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Volatility Spillover USD-IDR Exchange Rate With Indonesia Stock Price

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Abstract

Value of imports higher than exports, causing the trade deficit, the appreciation of the currency in the developed countries, and withdrawals by foreign investors on the Indonesian stock exchange market. These things cause the movement of the exchange rate USD-IDR and Indonesian Stock Price are volatile and tend to weaken in the period from January 3, 2011 - August 31, 2016. This study to determine spillover volatility of the exchange rate USD-IDR with Indonesian Stock Price. By using current time series data, analyzed by Augmented Dickey-Fuller (ADF), GARCH, and Granger Causality. The results of the data processing rate of USD-IDR and data Indonesian Stock Price stationary at first difference by changing the level of daily data into a return of the respective data. Data having problems heteroskedasticity so it can be analyzed using GARCH. Results of the analysis showed that there is a volatility spillover between the two data. Then granger causality test results show that the causality occurs in both directions, meaning that changes in the foreign exchange market to give effect to the capital markets, and vice versa.

Keywords: spillover volatility, GARCH, foreign exchange market, capital market, exchange rate USD-IDR, indonesian stock price.

INTRODUCTION

The foreign exchange market has a term called the exchange rate, which was happened when the demand and supply on the foreign exchange. Exchange rate is the value of a country's currency value or the price level when the redeemable value of a currency of another country (Keown et.al. 2010). Exchange rate that occurred in Indonesia is the rate that shows the value of the rupiah (IDR) in term of foreign currency. Where the value of the rupiah (IDR) to the value of the US dollar (USD) experienced fluctuating changes every time. Any change of the exchange rate is entered to record foreign currency exchange market. Exchange rate that occurred in Indonesia is the rate that shows the value of the rupiah (IDR) in term of foreign currency. Where the value of the rupiah (IDR) to the value of the US dollar (USD) often experience fluctuating every time. Every movement of the exchange rate is entered to record exchange Foreign Exchange Market.

Not only the Foreign Exchange market just experiencing the flow of each day, the Capital Market

has also experienced the same thing. Capital Markets is a market for long-term share of financial instruments that can be traded either debt securities (bonds), equities (stocks), mutual funds, and derivative financial instruments. Indonesia itself has a stock market that is known by the Indonesian Stock Exchange (BEI). The movement of the stock exchanges in Indonesia can be seen from Indonesian Stock Price rate on record that publish every day.

The movement of both markets were quite volatile due to several factors, one of which is the level of exports and imports. Indonesia's exports on July 2013 increased 2.4% from the previous month, but the value of Indonesia's imports also increased significantly compared with the same period a year earlier. The value of imports in July 2013 increased by 11.4% increased by 6.5% from the previous year in the same period on July 2012. The increase in the value of imports is greater than the value of exports had sparked trade deficit that will be even greater. (User. 2013) In 2013 the exchange rate of the rupiah (IDR) has depreciated of the currency against the US dollar (USD) which is

the currency of the International. (Bappenas Document)

In addition, the strengthening of the American currency as the currency of the International, making foreign investors in Indonesia capital market pull back their shares to back the currency of the country of origin. Share ownership by foreign investors with 64.5% greater number of shares ownership of local investors, it is because local investors prefer corporate bonds and sukuk in investing, with proprietary data of 92.7%. (KSEI Annual Report, 2015) Therefore, the movements that occurred in foreign exchange markets and capital markets experienced a volatile weakening.

In the early period this research dated on January 3, 2011 exchange rate of USD-IDR stood at Rp.8.967.00 per 1 USD. The value of experiencing significant volatility, on February 23, 2012 the exchange rate remained at a value of Rp.9.059.00 per 1 USD. And continue to have movements which on 29 September 2015 the exchange rate touched a Rp.14.728.00 per 1 USD.

Experienced weakening exchange rate USD-IDR, also experienced by the capital markets products is stock, it is because investor expectations for the economy of a country, which is where the views of the exchange rate which is likely describe the circumstances of the economy of a country. In the period of the study itself, the rate of movement of the stock market recorded a considerable degree of fluctuation is equal to the rate of movement of the exchange rate USD-IDR. Where at the beginning of the study period, the value of Indonesian Stock Price is at a value Rp.3.727,52 and fluctuate up and down. At the end of the period the value of Indonesian Stock Price is higher than the value at beginning of period on the value of Rp.5372.10. But the journey as well as the value of Indonesian Stock Price USD-IDR exchange rate fluctuated with the level experienced high volatility.

The rate of change of which tend to be similar both allows the relationship between the two conditions of the market, the possibility of foreign exchange market (exchange rate) impact of contagion effects (spillover) to the capital market (stock) so that the movement of both tend to fluctuate together.

The occurrence of the same movement, making the alleged linkage between the two. With the volatility that occurs, there will likely be a contagious effect (spillover) occurs between changes in the market with other markets. In this study, the authors wanted to know the direction of movement of volatility spillovers occurring between the foreign exchange market as represented by the USD-IDR exchange rate and capital markets as represented by the Indonesian Stock Price on the period 2011-31 January 3 August 2016.

The foreign exchange market is a network that connects the centers of world foreign exchange trading, and a provider of institutional and physical structures. And the foreign exchange market is a

means to trade or international trade and investment. (Sartono, 2012) In the foreign exchange market, there are two categories of currency is a currency that is not used (soft currency) and the currency used (hard currency) in international transactions. For soft currency is usually the currency of developing countries, while for hard currency is the currency of developed countries. (Kasmir, 2014)

The exchange rate is a product of the foreign exchange market, which is where the ratio of the exchange rate of a currency against other currencies. Or in other words, the exchange rate is the price of foreign currency expressed into domestic currency. (Keown et.al. 2010)

In the transaction, the exchange rate is divided into two types, namely the selling rate and buying rate. Selling rate is the price offered by the bank as the seller to the buyer. Buying rate is the price paid by the bank when buying from buyers. The exchange rate of a currency may vary due to several factors, including economic and political factors of the country or internationally. (Kasmir, 2014)

The stock market is concerned with the activities of the public offering and trading of securities, public companies relating to securities issuance, as well as institutions and professions related to the effect. (Act No. 8 th. 1995)

Stock exchanges are organizations / companies that organize or provide facilities to the market to bring together buying and selling securities deals between companies / individuals that are involved with the purpose of securities trading companies that have been listed on the Stock Exchange. (Darmadji et.al., 2011)

One is the effect of capital market products or better known as stock. Stock is one in which the stock of financial assets used as an individual form of a claim on the assets of their rill in companies. (Bodie et al, 2014)

Stock index can be regarded as the performance of the economy of a country. When economy situation of a country is strong, then the index of shares in the country will increase. And vice versa if the economy is experiencing a downturn, it can be estimated that the stock index at a stock exchange in the country is declining. Analysis of the economy can approach and analyze the macroeconomic conditions in the country. (Wira 2011)

Indonesian Stock Price is an index of shares owned by the Indonesian state by using all the company was recorded as a component of the index calculation. Introduced on April 1, 1983 as an indicator of the whole movement of stock prices in the Indonesian Stock Exchange (BEI). (BEI, 2010)

Calculation for Indonesia Stock Price is:

$$\text{index} = \frac{\text{market value}}{\text{base value}} \times 100$$

Information:

- The market value is the cumulative total listed shares multiplied by the market price
- The base value is the cumulative number of shares on the basis multiplied by the price on the basis
- The number 100 is a constant

In terms of investment either short or long-term, risk and return is relevant, where the rate of return high will be associated with the level of risk is high, and vice versa. Condition rate of return is low will be associated with the level of risk is low anyway. The relationship between risk and return is shown in the graph the expected relationship between risk and return. In the graph illustrated an expected return rate, followed by the level of risk that will be faced. Therefore, investors generally invest by looking promising returns notwithstanding the level of risk that will be acquired. (Reily, et.al., 2012)

Contagion Effect itself is contagious effects (spillover) or transmission. Transmission is derived from a condition experienced by a country and trigger other countries around through the same thing. In this theory states that a country cannot ignore this phenomenon of contagion effect. (Trihadmini, 2011)

Volatility is the standard deviation of return that is based on the variable return per unit of time is increasing. Another definition says volatility as fluctuations or shocks that occur on a security at a specified time. When volatility is used for risk management, the unit is the unit of time spent per day, thus the volatility in risk management is the standard deviation of return growing every day. In addition, the volatility mainly due to new information in the market. The information that causes a person improve their opinion about the value of the assets, resulting in a change in the value and yield volatility. (Hull, 2015)

Volatility spillover is a statement that says the connectivity between different markets. (Palakkod 2012) Another definition of volatility spillover is to use express condition where there is instability which provides transmission from one market to another. (Wiryo et.al., 2009)

Based on previous research, that in the foreign exchange market with the capital market there is volatility spillover (Mishra et al, 2007; Mozumder et al, 2015). But there are also stating that there is no volatility spillover between the two markets. (Trihadmini, 2011). Of these events, that can be said that the results of a study can be said to be inconsistent even if the same research topic, it is possible the results will be the same anyway. The results of the study depend on other factors, including the selection of the region, the sample period, the frequency of the data and methodology used. (Lestano 2010)

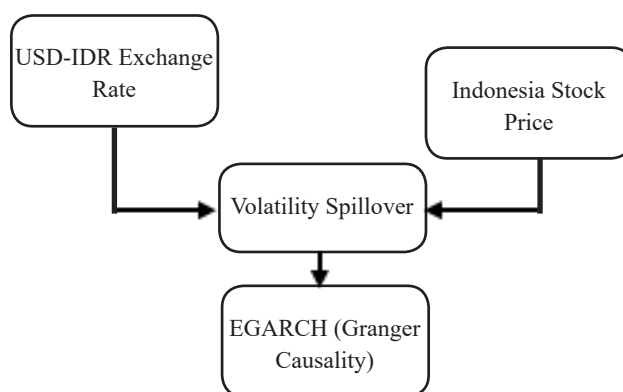


Figure 1. Framework Research

Information:

- : Line of thought studied
- : Research Focus

Based on the framework that has been described and research paradigm to figure 1, the proposed hypothesis:

There was a causal relationship between the volatility of the exchange rate of USD-IDR with Indonesian Stock Price

METHOD

The author takes a sample of the reference rate JISDOR (Jakarta Interbank Dollar Spot Rate) which presented the USD-IDR exchange rate USD-IDR in Indonesia. And the closing price Indonesian Stock Price presented the changes in value of Indonesian Stock Price. In this study, the authors used secondary data, where secondary data used is the data reference rate JISDOR USD-IDR daily obtained from the official website of Bank Indonesia, (www.bi.go.id) and data changes in the closing price Indonesian Stock Price obtained from the website of Indonesia Stock Exchange (www.idx.co.id).

Now to answer the problems in this study, the authors used time series data that will be analyzed by several methods, first test is Root Test Unit with Augmented Dickey-Fuller test, the development of recent testing to see the data had problems autocorrelation which is generally time series data is used, the data will undergo autocorrelation and the test was intended to see that the data is stationary and does not have autocorrelation. A second test of GARCH which is a test that serves to address the problem of heteroskedasticity commonly experienced time series data, and the third is test the Granger Causality Test, this is a test of data that is useful to know the direction of the variables studied had a two-way connection or only in one direction only. And all these analytical methods processed and calculated using statistical software.

Researchers used a non-probability sampling with purposive sampling technique in performing the sampling for this research. Where a purposive sampling technique establishes that each element has an equal opportunity to be a sample of a study. Only the elements that meet certain criteria established writers can be sampled from the study. Where researchers perform sampling by specifying criteria for samples to be taken. The criteria of the samples taken are presented data that the volatility experienced by the exchange rate and stock index, after it determines the range of data collection to be studied. Researchers took a period of 5 years from 2011 - 2016. And the researchers extracted from the data that was published by Bank Indonesia and the Indonesia Stock Exchange on its website respectively.

Before entering the processing using software, the researchers first change the data reference rate JISDOR USD-IDR into the middle of a data value exchange rate USD-IDR by calculation using the following formula:

$$\text{middle rate} = \frac{\text{selling rate} + \text{buying rate}}{2}$$

And then, after the midpoint of the exchange rate USD-IDR obtained, the authors conducted a median value of data conversion rate of USD-IDR and the closing price of the stock index into the data return (Rt) that which is calculated by the same formula as follows:

$$R_t = \frac{(P_t - P_{t-1})}{P_{t-1}}$$

Once the data has become a daily return data, step analytical methods used can be resumed. And here is the method of analysis used in this study:

Augmented Dickey-Fuller (ADF) Test. This test assumes that the data are not correlated. While time series data, that data is often experienced problems autocorrelation. If the data having problems autocorrelation in general the data is not stationary. As for analyzing time series data, the data must be a stationary data. Therefore, it is necessary for their further processing which developed the Dickey-Fuller Unit Root Tests with their test type called Augmented Dickey-Fuller (ADF) test. (Nachrowi et.al. 2006). The formula is as follows:

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \alpha_1 \Delta Y_{t-1} + \alpha_2 \Delta Y_{t-2} + \dots + \alpha_m m + \varepsilon_t$$

Where:

m = length lag used

Y = the observed variables

t = time trend

By hypothesis:

H0: p-value $\geq \alpha$, then there is a unit root, the data time series is not stationary.

H1: p-value $< \alpha$, then there is no unit root, stationary time series data.

GARCH, this method is one method used to test the time series data. Where in general is often a problem occurs heteroskedasticity, for it is the use of methods GARCH helps authors in processing in this study where the data rate of USD-IDR daily and the closing price of INDONESIAN STOCK PRICE shows the volatility that occurs quite significant, which would certainly have a variant that is not constant, and experienced heteroscedasticity. GARCH model has become a common model that is often used in financial research to study the volatility. (Nachrowi et.al. 2006) GARCH represented by the following form:

$$\sigma_t^2 = \alpha_0 + \alpha_1 e_{t-1}^2 + \dots + \alpha_p e_{t-p}^2 + \lambda_1 \sigma_{t-1}^2 + \dots + \lambda_q \sigma_{t-q}^2$$

Where:

et-p = x is a variable of the last period.

From the above model of a var (e) depending on the variant occurring in the past, which affects the long period can be limited in GARCH.

Granger Causality Test, granger causality test has the purpose of identifying a variable has a two-way connection or only in one direction only with other variables. (Nachrowi et.al. 2006) granger causality test conducted with the use of the following hypotheses:

(A)H0 = USD-IDR exchange rate does not affect (not cause) Indonesian Stock Price

H1 = Exchange rate USD-IDR affect (cause) Indonesian Stock Price

(B)H0 = Indonesian Stock Price does not affect (not cause) exchange rate USD-IDR

H1 = Indonesian Stock Price affect (cause) exchange rate USD-IDR

RESULT

Here are the results of tests performed with the help of software. Where the results of this test begin by looking at the results of the processing of descriptive statistics.

Table 1. Descriptive Statistic

	Exchange Rate Return	Indonesia Stock Price Return
Mean	0.000284	0.000313
Median	0.000109	0.000563
Maximum	0.063914	0.047586
Minimum	-0.065114	-0.088804
Std. Deviation	0.005258	0.010940
Skewness	-0.285490	-0.684697
Kurtosis	36.69385	8.937866
Observation	1455	

For further testing to see the data is stationary or not, because in general the time series data stationary frequently encountered problems where the data is not stationary. To make the data be stationary then made changes to the data of the time series into the data return every day.

Table 2. Result of Unit Root Test with Augmented Dickey-Fuller

Augmented Dickey-Fuller test statistic p-value	Level	First Difference
Exchange Rate USD-IDR	0.8725	0.0000
Indonesia Stock Price	0.4408	0.0000

Continue to testing heteroskedasticity useful to look at the diversity of the data processed.

Table 3. Result of Heteroskedasticity Test with ARCH Heteroskedasticity Test: ARCH

F-statistic	19.36040	Prob. F(1,1452)	0.0000
Obs*R-squared	19.13197	Prob. Chi-Square(1)	0.0000

Here are the results of the testing of data modeling with models EGARCH which is the latest model of the method ARCH.

Table 4. EGARCH Model

Variable	Coefficient	Probability
C	0.000428	0.0642
Exchange Rate Return	-0.391733	0.0000
Variable Equation		
C(3)	-0.406665	0.0000
C(4)	0.159945	0.0000
C(5)	-0.089552	0.0000
C(6)	0.969288	0.0000

And at the end of the test in this study conducted testing to see the direction of the market, there was a two-way causal relationship or only in one direction only. The test is called the Granger Causality Test.

Table 5. Result of Granger Causality Test

Null Hypothesis	Obs	F-Statistic	Probability
Exchange Rate does not Granger Cause Indonesia Stock Price	1453	4.44807	0.0119
Indonesia Stock Price does not Granger Cause Exchange Rate		6.42375	0.0017

DISCUSSION

This study uses time series data, which generally run into problems not stationary and happen heteroskedasticity. Of course, the data is not stationary

cannot continue processing and analysis, for the time series data are first converted into data daily return that which gives the results of a brief overview which can be seen in Table 1 is a table of descriptive statistics daily return of the data used in the study this.

After the result of the value of daily return both the data, processing continues to the unit root test with Augmented Dickey-Fuller (ADF) to test the stationary of the time series data to obtain data that is stationary with the variance is not too large, and tend to approach the average value. Table 2 provides an overview of the results of data processing with Unit Root Tests performed on the data rate of USD-IDR and Indonesian Stock Price at the level and first difference.

By looking at the significance level (α) used is 5%, the data of the exchange rate USD-S and Indonesian Stock Price are not stationary at the level for the value of p-values $\geq \alpha$. Level itself is the most basic level the unit root test to see whether a stationary data. The data still needs to be stationary, by changing daily data into data return and perform the unit root test on the first level of differentiation method (first difference). The results of testing on the first difference shows the p-values $< \alpha$ which means that return data exchange and return Indonesia Stock Price has stationary.

The results of the test root which has shown data is stationary, then proceed with the testing heteroskedasticity with ARCH. The following description of the test results ARCH heteroskedasticity method that can be seen in Table 3.

The results of the test heteroskedasticity with ARCH shows that the value of the p-value Obs*R-Squared = 0.0000 $< \alpha$, in which α is 5% (0.05). This viewed heteroscedasticity test results that showed the presence of heteroscedasticity in the data, it can be continue to modeling with EGARCH because this model is the latest model of ARCH methods and do not consider heteroskedasticity as a problem, but can help remedy create forecasting models. The test results are shown in Table 4.

