ISSN 2355-7737 (*online*)

TRIKONOMIKA
Economic Journal

Volume 16, No. 2, December 2017

PUBLISHER
Books and Journals Publishers
Faculty of Economics, University of Pasundan
in Cooperation with ISEI Bandung

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

Editorial Address: Jl. Tamansari No. 6-8 Bandung - 40116. Tel. 022-4233646, Fax. 022-4208363 Website: jurnal.fe.unpas.ac.id, E-mail: trikonomika@jurnal.unpas.ac.id

Printing: Books and Journals Publisher Faculty of Economics, University of Pasundan
For subscription and purchase information can contact the editors.

ISSN 2355-7737 (*online*)

REVIEWERS ACKNOWLEDGEMENT

Thanks and appreciation to the experts who have been reviews Trikonomika Journal Volume 16, No. 2 December 2017. The following is a list of names participating partners:

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ISSN 2355-7737 (*online*)

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ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

BRAND EXTENSION OF FAST MOVING CONSUMER GOODS TO CUSTOMERS' PERCEPTION

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Abstract

The cost of launching a totally new product or brand is usually very high accompanied by the risk of failure in an overcrowded market. Therefore, brand extension strategy is used due to its built in advantages. This research examined in depth, the factors in a brand extension which influence to customer perception about the existing brand in fast moving consumer goods (FMCG) sector. Four variables such as brand fit, perceived quality, brand familiarity and customer innovativeness, were used to establish the relationship with the customers' perception. A questionnaire was developed and distributed to 200 respondents from hypermarket FMCG products' consumers in Melaka city. It was found that in the context of personal hygiene products, only brand fit and perceived quality have a strong influence on the customer perception. Marketer should, however, carefully to evaluate their extension especially for local brand since not all factors in this extension significantly influence the customer perception.

Keywords: brand extension, customer perception, fast moving consumer goods

INTRODUCTION

People nowadays are surrounded by all kinds of brands and brand extensions are introduced by companies to expand their brand to the market. A greater starting point for a brand to be successful depends on the customers' awareness and consciousness on the brand itself. Due to the intense competition in the market, almost every industry shows the fact that a rise in number of products become similar to the competitors' ones (Blomquist and Holm, 2004). Therefore with the perception of customers on the brand, companies can then take brand extension as one of their marketing strategy to differentiate their products from the others and at the same time try to acquire more market shares.

A brand extension occurs when a firm extends an existing brand name to launch another product in a different category (Keller, 2013). Using Ansoff's Growth Matrix as a useful perspective to understand brand extension, the growth strategies can be categorized according to whether they rely on existing or new products and market. Aaker and Keller's (1990) model of consumer brand extension attitude formation has triggered additional brand extension research in various countries.

Brand extension strategy was an extremely important decision for a company. This is because the incorrect decision on the extension could bring a brand dilution which may be costly to alter the affected image of the brand (Soomro et al. 2013). In order to be familiar with the factors that most affected the success ability of brand extension, marketers should know the phenomena regarding which factors that consumers consider when choosing the product and how the factors affect the consideration that leads to positive and favourable perception towards the extension.

In this context, this study is positioned more specifically in fast moving consumer goods (FMCG) sector. FMCG constitutes a large part of consumers' budget in all countries (Çelen et al., 2005) and Malaysia is no exception. FMCG sector is defined as relatively inexpensive, frequently purchased and rapidly consumed items on which customers exert only minimal purchasing effort (Leahy, 2011). According to Leahy (2011), the customers' perspective relationship does not exist in FMCG markets and that the nature of exchange in such markets is not relationship based. This research conducted to determine the influence of brand extension on customer perception and will indirectly find out whether the variables can affect the customer perceive in FMCG sector.

New product launch is always good for business growth. However, the rates of new product failure have tremendously increased over the last few decades.

Therefore, companies always launch a new product using brand extension strategy. This is because, with brand extension, customers will easily accept a new product, the promotion cost is lower and there are comparatively fewer chances to face failures if it is compared to launching a totally new product. According to Taylor (2006), most companies use brand extension strategy because of its lower cost and it is a less risky way of launching innovation than creating a new brand.

In fast moving consumer goods (FMCG) segment, the companies are also applying brand extension strategy because of the inbuilt advantages. The study done by Nielsen, a market research firm in United States, showed that there were five times more successful to extend existing FMCG brands than launching a new brand in India (Beura, 2016). In Malaysia, the consumer purchasing power in FMCG sector gained the traction in the first quarter of 2016 and most of the categories, include household, registered a healthier growth. From this, it can be seen that there stands a far better opportunity of growing in Malaysia's FMCG sector. However, the influences of brand extension on consumer consciousness studied in the FMCG industry has not been tested in Malaysia especially in Melaka's context.

With the rapid development of FMCG sector, more and more FMCG brands extensions have appeared in the market. These brand extensions tend to be followed by other companies to keep their positions in the market competition. Although extending the brand will enhance, revitalize the image of the parent brand and give more choices to the customers, at a certain point it can be confusing, frustrating and even cannibalize the sales of the parent brand. (Keller, 2013). Therefore marketer should understand how to extend the brand in the proper way.

The good customer perception about branding is so important to win the competition in FMCG market, but by understanding on what determinant factors that have a positive relationship to this perception, it can lead the marketers to achieve this objective. This study focused on investigating these factors and its relationship to the customer perception.

Referring to some previous research, there are several important factors associated to the issue of brand extension. These factors are brand fit, perceive quality, brand familiarity, and customer attitude. The focus of the questions in this research is whether all of the above factors have an influence on the customer's perception of an existing brand and how the model of their relationship. To find out the answers to the above questions, some research objectives are set up as followed: (1) To investigate the influence of brand fit on brand customer perception, (2) To examine the influence of perceiving quality on brand customer perception, (3) To determine the influence of brand familiarity on brand customer perception, (4) To evaluate the influence of customer attitude on brand customer perception, (5) To develop the relationship between brand fit, perceive quality, brand familiarity and customer attitude toward brand customer perception.

Nowadays a brand is a valuable asset and branding means the creation of the asset. (Vazifehdoost 2016). American Marketing Association (AMA) defines a brand as a name, term, sign, symbol, or design, or a combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. A marketer has created a brand whenever he or she creates a new name, logo, or symbol for a new product (Keller, 2013).

Companies always use different methods to extend their business to various market and different segments. Regarding different market strategies, brand extension is one of the most popular methods in order to grow and expand their business. This is because brand extension can easily enter a new market due to its existing good image and equity of the brand. According to Aaker and Keller (1990), the leverage of a strong brand name can substantially reduce the risk of launching a product into a new market because of its familiarity and knowledge of an existing brand are provided to consumers. A good image and status of the parents brand in the market enable the extension to start a good growth in the respective market.

There are many definitions for brand extension. Referring to Khan and Janthimapornkij (2011), brand extension is defined as any effort to extend established brand names to launch new or modified products or lines. Keller and Aaker (1992) defines brand extension as the use of established brand names to enter new product categories or classes.

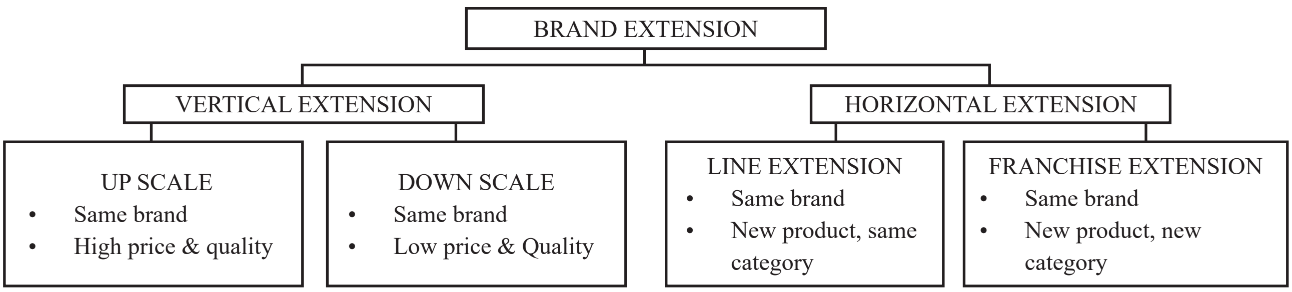

Figure 1: Brand Extension Model

Adapted from Kim et al (2001); Martínez & Pina (2003); Henry Xie (2008); Bosinakis & Johansson (2009); Khan & Janthimapornkij (2011).

There are two types brand extension, vertical and horizontal. The application of an existing brand name for extending a new product either in the same product class or in a totally new product category from the parent brand is considered as a horizontal brand extension. According to Aaker and Keller (1990), a horizontal brand extension can be further divided into two categories. There are line extension and franchise extension. The focus on these brand categories was usually diverse (Soomro et al., 2013). An existing brand name and same product class used for entering a new marketing segment are associated to line extension, while franchise extension, whereby a current brand name is used for entering a different product category.

Meanwhile, a vertical brand extension refers to introduce a similar brand to the same category but usually with a different price and quality point (Keller and Aaker, 1992; Chen and Gu, 2012). There are two directions for vertical extension. A new product which was priced higher and with higher quality level will be called as upscaling. In contrast, the new product with lower price and quality will be termed as down scaling.

Brand fit means that how the extended brand resembles with parent brand in terms of quality and features. According to Arslan and Altuna (2010), the brand fit is how closely related or similar an extension is with the parent brand. It is not only limited to the same product category but also other product classes. Customers evaluate brand extension fit by judging the similarities between the extension and the parent brand and also the steadiness of the brand concept (Arslan and Altuna, 2010). The fit between extended brand and parent brand is identified as one of the major determinants of success brand extension (Volckner et al., 2010).

Brand fit may exist in customer mind because of his or her association that is made about the brand. Product associations may be based on product category, product attribute, application, technology, channel, user and brand personality (Aaker, 2004). The strength of a brand is highly dependent on the customers' associations when the customers come across the brand name and the attachment with parent brand. Customers will have positive attitudes when there are strong associations for a brand.

Strengthening the brand fit between parent brand and extended brand bring positive impact on customer perception towards the brand (Aaker and Keller, 1990; Park et al., 1991; Völckner and Sattler, 2006). Buil et al (2009) also have the result that brand extensions with high brand fit will have more favourable customers' evaluations and at the same time reduce the negative feedback effects of extensions on parent brand equity. A brand extension is easily accepted by customers when it is introduced to the market when the fit between the parent brand and the extension of the brand is high regarding product category (Aaker and Keller, 1990; Park et al., 1991) or associations (Park et al., 1991).

When a brand extension is introduced to the market, it is easily accepted by consumers especially if there is a high fit between the extension and the parent brand regarding product category (Aaker and Keller, 1990; Park et al., 1991) or associations (Park et al., 1991; Broniarczyk and Alba, 1994).

Perceived quality refers to the customer's awareness of products' superior quality in relation to other products (Aaker, 2009). Perceived quality is a consumer judgment on the accumulative product benefits and a subjective feeling of product quality. It can show the salient differentiation of a product or a service and become a selective brand in customers' mind (Chi et al., 2009). On the other hand, Dens & Pelsmacker (2015) states that the perceived brand quality refers to customers' assessments and judgments of the excellence of a product.

Perceived quality cannot be objectively determined because it is a perception not simply satisfaction (Chen and Gu, 2012). It differs from actual quality. The customer perception of quality can be affected by earlier impressions. The perceived product quality of a particular brand might depend on past experiences from the practical use or possible feedbacks from others. According to Khan and Janthimapornkij (2011), perceived quality will be affected by factors such as previous experience, education level, and perceived risk and situational variables such as purchase purpose, purchase situation, time pressure, and social background from consumers. A previous bad image of a product will affect customers' judgment on product quality in the future. If a customer goes to a purchase trial but the product does not meet his or her expectation, he or she will not continue to purchase the product. Therefore, the customer quality perception should be positive for a continuous purchase of a product (Khan and Janthimapornkij, 2011). Moreover, even though the product quality has been changed, consumers will not trust that product because of their unpleasant experience in previous (Aaker, 1996).

Quality of an extended brand is an important aspect from customer point of view when he or she perceives about the brand. Sometimes it is more difficult to determine a customer's evaluation of a brand quality according to his or her perception than deliver the actual quality. The results of the second study by Aaker and Keller (1990) stated that satisfied customers always have a strong attitude on the quality of both parent and extended brand. In simple words, if customers are satisfied with the perceived quality of parent brand, the customers' acceptability of the brand extension will increase. A brand extension strategy is founded on the assumption that beliefs or attitudes about the original brand will transfer to the extension (Martinez et al., 2008). The perceived brand quality is expected to influence consumers' attitudes towards the extensions. Favourable perceptions of a high-quality brand should spill over as positive impressions of an extension (Aaker and Keller, 1990). Aaker (2009) also argues that a strong brand with respect to perceived quality will be able to extend further, and will find a higher success probability than a weaker brand. High quality brands are usually well established because of their elaborate, strong and positive network of associations in customers' memories.

