotel	0.20	3	0.60	Rising per capita income in Bandung
Total	0.61		1.67	
Threat				
The establishment of new budget hotels as competitors	0.2	2	0.40	Fluctuating service in serving guests
Room rate competition	0.08	3	0.24	Companies must think of effective ways to attract consumers
The emergence of terrorist issues in Indonesia	0.03	2	0.06	Adverse infrastructure and location image
The era of globalization by the ease of foreign investment (PMA) in the field of hospitality	0.05	2	0.10	Competitive economic growth rate
Tourist destinations in Thai, Filiphine countries are cheaper, lower and smoother so it is easy to reach than DTW Bandung	0.03	1	0.03	Lack of international media promotion
Total	0.39		0.83	
Grand Total	1.00		2.50	

Internal Factors Analysis Summary (IFAS)	STRENGTH	WEAKNESS
	Meeting Room & Ball Room maximum 200 pax	Less competent human resources
	Access to the Airport and Railway Station is easy Large parking area	Facilities have not been properly maintained Do not have international promotion network
External Factors Analysis Summary (EFAS)	Internet connection facility	Differences of opinion between management and operational
OPPORTUNITIES	STRATEGY SO	STRATEGY WO
The tendency of Chinese/Chinese people to celebrate weddings at the Hotel and the number of tourists backpacker from abroad	Strategy utilizing all hotel strength: accessibility of modern transportation modes, modern concept hotels, foreign and domestic tourist promotion target to visit DTW Bandung	Improve competent human resources (HR) by training regularly
Bandung direction of cultural tourism destinations, culinary and nature		Adding and renewing facilities and infrastructure of clean water and sewage treatment of hotel waste
Rapid economic growth in Asian countries: Malaysia, Singapore, Japan, and China.		Attached in-room facilities Conclusion: Minimize existing weakness to capture opportunities
TREATH	STRATEGY ST	STRATEGY WT
The establishment of new budget hotels as competitors	Strategy to improve hotel strength: adequate transportation accessibility, modern concept hotel with low tariff for backpacker, foreign and domestic tourists to visit DTW Bandung will increase. Therefore, security is required both inside and outside the Hotel	Minimize existing weakness according to immediate or future threats
Room rate competition		Avoiding the transfer of educated personnel, experienced hotel newly established
The emergence of terrorist issues in Indonesia		Define the organizational structure that is set up to take care of innovation and security
Era of globalization by the ease of foreign investment in the hotel field		
Tourist destinations in Thai, Filiphine countries are cheaper, lower and smoother so it is easy to reach than DTW Bandung		

Figure 4. Matriks SWOT Hotel Zodiak Kebon Kawung

INDUSTRIAL DIVERSIFICATION AND FIRM PERFORMANCE OF MANUFACTURING: DOES EFFICIENCY MATTER?

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received: 26/9/18; revised: 24/11/18; published: 31/12/18

Abstract

Industrial diversification is one of the important strategies in developing the firm's market share which is expected to improve firm's performance. When a firm wants to diversify the industry, it requires knowledge and efficiency of managers in managing the strategy so that it can increase the benefits of the existence of industrial diversification relationship with firm's performance. This study aims to examine the effect of efficiency on the relationship between industrial diversification and firm's performance in manufacturing companies in Indonesia. By using the purposive sampling method and the 2012-2016 study periods, we obtained data from 70 manufacturing companies with a total of 253 observations. We found that industrial diversification had a significant positive effect on firm's performance. Efficiency as a moderating variable shows that efficiency strengthens the positive relationship of industrial diversification on firm performance.

Keywords: *diversification; efficiency; firm's performance; industrial diversification; financial economics.*

INTRODUCTION

Corporate diversification performance is one of the most frequently examined topics in the strategic management literature in the world although the empirical results have been contradictory (Park & Jang, 2013). Diversification is one of the right strategies for companies to improve their performance in the short term and has the potential to help businesses gain access to the skills, resources, assets, or competencies that cannot be done by other companies that do not diversify in competitive markets (Chen & Yu, 2012). In other literature, diversification is a strategy for business expansion to market forces, sectors, industries/segments, which is largely due to competition in the business environment (Wang, Ning, & Chen, 2013; Yang & Yang, 2017; Gyan, Brahmana, & Bakri, 2017). Diversification strategy is divided into two types: industrial diversification and global diversification (Jafarinejad, Ngo, & Escobari, 2018). Industrial diversification refers to involvement in different industries or business segments and global diversification refers to operating in different countries (Jafarinejad et al., 2018). Both types of diversification strategies play an important role in the decision of diversification strategies that will be carried out by the

firm. In this study, the authors want to focus on the type of industrial diversification. Industrial diversification has benefits in good external financing because companies with diverse activities will have a stable cash flow.

Several previous studies have examined the relationship of industrial diversification to firm's performance. In a study conducted by (Yang & Yang, 2017) and (Gyan et al., 2017) shows that industrial diversification has a significant positive relationship to firm's performance. Meanwhile, (Prada, Delgado-rodriguez, & Romero-jord, 2018) in his research found that industrial diversification by companies adds no effect relationship on firm's performance. However, (Santarelli & Tran, 2016) in his research found that industrial diversification has a curvilinear effect on profitability. When viewed from the results of inconsistent research, the researcher tried to include a moderation variable to determine the impact on the relationship of industrial diversification on the firm's performance. In the previous literature, some researchers have tried to include moderation variables such as ownership structures, economic environmental effects, corporate governance tools, technological effects and efficiency (Gyan et al., 2017).

Researchers will include efficiency moderation variable in this study to determine the impact of these

variables on the relation of industrial diversification and firm's performance. Efficiency is an important phenomenon in an effort to improve firm's performance because the firm will try to use its resources more precisely (Gyan et al., 2017). Efficiency in the skills, expertise and decisions of managers in implementing managerial tasks is a key factor in the success of diversification (Bettis & Prahalad., 1995; Gyan et al., 2017). In Indonesia, the use of efficiency moderating variables in the relationship of industrial diversification and firm's performance is also still rarely used.

Thus, there are two main objectives of this study, (1) to examine the effect of industrial diversification on firm's performance, and (2) to know the effect of efficiency as a variable on the relationship of industrial diversification on firm's performance. The ideal measuring of company's efficiency implies comparing its results with others that researchers consider optimal use all the factors affecting each company to achieve their profitability (Pajares, Moral, Jurado, & Viruel, 2015). In this study, to measure the level of efficiency of the firm is by using the Data Envelopment Analysis (DEA) method. DEA is a self-evaluation method which assesses the relative efficiency of a particular decision making unit (DMU) within a group of DMUs which can be applied in real world scenarios (Zhu, Wu, & Song, 2017). DEA is used to assess firm efficiency scores which indicate whether a DMU is relatively efficient or inefficient in comparison to the other DMU in the analysis (Fazlollahi & Franke, 2018)

Firm's performance is the firm's ability to manage the resources that are owned so as to increase the value of the firm. Measurement of firm's performance can be done by measuring performance related to the firm's operating activities. This measurement is a measurement based on the firm's accounting information (Mukhopadhyay & Chakraborty, 2017). Diversification is one of the strategies to maintain competitiveness and increase the profitability of the firm (Chen & Yu, 2012). Diversification refers to an increase by a firm of business in which it operates, be that diversity related or unrelated to product, geographical markets or knowledge (Delbufalo, Poggese, & Borra, 2016). Firms choose the diversification strategy when they see an opportunity for more robust growth and higher profitability at a time when the market or the economy is uncertain or when it is hard to expect future growth from their present product (Shin, Ahn, & Lee, 2015). There are three main motives for the firm to choose diversification as its strategy: market power view, resource based view, agency view. Industrial diversification is defined as the firm's activity in developing market share by having more than one type of industry segment (Mukhopadhyay & Chakraborty, 2017).

Efficiency is an effort made by a firm to be able to use minimal inputs to produce maximum output so as to maximize the value of the firm (Gyan et al.,

2017). The concept of efficiency in a firm's business is defined as trying to do something in the right way to achieve its goals by not wasting time, effort, or cost. Changes in efficiency reflect the firm's current and future profitability and provide information power to the firm to increase the forecasting about profitability in the future (Baik, Chae, Choi, & Farber, 2012).

Based on the theory that has been explained, this study will discuss the relationship between industrial diversification and firm's performance in moderation by efficiency. Industrial diversification carried out by the firm by developing more than one industry segment aims to improve firm's performance. The performance improvement was due to the utilization of the firm's internal resources and increased strength in the face of competitors. The main benefit of industrial diversification is from internal capital market (Prada et al., 2018). Utilizing internal resources to different business segments can precisely reduce transaction and tax costs incurred by the firm. Reducing transaction costs that are offset by increased product demand from different segments can increase the firm's profitability. So:

H1: Industrial diversification has a positive effect on firm performance.

The firm's goal in improving performance can be achieved by creating the right strategy, gathering the resources needed and using these resources to achieve firm's goals. Companies that did industrial diversification are trying to allocate their resources effectively to different business segments through efficiency carried out by firm management. According to (Gyan et al., 2017) efficiency is an effort made by a firm to be able to use minimal inputs to produce maximum output so as to maximize the value of the firm. Allocating the firm's internal resources to different industry segments efficiently is expected to increase the benefits of industrial diversification in terms of reducing transaction costs and expanding the firm's network. In this study, efficiency is used as a moderation variable because of the efficiency in the relationship of industrial diversification and the firm's performance can reduce the operational costs and time needed by the firm so as to produce higher profitability. Based on the explanation above, the following hypothesis can be formulated:

H2: The positive relationship of industrial diversification on performance is stronger in an efficient companies compared to inefficient companies.

METHODS

In this study the methodology that is used was adopted from the research of (Gyan et al., 2017), but some measurement proxies used had differences. The data in this study are derived from the annual financial statements of manufacturing companies

listed on the Indonesia Stock Exchange (IDX) in the period of 2012-2016 which are sourced from www.idx.co.id or by downloading financial reports from their respective websites. Companies with incomplete data and not fulfilling the criteria in the Data Envelopment Analysis (DEA) program in the 2012-2016 periods will be excluded from the sample. This Study is a quantitative study on manufacturing companies listed on the Indonesia Stock Exchange (IDX).

In determining the firm's performance, the measurement used is to use Return on Assets (ROA). The traditional accounting-based performance indicator (ROA) reflect a firm's short-term profits (Lin & Chang, 2015). Industrial diversification measurements will be calculated using the Herfindhal index, adopted from research (Farooqi, Harris, & Ngo, 2014). The determination of efficiency was carried out by using Data Envelopment Analysis (DEA) method to classify efficient and inefficient companies. Following the research conducted by (Doaei & Shavazipour, 2013) and (Gyan et al., 2017) the variables used as output and input to measure the efficiency of variables that have a significant effects on firm's performance. Output variables used in this study are Return on Equity (ROE), Net Profit Margin (NPM) and Market to Book Ratio (MBR), while the input variables used are firm size, leverage, and capital investment. In this study, the control variables used are firm size and firm age. Table 1 below contains definitions of the variables used in the study.

According to (Coelli, 1998) the concept defines efficiency as the ratio between output and input taking into account more than one input. The more output that is produced from one input unit will result in a higher level of efficiency. If the level of output produced from one input unit has reached the maximum amount that can be produced, then it can be said to have achieved absolute efficiency or optimal efficiency. The approach used in measuring the level of efficiency of manufacturing companies in this study is a non-parametric approach using the Data Envelopment Analysis (DEA) method. Data Envelopment Analysis (DEA) is a mathematical technique with the application of a linear program that measures the relative efficiency of each production unit compared to other production units in managing resources so that they become output (Coelli, 1998).

DEA is a technique that fundamentally measures the efficiency which allows identifying the best performance in the use of resources and this approach was generalized to situations of multiple inputs and outputs (Charles & Cornillier, 2017). The purpose of DEA is minimizes input and maximizes outputs (Cook, Tone, & Zhu, 2014). The production unit in the DEA is called a Decision Making Unit (DMU) or the unit being tested which can be in the form of a firm or an institution that wants to be evaluated. Mathematical equations for calculating the efficiency of the DMU or unit tested are as follows (Gyan et al., 2017):

$$\max_{v,u} \theta = \frac{\sum_{r=1}^s u_r y_{rj} + u_2 y_{2j} + \dots + u_s y_{sj}}{\sum_{i=1}^m v_i x_{1j} + v_2 x_{2j} + \dots + v_m x_{mj}}$$

With:

$$\frac{\sum_{r=1}^s u_r y_{rj}}{\sum_{i=1}^m v_i x_{ij}} \leq 1, j = 1, \dots, n \dots \dots (1)$$

$$u_1, u_2, \dots, u_s \geq 0$$

$$v_1, v_2, \dots, v_m \geq 0$$

Where,

- j = DMU that was observed,
- s = output of DMU j that was observed
- m = input DMU j that was observed
- u = the weight of the DMU output that was observed
- y = the number of DMU outputs that are observed
- v = weight of DMU input j that was observed
- x = the number of DMU inputs that are observed.

In equation (1), n is the number of DMU in the sample and j is the type of DMU that was sampled in the study. The first equation explains that the ratio for other DMUs is not more than 1. The second and third equation explain that weights must be positive. The efficiency score generated in this method is between 0 - 1. In the results issued by the DEA, if a DMU has a value less than 1 then it is considered as an inefficient unit compared to other units.

The effect of industrial diversification on firm's performance with age and firm size control variables, it is necessary to build a regression equation model as follows:

$$ROA_{i,t} = \alpha + \beta_1 INDUSTRY_{i,t} + \beta_2 Age_{i,t} + \beta_3 Size_{i,t} + \epsilon_{i,t} \dots \dots \dots (2)$$

The effect of industrial diversification on firm performance is moderated by efficiency variables and with control variables are age and firm size, it is necessary to build a regression equation model as follows:

$$ROA_{i,t} = \alpha + \beta_1 INDUSTRY_{i,t} + \beta_2 EFI_{i,t} + \beta_3 INDUSTRY * EFI_{i,t} + \beta_4 Age_{i,t} + \beta_5 Size_{i,t} + \epsilon_{i,t} \dots \dots \dots (3)$$

Adopting research from (Gyan, et.al., 2017), the methodology used to determine the relationship between industrial diversification and efficiency-driven firm's performance consists of two stages of analysis. The first phase of the analysis technique of this research aims to measure the efficiency level of manufacturing companies by using Data Envelopment Analysis (DEA) method using DEAP 21 software with predetermined input and output variables. The second phase of this research analysis technique aims to determine the effect

of industrial diversification on firm's performance and the impact of efficiency moderation variables on the relation of industrial diversification and firm's performance and using control age, and firm size variables using multiple linear regression analysis using SPSS software.

RESULT

By using 70 data of manufacturing companies in Indonesia, there were 253 observations. The sample data will be analyzed using two technical steps, first Data Envelopment Analysis (DEA) and second, multiple linear regressions. Table 2 below is a descriptive statistical result of each variable used in this study.

According to Table 2, the average value of the ROA variable in this study is 0.08222349 which indicates that the average sample firm generates 8.22% profit after interest and taxes compared to its total assets. The lowest value of ROA in this study was 0,000180 and the highest value of ROA in this study was 0.421351. Industrial diversification or symbolized by INDUSTRI shows the level of business concentration carried out by the firm. Based on table 2, the average value of the industrial diversification variable in this study was 0.19208181. The lowest value for the INDUSTRI variable in this study is 0 which shows that the sample firm does not do industrial diversification. The highest value of the INDUSTRI variable in this study was 0.686478.