Modeling EGARCH in Table 3.4 shows the probability value of Exchange Rate Return = 0.0000 $< \alpha$ (0.05), which means that there is volatility spillover between the foreign exchange market (USD-IDR exchange rate) and capital markets (Indonesian Stock Price). The results of this analysis EGARCH models still need to pass through several other tests including ARCH-LM test, normality test, and test serial correlation. The test is to prove that the results of the modeling EGARCH there are no ARCH effect, the data were not normally distributed and experienced no autocorrelation. After passing three tests, followed by granger causality test to determine the direction in which the movement of a spillover of volatility.

In this study, granger causality test was conducted to determine the USD-IDR exchange rate and Indonesian Stock Price have a relationship unidirectional,

bidirectional, or do not have their relationship. With 1455 days of data observations, and Table 5 shows the results of testing granger causality of the data return rate of USD-IDR and return Indonesian Stock Price. Based on Table 5 shows that the results of granger causality test that has been carried out, which can be seen from the value shown that the probability that the relationship is a two-way relationship between Exchange Rate against Indonesia Stock Price and Indonesia Stock Price against Exchange Rate. That which means that if there is a change in the exchange rate of the composite index would be affected and vice versa, in the event of any changes in Indonesian Stock Price then the exchange rate will be affected.

By looking at the results of this study illustrate that there is a correlation between the two markets. Where the real conditions at this time that the foreign exchange market and the shares have the same movement can be said to be mutually affect where the current foreign exchange market occurred rupiah weakened the dollar exchange rate at that time the value of the stock will decline because of factors investors in the stock the effect that most foreign investors sell shares they own in order to minimize losses resulting from the value of the rupiah slumped.

CONCLUSION

In the period of research conducted with data from the date of January 3, 2011 until August 31, 2016, with a data rate of USD-S and Indonesian Stock Price are stationary at first difference and data experience volatility spillover between the foreign exchange market and the capital market with EGARCH method. And testing granger causality shows that the direction of a spillover of volatility in both markets is a two-way relationship, in which case changes in the foreign exchange market, the capital market has undergone a change and vice versa where if there is a change in the capital markets, the foreign exchange market has undergone a change as well.

This study has limited information where the results of this study only provides information that the economic actors, especially the investors should be more cautious in investing in the stock market, which is where the results of this study, the investor can find out that the condition of the market of foreign exchange also affects conditions on the stock exchange where the investors to invest.

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Abstract

The purpose of this study is to obtain empirical evidence and find clarity on the phenomena about the influence of external and internal environment, and business ethic on business partnership and its impact on small enterprise performance in West Java on small stamped-batik business. The research was conducted by using descriptive and inductive method by taking sample of 116 companies using simple random sampling technique proportionally with structural equation model analysis. The conclusions obtained are that the external environment, and business ethic were in the fair category, while the internal environment, partnership, and performance were good. SEM analysis showed that the external and internal environment, and business ethic simultaneously had positive and significant effect on partnership of 64.6%. Partially, the external environment had positive and significant impact on the business partnership of 15.41%. The internal environment had a positive and significant impact on business partnership of 28.73%. Business ethic had a positive and significant effect on business partnership of 20.30%. Business Partnership had a positive and significant impact on Small Enterprise Performance of 84.3%.

Keywords: external environment, internal environment, business ethic, business partnership, small enterprise performance.

INTRODUCTION

The 21st century economy is characterized by economic globalization affecting Indonesia's economic conditions. The role of small enterprises in West Java is very large, indicated by its contribution to the West Java economy and employment annually increased (Table 1). These conditions and facts are in line with the empirical results by Demirbag et al. (2006) that concludes the success of small enterprises has a direct impact on economic development in both developed

and developing countries. Small businesses have the ability to create jobs at minimum cost, are pioneers in the world of innovation and have high flexibility that enables such businesses to meet customer needs.

West Java Provincial Government pays full attention to the empowerment and development of small business by issuing West Java Provincial Regulation No. 10 of 2010 on Empowerment and Development of Cooperatives, Micro, Small and Medium Enterprises. The Regional Regulation states that small businesses have a strategic position and role to improve the regional economy.

One of the small business products that have received world recognition is batik. Indonesian Batik in terms of techniques, technology, and development of motives and culture has been established as Masterpieces of the Oral and Intangible Heritage of Humanity by the United Nations Educational, Scientific and Cultural Organization (UNESCO) On October 2, 2009.

A small stamped-batik business need to get attention and guidance, among others through small or large business partnerships and other financial institution partnerships in the form of cooperation network to form a healthy

Table 1. Distribution of Small Enterprises to West Java Economy and Employment Absorption 2008-2010

Year	Small Business Distribution to West Java economy (%)	Employment
2008	43,81	10.757.794
2009	44,21	11.319.397
2010	44,30	11.132.349

Source : *Kajian Peran KUMKM terhadap Perekonomian Jawa Barat, Dinas KUMKM Provinsi Jawa Barat dan BPS Provinsi Jawa Barat, 2011*

and coordinated trading ethic, in addition to motivate the struggling small business in the hope to achieve performance effectively and efficiently with maximum, realistic and rational results (Suryana: 2003: 50).

Wheelen, et.al. (2015: 49) classifies the external environment into two categories, namely the societal environment and the task environment. Societal environment is a strength that indirectly touches organizational activities in short term, but can influence organizational decisions in long term. The societal environment involves economic strength, technological strength, the strength of local government policy, and socio-cultural strength. Task environment is an element or a group that directly affect the company, including government, local communities, competitors, customers, creditors, unions / workers, interested groups and trade associations.

Based on preliminary survey that has been conducted on 100 small stamped-batik businesses, an average of 36% of respondents states that the external environmental condition is in good condition. (Table 2).

Table 2. External Environment of Small Stamped-Batik Business in West Java

No	External Environment	Very Good	Good	Fair	Bad	Very Bad
1	Economic conditions	5%	10%	25%	40%	20%
2	Technology owned	0%	10%	41%	29%	20%
3	Local government policy on small business	5%	17%	43%	27%	8%
4	Social factors	7%	33%	35%	20%	5%
Average		4,25%	17,5%	36%	29%	13,25%

Source : pre survey

Based on the preliminary survey conducted on 100 small stamped-batik businesses, it is found that the internal environmental condition is in good condition, on average of 35.33%. (Table 3).

Table 3. Internal Environment of Small Stamped-Batik Business in West Java

No	External Environment	Very Good	Good	Fair	Bad	Very Bad
1	Resources owned	8%	12%	25%	40%	15%
2	Organizational culture	7%	26%	39%	16%	12%
3	Structure	12%	20%	42%	15%	11%
Average		9%	19,33%	35,33%	23,67%	12,67%

Source : pre survey

West Java Provincial Government issues the Regulation No. 8 of 2011 on Management of Revolving Funds for Small and Micro Enterprises as one effort to empower small businesses that in its implementation regulates West Java Governor Regulation No. 57 of 2011 on Guidelines for Implementation of Regional Regulation No. 8 of 2011 on Revolving Fund Management for Micro and Small Business. The success of business partnerships is determined by the compliance among partners in running their business ethic (Hafsah, 2000: 43). Participants who are directly involved in the partnership must have a foundation of business ethic that is understood and shared as a starting point in running the partnership. Based on the preliminary survey, it is found that the implementation of business ethic of small stamped-batik business is good with an average value of 32.2% (Table 4).

Table 4. Business Ethic of Small Stamped-Batik Business in West Java

No	External Environment	Very Good	Good	Fair	Bad	Very Bad
1	Autonomy principle	12%	34%	23%	21%	10%
2	Principle of honesty	22%	24%	33%	16%	5%
3	Principle of fairness	17%	29%	23%	19%	12%
4	Principle of mutual benefit	5%	44%	20%	20%	11%
5	Principle of moral integrity	16%	30%	16%	23%	15%
Average		14,4%	32,2%	23%	19,8%	10,6%

Source : pre survey

Failure of partnership is generally due to the foundation of a less powerful partnership and based solely on compassion or on the basis of coercion of others, not on the basis of the need to move forward and developing together from parties in partnership. Partnerships that are not based on good business ethic (values, morals, attitudes and behavior) can cause the partnership to not work well. The conclusion of the above description considering the running of a small business partnership is dependent on equality of values, morals, attitudes and behavior of partners. The success of business partnerships depends on the existence of organizational cultural equality (Hafsah, 2000: 87).

Table 5. Partnership Profile of Small Stamped-Batik Businesses in West Java Province, 2009-2010

Category	2009	Percentage	2010	Percentage
Number of Small business	207	100	207	100
No Partnership	72	34,78	69	33,33
Establish partnership	135	65,23	138	66,67
Loan money/capital goods	135	100	135	100
Marketing	108	80	126	93,33
Business guidance	121	89,63	116	85,92
Others	127	94,07	124	91,85

Source : *Dinas Koperasi Usaha Mikro Kecil dan Menengah Provinsi Jawa Barat dan Profil Usaha Mikro dan Kecil, BPS, 2011 and 2012 (processed)*

Table 5 shows that from 2009 to 2010 that there has been an increase in small stamped-batik businesses that have established partnerships. Types of capital loan partnerships have not changed, partnership in marketing increased, business guidance and other partnership decreased. Rudberg and Olhager (2003: 29) stated that the main goal of business partnership is to improve competitiveness and performance for all partners.

Company performance is an obsession that always strives in the achievement of an organization. Performance is one of the important achievements as a measure of the success rate of the organization. Performance achievement within the company is expected to be achieved proportionately.

The financial performance of small stamped-batik businesses in West Java in 2009 to 2011 is guided by the Regulation of the State Minister of Cooperatives and MSME No. 06/Per/M.KUMKM/V/2006. Table 6 illustrates the average financial performance of stamped-batik business in West Java is not yet optimal. This can be seen in the solvency ratio that shows the less healthy criteria, Asset Turn Over (ATO) is very unhealthy and the receivable turnover ratio is still in the very unhealthy category.

The performance of small stamped-batik business in West Java that partnered with SOEs is, viewed from a financial perspective, not yet optimal. Based on the preliminary survey, viewed from the perspective of the customer, shows that the average quality of service, customer satisfaction on the product, and market share is quite good, the average market share is 30-40%, and the market growth is 2-5% per year. The internal business process perspective, showing the average administrative system, the level of customer productivity, and the product quality are quite good. Relating to the learning and growth perspective shows that employee's operational skills, employee commitment to business development, technology use, entrepreneurship ability, and product innovation capability are quite good. It's just that this ability can be optimized again in improving small enterprise performance in West Java is also directed to the use of technology and product innovation capabilities by involving practitioners, entrepreneurs and universities. Small businesses in West Java show a lot of interaction with outsiders, such as product exhibition by the government, communication with suppliers, consumers, KADIN, and various associations.

Table 6. Average Financial Performance of Small Stamped-Batik Businesses in West Java, 2009-2011

Ratio	Standard	Criteria	Year		
			2009	2010	2011
1. Liquidity Ratio	175-<200	Healthy Enough	188,41%	176,42%	169,83%
2. Solvency Ratio:					
a. Total Debt to Asset	>50%-60%	Unhealthy	49,70%	52,58%	55,36%
b. Total Debt to Own Capital	>150%-200%	Unhealthy	198,8%	160,90%	124,05%
3. Profitability Ratio:					
a. Net Profit Margin	>15%	Healthy	63,98%	59,53%	50,08%
b. Return on Asset	>10%	Healthy	16,13%	14,80%	14,81%
c. Asset Turn Over	< 1 time	Very Unhealthy	0,25 kali	0,24 kali	0,24 kali
d. Own Capital Profitability	>21%	Healthy	32%	31,2%	33,19%
4. Activity Ratio:					
Receivable turnover	< 6 times	Very Unhealthy	0,44 kali	0,58 kali	0,62 kali

Source: *Dinas Koperasi, Usaha Mikro, Kecil dan Menengah Provinsi Jawa Barat/Bidang Kemitraan dan Pengembangan Produk UMKM (processed)*

The formulation of research problem are: (1) How is the external and internal environment, and business ethic, partnership and performance of small stamped-batik business in West Java, (2) How much influence of external and internal environment, and business ethic, simultaneously and partially to business partnership on small stamped-batik business in West Java, (3)

How much influence of business partnership on the performance of small stamped-batik business in West Java. The research paradigm is shown in Figure 1.

Hypothesis proposed: (1) External environment, internal environment and business ethic simultaneously and partially affect the business partnership, (2) Business partnership affect the performance of small enterprise.

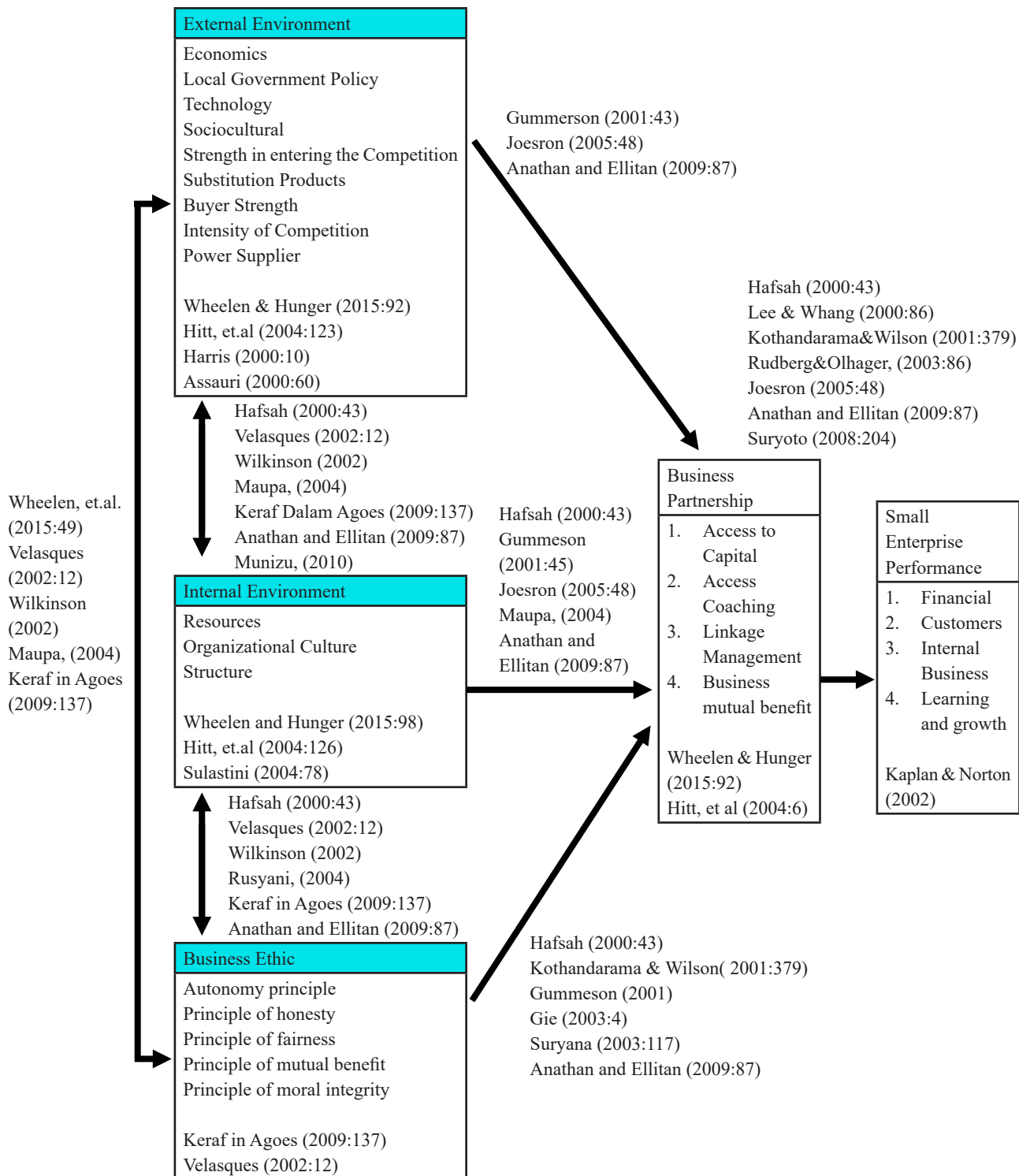


Figure 1. Research Paradigm

METHODS

The research method used was survey, using descriptive and verificative structural equation model (SEM) analysis. This study was conducted on a number of small stamped-batik businesses based on Law No. 20 of 2008 in West Java with top management respondents of the company. Location of small stamped-batik business spread in regencies/cities in West Java. The data used were primary and secondary. Primary data was obtained by coordinating three data collection techniques, namely interview, observation and questionnaire. Questionnaires were tested with validity and reliability. Secondary data was obtained from Central Bureau of Statistics of West Java Province, Department of Industry and Trade of West Java Province, Department of Cooperatives, Micro, Small and Medium Enterprises of West Java Province, Regional Agency of Regency/City Industry and Trade of West Java, Promotion and Investment Coordinating Board of West Java Province, Regional Agency of Regency/City in the field of Investment and Licensing in West Java, Batik Foundation of West Java, universities, and other private institutions.

The populations were 207 small stamped-batik businesses based on the activity of the company to submit annual business and investment report 2007-2012 (Table 7) with cluster proportional random sampling. The minimum sample size was determined by the Taro Yamane formula with a significance level of 5% (Wijayanto, 2007: 45) that was 116.

Table 7. Sample Size by Regency/City

No	Regency/City	Population	Calculation	Number of Sample
1	Bogor Regency	1	$(1/207) \times 116$	1
2	Depok City	4	$(4/207) \times 116$	2
3	Cianjur Regency	3	$(3/207) \times 116$	2
4	Bekasi Regency	2	$(2/207) \times 116$	1
5	Karawang Regency	1	$(1/207) \times 116$	1
6	Cirebon Regency	100	$(100/207) \times 116$	57
7	Cirebon City	4	$(4/207) \times 116$	2
8	Indramayu Regency	30	$(30/207) \times 116$	16
9	Kuningan Regency	1	$(1/207) \times 116$	1
10	Bandung City	20	$(20/207) \times 116$	10
11	Bandung Regency	3	$(3/207) \times 116$	2
12	Cimahi City	6	$(6/207) \times 116$	4
13	Sumedang Regency	2	$(2/207) \times 116$	1
14	Garut Regency	10	$(10/207) \times 116$	5
15	Tasikmalaya Regency	10	$(10/207) \times 116$	5
16	Tasikmalaya City	5	$(5/207) \times 116$	3
17	Ciamis Regency	5	$(5/207) \times 116$	3
Total		207	-	116

Source : *Tanda Daftar Perusahaan Dinas Perindustrian dan Perdagangan Kab/Kota se Jabar 2007-2012, Dinas KUMKM Provinsi Jawa Barat* (processed)

The model feasibility test used the goodness of the econometric model criteria. According to Koutsoylannis in Ghozali (2008: 38), feasibility testing model must meet the criteria of (1) Theoretical plausibility, (2) Accuracy of The Estimates of The Parameters, (3) Explanatory Ability, (4) Forecasting Ability.