Brand familiarity can be considered as the number of product related experiences that have been accumulated by the consumer through product usage, advertising and others (Keller (1993).Any type of experience with and exposure to the brand increases familiarity (Arslan and Altuna, 2010). Brand familiarity can be understood as customers' direct and indirect experience with the brand and with its entire product portfolio (Campbell and Keller, 2003). Customer tends to purchase a brand which he or she usually use or had experience of that product. How well the customers recognize the product depends on their familiarity with the brand. From the study conducted by Coates et al. (2006), the experiment showed that priming for a familiar brand name can extend beyond the stage of consideration, to influence customers' preferred choices. It was found that existed brand name was significantly more likely to be selected in the first place than the new brand.

The brand with a high level of brand familiarity will be easily remembered and aware once the customers want to buy a product. Customers draw on familiarity to guide their choice and reducing perceived risk. A product with high brand familiarity will receive higher customer preferences because it has higher market share and quality evaluation. Brand awareness can help customers to recognize a brand from a product category and make a purchase decision. According to Chi et al (2009), brand awareness has a great influence on selections and can be a prior consideration base in a product category. It is also acts as a critical factor in the consumer purchase intention which certain brands will accumulate in customers' mind to affect their purchase decision. The brand with the high awareness will have the high familiarity of the brand.

Customer overall judgment of the brand is called customer attitude or innovativeness. Customer innovativeness means the relative willingness of a customer to try a new product or service. It is the degree of how fast a customer is to adopt an innovation or brand extension than other customers. Beura (2016) defines the innovativeness as a personality trait which there is a rise on an individual's receptivity to new ideas and willingness to try new practices and brands. The idea is that the customers who are more innovative can accept the brand extensions easier. This is because these kinds of customers are more adventurous and less dependent on perceptions of perceived fit between the extended brand and the parent brand (Czellar, 2003). According to Henry Xie (2008), many researchers define customer innovativeness as a level of adopting an innovation early and a degree of how individuals are receptive to the latest innovations.

Customer attitude towards any brand can be judged by many ways. For instance, how frequent the customers buy the product, the consumer loyalty on a brand and others. When there is a negative attitude towards the brand, the brand is said to fail. The negative attitude leads the customer to avoid certain brand (Keller, 1993). It is important to improve the innovativeness of a customer on the brand extension because this brings a positive effect on the brand image (Keller, 1993). Therefore, attitude towards the extension is an important variable in determining whether the extension is accepted by the consumer or not. If the attitude towards the extension is high, this will have a positive effect on the product brand image, if it is low, there will be a negative or negligent effect on product brand image. Therefore, it could be easily said that the success of a marketing program depends on creating favourable brand associations (Keller, 1993) and these positive attitudes have a positive impact on product brand image.

On the other hand, Martínez and Pina (2010) stated that innovativeness is a concept that represents the customers' propensity to buy new products and consider new ideas. Meanwhile, some studies show a positive impact of customers' innovativeness on brand extension evaluations for both FMCG products (Völckner and Sattler, 2006) and services (Hem et al., 2003). Highly-innovative individuals find far extensions appealing (Henry Xie, 2008) and do not mind to try products that differ from the parent brand. Therefore, the companies that are stretching their brands should target the customers that have a high level of innovativeness.

Nowadays, due to the fast development of every industry to fulfil customers' needs and wants, choices for customers increase and, moreover, a high competition among the producers and service providers has created. This has resulted in a sensitivity of product selection among customers. Most of the customers now are well informed, much conscious about the market situation and can easily compare the products in terms of price, performance or quality which influence their purchase choice. In this situation, a strong relationship between brands and customers is important in order to create a positive customer perception. Perception plays an important role in creating strong customer loyalty towards a brand. There are different factors that can influence the perception of the customer such as satisfaction, experience, promises of the company, offering of competitors and others. Customer perception also change depends on the circumstances that lead to different needs and preferences. A company should know how to increase the perception of customers by using various strategies to create awareness, trust, and satisfaction on customers which lead to high perceived value and strong customer relationship.

Furthermore, customer perception will be uncertain at the beginning of a relationship with a brand. It will change to be positive or negative as time passes due to the circumstances (Khan and Janthimapornkij, 2011). This is because different circumstances such as a change in external environment, offering of competitors, previous experiences, public opinions and others, can lead to different needs and preferences. Companies use different strategies to improve the perception of the customer through various channels of communication. These communication channels create awareness in consumers. Trust also plays an important role in customer perception. Companies should know the points due to which they can increase the customer satisfaction and trust, which lead to high perceived value and strong customer relationship.

METHOD

This study used a quantitative methodology while it was designed by using explanatory research since most of the discussion on findings were based on established and well-known theory. Research is focused to examine the relationship between variables in brand extension (brand fit, perceived quality, brand familiarity, and customer attitude) towards customer brand perception. Based on that, the regression model between them was developed.

The questionnaire was used as a research instrument which variables to be questioned were set up based on four-factor dimensions in brand extension and its customer brand perception as the dependent variable. These variables and dimension are as seen in Table 1.

Table 1. Details of the Measurements of the factors of Brand Extension

Independent Variables	Dimension
Brand Fit The factor indicates whether there is conceptually fit between parent brand and extended brand	Category relationship The relationship between the category of the product under the same brand
	Image to the parent brand The reputation of the parent brand
	Adaptability The brand extension is flexible and updatable
Perceived Quality The quality of product that customer take into consideration	Function The feature of the product that brings benefits to the users
	Appearance package, character, content, fragrance
Brand Familiarity Consumer recognition and acquaintance of the brand	Popularity The popularization of the brand among the people
	Awareness The customer ability to confirm prior exposure to the brand and retrieve the brand from memory
	Memorable The brand is inherently memorable and getting the attention of the customers
Customer Attitude (Innovativeness) Customers overall judgment of the brand. Customer attitude towards the brand extension	Acceptability The customer accept and adapt the extended brand
	Attractiveness The brand attraction towards the customer
	Uniqueness The specialty of the brand

Non-probability purposive sampling technique was conducted for this study based on the experience from previous research that target respondents were easy to be found out as customers of household FMCG products around the hypermarkets in the big city. Melaka city was chosen since it is a quite big city and can be considered as a representative model for the city that has big customers of household FMCG products. Among 300 questionnaires distributed, about 200 completed questionnaires can be collected and analysed. Likert scale with the range 1-5 was applied in the questionnaire in order to respondents can make assessment for every question they answered.

Table 2: Data Demographic of Respondents

Gender	Frequency	Percentage
Male	69	34.5
Female	131	65.5
Total	**200**	
Age		
25 years old and below	73	36.5
26-40 years old	65	32.5
41-60 years old	49	24.5
61 years old and above	13	6.5
Race		
Malaysia	83	41.5
Chinese	94	47.0
Indian	20	10.0
Others	3	1.5
Educational Level		
High School Degree or below	3	1.5
SPM/STPM	58	29.0
Diploma/Bachelor's Degree	123	61.5
Master's Degree/Doctorate's Degree	16	8.0
Employment Status		
Unemployed (e.g. housewife, retirees)	28	14.0
Student	57	28.5
Employee	79	39.5
Self-Employed/Professional	32	16.0
Manager/Director	4	2
Monthly Income		
RM1000 and below	78	39.0
RM1001-RM3000	67	33.5
RM3001-RM6000	37	18.5
RM6001 and above	18	9
Monthly Spending for Personal Hygiene FMCGs		
RM100 and below	67	33.5
RM101-RM300	77	38.5
RM301-RM500	32	16
RM501 and above	24	12
Preferred Brand		
Dettol	69	34.5
Lifebuoy	43	21.5
Antabax	15	7.5
Colgate-Palmolive	21	10.5
Lux	14	7.0
Others	38	19.0

There were four variables that predicted to have influence toward customer brand perception. These variables were set up as independent variables which consist of elements of brand extension such as brand fit, d quality, brand familiarity, and customer attitude. These variables referred to the theory from Aaker and Keller, (1990); Park et al., (1991); Völckner and Sattler, (2006), and Buil et al (2009). By adopting this, theoretical framework and hypothesis of this research can be constructed as seen in the Figure 2.

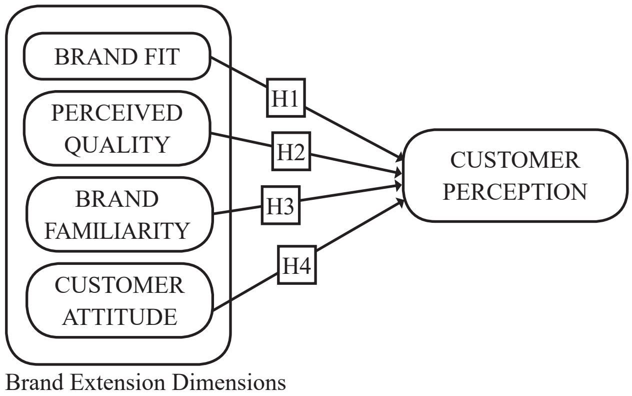

Figure 2. Theoretical Framework

H1: Brand fit of personal hygiene FMCGs have positive relationship with customer brand perception

H2: Perceive quality of personal hygiene FMCGs have positive relationship with customer brand perception

H3: Brand familiarity of personal hygiene FMCGs have positive relationship with customer brand Perception

H4: Customer innovativeness on personal hygiene FMCGs have positive relationship with customer brand perception

RESULTS

From the questionnaires answered by respondents, the summary of the demographic profile is as shown in Table 2. Respondents are dominated by Malaysian and Chinese females with SPM/STPM and Diploma/ Bachelor degree education level. In term of economic power, most of them are medium low to medium up income level who are dominant in spending about RM 100 – RM 300 per month for personal hygiene FMCGs.

The result from cross tabulation of education level versus brand preference indicated that there was a tendency that dominant respondents will choose similar preference brands. Even the tendency was also similar when income level was cross tabulated with brand preference. This shows that brand preference is important for customers regardless of education level or income. All of these results can be seen in Figure 3 and 4.

By using the Likert scales with the range from 1 to 7, most of the respondents considered agreeing with the statements that asked to them. The score for all of the answers on the dimension of brand extension is more than 5.0 which is above their median (neutral) value. This means that most of the respondents value more than 5.0, it indicated that most of the respondents slightly agree with the statements on the brand extension dimensions. All results for these brand extension dimensions can be seen in the Table 3.

Pearson correlation analysis can be described more clearly on how strong or weak the correlation between all of the predictors and its dependent variables as shown in Table 4.as result from SPSS calculation.

All Pearson coefficients of the predictors are positive and significant at 0.01 (2 tails), means that these predictors have a positive correlation with their dependent variable with the level of confidence more than 95%, the number that usually used as a standard for doing the research. However, the strength of each predictor differs for each. Started from the stronger one, the relationship of predictors to dependent variables respectively are brand fit (0.628), perceived quality (0.518), Customer innovativeness (0.470), and brand familiarity (0.3670. Based on Saunders at al. (2012), Pearson coefficient of 0.35 to 0.59 is considered as moderate positive relationship while 0.60 to 0.79 are considered as a strong positive relationship.

Correlation analysis just indicates that there is a relationship between independent and dependent variables, but it cannot describe what kind of relationship it is. Therefore, to understand this relationship, regression analysis needs to be done. Table 5 to Table 7 shows the results of multi linear regression analysis calculated by SPSS software.

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.676[a]	.458	.447	.63416

a. Predictors: (Constant), CUSTINNO, BRDFIT, BRDFAM, PERCQUA

The R square value of 0.458 represents how much of the total variation in the dependent variable (customer perception) can be explained by the independent variables (brand fit, perceived quality, brand familiarity and innovativeness).

In Table 6, degree of freedom is defined and it can be used to check the hypothesis by using statistical t-test later on.

Table 6. ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	66.170	4	16.543	41.135	.000[b]
	Residual	78.421	195	.402		
	Total	144.591	199			

a. Dependent Variable: CUSTPERC
b. Predictors: (Constant), CUSTINNO, BRDFIT, BRDFAM, PERCQUA

Table 7. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.277	.320		7.110	.000
	BRDFIT	.380	.054	.465	7.076	.000
	PERCQUA	.200	.063	.217	3.200	.002
	BRDFAM	-.024	.059	-.027	-.402	.688
	CUSTINNO	.113	.061	.134	1.832	.068

a. Dependent Variable: CUSTPERC

The relationship model between independent and dependent variables can be developed by inserting all of the regression coefficients of independent variables and constant (Table 7) into a simple linear function so that the model can be expressed as:

Customer's Perception = 2.277 + (0.38 Brand Fit) + (0.20 Perceive Quality) – (0.024 Brand Familiarity) + 0.113 Customer Innovativeness) (1)

Equation (1) needs to be checked whether all of the independent variables are valid or not. In another word, all hypothesis that has been developed in the beginning of this research can be accepted or not. For this purpose, t-test statistical was used. By inserting data of degree of freedom (df) from Table 6, t-calculated values from Table 7 and 95% confident interval, t-table can be determined. When t-calculated is greater than t-table, hypothesis is accepted, on the opposite, hypothesis is rejected. The result on the hypothesis test can be shown in Table 8.

Because H3 and H4 were rejected, brand familiarity and customer innovativeness are no longer valid as predictor to the regression equation (1), therefore this equation should be corrected as seen in Equation (2) below.