The control variables, firm age (AGE) which is properly proxied between the years of the study and the year of the firm, in table 2 has an average value in this study was 39,00000000. In Table 2, the minimum AGE variable value is 5, this means that the firm that has the youngest firms in this study is PT. Star Petrochem Tbk (STAR) with the age of 5 years in 2013. The maximum variable value of AGE is 99, this means that the firm oldest in this study is PT. HM Sampoerna Tbk (HMSP) with the age of 99 years in 2012. The size of the firm or symbolized by SIZE shows the size of the firm profile which is seen from the number of assets it owns. In Table 2, the average value of the SIZE variable is 14,45807204, this means that the average firm size variable in this study sample is 14,45807204. The minimum value of the SIZE variable is 11,495728, which means that the lowest variable value in the sample of this study is 11,495728 and the maximum variable value of SIZE is 18,335466.

The moderation variable, which is efficiency, shows how efficient the sample firm is in the use of inputs to obtain output in accordance with the calculation of the DEA program. In table 2, the mean value of the efficiency variable is 0.19367589, this means that the average value of efficiency in this sample is 0.19367589. The lowest value of efficiency is 0, which means that the sample companies in this study are inefficient, while the highest value of efficiency is 1, which means that the sample companies in this study have been efficient.

According to Table 3, independent variables is industrial diversification (INDUSTRI) has a positive relationship with variable firm performance (ROA). For the control variables are firm age (AGE) and firm size (SIZE) has a positive relationship with firm performance (ROA). Moderating variables are efficiency and the relationship between independent variables and moderation has a positive relationship with firm performance (ROA). Correlation between independent variables, control variables and moderation variables with ROA has significant effect on ROA.

DISCUSSION

In Table 4 model 1, it shows that the industry diversification symbolized by INDUSTRI has a significant positive effect on firm performance (ROA). The significance value of the industry diversification variable is $0.000 < 0.05$, it can be concluded that the research hypothesis is proven (H0 is rejected and H1 is accepted). This means that the more a firm carries out an industrial diversification strategy, the higher the performance of the firm. A positive relation of diversification and performance is caused by being able to reduce cost increases over time, such as coordination costs, government costs associated with complex structures and cultural differences as well as costs related to operational administration such as legal and finance services can be deployed in several related industries (Chen & Yu, 2012).

The decrease in transaction costs of a firm has the potential to increase the allocation to the firm's internal capital market. Appropriately allocating internal resources to different industry segments carried out by managers can reduce the transaction and tax costs incurred by the firm. Reducing the cost of this firm can create benefits related to greater market power and excessive utilization of production factors by allocating these resources more efficiently through the firm's internal capital market (Prada et al., 2018) Greater market power will prevent competitors from monopolizing the market and narrowing the space for new competitors. Companies that have greater market power have the potential to help businesses to gain access to greater capabilities, resources, assets or competencies (Chen & Yu, 2012). This is because companies with many different industry segments will have ease in coordination and transactions internally called internal market mechanisms which are expected to improve firm's performance.

In Table 4 model 2, the results of the interaction between industrial diversification variables and the efficiency symbolized by INDEFI are significantly positive, meaning that efficiency strengthens the positive relationship of industrial diversification on firm's performance. The significance value of the INDEFI variable is 0,000, which means < 0.05 so that it can be concluded that the research hypothesis is proven

(H0 is rejected and H2 is accepted). This means that the efficiency of the firm will strengthen the positive relationship of industrial diversification on firm's performance.

Industrial diversification by the firm can be modified by an organizational mechanism that can improve firm's performance. The organizational mechanism can be achieved by increasing internal market efficiency in allocating resources to different business segments and maximizing the use of these resources in accordance with the conditions required by the firm (Symeou & Kretschmer, 2012). The allocation of resources to different business segments requires knowledge in the strategic approach to be carried out. Diversification can be driven by a range of perceived benefit associated with greater market power, more efficient allocation of resources through internal capital markets, utilization of existing resource in new setting (Boz, Yigit, & Anil, 2013). The knowledge and expertise of managers and the views in implementing managerial tasks as efficiently as possible are part of the key factors in the success of industrial diversification (Bettis & Prahalad, 1995). Companies that did industrial diversification strive to be able to allocate their resources to various different business segments effectively through efficiency carried out by firm management. The more efficient a firm is in managing its resources, the greater the market power of the firm so that it can encourage an increase in firm's performance.

CONCLUSIONS

The purpose of this study was to examine the effect of industrial diversification on firm's performance and to determine the effect of efficiency variables on the relation of industrial diversification to firm's performance. After two stages of analysis, by using Data Envelopment Analysis (DEA) method to determine the efficiency value of a firm and then using multiple linear regression method to determine the effect between variables, the results of the research are that industrial diversification has a significant positive effect on firm performance. In other words, the higher the level of industrial diversification carried out by the firm, the higher the performance of the firm. Efficiency as a moderating variable shows the results that efficiency strengthens the positive relationship of industrial diversification on firm's performance. The more efficient the firm that did industrial diversification, the higher the performance of said firm.

The contribution that can be given by this research is; first, this research adopts and contributes to agency theory to prove the interaction of efficiency in the relation of industrial diversification and firm's performance. Second, this study provides a view on the new industrial diversification literature because it incorporates efficiency variable in industrial diversification decisions that will be carried out by companies so that companies can find

out the limitations in diversifying industries that can improve firm's performance.

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Table 1. Definition of Variables and Measurements

	Variable	Definition
Firm's Performance	Return on Asset (ROA)	Net income to total assets
Diversification	Industrial (Herfindhal)	1-(segment sale of the firm/total sales) ²
Control	Firm Size	Natural logarithm of total assets
	Age	Years of running to the research period
Efficiency	Return on Equity (ROE)	Net income to total equity
	Net Profit Margin (NPM)	Net income to total sales
	Market to Book Ratio (MBR)	Market value per share to book value per share
	Firm Size	Logarithm natural of total asset
	Leverage	Total liabilities to total asset
	Capital Investment	Capital expenditure to total asset

Table 3. Correlation Matrix

	ROA	INDU-STRI	AGE	SIZE	EFISI-ENSI	INDEFI
ROA	1					
INDUSTRI	0,255*	1				
AGE	0,407*	0,099	1			
SIZE	0,278*	0,133*	0,317*	1		
EFISIENSI	0,334*	-0,014	0,131*	-0,214*	1	
INDEFI	0,443*	0,294*	0,125*	-0,054	0,635*	1

*Significance of 5%

Table 2. Statistical Descriptive of Each Variable

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	253	0,000180	0,421351	0,08222349	0,075992535
INDU-STRI	253	0,000000	0,686478	0,19208181	0,228079653
AGE	253	5,000000	99,000000	39,00000000	14,709893011
SIZE	253	11,495728	18,335466	14,45807204	1,556710562
EFISI-ENSI	253	0,000000	1,000000	0,19367589	0,395961164
Valid N (listwise)	253				

Source : Output SPSS

Table 4. Analytical Results of Multiple Linear Regression

Variabel	Model 1	Model 2
Constant	-0,100* (0,012)	-0,155** (0,000)
INDUSTRI	0,067** (0,000)	0,0340* (0,030)
AGE	0,002** (0,000)	0,001** (0,000)
SIZE	0,007* (0,016)	0,011** (0,000)
EFISIENSI		0,034* (0,012)
INDEFI		0,181** (0,000)
R-Square	0,230	0,383

*Significance of 5%

**Significance of 1%

LEADERSHIP ON EMPLOYEES' PERFORMANCE TERANG UTAMA ABADI LTD. THROUGH SENSE OF ACHIEVEMENT

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received: 24/5/18; revised: 17/6/18; published: 31/12/18

Abstract

Achievement earned by the company is inseparable from the employees' performance. There are several factors affecting their performance. Two of them are leadership and motivation. The study aims to examine the influence of leadership on the sense of the achievement of the employees of Terang Utama Abadi (TUA) Ltd., the influence of leadership on the performance of the employees at TUA Ltd., the influence of the sense of achievement on the performance of employees at TUA Ltd., and the sense of achievement as an intervening variable on employee at TUA Ltd.. The respondents of this study were fifty-eight employees at TUA Ltd. This study was a quantitative research with structural equation modelling partial least square method. Questionnaires were used to collect the primary data. This study found that leadership and sense of achievement has positive influence on the employees' performance. Meanwhile, the sense of achievement served as an intervening variable.

Keywords: *leadership; sense of achievement; motivation; achievement motivation; employee's performance*

INTRODUCTION

By 2015, Indonesia's GDP growth reached 4.87%. In 2016, Indonesia's GDP growth was about 5.01%, and was projected to continue to increase in 2017 up to 5.5% (Badan Pusat Statistik, 2016). The increase in GDP can not be separated from the increase in sales from various industry sectors in Indonesia. One of the industries supporting Indonesia's economic growth is the automotive industry. Throughout the year 2016, sales of four-wheeled vehicles or more in Indonesia reached 1,062,729 units. The sales figure increased by 49,438 units from 2015 (Gaikindo, 2017). This condition shows the automotive industry in Indonesia continues to grow in a positive direction. Based on this fact, Terang Utama Abadi (TUA) Ltd. as a company engaged in the distribution and sales of automotive take the opportunity to focus on developing its business. TUA Ltd. currently holds the distribution and sales license of TATA Motors brand vehicles in East Java. Due to its outstanding performance, TUA Ltd. get various awards at national scale from TMDI Ltd.

Various achievements achieved by TUA Ltd. cannot be separated from the outstanding performance of the employees. Their performance is influenced by

several factors. The four factors affecting the employee's performance such as organization culture, motivation, leadership, and work environment (Syafei, Fahmi, & Hubeis, 2016). Previous survey has been conducted towards 30 employees at TUA Ltd., focusing on factors affecting their performance. Based on the results of this pre-survey, leadership and motivation factors has higher average response than the other two factors, organization culture and work environment. Organization culture and work environment at TUA Ltd. were not significantly affecting the performance due to TUA Ltd's short business time span. This company has just been in operation for only two years. TUA Ltd. is about to start building its organizational culture and favourable work environment. Regarding leadership and motivation, TUA Ltd. sells automotive products with TATA brand. In fact, these products are relatively very new in Indonesian automotive industry. For employees, selling TATA Motors brand vehicles is much more difficult than selling competing brand vehicles already known by the majority of Indonesians. This makes the role of the company leader important to lead the employees. In addition, selling TATA Motors is more difficult for the employees need to have motivation and achievement. These serve rationales for the

researcher to conduct research about factors affecting the performance of TUA Ltd. These factors include the leadership applied by leaders at TUA Ltd. and internal and external motivation. This is also supported by previous research conducted by (Lina, 2014). She stated that leadership has a significant effect on employees' performance; meanwhile, organizational cultures has no significant effect on employees' performance. (Tampi, 2014) stated leadership and motivation has a positive and significant influence on employees' performance. According to (Marpaung, 2014), leadership has a strong and significant influence on employee's performance. Motivation has a strong influence on performance up to 57.14% because of sense of achievement (Siregar, 2016).

Leadership is defined as a way people manage to influence, coordinate, and direct the activities of others in order to achieve group goals or organizational goals (Nur, 2017). (Rewah, 2015) argues that leadership is the behavior of an individual who leads a group's activities to achieve common goals. Sense of achievement is something that motivates individuals to face challenges in the interest of achieving success (Mehta & Gupta, 2014). It directs individuals to go through difficulties by focusing on achievable objectives, striving to produce the best performance, calculating risks, confronting uncertainty and tolerating ambiguity, seeking creative solutions to solve problems, and assuming personal responsibility for consequences/behaviour (Deshpandé, Grinstein, Kim, & Ofek, 2013). Ma'ruf Abdullah (2014) suggests that performance is a description of the level of achievement of the implementation of an activity or policy program in realizing organizational goals, objectives, vision and mission as outlined through strategic planning of an organization.

Based on the background of the study, the researchers are conducting this research. This study is intended to examine the influence of leadership on the sense of achievement employees at TUA Ltd., the influence of leadership on the performance of employees at TUA Ltd., examine the influence of sense of achievement on the performance of employees at TUA Ltd., to test the sense of achievement as an intervening variable on the employees at TUA Ltd.

METHODS

The type of research used in this study was quantitative research with non-probability sampling used as a sampling method. This research used Partial Least Square (PLS) method known as one of method in analyzing Structural Equation Modeling (SEM). The research was conducted from April to October 2017.

Seventy-one employees in four branches such as Tulungagung, Kediri, Blitar, and Jombang became the population of the study. The non-probability purposive sampling method was employed to draw the samples

of the study. According (Sujarweni, 2014), purposive sampling technique has to acquire certain criteria when drawing samples. In this study, the criteria were the employees who worked in TUA Ltd. with positions other than directors, branch managers, office boys, drivers, and securities. Having previously determined by the researchers, these criteria were intended to focus on role of leadership as shown by the directors and branch managers when managing their employees. In addition, the sense of employees' achievement at sale unit, service units, and spare part unit also became the focus of the study. Employees who did not meet the criteria included a director, two branch managers, two drivers, three office boys, and five securities. The respondents who meets the criteria are 58 employees. The questionnaires were distributed to 58 respondents from four dealer branches of TUA Ltd.

The variables in this study are employee's performance, leadership, and sense of achievement. Each variable have its own indicators which are quantity of work, quality of work, punctuality, presence, and ability of cooperation (employee's performance) ; telling, selling, participating, and delegating (leadership) ; consistently working, acceptance of setback, coadaptation with team, belief of success, feedback of work, career growth opportunity, swiftness of work, difficulty level of assigned task, preference office work, tolerance of mistake, out of office work, salary satisfaction, reward, incentive target alliance (sense of achievement).

RESULTS

The Initial stages of data processing using SEM-PLS was to move the entire answer questionnaire into Microsoft Excel program before saving the file with the format .csv (comma delimited). The next step was to draw a research model with the SmartPLS 3.0 program. Testing the validity of the outer model could be seen in the loading factor. The loading factor value of all the indicators X1, X2, and Y in Figure 1 met the critical value greater than 0.5.

Table 1 shows that the AVE values of the three latent variables in this study were eligible for they were at more than 0.5. Cronbach's Alpha value. Leadership, sense of achievement, and employee's performance has met the requirement since they were greater than the critical value 0.6. The Composite Reliability value for each variable in this study also met the requirements for they were greater than the critical value 0.7.

Table 2 shows the R-Square Value. The R-Square value for the sense of achievement variable was 0.287. This meant the percentage of the diversity of the sense of achievement variables was contributed by the 28.7% of the leadership variable; meanwhile, the remaining 71.3% was explained by other variables. In other words, 28.7% of leadership variable influenced the sense of achievement variable. The R-Square value for the

employee's performance variable was 0.543, meaning means that the employee's performance was influenced by the sense of achievement of 54.3%. Meanwhile, the remaining 45.7% was influenced by other variables beyond the sense of achievement.

Table 3 showed the value of Path Coefficients and T-Statistics. The path coefficient value of leadership influencing the sense of achievement variable was 0.536 with t-statistics of 5.497. The value of t-statistics was greater than the value of t-table 1.96. This shows that there was a significant influence between leadership and sense of achievement. This finding showed that the first hypothesis of this research was proved to be true. The coefficients path value of leadership influencing employee's performance was 0.308 with t-statistics of 2.011. The value of t-statistics was greater than the value of t-table 1.96. This showed that there was a significant influence between leadership and employee's performance. This finding showed that the second hypothesis of this research was proved to be true. The value of the path coefficients influencing the sense of achievement employee's performance was equal to 0.525 with t-statistics of 3.612. The value of t-statistics was greater than the value of t-table 1.96. This finding showed that there was a significant influence between the sense of achievement and employee's performance. This finding showed that the third hypothesis of this study was also proved to be true.