RESULTS

Batik business centers were spread spatially in five areas of Bogor, Purwakarta, Cirebon, East Priangan and West Priangan. The distribution was concentrated in Cirebon and East Priangan area.

Table 8. Distribution of Number of Batik Business Center in West Java 2010

Region	Total Center (%)
Bogor	3,36%
Purwakarta	1,44%
Cirebon	40,62%
Priangan Timur	18,75%
Priangan Barat	10,09%

Source : *Dinas KUMKM Provinsi Jawa Barat, 2011* (processed)

Descriptive analysis of each variable is summarized in Table 9.

Table 9. Distribution of Number of Batik Business Center in West Java 2010

No	Variable	Average \pm stdev	Result
1	External Environment	$3,69 \pm 0,32$	Medium to High
2	Internal Environment	$4,13 \pm 0,16$	High to Very High
3	Business Ethic	$4,19 \pm 0,20$	High to Very High
4	Business Partnership	$3,76 \pm 0,42$	Medium to High
5	Small Enterprise Performance	$3,65 \pm 0,27$	Medium to High

Source : Data processing

The external environment was measured by 9 dimensions: Economics, Local Government Policy, Technology, Sociocultural, Strength in entering competition, Substitution product, Strength of buyer, Intensity of competition, Supplier strength. Indicators that show below average value were: (1) Interest rate condition (2) Impact of Unemployment Rate on company activity, (3) Influence of company's budget support in company's technology research and development, (4) Wage system determined by government.

The internal environment was measured by 3 dimensions: resources, culture and structure. Indicator that showed the value below the average was company

that has adequate human resources. The results of this study were in line with Sutopo's statement (2011:102) that micro issues of small business are faced with internal problems such as low human resources (less skilled, low entrepreneurship, lack of technology, lack of management and market domination).

Business ethic was measured by 5 dimensions: economic principle, principle of honesty, principle of fairness, principle of mutual benefit and principle of moral integrity. Indicator that showed the value below the average was company that provides benefits for the community.

Business partnership was measured by 4 dimensions: access to capital, guidance, management linkages, and mutually beneficial business. The smallest average value of the profits obtained was in line with the company's objectives.

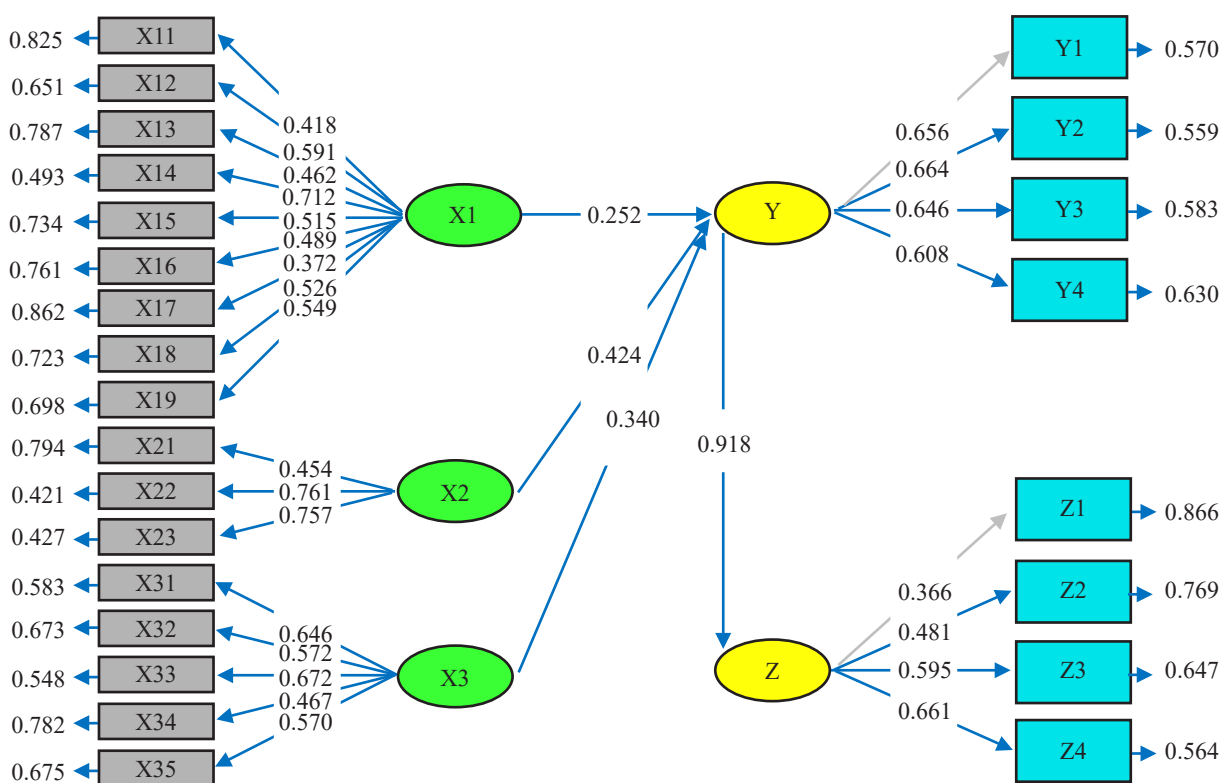
Business performance was measured by 4 dimensions: financial perspective, customer perspective, internal business perspective, learning and growth perspective. The smallest average values were: (1) all this time the company always receives complaints from customers, and (2) the company always tries to acquire new customers.

Analysis of Constructive variables is as in Figure 2.

The explanation of the CFA measurement model for each variable relationship and its indicator are as follows:

1. External Environment Variable (ζ_1): the largest loading factor value in sociocultural dimension (X_{14}, ζ_1) was 0,712 with a forming influence of 50,7%.
2. Internal Environment Variable (ζ_2): the largest loading factor value in cultural dimension (X_{22}, ζ_2) was 0,761 with a forming influence of 57,9%.
3. Business Ethic Variable (ζ_3): the largest loading factor value in principle of fairness dimension (X_{33}, ζ_3) was 0,672 with a forming influence of 45,2%.
4. Business Partnership Variable (η_1): the largest loading factor value in guidance dimension (Y_{12}, η_1) was 0,664 with a forming influence of 44,1%.
5. Small Enterprise Performance Variable (η_2): the largest loading factor value in learning and growth perspective dimension (Z_{14}, η_2) were 0,661 with a forming influence of 43,6%.

The structural model that described the influence of external and internal environment, and business ethic



Source: Lisrel 8.7

Figure 2. Structure of All Variables Relationship

on partnership is expressed in the structural equation model of sub structural 1, as followed:

$$Y = 0,252 * X_1 + 0,424 * X_2 + 0,340 * X_3, \text{ Errorvar.} = 0,354, R^2 = 0,646$$

(0,124) (0,129) (0,115)

2,039 3,298 2,964

- Y : Partnership
- X1 : External Environment
- X2 : Internal Environment
- X3 : Business Ethic

The above equation explains that external environment had a positive effect on business partnership (path coefficient of 0.252). Internal environment had a positive effect on business partnership (path coefficient of 0.424). Business ethic had a positive effect on business partnership (path coefficient of 0.340). Partnership was simultaneously affected by the external and internal environment, and business ethic by 64.6%.

A complete structural model for substructure 1 could be described as follows:

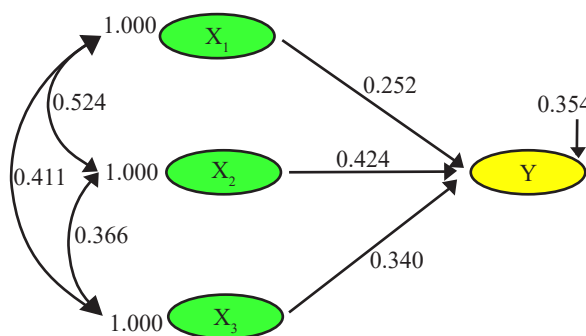


Figure 3. Path Coefficient of External and Internal Environment, and Business Ethic Variables on Partnership

Based on the correlation and path coefficient, it can be seen that the magnitude of direct and indirect influence of external and internal environment, and business ethic variables on partnership variable can be summarized in Table 8. The results reinforced the statement of Hitt, et. Al, translated by Armand (2004:123) that small business partnership was influenced by the role of the environment in which the business was carried out.

Table 8. Direct and Indirect Influence of External and Internal Environment, and Business Ethic on Partnership

Variable	Direct Influence	Indirect Influence Through			Total Indirect Influence	Total Influence
		External Environment	Internal Environment	Business Ethic		
External Environment	6,35%		5,54%	3,52%	9,06%	15,41%
Internal Environment	17,97%	5,54%		5,22%	10,76%	28,73%
Business Ethic	11,56%	3,52%	5,22%		8,74%	20,30%
Total	35,88%	9,06%	10,76%	8,74%	28,56%	64,6%

Source : Data Processing Result

Structural model 2 illustrates the effect of partnership on small enterprise performance. The results of data processing yielded the following equation:

$$Z = 0,918 * Y, \text{ Errorvar.} = 0,157, R^2 = 0,843$$

(0,276) (0,154)

3,322 1,017

- Z : small enterprise performance
- Y : business partnership

The above equation explains that small enterprise performance was positively influenced by partnership with path coefficient of 0.918. The value of R2 illustrates that small enterprise performance was influenced by business partnership by 84.3%.

The results of hypothesis testing simultaneously showed that there was simultaneous influence of external and internal environment, and business ethic on business partnership. The results of partial hypothesis testing are shown in Table 9.

Table 9. Partial Test Results of External Environment (X₁), Internal Environment (X₂), Business Ethic (X₃) on Partnership (Y)

Structural	Path Coefficient	t-count	t-table	Conclusion
γ_{YX1}	0,252	2,039	1,96	H ₀ rejected, there is a significant effect of external environment on partnership
γ_{YX2}	0,424	3,298	1,96	H ₀ rejected, there is a significant effect of internal environment on partnership
γ_{YX3}	0,340	2,964	1,96	H ₀ rejected, there is a significant effect of business ethic on partnership

Source : processed data

The results of hypothesis test of partnership on small enterprise performance are shown in Table 10.

Table 10. Test Results of Partnership (Y) on Small Enterprise Performance (Z)

Structural	Path Coefficient	t-count	t-table	Conclusion
γ_{ZY}	0,918	3,322	1,96	H_0 rejected, there is a significant effect of partnership on small enterprise performance

Source : processed data

The External Environment was formed by 9 (nine) dimensions with 28 indicators. The largest loading factor value in sociocultural dimension (X_{14}, ζ_1) was 0.712. The sociocultural indicators in this study were: (1) Lifestyle change with an average value of 3.87, (2) Consumer activity with an average value of 3.39, (3) Population growth rate with an average value of 3.44, (4) Migration with an average value of 3.42, (5) Birth rate and life expectancy with an average value of 3.41.

Thus the dominant indicator on the sociocultural dimension was lifestyle change.

The internal environment was formed by 3 (three) dimensions with 19 indicators. The largest loading factor value in cultural dimension (X_{22}, ζ_2) was 0.761 with a forming effect of 57.9%. The indicators of cultural dimensions in this study were: (1) Business environment with an average value of 4.33, (2) Value with an average value of 4.41, (3) Heroes with an average value of 4.28, (4) Ceremonies and rituals were with an average value of 4.26, (5) Cultural network was with an average value of 4.16. The dominant indicator of cultural dimension was value. It can be understood that the value implanted to always be proud of using batik in everyday life makes a very strong factor forming a strong culture. Cultural use of batik from generation to generation, the use of batik in various activities both work and business and other activities as well as the inauguration of batik as world heritage by UNESCO are the things that affects the internal environment, and a very strong factor form a strong culture.

Business ethic was formed by 5 (five) dimensions with 17 indicators. The largest loading factor value in principle of fairness dimension (X_{33}, ζ_3) was 0.672 with a forming effect of 45.2%. The meaning of the value was that the principle of fairness had a very strong correlation to business ethic variable. The indicators of the principle of fairness dimension in this study were: (1) Does not distinguish the treatment according to the rules and objective rational criteria with an average value of 4.29, (2) Gain equal opportunity in the selection of promotion of position with an average value of 4.32, (3) Gain equal opportunity in the selection of business partners with an average value of 4.43, (4) Proportional in the distribution

of profit with an average value of 4.28. The dominant indicator of principle of fairness dimension was to gain equal opportunity in the selection of business partners.

Business partnership was formed by 4 (four) dimensions with 16 indicators. The largest loading factor value in guidance dimension (Y_{12}, η_1) was 0.664 with a forming effect of 44.1%. The indicators of guidance dimension in this research were: (1) Training with an average value of 3.86, (2) Comparative study with an average value of 3.56, (3) Internship with an average value of 3.59, (4) Mentoring/consultancy with an average value of 3.87. The most dominant indicator that formed the guidance dimension was training.

Business Performance was formed by 4 (four) dimensions with 20 indicators. The largest loading factor value in learning and growth perspective dimension (Z_{14}, η_1) was 0.661 with a forming effect of 43.6%. The meaning of the value was that the dimension of learning and growth perspective had a very strong correlation to the small enterprise performance variable. The indicators of learning and growth perspective dimension in this research were: (1) Competence and skill of employees with an average value of 3.63, (2) Information system competence with an average value of 3.78, (3) Motivation with an average value of 3.92. This study showed that the dominant indicator that made up the dimensions of the learning and growth perspective was motivational indicator.

Testing the hypothesis of external environment influence on business partnership showed that the external environment had a positive and significant impact on business partnership, meaning the better the external environment, the better the business partnership will be. The external environment provided a direct impact on business partnership of 6.35%, while indirect influence through the internal environment was 5.54% and through business ethic was 3.52%. The effect of the external environment on the overall business partnership directly or indirectly amounted to 15.41%.

Based on construct analysis the most dominant dimension on External Environment variable was sociocultural and the dominant indicator on sociocultural dimension was lifestyle change. Lifestyle change on the usage of batik to be a trend in everyday life is inseparable from the decision of the United Nations Educational, Scientific and Cultural Organization (UNESCO) on October 2, 2009. Indonesian batik viewed from the point of technique, technology, and development of motives and culture has been designated as Masterpieces of the Oral and Intangible Heritage of Humanity by UNESCO.

External Environment positively and significantly influenced Business Partnership, in accordance with expected theory and the opinion of Gummeson (2001: 88) that three stages of situation analysis had an effect on small business partnership/cooperative. The results of this study strengthen the research of Suryoto (2008) that had proven empirically there was an influence of external environment

on business partnership with the object of research on small noodles business in Central Java. The results of research were in line with Anathan and Ellitan (2009: 87) stated that in order to achieve partnership success, companies must had confidence and belief on the relationships between business partners. Trust and professionalism must be maintained. The results of this study strengthen the results of Koza and Lewin (2000) research on partnerships and strategic alliances. In relation to environmental aspects, this study supported Wilkinson's (2002) research that small and micro enterprises would grow where the policy environment supported, macroeconomic environment was well managed, stable and predictable; reliable and accessible information, and the social environment encouraged and rewarded the success of the business.

The internal environment had a positive and significant impact on business partnership, meaning the better the internal environment, the better the business partnership will improve. The internal environment provided a direct impact on business partnership of 17.97%, while the indirect effect through the external environment was 5.54% and through business ethic was 5.22%. The influence of the internal environment on the overall business partnership directly or indirectly amounted to 28.73%.

Based on the construct analysis of the most dominant dimension variable in internal environment variable was cultural dimension. The dominant indicator of cultural dimension was value. It can be understood that the value implanted to always be proud of using batik in everyday life makes a very strong factor forming a strong culture. Cultural use of batik from generation to generation, the use of batik in various activities both work and business and other activities as well as the inauguration of batik as world heritage by UNESCO are the things that affects the internal environment, and a very strong factor form a strong culture.

The influence of the internal environment on the business partnership was in accordance with the expected theory and in line with Hafsa's statement (2000:43) that suggested that partnership was a series of processes that begin with knowing potential partners, knowing the position of advantages and weaknesses of its business that could be seen from its internal environment. The results of this study strengthen the opinion of Gummeson (2001: 88) that three stages of situation analysis affected the small business partnership/cooperative. The results of this study also strengthen the research by Suryoto (2008) that had proven empirically that there was an influence of the internal environment to business partnership with the object of research on small noodles businesses in Central Java.

The results of this study also strengthen Rizal K (2003) research that examined the influence of external and internal environment on human resource management functions in achieving company performance. This research was in line with Rahayu's (2004) research that examined the influence of micro power and internal environment on

marketing strategy and its impact on the sales of clothing industry. The results of this research analysis also supported Sulastini's (2004) research on external and internal factors that influenced the success of small scale coal mining cooperative partnership that human resource capability positively affected the success of the partnership.

This study was also in line with the results of Pillay's (2006) research that showed the internal factors that hindered the growth of small business was the source of capital, financial knowledge, employee recruitment, and managerial skills.

Business ethic had a positive and significant impact on business partnership, meaning that the better business ethic, the better the business partnership would improve. The results were in accordance with the expected theory. Business ethic gave direct influence to business partnership of 11.56%, while indirect influence through external environment was 3.52% and through internal environment was 5.22%. The influence of business ethic on the overall business partnership directly or indirectly amounted to 20.30%.

Based on analysis of variable construct, it indicated that the dominant factor to business ethic variable was dimension of principle of fairness. The dominant indicator of principle of fairness dimension was to gain equal opportunity in the selection of business partners. In choosing and establishing business partners in a business, it is not an easy thing. If it is wrong to determine the choice, it will also interfere with business programs, financial, and even the survival of small businesses. The selection of strategic partners aims to get partners for investment and business development. Partner selection is based on the ability to provide capital and experience in implementing the project. Both of these can only be obtained based on trust in the data and available capital and trust to the partner concerned.

The results of research showed the influence of business ethic on business partnership in accordance with the expected theory and supporting the statement of Hafsa (2000: 43) that the success of business partnerships was determined by the compliance among the partners in running their business ethic. Participants who are directly involved in the partnership must have the foundations of business ethic understood and shared as a starting point in running the partnership. This study was also in accordance with Wheelen's theory, et.al. (2015) that asserts that the principles that apply in good business could not be separated from the value system adopted by the company (corporate culture). The results of this research analysis also supported Keraf's statement in Bertens (2000: 35) stated that the success of business partnerships depended on the similarity of values, norms, attitudes and behaviors of actors who run the partnership, and the statement of Anathan and Ellitan (2009: 87) that achieving partnership success, companies must had confidence and belief that the relationships between their business partners were strategic assets of the company that must be seriously fostered. Trust

and professionalism must be well preserved to produce mutually beneficial performance among various parties. The results also supported the statement of Kothandarama and Wilson (2001: 379) that to succeed a partnership must be based on business ethic.