Customer's Perception = 2.277 + (0.38 Brand Fit) + (0.20 Perceive Quality) (2)

Not similar to what previous researchers stated (Matarid et al. 2014; Soomro et al. 2013; Klink & Smith

2001), this research indicate that both brand familiarity and customer innovativeness do not have positive relationship to the customer perception. Respondents slightly don't care about these two dimensions as shown as well in Table 13. The score they gave tend to be in neutral value and lower compared to the other dimensions. As long as the extended brand are related to the parent brand, they perceived that it will have a good quality and at the end will influence the perception.

DISCUSSION

Although brand familiarity and brand attitude (customer innovativeness) are important components to introduce a new extension of a brand, in this research they did not have the significant implication toward the perception of consumers. All of these can be indicated by the low alpha Pearson values they have and the rejection of H3 and H4 during the hypothesis test.

Most of the respondents were familiar with the parent brand but when they were asked about the extension of this parent brand for the other category, they did not consider this new category as good as the category of the parent brand they usually used. The customers also cannot be convinced to directly try to use this new category of product since they were not sure about the expertise of brand owner to this new extension. Every time there was a new extension category of the parent brand, customers tend to think first, wait, and see whether the brand owner has the expertise as good as the parent brand. In this case the advertising has the main role to educate the customer that brand owner also has many of expertise in many of category of products.

To extend the brand, the decision on what category should be involved is very critical to the successful of the brand extension. Brand fit is one of the factors that costumers considered and the other factor is perceived quality of the product. If extension is planned in the right category which mean it is still related to the parent brand, so the perceived quality will leverage this new extension. In this research both two factors have a positive and significant implication to the customer perception on extended brand.

CONCLUSION

The customer perception on extended brand are affected by its brand fit and perceived quality of its parent brand while the other factors, brand familiarity and customer innovativeness, are not showing their significance.

All of research questions of this study were answered based on the result obtained from data computed, such as Pearson correlation and multiple regression analysis. Result from the hypothesis test indicated that H_3 and H_4 were rejected and only H_1 and H_2 were accepted. Therefore, the final expression model for this regression can be expressed as follow:

Customers Perception on brand Extension = 0.38 (Brand Fit) + 0.20 (Perceived Quality) + 2.277 (3)

Based on equation (3), customer perception on brand extension mostly are influenced by its brand fit to the parent brand and followed by perceived quality of extended brand that relate to its parent brand.

The objective of this research then can be explained using the above equation (3) which determines the degree of the effectiveness of each independent variable on the single dependent variable. The larger coefficient value of the independent variable defined its stronger influence on dependent variable.

In term of significant of study, it is very important for all marketers of brand owner that the successful of extended brand does not rely on the popularity of parent brand and on the assumption that customer will try his or her innovativeness character to use the extended brand. The perceived quality and the relevant extension of the brand to its parent brand more effective to boost the successful of the brand extension.

In the academic environment, this research can be as a trigger to conduct further and a more focus research about the brand extension in other category of products in order to get more understanding what the customer perception about the brand extension.

ACKNOWLEDGEMENTS

Authors would like to express a great thankfulness to Universiti Teknikal Malaysia Melaka for the opportunity to complete this paper in UTeM and thankfulness also to be addressed the Faculty of Technology Management and Technopreneurship UTeM who always support to the completeness of this research.

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APPENDIX

Table 3. Mean Values and Standard Deviations of Brand Extension Dimensions

BRAND EXTENSION DIMENSIONS	**Mean**	**Std.Dev**
BRAND FIT (The factor indicate whether there is conceptually fit between parent brand and extended brand)	5.39	1.042
The category of the extended brand is related to the parent brand.	5.30	1.268
The reputation of parent brand can be affected (positively / negatively) by the extended brand.	5.35	1.344
The product from extended brand should be directed to the customer needs and adapted to the current situation of the market.	5.54	1.169
PERCEIVED QUALITY (The quality of product that customer take into consideration)	5.73	0.924
The product from extended brand should have benefits to users.	5.94	1.006
Product appearance (e.g. package, fragrance) of the extended brand should be more attractive.	5.52	1.173
BRAND FAMILIARITY (Consumer recognition and acquaintance of the brand)	5.27	0.924
The extended brand should be as popular as the parent brand.	5.02	1.264
Customers should be able to recognize the extended brand by retrieving the experience from the parent brand.	5.29	1.210
The extended brand is easy to memorize and attract the customers.	5.42	1.233
INNOVATIVENESS (Customer overall judgment of the brand / Customer attitude towards the extended brand)	5.36	1.017
Customers are easier to accept and adapt the innovativeness of the extended brand.	5.25	1.167
Customers are easy to be attracted and have the interest to purchase the product from the extended brand.	5.42	1.113
Customers are willing to buy the extended product because of its uniqueness.	5.43	1.188
CUSTOMER PERCEPTION DIMENSIONS	**Mean**	**SD**
CUSTOMER PERCEPTION	5.96	0.852
Customers will provide good perception when they have good experience with the brand.	5.99	0.902
Perception will be good when the customers are satisfied with the extended product.	6.03	0.982
The extended brand will have a good perception from customers when the company can deliver the brand promise to the customers.	5.85	0.998

Table 4. Pearson Correlation Coefficient

		BRDFIT	PERCQUA	BRDFAM	CUSTINNO	CUSTPERC
BRDFIT	Pearson Correlation	1	.508**	.477**	.491**	.628**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	200	200	200	200	200
PERCQUA	Pearson Correlation	.508**	1	.431**	.570**	.518**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	200	200	200	200	200
BRDFAM	Pearson Correlation	.477**	.431**	1	.589**	.367**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	200	200	200	200	200
CUSTINNO	Pearson Correlation	.491**	.570**	.589**	1	.470**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	200	200	200	200	200
CUSTPERC	Pearson Correlation	.628**	.518**	.367**	.470**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	200	200	200	200	200

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

Table 8. Hypothesis test

Independent Variable	Margin error α (95% confident interval)	Degree of freedom (df)	t-calculated	t-table	Result on Hypothesis
Brand Fit	0.05	195	7.076	1.972	H1 accepted.
Perceive Quality			3.200		H2 accepted.
Brand Familiarity			-0.402		H3 rejected.
Customer Innovativeness			0.134		H4 rejected.

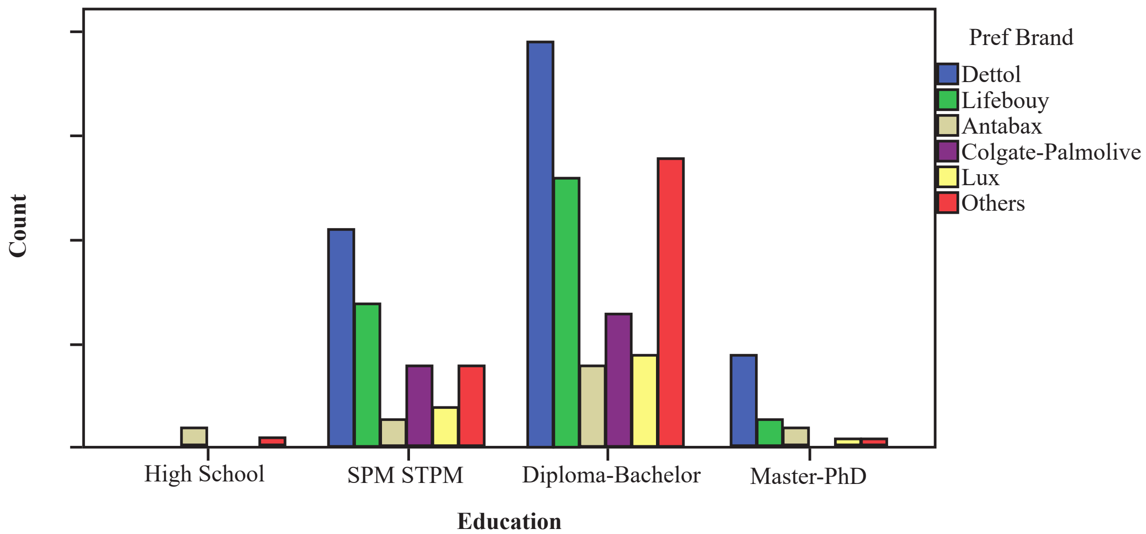

Figure 3. Respondent education vs. preferred brand

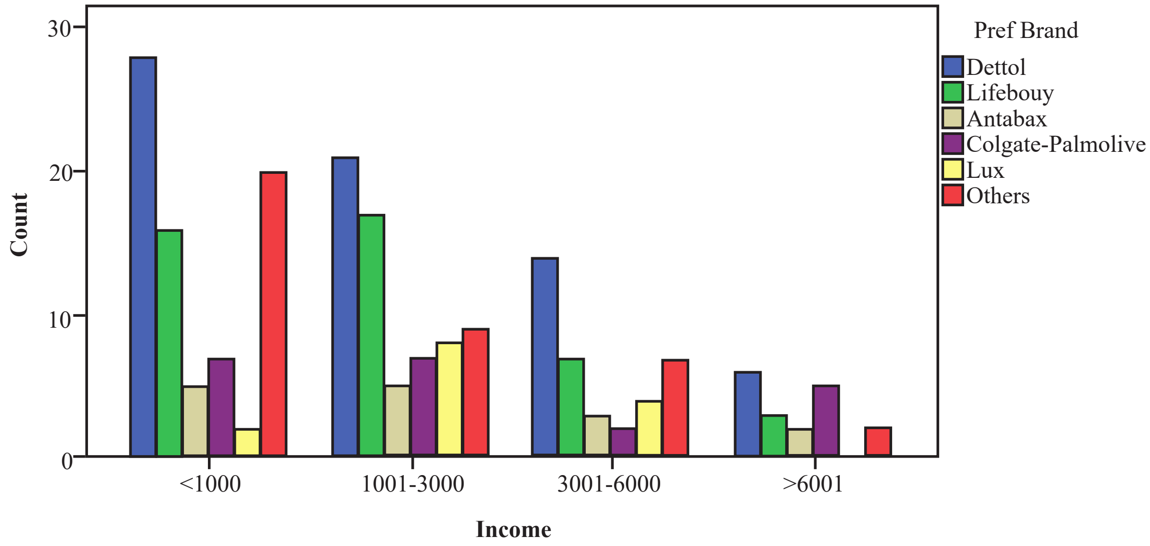

Figure 4. Respondent income vs. preferred brand

Trikonomika
Volume 16, No. 2, December 2017, Page. 63-67
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

IMPLEMENTATION OF INTEGRATED MARKETING COMMUNICATION IN IMAGE OF PRIVATE HIGHER EDUCATION

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Abstract

This study aimed to examine the implementation of integrated marketing communication conducted by private universities in Kuningan Regency and analyze the influence of integrated marketing communication performance which includes advertising, sales promotion, personal selling, public relation, and direct marketing on private university image. The method used was descriptive and verificative method conducted by collecting primary data in the field from private university students in Kuningan Regency. Based on the results of data processing and hypothesis testing, it was known that integrated marketing communication consisting of advertising, personal selling, sales promotion, public relation, and direct marketing simultaneously and partially had a positive and significant impact on private university image. The simultaneous influence is 38.7%, which meant there was still much influence outside the implementation of integrated marketing communication that affected private university image. The biggest influence was sales promotion.

Keywords: *advertising, sales promotion, personal selling, public relation, direct marketing, private university image*

INTRODUCTION

Competition of education service sector among private universities in fighting for student "market" is quite heavy. Private universities in Indonesia now thrive like a mushroom in the rainy season. Currently, the number of private universities in Indonesia is about 3,332 institutions consisting of about 20 percent in the form of University, 50 percent in the form of Specialized College, and 30 percent in the form of Academy.

Image becomes a very important thing to be sold to prospective consumers. As Kotler & Keller (2009) noted that image essentially involves a set of beliefs, ideas and impressions a person has for an object. The belief in an object can be owned by someone when there is a proper message transfer. In other words, how to communicate a message about an object will produce a positive effect and generate a positive image in the mind of prospective consumers if the delivery of this message is properly used in the right packaging.

Image is one of the most important assets of a university. A good image is a powerful tool not only to attract prospective students to choose majors or courses that exist in university only, but also improve student satisfaction of a university. Therefore if a positive image has been formed in the eyes of prospective students, they will be interested to go to the university and recommend it to others.

Private universities especially those in the region are still perceived to have a lower quality compared to private universities in large cities and public universities. Nevertheless, some empirical facts contribute to the condition. As stated by Ki Supriyoko in Suara Merdeka Daily (Monday Edition, March 13, 2006) which stated that in the year 2000, there is not one private university that is able to show quality on the academic stage at the regional and even international level, and the quality of the national standard is estimated to reach only 5% of the total number of private universities.

In Kuningan Regency, there are currently 5 private universities which in their development still looks like they are perceived to be not as the main choice of Private University. Most of the people still consider that the existing private universities in Kuningan Regency are second-class universities; this is certainly a negative image that affects the reduced interest of prospective students pursuing education in private universities in Kuningan Regency.

Up until now, higher education institutions have been imaged as educational institutions that prioritize social obligation, which develops in-depth study of science because it ignores the things that come into contact with practical economic considerations. As a result, the space of movement becomes very elite and exclusive. But with the development of university autonomy applied in all public universities today, the orientation of universities began to experience a shift in orientation, which leads to the orientation of entrepreneurship.