DISCUSSIONS

Table 3 shows that the value of t-statistics leadership (X1) to the sense of achievement (X2) was 5.497. While such a value greater than the value of t-table was 1.96, this finding proved that leadership (X1) has a significant influence on the sense of achievement (X2) at TUA Ltd. This finding was in line with the previous research conducted by (Indra, 2015). He mentioned that leadership significantly influenced the sense of achievement. The leadership applied by the leaders was higher than the employee's motivation. It was because the respondents believed that the leadership has provided good examples to their employees. Hence, they became loyal to the organization, be able to motivate employees to continue improving their work. These leaders were exemplary figures since they were capable of encouraging employees to be more creative, conveying ideas to employees in completing the work, having a good attention to employees and giving awards to employees who made achievement. In principle, leaders with good leadership skills would motivate employees to do better jobs. In so doing, their attitude could increase the employees' confidence or selfconfidence that would later affect the improvement of their performance (Indra, 2015). This study found that the leadership at TUA Ltd. was good enough in nearly all areas. Information about what to do has to

be delivered by the leaders to the employees when the latter began their work at the first time. However, there was no clear information about what the employees has to do.

The ratio of between employee and employee was different. In fact, the leaders at TUA Ltd. has a lot of responsibilities not only foscusing on employees, but also on other internal and external sectors of the company. Delegating tasks to the employees as given by the leaders at TUA Ltd. was done tentatively. Delegates were related to the tasks commonly done by the leader. However, because the leaders has important agenda, they would assign the employees to do that. In fact, delegating the tasks and and information to the employees were already properly done. To many employees, the ideas the leaders gave was very easy to do. However, it was easy to do though by other employees working at different levels.

Table 3 showed that the value of t-statistics leadership (X1) on employee's performance (Y) was 2.011. The value greater than the value of t-table was 1.96. This finding proved that leadership (X1) has a significant effect on the employees' performance (Y) at TUA Ltd. This was in line with previous research conducted by (Tampi, 2014). He mentioned that the leadership has a positive influence on the performance of employees. Good leadership was one of the factors improving the performance of employees. Leadership served as the backbone of organizational development in encouraging, and affecting good morale to subordinates. (Putra, 2014) explained that the readiness and maturity of employees in doing their work were derived from the level of direction and guidance and emotional support provided by provided by leaders. Establishment of readiness and maturity in employees led employees to gain their best performance. The strong sense of achievement shown by employees at TUA Ltd. was those working at the sales department. They were too careful at making failures so that they felt uneasy to accept the failure such as not achieving sales targets. This view constantly made employees demotivated, inferior or unconfident. Low acceptance of setback value in employees of TUA Ltd. was common among new employees. At the beginning, the employees has been explained about what target to achieve and what the consequences to get when they failed. There were two types of employees at TUA Ltd: employees who were eager to succeed although they failed and employees who easlily gave up by submitting the resigning letters and moving to other brand dealers.

The difficulty level of assigned task was related to job targets assigned to each employee. The target of each employee was set according to company standard. However, TATA Motors was a brand new automotive brand that made selling TATA Motors product more difficult than selling competitor brand product. Belief of success in each employee was inseparable from

the motivation given by the leaders at TUA Ltd. In short, in addition to good work team formed within the company, mutual support was also important to create favourable working atmosphere.

Table 3 showed that the value of t-statistics sense of achievement (X2) on employee's performance (Y) was 3,612. The value greater than the value of t-table was 1.96. This finding proved that the sense of achievement (X2) has a significant effect on employee's performance (Y) at TUA Ltd. This was in line with previous research conducted by (Andreani, 2015). They explained that the sense of achievement / achievement motivation has a positive and significant influence on employee's performance. If a company's top management focused on the motivation of their employees, the motivation for achievement would lead to positive employee's performance improvement (Zameer, Alireza, Nisar, & Amir, 2014). According to (Siregar, 2016), the sense of achievement has a positive and considerable relationship to performance. The sense of achievement provided an encouragement to the individual so that they could overcome all challenges and obstacles. The employees who has this motivation were eager to grow and go through the ladder of success, to the highest ladder. Facts found that the performance of employees at TUA Ltd. was good although they were still working for two years and the sales figures were still not stable. However, their achievement made them granted with some awards as the best TATA Motors dealer in Indonesia. This finding showed how the performance of employees of TUA Ltd. was excellent for they could give a positive impact on the company's performance. The number of jobs and quality criteria charged to each employee were in accordance with the criteria set by the companies. In fact, the employees were committed to those task criteria. Nevertheless, many sales cases encountered several problems related to credit financing. This condition affected the performance of employees at the company. Until now leasing banks working with TATA Motors was still limited. It affected the package of credit financing programs provided to customers. Customers tended to choose a competitor's product because they got a much lower down payment. Moreover, a choice of leasing banks according to customer's wishes varied. The process of examination conducted by the leasing bank also took a long time (about 14 days). This condition affected the timeliness of employees and kept them from achieving the sale target. When the inspection process was completed and accepted, employees could do closing and reach the target. In terms of punctuality of morning attendance, there were still many employees coming late. In terms of ability of cooperation between employees, the employees has shown good performance. It was because of good work team with the sense of e kinship. Regarding the attendance, a lot of employees weabsent or too late to attend attendance every day working hours.

According to (Zhao, Lynch, & Chen, 2010), when the value was multiplied by significant b and significant c value, and multiplication value between a, b, and c was positive. The X2 variable in the model was a complementary intervening/mediation variable in the study. After going through the process of bootstrapping, calculation, and checking the above conditions came to the finding: the sense of achievement (X2) served as an intervening variable between leadership variables (X1) on employee's performance (Y). This was in line with previous research conducted by (Indra, 2015) who explained that the style of leadership (leadership) transformational gave indirect impacts on employee's performance through work motivation. Transformational leadership in principle motivated employees to do better. Short speaking, leadership increased the confidence or self-confidence of employees that would affect the improvement of employee's performance. This was because the achievement motivation grew within the employees that strengthened performance in order to obtain the achievement.

CONCLUSIONS

Based on the results of research and discussion of leadership influence on employee's performance TUA Ltd. through a sense of achievement as an intervening variable, it can be concluded that: (1) Leadership has a positive effect on the sense of achievement. There are four leadership indicators that are telling, selling, participating, and delegating. These four variables reflect leadership variables. Sense of achievement can be improved by improvements in the leadership of the company leadership. (2) Leadership positively affects the performance of employees of TUA Ltd. There are four indicators that reflect leadership that is telling, selling, participating, and delegating. Leadership run by the head of TUA Ltd. can improve the performance of employees of TUA Ltd. of the number of jobs, job quality, punctuality, attendance, and collaborative skills. Leadership has the greatest impact on employee's performance. Therefore, if leadership increases then employee's performance will also increase more significantly than the increase in the sense of achievement. (3) Sense of achievement has a positive effect on the performance of employees of TUA Ltd. There are twelve indicators that reflect the sense of achievement: consistently working, acceptance of setback, coadaption with team, belief of success, feedback of work, career growth opportunity, swiftness of work, difficulty level of assigned task, preference office work, tolerance of mistake, out of office work, and compensation. Increasing the sense of achievement of employees can improve the performance of employees of TUA Ltd. of the number of jobs, job quality, punctuality, attendance, and collaborative skills. (4) Sense of achievement is an intervening variable

between leadership and employee's performance of TUA Ltd. Sense of achievement is an intermediate variable between leadership variables and employee's performance variables. Sense of achievement has a positive effect on employee's performance. The intervening variable type in this model is complementary mediation.

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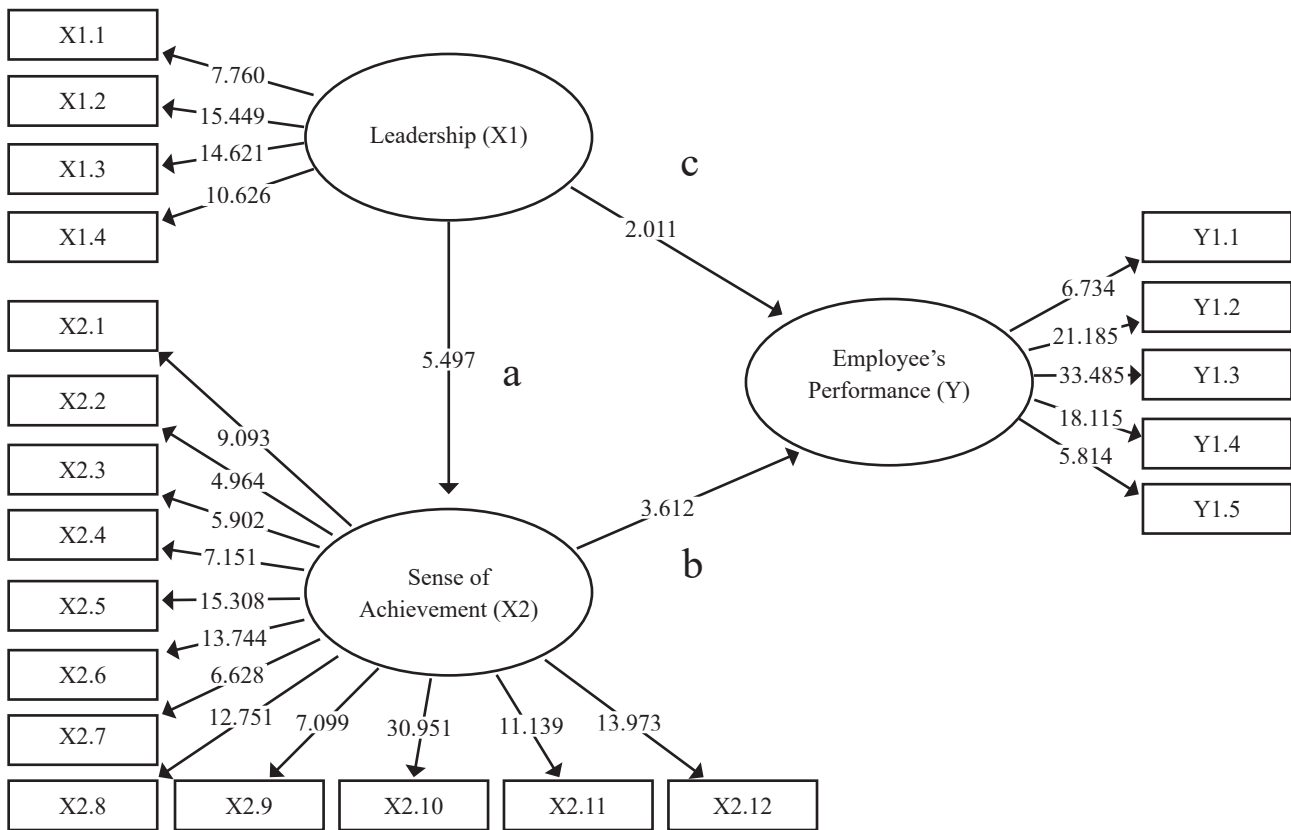


Figure 1. Bootstrapping

Table 1. AVE, Cronbach's Alpha, and Composite Reliability Value

	Average Variance Extracted	Cronbach's Alpha	Composite Reliability
Leadership (X1)	0.579	0.757	0.846
Sense of Achievement (X2)	0.520	0.914	0.927
Employee's Performance (Y)	0.602	0.828	0.881

Table 2. R-Square Value

Variable	R-Square
Sense of Achievement (X2)	0.287
Employee's Performance (Y)	0.543

Table 3. Path Coefficients and T-Statistics Value

	Hipotesis	Coefficients	T-Statistics	Notes
Y1	Leadership (X1) → Sense of Achievement (X2)	0.536	5.497	Significant
Y2	Leadership (X1) → Employee's Performance (Y)	0.308	2.011	Significant
Y3	Sense of Achievement (X2) → Employee's Performance (Y)	0.525	3.612	Significant

INFLATION AND NUMBER OF TAXABLE ENTREPRENEURS (NTE) TOWARDS ADMISSION OF VALUE ADDED TAX (VAT)

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received: 2/11/17; revised: 3/12/18; published: 31/12/18

Abstract

This study aims to determine the effect of macroeconomic variables on inflation and the Number of Taxable Entrepreneurs (NTE) both partially and simultaneously on the receipt of Value Added Tax (VAT). This study uses a quantitative approach. The sampling technique used is purposive sampling. The sample in this study were 3 KPPs in West Java that are KPP Majalaya, KPP Sukabumi, and KPP Tasikmalaya with monthly data of the research period July 2013 - June 2016, the number of sample data used was 108, and analyzed using multiple regression analysis. The results of the study show that inflation partially has a negative and significant effect on VAT receipts. While simultaneously inflation, the number of NTE has a positive and significant effect on VAT receipts.

Keywords: *inflation; the number of taxable entrepreneurs (NTE); value added tax (VAT)*

INTRODUCTION

In the era of globalization, countries in the world are required to compete in all fields, including technology, information, culture, social, business, and economics. To face the era of globalization and global competition, the Indonesian government seeks to increase economic growth, as stipulated in the 2015-2019 National Medium-Term Development Plan (RPJMN) at an average of 7% in five years and 5.2% for 2016 in accordance with the target of the 2016 State Budget Amendment (APBN-P) (Kemenkeu.go.id). One of the government's efforts in increasing economic growth is by maximizing the potential in the field of tax revenue.

According to Constitution Number 28 of 2007 Third Amendment to Constitution No. 6 of 1983 concerning General Provisions and Tax Procedures Article 1 tax is a compulsory contribution to the state-owned by an individual or entity that is compelling under the constitution by not receiving compensation directly and used for the state's needs for the greatest prosperity of the people. The government is determined to optimize tax revenues and maximize state revenues from the taxation sector. As stated by Minister of Finance Sri Mulyani (2016) quoted from (detik.com), the importance of tax revenues as a source of development funding. The government will strive to

optimize tax revenues while maintaining a healthy investment climate and encouraging business growth.

Figure 1 shows the tax has the biggest contribution to the source of state revenues, the percentage value is more dominant than other sources of state income such as PNB, Customs & Excise, and grants. However, the realization and achievement of the target have not been maximized. Within four years from 2013 to 2016 the achievement of tax revenues has decreased, so it does not reach the target. The phenomenon is shown in Table 1 and Figure 2.

According to Finance Minister Sri Mulyani (2016) quoted in (bisnis.liputan6.com), there are three things that cause tax revenues not to be in line with the government's target. First, national economic growth. Secondly, there has not been much improvement in commodity prices, especially those that are the mainstay of exports, which has also resulted in state revenues from the sector also falling. These low commodity prices contribute to state revenues of Rp 108 trillion. Third, global economic factors that have not yet recovered have an effect on the decline in international trade.

Based on data from Table 2, it is known that the source of the largest tax revenue is income tax. Then the second is the source of value-added tax. Value Added Tax (VAT) is the second largest source of tax revenue after Income Tax (PPH) by providing around

33% of state tax revenues (Financial Note and 2014 Revised State Budget).

Realization of revenue from Value Added Tax from 2013-2016 continues to increase. However, its growth has decreased. This phenomenon can be shown in Figure 3.

Figure 3 shows growth and tax achievement experiencing a downward trend from 2013 to 2016. The decline in imports and economic slowdown is a factor in decreasing growth and achieving VAT revenues (www.pajak.go.id, 2015). A. Fuad Rachmany (2012) explains that lack of achievement of VAT receipts because the level of compliance of business actors in depositing VAT is still low. Then, there are still many transactions that are not recorded or known as underground economy, so that VAT receipts do not reach the target. There are still many institutions or institutions that have tax-related data that have not submitted data, especially since the information technology system has not yet reached the informal sector as a whole. VAT should be applied to all financial transactions but there are still many retail sector taxpayers that have not fulfilled their obligations.

Consumption activities for developing countries such as Indonesia are one of the main economic activities carried out, therefore increasing public consumption activities means that it will affect the amount of VAT revenues (Wijayanti and Firmansyah, 2015). Based on this phenomenon, it can be assumed that VAT has a close relationship with economic activities. Especially consumption activities carried out by the community.