External and internal environment and business ethic had significant effect on business partnership. This statement showed the better the management of external and internal environment and business ethic, the better the small business partnership will be. Based on the influence of each variable directly and indirectly indicated that external environment variable gave direct and indirect effect to business partnership by 15.41%. Internal environment variable gave direct and indirect effect to business partnership by 28.73%. Business ethic variable gave direct and indirect effect to business partnership by 20.30%. The magnitude of influence of each independent variables on business partnership variable equal to 64,6%.

Internal environment was the variable that gave dominant influence to business partnership by 28.73%. The most dominant dimension was cultural dimension and the dominant indicator of cultural dimension was value. The value implanted to always be proud of using batik in everyday life makes a very strong factor forming a strong culture. Cultural use of batik from generation to generation, the use of batik in various activities both work and business and other activities as well as the inauguration of batik as world heritage by UNESCO are the things that affects the internal environment, and a very strong factor form a strong culture.

Based on the coefficient value of each independent variable path that was the external environment variable had a path coefficient of 0.252. The internal environment variable had a path coefficient of 0.424. The business ethic variable had a path coefficient value of 0.340. The value of the path coefficient determined the action to be taken to improve the optimal business partnership. The greatest coefficient value gave a large effect on business partnership enhancement. The conclusion of the path coefficient value is to improve the business partnership optimally, the internal environment must first be enhanced and be a special concern.

The results of this study indicated that there was a simultaneous influence of external and internal environment, and business ethic toward business partnership, supporting and in line with research of Suryoto (2008) that proved empirically there was influence of external and internal environment simultaneously to business partnership with object of research on small noodles businesses in Central Java. The results of this research analysis also supported Sulastini's (2004) research on external and internal factors that influenced the success of small scale coal mining cooperative partnership, where external and internal factors simultaneously affected the success of partnership. The results of this study reinforced the results of Mirza's (2011) research that examined the influence of external and internal environment on competitive strategy

and partnership strategies and their impact on competitive advantage and their implications on the performance of small and medium-sized industries in West Sumatra. The results showed that (1) external and internal environment had an effect on the Community Satisfaction Index (CSI) competing strategy simultaneously, where the internal environment had a dominant influence on CSI competing strategy, (2) external and internal environment affected the CSI partnership strategy simultaneously, where the internal environment had a dominant influence on CSI partnership strategy (3) external and internal environment with competitive strategy, and partnership strategy, had an effect on CSI competitiveness simultaneously (4) external and internal environment with competitive strategy, partnership strategy, and competitive advantage influenced CSI performance simultaneously.

Business partnership had a positive and significant impact on small enterprise performance that meant the better business partnerships, the better small enterprise performance will improve. Business partnership significantly influenced small enterprise performance by 84.3%. The dominant factor of this business partnership variable was guidance dimension. The most dominant indicator that formed the guidance dimension was training.

Education and training programs are able to act as a trigger in organizational change or the achievement of the goals set, because with education and training mean encouraging HR to deliver a significant change in the future. Characteristics that are considered concrete of education and training programs in improving the quality of personnel performance is always evolving as the needs of the organization of work and the community is always changing. Potential forces that can cause change are interrelated. Education and training of various field or profession carried out with the aim of improving skills, knowledge and professionalism of employees in order to obtain optimal performance.

The results of this study indicated that there was a significant effect of business partnership on small enterprise performance in accordance with expected theory and supported the statement of Hafsa (2000:43), Anathan and Ellitan (2009:87), Lee and Whang (2000:86), Kothadarama and Wilson (2001:379), Rudberg and Olhager (2003:86).

Anathan and Ellitan (2009:87) stated that the success of a partnership would improve the performance of each company. Partnership can contribute to the achievement of competitive advantage in overall business networks that will ultimately improve the performance of partner companies (Rudberg and Olhager, 2003:86). In line with the statement, Dwi Kartini Yahya in Joesron (2005:48) stated that cooperatives or non-cooperative companies would be more synergic when approaching the business through an integrated partnership that can achieve superior organizational performance results that can provide satisfaction for all actors involved (stakeholders). The results of this study were in line with the above three statements.

The results of this study were also consistent with research of Sulisty and Adiatma (2011) that the partnership program in terms of access and additional capital, business management, use of technology, patents and constraints faced by both parties in the partnership. Partnership of SOEs and SMEs in terms of internal factors was quite good, as indicated by the knowledge of business management have better understanding of consumer knowledge, knowledge of effective promotion, have the knowledge to formulate a marketing strategy, financial administration and accounting skills as well as having a good innovation capability. All of them are positively correlated with improvements in innovation and performance. Business partnership and SME in terms of external factors were quite good. The results of correlation analysis between the barriers partnership with the performance of SME, SME who have little experience of the partnership and the ability of SMEs to solve financial problems went well, had a significant and positive impact on the performance of SME.

The model feasibility test results demonstrated that research model had met the criteria of the goodness of an econometric model. The study model showed that the test results was in accordance with expectations and strategy management theory as the rationale for the study of the influence of external and internal environment, and business ethic on partnership and its impact on small enterprise performance (theoretical plausibility).

Table 11. Theory Conformity Test Results

Relationship between Variables	Pre Estimation	Post Estimation	Conformity
The influence of external environment on partnership	+	+	Corresponding
The influence of internal environment on partnership	+	+	Corresponding
The influence of business ethic on partnership	+	+	Corresponding
The influence of partnership on small enterprise performance	+	+	Corresponding
The influence of external and internal environment, and business ethic on partnership and its impact on small enterprise performance	+	+	Corresponding

Source : Data processing

This research model yielded an accurate or unbiased and significant path coefficient estimator (Accuracy of The Estimates of The Parameters). The assumption of the analysis was met and the probability of statistical error of the model was very low (p-value = 0,000). This research model had a high ability in explaining the relationship between the phenomenons of management variables studied (explanatory ability). Standard Error (SE) was less than ½ times the absolute value of its path coefficient (SE < ½p).

a. Hypothesis 1 Test Result:

There is an influence of External and Internal Environment, and Business Ethic on Partnership

SE External Environment = 0,124 < ½ (0,252)

SE Internal Environment = 0,129 < ½ (0,424)

SE Business Ethic = 0,115 < ½ (0,340)

b. Hypothesis 2 Test Result:

There is an influence of Partnership on Small Enterprise Performance

SE Partnership = 0,276 < ½ (0,918)

This research model had a high predictive ability over the dependent variable behavior as indicated by the high coefficient of determination model approaching or exceeding 50% (forecasting ability) with the following details: (1) The influence of external and internal environment, and business ethic towards partnership was 64.6%, (2) The influence of partnership to small enterprise performance was equal to 84,3%. This means that the model had complied with the goodness of the econometric criteria based on a strong theoretical perspective to contribute to the development of knowledge and for policy or problem solving.

CONCLUSION

Based on the analysis results, it can be concluded that:

1. The results of descriptive analysis provide information:
 - a. The external environment showed fair to good/high level category and the indicators that had low average value were the condition of interest rate, the impact of unemployment rate on corporate activity and the government's certainty in setting up the wage system.
 - b. The internal environment showed good/high to very good/very high level category and indicator that had low average value was adequate human resources owned by the company.
 - c. Business ethic showed good/high to very good/very high level category and indicator that had low average value was about the benefits and corporate responsibility for the community.
 - d. Partnership showed fair to good/high level category and indicator that had low average value was about the level of profits obtained by

the company was in accordance with corporate objectives.

- e. Small enterprise performance indicated fair to good/high level category and indicators that had low average value were that the company always received complaints from customers as well as the company was always trying to acquire new customers.
2. The results showed that the external and internal environment and business ethic simultaneously had a positive and significant influence on Partnership variable by 64.6%. The external environment partially had a positive and significant influence on business partnership by 15.41%, the most dominant dimension was with the most dominant indicator was lifestyle changes. The internal environment partially had a positive and significant influence on business partnership by 28.73%, the most dominant dimension was organizational culture with the most dominant indicator was value. Business ethic partially had a positive and significant influence on business partnership by 20.30%, the most dominant dimension was the principle of fairness with the most dominant indicator was obtaining equal opportunity in the selection of business partners.
3. Business partnership had a positive and significant effect on small enterprise performance by 84.3%, the most dominant dimension was guidance with the most dominant indicators is education and training.

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Competence and Professional Care of External Auditor on Information Technology Audit

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Abstract

The purpose of this study is to determine the influence of competence and professional care of external auditor on information technology audit in the public accounting firm in Bandung. The method used in this research was survey method with descriptive and verification approach, as well as by using primary data. According to the research, competence partially had no effect on information technology audit, while professional care partially affected the information technology audit. On the other words, competence and due professional care simultaneously influenced information technology audit significantly by 54.7%, while 45.3% was influenced by other variables not studied e.g independence, software usage auditing, performance auditing.

Keywords: competence of external auditor, due professional care of external auditor, information technology audit.

INTRODUCTION

The use of information technology by companies in recent years has increased significantly. Companies or organizations tend to take advantage of technological advances to improve the efficiency of the company in order to boost revenue and improve company performance. The use of computer-based information system in the field of accounting has become important in improving the reliability and accuracy of data (output) generated. Compared with manual data processing, computer-based information system has the advantage of being able to process data more quickly and easily so it does not take long for the company to produce information, as stated by Rainer and Ceigielski (2012:5); Turban and Volonino (2012:8); Bodnar and Hopwood (2014:15).

The use of information technology provides the impact like a two sided coin for the company; on one hand the company get a positive impact of the use of information technology in business activity but on the other hand the use of technology has a negative impact due to the increasing vulnerability resulting from the development of information system for corporate security.

Risks that may occur due to the vulnerability of information technology/information system for the company are data loss, decision making errors, data leakage risk, computer misuse, loss due to

miscalculation, high value of computer hardware and software investment (Agoes and Hoesada, 2012: 231-232). Meanwhile, according to Hall, James and Singleton (2007: 313-315), the risk of information technology vulnerability is divided into 2 namely: internal risk, there are a number of risks associated with the network, especially the Internet. However, what is surprising is that most destructive activity does not come from outside, but comes from insiders and common system failures. Disappointed employees, recently dismissed employees, perpetrators of fraud, former contractors or consultants, and others sometimes want revenge and are motivated to carry out destructive attacks on old companies and external risks from hackers, white hat hackers, crackers, scripts kiddies, viruses, cyber terrorism.

The risk of using information technology is necessary to audit the information system which basically is assurance on the readiness of the system based on certain criteria. Then, based on the auditor's testing will provide recommendations of necessary improvements (Agoes and Hoesada, 2012: 233).

The use of information technology also has an impact on auditing. This is due to changes in the corporate environment using computerized data processing so that auditors need an understanding of client (auditee) information technology, as stated by Arens, et.al. (2014: 380); Agoes (2013: 238).

Information Technology (IT) will continue to dramatically impact virtually every phase of the audit, from audit-generated audit programs to auditing software capable of testing all client data, technology is essential for accountants to understand the client's business processes and to be associated with a paperless audit environment (Nugroho, 2011).

The evidence produced in a computerized accounting system has different characteristics from traditional or manual accounting. Electronic evidence can contain four basic forms of information: text, data, video, and sound. As with traditional evidence, electronic evidence can increase the problems associated with the reliability, completeness, and integrity of evidence and also demand the need of more control than traditional evidence. However, the electronic evidence in the EDP system is not necessarily required to replace traditional evidence in every system.

According to Akmal and Hadi (2010: 17), there are 4 types of audits conducted on information technology systems, namely: (1) Audit around the Computer, (2) Audit with the Computer, (3) Audit through the Computer, and (4) Computer Assisted Audit Techniques (CAATs). The stages done in the information technology audit according to Hall (2011: 10-11) are Audit planning, Test of Control, and Substantive Testing..

Another impact of the use of information technology in the field of auditing is the shift of traditional auditing into continuous auditing (Antonio, 2014). Many business processes are dominated by IT/IS applications: therefore continuous auditing is able to provide timely, reliable information, capable to reduce audit cycle thus results in costs savings and promotes positive social impacts (Rahman, Alifah et al, 2014).

The changing of corporate environment that involves information technology in all company activities, the information technology audit required different competencies compared with traditional or manual audits. According to Tuanakotta (2011: 64), auditor competence is an auditor's expertise gained from knowledge, experience, and training. In conducting the audit, an auditor must have a good personal quality, has formal education in the field of auditing and accounting, adequate knowledge, adequate practice experience and special expertise in their field. In carrying out information technology audit the auditors expected to have the knowledge, understanding, experience and expertise on information technology, although the knowledge is beyond the discipline.

Halim (2015:299) states that auditors should study the audit by using a computer to compensate for the progress of data processing technology and the progress of financial information applied by its clients.

Arens, et al (2014:380) states that because auditors are responsible for obtaining an understanding of internal control, they must be knowledgeable

about general and application controls, whether the client's use of IT is simple or complex. Knowledge of general controls increases the auditor's ability to assess and rely on effective application controls to reduce controls to reduce control risk for related audit objectives. For public company auditor who must issue an opinion on internal control over financial reporting, knowledge of both general and application IT controls is essential.

Meanwhile, according to Agoes and Hoesada (2012: 48-49), the minimum competencies that must be possessed by auditor in information technology are: (1) Basic knowledge of computer and computer functions in general, (2) Basic knowledge of operating system and software (4) Ability to work with audit tools, (5) Ability to review documentation system, (6) Basic knowledge of internal control on information computer system (ICT), (7) Adequate knowledge in the development of audit plan and supervision of audit implementation in ICT environment (IAI 2001: 335.3), (8) Understanding the dynamics of development of system and program changes within an entity.

In addition to sufficient competence required, in terms of information technology, audit also requires professional care due to changes in the procedures and techniques used in performing audit tasks because the use of information technology by the company will lead to changes in data collection and processing of computerized data, making auditors perform increasingly complex analyzes (Putra and Noviari, 2013). The use of information technology, it will also make written evidence reduced so that an auditor must understand the routine access into the system, authorization and organization system and understand how the system works to calculate.

Frederick Gallagos and Anna Carlin (2004) research on best practice in due professional care: an IT audit perspective provides the result that due professional care serves as a foundation to ensure that the client a high quality review, in the post Sarbanes-Oxley Act era, their practice of due professional care is critical in establishing public confidence in business.

Another study on due professional care in information technology audits is conducted by Devalé and Kulkarni (2015) on a role of knowledge based system in information system audit which gave results that computer aided audit techniques may produce a large proportion of the audit evidence developed on IS audits and, as a result, the IS auditor should carefully plan for and exhibit due professional care in the use of computer aided audit techniques.

According to the ISACA IS 1005 standard, it explains that IS audit and assurance professionals shall exercise due professional care, including observance of applicable professional audit standards, in planning, performing and reporting on the results of engagements.

Meanwhile, according to Devale and Kulkarni (2015), the IS auditor should carefully plan for and exhibit due to professional care in the use of Computer Aided Audit Techniques.

According to Senft and Gallagos (2009: 58), the importance of competence and due professional care for information technology auditors is when IT auditors attain their certificate information system auditor (CISA), they also subscribe to a Code Of Professional Ethics is code applies to not only the professional conduct but also the personal conduct of IT auditors. It requires that the ISACA standards are adhered to, confidentiality is maintained, any illegal or improper activities are reported, the auditors competence is maintained, due care is used in the course of the audit, the results of audit work is communicated, and high standards of conduct and character are maintained.

The statement of Senft and Gallagos it can be understood that when an information technology auditor who has a certificate from CISA, the auditor must comply with the professional code as an information technology auditor. In the professional code, an information technology auditor needs to maintain competence, the use of due professional care in the implementation of information technology audit, the use of good communication regarding the audit results and the use of high standards that must be maintained by information technology auditors in carrying out information technology audit tasks.

The purpose of this study is to find out how much influence partially and simultaneously competence and due professional care variables on information technology audit variable by conducting a survey at public accounting firms in Bandung, with the research paradigm shown in Figure 1.

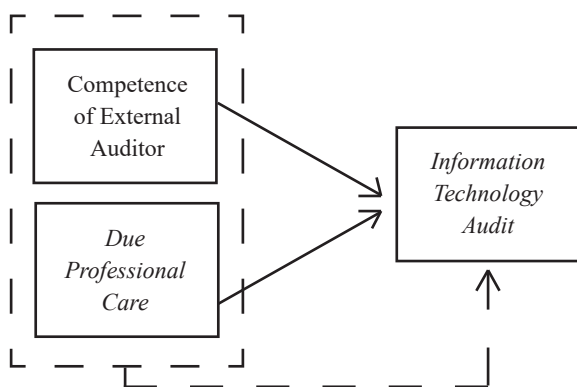


Figure 1. Research Paradigm

Based on the formulation of problem and framework, the research hypotheses are formulated as follow: (a) competence influences information technology audit, (b) due professional care influences information technology audit, (c) competence and due professional care simultaneously influence information technology audit.

METHODS

The approach used was descriptive and verificative, which in this study sought to describe and also interpret the influence between the relationship of the variables to be examined and its purpose to present the picture in a structured, factual, and accurate about the facts of the relationship between the variables studied.

Objects in this study were competence, due professional care of external auditor and information technology audit at public accounting firms in Bandung. Operationalization variables described in Table 1.

The sample used in this study was taken from the population of external auditors from Public Accounting Firms in Bandung, with the number of samples considered to be representative of the existing population.

Samples for this study was as many as 52 respondents and the number of data that had been managed to return to the author was 40 respondents.

RESULTS

The result of descriptive analysis for auditor competency obtained is score of 96. If the value was compared to author's criteria, then the value went into "Very Competent" criteria. This was reflected by the fulfillment of aspects related to the competence of auditors that included education, continuing professional education, and experience. Although there were still disadvantages of the competence, namely the difference in the understanding of auditors about the importance of formal education in achieving audit expertise, difference in the understanding of the importance of conducting all audit training, difference in the understanding of the importance of audit engineering experience to improve auditor expertise. These differences should not occur if all auditors were aware of the importance of improving their audit competencies.

Based on the results of descriptive analysis, professional care scored 108. If the value is compared to author's criteria, then the value went into the criteria of truly have due professional care. This was reflected by the fulfillment of aspects related to due professional care that included professional skepticism and adequate certainty. Nevertheless, the weakness of due professional care was that there was a difference in the auditor's understanding of the importance of auditor to be credible in auditing clients, maintaining credible attitude during the audit, the importance of prioritizing work experience to improve audit expertise, the importance of prioritizing ongoing professional education to improve audit skills. The difference of understanding should not occur if all auditors realized that the audit work is a job of maintaining the trust of various parties. Therefore it is very important for an auditor to always maintain the attitude of due professional care in conducting the audit.