Image becomes a very important thing to be sold to prospective consumers. As Kotler & Keller (2009) noted that image essentially involves a set of beliefs, ideas and impressions a person has for an object. The belief in an object can be owned by someone when there is a proper message transfer. In other words, how to communicate a message about an object will produce a positive effect and generate a positive image in the mind of prospective consumers if the delivery of this message using the right packaging.

Companies in the past have often considered communication element as an activity separated from marketing, while the current marketing philosophy emphasizes the importance of integrating both to success. The underlying reason of this integrated marketing communication is that marketing communication will be the only continuing competitive advantage of a marketing organization in the 1990s into the 21st century. According to Dissanayake (2012:27), Amaretta and Evelyn (2011), marketing communication is defined as a comprehensive plan process that adds value and strategic role of some types of communication.

Meanwhile, according to Duncan (2002:125), marketing communication is a marketing activity that seeks to disseminate information, influence or persuade and remind the target market of companies and products to be willing to accept and buy on products offered. Integrated marketing communication according to Mubushar et.al (2013) include advertising, personal selling, sales promotions, public relation, and direct marketing. Advertising is a marketing communication medium that has become an integral part of society and human economic system. Advertising needs the most accurate promotional methods possible because the impact is so great to the audience, both in terms of message content and submission.

Direct promotion through individuals is called personal selling. Personal selling has a direct effect on sales process based on sales forces. The most important reliability of personal selling is indeed able to bring customers closer with sales through the use of channels of distribution of goods and products available. Through this personal selling, customers will not be hesitating to ask and find out the ability of these products freely. They, the companies, will also be able to get accurate information, the good and bad side of the product directly from consumers.

Sales Promotion is a form of direct persuasion through the use of variety of intensive that can be set to stimulate the purchase of products immediately and/or increase the amount of goods purchased by customers. Through sales promotion, the company can attract new customers, influence its customers to try new products, encourage customers to buy more, attack competitors' promotional activities, improve impulse buying, or seek closer cooperation with retailers.

Public Relation, this marketing communication, it can be said to be constant. This tool will build a very slow marketing effect as a supporter of other communication functions to the customer as a reinforce of product credibility. For example, companies provide assistance to communities around the corporate environment by contributing to their welfare with humanitarian activities and others. Fostering good relationships with creating community development is a strategy that is very telling and good because it is sustainable for the company.

The development of transportation and communication technology has provided many opportunities for direct marketing optimization. Communication technology allows marketers to use a variety of channels to reach target buyers or customers broadly and easily. Thanks to technology, the following are direct marketing forms that can be done by marketers through various possible channels: Face-to-face Sales, By Email, Telemarketing, and Online Marketing

Mahadzirah & Awang (2009), Helgesesn & Nesset (2007), Alves & Raposo (2007) concluded that the image is an award obtained by the company because of the advantages that exist in the company, such as the ability owned by the company, so the company will continue to develop itself to continue to create new things again for the fulfillment of consumer needs. Consumers in buying and consuming goods or services not just expect merely goods or services, but there is something else, something else that fit with the image that formed in them. This image is formed based on the impression or experience experienced by someone on something, so that in the end, it builds a mental attitude. This mental attitude will be used as a consideration to make decisions because the image is considered to represent the totality of one's knowledge of something. Every institution including private university should always try to improve its image. Polat and Hezer (2011) mentioned some elements of the image of the institution/private university: Personality, Reputation, Value/Ethics and Corporate identity.

Based on the above description, the problem in this research can be formulated as followed: how the influence simultaneously and partially of each elements of integrated marketing communication on Private University image is. Proposed hypotheses are advertising, personal selling, sales promotions, public relation, and direct marketing as integrated elements of marketing communication simultaneously and partially have positive effect on private university image.

METHODS

The method used was descriptive method which was a research that aimed to obtain a description of the perception of integrated marketing communication and private university image. This research also used verificative method that aimed to test the hypothesis that had been determined. The data collection used two survey methods, namely descriptive survey and explanatory survey conducted by collecting primary data from university students.

The population is university students in Kuningan Regency as many as 8,063 people who then using Slovin formula calculated sample size obtained as many as 381 people, shown in Table 1.

Table 1. Population and Sample

No.	Higher Education	Total Population	Total Sample
1	Universitas Kuningan	4.427	209
2	Universitas Islam Al-Ihya	548	26
3	STKIP Muhammadiyah	2.349	111
4	STIKes Kuningan	663	31
5	AKFAR Muhammadiyah	76	4
	Total	8.063	381

The number of respondents was 381 people with proportional random sampling, that was sampling based on the proportion of the number of students of each private university in Kuningan Regency. The integrated marketing communication variables consist of several dimensions: advertising, personal selling, sales promotion, public relation, direct marketing. Each dimension could be measured with the following indicators: advertising (ad reach, ad media selection, advertising frequency), personal selling (promotional officer appearance, marketer ability, marketer responsiveness), sales promotion (fee deductions, rewards, bonuses, scholarships), public relation (publication information, public service announcements, special events, sponsorship), direct marketing (website, telephone, marketer) and institutional image (personality, reputation, values, institutional identity).

Each indicator was measured by ordinal scale in which each indicator was inserted into the items of the statement contained in the questionnaire. Data were collected by questionnaire where each component of integrated marketing communication was measured with 10 items of statement, and private university image was measured with 14 items of statement. After going through the test of each instrument statement items, it was then declared valid and reliable. Based on the normality test data obtained, the data researched was in the normal category. The influence of integrated marketing communication on private university image used multiple linear regression analysis technique.

RESULTS

The regression equation resulting from advertising, personal selling, sales promotion, public relation, direct marketing and institutional variables can be seen in Table 2.

Table 2. Multiple Linier Regression Equation
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	36.551	2.802		13.043	.000
	X_1	.038	.064	.038	2.595	.012
	X_2	.072	.078	.066	2.925	.005
	X_3	.349	.059	.317	5.903	.000
	X_4	.037	.066	.038	2.564	.013
	X_5	.207	.069	.195	2.997	.003

a. Dependent Variable: Y

Based on Table 2, multiple linear regression equations for advertising, personal selling, sales promotion, public relation, direct marketing, and institutional image represented by column B lay in unstandardized coefficients, and multiple linear regression equation of the three variables is:

$$\hat{Y} = 36.551 + 0.038X_1 + 0.072X_2 + 0.349X_3 + 0.037X_4 + 0.207X_5$$

Coefficient of determination analysis is used to know the contribution of influence of independent variable on dependent variable is. The results of the simultaneous coefficient of determination can be seen in Table 3.

Tabel 3. Coefficient of Determination Analysis Result
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.622[a]	.387	.131	1.913

a. Predictors: (Constant), X_5, X_4, X_3, X_2, X_1

Based on the results of the data using SPSS model summary in Table 3, it is shown that R value is 0.622. It also shows the relationship between all independent variables to private university to image is 0.622. Further obtained R Square equal to 0.387 which means that 38.7% is the influence of advertising, personnal selling, sales promotion, public relation and direct marketing on private university image, and the rest (61.3%) are explained by other causes outside the research.

DISCUSSION

Partial hypothesis test result can be explained that advertising variable has a positive and significant effect on private university image. This shows that if the advertising activity is done effectively, it will be able to improve the image of private university. This is in line with the results of Chih Huang.et.al (2010) and Al-Khattab, et.al, (2015). Advertising as a one-way communication conducted by the private university to the public will provide a variety of information visually which then the information will affect the public perception about the private university. Therefore every private university should plan and manage its advertising by paying attention to the content of information to be conveyed as well as advertising media used so that the message or information conveyed is able to give positive perceptions to the community.

Personal selling shows a significant positive effect on private university image. This indicates that the more interesting the personal selling program is done will improve the private university image. Personal selling activities where the marketers directly convey information to prospective students and the wider community should be able to give a positive impression because it will then determine the perception of prospective students and the public about the image of the private university. The results of this study are in line with Messah & Immaculate (2016) and Bylon & Atara (2013).

Sales promotion shows a significant positive effect on private university image. This indicates that the more interesting sales promotion activities will improve the image of private university. The results of this study are in line with the results of study by Allaham (2015) and Bylon & Atara (2013). The activity of sales promotion through the giving of tuition fee, scholarship and other incentive to prospective students will perceive good image from prospective students on private university. Private university can explore new ideas in providing attractive incentives for prospective students.

Public relation shows a significant positive effect on private university image. The more effective public relation is done, it will further enhance private university image. This is in line with research results from Alhadid & Qaddomi (2016) and Singh & Pandey (2017). Public relation activities as a private communication activity undertaken to influence public opinion that can change the behavior of prospective students can play an optimal role when the information conveyed through various media can be effectively accepted by prospective students.

Based on the data analysis, it can be known that direct marketing variable shows a positive and significant impact on private university image. This is in line with the results of research by Fatos Ukaj (2016). The use of information technology in delivering messages to the public through web-sites, social media and other media can form a positive opinion if it is managed effectively.

Based on the results of data analysis and hypothesis testing, it can be seen that the overall component of integrated marketing communication will determine the image of private university. This result is in line with Estaswara (2011) research; Fard and Faharani (2015); Hamidreja and Morteza (2017); Pino & Lynagh (2006) that in order to improve the image, it is appropriate to continuously improve the quality of marketing communication activities appropriately. The results of data analysis also shows that among the five components of integrated marketing communication, sales promotion gives the largest contribution to the image of the institution compared to other components. It is realized that through scholarship activities or tuition waivers, student acceptance through academic achievement as well as economically disadvantaged students will provide a positive image of private university in the community. This is based on the idea that these programs are perceived as a form of awareness of private universities towards community.

CONCLUSION

Based on the results of research and data analysis, it can be concluded that the elements of integrated marketing communication which includes advertising, personal selling, sales promotion, public relation and direct marketing simultaneously had influence positive and significant effect on private university image. This means that the more effective the activities of each element of integrated marketing communication is, it will also improve private university image.

The magnitude of influence of integrated marketing communication, which include advertising, personal selling, sales promotion, public relation and direct marketing on private university image is 38,7% and the rest influenced by other variable outside the research. The influence of the largest variable is sales promotion, as a form of awareness of private universities towards community.

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Trikonomika
Volume 16, No. 2, December 2017, Page. 68-74
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

INTERNAL CONTROL AND ORGANIZATIONAL CULTURE IN THE IMPROVEMENT OF MANAGERIAL PERFORMANCE

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Abstract
This research aimed to measure the influence of internal control and organizational culture in managerial performance. Data were obtained through questionnaires with sample of 46 from 84 SKPD in Banyumas Regency using purposive sampling technique. Data processing used is multiple linear regressions. The results showed that internal control and organizational culture simultaniously had a significant effect to managerial performance of government. Partially, internal control had significant effect while organizational culture had no significant effect on managerial performance of government. The implementation of internal control and organizational culture was good. Achievement of good managerial performance required good internal control to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets and compliance with laws and regulations. Organizational culture became another factor that could improve managerial performance through fundamental values and passion in managing the organization.

Keywords: internal control, organizational culture, government managerial performance, banyumas regency government, SKPD

INTRODUCTION

Performance is the result of work achieved by employees in carrying out the tasks and jobs that come from the organization. The performance of the company and everyone is dependent on the managerial ability of the management in leading all workers, coordinating all their activities, and creating a conducive working climate. According to a research by Hazmi & Zuarni (2012), managerial performance is one of the factors that can increase organizational effectiveness.

The 2008 Government Regulation no. 60 confirmed by the 2010 Regent Regulation No. 64 stated that the internal control system is an integral process in actions and activities undertaken continuously by the leaders and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, the reliability of reporting finance, security of state assets, compliance with laws and regulations.

One very effective model in improving the quality of a company or organization is Malcolm Baldrige's criteria for performance excellence; it has seven performance management criteria that are basically a number of questions about fundamental aspects of organizational management in the context of achieving superior performance. The seven criteria are: (1) Leadership, (2) Strategic planning, (3) Customer and public service, (4) Analysis measurement, (5) Application of science/knowledge in management, (6) Human resource empowerment, (7) Management process, and (8) Organizational result.

Achievement of good managerial performance requires a good internal control as well. Internal Control by Indonesian Institute of Accountants (IAI : 2015) is a system that includes all the methods and provisions that are organized in a company to protect their property, check the accuracy and reliability of accounting data and improve business efficiency.

Local government agencies have their own control or regulation for every employee and local government implementer serving the community. The government's internal control in every institution is necessary to prevent fraud in every service performed by employees in government agencies. The rules and codes of internal controls may be written or unwritten to be obeyed by every government employee.

Banyumas Regency Government conducts control activities based on the 2010 Regent Regulation no. 64 concerning the implementation of government internal control system within the government of Banyumas Regency based on the 2008 Government Regulation no. 60 on Government Internal Control System consists of five elements of internal control system, namely: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication, and 5. monitoring internal control. The regulation also has the purpose of internal control system that is to achieve effectiveness, efficiency, transparency and accountable state financial management.