Based on the theory above, VAT correlates with economic activity. Changes in the economic condition of a country will have an impact on the acceptance of Value Added Tax (VAT) of a country. The stability of a country's economy plays an important role in tax revenues. There are two factors that cause changes in economic stability are internal and external factors. External factors can be influenced by the macroeconomic conditions of a country. If a country's macro economy is unstable it will have an impact on the economic activities of the community. A country's macroeconomic fluctuations can have an impact on decreasing people's purchasing power, investment and export imports which will also have an impact on the receipt of a country's VAT (Renata et al, 2016). In this case, the macroeconomic component that can play an important role is the inflation rate. Inflation affects tax revenue where inflation is low due to the growth of state revenues along with the increasing consumption that occurs in society (Nalendra, 2014). Such a phenomenon in (Mody & Carare, 2010). The increase in core inflation in Germany after the increase in VAT 2007 was smaller than expected, which led to speculation about the effects of inflation. tax increases contributed to two-thirds of the increase in core

inflation in 2006-2007 at an estimated 73 percent.

In addition to macroeconomic variables such as inflation, there are several other variables that can affect the receipt of Value Added Tax (VAT). When viewed from the side of taxpayers, one of the variables that can affect VAT receipts is taxpayers who have been confirmed as Taxable Entrepreneurs (NTE). According to the Constitution of the Republic of Indonesia Number 18 of 2000 concerning the Second Amendment to Constitution Number 8 of 1983 concerning Value Added Tax on Goods and Services and Taxes and Sales Taxes on Luxury Goods. Taxable Entrepreneurs are entrepreneurs who in their business activities or work carry out Taxable Goods (BKP) and or delivery of Taxable Services (JKP) and / or exports of BKP that are taxed under the Value Added Tax (VAT) Constitution which is obliged to report their business to confirmed as NTE, not including small entrepreneurs, whose limits are determined by the Decree of the Minister of Finance, unless Small-scale Entrepreneurs choose to be confirmed as NTE. NTE is required to report its business and is obliged to collect, deposit and report the payable VAT (Constitution Number 42 of 2009 concerning Value Added Goods and Services Tax and Sales Tax on Luxury Goods).

Realization of tax revenues is not only supported by economic factors, but also non-economic factors. One of the non-economic factors that greatly influence tax revenues is the taxation policies taken by the Government, such as tax rates, non-taxable income (PTKP), and taxable income (NTE) (www.kemenkeu.go.id). The high number of PFM will have a positive impact on VAT receipts. As more and more PKPs eat, more and more individuals or agencies will deposit VAT with the Directorate General of Taxes and will influence the amount of VAT acceptance rates (Sentami et al. 2014). This phenomenon is similar to what was stated by Pandiangan (2014) The increase in taxpayers who establish themselves as NTE will increase the potential for taxation of VAT objects, which means it will increase the realization of VAT receipts.

The results of previous studies conducted by Muibi & Sinbo (2013) showed that inflation had a significant effect on the receipt of Value Added Tax in Nigeria. While the results of previous studies relating to the relationship between NTE and Tax Revenue have been carried out by Sentami (2014) explaining that registered NTE has a positive and significant effect on VAT Receipt, in other words, the higher the Amount of Taxable Entrepreneurs, the higher the VAT Receipt or vice versa.

The existence of gap phenomena and research gap of previous research which is the reason for researchers to conduct research on the effect of inflation and the number of Taxable Entrepreneurs (NTE) on VAT receipts. Research conducted by the author was conducted at the Regional Office of the Directorate

General of Taxation (DGT) of West Java I whose work area covered all areas in West Java.

According to Karya and Syamsuddin (2016: 12) Inflation is defined as rising prices for all goods continuously. The characteristics of inflation are the amount of money in circulation more than the number of goods circulating, which is indicated by Aggregate Demand (D) greater than Aggregate Supply (US). Prices tend to rise continuously. Thus, if the price rises only immediately and then falls back or in other words the price rises not continuously, then inflation cannot be said. And the exchange rate of money has decreased.

Definition of value added tax according to Mardiasmo (2013: 273) is a tax imposed on each value added of goods or services in circulation from producers to consumers. The VAT Tax Subject is a Taxable Person for VAT purposes (NTE), that is an individual or entity, including a government agency in the environment of the company or whose job is to deliver BKP and/or JKP and export BKP Mardiasmo (2016: 269) states that when viewed from its history, value-added tax is a substitute for Sales Tax. The reason for this understanding is that Sales Tax is deemed to be no longer sufficient to accommodate community activities and has not yet reached the target of development needs, including increasing state revenues, encouraging exports, and distributing taxation.

According to Sukardji (2014: 170) taxable entrepreneurs are entrepreneurs who submit taxable goods (BKP) or surrender of taxable services (JKP) not including small entrepreneurs whose limits are set by the Minister of Finance. UU KUP Number 28 of 2007 Article 2 paragraph (2) reads Every Taxpayer as an Entrepreneur who is taxed according to the 1984 VAT Constitution and its amendments, is obliged to report his business at the Office of the Directorate General of Taxes whose area of work covers the place of residence or place of business of the Entrepreneur and place of activity business to be confirmed as a Taxable Entrepreneur (NTE).

Inflation occurs if demand is greater than supply and results in rising prices. Inflation has a large influence on economic conditions. Fluctuating and persistent changes in inflation can affect economic balance and stability globally, including economic actors. The effect of rising inflation coupled with the length of the distribution channel will cause the price of goods and services to increase, this will have an impact on purchasing power and transactions of goods and services that will reduce VAT receipts (Sinaga, 2010: 25). As in Pudenz's research, Joseph Raymond (2010). This study shows that value-added tax, together with the complete elimination of corporate income tax and a reduction in personal income tax by 50%, will continue to increase tax revenues and allow the

United States to better handle its high national debt. Based on the explanation, the hypotheses formulated. There is a significant effect between inflation on value-added tax (VAT).

According to Siti Resmi (2014: 83) that Taxable Entrepreneurs (NTE) if the decrease in the level of consumer consumption will affect the condition of Value Added Tax Receipts. According to Prasetyono (2012: 134) states that Taxable Entrepreneurs must report the amount of tax that has been made tax invoices to the state treasury or entered as Value Added Tax Receipts. According to Waluyo (2012: 253) that the level of compliance from registered NTEs and newly registered through the implementation of extensification programs is expected to increase so that value-added tax revenues will also increase. Based on the explanation, the hypotheses formulated. There is a significant influence between the number of taxable entrepreneurs on value-added tax revenue (VAT).

There are several factors that cause changes in tax revenues, especially the receipt of Value Added Tax discussed in this study. These factors can be either internal or external factors. External factors can be influenced by the macroeconomic conditions of a country. If a country's macroeconomy is unstable, it will have an impact on the economic activities of the community which will have an impact on a country's tax revenues. A country's macroeconomic fluctuations can have an impact on decreasing people's purchasing power, investment and export imports which will also have an impact on the receipt of a country's VAT (Renata et al, 2016). In this case, the macroeconomic component that can play an important role is the inflation rate. Inflation affects tax revenue where inflation is low due to the growth of state revenues along with the increasing consumption that occurs in society (Nalendra, 2014). In other words, a high inflation rate will reduce the purchasing power of consumers. Therefore, public consumption activities which are objects of VAT will decrease. Thus, inflation can affect VAT receipts. Whereas internal factors are in the form of Tax Policy (Tax Policy), Tax Administration (Tax Administration), and Tax Regulations (Tax Constitution). One form of tax policy is tax intensification and extensification program. With the extensification program, you can get additional registered taxpayers and the addition of Taxable Entrepreneurs (NTE) so that they can increase tax revenues. Based on the explanation, the hypothesis formulated. There is a simultaneous and significant influence between inflation and the number of taxable entrepreneurs (NTE) on value-added tax (VAT).

METHODS

The unit of analysis and the object examined in this study were the West Java Regional Office of DGT

I with the research period July 2013 - June 2016. This study using the method of documentation and literature study. The inflation rate data is obtained from the official Bank Indonesia website, www.bi.go.id. Data on the number of taxable entrepreneurs and the realization of value added tax receipts obtained from the West Java Regional Tax Office I during the period July 2013 - June 2016.

Indicator for measuring inflation is the Consumer Price Index (CPI). The inflation data used in this study is monthly data, the period July 2013-June 2016. Measurement of inflation uses units of percent. Indicator Taxable entrepreneurs are the number of taxable entrepreneurs who submit taxable goods (BKP) and surrender of taxable services (JKP). The number of PFM data used in this study is monthly data, the period July 2013 - June 2016. The VAT receipt data used in this study is monthly data, the period July 2013 - June 2016.

The population is inflation data, the number of PFM and the number of VAT receipts throughout the work area of the West Java Regional Office of DGT I. The sampling technique used is nonprobability sampling with a sampling technique that is purposive sampling. The 3 Primary KPPs that were sampled were KPP Pratama Sukabumi, KPP Pratama Tasikmalaya and KPP Pratama Majalaya with monthly data numbers during the period July 2013 - June 2016, the number of sample data was 108 observations.

The normality test of the data is intended to test whether the regression model of the confounding or residual variables has a normal distribution. In this study, the normality test used Kolmogorov-Smirnov (1-Sample K-S). If p-value > 0.05, the data is declared to be normally distributed (Ghozali, 2013: 165). The researcher used the normality test to test data that were normally distributed.

Multicollinearity test aims to examine whether the regression model found a correlation between independent variables. The author uses this test because in this study there are two independent variables. A good regression model should not have a correlation between independent variables (Ghozali, 2013: 105).

The author uses Statistical for the Social Science (SPSS) computer application program version 23 as a research analysis tool. The regression equation developed in this study is:

$$Y = a + b_1 X_1 + b_2 X_2 \dots\dots\dots(1)$$

- Y = VAT receipts
- a = Number Y if X = 0 (constant)
- X₁ = Inflation
- X₂ = NTE
- b₁, b₂ = Regression Coefficient variable X₁, X₂

RESULTS

Based on Table 3 the results of testing the Kolmogorov-Smirnov Normality test above, it is known that the significance value (p-value) is 0.200. So that it can be seen that 0.200 > 0.05 (p-value > 0.05). According to Ghozali (2013) if p-value > 0.05 then the data is declared to be normally distributed. So that it can be concluded that the data tested in this study shows the data residuals are normally distributed and the regression model has met the assumption of normality.

Based on Table 4, it is known that the value of the Tolerance variable Inflation (X₁) and NTE (X₂) is 0.883 > 0.10. Meanwhile, the VIF value of the inflation variable (X₁) and NTE (X₂) is 1,133 < 10.00. The cut-off value commonly used to indicate the presence of multicollinearity is the Tolerance Value ≤ 0.10 or equal to the VIF value ≥ 10 (Ghozali, 2013: 105). So it can be concluded that the regression model in this study is free from multicollinearity.

Based on Table 5, the regression equation model as follows:

$$Y = 15981147363,614 - 722083035,606 X_1 + 234527952,398 X_2 \dots\dots\dots(2)$$

The results of p-value < 0.05. This means that there is a partially significant influence between inflation on value-added tax (VAT) and partially the amount of NTE on value-added tax (VAT).

Based on the results of the F test (Table 6) it shows that the p-value is 0,000, meaning that there is a simultaneous significant influence between inflation and the NTE on value added tax (VAT).

Based on the results of the multiple correlation analysis shown in the R number of 0.662, it shows that the correlation or relationship between inflation (X₁) and NTE (X₂) on VAT receipts (Y) is strong because it is in the interval of 0.60 - 799. Meanwhile based on the results of the coefficient of determination in Table 7. shows that the Adjusted R Square coefficient is 0.427 or 42.7%. This shows that 42.7% of the dependent variable (VAT receipts) can be explained by the independent variable (inflation and total NTE), while the rest (100% -42.7% = 57.3%) is explained by other reasons outside the model or other variables beyond those examined in this study.

DISCUSSION

Based on the results of the study it is known that there is a partially significant influence between inflation on value-added tax (VAT). The results of this study support the previous research which stated that inflation partially had a significant negative effect on VAT receipts conducted by Sinaga (2010), Muibi

& Sinbo (2013) and Arifin (2015). This is because inflation can change the pattern of allocation of production factors. This change can occur through a number of decreases in the demand for various types of goods affected by inflation which can then lead to changes in the production of certain items. The effect of rising inflation coupled with the length of the distribution channel will cause the price of goods and services to increase, this will have an impact on purchasing power and transactions of goods and services that will reduce VAT receipts (Sinaga, 2010). Then in accordance with Wijayanti's theory (2015: 23) which states that consumption activities for developing countries such as Indonesia are one of the main economic activities carried out, therefore increasing public consumption activities means that it will affect the number of VAT receipts. So, if high inflation causes the purchasing power of the people to be low, causing consumption activities for goods to be taxable decreases. So this will affect the decreasing amount of VAT receipts.

Based on the results of the study, it is known that there is a partially significant effect between the NTE on value-added tax (VAT). These results support the previous research which stated that the number of NTE proved to have a partially significant effect on VAT receipts conducted by Renata, et al (2016), Sentami (2014), Nuraeni (2011), Pandiangan (2014), Seftianne & Handayani (2011), Masithoh (2011), Saepudin (2008) and Aditya (2009). This is because NTE is a Taxpayer who submits Taxable Goods and/or Taxable Services that are taxed according to the 1984 VAT constitution and its amendments. DGT's additional number can be taken by extending taxes based on internal and external data so that if there is a NTE that does not report its business activities, office inauguration can be issued. Where there is an increase in the number of NTE, there is a surrender of goods and services subject to tax which is an object of VAT. The greater the number of NTE, the greater the VAT object, which means that the VAT receipt will be greater. DGT receipts can also be increased by the DGT through tax intensification, namely by testing NTE compliance that has been registered as well as from the results of extensification so that NTE is not only registered but also carries out its rights and obligations (Nuraeni, 2011). So it means that with the addition of NTE activities, the VAT object will be greater because of the increase in the delivery of taxable goods and services that will increase the acceptance of Value Added Tax (VAT).

Based on the results of the study it is known that there is a simultaneous significant effect between inflation and the NTE on value-added tax (VAT). These results support previous studies conducted by Renata, et al (2016), Saepudin (2008), Aditya (2009), Sentami (2014), and Nuraeni (2011). This is because

there are several factors that cause changes in tax revenues, especially the receipt of Value Added Tax discussed in this study. These factors can be either internal or external factors. External factors can be influenced by the macroeconomic conditions of a country. If a country's macroeconomy is unstable, it will have an impact on the economic activities of the community which will have an impact on a country's tax revenues. A country's macroeconomic fluctuations can have an impact on decreasing people's purchasing power, investment and export imports which will also have an impact on the receipt of a country's VAT (Renata et al, 2016). In this case, the macroeconomic component that can play an important role is the inflation rate. Inflation affects tax revenue where inflation is low due to the growth of state revenues along with the increasing consumption that occurs in society (Nalendra, 2014). In other words, a high inflation rate will reduce the purchasing power of consumers. Therefore, public consumption activities which are objects of VAT will decrease. Thus, inflation can affect the decline in VAT receipts. Whereas internal factors are in the form of Tax Policy (Tax Policy), Tax Administration (Tax Administration), and Tax Regulations (Tax Constitution). One form of tax policy is tax intensification and extensification program. tax extensification is carried out by extending the tax base, for example through increasing the number of registered NTE (Manurung et, al., 2001 in Nuraeni 2011). With the extensification program, you can obtain additional registered taxpayers and the addition of Taxable Entrepreneurs (NTE) so that they can increase tax revenues.