From the results of calculation scores and questionnaires assessment, information technology audit obtained score of 104. If the value was compared to author's criteria, then the value went into good criteria. It can be concluded that the provision of information technology audit services provided by Public Accounting Firms in Bandung City is categorized good. It was reflected by the fulfillment of aspects related to information technology audit that included general controls and application controls. However, there were still disadvantages namely there were still difference in auditor's understanding of the use of one of the information technology audit technique that was the use of embedded audit module approach techniques to identify the type of transactions, the use of CAATs to assist auditors in auditing information technology, on the importance of understanding the client's contingency plan in understanding the control of general controls, on the importance of observing the separation of client IT work to understand the control of general controls. It should not occur if all auditors understand the information technology audit because in the concept of information technology audit is the control of general controls and application controls including the use of audit techniques that can assist auditors in conducting information technology audit.

Based on Table 2, equation is obtained from IBM SPSS Statistics Version 23, as followed:

$$Y = 23,887 - 0,059X_1 + 0,660X_2$$

The result of regression coefficient showed the value of constant coefficient was 23,887. It meant that if competence (X_1) and due professional care (X_2) are considered constant, then the value of information technology audit (Y) will be constant 23,887. Competence (X_1) had a regression coefficient of -0.059 which meant that the higher level of competence owned by the auditor or if there is improvement of auditor's competence up by 1 unit/level, it will tend to decrease information technology audit (Y) by -0.059, while due professional care (X_2) had a regression coefficient of 0.660 which meant that the higher due professional care owned by the auditor or if there is improvement of auditor's due professional care by 1 unit level, there will be an increase in the value of information technology audit by 0.660.

Based on Table 3, we get information that R is 0.740. The value indicated that competence and due professional care simultaneously gave contribution or influence to information technology audit by R -Square (0.547) known as coefficient of determination, calculated from squaring correlation coefficient:

$$KD = (0,740)^2 (0,740)^2 \times 100\% = 54.7\%$$

While the rest of $100\% - 54.7\% = 45.3\%$, it was influenced by other variables that were not examined such as independence, performance auditing.

To see the influence of each independent variable on dependent variable, the calculation was done using Beta x Zero Order formula. Beta is a standardized regression coefficient, whereas Zero Order is a partial correlation of every independent variable to the dependent variable. By using IBM SPSS Statistics Version 23, beta and zero order values were obtained (Table 4).

Based on Table 4, it can be calculated to obtain the partial influence of each independent variable, as followed:

$$\begin{aligned} X_1 &: -0,066 \times 0,592 = -0,039 \text{ or } -3,9\% \\ X_2 &: 0,793 \times 0,739 = 0,586 \text{ or } 58,6\% \end{aligned}$$

Based on the above calculation with the beta x zero order formula, it can be seen the effect of competence on information technology audit amounted to -3.9%, and the influence of due professional care on information technology audit was 58.6%.

Based on Table 2 it can be seen that the value of t count obtained by competence was -0.332 with a significance value of 0.742. That meant that partially competence of external auditor had no significant effect on information technology audit.

The results of this study indicated that this study was consistent with previous research by Sasongko (2002) that stated that the ability of information system audit techniques has no significant effect on information system audit, and Ayuni (2008) stated that education, training, assignment experience and length of work experience (included in the competency dimension) had no significant effect on audit quality of computer-based information system.

Based on Table 2 it can be seen that t count obtained by due professional care (X_2) was 4.102 with a significance value of 0.000. That meant partially due professional care had a significant effect on information technology audit.

The results of this study indicated that this study was consistent with previous research by Frederick Gallegos (2004) who stated that due professional care serves as a foundation to ensure that the client receives a high-quality review and research by Devale and Kulkarni (2015) who stated that computer aided audit techniques may produce a large proportion of the audit evidence developed on IS audits and, as a result, the IS auditor should carefully plan for and exhibit due professional care in the use of computer aided audit techniques. The main difficulty and modeling and formalizing knowledge in the audit field is the complexity of information system audit, which requires performing of some expertise that use knowledge from separate or interrelated field of knowledge.

Based on Table 5 with a significance value of 0.000, it means that simultaneously competence and due professional care had a significant effect on information technology audit.

CONCLUSION

Competence of auditors at public accounting firms in Bandung City was in the category of very competent, but there were still weakness namely the difference of understanding from auditors on the importance of formal education in order to achieve audit expertise, difference of understanding on the importance of carrying out the entire audit field training, on the importance of audit engineering experience to improve auditor expertise.

Due professional care at public accounting firms in Bandung City was in the category of truly have due professional care, but there were still weakness namely the difference of understanding from auditors about the importance of auditors to be trusted in auditing clients, maintaining credible attitude when conducting audits, the importance of prioritizing work experience to improve audit expertise, the importance of prioritizing ongoing professional education to improve audit expertise.

Information technology audit on public accounting firms in Bandung City was in the category of good, but there were still weaknesses namely the difference of understanding from the auditors regarding the use of one of the information technology techniques audit that was the use of embedded audit module approach techniques to identify the type of transactions, the use of CAATs to assist auditors in information technology audit, on the importance of understanding the client's contingency plan in understanding the control of general controls, on the importance of observing the separation of client IT work to understand the control of general controls .

Partially, competence had no significant effect on information technology audit, indicating that information technology audit will not work well if the auditor relies only on their competence, and partially due professional care had a significant effect on information technology audit with influence contribution of 58.6%. This indicated that due professional care can lead to better results in company technology audit, while simultaneously competence and due professional care had a significant effect on information technology audit with influence contributing of 54.7%. This indicated that in an information technology audit an auditor not only rely on competence but must be coupled with due professional care so information technology audit can provide good, accurate and precise results.

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APPENDIX

Table 1. Operationalization of Variables

Variable	Dimension	Indicator	Scale
Competence begins with education in accounting because auditors hold themselves out as experts in accounting standards, financial reporting, and auditing. In addition to university-level education prior to beginning their careers, auditors are also required to participate in continuing professional education throughout their careers to ensure that their knowledge keeps pace with changes in accounting and auditing professional. In fact one of the important requirements for maintaining a CPA license is sufficient continuing professional education, and another important is a dimension of experience. Timothy J Louwers, et al. (2013:43)	1. Education	<ul style="list-style-type: none"> Formal Education 	Ordinal
	2. Continuing Professional Education	<ul style="list-style-type: none"> Advanced professional education in the field of audit Knowledge of the latest standards and developments in accounting and auditing Understanding the business of client's (auditee's) company Training on all areas of the audit task 	Ordinal
	3. Experience	<ul style="list-style-type: none"> Experience in audit practice Supervision Review 	Ordinal
Due professional care is a professional skill used carefully and thoroughly in general, alertness nuanced healthy professional suspicion (skepticism) in particular, more specifically always considering the possibility of fraud and fraud in reporting and financial statements to convey audit conclusions with adequate certainty according to the truth. Sukrisno Agoes and Hoesada (2012:22).	1. Professional Skepticism	<ul style="list-style-type: none"> Critical assessment Thinking continuously Proving the validity of the evidence obtained Be aware of contradictory evidence Reliability of documents 	Ordinal
	2. Adequate certainty	<ul style="list-style-type: none"> Trustworthiness Competence in auditing Prudence 	Ordinal
Processing to address many of the risks associated with reliance on IT, organizations often implement specific IT controls. Auditing standards describe two categories of controls for IT system: General controls, apply to all aspects of the IT function and Application Control	1. General Controls	<ul style="list-style-type: none"> Administration of the IT function Separation of IT duties System development Physical and online security Back up and contingency planning Hardware controls 	Ordinal
	2. Application controls	<ul style="list-style-type: none"> Input control Processing controls Output control 	Ordinal
Apply to transaction such as controls over the processing of sales or cash receipts. Arens, et al. (2014:374-380)			

Table 2. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
	(Constant)	23.887	6.43		
Kompetensi	-0.059	0.179	-0.066	-0.332	0.742
Due Professional Care	0.66	0.164	0.793	4.012	0

a. dependent Variable: *Audit Teknologi Informasi*

Table 3. Coefficient of Determination Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.740 ^a	0.547	0.523	8.17682	1.317

a. Predictors: (Constant), Due Professional Care, *Kompetensi*

b. Dependent Variable: *Audit Teknologi Informasi*

Table 4. Partial Coefficient of Determination Analysis

Model	Standardized Coefficients		Correlations
	Beta	Zero-Order	
	(Constant)		
<i>Kompetensi</i>	-0.066	0.592	
Due Professional Care	0.793	0.739	

a. Dependent Variable: *Audit Teknologi Informasi*

Table 5. Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2989.541	2	1494.77	22.357	.000 ^b
Residual	2473.833	37	66.86		
Total	5463.374	39			

a. Dependent Variable: *Audit Teknologi Informasi*

b. Predictors: (Constant), Due Professional Care, *Kompetensi*

Consumers' Purchase Intention: Influencing Factors Unveiled at Korean Thematic Café (Case Study: Chingu Café)

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Abstract

Service quality, atmosphere, and food quality have become an important part to be considered by a firm or company in order to attract consumers and to compete in the marketplace. This research will be taking Chingu Café which is located in Bandung, Indonesia to be the object of the study. This research applied a quantitative method with total sample of 384 respondents who have visited and spent time in Chingu Café. A multi linear regression was applied to analyze the findings in order to gain the effect of service quality's dimensions, food quality, and atmosphere on purchase intention. This research is able to gather unique findings in a Korean thematic café business. It is obtained that the most consumptive consumers are teenagers and young-adults dominated by females. More importantly, this research is able to find that service quality (tangible, reliability, responsiveness, and empathy), atmosphere, and food quality have a positive influence on purchase intention while none of such relationship between assurance dimension and purchase intention.

Keywords: purchase intention, service quality

INTRODUCTION

Purchase intention is referred to how consumers would likely to make a transaction by considering service quality, atmospheric environment, and food quality. Moreover, recent studies (Pi, Liao, Liu, & Lee, 2011; Pavlou & Geven, 2004) have proved consumers' actual buying behavior as well as their probability in creating another transaction in the future are reflected by purchase intention.

Service quality is globally defined as a superiority of service provided by a firm or company where it has been suggested in order to make a competitive advantage in the marketplace (Parasuraman, Zeithaml, & Berry 1988). It is seen as an interactive process of creating value to be delivered to consumers (Fitzsimmons & Fitzaimmons, 2008). Service quality has been an important key for a firm or company to gain its loyal consumers and to avoid consumers preferring other competitors that can meet their expectation and create satisfaction.

Wakefield and Baker (1998) have proved that the probability of consumers feeling satisfied and staying longer in a store increases due to the result of the service quality and the store's atmosphere provided by the firm

or company. It means that the store's service quality and atmosphere have high impact on consumers' satisfaction which is also able to increase their purchase intention while staying in the store. Besides service quality and atmosphere, food quality also plays an important role in achieving consumers' satisfaction and increase purchase intention.

For Korean thematic cafés in Indonesia, they have endeavored to gaining loyal consumers. Many issues applied in implementing Korean atmosphere into a business such as café. In this research, Chingu Café was the object to be studied. Chingu Café is a Korean thematic café located in Jl. Sawunggaling No. 10 Dago, Bandung, opened daily starting from 10.00 – 22.00. The café was established in 2013, aiming to pamper its consumers with delightful Korean cuisines and modern Korean atmosphere to make its consumers feel like being in Korea. The name of chingu itself was adopted from a Korean term which means 'friend'. It was chosen because the term chingu matches with the theme of Chingu Café of friendship atmosphere that can be seen and felt by every consumer visiting the café. Chingu Café always greet its consumers warmly in Korean to make sure its consumers feel happy and satisfied.

Currently, Chingu Café started to gain its popularity in Bandung. The café was known for its Korean thematic café, Korean cuisines and atmospheres with the dominant consumers of female teenagers. Despite the fact, Chingu Café required assessment to understand the consumers' expectation regarding the café in fulfilling their satisfaction, and which section required improvements, to nail its legacy by sustainably attracts and appeals consumers' interest to exercise the purchase intention.

The theoretical framework of this research was developed by studying previous researches as described in Table 1. In summary, it was revealed that service quality, atmosphere, and food quality to have an influence or linear relationship on purchase intention.

Based on the preceding theoretical review, a theoretical framework, as presented in Figure 1, was able to be constructed revealing all independent variables (service quality composing of empathy, assurance, responsiveness, reliability, and tangible; atmosphere, and food quality) to possess linear relationships with the dependent variable (purchase intention).

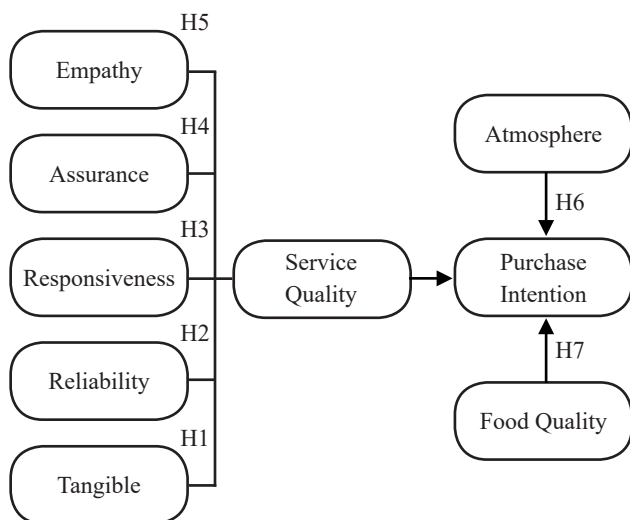


Figure 1. Theoretical framework

Purchase intention is the willingness of consumers to make a transaction with a retailer. It reflects as a promise to one's self to re-purchase a product on one's next trip (Fandos & Flavian, 2006; Halim and Hameed, 2005).

Service quality is defined as the assessment of how well a service meets with consumers' expectation (Zeithaml, Bitner, & Gramler, 2006). This assessment is able to be used to assess the quality of services provided by a firm or company in order to identify problem faced by a firm or company which is started from analysis and measurement (Edvardsen, 1994).

The SERVQUAL model applied in this research was developed by Parasuraman, Zeithaml, & Berry

(1988) which are tangible, reliability, responsiveness, assurance, and empathy in order to gain the influence of service quality's dimensions on purchase intention. This model is able to be applied repeatedly on a regular basis as the benchmark of service quality. It is able to be implemented annually in order to gain repeat yearly comparisons, to determine how the improvement of service quality has influenced on consumers' perceptions and the effectiveness of service quality provided to consumers (Shahin, 2006).

Representation of service physically includes physical facilities, location, equipment used, and the appearance of employees. Service quality is also evaluated by consumers, especially new consumers through examining the physical representation or atmospheric environment of tangible dimension provided by a company or firm. It is also referred to the presentation of store's physical lay-out and the convenience offered to consumers (Subhash, Ashok, & Soon, 2000).

H1: Tangible dimension has a positive influence on purchase intention.

Representation of the ability of delivering service to meet consumers' expectation includes punctuality, equal service given to every consumers, sympathetic attitude, and high accuracy. Reliability is also related to the ability of a company or firm to deliver its promises such as delivery, service provision, problem resolution, and pricing to it consumers.

H2: Reliability dimension has a positive influence on purchase intention.

Responsiveness represents the ability to deliver a responsive service to give information to consumers including paying attention to consumers' requests, questions, and closeness. Responsiveness determines about how a company or firm help its consumers in responding their needs and questions. Responsiveness is measured through the length of time spent by consumers to wait for assistances.

H3: Responsiveness dimension has a positive influence on purchase intention.

Assurance represents the ability to create trust into consumers including knowledge and courtesy of employees to inspire trust and confident. Assurance is considered important for a company or firm in order to evaluate outcomes of consumers which are perceived to be high risk. Trust and confidence are related to the person who will make a contact to consumers in order to create a positive relationship between company or firm with consumers.

H4: Assurance dimension has a positive influence on purchase intention.

Empathy represents for caring and individual attention from a firm or company provides to its consumers including acknowledging the consumers, understanding their needs, and providing a comfortable operational time for consumers in

order to make consumers feel unique and special. In this dimension, consumers would likely to be understood personally to create a warm feeling in them.

H5: Empathy dimension has a positive influence on purchase intention.

The quality of food is important for a business that offers a dining experience to maintain a high quality of cuisines in order to satisfy the needs and expectation of its consumers. In a café or restaurant industry, consumers' satisfaction on food quality is related to purchase intention where there is a probability of consumers to make a repeat purchase (Cho & Park, 2001).

Prybutok (2009) has studied about the relationship between service quality, food quality, perceived value, customer satisfaction, and behavioral intention in fast-food restaurants and has stated that food quality has a positive and direct influence on consumer's satisfaction. In this research, the attributes of food quality implemented were freshness of food, taste of food, nutrition of food, variety of menu, and smell of food (Ryu, Lee, Kim, & Woo 2012).

H6: Food quality has a positive influence on purchase intention.

Previous research (Worek, Kindangen, & Worang, 2015) has proved that restaurant's atmosphere has a positive influence on consumers' purchase intention. According to the statements, it should be considered to create an interesting and comfortable atmosphere into a restaurant business in order to capture or retain more consumers as well as increasing their purchase intention.

H7: Atmosphere has a positive influence on purchase intention.

METHOD

Purchase intention was measured by 4 items of questionnaires in line with Hussain and Ali (2015). The service quality was designed by 22 items of questionnaires based on Parasuraman et al. (1988) with the dimensions of tangible, reliability, responsiveness, assurance, and empathy. In measuring food quality, it used a 5-item scale developed in accordance with Ryu, Lee, Kim, and Woo (2012) and Qin and Prybutok (2009). As for atmosphere, it was measured based on 8 items of questionnaire in accordance with Hussain and Ali (2015).

This research was conducted based on survey using questionnaires in order to learn the influence of service quality, food quality, and atmosphere on purchase intention. It took a sample of 384 respondents

who have visited and spent time in Chingu Café. The validity and reliability analysis were conducted by applying coefficient correlation where the coefficient of validity has to be greater than 0.3 and coefficient of reliability has to be greater than 0.6. This research conducted a set of classic assumption test to learn the appropriateness from items of questionnaires to be analyzed. A multiple regression analysis was applied in order to learn the correlation of independent variables with dependent variable.