The Government of Banyumas Regency in 2015 quoted from the government website www.banyumaskab.go.id dated 5 January 2016 states that Banyumas Regency becomes a regency with a significant economic growth of 7.10%, higher than the economic growth of Central Java province which only reached 6.48%. This is proved by the inflation of November 2015 which is the lowest among six pilot cities in Central Java Province namely Cilacap Regency with an inflation rate of 0.20%, Kudus by 0.21%, Surakarta by 0.32%, Semarang by 0.21% , Tegal by 0.24% and Banyumas by 0.16%.

The significant economic growth in Banyumas Regency in 2015 and the increased performance throughout 2015 showed and ressulted in progress and achievement in various fields. Among the achievements of Banyumas district government are the audits of 2014 financial statements with Unqualified status, Adipura award and Wahana Tata Nugraha (WTN) award. The above have been described as one of the outcomes of internal controls demonstrated by the government of Banyumas Regency in managing government activities during 2015.

Internal controls that function effectively can support the achievement of organizational goals (Doyle, et al., 2007; Petrovis, et.al. 2010), then internal control must be implemented inherent with the operational activities of the organization and being part of the organizational culture, able to respond fast on risks arising in business execution derived from factors within the organization and changes in the operating environment and includes procedures to report promptly on significant weaknesses found and corrective actions taken to the management level who are interested. (Kurniawan, 2015: 112). Meanwhile, according to Jianfeileng and Zhao (2013) a better internal control system will be more likely to benefit from corporate activities and create more value for the company and shareholders.

In addition to internal control, organizational culture is also another factor affecting managerial performance in government (Testa and Sipe, 2013). Moreover, organizational culture becomes a marker or characteristic of an organization for society. Understanding organizational culture itself is a long-lasting habit and is used and applied in the life of work activities as one of the drivers to improve the quality of work of employees and management company. It is supported from various sources stating that organizational culture has a strong relationship with organizational performance management.

The phenomenon of organizational culture also occurs within the scope of the government of Banyumas Regency which is the use of agate trends in 2015, the use of custom clothing, the use of Banyumas regional language that is penginyongan language. This indicates Banyumas Regency government is trying to preserve the cultural richness that is owned to avoid extinction and make the distinctive characteristics of the government of Banyumas Regency.

To examine organizational culture, the indicators of organizational culture of Stephen P Robbins (2006) will also be included: 1. individual initiative, 2. tolerance to risky action, 3. direction, 4. integrity, 5. management support, 6. control, 7. identity, 8. reward system, 9. tolerance to conflict, and 10. communication pattern.

Based on Nasir's and Oktari's (2011) study, internal control variable has positive and significant influence on the performance of government agency. While the results of research by Devi et.al. (2015) states that organizational culture both simultaneously and partially has a positive influence on employee performance. With these two studies, it is suspected that internal control and organizational culture have a significant influence on managerial performance. Thus, based on the above description, a hypothesis can be formulated that there is a significant simultaneously influence of internal control and organizational culture on managerial performance of Banyumas Regency government.

Andriyanto's (2013), Nasir's & Oktari's (2011) research showed that good control will provide assurance to management to achieve organizational goals and objectives. If the goals and objectives of the organization have been achieved, it will improve the managerial performance by itself. Internal control has a positive influence on agency performance. Based on Usman's research (2013), it showed that the internal control system has a positive and significant impact on company performance at PT MNC Sky Vision Branch Gorontalo with determination coefficient of 40.2%.

The results of research by Puspitasari, et.al. (2015) and Taylor (2014) showed that organizational culture with the implementation of a good organizational culture needed to provide a good corporate image to employees and wider community, because it is an identity that can describe a company and distinguish one company to another. While the results of research by Soleman (2012) and Indrawati (2017) showed that the interaction of organizational culture categorized weak means negatively affect the managerial performance. Both of these studies produced contrasting results. On one hand, organizational culture has an influence on employee performance and on the other hand organizational culture with participative budgeting has a negative effect on managerial performance. From research conducted by the researchers, the authors are interested to conduct research on Banyumas Regency Work Unit regarding the impact of the implementation of internal control and organizational culture on managerial performance of government.

The hypotheses in this research are: (1) Internal control has significant effect on managerial performance of Banyumas Regency government; (2) There is a significant influence of organizational culture on managerial performance of Banyumas Regency government (Study on SKPD of Banyumas Regency); (3) There is a significant influence of internal control and organizational culture simultaneously on managerial performance of Banyumas Regency government (Study on SKPD of Banyumas Regency).

METHOD

This research was descriptive which aimed to describe thoroughly and clearly about the characteristics of problems or phenomena encountered, and a verificative research was a type of research that aimed to determine the relationship between variables through a hypothesis testing. The method used was explanatory survey that was done to obtain description systematically, factual and accurate about fact, nature of character and relationship between variables studied. The reason for the researcher to choose explanatory survey method was because the researcher wanted to find the answer fundamentally about causation by analyzing the factor that caused a certain phenomenon, which related to problems and practices in this research.

The variables in this study are presented in Table 1.

Table 1. Operationalization of Variable

Independent Variable (X_1)				
Variable	Variable Indicator	Measurement Scale	Data Source	Analysis Tool
Internal Control (X_1) According to Regent Regulation No. 64 of 2010	-Environmental Control -Risk Assessment -Control Activities -Information and Communication -Monitoring Internal Control	Interval	Primary	Classic assumption test, coefficient of determination, multiple linear regression, t test, and F test
Organizational culture (Stephen Robbins))*	-Individual Initiative -Tolerance of risky action -Briefing -Integration -Management Support -Control -Identity -Rewards System -Tolerance toward conflicts -Communication Patterns	Interval	Primary	Classic assumption test, coefficient of determination, multiple linear regression, t test, and F test
Managerial Performance according to Malcolm Bridge)**	-Leadership -Strategic Planning -Customer and public services -Measurement, analysis, and application of science in management -Empowerment of human resources -Management Process -Organizational results	Interval	Primary	Classic assumption test, coefficient of determination, multiple linear regression, t test, and F test

Likert scale was used to measure the attitude of respondents by using scoring/5 scale as follows: Strongly Agree (SA), Agree (A), Neutral (N), Disagree (S) and Strongly Disagree (SD). The population of this research is 84 SKPD in Banyumas Regency consisting of heads of departments, heads of agencies, secretariats, hospitals, sub-districts and urban communities. Samples taken were 46 SKPD. Sampling of 46 SKPD were based on Slovin method.

Testing instrument used are validity test and reliability test. To analyze the influence between internal control (X_1) and Organizational Culture (X_2) on Managerial Performance (Y), the author used multiple regression analysis technique. The reason for the using of multiple regression analysis in this study was because independent variables amounted to more than one, which were two variables. The analysis used multiple regression equation model.

RESULTS

The study was conducted at the Regional Work Unit (SKPD) in Banyumas Regency by distributing questionnaires, conducting interviews and observations in the SKPD area on May 23 to June 23, 2016. Interviews and observations indicated that in an effort to improve public services, Banyumas Regency developed several government support technologies, such as SKPD website, e-Office, Satria Keuangan, and face-finger technology. Development of technology was expected to facilitate and accelerate the work of the government, with the SKPD website, information about Banyumas could be accessed easily. The implementation of e-Office aimed to facilitate the office work, especially the correspondence handler and the management of the official note, Satria Keuangan was expected to be buds for the development of integrated financial management information system and face finger served as an electronic attendance that was expected to improve discipline.

Organizational culture that applied among work culture was SATRIA, humble culture of civil servants, clean culture, and many others. The application of organizational culture was expected to create attitudes, behaviors, and work environments that support the achievement of the motto of Banyumas SATRIA, meaning able to improve the spirit and work productivity, and able to improve the quality of public service of Banyumas Regency government apparatus.

From the implementation of internal control and organizational culture, Banyumas local government has ranked and reached various achievements such as Unqualified Predicate 5 times consecutively during 2011-2015, Adipura award during 2014-2015, and rewards of course and training year 2014. From the description of the implementation of internal control and organizational culture within the scope of Banyumas, local government indicated that internal control and organizational culture had a significant influence on managerial performance of government especially in the scope of Banyumas Regency SKPD. Details of receipt and return of questionnaires are shown in Table 2.

Table 2. Details of Reception and Return of Questionnaire

Description	Result
Total Questionnaire distributed	46
Total Questionnaire returned	43
Total Questionnaire not taken	3
Rate of Return	93%
Incomplete Questionnaire	0
Total Questionnaire that can be processed	43
Rate of Returned Questionnaire that can be used	100%

Source : Processed Data

Out of 46 research questionnaires distributed in SKPD of Banyumas Regency, only 43 questionnaires were successfully received and eligible to be used in the next research process. Result of validity and reliability test showed valid and reliable questionnaire. Test result of normality of data was done by using Kolmogorov Smirnov test, showing data followed normal distribution.

The result of the research analysis with multiple linear regression is shown in Table 3.

Tabel 3. Hasil Perhitungan Regresi Linier Berganda

Variabel	Koef Regresi	t_{hitung}	t_{tabel}	Sig.
Konstanta	21,104	2,675	2,01954	0,010
Pengendalian Intern	0,447	4,980	2,01954	0.000
Budaya Organisasi	-0,118	-0,720	2,01954	0,471
		R		= 0,709
		Rsquare		= 0,503
		Standar Error		= 3,56704
		Fhitung		= 20,241
		Fsig		= 0,000
		N		= 43

Source : Processed Data

The linear regression equation with 2 predictors is as follows:

$$\mathbf{Y = 21{,}104 + 0{,}447X_1 - 0{,}118X_2 + e}$$

Where:

Y = Quality of Financial Statement

β_0 = The coefficient of intercept (constant), i.e. value Y if the value of all other variables is zero

β_1 = Regression coefficient of variable X_1

β_2 = Regression coefficient of variable X_2
X_1 = Internal Control
X_2 = Organizational Culture
ε = Error term from other variables

The simultaneous test result is shown in Table 4.

Tabel 4. Hasil Uji F

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	515.094	2	257.547	20.241	.000[b]
	Residual	508.952	40	12.724		
	Total	1024.047	42			

a. Dependent Variable : KM4
b. Predictors : (Constant), BD, SPI11

Based on the simultaneous test result, internal control and organizational culture simultaneously have a significant influence on managerial performance of government. Based on the result of partial test shown in Table 3, it can be seen that internal control partially has significant influence to the managerial performance of government.

The calculation of the coefficient of determination is shown in Table 5.

Table 5. Calculation Result of Coefficient of Determination

Model	R	R square	Adjusted R Square	Std. Error of The Estimate
1	,0709[a]	,503	,478	3,56704

a. Predictor : (Constant), Organizational Culture, Internal Control
b. Dependent Variabel : Managerial Performance

The calculation result of coefficient of determination shows that R equal to 0.709 with R Square value equal to 0.503 which means the magnitude influence of Internal Control and Organizational Culture on Managerial Performance of Government of Banyumas Regency is equal to 50.3%. Whereas, 49.7% is another factor influencing the managerial performance of government which is not discussed in this research.

DISCUSSION

The results of this study supported the results of research by Andriyanto (2013), Nazir & Oktani (2011), Usman (2013) that internal control has a significant influence on managerial performance of government. From the results of interviews that had been conducted and observations on SKPD environment, it can be concluded that the controls carried out by the structural line of government both in the urban communities and in the sub-districts have been done well. Starting from the discipline control of employees who have used face-finger technology, daily assembly activities, document control both financial and non-financial documents manually (hardcopy) and computerized (softcopy) in most SKPD were neat and well organized.

Organizational culture partially has no significant effect on managerial performance of the government, because the organizational culture is an activity that is applied by an organization that is required by the rules and not a thing that appears by itself and become a habit. The results of this study are in line with the research by Soleman (2012) which explains the weakness of organizational culture in bureaucracy caused by organizational culture is monopoly. Therefore, it tends not to have any consequences for the performance so the role of bureaucracy people tend to think more about budget and rank rather than thinking about ways to improve results.

This result does not support the research by Soleman (2012) which shows no effect of participative budgeting on managerial performance with organizational culture as moderating variable. The reason for the difference of research results is because the form of internal control variables in this study is a free variable that affects the dependent variable. While in Soleman's research, organizational culture is merely a moderating variable or variable that supports the relationship between one variable with another.

Internal control by Banyumas Regency government can function effectively when it is implemented inherent with the operational activities of the organization and is part of organizational culture, able to respond quickly to the risks arising in the implementation of government activities. In other words, when the government's operational activities have run smoothly, the internal control has done optimally. Coupled with the implementation of organizational culture that is working culture, SATRIA expected to create attitude, behavior, and work environment that support the achievement of Banyumas SATRIA motto, able to improve the spirit and work productivity, and able to improve the quality of public services Banyumas local government apparatus. With the achievement of internal control objectives and the culture of government organizations, they can altogether affect the managerial performance of the Regency government of Banyumas.

Based on the result of t test, internal control has significant influence to the managerial performance of Banyumas regency government. The results of this study support the results of research by Andriyanto (2013), Nazir and Oktani (2011), Cecilia and Afiah (2017), and Usman (2013) that internal control has a significant influence on managerial performance of government. From the results of interviews that had been conducted and observations on SKPD environment, it can be concluded that the controls carried out by the structural line of government both in the urban communities and in the sub-districts has been done well. Starting from the discipline control of employees who have used face-finger technology, daily assembly activities, document control both financial and non-financial documents manually (hardcopy) and computerized (softcopy) in most SKPD were neat and well organized.