CONCLUSION

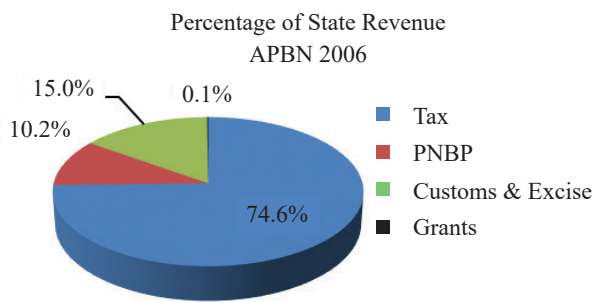
Based on the studies that have been examined in this study, the researchers concluded several statements as follows: (1) Partially Inflation has a significant negative effect on VAT receipts; (2) Partially the number of NTE has a significant positive effect on VAT receipts; (3) Inflation and the number of PFM have a simultaneous and significant effect on VAT receipts.

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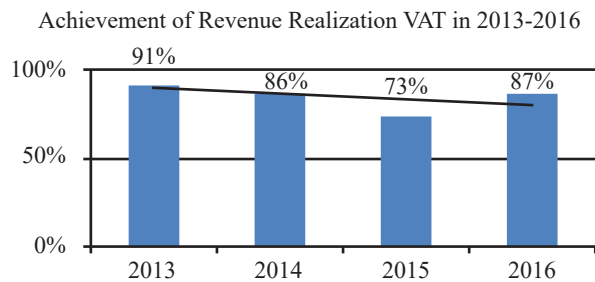
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Source: Ministry of Finance (Data processed)

Figure 1. Percentage of State Revenue APBN 2016



Source: Financial Note and APBN-P 2013-2016 (Data processed)

Figure 3. Achievement of Revenue Realization VAT in 2013-2016

Table 1. Percentage of Achievement of Realized Tax Revenue 2013-2016 (In Billion Rupiah)

Year	Realization	APBN-P	Achievement
2013	Rp1.077.306,70	Rp1.139.348,30	94,6%
2014	Rp1.146.865,80	Rp1.246.107,00	92,0%
2015	Rp1.240.418,86	Rp1.489.255,50	83,3%
2016	Rp1.105.000,00*	Rp1.539.166,20	71,8%

Information: *unaudited

Source: Financial Note and APBN-P 2013-2016 (Data processed)

Table 2. Realization of Indonesian Tax Revenue from 2013-2016 (In Trillion Rupiah)

Source of Acceptance	2013	2014	2015	2016*
Income Tax	Rp506	Rp546	Rp602	Rp855
Value-Added Tax	Rp384	Rp409	Rp423	Rp474
Property Tax	Rp25	Rp23	Rp29	Rp17
Customs For Land and Building Rights	-	-	-	-
Excise	Rp108	Rp118	Rp144	Rp148
Other Taxes	Rp4	Rp6	Rp5	Rp7
International Trade Tax	Rp47	Rp43	Rp34	Rp35
Import Duty	Rp31	Rp32	Rp31	Rp33
Export Tax	Rp15	Rp11	Rp3	Rp2
Amount of Tax Revenue	Rp1.077	Rp1.146	Rp1.240	Rp1.539

Information: *APBNP 2016

Source: Financial Note and APBN-P 2013-2016 (www.kemenkeu.go.id)

Trends in Achieving Targets for Realization of Tax Revenues 2013-2016 (Billion Rupiah)



Source: Data processed

Figure 2. Trends in Achieving Targets for Realization of Tax Revenues 2013-2016

Table 3. Results of the Normality Test of Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		108
Normal Parameters ^{a,b}	Mean	-,0000001
	Std. Deviation	3580128550,66948130
Most Extreme Differences	Absolute	,056
	Positive	,056
	Negative	-,035
Test Statistic		,056
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Table 4. Multicollinearity Test Results

Coefficients ^a			
Collinearity Statistics			
Model		Tolerance	VIF
1	Inflasi	,883	1,133
	Jumlah_NTE	,883	1,133

a. Dependent Variable: Penerimaan_VAT

Table 5. Results of Multiple Linear Regression Analysis

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	15981147363,614	1822354082,849		8,770	,000
Inflasi	-722083035,606	215273731,445	-,261	-3,354	,001
Jumlah_NTE	234527952,398	34799915,821	,525	6,739	,000

a. Dependent Variable: Penerimaan_VAT

Table 6. F Test Result

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1067100248103106600000,000	2	533550124051553300000,000	40,849	,000 ^b
	Residual	1371453287007107700000,000	105	13061459876258169000,000		
	Total	2438553535110214300000,000	107			

a. Dependent Variable: Penerimaan_VAT

b. Predictors: (Constant), Jumlah_NTE, Inflasi

Table 7. Results of the Determination Coefficient

Model Summary				
Model	R	Adjusted R Square	Std. Error of the Estimate	
1	,662 ^a	,438	,427	3614064177,10839

a. Predictors: (Constant), Jumlah_NTE, Inflasi

THE EFFECT OF SOCIO-ECONOMIC ON SOCIAL MEDIA IN INDONESIA

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received: 2/6/18; revised: 4/8/18; published: 31/12/18

Abstract

The current world development agenda led to a focus called the 2030 Sustainable Development Goals (SDGs). There were 17 development goals that became the world's commitment to be achieved soon. The results of the consensus in 1995 at the World Summit for Social Development stated that the development must make humans as the center of development. One of the benchmarks for human development was based on the Social Capital index. Various countries had developed the concept of social capital. So far, the capital of the OECD had become the most referenced, such as Canada, Australia and the United Kingdom, as a reference in developing indicators of social capital. This study aimed to prove Lin's theory which stated that assets or economics were directly proportional to the development of social capital. The results showed that economic variables such as GRDP per capita were inversely proportional to social capital. Subsequently social capital was significantly influenced negatively by Indonesia's democracy index and significantly influenced positively by population density.

Keywords: *SDGs; human development; economic; social capital; socio-economic*

INTRODUCTION

The current development paradigm should have focused on humans as the center of development. This was agreed by the world in Copenhagen at the World Summit for Social Development meeting in 1995. The forum was attended by 117 leaders of the country and resulted in an agreement that the development paradigm must make humans the subject of development. The United Nations Development Program said (in Shah, 2011):

“Human development is about much more than the rise or fall of national incomes. It is about creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. People are the real wealth of nations. Development is thus about expanding the choices people have to lead lives that they value. And it is thus about much more than economic growth, which is only a means—if a very important one—of enlarging people's choices.”

The Organization for Economic Co-operation and Development (2001) added that human welfare could be measured through three things (see Figure 1), namely:

natural capital, physical capital, and human capital and social capital. Social capital reflects the application of norms and refers to norms and networks that can be used to create cooperation between communities within groups and between groups.

So that human development does not only rely on economic growth. Human development can be measured on increasing human capabilities (Sen, 1987). Human capability itself can form social capital so that it is considered a social glue and can encourage other development to run better.

The term social capital was first introduced by Bourdieu in 1972 then after by Coleman in 1988 (Häuberer, 2011 in the Central Bureau of Statistics, 2012). Basically, social capital is inherent in every individual relationship in socializing.

OECD in Keeley (2007) defined social capital as networks together with shared norms, values and understandings that facilitate co-operation or among groups.

Lin (1999) explained the theory of social capital that differences in the participation of individual social capital depended on access as the initial capital that the individual had, such as assets and structural positions in

the social. Lin described the social capital framework was divided into three parts; Inequality, Capitalization, and Effects (see Figure 2). If illustrated, individuals who have higher economic status can get more access and opportunities to establish networks with various individuals/groups at various levels of economic status but individuals with lower social levels tend to have a limited network environment in a small scope.

Social capital has been ingrained in every Indonesian society. One reflection of social capital is mutual cooperation. One of its forms can be seen during the disaster that happened to this country, such as: the tsunami of Aceh, the Yogya earthquake, and so on. Communities from various groups carry out social actions, such as: raising funds, providing food and non-food, and assisting in the evacuation process. It's not surprising if social capital is associated with economic development which is measured by socioeconomic variables. Putnam (1993) is the first researcher who succeeded in providing a basis for the study of social capital associated with socioeconomic.

Putnam (1993) started researching on social capital. His book titled "Making Democrasy Work" successfully attracted the attention of researchers to discuss more about social capital. In the book, social capital is part of many things discussed in the book. Putnam makes social capital from a concept into a practical reality that can be used as a tool to carry out democracy in Italy (Ferragina, 2013). Putnam explained that democracy and the economy of society could be a bridge to social capital through networking (Putnam, 1995 in BPS, 2012). Practically this illustrates the correlation between social capital and democracy itself.

Dragos & Leskosek (2003) revealed that social capital was a joint asset in society and that it was originally formed from values that had been built. Each region has different values but social adherence is a value that is considered good by all regions.

In one of Ferragina's (2013) research results stated that socioeconomic variables had an effect on social capital. That the GRDP per capita had a positive effect on social capital. Ferragina also found that the better distribution of income would increase social capital.

Chua (2010) also conducted research on socio-structural influences such as meritocracy, gender, and race on social capital and the labor market. The data used was primary representative data in Singapore. The results showed that social capital could affect labor access only for low jobs. Gould & Hijzen (2016) found that in the United States, inequality had a negative effect on social capital. Allegedly, the more inequality will reduce the level of public confidence.

Social capital used in this study was in macro analysis level. Basically, social capital has two analysis level (Bhandari and Yasonobu, 2009). (a) Individual level, social capital was measured from individual samples, (b) micro-, meso-, and macro level; social capital was

measured from individuals and then aggregated by various method to describe social capital at a greater level of analysis.

METHODS

Data on the formation of social capital generally differ in each country. The Indonesian Central Bureau of Statistics calculates Social Capital using 3 (three) indicators, namely: indicators of trust and tolerance, reciprocity and joint action, and group and network. The following is a table of indicators of social capital obtained from the 2012 and 2014 Social Capital Statistics Report from the Indonesian Central Bureau of Statistics.

The data consists of 33 Indonesian provinces (not including North Kalimantan) and each has three periods; 2009, 2012, 2014. The data are from the National Socio-Economic Survey (Survei Sosial Ekonomi Nasional) on the 2012 Socio-Culture and Education Module (Modul Sosial Budaya dan Pendidikan) or the 2014 Social Security Module (Hansos Module). Respondents around 70,000 heads of households are scattered in all districts/cities in Indonesia.

This study used multiple regression and the method used was Ordinary Least Square (OLS). Adopting the equation built by Ferragina (2013), researchers used the equation for the econometric model as follows:

$$SM_{it} = \beta_0 + \beta_1 IDI_{it} + \beta_2 GINI_{it} + \beta_3 Density_{it} + \beta_4 HDI_{it} + \beta_5 GRDP_Cap_{it} + \beta_6 LFPR_{it} + a_i + u_{it}$$

Which:

SM_{it}	: Social Capital
IDI_{it}	: Indonesian Democracy Index
$GINI_{it}$: Gini Coefficient
$Density_{it}$: Population Density
HDI_{it}	: Human Development Index
$GRDP_Cap_{it}$: GRDP per capita
$LFPR_{it}$: Labor Force Participation Rate
a_i	: unobserved heterogeneity
u_{it}	: idiosyncratic error

RESULT AND DISCUSSION

Research estimates the socio-economic variables on the social capital variable. The following Table 2 explains the summary of statistic of the variables that will be used as material for analysis in this study.

From the table above, it can be seen that 99 observations consisted of 33 provinces and three years each. The average amount of social capital is 54.86 with a minimum index of 38 and a maximum of only 63.16.

For more clarity, Graph 1 below is a graph of the correlation of social capital with GRDP per capita.

It is seen that the correlation between the two is negative and keeps falling down from 2009 to 2014. This

shows that the level of well-being is increasingly eroding the development of social capital development. This needs to be watched out, as the growth of the Indonesian economy shows a positive trend of around 5% per year since the reform era. Of course this will worry about the condition of social capital formed in society. The government must be optimistic about economic growth but must also pay attention to development capital which is increasingly concerned about its relationship with economic growth. Surely the next step that must be done is to evaluate and improve economic growth in the future in order for Pancasila economics, the populist economy can run optimally.

Following are Graph 2, Graph 3, and Graph 4 which show the distribution of quadrants of social capital index values and GRDP per capita by province.

Interesting findings that DKI Jakarta as the capital city of the province is included in quadrant IV, which means that the province has an economic level above average but has a social capital index below average. This means that there is something wrong with the economic development carried out by Indonesia. Economic improvement is not accompanied by an increase in social capital as a proxy from human development.

The following table 3 is the estimation result using the Fixed Effect Model based on the Hausman test results (see Table 4 in the appendix):

The estimation results use robust variance-covariance matrix (VCE) in Stata software. The use of VCE robust is to overcome the problems of heteroscedasticity and autocorrelation (Arellano, 1987). Based on the estimation results above, R² shows a value of 0.7 which means that the independent variable is able to explain the variation of social capital by 70% and the remaining 30% is explained by other variables outside the model.

The results show that social capital is significantly influenced positively by the Indonesian democracy index and GRDP per capita. This means that the higher the economic level (GRDP per capita) of a province, the lower the level of the social capital index is. This means that there is something wrong with the contribution of economic development to the development of human resources. Economic development should be accompanied by human development. Because humans should be the subject of development, which can lead to better development. If so, Lin's theory did not occur in the case study of the Indonesian province.

Not only it is contrary to Lin's Theory, but the results are also contrary to the economy which has been the guide of Indonesia. Pancasila economy should be able to increase or strengthen relations in the community as reflected in the social capital index because these values are from Indonesian authentic ancestors.

Furthermore, social capital is significantly influenced negatively by population density. This can mean that

the higher population, the lower the participation rate of social capital is.

The author also estimates the constants for each of the available provinces in Graph 5 (see attachment). From the estimation results, East Kalimantan and DKI Jakarta have the highest and lowest constant values. The high and low constants indicate differences in the magnitude of influence among provinces in Indonesia. So, for the province of East Kalimantan, the influence of the independent variables on dependent is very large while for DKI Jakarta has a low influence. In addition, it can be seen that there is a pattern where provinces with high constants will push the province into quadrant I (see Graph 2, Graph 3, and Graph 4). This is getting better because it means that the high level of the economy is accompanied by high social capital.

Indonesia must be able to learn from countries in Europe. How the level of welfare of a region has a positive impact on the development of human capital as has been done on a research by Ferragina (2013).

CONCLUSION

Cases in Indonesia are different from Europe. The higher the level of GRDP per capita actually erodes social capital. Therefore, economic development to date has not succeeded in making humans the subject of development.

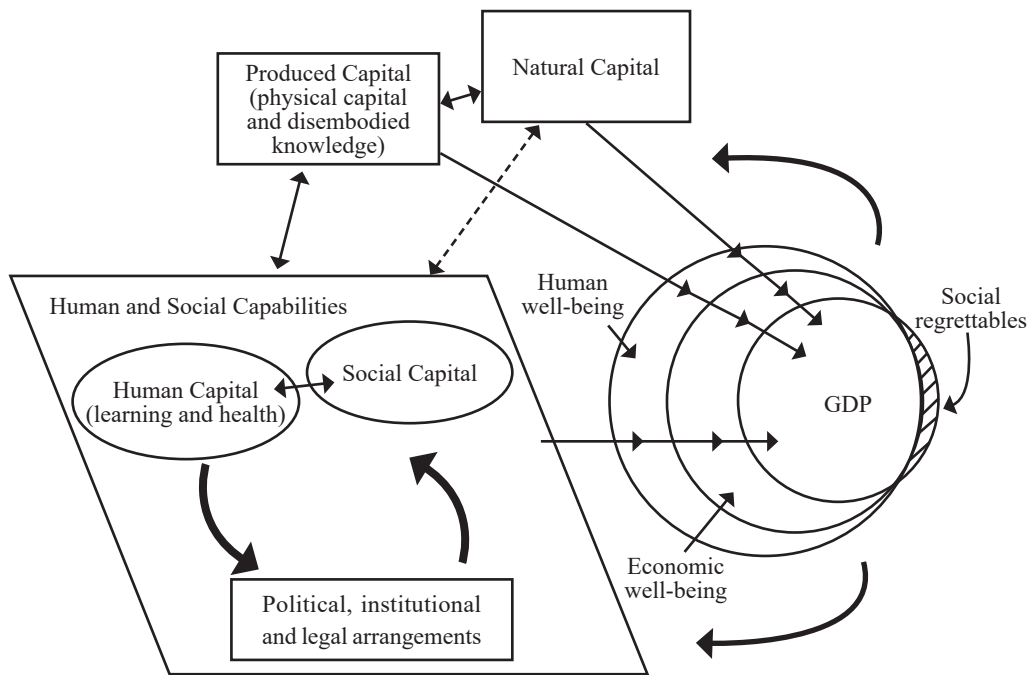
This study also analyzes the relationship of macro variables to the level of social capital of provinces in Indonesia. The results show that social capital is significantly affected negatively by the Indonesian democracy index and GRDP per capita. Furthermore, social capital is significantly influenced positively by population density.