Table 2. F test ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	155,750	7	22,250	303,881	,000 ^a
	Residual	27,531	376	,073		
	Total	183,281	383			

a. Predictors: (Constant), Food Quality, Reliability, Empathy, Assurance, Responsiveness, Atmosphere

b. Dependent Variable: Purchase Intention

RESULT

Majority of the respondents was female, comprising 77.9% of the total respondents or 299 in total. Respondents with the age ranging of 20 – 24 years old are the most among the other age groups with 194 respondents or 50.5%. Most of the respondents are university students with 221 respondents (57.6%). The result is dominated by respondents from North Bandung with 147 respondents or 38.3% of the total respondents. This has able to learn unique findings in a Korean thematic café business. Based on the respondents, it is obtained that the most consumptive consumers are teenagers and young-adults dominated by females. Most of them are students with lower spendings, however, they are considered potential in this business field.

Table 3: Model summary of multiple linear regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,922 ^a	,850	,847	,27059

a. Predictors: (Constant), Food Quality, Reliability, Empathy, Assurance, Responsiveness, Atmosphere

Based on the table 3, it is obtained that the regression coefficient (R) is 0.922. It indicates that there exists a strong relationship between tangible (X_1), reliability (X_2), responsiveness (X_3), assurance (X_4), empathy (X_5), atmosphere (X_6), and food quality (X_7) with purchase intention (Y).

Tabel 4. t Test analysis
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	sig.	Correlations
		B	Std. Error	Beta			Zero-order
1	(Constant)	-1,594	,138		-11,546	,000	
	Tangible	,326	,027	,302	12,081	,000	,724
	Reliability	,252	,027	,207	9,184	,000	,576
	Responsiveness	,154	,028	,145	5,566	,000	,620
	Assurance	,039	,031	,032	1,262	,208	,549
	Empathy	,143	,027	,123	5,355	,000	,528
	Atmosphere	,266	,038	,186	6,930	,000	,688
	Food Quality	,282	,030	,278	9,545	,000	,760

a. Dependent Variable: Purchase Intention

Based on the F test analysis on Table 1, there exists a significant influence between all independent variables which are tangible (X_1), reliability (X_2), responsiveness (X_3), assurance (X_4), empathy (X_5), atmosphere (X_6), and food quality (X_7) as a whole on the dependent variable which is purchase intention (Y) where F count (303.881) is greater than F table (2.034).

Table 4 shows the results of t test analysis. It is obtained that most of the independent variables have significant partial influence on purchase intention (Y) where each of the variable's t count is greater than t table of 1.966. Tangible (X_1) has the greatest influence where its t test is 12.081 and only assurance (X_4) that does not have a significant partial influence on purchase intention (Y) because its t count (1.262) is less than the t table (1.966).

Based on table 3, it is obtained a multiple regression formula as follows:

$$Y = -1.594 + 0.326X_1 + 0.252X_2 + 0.154X_3 + 0.039X_4 + 0.143X_5 + 0.266X_6 + 0.282X_7$$

Based on the regression formula above, it is obtained that the constant value is -1.594. It means that when all independent variables equal to zero, hence, the value of dependent variable s predicted to be -1.594. The coefficient of variable's regression indicates a direction of relationship of the variable which is related to purchase intention. Regression coefficient of variable X_1 of 0.326 means that on every increase by one point of tangible (X_1) increases purchase intention (Y) as much as 0.326, coefficient regression of variable X_2 of 0.252 means that on every increase by one point of reliability (X_2) increases purchase intention (Y) as much as 0.252, regression coefficient of variable X_3 of 0.154 means that on every increase by one point coefficient of variable X_4 of 0.039 means of responsiveness (X_3) increases purchase intention (Y) as much as 0.154,

regression that on every increase by one point of assurance (X_4) increases purchase intention (Y) as much as 0.039, regression coefficient of variable X_5 of 0.143 means that on every increase by one point of empathy (X_5) increases purchase intention (Y) as much as 0.143, regression coefficient of variable X_6 of 0.266 means that on every increase by one point of atmosphere (X_6) increases purchase intention (Y) as much as 0.266, regression coefficient of variable X_7 of 0.282 means that on every increase by one point of food quality (X_7) increases purchase intention (Y) as much as 0.282.

To summarize the findings, it is obtained that all dependent variables which are tangible (X_1), reliability (X_2), responsiveness (X_3), assurance (X_4), empathy (X_5), atmosphere (X_6), and food quality (X_7) have a positive or unidirectional relationship with purchase intention. However, based on the significant level, only assurance dimension (X_4) that does not have a significant influence on purchase intention (Y) indicated by the sig. coefficient of 0.228 which exceeds 0.05. Hence, consumers' purchase intention is influence by the variables studied where the regression coefficients indicated how great the variable affect purchase intention. Based on this research findings, the research problems or objectives may be answered through a practical implication where a business running in a Korean thematic section especially Korean thematic café may consider offering a greater level of its service quality, atmosphere, and food quality in order to increase consumers' purchase intention as well as to retain its consumers while offering a low level of service quality, atmosphere, and food quality may drive to consumers' decline or decrease in consumers' purchase intention. These findings are also supported based on the previous research where service quality, atmosphere, and food quality do have a positive relationship on purchase intention (Worek, Kindangen, & Worang, 2015; Qin &

Prybutok 2009; Omotayo, & Joachim, 2008). However, this research obtained that assurance dimension of service quality does not have a significant influence on purchase intention.

Besides considering on the level of service quality, atmosphere, and food quality, a business may create a marketing strategy based on the findings of respondents profile. This research obtained that the most consumptive consumers at a Korean thematic café are university students and school students. This indicates that a Korean thematic business is able to attract more consumers with the age range of 15 – 24 years old. It may be necessary to follow the trend in these consumers range of age to learn what is able to attract them most.

CONCLUSION

This research has seven independent variables studied by a multiple linear regression analysis where seven independent variables are considered to be the maximum numbers to have an effective analysis (Santoso, 2016: 362) which may create a wider findings or more complex results to study about consumers' purchase intention.

The strongest factor influencing purchase intention in Korean thematic café is tangible dimension. It is followed by food quality, reliability dimension, atmosphere, responsiveness dimension, and empathy dimension. It is obtained that assurance dimension of service quality does not have a significant influence on purchase intention. Besides the variables which are being researched in this study, respondents would also pick food's taste, menu variation, and café's atmosphere over location and price in choosing a Korean thematic café.

In terms of Tangible dimension, customers once entered the restaurant might perceive themselves to be resided in Korea. The Korean-designed style filled the ambience of the restaurant from the waiting room that was decorated as the Korean Bus Stop, as well as music and clip video playing the Korean-hits song, up to Korean sit-cross styles existed. The front door was made of glasses surrounded with the white-bricks wall. Paper-tree stood in the corner filled with the paper notes of experiences from the customers of being in the café. When the café was full, there was a waiting rooms decorated as the 'Korean Bus Stop' with wall filled with posters of actor and actress murals. 'Gangnam Station' was one of favorite places which emulated Korean Station along with the sign, direction, with tables and chairs mimicked the ambience of Mass Rapid Transportation. These were kinds of elements mostly valued by the customers on the uniqueness toward Korean Culture.

In terms of Food quality, the café had adapted to the requirement of Indonesian culture where Moslems are the majority of customers. All menu dishes were halal, and varied with a vast ranges of menu from Tteokbokki (spicy, slightly sweet and chewy rice cakes), Ramyun (spice-instant noodle), Hotteok (sweet pancakes), Jap Chae (sweet potato starch noodles stir fried with vegetables and meat), Bibimbap (mixed rice with meat and assorted vegetables), Chijeu Bokkeumbap (cheese fried rice), Pat Bingsoo (shaved ice dessert with sweet toppings), to Ring Bingsoo (marshmallow, popping boba, fruit loops, and vanilla ice cream). These variety of unique Korean menus were also highly valued by the customers.

In terms of Reliability dimension, what was foremost valued by the customers related to the accurate billing and the affordable price to the targeted customer. The prices of these varieties of menus were not exceeding to Rp. 30.000, matched to affordability of the college students as the main target customer.

In terms of Atmosphere dimension, the interior layout of furniture and decorated walls were enchanted and fabulous. Besides that, cleanliness, and service appliances such as brochure, menu book were also visually appealing to the customers.

Tangible dimension of service quality that has significant relationship with purchase intention approves hypothesis 1. The other dimensions of service quality; reliability, responsiveness, and empathy also approve hypothesis 2, hypothesis 3, and hypothesis 5 in which reliability, responsiveness, and empathy dimension have a positive influences on purchase intention. But, assurance dimension does not have a positive influence on purchase intention which rejects hypothesis 4. This contrasts with a research conducted by Zhou (2004) who mentioned that assurance has the strongest positive influence on consumers' satisfaction that affects positively to the purchase intention. This is due to the embedded trust on the side of the customer's mind that while entering the café, embracing the tangible dimensions of Korean thematic, encountering enchanted-variety of menus, delightful atmosphere, responsiveness and empathy of employees had in fact nailed positive and impressive assurance.

Atmosphere as well as food quality have a positive influence on purchase intention to approve hypothesis 6 and hypothesis 7. These findings are consistent with previous studies mentioned that the atmosphere, and food quality do have a positive relationship with purchase intention (Worek, Kindangen, and Worang, 2015; Qin and Prybutok 2009; Omotayo and Joachim, 2008).

The findings of this research is unique, indicated by teenagers and young adults especially females mostly college students who were more keen to consume at this Korean thematic café rather than adults. It also means that the service quality dimensions as the elements of marketing strategy of Chingu Café has been effective to attract the targeted college students to purchase supported by the appealing dimensions.

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APPENDIX

Table 1. Previous research

Researcher	Objectives	Variable	Findings
Perez, Abad, Carrillo, and Fernandez (2007).	To investigate the relationship between service quality and behavioural purchase intentions in the public-sector transport industry in Spain.	<ul style="list-style-type: none"> • Tangible • Reliability • Receptivity • Assurance • Empathy • Behavioral purchase intention 	All service quality's dimensions have a relationship with behavioral purchase intention.
Parasuraman, Zeithaml, and Berry (1988).	To confirm the multiple-item instruments for assessing service quality.	<ul style="list-style-type: none"> • Tangible • Reliability • Responsiveness • Communication • Credibility • Security • Competence • Courtesy • Customer knowledge • Access • Service quality 	It is obtained that tangible, reliability, responsiveness, assurance, and empathy are able to be applied in assessing service quality with total of 22-items where the other dimensions are included in assurance and empathy.
Hassan, Hashimi, and Sarwar (2014).	To investigate the effect of service quality on purchase intention with CSR as the moderating role.	<ul style="list-style-type: none"> • Service quality • CSR • Purchase intention 	Service quality has a positive relationship with purchase intention and CSR moderates between service quality and purchase intention.
Hussain and Ali (2015).	To investigate the effects of atmosphere on the consumer purchase intention in international retail chain outlets of Karachi, Pakistan.	<ul style="list-style-type: none"> • Cleanliness • Music • Scent • Temperature • Lighting • Color • Display/lay-out • Purchase intention 	<ul style="list-style-type: none"> • Significant: <ul style="list-style-type: none"> - Cleanliness - Scent - Lighting - Display/lay-out • Insignificant: <ul style="list-style-type: none"> - Music - Temperature
Worek, Kindangen, and Worang (2015)	To investigate the effect of atmosphere and service quality on purchase intention simultaneously, effect of restaurant and service quality partially, and service quality on purchase intention partially.	<ul style="list-style-type: none"> • Atmosphere • Service quality • Purchase intention 	<ul style="list-style-type: none"> • Significant: <ul style="list-style-type: none"> - Atmosphere and service quality on purchase intention simultaneously - Atmosphere on purchase intention partially • Insignificant: <ul style="list-style-type: none"> - Service quality on purchase intention partially
Ryu, Lee, and Woo (2012)	To investigate the relationship between predictors which are food quality, service quality, and physical environment quality, moderator which is perceived price (moderator), and criterions which are satisfaction and behavioral intention..	<ul style="list-style-type: none"> • Food quality • Service quality • Physical environment quality • Perceived price • Customer satisfaction • Behavioral intention 	<ul style="list-style-type: none"> • Significant: <ul style="list-style-type: none"> - Food quality - Physical environment - Customer satisfaction - Perceived price

Qin and Prybutok (2009)	To investigate the relationship between service quality, food quality, perceived value, customer satisfaction, and behavioral intentions in fast-food restaurants	<ul style="list-style-type: none"> • Service quality • Food quality • Perceived value • Customer satisfaction • Behavioral intention 	<ul style="list-style-type: none"> • Significant - Service quality - Food quality - Customer satisfaction • Insignificant - Perceived value
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Financial Competence of Micro, Small, and Medium Enterprises in Ponorogo

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Abstract

The purpose of this study was to know and analyze the accounting capability in an effort to improve financial competence for the Micro, Small and Medium (MSM) entrepreneurs in Ponorogo. The method used was survey, through interview and observation. Accounting competence was viewed from the aspect of sales turnover, capital resources used, net income every month, financial statement preparation, financial statement preparation forms, constraints in the preparation of financial statements, and training that had been participated. The results showed the majority of MSM entrepreneurs in Ponorogo including micro-entrepreneurs and the capital resource had an income per month of < Rp 5.000.000,-. Most of them did not prepare for financial statements. The financial statement that was prepared was income statement. Most of them had also not been trained, and financial statement preparation constraints were experienced because they did not understand accounting. MSME financial competence in Ponorogo needed to be improved by accounting training, with the target of being able to prepare financial statements, bankable, increase income to develop the business. Further research was required in the formulation of modules and accounting training for target achievement.

Keywords: financial competence, financial statement, MSME.

INTRODUCTION

Micro Small Medium Enterprises (MMSMEs) currently have a very big role to the economic development in Indonesia. Based on survey results and calculations by Central Bureau of Statistics (CBS), the contribution of MSME to GDP (without oil and gas) in 2011 was recorded 60%.

Data from *Dinas Industri, Perdagangan Koperasi (Indakop) dan Usaha Kecil* (Department of Industry, Trade Cooperatives and Small Enterprises) of Ponorogo Regency shows that in 2013 the number of formal industries was 614 units that absorbed 6,429 workers with a production value of 734.17 billion rupiah. As for non-formal industries, there were 19.086 units with a total workforce of 39,541 (Ponorogo in number, 2014).

Most MSMEs do not have the ability to access financing from banks because they have not been able to meet the banking requirements to obtain loans. Many MSMEs are not bankable, because generally MSMEs do not have good bookkeeping, whereas good bookkeeping is one of the requirements to obtain financing from the bank. The same thing was also put forward by Yoshino and Taghizadeh (2016), Tambunan (2008),

Bellefleur, et.al. (2012). The important use of business accounting is for internal purposes, namely to help entrepreneurs in controlling their corporate finances, by raising awareness of the importance of personal finance separation.

According to Teguh (1992) cited by Lilik Indrawati (2006) stated that one aspect of credit analysis conducted by credit institutions (banking and non banking) is the financial aspect. The problem faced by MSM entrepreneurs related to financial aspect is that MSM entrepreneurs do not have accounting knowledge, and many of them do not yet understand the importance of recording and bookkeeping for business continuity (Idrus, 2000; Bellefleur, 2012).

Departing from the explanation above, this research will revolve around efforts to increase financial competence for MSM entrepreneurs in Ponorogo, and the main problem in this study is basic accounting/ financial competence capability analysis for MSM entrepreneurs in Ponorogo. The results of the study by Ardiana, et.al. (2010) indicated that competencies consisting of knowledge, skill and ability simultaneously have a significant effect on MSME performance in Surabaya, but partially only ability and skill have

significant influence and ability that have the greatest influence.

It cannot be denied that MSME is still a marginal group that is difficult to be associated with modern business and or big business. One indicator of the condition is the difficulty of MSMEs to get access capital from LKF (*Lembaga Keuangan Formal/Formal Financial Institutions*), especially banking. Indication of the incapability of MSMEs is seen from the low allocation of funds/credit from commercial banks for MSMEs. This is related to the ability of MSMEs in managing finance. Based on Bank Indonesia's survey, one of the obstacles faced by MSM entrepreneurs, seen from the perspective of MSME itself and the banking sector is the ability of MSMEs in managing finance (Andang Setyobudi, 2007). Idrus (2000) also stated that small entrepreneurs do not have accounting knowledge, and many of them have not understood the importance of recording and bookkeeping for business continuity.

Small and Medium Enterprises (SMEs) require bookkeeping skill and easy accounting to help them access financing from banks. So far, many SMEs are unable to access financing from banks because they are unable to meet the banking requirements to obtain loans. Many of our SMEs are not bankable, because most SMEs do not have good bookkeeping, whereas good bookkeeping is one of the requirements to obtain financing from banks. The important use of business accounting is for internal purposes, namely to help entrepreneurs in controlling their corporate finances, by raising awareness of the importance of personal finance separation.

Based on *Undang-undang No. 20 Tahun 2008* regarding Micro, Small and Medium Enterprises (MSMEs), there are several criteria used to define the definition and criteria of Micro, Small and Medium Enterprises. Based on total assets and turnover, Micro, Small and Medium Enterprise (MSME) criteria can be classified into 3 types of business. Criteria for classification of this type of business can be seen in Table 1.

Table 1. Criteria of MSME based on assets owned

No.	Type of business	Criteria	
		Asset	Turnover
1.	Micro business	Max 50 Million	Max 300 Million
2.	Small business	>50 Million - 500 Million	>300 Million - 2,5 Billion
3.	Medium business	>500 Million - 10 Billion	>2,5 Billion - 50 Billion

According to Andang (2007), there are several categories of problems of Micro, Small, and Medium Enterprises (MSMEs), namely:

- a. The basic and classic problems of MSMEs are capital, legal entities which are generally non-formal, human resources, product development and marketing access.
- b. Advanced problems including the introduction and penetration of export markets that are not yet optimal, lack of understanding of product design in accordance with market character, legal issues related to patents, sales contract procedures and regulations applicable in export destination countries.
- c. Intermediate problems, i.e. problems from relevant agencies to solve basic problems in order to be able to deal with further problems better. These issues include financial management, accounting, collateral and limitations in entrepreneurship.

Meanwhile, from the survey results on MSME profiles conducted by Bank Indonesia (Andang, 2007), there are problems and constraints of MSMEs viewed from the perspective of MSME itself and from banking. From the MSMEs' side, some important variables that are still have low performance are: a) Ease of MSMEs in obtaining permit; b) The ability of MSMEs to manage finances; c) Timeliness and amount of credit acquisition and; skilled workforce.