Then viewed from the theoretical side, internal control aims to provide adequate confidence for the achievement of effectiveness and efficiency in achieving the objectives of the administration of state governments, reliability of financial reporting, security of state assets, and compliance with laws and regulations. This is reinforced by the implementation of internal controls in SKPD Banyumas Regency that has been implemented properly and in accordance with the objectives of internal control contained in the 2008 Government Regulation no. 60 on internal control system of the government.

The result of t test shows that organizational culture has no significant effect on managerial performance. The minus sign indicates that the organizational culture has the opposite relationship to the Beta direction. The results of this study indicate differences in terms of the theory described in the work of T.0 Peters and R.H Waterman (Mulyadi, 2015:98) that organizational culture is one of the key factors of organizational success. This indicates that although organizational culture is a key factor of organizational success, it has no significant effect on managerial performance of government applied. This is because the organizational culture is an activity that is applied by an organization that is required by the rules and not a thing that appears by itself and become a habit. Therefore, the application of organizational culture within the scope of Banyumas Regency SKPD is the work culture of SATRIA and other cultures based on a rule.

The results of this study are in line with the research of Soleman (2012) which explains the weakness of organizational culture in bureaucracy caused by organizational culture is monopoly so it tends not to have any consequences for the performance. Therefore, the role of bureaucracy made people tend to think more about budget and rank rather than thinking about ways to improve results.

The result of F test shows that there is significant influence of internal control and organizational culture on managerial performance of government. This result does not support the research of Soleman (2012) which indicates the absence of influence of participative budgeting on managerial performance with organizational culture as moderator variable and Indrawati's research (2017) which revealed that there is no influence of organizational culture on the improvement of managerial performance. The reason for the difference of research results is because the form of internal control variable in this study is an independent variable that affects the dependent variable. While in Soleman's research, organizational culture is merely a moderating variable or variable that supports the relationship between one variable with another, and in Indrawati's research using intervening variable that is New Public Management Implementation.

CONCLUSION

The results showed that internal control has a significant influence, while organizational culture has no significant effect on managerial performance of the government. Simultaneous test result shows that internal control and organizational culture simultaneously have a significant influence on managerial performance of government.

The results of research on SKPD of Banyumas Regency indicate that internal control and organizational culture have been implemented well. Improving the application of internal control and organizational culture will improve the managerial performance of the government of Banyumas Regency. It should always be improved with evaluation and improvement because there are still shortcomings both in terms of individual employees as well as from techniques of implementing activities of internal control and organizational culture. Leaders and staff must be able to conduct internal control activities together.

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Trikonomika
Volume 16, No. 2, December 2017, Page. 75-80
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

MILITARY BUDGET AND ECONOMIC GROWTH: Case of Middle East, North Africa and South Asia Countries

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Abstract

Conflict became one of the biggest problems in the Middle East region. This situation will deteriorated the country and will impact on economic perfomance, so defense budget is important to resolve these problems. This study aims to determine the effect of military budget on economic perfomance in 22 countries of the Middle East, North Africa and South Asia 2000-2014 period. This study uses 5 variables namely GDP per capita, military budget, gross capital formation, human capital and final consumption expenditure. This study uses panel data analysis with fixed effect model. The results of model estimation suggest that military budget has a significant negative effect on economic perfomance, while gross capital formation, final consumption expenditure have significant positive effect on economic perfomance. Meanwhile, human capital does not have significant effect on economic perfomance in 22 countries.

Keywords: military expenditure, economic perfomance, middle east & north africa, south asia, fixed effect model, panel data.

INTRODUCTION

The Middle East has been a chaotic area throughout history. The struggle for the use of rich land resources, conflicts and sectarian differences has been a major source of conflict in the Middle East as well as the threat posed by terrorist groups from different orientations. This situation increases the relative need and importance of the defense budget in the face of public spending and other categories, such as education and health that have a better effect on the growth and development of a country (Künü, Hopoğlu, & Bozma, 2016).

The defense budget for protection against internal and external conflicts and national interests has an influence on the performance of a country's economic growth (Künü et al., 2016).

In the macroeconomic model, the state may make a development process as well as an evaluation of economic policy and business strategy. This is a consideration that the implications of macroeconomic policy have long-term and short-term consequences. If the government decides a policy even on a small scale it will greatly affect the economic conditions.

Guns Versus Butter Model shows the relationship between investment in defense and civil goods. In the example, people should choose when spending limited resources, whether to choose to buy weapons to invest in military or food (butter) for invest in the production of goods or perhaps both. This can be seen as an analogy to the choice between defense and civil spending in the country (Mankiw & Ghent, 2007).

In economic formation, a country aims to meet their needs and safeguard the state's security from the threat of another country. The government always separates the portion for the military from government spending, as it has an important influence on the country's long-term economic growth. This military budget is usually associated with the fulfillment of the needs of soldiers and armaments (Issues & Korkmaz, 2015).

Table 1. Average Military Budget (% of GDP)

Income Level	Percentage
LOW INCOME	1,66%
LOWER-MIDDLE INCOME	3,15%
UPPER-MIDDLE INCOME	3,83%
HIGH INCOME	5,78%

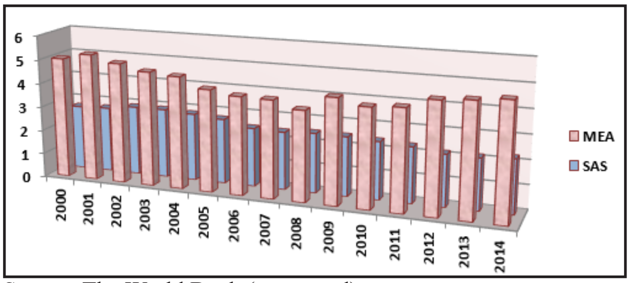
Source: The World Bank (processed)

Table 1 presents the average military budget of 22 Middle Eastern, South African (MEA) and South Asian (SAS) countries in 2000-2014. Divided into 4 groups based on income, namely: (1) Low income: Afghanistan (AFN) and Nepal (NPL). (2) Lower-middle

Income: Egypt (EGY), India (IND), Srilanka (LKA), Marocco (MAR), Pakistan (PAK), Sudan (SDN) and Tunisia (TUN). (3) Upper-middle Income: Algeria (DZA), Iran (IRN), Jordan (JOR), Lebanon (LBN) and Turkey (TUR). (4) High Income: United Arab Emirates (ARE), Bahrain (BHR), Cyprus (CYP), Israel (ISR), Kuwait (KWT), Oman (OMN), Qatar (QAT) and Saudi Arabia (SAU).

The increase or decrease in military spending in 2000-2014 in each country is a reflection of the problems they face and the military position in dealing with the problem.

For various levels of military roles in these countries has been extended from protecting the sovereignty and territorial integrity of the country against foreign aggressors to domestic security tools and in some cases even the government. With concurrent effects on the national resources consumed by the military.



Source: The World Bank (processed)

Figure 1. Average Military Budget (% of GDP)

Based on the Figure 1, there are fluctuations in the magnitude of the percentage of defense budget to GDP by region in Middle East, North Africa (MEA) and South Asia (SAS).

The drastic increase occurred in 2014 in the Middle East and North Africa by 4.8%. Increased world military spending increased since 2011 with an average of about USD 1.7 Trillion. The increase was mainly contributed by the Middle East, Eastern Europe, Asia and other regions (sipri.org).

Issues & Korkmaz (2015) research aims to investigate the effect of military spending in 10 Mediterranean countries on economic growth using panel data analysis from 2005-2012.

$$y_{it} = \alpha + X_{it}\beta + u_{it}$$

The results of the study suggest that military budgets have a negative effect on economic growth because if the government plans their spending, most try to take up areas that will contribute to the development of countries into consideration.

But because of the unrest faced in countries close to the Mediterranean region, the importance of increasing state security. The government separates large shares for defense spending from their budgets. This forces them to separate fewer resources for investment in education, health and infrastructure fields that will contribute to the development of the country.

Aizenman (2006) research aims to see the relationship between military spending, the threat of the state and economic growth. This study used time-series data from several countries in 1989-1998.

$$gy = a_1\, mil + a_2(thr)(mil) + b_1\, thr + \beta X; \ldots\ldots a_1 < 0, \quad b_1 < 0,\ a_2 >$$

The result of this study is an increase in military expenditure that has to do with how big the threat is, if the threat of a country is high, then military spending also increases. The results of the study suggest that military budgets have a negative effect on economic growth due to allocation of expenditures for investment, improvements in the quality of human resources used for countering threats and military expenditures.

Künü et al. (2016) research aimed at investigating defense spending and economic growth in the Middle East and North Africa. In this case, a panel of data for 12 countries in the period of 1998- 2012.

$$GDP_{it} = \alpha + \beta_1\, def_{it} + \beta_2\, pop_{it} + \beta_3\, fdi_{it} + \beta_4\, cor_{it} + \beta_5 in + \beta_6 ex + \beta_7 dummy + u_{it} + \varepsilon_{it}$$

Based on the results, defense spending to protect internal and external conflicts affects economic growth. The results of the study suggest that military budgets have a negative effect on economic growth because the expected results obtained when looking at the impact of global financial crisis in 2009 which also has a negative impact on economic growth in 12 countries.

Knight et al. (1996) research in 22 industrialized countries and 102 developing countries in 1972-1980 using panel data,

$$Z_i, t^{-1} = \theta ln(n_i, t + g + \delta) + \theta_k\, ln(sk_i, t) + \theta_m\, ln(m_i t) + \theta ln(sh_i) + \theta_f\, ln(f_i) + \theta_w\, ln(w_i) + yz_i, t^{-1} + \xi, \mu_i + t_i, t$$

The results of the study suggest that military budgets have a negative impact on economic growth, physical investment, human resource investment and foreign trade.

Mylonidis (2008) research with the data used is annual.

$$growth_{it} = \alpha_0 + \alpha_1\, gdp_{it} + \alpha_2\, edu_{it} + \alpha_3\, pop_{it} + \alpha_4) inv_{it} + \alpha_5\, mil_{it} + v_i + \varepsilon_{it}$$

With the result of estimation of panel data method equation, it is found that GDP variable has negative and significant influence to economic growth, investment has positive and significant influence to economic growth and military expenditure has negative and significant influence to economic growth.

Yildirim & Öcal (2016), research with the data used is annual.

$$\Delta \ln y(t) = \beta_0 + \beta_1 \ln y(t-1) + \beta_2 \ln s + \beta_3 \ln (n+g+d) + \beta_4 \ln m(t) + \beta_5 \ln m(t-1) + u$$

The result of the research is a positive relationship between capital investment with population in the first year on economic growth. The results of the study suggest that military budgets have a negative effect on economic growth.

The stability of defense and security in a country will have an impact on decreasing country risk in the country so that it can attract investors to invest and impact on increasing the number or amount of investment in the country. Increased investment will then have a good impact on economic growth.

The allocation of government spending both in the defense and security sectors, education and health is the government's effort in maintaining efficiency and increasing productivity which is then expected to contribute to the improvement of economic growth.

Defense budgets include for retirement of military personnel, social services, operations and maintenance, development and military assistance (in military expenditures from donor countries) and exclude civil defense and expenditure for previous military activities, such as alimony, demobilization, conversion and destruction of weapons veterans.

The definition of military budget according to experts, among others: (1) Suryohadiprojo S. (1999)" said that the military budget has something to do with logistics that have an important role with the defense economy. This issue is linked to how much national resources are devoted to defense without adversely affecting the economy, but on the other hand has considerable opportunities to enable effective defense. (2) Hartley K. (2006)" says that defense budgeting is a significant problem for a country's defense policy. This was done to establish a difficult decision due to the rising cost of equipment and military personnel drawn from the percentage of national income.

The government's availability to fund military activities includes expenditures spent on internal law enforcement and rehabilitation of disabled veterans. Military spending is a boost for economic growth.

Classical theory argues that increased military spending will hamper economic growth. This argument is based on the premise that higher military spending will result in private investment, domestic savings and lower consumption due to lower aggregate demand. The higher military spending will increase interest rates that will push out private investment.

Meanwhile, Keynesian argues that increased military burdens stimulate demand, increase in power, purchase national output and create positive externalities (Narayan & Singh, 2007).

The Government has in some ways made a policy to regulate its expenditures, one of its policies being for military budgets. Tthere is a positive relationship between military spending and economic growth. Economic growth is the development of activities in the economy that causes goods and services produced in the community increases.

Thus, military spending is included in the calculation of state expenditures. In other words, as part of government consumption and government investment. Military spending provides a favorable macroeconomic economic stimulus as well as military spending which will drive modernization, technological advances become a source of technological development in a country's industry.

Endogenous Growth Theory explains that government budgets have an important influence on long-term economic growth. One of the requirements to boost growth is to increase indirect investment in the formation of human resources and foreign private investment.