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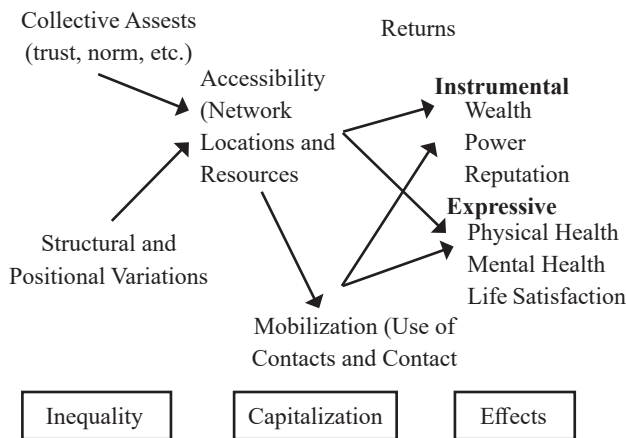
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Source: OECD, 2001

Figure 1. Human Welfare Input Indicators and their Linkages



Source: Lin (1999)

Figure 2. Social Capital Framework

Modified Wald test for groupwise heteroskedasticity in fixed effect regression model

$$H_0: \sigma^2(i) = \sigma^2 \text{ for all } i$$

$$\text{Chi}^2(33) = 1886.55$$

$$\text{Prob} > \text{chi}^2 = 0.0000$$

Figure 3. Heteroskedasticity Test Result

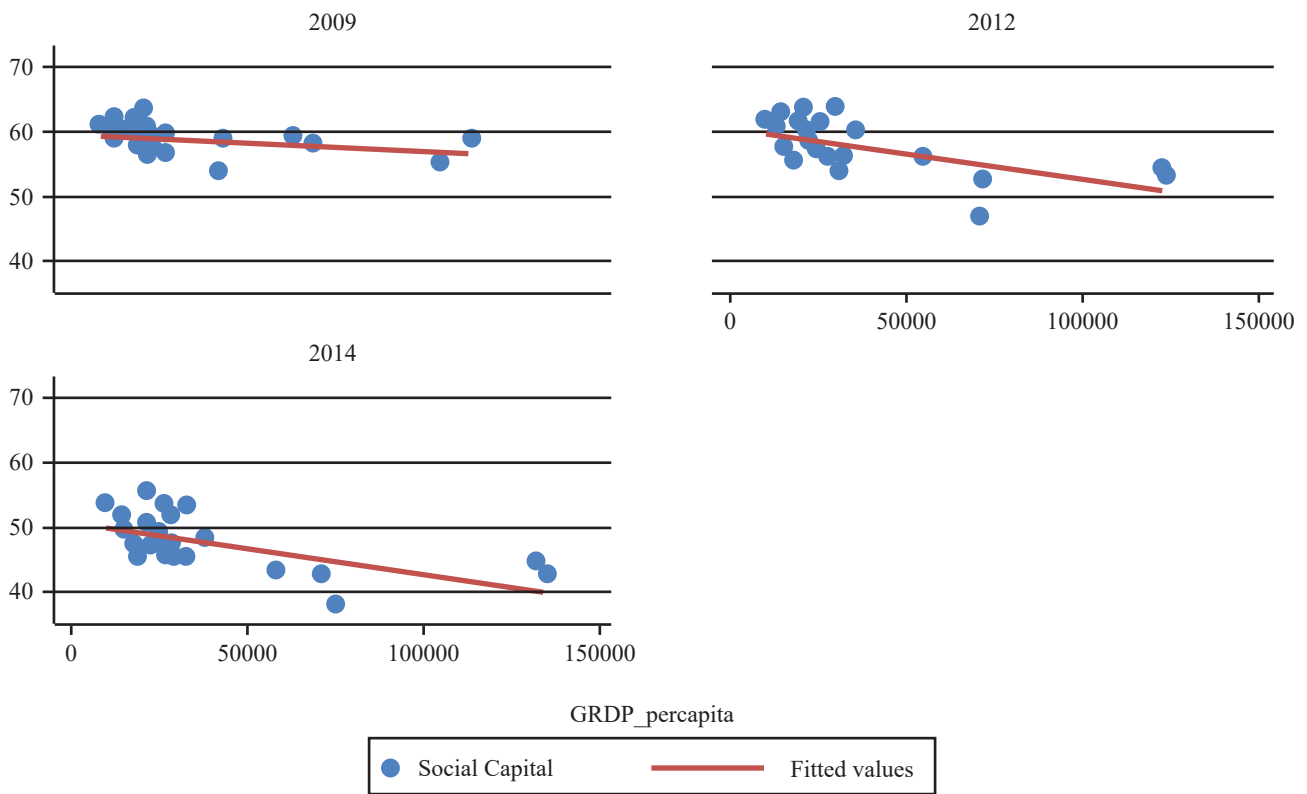
Wooldridge test for autocorrelation in panel data

$$H_0: \text{no first-order autocorrelation}$$

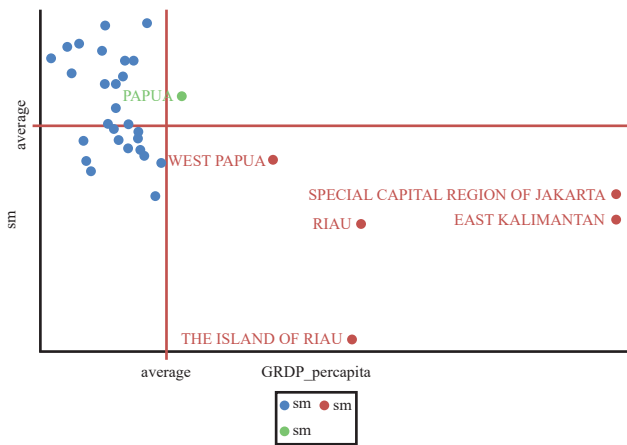
$$F(1, 32) = 6.074$$

$$\text{Prob} > F = 0.0193$$

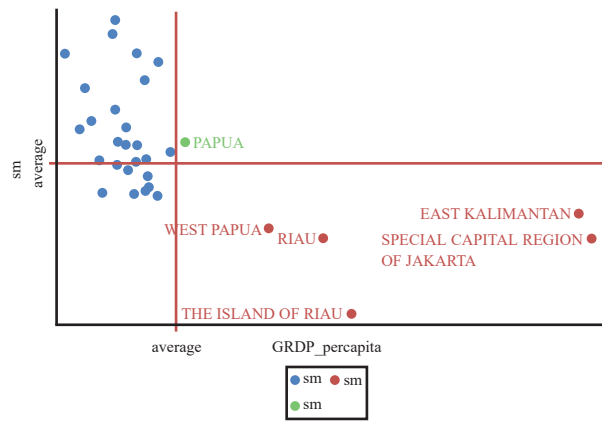
Figure 4. Autocorrelation Test Result



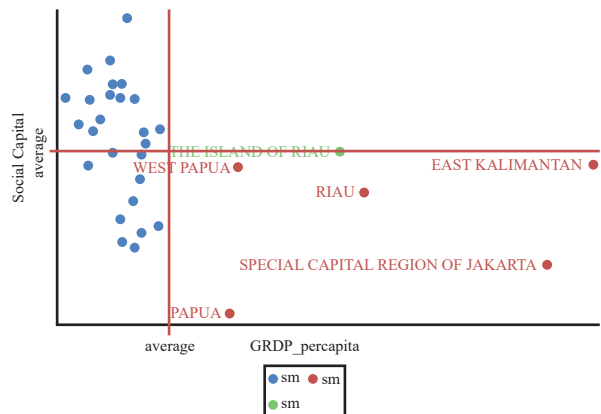
Graph 1. Correlation of Social Capital with GRDP per Capita



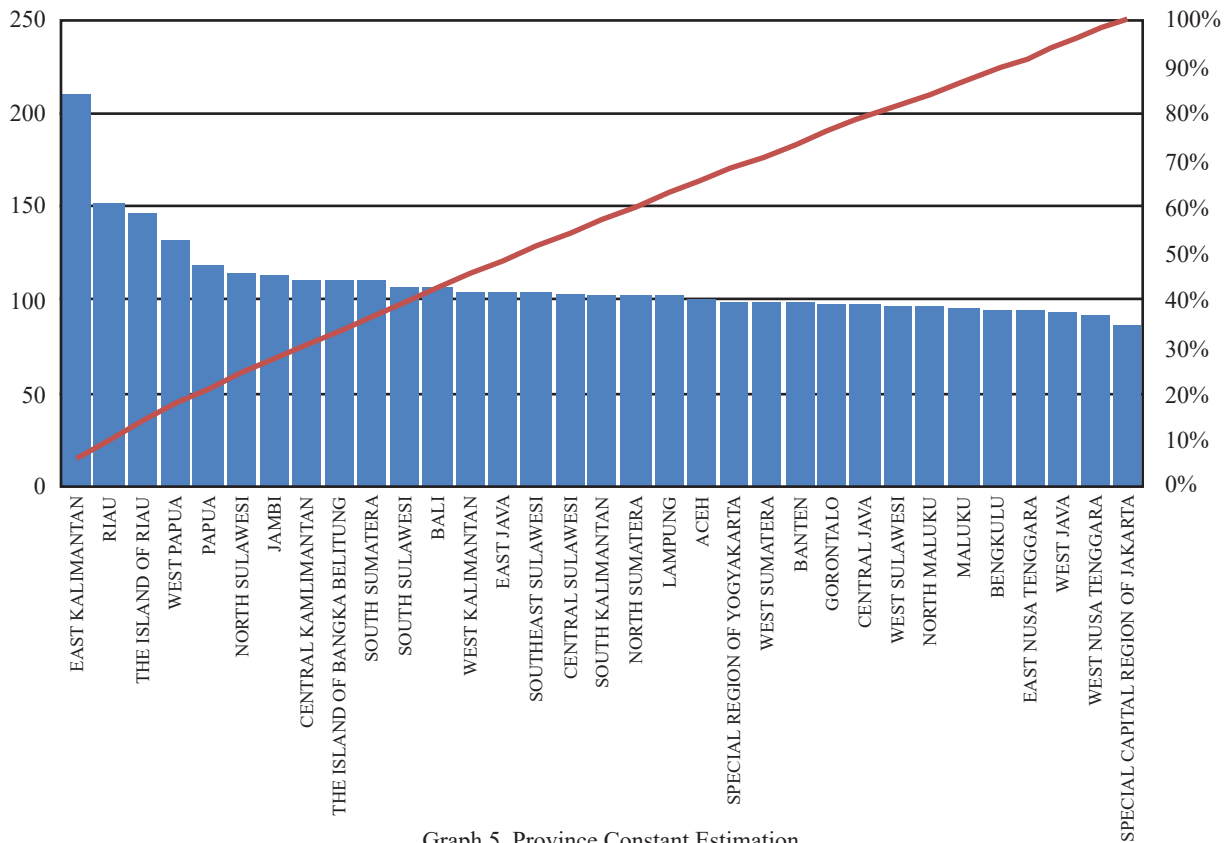
Graph 2. Province's Quadrant Position of 2009



Graph 3. Province's Quadrant Position of 2012



Graph 4. Province's Quadrant Position of 2014



Graph 5. Province Constant Estimation

Table 1. Indicators of Social Capital

Indicator	Factor	Variable (2009, 2012)	Variable (2014)
Trust and Tolerance	Trust in figure	Trust in religious figure	Trust in religious figure
		Trust in village/kelurahan authority	Trust in village/kelurahan authority
		-	Trust in public figure
	Trust in neighbor	Trust in neighbor for childcare (age 0-12)	Trust in neighbor for childcare (age 0-12)
		Trust in neighbor for house sitting	Trust in neighbor for house sitting
	Religion Tolerance	Response to other religion's activities	Response to other religion's activities
		-	Response to building worship place of other religion
		-	Child befriends people with different religion
		-	Child marries people with different religion
	Tribe/Clan Tolerance	Response to other tribe's/clan's activities	Response to other tribe's/clan's activities
-		Child marries people from different tribe/clan	
-		Child befriends people from different tribe/clan	
Reciprocity and Joint Action	Reciprocity	-	Ease of getting help
		-	Willing to help neighbor in need
	Joint Action	Participation in religious social activities	Participation in religious activities
		Participation in activities for public interest	Participation in activities for residents' interest
		Participation in social community activities	Participation in social community activities
Group and Network	Participation in group	-	Frequency of resident meeting in the area
		-	Decision making in the area
		-	Joining resident meeting
		-	Usually give opinion/advice in a meeting
	Network	-	Number of group/organization joined
		-	Position in a group

Table 2. Statistic Summary

VARIABLES	N	mean	sd	min	max
sm	99	54.87	5.964	38	63.16
gini	99	0.364	0.0449	0.269	0.459
idi	99	68.72	6.386	54.02	84.70
hdi	99	68.72	4.334	55.55	78.39
grdp_percapita	99	32,897	27,004	9,026	136,312
density	99	684.4	2,432	6	15,173
lfpr	99	69.74	3.952	60.33	80.54

Table 4. Hausman Test Result

	Coefficients			
	(b)	(B)	(b-B)	sqrt (diag(V_b- V_B))
	fe	re	Difference	S.E
idi	-4550924	-368721	-.0863714	.0953528
gini	-17.41737	-8.447342	-8.970032	20.7207
density	.0087878	.0003139	.0084739	.0032867
hdi	.0416427	.483176	-.4415333	.2977118
gdrp per-cap	-.0010565	-.0000967	-.0009598	.000246
lfpr	.1242705	.1394079	-.01513	.4474309

Tabel 3. Social Capital Estimation

VARIABLES	Social Capital
IDI	-0.455*** (0.0913)
GINI	-17.42 (20.00)
Density	0.00879*** (0.00176)
HDI	0.0416 (0.248)
GRDP_CAP	-0.00106*** (0.000193)
LFPR	0.124 (0.317)
Constant	109.7*** (32.56)
Observations	99
Number of id	33
R-squared	0.700

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Estimation Result + Dummy Province Result

VARIABLES	Sm		
idi	-0.455*** (0.0913)	EAST KALIMANTAN	211.4*** (42.79)
gini	-17.42 (18.80)	THE ISLAND OF BANGKA BELITUNG	110.7*** (33.15)
density	0.00879*** (0.00183)	THE ISLAND OF RIAU	147.0*** (37.90)
hdi	0.0416 (0.262)	LAMPUNG	102.9*** (33.87)
grdp_percapita	-0.00106*** (0.000196)	MALUKU	95.77*** (32.31)
lfpr	0.124 (0.314)	NORTH MALUKU	97.78*** (32.79)
ACEH	101.9*** (32.27)	WEST NUSA TENGGARA	92.91*** (32.22)
BALI	107.1*** (36.30)	EAST NUSA TENGGARA	94.72*** (34.25)
BANTEN	99.01*** (32.82)	PAPUA	118.8*** (34.98)
BENGKULU	95.40*** (34.63)	WEST PAPUA	132.8*** (35.11)
SPECIAL REGION OF YOGYAKARTA	99.59*** (35.39)	RIAU	153.0*** (36.16)
SPECIAL CAPITAL REGION OF JAKARTA	86.50*** (29.86)	WEST SULAWESI	97.80*** (32.74)
GORONTALO	98.98*** (32.05)	SOUTH SULAWESI	108.0*** (32.39)
JAMBI	113.0*** (33.34)	CENTRAL SULAWESI	104.7*** (34.07)
WEST JAVA	94.03*** (31.89)	SOUTHEAST SULAWESI	104.8*** (34.38)
CENTRAL JAVA	98.86*** (33.35)	NORTH SULAWESI	114.7*** (33.48)
EAST JAVA	105.5*** (33.51)	WEST SUMATERA	99.36*** (33.40)
WEST KALIMANTAN	105.7*** (34.15)	SOUTH SUMATERA	110.5*** (34.23)
SOUTH KALIMANTAN	103.2*** (33.76)	NORTH SUMATERA	103.0*** (34.58)
CENTRAL KALIMANTAN	110.7*** (34.65)	Observations	99
		R-squared	0.7

DEVELOPMENT STRATEGIES OF MICRO BUSINESS IN MAJALENGKA REGENCY

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received: 24/5/18; revised: 20/7/18; published: 31/12/18

Abstract

The purpose of this study was to determine the development strategies of micro business potential to utilize aerocity opportunities in Majalengka Regency. The local potential in Majalengka were agriculture and natural resource-based tourism. Processing of local raw materials into products that fit the needs of the community would be able to increase the income of the population. The research method used was descriptive qualitative. The results showed the right strategy was market penetration and new product development. Efforts to be taken to support the strategy included (1) Improving the quality of human resources in services and trade, (2) Innovation of new local based products, (3) Promotion of information technology utilization, (4) Increasing tourism infrastructure involving micro businessmen, (5) Business assistance, market survey, and management training involve Higher Education, (6) BUM Desa facilitations in machinery, storage, capital development, product marketing, (8) Producing products according to agricultural commodities.