From banking perspective, low-performing variables of MSMEs are: (a) Financial management capability; (b) Labor skills; (c) Marketing capability; (d) Quality control in production. Muhammad Jafar (2004) stated that the development of MSMEs is essentially a joint responsibility between the government and the community. By looking closely at the problems faced by MSMEs, things that need to be pursued in the future are as follows:

- a. The creation of a conducive business climate, among others, by seeking peace and security of business and simplification of business licensing procedures, tax breaks and so forth.
- b. Capital assistance, that are to extend the special credit scheme on non-burdening terms for MSMEs, to assist in capital raising through the formal financial service sector, informal financial service sector, guarantee schemes, leasing and venture capital funds.
- c. Business protection. Certain types of businesses, especially the traditional business type, which is the business of the economically weak group, should get protection from the government, either through laws or government regulations that lead to a win-win solution.

- d. Development of mutual partnerships between MSMEs, or between MSMEs and large enterprises both domestic and overseas, to avoid monopoly in business.
- e. Training. The government needs to improve the training for MSMEs both in the aspects of entrepreneurship, management, finance, administration, knowledge, and skills in the development of its business.

The role of government is needed to assist MSMEs, for 3 reasons (Bellefleur, et.al., 2012): (1) to create productive workers, (2) to improve their productivity and efficiency through small (or large) scale investment in technology, (3) to be more flexible compared to big industry because their smaller size enables them to adjust to the ever changing economic conditions. The central government is concerned to assist MSMEs with the Ministry of Cooperatives and MSMEs, the revitalization of KUR (*Kredit Usaha Rakyat/People's Business Credit*), and LPDB (*Lembaga Pengelola Dana Bergulir/Revolving Fund Institutions Fund*). Both KUR and LPDB do not provide further managerial assistance to their debtors (Machmud and Siregar, 2010). In fact, MSMEs out of production networks, have weaknesses in their managerial capacity and capability. It is proposed that financial support program should be provided, accompanied by capacity building programs such as business assistance in the form of counseling and advice, business coaching, and training.

METHODS

The scope of this research was in Ponorogo Regency. Object in this research was all MSM entrepreneurs in Ponorogo Regency, especially micro businessmen who have maximum assets of 50 million and a maximum sales turnover of 300 million in 1 year. Population in this research was all MSM entrepreneurs in Ponorogo. The sampling method used was purposive sampling with the following criteria: (1) MSMEs registered in Indakop Ponorogo Regency, (2) MSMEs are willing to be interviewed and willing to fill out the questionnaire, (3) MSMEs are still actively operationalize the business.

The type of this research was descriptive qualitative, while the data used in this research were primary data and secondary data obtained through observation, interview and questionnaire. The data collection was done by:

- a. Observation, the researchers made a direct observation to the business location of MSM entrepreneurs as well as to record the phenomena that occur also to know the condition of the company directly.
- b. Interviews directly with MSM entrepreneurs to obtain in-depth information, especially on the preparation of financial statements that had

been done, in addition it was also assisted by a questionnaire.

- c. Documentation in the form of financial statements owned or already made by MSM entrepreneurs and official sources such as the Central Bureau of Statistics and Dinas Indakop.

The essence of data analysis was the process of reviewing, sorting and grouping data with the aim of composing work hypotheses and turning them into conclusions or theories as research findings. Data was the result of interaction between researchers with data sources. Therefore, data analysis was basically started since data collection began (Winanto, 2016).

Data analysis methods in this study referred to an interactive model consisting of 3 components, namely data reduction, data presentation and drawing conclusions (Miles and Huberman, 1992). This study used a qualitative approach, because according to Kirk and Miller (Moleong, 2001), qualitative research is a particular tradition in social science that is fundamentally dependent on the observation of man and his own region and associated with these people.

This research was a descriptive analytical research, because the data, facts and field findings obtained were developed by providing adequate interpretation on the basis of the results of the analysis of the facts found. This research also used qualitative method, because it described social reality of MSM entrepreneurs in Ponorogo by giving high weight by developing analysis from rational interpretation as input for related parties.

RESULTS

Ponorogo regency is located in the western region of East Java province with an area of 1,371.78 km² which is administratively divided into 21 districts and 307 villages/*kelurahan*. According to its geographical condition, Ponorogo Regency is located between 111 ° 17' - 111 ° 52' East Longitude and 7 ° 49' - 8 ° 20' South Latitude with altitude between 92 - 2,563 meters above sea level divided into 2 sub area that are highland area including District of Ngrayun, Sooko, Pudak, Ngebel and 17 other districts are low land area.

Distance of the capital of Ponorogo regency with the capital of East Java Province approximately 200 km to the northeast and the distance to the state capital is 800 km to the west. The boundaries of Ponorogo regency are as follows: (1) North: Madiun Regency, Magetan Regency, Nganjuk Regency, (2) East: Tulungagung Regency, Trenggalek Regency, (3) South: Pacitan Regency, (4) West: Pacitan Regency, Wonogiri Regency (Central Java Province).

Administratively, Ponorogo Regency is divided into 21 districts, 307 villages/*kelurahan*, 947 hamlets/neighborhoods. To run the wheels of government, it supported by all employees at the district level until

the village/*kelurahan*. Ponorogo Regency also has a mineral content. Based on district area, types of minerals are: Ngrayun District contains manganese, ocher and tras (17,792 m², Slahung District contains zinc, manganese, limestone (6,273 m²), kaolin bentonite (437 m²), zeolite (797 m²), gypsum (26,000 tons), tras (1,305 m²). Bungkal District contains zinc, Sambit District contains tras, District Sawoo contains limestone, Sooko District contains tras, gold, Pulung District contains gold, manganese, tras and sirtu. Sampung District contains limestone and tras. Jenangan District contains gravel. Ngebel District contains gold and tras, while 10 other districts have been no studies so it is remain unknown of their natural resources such as minerals.

Number of respondents who successfully conducted interviews were 50 perpetrators of Micro, Small, and Medium entrepreneurs. Respondent were the ones' name registered in Indakop. Respondents were successfully encountered and interviewed at each business location. Reog craftsmen 24% or as many as 12 people, bag craftsmen 2% or 2 people, tile craftsman 20%, or 10 people, printing entrepreneurs 40% or 20 people, and convection 12% or 6 people.

There were seven important variables in this study that describes the basic capabilities/competencies possessed by MSMEs in Ponorogo, as many as 50 respondents. The seven variables were (1) sales turnover, (2) capital resource owned, (3) net income per month, (4) preparing financial statements, (5) form of financial statements, (6) training that had been participated, (7) constraints to the preparation of financial statements.

Based on the results of the study showed that sales turnover of MSM entrepreneurs per year shown in Figure 1.

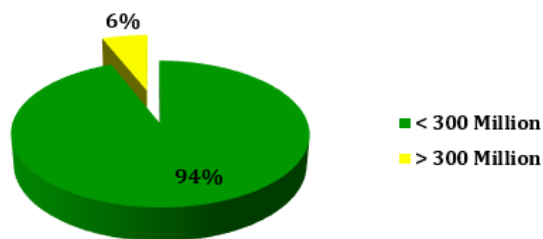


Figure 1. Yearly Sales Turnover

The picture above shows that the majority of MSM entrepreneurs in Ponorogo include micro entrepreneurs in accordance with Undang-undang No. 20 Tahun 2008 regarding MSMEs. This condition reflected that the perpetrators of MSME was indeed required to produce products, especially related to the family economy. Efforts were made to support families, while they were unable to compete in the formal sector, so they were trying in the informal sector. This was understandable

because working in the informal sector did not require complicated requirements. The above conditions also indicated that the perpetrators of MSMEs still need a lot of capital to develop their business.

The capital resource used to run the business is shown in Figure 2.

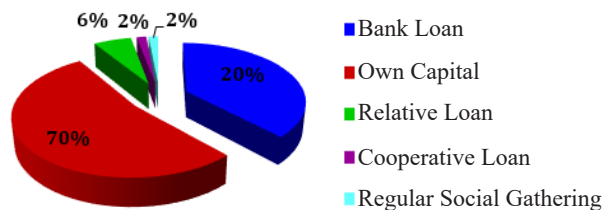


Figure 2. Capital Resource Used

This shows that the capital resource used by MSM entrepreneurs is their own capital and the majority of them have not utilized the facilities of banking. This was influenced by several factors, including the lack of requirements to apply for loans to banks, especially related to the financial statements, because the majority of MSM entrepreneurs did not prepare financial statements for various reasons. In addition, MSM entrepreneurs were still afraid of bank interest, which was high and burdensome. They were more comfortable with their own capital even though the amount was limited which affected the development of business into stagnant, had not shown progress.

The results of this study were in accordance with Yuwono's (2013) study which showed that there are seven factors that inhibit small micro-enterprises in East Java, one of which is financial factors which include difficulty obtaining loans from financial institutions, high loan interest rates from financial institutions, and lack of Assistance from the government. These barriers encourage small micro entrepreneurs to use their own capital.

The results of this study were also in accordance with the results of research by Anton, et.al. (2015) that 80% of SME make use of their own financial resource as working capital. Banks could not reach most of SME since their lack of ability to compose their business financial plan. Inability of compiling financial plan of SME also has effect on their awareness of business risks. Likewise with Organization for Small & Medium Enterprises and Regional Innovation, Japan (2008) that at least 60 % of small medium enterprises at present are unable to obtain loans. They are generally self funded. For this reasons, majority of small and medium enterprises are still just microenterprises. As a result, these businesses are not operating effectively or efficiently.

The monthly net income of MSM entrepreneurs is shown in Figure 3.

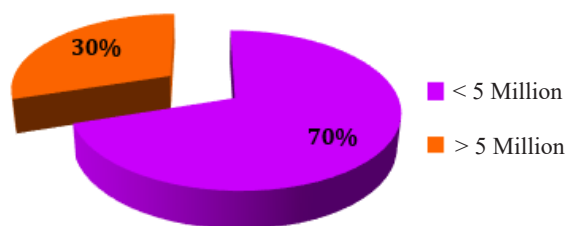


Figure 3. Monthly Income

These results indicate that the monthly income of the majority of MSMEs in Ponorogo is < Rp 5.000.000, -. Limited amount of capital resulted in limited income which resulted in difficulty to develop business. The majority did not dare to do business development by borrowing to the bank, so the business remained small and certainly very influential on the income earned. Referring to the results of research by Anton, et. Al. (2015) that MSMEs rely on their own capital to finance working capital.

MSM entrepreneurs who prepared the financial statements are shown in Figure 4.

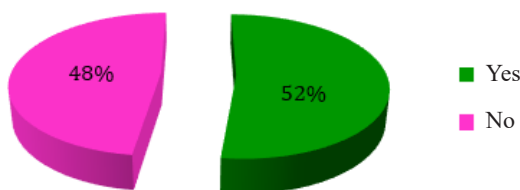


Figure 4. Preparing Monthly Financial Statements

The result of the research indicated that the majority of MSM entrepreneurs did not prepare financial statements, so it was unknown how much assets owned, profit/loss obtained during certain period, and business development was achieved. Besides, by preparing good financial statements, it would be very beneficial for MSM entrepreneurs, especially for the requirements of loan application to the bank. Conversely, if the financial statements were not prepared, then they would not be able to know how their business development in real time, they only knew the development of business based on estimates and wishful thinking. And in the absence of financial statements, they would find it difficult to access credit from banks, so that would affect the development.

The financial statements made by MSM entrepreneurs are shown in Figure 5.

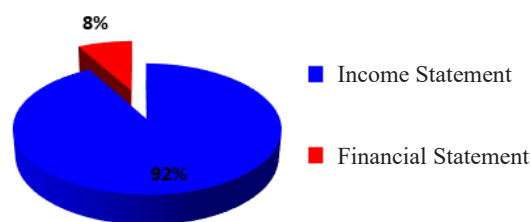


Figure 5. Financial Statement Form

The financial statements prepared were mostly the income statement. A good financial report, would be beneficial for MSM entrepreneurs, especially for the requirements of bank loan application. Conversely, if the financial statements were not prepared, then they would not be able to know how their business development in real time, they only knew the development of their business based on estimates and wishful thinking. And in the absence of financial statements, they would find it difficult to access credit from banks, so that it would affect the development of their business. The use of bank credit needed to be done carefully, as it would increase the risk, therefore the required financial statements were not only Income Statement, but also Balance Sheet, so it could be analyzed how far the capital itself was able to guarantee its debts, and how to use debt to finance the assets.

The training that had been participated by MSM entrepreneurs in Ponorogo is shown in Figure 6.

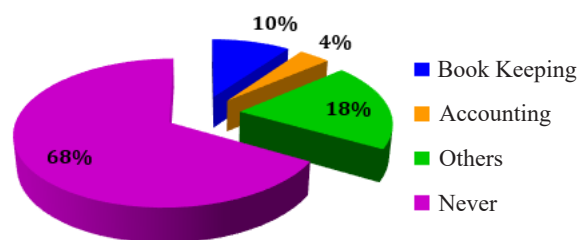


Figure 6. Training that had been participated

The training that has been participated was about bookkeeping, the majority of MSM entrepreneurs had never participated in accounting training. This had an impact on their perceptions of the importance of financial statement preparation related to their business, and the impact on the quality of their financial statements, which ultimately affected the smooth access to credit

to the Bank, meaning that their financial statements were not yet bankable.

The financial statement preparation constraints experienced by MSM entrepreneurs are shown in Figure 7.

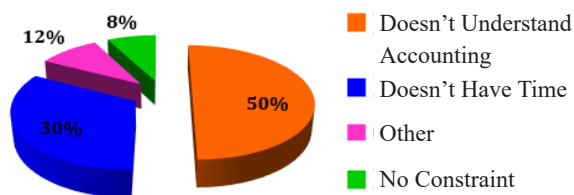


Figure 7. Financial Statement Preparation Constraints

Based on Figure 7 it can be said that the constraints faced as to why not preparing financial statements are because they did not understand accounting and they deemed it not important so they did not take the time to prepare financial statements. This showed the lack of socialization to MSM entrepreneurs related to the importance of preparation of financial statements. While some who had prepared the financial statements because they have been following the bookkeeping training, so they already understood the importance of preparation of financial statements. Although the financial statements they had prepared were not yet completely correct.

From the result of the research, there were 7 (seven) important variables that could describe how the basic financial competence/capability especially in the field of accounting for MSM entrepreneurs in Ponorogo. The seven variables studied included sales turnover, capital resource used, monthly net income, preparation of financial statements, form of financial statements, obstacles in the preparation of statements, training that had been participated.

The role of government is needed to assist MSMEs to improve financial competence (Bellefleur, et.al., 2012, Jafar, 2014), with financial support program should be provided, accompanied by capacity building programs such as business assistance in the form of counseling and advice, business coaching, and training (Machmud and Siregar, 2010). SME leaders should be culturally smart to win the competition creatively (Wijaya, 2014). Increased competence can improve the performance of MSMEs. (Ardiana, 2010). Microcredit and SME finance are often pitched as alternative strategies to create employment opportunities in low-income communities (Bauchet and Morduch, 2012).

Ponorogo Government Regency could help MSM entrepreneurs in terms of: (1) Credit assistance with soft interest, in order to absorb labor by huge number, so as to contribute significantly to the program of poverty alleviation and reduction of unemployment, (2) Providing training to improve a) the financial competence of MSMEs so as to impact their ease in

accessing credit from banks (business capital assistance by providing accounting training), b) ways of business management, and c) business assistance, (3) Optimizing the role of KKMB (Konsultan Keuangan Mitra Bank/ Bank Partner Financial Consultant) in fostering and assisting MSMEs who will apply for business credit (4) Socializing profit sharing or venture capital (5) Increasing participation credit guarantee institution for MSMEs who were stumbled because of the requirements of collateral. Hopefully with the implementation of the above assistance, the MSMEs no longer have difficulties in terms of applying for business capital credit from credit channeling institutions, especially banks.

The challenges faced by MSM entrepreneurs are quite large, however, the opportunities faced are also large, so the help and efforts to make them professionals are needed to win the competition.

CONCLUSION

The conclusions that can be submitted are:

1. Majority of MSME entrepreneurs in Ponorogo who become unit of analysis including micro entrepreneur, capital resource used was their own capital, monthly income majority was < Rp 5.000.000,-, many did not prepare financial report, financial statements made was Income Statement, most had not been trained, and the financial statement preparation constraints experienced were due to not understand accounting.
2. MSMEs financial competence in Ponorogo needed to be improved by accounting training, with the target being able to prepare financial reports, bankable, increase income, so as to develop the business. Further research is required in the formulation of modules and accounting training for achieving the target.

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Brand Image and Product Quality on Customer Loyalty (Survey in Cekeran Midun)

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Abstract

The purpose of this research is to (1) know customer responses to brand image, product quality, and customer loyalty of Cekeran Midun, (2) know how big the influence of brand image and product quality on customer loyalty are. The methods used are descriptive and verificative analysis. Data were primary and secondary data. Primary data was obtained from questionnaires distributed to 87 customers in Cekeran Midun Cikutra branch, Bandung. Secondary data was obtained from literature texts, journals and other sources that fit the topic of research. The result of analysis and discussion showed that Cekeran Midun Bandung applied brand image in 4 forms namely, recognition, reputation, affinity and domain. Cekeran Midun also implemented 8 forms of product quality i.e. performance, durability, conformance to specifications, features, reliability, aesthetics, perceived quality and serviceability. The influence of brand image and product quality on customer loyalty was 23.32%.

Keywords: brand image, product quality, customer loyalty

INTRODUCTION

In the current global era, business development is increasing rapidly. The increasing of the business world of a country shows a good economic condition. The impact makes the market become more widespread and opportunities are everywhere. However, on the contrary, the competition becomes increasingly tight and unpredictable. This condition requires the company to create a competitive advantage of its business in order to be able to compete on an ongoing basis. Companies that want to grow and gain competitive advantage should be able to provide products in the form of quality goods or services and good service to customers so that customers feel satisfied. Modern marketing today is no longer merely to market quality products, sell products at low prices and put products that are easily reachable to consumers. Competition in the business world increasing sharply. This can be seen from the number of similar products with the same benefits offered in the market that can threaten the continuity of the company's products.

Realizing the increasingly competitive level, Cekeran Midun which is a culinary business do not want to be outdone by its competitors. By choosing a trade mark "ceker" (chicken feet) as a processed menu in the middle of a trend that most culinary oriented on

international food but the owner of this Cekeran Midun has a very creative idea by looking at opportunities because a number of people who like this cekeran menu, because chewy, tasty processed chicken feet are commonly found in soup or a bowl of meatball noodles. Cekeran Midun also provides the best quality of products for its customers. This is done to attract the attention of customers in order to always provide a good brand image to Cekeran Midun, so that customers keep their loyalty to the products offered by Cekeran Midun itself.