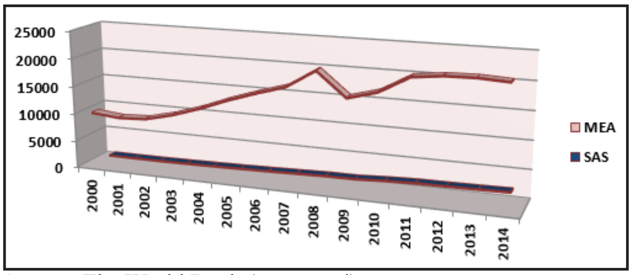
Theoretically, an increase in defense budget through increased taxes will lead to a decrease in the ability to save and private companies will lack capital for investment. Demand for higher defense spending may have serious macro consequences if increased military expenditures are financed by increasing the supply of money, borrowing from abroad or domestically, or by depleting foreign exchange stocks.

As for the indirect effect of the defense budget on external debt through the purchase of expensive advanced technology or half the goods required by the domestic defense industry from abroad. If the government allocates its budget to the military it will affect investment. Since the possibility of allocation for infrastructure, education, health, etc. will be depleted for military budgeting.

METHOD

The object of this study is the relationship between military budget and economic growth in some countries MENA (Middle East and North Africa) and SAS (South Asia), namely Afghanistan, United Arab Emirates, Bahrain, Cyprus, Algeria, Egypt, India, Iran, Israel, Jordan, Kuwait, Lebanon, Sri Lanka, Morocco, Nepal, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Turkey and Tunisia.

With the dependent variable of economic growth measured by GDP per capita as well as independent variables, among others, military budget, gross fixed capital formation, human capital and final consumption budget.

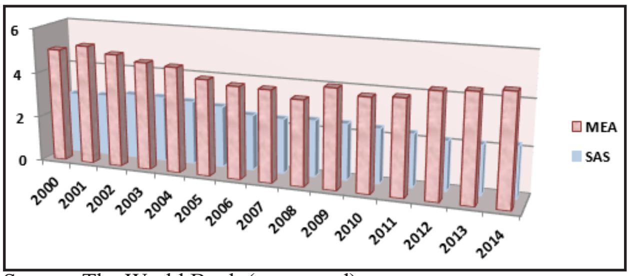


Source: The World Bank (processed)

Figure 2. GDP Per Capita (USD)

The variable used to measure economic performance. The data used are the years 2000-2014 from the average of 22 countries in Middle East & North Africa (MEA) and South Asia (SAS). Based on the graph above, there are fluctuations and differences that are very prominent between MEA and SAS economic growth.

The average for the Middle East & North Africa (MEA) is US $ 16185.67 with the highest year in 2014 of US $ 21428,43. Meanwhile, the average South Asia (SAS) of US $ 1080.61 with the highest year in 2014 amounted to US $ 1861.66.

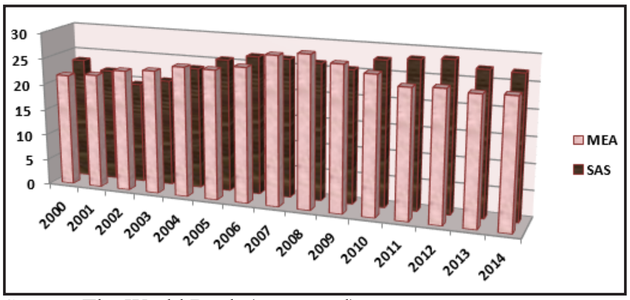


Source: The World Bank (processed)

Figure 3. Military Budget (% of GDP)

Based on Figure 3, do the military budget affects to economic performance? There are data for the years of 2000-2014 from the average of 22 countries in Middle East & North Africa (MEA) and South Asia (SAS) showed fluctuations in both areas. For an average MEA of 4.5% with the highest year 2001 of 5.28%. Meanwhile, the average SAS is 2.52% with the highest year 2003 of 2.89%.

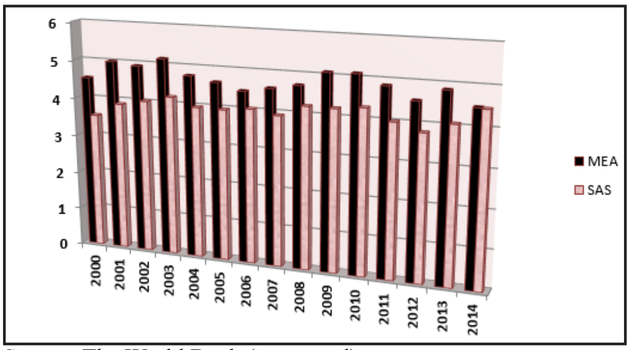
This military budget is seen of GDP, it cannot be denied the Middle East has a higher military budget higher than South Asia. As the growth of the Middle East is much higher than that of South Asia and the military needs in the Middle East are greater due to conflict and chaos than in South Asia.



Source: The World Bank (processed)

Figure 4. Gross Capital Formation (% of GDP)

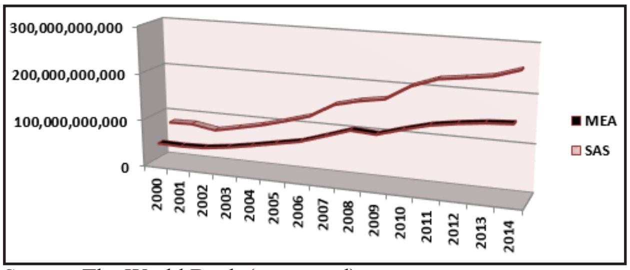
Based on the Figure 4, gross fixed capital formation for 2000-2014 from the average of 22 countries in the Middle East (MEA) and South Asia (SAS) shows fluctuations in both areas. For an average MEA of 25.15% with a 2008 year high of 29.17%.Meanwhile, the average SAS of 25.27% with the year 2012 highest of 28.47%.



Source: The World Bank (processed)

Figure 5. Human Capital (% of GDP)

Based on the graph above, human capital for health and education expenditures for the years 2000-2014 reached from the average of 22 countries in the Middle East & North Africa (MEA) and South Asia (SAS) seen fluctuations in both areas. Areas in South Asia are lower than the Middle East. For an average MEA of 4.78% with a 2003 year high of 5.15%.Meanwhile, the average SAS of 4.04% with the highest year 2014 of 4.48%.



Source: The World Bank (processed)

Figure 6. Final Consumption Expenditure (USD)

Based on the graph above, there is a fluctuation with the dominant increase in final consumption for 2000-2014 from the average of 22 countries in Middle East & North Africa (MEA) and South Asia (SAS). For an average MEA of ± 99 billion with a 2014 year high of ± 160 billion.Meanwhile, the average SAS of ± 151 billion with the highest year 2014 of ± 252 billion.

As South Asian countries are dominated by developing countries compared to the Middle East, consumption in South Asia tends to be higher than in the Middle East.

The model used in this study refers to previous research ever conducted based on the theory of military expenditure and economic growth. To test the influence of each variable used. Model:

$$LNGDP_{it} = \beta_0 + \beta_1 MIL_{it} + \beta_2 GCF + \beta_3 HUMCAP_{it} + \beta_4 LNCONS_{it} + \varepsilon_{it}$$

Which:

$LNGDP_{it}$: logaritma economic growth rate (GDP Per Capita)
MIL_{it} : military budget
GCF_{it} : gross capital formation
$HUMCAP_{it}$: human capital
$LNCONS_{it}$: logaritma final consumption expenditure (this variable used log to minimize numbers)
ε_{it} : error term
i,t : observed countries, 2004-2014
β_0 : constants
β_1-β_4 : coefficients

RESULTS AND DISCUSSION

Models adapted (Knight et al., 1996) model with some changes and additions to independent variables using variables is associated to their dependent variables. Based on the tests (Chow Test and Hausman Test) that have been done, the hypothesis shows that fixed effect test is better used than random effect test.

To determine the method to be used in research between approach of common effect or fixed effect approach, Chow Test can be used (Gujarati & Porter, 2004) based on the results of data processing obtained results as Table 2.

Table 2. Chow Test

Test Summary	*Statistic*	*d.f.*	*Prob.*
Cross-section F	2755,970723	(21,285)	0,0000
α =5%	*F-table* = 1,593098		

Source: processed data

Based on Table 2, F-Statistic > F-Tabel, then H_0 which states that the selection of the best common effects model is rejected.

The next test is to perform Hausman test to determine the random effect or fixed effect approach. From the results of data processing using Hausman test, obtained in Table 3.

Table 3. Hausman Test

Test Summary	*Chi-Sq. Statistic*	*Chi-Sq. d.f.*	*Prob.*
Cross-section Random	11,900233	4	0,0181
α =5%		Chi-Square table = 9,487729	

Source: processed data

Based on Table 3, Chi Square (X^2) statistic > Chi Square (X^2) table, then H_0 is rejected, which is estimation in panel model would be better if it uses fixed effect model.

Table 4. Result of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.608884	0.206063	-27.21929	0.0000
MIL?	-0.012197	0.002125	-5.739672	0.0000
GCF?	0.000952	0.000346	2.750496	0.0064
HUMCAP?	0.000205	0.000398	0.515211	0.6068
CONS?	0.864295	0.018328	47.15823	0.0000
AR(1)	0.886403	0.026718	33.17642	0.0000
Fixed Effects (Cross)				
_AFG—C	-0.433281		**_LBN—C**	0.381659
_ARE—C	0.397707		**_LKA—C**	-0.141652
_BHR—C	1.126692		**_MAR—C**	-0.309982
_CYP—C	1.146075		**_NPL—C**	-0.418982
_DZA—C	-0.173466		**_OMN—C**	0.868065
_EGY—C	-0.755772		**_PAK—C**	-1.061180
_IND—C	-1.681672		**_QAT—C**	1.178416
_IRN—C	-0.478619		**_SAU—C**	0.052362
_ISR—C	0.379515		**_SDN—C**	-0.538438
_JOR—C	0.199160		**_TUN—C**	0.066364
_KWT—C	0.895116		**_TUR—C**	-0.596119
R-squared		0.999704		
F-statistic		34000.69		
Observation		289		
Durbin-Watson stat		1.849249		

Source: processed data

Based on Table 4 of data processing by using panel data regression about the effect of military budget variable on economic perfomance and other variables in 23 countries in 2000-2014 are shown pretty good results. This study uses panel data analysis with fixed effect model. The results of model estimation suggest that military budget has a significant negative effect on economic perfomance, while gross capital formation, final consumption expenditure have significant positive effect on economic perfomance. Meanwhile, human capital does not have significant effect on economic perfomance in 22 countries.

CONCLUSION

Based on the results of data processing by using panel data regression about the effect of military budget variable on economic perfomance and other variables in 23 countries in 2000-2014, it can be obtained these following conclusion: (1) Military budget has a significant negative effect on economic perfomance. (2) Gross Fixed Capital Formation has a significant positive effect on economic perfomance. (3) Human Capital does not significantly affect the economic perfomance. (4) Final Consumption Budget has a significant positive effect on economic perfomance.

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Trikonomika
Volume 16, No. 2, December 2017, Page. 81-87
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

CRITERION OF CLIENT'S COMPANY, PUBLIC ACCOUNTANT FIRM, FINANCIAL DISTRESS, AND COMPANY GROWTH TOWARDS AUDITOR SWITCHING

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Abstract

There were some factors why company switched its auditor voluntarily, that were criterion of client's company, criterion of public accountant firm, financial distress, and company growth. Population in this study was a manufacture company's financial report in the sector of Basic and Chemical Industry, by the amount of 65 companies listed in Indonesia Stock Exchange in the period of 2010-2015. A method used was purposive sampling that is 13 companies. The analytical tool used is logistic regression analysis. The results showed that the criterion of client's company and company growth statistically did not give any influence towards auditor switching. Meanwhile, the criterion of public accountant firm and financial distress did give influence towards auditor switching.

Keywords: criterion of client's company, criterion of public accountant firm, financial distress, company growth, auditor switching

INTRODUCTION

Auditor switching was an activity undertaken by a company to switch auditors due to its audit rotation. Based on theoretical evidence, rotating auditor caused the shorter period of audit tenure in which company would undertake auditor switching (Nasser et al, 2006:4).

In Indonesia, there were regulation which governs audit tenure, that was the Decree of Minister of Finance of Republic of Indonesia No. 359/KMK.06/2003 article 2 on "Public Accounting Services". The regulation itself was a change of the Decree of the Minister of Finance No. 423/KMK.06/2002 stipulating that the provision of general audit services to the financial reports of an entity might be executed by the public accountant firm for a maximun of five consecutive years and by the public accountant fo three consecutive years. The regulation was then renewed and amended by the issuance of Regulation of the Minister of Finance of Republic of Indonesia No. 17/PMK.01/2008 Section 3 concerning on "limitation of public accountant practices and public accountant firm". This regulation covered about the provision of general audit services to the financial reports of an entity which was undertaken by public accountant firm for a maximum of six consecutive years and by the public accountant for three consecutive years. Both public accountant and its firm might reoperate after a year.

Auditor rotation was not only practically done mandatorily, but also voluntarily. Voluntary auditor switching could happen if the client switch her/his auditor without anyone's rule or permission to do it.

Mandatory auditor switching and voluntary auditor switching could be distinguished based on the focus of each party. If the auditor was voluntarily switched, the focus would be on the client. Otherwise, if the auditor was mandatorily switched, the focus would be on the auditor (Febrianto, 2009). When the client switched the auditor and if there was no regulation about it, it would cause two things: the auditor would either resign or be fired by the client. Of which those things happened, the focus would be on the reason why it happened and where the client went through.