Keywords: *micro business; potencies; opportunities; Majalengka Regency*

INTRODUCTION

Minister of Cooperatives and Small Medium Enterprises (SME), said that the number of entrepreneurs in Indonesia is about 1.65% of the population. Singapore 7%, Malaysia 5% and Thailand 4% (Republika, 12/3/2015). If the number of entrepreneurs increases, it will also boost the economy of the country, with increasing employment, which will ultimately be able to improve the quality of community welfare. SMEs' are becoming increasingly important for the creation and development of a modern, dynamic and knowledge-based economy, because of their ability to be flexible and adapt quickly to a changing market, and to generate new jobs (Govori, 2013).

Developed countries have created their industrial power on the basis of SMEs, and this sector offers transitional countries the opportunity for the fastest implementation of modern solutions and practices (Džafić et al., 2011). A strong SME sector contributes highly to the economy, contributing to the gross domestic product, by reducing the level of unemployment, reducing in poverty levels and promotions of entrepreneurship activity (Sitharam and Hoque, 2016). If the efforts only focus on the cities, it will increase people's welfare, but uneven and gini ratio

will not decrease from 41%. Therefore, it is necessary to develop entrepreneurship in rural areas.

Majalengka is a regency in West Java whose geographical conditions are divided into 3 zones: (1) 40.03% mountains, (2) 31.27% corrugated/hilly, and (3) 28.70% lowlands of the total regency area. It also consists of 26 sub-districts and 330 villages. This condition allows the potential growth of local specific natural resources. As a lowland area supported by its strategic position, Majalengka Regency is very suitable to be developed into a business and industrial city, therefore the Government of West Java Province establishes Majalengka as a priority in infrastructure development that is Kertajati International Airport (Kab. Majalengka, 2018). With the concept of developing Kertajati as Aerocity, it will make Majalengka as a center for various supporting industries, as well as a center of economic growth in the eastern region of West Java Province.

In detail, the potential of Majalengka Regency has been determined by Peraturan Daerah No. 11 of 2011 on Spatial Planning in 2011 - 2031 as: (a) Cultivation areas consisting of production forests, agriculture, fisheries, mining, industry, tourism, settlements and other designations, (b) Center of urban and rural activities, (c) Strategic area of West Java and Regency.

Majalengka Regency will become a very strategic area for new economic growth for the eastern region of West Java Province before the opening of Kertajati International Airport. Therefore, the people should prepare to deal with competitive market development situations, changes in livelihoods and culture. This should be prepared for them to anticipate for modernization. Micro businessmen need to be invited to innovate and pay attention to market demands, so that agricultural products can be absorbed by the market and provide added value.

Most of Majalengka Regency's people are farmers, so rural development remains a priority, including human resources and agribusiness-based economic development and agricultural technology implementation in order to increase production and productivity as an effort to strengthen food security and fulfillment of industrial raw materials.

The result of the preliminary observation revealed that the people of Majalengka Regency generally use agricultural products only for their own consumption and the rest are sold directly to the market. There is no crop processing process from local agricultural products, so the price falls on harvest time. As a result, even though farmers live well, they are not really better than before. From the preliminary data, it is found that the public interest for entrepreneurship is quite high, but it has not been supported by the application of appropriate technology and adequate management system, therefore the potential has not added significant value. Some communities have already processed their crops manually and very simply. As a result, the processed products of these agricultural products do not last long, and do not have high selling value. Their products are only sold in the local market, so the profit is not optimal. Eventually their entrepreneurial spirit is channeled to sell foreign products. Some people who have the potential to develop entrepreneurship even move to other cities, so the local potential left dormant and managed perfunctory.

Micro Enterprise is a productive business owned by individual and/or individual business entity with asset criteria of ≤ 50 million rupiahs and turnover of ≤ 300 million rupiahs, based on Law no. 20 year 2008 on Micro, Small, Medium Enterprise (www.bi.go.id). Micro enterprises are often confronted to functional management constraints. Cooperation between suppliers, entrepreneurs, and output markets is needed to ensure the availability of raw materials and markets. The ability of micro enterprises to produce local processed agricultural products that vary according to market demand will demand diversification and product differentiation. This research will be conducted in order to improve the competitiveness and the effectiveness of production and marketing for micro businesses in Majalengka Regency to improve welfare.

The low capability to diversify and differentiate local processed products according to market demand of the community in Majalengka Regency is caused by the lack of information about the development of needs of the current consumers, so the local farmers' products do not have the ability to compete. As a result, marketing activities become ineffective. Besides, it also requires a synergy between people in various matters related to product marketing management to increase sales. This research is expected to produce a micro business development strategy, so that the potential development of local agricultural products can be utilized more optimal, and well sold and effective in producing and marketing generate profits.

Specific objectives of the study consist of: (a) Identifying potential local agricultural products using Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis to identify local potentials that can be developed to meet market needs, obtaining available opportunities, and building competitiveness and penetrating internal constraints and competition, (b) Analyzing functional management that includes production management, product marketing management, financial system, and human resource management.

From the background of the problem, we obtained information on the condition of the society and micro entrepreneurs in Majalengka Regency generally have the following characteristics: (1) Lack in product diversification and differentiation in accordance with market demand, (2) Lack in the possession of concept of integrated production strategy and tactics and market in order to have an advantage to compete, (3) Having a strong entrepreneurial spirit, but less developed optimally. To be a successful entrepreneur must be innovative – applying advance technique to production and marketing. There is a strong connection between technological development and entrepreneurship. Technology makes entrepreneurship dynamic, it encourages diversifications and economies of scale (Okorie et al., 2014).

The process of formulating alternative strategies of Majalengka Regency development is done through a series of analysis that cover several stages beginning with descriptive analysis by identifying vision, mission and objectives. This identification is important to know further about the targets to be achieved. Internal analysis is done in the fields of management, marketing, finance, production/operation, human resources, and behavior change, while external analysis is done by considering Political, Economic, Socio-Cultural Demography, Technology factor.

The identification results will further be incorporated into the framework of strategy formulation consisting of (David and David, 2016 translated by Novita and Liza): (1) the input stage which is the stage of summarizing the basic information or input required in formulating the strategy. At this stage External Factors Evaluation (EFE) and Internal Factors Evaluation (IFE) matrix

are generated. This analysis is conducted to identify various external-internal factors that have significant influence in achieving the predetermined objectives, (2) the matching stage, which is the focusing stage and generating the appropriate strategy alternatives company condition. At this stage, IE matrix is produced which is the result of internal-external environment analysis that provides an overview of the company's position, as well as strategies that must be implemented in maintaining its position. Then, the SWOT (Strengths Weaknesses Opportunities and Threats) matrix provides a combination of strategies that can be done based on identification of the threats and weaknesses, (3) Alternative micro-enterprise development strategy, which is a recommended strategy to be a strategy that can be a guide for Majalengka Regency.

(Alfaxard, 2013) stated that are some key factors are considered to be of great significance for integration of strategy formulation and implementation to occur. These factors are both internally and externally to the organization. Internal factors include organization structure, organization culture, leadership, company resources, strategies, rewards and staff motivation. External factors include economic and political, ecological, technology and globalization, and government regulations. External and internal factors have crucial impact to SMEs environment (Kraja and Elez, 2015). As the business environment frequently changes, a company should regularly analysis its internal and environments in order to further develop its business (Pakkanen, 2012).

Internal factor analysis include 7 factors (management, production and operation, behavior change, finance, human resources, management information system, and marketing) and external factors cover include 5 factors (economic, social culture, demography and environment, technology and competitive) qualitatively arranged in the form of internal and external factor matrix and SWOT matrix, which subsequently resulted in an alternative micro-enterprise development strategy.

The method of SWOT analysis is to take the information from environment analysis and separate it into internal (strengths and weaknesses) and internal issues (opportunities and threats). SWOT analysis indicates a framework to identify the strategies of achieving goals (Ommani, 2011). SWOT analysis will provide a good foundation for strategy, business proposition, the position and direction of company/organization, and even discover which ideas are worth pursuing (Fine, 2009). A clear strategy can help organization to increasing its efficiency in such competitive markets. Formulation the strategy is one of the most important process to keep the organization operates normally (Liao and Chen, 2009). Even though there are nine factors that affect strategy implementation to be successful and can be classified to 3 factors that is (1) mixed factors: strategy formulation and relationship among different units/departments and different strategy level; (2) hard factors: organizational

structures and administrative systems; and (3) soft factors: implement tactics, executors, consensus, commitment and communication (Li et al., 2013).

An innovative and rational action means the ability of entrepreneur in positioning his business related to the influence of the internal environment as well as the influence of the external environment (Suhardiyah et al., 2017). Company size and resources affects the SME's in a way that enable them to work towards implementing; strategies, policies and standards which are acceptable in the particular industry (Malik and Chaudhary, 2010). Entrepreneurs must pay a proper attention to internal and external factors, keeping in mind their dynamism and variability, and adjust the practice accordingly (Dragnić, 2014). Internal and external factors influencing SMEs growth (Soini and Veseli, 2011). Principals' leadership styles had a positive influence on the preparation of strategic plan (Njoroge, 2013). The framework of this study can be seen in Figure 1.

METHODS

The method used in this research was descriptive qualitative by survey and observation in in Majalengka Regency. We could dissect, discuss, and recognize the problems, and got justification on the condition and practices that were in progress. In addition, evaluation and comparison of what people could do in handling similar situations or problems could also be used in future plans and decision-making. To apply survey research method in operational, hence it required a research design which is suitable to the condition of the depth the research was conducted. The research design focused on the micro-enterprise including the following processes: (a) Identification and diagnosis of research problems based on preliminary research results, (b) Determination of conceptual framework for research problems and relationships with previous researches, (c) Formulating research problems including making specifications of objectives, scope, (d) Developing a framework, (e) Selecting and defining variable measurements, (f) Preparing tools and techniques for data collection, (g) Performing editing and processing data, (h)) Analyzing the data qualitatively, (i) Reporting of research results, including research process, discussion and interpretation of data, generalization, and suggest some suggestions and future research work.

RESULTS

Mountainous and hilly areas have abundant natural resource potential such as vegetables, fruits, food as well as tourism sector. The flat lowland areas were supported by strategic positions as the connecting areas of 4 districts: Sumedang, Indramayu, Cirebon and Kuningan, potentially developed into business and industrial zones, so it was natural that the West Java Provincial Government saw

Majalengka as one of the priorities of infrastructure development to support the acceleration of development including the mega project of West Java International Airport development that will be built in Kertajati sub-district, as well as centers for the relocation of various industries and its concept which was integrated with various facilities such as residential, university, hospital, shopping center, bussines center, resort, recreation.

Majalengka Regency GRDP (Gross Regional Domestic Product) contribution majorly from agriculture sector that reached 26,85% far above West Java. Table 1 is the contribution of Majalengka Regency GRDP compared to West Java Province in 2016. Contribution of the processing industry sector in Majalengka Regency is much lower than West Java Province.

Perda No. 11 Tahun 2011 on Majalengka Regional Spatial Plan 2011-2031 stated that this objective condition would encourage the development acceleration significantly, so Majalengka was demanded to develop, synchronize and synergize to the acceleration of development more comprehensively covering human resource development, infrastructure, economy based on agribusiness as well as small and medium industries and various other fields including the field of government for the creation of a good bureaucratic system, professional, clean and accountable. To improve public services based on minimum service standards as amission to achieve public trust, both government and society must walk hand in hand in order to actualize the vision of Religious, Advanced and Prosperous Majalengka Regency.

West Java International Airport and Kertajati Aerocity were built in Majalengka Regency in the north, precisely in Kertajati Sub District. The airport would be built in 5 villages namely, Kertajati Village, Kertasari Village, Bantarjati Village, Sukakarta Village, and Sukamulya Village. The construction of the two mega projects caused the demand for land for non-agricultural activities to increase. Based on the Regional Spatial Plan of Majalengka Regency, the land needed for the two mega projects was 5,000 Ha, for the airport 1,800 Ha and the aerocity 3,200 ha. Regional designation for the development was the airport and aerocity area in Kertajati sub-district, residential and service area in Jatitujuh Subdistrict, and for industrial area in Ligung Subdistrict. The region that experienced significant development was Jatitujuh Subdistrict with its development pattern following government policy that were area designation, distance, accessibility, and land use. Training for terracing system creation is needed for farmers to prevent the occurrence of landslides in hilly areas (Ayu Maimun, 2016).

DISCUSSIONS

The population of Majalengka Regency in 2015 based on Population Projection 2010-2020 was 1,182,019: 590,690 of them are male and the rest 591,419 are female. The number of open unemployed is 4.01% or 24,420

people (male 18,407 and female 5,883). Majalengka community, including the labor force and people who never had any education reaches 14.68%, people whowere graduated from primary school are 44.96%, graduated from junior high education 18.84%, graduated from secondary education 15.32% and diploma and bachelor graduate 6.23% (Kab. Majalengka, 2018).

The main occupations of the population were agriculture, forestry, hunting, and fisheries. It reaches 28.69%. Meanwhile, trade, retail, restaurant and hotel reaches 26.83% and processing industries reach 17.80%. Majalengka community were majorly farmers, agricultural sector contribution to GRDP formation reaches 32.85% with economic value reaches Rp 353.7 billion. Agriculture in Majalengka was relatively fertile. The area of land used for rice fields is about 41.55% or 50,035 ha, using 72,10% irrigation and the rest of it is rainfed (Kab. Majalengka, 2018). Total productivity of rice in 2015 reached 664,993 tons, decreased 2.89% compared to 2014, as a result of the decrease of planting area. Dry land of 70,389 Ha is used mostly for garden, state forest, and yard and building. The biggest total output of rice came from Kertajati and Ligung sub districts. Majalengka Regency had a very enchanting nature, as evidenced by various tourist attractions found with a very beautiful scenery. Most of the tourist attractions in Majalengka were still uncovered and rarely visited by tourists. Majalengka had at least 20 interesting natural tourist destinations.