Brand Image is very important for business in this culinary field for business continuity. Cekeran Midun is highly recommended to pay attention to the quality of its products, so that customers can be loyal to the products offered. Another advantage gained when brand image and quality of product are good. It certainly can be a means of free advertising. Loyal customers of Cekeran Midun will tell others therefore they are interested to try the products that are in Cekeran Midun and become loyal customers as well.

Loyalty affects many marketing activities, one of which is sales. Sales are an important factor in marketing activities that will raise the company's name. At this time, the company is more focused on maintaining old customers and capturing new customers. Moreover, the current global crisis, companies must start a good

relationship with customers so as to create loyalty that can be achieved through Brand Image and Product Quality.

The success or failure of the marketing mix strategy depends on the consumer's response to the product offered by the company. In general, the consumer decision process of a product occurs when arising from the desire on themselves. This can change with consideration in using one of the elements contained in the marketing mix of brand image products (Enden Novita Dewi, 2013: 40).

A brand needs an image to communicate to audiences, in this case its target market of the values contained therein. For companies, image means public perception of the company's identity. This perception is based on what the community knows about the company in question. Therefore, companies that have the same business field does not necessarily have the same image in the presence of people or consumers. According to Kotler and Keller (2009:260), perceiving Brand Image is the process by which a person chooses, organizes, and interprets information input to create a meaningful picture. According to Tjiptono (2008:49), the definition of brand image is a description of the association and confidence of a consumer to a particular brand.

Kotler and Keller (2009: 419) suggests there are four main things that must be considered in a brand, namely:

1. Recognition, which is the level of familiarity of a brand by consumers, if a brand is not known, then the product with the brand must be sold by relying on a cheap price.
2. Reputation, which is the level or status of a brand, because it is more proven to have a good track record.
3. Affinity, which is an emotional relationship that arises between a brand and its customers. A product with a brand favored by consumers will be easier to sell, and a product that has a high perceived quality will have a good reputation.
4. Domain, concerning the wide scope of a product that is willing to use the brand in question.

Based on the description above, the brand image is the consumer's understanding of the brand as a whole which is not solely determined by how good the name of a product is, but also how to introduce the product in order to become a memory for consumers in forming a perception of a product.

In addition to brand image that can increase customer loyalty to a company, product quality is also a point in improving customer loyalty. Product quality according to Kotler and Keller (2009:49) is the overall feature of a product or service on the ability to satisfy the stated/ implied needs. Meanwhile, according to Lupiyoadi (2013:212), the quality of the product shows the extent to which the product (service) meet the specifications.

According to Tjiptono (2008), quality reflects all dimensions of product offerings that generate benefits for customers. The quality of a product in the form of goods or services is determined through dimensions, including:

1. Performance, related to the basic operating characteristics of a product.
2. Durability, which means how long or the age of the relevant product lasts before the product must be replaced. The greater the frequency of consumer use of the product the greater the power of the product.
3. Conformance to specifications, which is the extent to which the basic operating characteristics of a product meet certain specifications of the consumer or the absence of defects in the product.
4. Features: product characteristics designed to improve the function of the product or increase consumer interest in the product.
5. Reliability: the probability that the product will work satisfactorily or not within a certain period of time. The less likely the occurrence of damage then the product is reliable.
6. Aesthetics, related to how the product looks.
7. Perceived quality, is often the result of the use of measurements made indirectly because there is a possibility that consumers do not understand or lack information on the product concerned.
8. Service ability, including speed and ease of repair, as well as the competence and hospitality of service staff.

Based on several definitions above, product quality is a level of good or bad the consisting of all factors attached to the goods or services. Therefore, the goods have the ability to be used as desired by the consumers of the product. Basically an improvement in product quality requires an improvement that involves everyone in the company to improve better results. Therefore required a high quality product so that customer satisfaction can be fulfilled. It is a big responsibility for the company to ensure its products meet customer needs.

A company is required to find and build a management system that is able to professionally retain its customers, the company is required to be able to cultivate their competitive advantage through creative, innovative and efficient efforts. Thus, they become the choice of many customers who in turn are expected to be loyal consumers. Having consumers are the ultimate goal of all companies.

According to Gremler and Brown in Ali Hasan (2008:83), customer loyalty is a customer who not only repurchases goods and services, but also has a positive commitment and attitude toward the service company, for example by recommending others to buy. Meanwhile, according to Engel, Blackwell, Miniard in Ali Hasan (2008: 84) suggests that customer loyalty

is a habit of repetition behavior of purchase, linkage and high involvement in choice, and characterized by the search for external information and alternative evaluation.

From these descriptions, customer loyalty is an attitude that encourages behavior to purchase products/services from a company that includes aspects of feelings in it, especially those who buy regularly and repeatedly with high consistency, but not just repurchase goods and services, but also have a commitment and a positive attitude toward the company that offers the product/service.

Several studies have suggested mixed results regarding the effect of brand image and product quality on customer loyalty. Brand image affects customer loyalty expressed by Yudhya (2017) Chao, et.al. (2015); Hung (2008); Wu, et.al. (2011); Ulusua (2011); As well as corporate image is one of the variables that affect customer loyalty (Rai and Srivastava, 2012). While other research suggests that brand image affects customer loyalty if through intervening variable of customer satisfaction (Zhang, 2015 and Tu, et al., 2012). While research by Thakur and Singh shows brand image has a good effect on customer satisfaction and customer loyalty. This research will be conducted to find out:

- 1) The brand image, product quality, and customer loyalty at Cekeran Midun Cikutra Branch,
- 2) The influence of brand image and product quality on customer loyalty at Cekeran Midun Cikutra Branch.

METHODS

The method used in this research was descriptive associative. Analytical methods used were (1) descriptive method and (2) multiple linear regression analysis method. In descriptive method, the data will be classified referred to the provisions proposed by Suharsimi Arikunto (2002: 354-356) whose range of scores are searched with the following formula:

$$\text{Score Range} = \frac{\text{Highest Score} - \text{Lowest Score}}{\text{Total Classification}}$$

Information:

Highest score = number of respondents x highest weight
x number of items.

Lowest score = number of respondents x lowest weight
x number of items.

Multiple regression analysis was used to determine the effect of Brand Image and Product Quality on customer loyalty to know the effect of the used calculation coefficient of determination.

RESULTS

To be able to create a good product image the company needs to apply four main things that must be considered in a brand: Recognition, Reputation, Affinity and Domain.

The results of scoring in Table 1 showed that in total, Brand Image is in the category of “agree” with the score of 2,649. The total score of Brand Image is in the range between 2,366.4 - 2,922.2 which falls in the “agree” category, as the four dimensions that make up the brand image which are Recognition, Reputation, Affinity and Domain, reach the average in the “agree” category. This fact gave an indication that the community or the customers agreed with the brand image created by Cekeran Midun or even more enhanced of the four dimensions of this brand image. The lowest dimension were affinity and domain, meaning the manager needed to improve the life style, the level of equality between the customer’s perception with the product offered, the scope of product use and similar product type with the brand of Cekeran Midun.

The quality of a product either in the form of goods or services is determined through its dimensions. Product quality dimensions are Performance, Durability, Conformance to specifications, Features, Reliability, Aesthetics, Perceived Quality and Serviceability.

The results of scoring in Table 2 showed that the total Product Quality is in the category of “agree” with the score of 5,567. The total score of Product Quality is in the range of classification criteria between 4,694.4 - 5,826.2 which falls in the “agree” category, as the eight dimensions that make up the Product Quality which are Performance, Durability, Conformance to specifications, Features, Reliability, Aesthetics, Perceived Quality and Serviceability reach the average in the “agree” category. This fact gave an indication that the community or the customers agreed with the quality of products offered by Cekeran Midun or even more enhanced of the eight dimensions. The lowest indicator was the taste and nutritional content of Cekeran Midun. Managers needed to improve the taste and nutritional content of their processed products, so that the quality of the products increased.

A company is required to find and build a management system that is able to professionally retain its customers. The company itself is required to be able to cultivate their competitive advantage through creative, innovative and efficient efforts. Thus, they become the choice of many customers who in turn are expected to be loyal consumers. Having consumers are the ultimate goal of all companies.

The results of scoring in Table 3 showed that in total, Customer loyalty is in the category of “agree” with the score of 1,743. The total score of Product Quality score is in the range between 1,479 - 1,826 which falls within the “agree” category, as the five indicators reach the average in the “agree” category. This fact gave an indication that the public or the customers agreed to be loyal customers at Cekeran Midun or even further enhanced each of its indicators to increase the number of loyal customers to Cekeran Midun. The lowest dimensions score were the creation of prospects and buying outside the product and service lines. This are ingredients for managers of Cekeran Midun to improve, for example by innovating in taste, adding nutritional content, as well as developing new products that follow the lifestyles and anticipate the development of competitors.

Multiple linear regression equation was used to find out how far the influence of brand image and product quality of Cekeran Midun to customer loyalty.

Based on Table 4 then it is known that multiple linear regression equation is:

$$Y = 5,093 + 0,030 X_1 + 0,200X_2$$

The correlation between Brand Image, Product Quality and Customer Loyalty is 0.483 and is in the range of 0.40 - 0.599. It has moderate relationship. Partial correlation is shown in Table 5.

- A. X_1 towards Y is 0.268* that means the brand image has a low level of relationship to customer loyalty of Cekeran Midun
- B. X_2 towards Y is 0.482 that means that the product quality has a moderate level of relationship to customer loyalty of Cekeran Midun.

The coefficient of determination was used to determine the effect of Brand Image and Product Quality on Customer Loyalty (Table 6).

Based on Table 6, the determination coefficient is 23.32%. This is the role of Brand image and product quality on customer loyalty. While the remaining is 76.68% influenced by other variables not examined in this study. For example, the high competition of similar products, different customer tastes, low customer buying interest.

To know whether there was a significant effect of brand image and product quality on customer loyalty shown in Table 7.

Based on Table 7, it is obtained: (a) The level of Brand Image offered by Cekeran Midun had no significant effect on customer loyalty, (b) Product Quality offered by Cekeran Midun had significant influence on customer loyalty because $t_{count} = 4,208$.

Brand image had no direct effect on customer loyalty. This result was contrary to Yudhya’s research (2017); Chao, et.al. (2015); Hung (2008); Wu, et.al. (2011); Ulusua (2011), because it was suspected that there was a variable between customer satisfaction as stated by Zhang (2015) that brand image exerts no direct influence on customer loyalty, but it can impact on customer loyalty via customer satisfaction. So does Tu, et. al. (2012), corporate brand image significantly affects customer satisfaction and customer loyalty, and customer satisfaction has strong impact on customer loyalty.

Product quality had a significant effect on customer loyalty, this was in accordance with the results of Halim’s research, et.al. (2014); Thakur and Singh (2012); Jahanshahi, et.al. (2011). This meant that customer loyalty could increase as product quality increased. The quality of the product that needed to be improved was from the indicator of taste and nutrient content.

F test was used to test the simultaneous effect of brand image and product quality on customer loyalty (Table 9).

Based on Table 9 it can be seen that $F_{count} > F_{table}$ is $12.791 > 3.10$, so H_0 is rejected and H_1 is accepted. This meant that brand image and product quality together had a significant effect on customer loyalty. These results suggested that managers could increase customer loyalty through improved brand image and product quality.

CONCLUSION

Based on the research results, several conclusions can be drawn as follows:

1. Customer feedbacks about brand image, product quality, and customer loyalty of Cekeran Midun were at good level. The lowest dimensions of brand image were affinity and domain, which included life style, the level of equality between customer perception with the product offered, product usage coverage and similar product type with the brand of Cekeran Midun. The lowest indicators of product quality were the level of taste and nutrient content. The lowest dimensions of loyalty were the creation of prospects and buying outside the product and service lines. It is important for managers of Cekeran Midun to improve some ingredients: for example, innovating in taste, adding nutritional content, and also developing new products that follow lifestyle and anticipate the development of competitors.
2. Brand Image and Product Quality simultaneously influenced Customer Loyalty of Cekeran Midun. Brand image had no significant effect on customer loyalty, while product quality had significant effect. It means that improving product quality will increase customer loyalty.

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APPENDIX

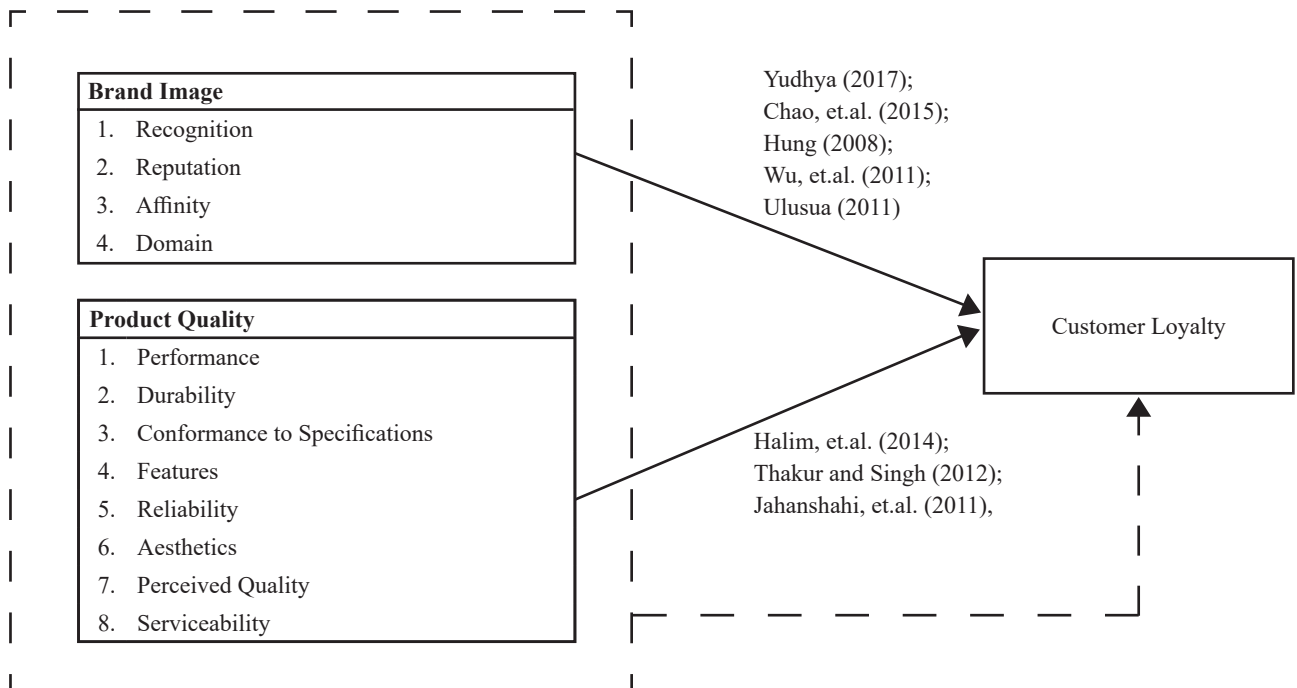


Figure 1. Research Paradigm

Table 1. Level of Customer's Statement on Brand Image

No	Dimension	Indicator	Total Score
1	Recognition	• Level of introduction to the brand product of Cekeran Midun	324
		• Place Design	354
Total Recognition			678
2	Reputation	• Customer's perception of the taste of Cekeran Midun products	336
		• Level of customer's confidence in Cekeran Midun	335
Total Reputation			671
3	Affinity	• Life style	335
		• Level of equality between customer's perceptions and those offered by brand products of Cekeran Midun	304
Total Affinity			639
4	Domain	• Product use scope	335
		• Types of products using similar products under the name of Cekeran Midun	326
Total Domain			661
Total Score of Customer's Statement on Brand Image			2649

Table 2. Level of Customer's Statement on Product Quality

No	Dimension	Indicator	Total Score
1	Performance	• Taste level of Cekeran Midun products	312
		• Level of nutritional content of Cekeran Midun products	317
		Total	629
2	Durability	• Durability level of Cekeran Midun Products	369
		Total	369
3	Conformance to specifications	• Level of product display appropriateness	374
		• Level of compliance of quality standards	365
		Total	739
4	Features	• Diversity level of Cekeran Midun products	331
		• Interest level of Cekeran Midun products	343
		• Level of clarity of information provided about Cekeran Midun products	357
		Total	1031
5	Reliability	• Level of product physical condition and appearance when purchased	353
		• Possible level of product and display malfunction	361
		Total	714
6	Aesthetics	• Appetizing scent level of the product	306
		• Attractive product display level	322
		Total	628
7	Perceived quality	• Impression of good quality from product price aspect	374
		• Impression of good quality from product appearance and taste aspect	388
		Total	762
8	Serviceability	• Cekeran Midun's employees' friendly level	371
		• Level of facilities offered by Cekeran Midun	324
		Total	695
Total Score of Customer's Statement on Product Quality			5567

Table 3. Level of Customer's Statement on Customer Loyalty

No	Dimension	Score
1	Purchase regularly	359
2	Rejection of competitors' products	352
3	Buy outside the product or service line	337
4	Creation of prospects	335
5	Recommend to others	360
Total Score of Customer's Statement on Customer Loyalty		1743

Table 4. Multiple Regression Linear

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	Std. Error				Beta	Zero-order	Partial
1	(Constant)	5.093	2.223		2.291	.024			
	Brand Image	.030	.081	.041	.371	.712	.268	.040	.035
	Product Quality	.200	.048	.462	4.208	.000	.482	.417	.402

a. Dependent Variable: Customer Loyalty

Table 5. Partial Correlation

		Brand Image	Product Quality	Customer Loyalty
Brand Image	Pearson Correlation	1	.492**	.268*
	Sig. (2-tailed)		.000	.012
	N	87	87	87
Product Quality	Pearson Correlation	.492**	1	.482**
	Sig. (2-tailed)	.000		.000
	N	87	87	87
Customer Loyalty	Pearson Correlation	.268*	.482**	1
	Sig. (2-tailed)	.012	.000	
	N	87	87	87

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

* . Correlation is significant at the 0.05 level (2-tailed).

Table 6. Coefficient of Determination

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.483 ^a	.233	.215	2.612	1.509

a. Predictors: (Constant), Product Quality, Brand Image

b. Dependent Variable: Customer Loyalty

Table 7. t Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	Std. Error				Beta	Zero-order	Partial
		1	(Constant)	5.093	2.223		2.291	.024	
	Brand Image	.030	.081	.041	.371	.712	.268	.040	.035
	Product Quality	.200	.048	.462	4.208	.000	.482	.417	.402

a. Dependent Variable: Customer Loyalty

Table 9. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	174,564	2	87.282	12.791	.000 ^a
	Residual	573,193	84	6.824		
	Total	747,757	86			

a. Predictors: (Constant), Product Quality, Brand Image

b. Dependent Variable: Customer Loyalty