Strategic position of Majalengka District is described as followed: (1) Based on National Spatial Plan (PP No. 26 tahun 2008), Majalengka Regency will be to build Kertajati Secondary Airport. The area around it will also be built Arjuna Sea Port. (2) In the spatial planning system of West Java Province, Majalengka is located between the Bandung National Activity Center and Cirebon National Activity Center with Kadipaten Regional Activity Center (Majalengka), as well as access to Indramayu Regional Activity Center and Tasikmalaya Regional Activity Center. Spatial Plan of West Java Province shows that Majalengka Regency has a strategic position which the arrangement is prioritized. (3) The strategic position of Majalengka Regency is supported by several strategic areas, such as follows: (a) The fast-growing area is the area along Bandung-Cirebon corridor, Cikopo-Palimanan highway plan, Cisumdawu highway, and the area around Majalengka airport and the Kadipaten-Majalengka axis, (b) The potential growing areas are in the South: Majalengka Regency along the Lemahsugih - Bantarujeg - Talaga - Cikijing road corridor.

Majalengka Regency as an agrarian area had excellent land resources used for agriculture, plantation and forestry with several advantages, as well as other potential natural resources such as mining, water resources, beautiful natural resources that could be used for tourism, forest resources, oil and natural gas that can be utilized for the development of the regional economy.

The population of Majalengka Regency was predicted to reach 1,182,019 (Kab. Majalengka, 2018) by 2015. The population, with the increasing quality of Human Resources, was a potential in the administration and development. Majority of the population of Majalengka Regency was Moslem. Maturity of religion understanding had encouraged people to implement religious values in all aspects of life and harmony of life. The relationship among other religions could also be well established.

Majalengka Regency had a repertoire and uniqueness in the diversity of cultural features. The cultural potential of Majalengka Regency is reflected in the public life order, art style, superior product creation, language and customs and values of mutual cooperation. If these potential of cultural diversity are wisely and democratically managed, they could be as the basic capital of development.

The formulation of strategy began with the analysis of internal and external factors to determine the potential and opportunities of Majalengka Regency with the establishment of International Airport of West Java. Analysis of external factors include (1) Economic, (2) Social, Cultural, Demographic, and Environment, (3) Politics, (2) Production and Operation, (3) Behavioral Changes, (4) Finance, (5) Human Resources, (6) Competitive, SIM, (7) Marketing. Based on the external factor matrix obtained, the total value was 2.77 and internal was 2.37. These can be seen in Figure 2 to determine the right strategy for micro business of Majalengka Regency.

Based on the external internal matrix, it appeared that Majalengka Regency is located in 5th Quadrant, through maintaining strategy. This result showed that micro entrepreneurs in general were only able to maintain their conventional business. Two strategies chosen were Market Penetration and Product Development (David and David, translated by Novita and Liza, 2016).

Ansoff Matrix was very useful for the formulation of marketing strategies, but must be preceded by SWOT analysis. The design included an integrated functional management (marketing, finance, production, and human resources) program, starting with market demand, product creation, source and use of funds, to human resources who understood business professionally. Based on the analysis of Figure 3, the alternative marketing strategy offered as a solution are; (1) market penetration, and (2) product development. Creativity of marketing program and entrepreneurial orientation with competitive environment factor had influences on marketing performance (Ismawanti, 2008).

The market penetration strategy was to seek a greater market share for current products in existing markets through better marketing efforts. This strategy had low risk. Approaches to market penetration strategies included: (1) maintaining / increasing market share, (2) dominating market growth, (3) eliminating competitors, (4) increasing customer use. (Wainaina and Oloko, 2016) argued that the penetration strategy had an effect on the company's growth.

Product development strategy was to strive for increased sales through current product improvements or new product development. This strategy had medium risk. This strategy required changes in business operations, including: (1) research and development, (2) customer needs assessment, (3) brand clarity. Customers generally want innovative products according to their needs. For micro and small business, success in developing new product innovations requires the intelligence of entrepreneurs in recognizing customers needs (Suendo, 2010).

The result of SWOT analysis performed shown in Figure 4 refers to SWOT Matrix. Based on the research and discussion that had been done, it can be obtained that opportunities owned by Majalengka Regency were (a) Increase in new employment, service and trade sector, (b) Ease of land, sea and air transportation, (c) Close to current tourist areas: Bandung and Cirebon, (d) Industry related to agriculture, (e) Increase in Majalengka Tourism and Culinary, (f) Untapped natural wealth, (g) Government Support through Majalengka Regulation no. 11 of 2011, (h) Information Technology Development, (i) Development of Production Technology. The threats faced by Majalengka Regency were: (a) Land usage transition, (b) Livelihood transition, (c) Cultural change, (d) Society's refusal, (e) Production Risks, (f) Market and Price Risks, (g) The entry of competitors who are more experienced in business.

The strengths of Majalengka Regency were (a) The introduction of local based products is started through OVOP (One Village One Product) and Village Owned Enterprise, (b) The diversity of products can be easily traced through the internet, (c) Cooperation with Companies, (d) Solidarity of local people, (e) The nature of kinship and the hospitality of the local people, (f) Manually prepared products have been produced, but not yet sold outside, (g) Local product sales booth already exist but not yet optimized, (h) The community is willing to innovate and change, (i) High motivation to try, (j) Utilization of adequate technology. The weaknesses of Majalengka Regency were (a) There is no business experience, (b) Production facilities are not available, (c) Difficulty of raw materials during seasonal transition, (d) Limited funds and ability to process, (e) Market is yet formed, (f) Product specifications required by the market, (g) Market segment that must be aimed, (h) Promotion program that must be done.

Better understanding for SMEs in addressing the local environment factors that significantly affects SMEs' performance. Studying the factors that affect SMEs performance is critical to understanding business continuity and growth and, hence, to supporting economic development within a region (Van Dut, 2015). Partner ideally need both breadth and significant expertise overlap to facilitate the shared language and vision necessary for productive collaborative learning interactions. Overlapping partner expertise when combined with a strong sense of personal trust, leads to elevated absorptive capacity, innovation and performance within entrepreneurial firms (Gemmel, 2013).

CONCLUSION

Strategy that needs to be done based on SWOT analysis were (a) Increasing the quality of human resources in service and trade, (b) Development of new local based products, (c) Promotion, (d) Improvement of tourism infrastructure, (e) Business assistance, (f) Market survey, (g) License granting in accordance with Regional Spatial Plan, (h) Strengthening local culture. Based on external internal matrix, the chosen strategy was market penetration included (a) Maintaining/increasing market share, (b) Dominating market growth, (c) Eliminating competitors, (d) Increasing customer usage, and product development consisted of (1) Research and development, (2) Assessment of customer needs, (3) brand clarity.

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Table 1. Contribution of each sector to GRDP Majalengka Regency and West Java in 2016

Category	Description	Majalengka (%)	West Java (%)
A	Agriculture, Forestry, Fishery	26.85	8.90
C	Processing Industry	14.31	42.49
F	Construction	11.99	8.12
G	Large and Retail Trading, Car and Motorcycle Reparation	16.56	15.15
H	Other Services	2.54	1.95
I	Provision of Accommodation and Dining	3.12	2.60

Source: Badan Pusat Statistik West Java and Majalengka

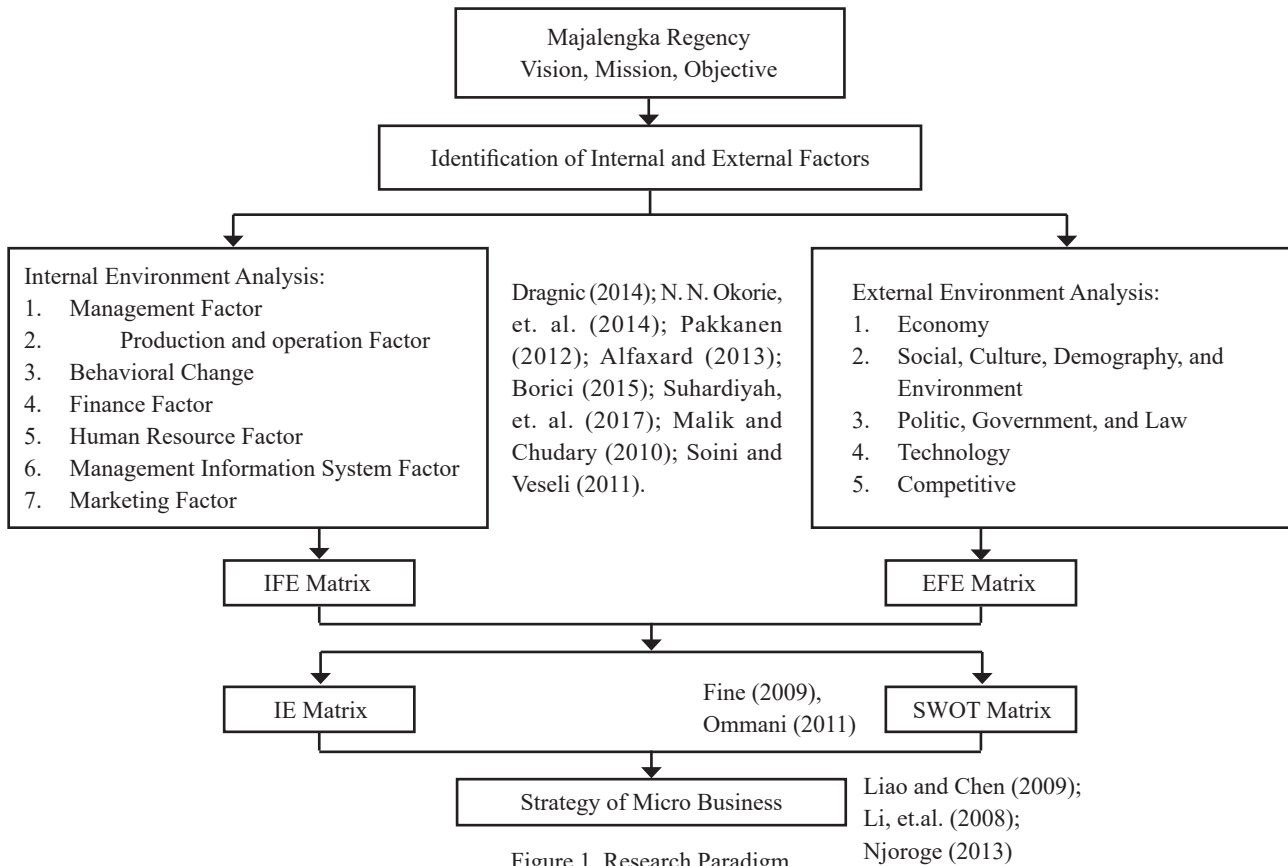
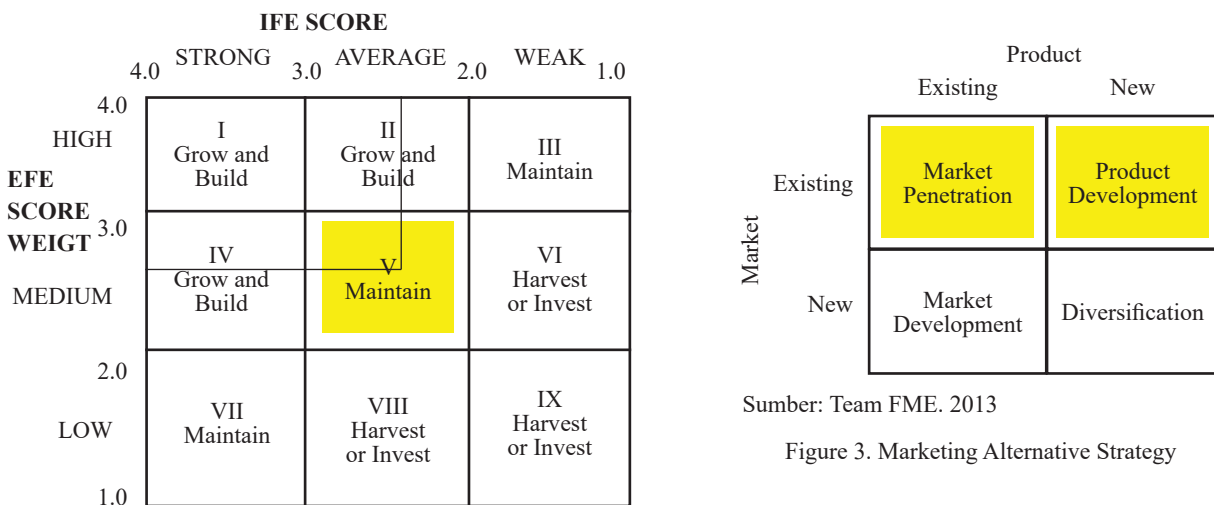


Figure 1. Research Paradigm



Sumber: Team FME. 2013

Figure 3. Marketing Alternative Strategy

Source: David and David, translated by Novita and Liza (2016)

Figure 2. Internal – External Matrix

	<p>Strengths:</p> <ol style="list-style-type: none"> 1. The introduction of local based products is started through OVOP (One Village One Product) and Village Owned Enterprise 2. The diversity of products can be traced easily through the internet 3. Cooperation with Companies 4. Solidarity of local people 5. he nature of kinship and the hospitality of the local people 6. Manually prepared products have been produced, but not yet sold outside 7. Local product sales booth already exists but not yet optimized 8. Willingness to innovate 9. Openness towards change 10. High motivation to try 11. Information technology access 12. Utilization of adequate information technology for business 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Business experience in continuing previous business 2. Production machine facility is not available 3. Difficulty of raw materials during seasonal transition 4. Hang on to predecessor practice 5. The ability to manage finance 6. Access on capital 7. Low level of formal education 8. Knowledge level on business management 9. Market is yet formed 10. Product specification required by the market 11. Aimed market segment must be clear, but still around the local area 12. Promotion program that must be done
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Increase in new employment, service and trade sector 2. Raw material transportation access 3. Product transportation access 4. Close to tourist areas: Bandung City and Cirebon City 5. Agriculture related industry 6. Increase in Majalengka Tourism and Culinary 7. Untapped natural wealth 8. Government support through Majalengka Regulation no. 11 of 2011 9. Information Technology development 10. Product Technology development 	<p>STRATEGY S-O (using internal strengths to attract advantages from external opportunities):</p> <ol style="list-style-type: none"> 1. Increasing of the quality of human resources in service and trade 2. Development of New Local Based Products 3. Promotion 4. Improvement of Tourism Infrastructure 	<p>STRATEGY W-O (aimed to fix internal weakness by taking advantages of external opportunities):</p> <ol style="list-style-type: none"> 1. Business assistance 2. Market survey 3. Facilities from Village Owned Enterprise for machinery, storage facility 4. Produce products according to season
<p>Threats:</p> <ol style="list-style-type: none"> 1. There are still people who refuse 2. Culture change 3. Livelihood transition 4. Land usage transition 5. Production risk 6. Market and Price risk 7. The entry of more experienced competitors in business 	<p>STRATEGY S-T (using strengths to avoid or lessen the effect of external threats):</p> <ol style="list-style-type: none"> 1. License granting in accordance with Regional Spatial Plan 2. Local culture strengthening 	<p>STRATEGY W-T (is defensive tactic which is directed to lessen internal weaknesses and to avoid external threats):</p> <ol style="list-style-type: none"> 1. Management, production process, marketing and financial training

Figure 4. SWOT Matrix