In Indonesia, auditor switching was ideally undertaken mandatorily. However, the fact of auditor switching in Indonesia showed us that there was company which undertook it voluntarily (Yanwar: 2012). A voluntarily auditor switching affected some negative impacts towards the company due to its frequent switch of auditors. The impact included higher cost on the money because the company itself would spend more if it still hired the same auditor. For example, first thing that a new auditor of a company might do was to understand the client's work environment and to determine audit risk. For the auditor who had not already understood the environment yet, he/she would need a higher start-up cost, which could finally rise his/

her audit fee. Other than that, auditors who performed their duties in the early years proved to have a high probability of errors.

The other impacts of frequent switch of auditor is seen by the client's point of view: that, more or less, the auditor who performs in their first year will interfere the other employee's comfort, by asking several questions about the company that should not be asked if the auditor does not switch. American Institute of Certified Public Accountants (AICPA) (1992) stated that the disadvantage of auditor rotation is that the knowledge gained during the quality improvement of audit work will be useless with the recruitment of a new auditor. In other words, the audit quality will also decrease.

There are some factors why company switch auditors voluntarily; that is because the criterion of client's company. A bigger auditee company will need a public accountant firm which is capable of reducing agency cost (Watts and Zimmerman, 1990, cited by Mutiara, 2012) and threat of auditor's personal interest (Hudaib and Cooke, 2005). Other than that, the firm should also have a high independency due to the rise of determination between principal and agent, and also due to its operational complexity. Due to the size of firms which are large, the number of possible conflicts of agent is also high. It can also increase a qualified auditors.

The second factor which caused client switched the auditor was the criterion of public accountant firm. DeFond (1992) as cited by Wijaya (2013) stated that the audit quality could also be determined by by the size of the public accountant firm itself. The firm which had smaller size had smaller resources, which were then perceived to be in a lower quality.

The third factor which caused client switched the auditor was the financial distress. It was a first stage of company's bankruptcy. Financial distress could also be defined as "a company's financial condition which ran into a severe liquidity, therefore the company itself was not able to operate properly. The definition of financial distress was often closely related to bankruptcy" (Irvan and Tri: 2014). Bankruptcy was usually defined as a failure of the company in carrying out its operational activities to generate profit and also a failure in paying obligations. Bankruptcy was also often called liquidation or corporate closure or insolvability.

The fourth factor which caused client switched the auditor was the company growth. One of the ways to find out or measure the company growth was to observe the sales, because it was the main important thing for a company to observe. If the sales was increasing, then the company growth would also increase. Otherwise, if the sales was decreasing, then the company growth would also decrease. This was also supported by Sihombing (2012) who stated that "One of the indicators of company growth was the sales, because it was the main operational activity of an auditee". Generally, company that had a positive sales growth rate indicated the company's ability to maintain its viability.

If the company grwoth was increasing, then the profit gained would also increase. Also if the company growth was increasing, it would have an impact on the company's need for a qualified auditor, as it was followed by an increased need and rapid company demands. If this could not be fulfilled by an auditor, the auditor him/herself would probably switch his/her firm (Sihombing:2012).

The emergence of a study on auditor switching was backgrounded by several cases of companies that switched auditors frequently, meaning that the company has already changed the public accountant firm more than two times within the period of research (five years). This changing happened to manufacture company in the sector of Basic and Chemical Industry, such as PT Jakarta Kyoei Steel Works Tbk and PT Kertas Basuki Rachmat Indonesia Tbk.

Within five years, PT Jakarta Kyoei Steel Works Tbk had already changed its firm four times: in 2011 by using the firm of Muhammad Sofwan and Partners; in 2012 by using the firm of Gideon Ikhwan Sofwan; in 2013 by using the firm of S. Mannan Ardiansyah and Partners; and in 2014 and 2015 by using the firm of Abubakar, Usman, and Partners.

Furthermore, PT Kertas Basuki Rachmat Indonesia Tbk had already changed its firm three times within five years; in 2011, 2012, and 2013 by using the firm of Hananta Budianto and Partners; in 2014 by using the firm of Tanubarta Sunanto Fahmi and Partners; and in 2015 by using the firm of Hendrawinata Eddy Siddharta and Tanzil.

Seen from the cases above, there were several factors effecting companies switcth their Public Accountant Firm more than two times within five years. Therefore, this study will discuss more about those factors.

This research referred to previous research, especially to those which have been done by Prastiwi and Wilsya (2009). This was taken to retest whether the variables used by Prastiwi and Wilsya were still relevant if they were reobserved for the next six years. However, there were some differences between this research and the previous ones, that were: (1) Prastiwi and Wilsya (2009) did not observe about variables of Audit Opinion, like what I observe now, (2) This research did not focus on variables of Income Changing, like what Prastiwi and Wilsya did.

Hypothesis Development, H_1 = Criterion of Client's Company gave influence towards Auditor Switching, H_2 = Criterion of Public Accountant Firm gave influence towards Auditor Switching, H_3 = Financial Distress gave influence towards Auditor Switching, H_4 = Company Growth gave influence towards Auditor Switching.

Auditor switching was an activity undertaken by a company to switch auditors due to its audit rotation. Based on theoretical evidence, rotating auditor caused the shorter period of audit tenure in which company would undertake auditor switching (Nasser et al, 2006:4).

In accepting an engagement, an auditor had professional responsibility to the community, clients, and other members of the public accountant. Therefore, the decision to accept a new audit client or continue a relationship with an existing client should not be underestimated (Aurora: 2013).

An auditor needed to pay his/ her attention carefully on every audit assignemnts, especially a new client's audit. This new client could be divided into two client: 1) a client that had never been audited and 2) a client that was removed from other firms. An auditor should firstly and fully understand the background and information related to the client's business entity in order to get a fully and proper understanding/agreement before signing the contract of audit assignment (Aurora : 2013).

The company which had switched auditot would incure cost that should not be incurred if it continued to hire the same auditor. For example, first thing that a new auditor of a company might do is to understand the client's work environment and to determine audit risk. For the auditor who had not already understood the environment yet, he/she would need a higher start-up cost, which could finally rise his/her audit fee. Other than that, auditors who performed their duties in the early years proved to have a high probability of errors (Pratitis, 2012:28).

The other impacts of frequent switch of auditor was seen by the client's point of view: that, more or less, the auditor who performed in their first year would interfere the other employee's comfort, by asking several questions about the company that should not be asked if the auditor did not switch. American Institute of Certified Public Accountants (AICPA) stated that the disadvantage of auditor rotation was that the knowledge gained during the quality improvement of audit work would be useless with the recruitment of a new auditor. In other words, the audit quality would also decrease.

The client would switch his/her auditor when there are no regulation that required the replacement to take place. What happened next included twho things: first was either that auditor would resign or be fired by the client. Any of which happened, the focus would be on the reason why it happened and where the client would continue to move. If the reason of the replacement was due to the disagreement over certain accounting practice, the client was expected to move to other auditors who had same agreement.

The criterion of client's company was a scale of company's financial condition which was also often classified as a scale of company's criterion. Large companies were believed to be able to solve financial problems they are running in better than small companies (Mutchler: 1985 cited by Aurora: 2013).

A large company usually provided more information for investor in making decision related to the stock investment in the company. Abretch and Richardson (1990) and Lee and Choi (2002) cited by Mutiara (2012) found that the larger company generally had less motivation to share profit evenly compared to small company, because large company was viewed more critical by outside party. Therefore, it tended to show that the company's criterion gave influence to the profit of company's management. There were two possibilities that might happen: 1) when the profit management was opportunist: the larger the company was, the smaller the profit management; 2) when the profit management was efficient: the larger the company was, then the higher the profit management.

Other than that, a large auditee company needed a high-independent audit company to reduce the agency cost because of its operational complexity and its rise of determination between principal and agent (Mutiara:2012).

According to the Law of Republic of Indonesia No. 5/ 2001, a public accountant firm was defined as:

"[a] business entitites established under the provisions of legislation. It also obtains business licenses based on the Act as a forum for public accountants in providing services."

One of the public accountant firm's roles in the company was to provide attestation services on the company's financial statements (Mutiara: 2014). An opinion given by the auditor on the company's financial statements included the fairness of presentation of financial statements based on the general accounting principles. Opinions given by the auditor would increase the confidence of the interested parties over the information presented by the company.

DeAngelo (1981) cited by Mutiara (2012) explained that the audit quality undertaken by public accountants could be rated by the criterion of public accountant firm which undertook the audit process.

The criterion of public accountant firm could be measured by the number of partners, auditors, clients, and income (Riska and Betri: 2014). Halim (2008, p. 16) cited by Riska and Betri (2014) stated several things about organization staff in public accountant firm, as followed: (a) Partner was a top legal client relationship. He/she reviewed the audit, signed the audit statements, approved the fee and billings and was responsible for everything related to audit work. (b) Manager was a staff who more or less interacted with client, oversaw the execution of audit assignments, reviewed more details of audit works, and collected billings on audit fees. (c) Senior accountant was a direct responsible staff for planning and conducting the audit work, and reviewing the work of junior accountants. (d) Junior accountant was a responsible staff for field work. The junior's assigment might be some parts of the audit work; and if possible, the juniors might give an opinion on the part of the examination.

Financial distress was a first stage of company's bankruptcy. Financial distress could also be defined as "a company's financial condition which ran into a severe liquidity, therefore the company itself was not able to operate properly. The definition of financial distress was often closely related to bankruptcy" (Irvan and Tri: 2014). Bankruptcy was usually defined as a failure of the company in carrying out its operational activities to generate profit and also a failure in paying obligations. Bankruptcy was also often called liquidation or corporate closure or insolvability.

Financial distress could be caused by several factors. The beginning of financial distress started when the company's cash flow was less than the amount of long-term debt that had matured (Irvan and Tri: 2014). This reflected that the company was unable to meet the payment of the obligations that should be paid on the spot.

Sudana (2011: 249) stated that the factors of financial distress was due to economic factors, errors in management, and natural disasters. Companies that failed in their operations would have an impact on financial distress. But most of the causes of financial distress, either directly or indirectly,were due to repeated management mistakes.

An analysis model called Z-score in its original form was a linear model with weighted financial ratios in order to maximize the model itself in identifying several kinds of financial ratios considered to have an important value in giving influence to an event or phenomenon leading to company's bankruptcy. Based on these events, a development was then carried out into a model that aimed to facilitate in drawing a conclusion of an event.

This Z"-score model gave an average score of groups of companies which did not go bankrupt to become slower compared to the second bankruptcy model. To predict whether a company in a developed company had a potential of bankruptcy, Altman also set discriminant area. This condition could be seen from the value in Z"-score, if: (a) The value of Z"-score was less than 1.1, it meant that the company was running a financial problems and its risk was high. (b) The value of Z"-score was between 1.1 and 2.60, it meant that the company was considered vulnerable. In this condition, the company was in a state of financial problems and should have been anticipated by making a right and proper decision. If the decision-making was late concluded, the company was in bankruptcy. (c) The value of Z"-score was more than 2.60, it meant that the financial condition in the company was really good, so that the banktruptcy possibility was low.

Kallamput and Trombey (2001) cited by Mutiara (2012) stated that a growing company was a company which had the ability to increase size. The company growth was basically influenced by several factors: external and internal, and local industry climate. In relation to leverage, companies with high growth rates should use equity as a source of finance to avoid spending agency cost between shareholders and company management. Whereas companies with low growth rates should use debt as a source of finance because the debt use would require the company to pay interest on a regular basis.

A rapid growth of the company would require funds to do expansion. The bigger the need to spend, the bigger the company's will to press profit. Therefore, a growing company should not share any profit as dividend, but to use it to do an expansion. The growth potential could be measured from its research and development cost.

The company growth could be measured by some ways. One of it was by overseeing its sales growth, such as described in this study.

In this study, the growth of client's companies was calculated by using the company's client growth ratio: that was a current net sales reduced by last year's net sales, then divided by total assets (Weston and Copeland: 1992, cited by Mutiara: 2012).

METHOD

Population was a manufacture company's financial report in the Sector of Basic and Chemical Industry, by the amount of 65 companies listed in Indonesia Stock Exchange in the period of 2010-2015. During these five years, the determination of population was based on the Regulation of the Minister of Finance concerning the auditor switching that regulated the audit service by the Public Accountant Firm for six consecutive years. Therefore, this study examined up to one auditor switching.

A sampling determination method used in this study was included in purposive sampling because the criterias had already been determined. About thirteen companies would be the samples of companies. Data collected by literature research, documentation, and online research. Logistic regression analysis was used.

RESULTS AND DISCUSSION

From the calculation result can be known that the average size of companies in manufacturing companies tend to fluctuate with a downward trendline. The average number of large companies listed on the IDX from 2011-2015 shows that the size of the company in 2011 is 26.66 and then decreases in 2012 to 26.00 and in 2013 rose to 26.05, but in 2014 declined to 26.02. In 2015, the size of the company has increased significantly to 26.49. The results show that, on average of all size of the company, which means that if the amount of assets owned by a large company then the company entered into a large company class, and vice versa.

From the calculation, it can be seen that as much as 80% of the company's data is recorded as affiliated with the big four public accountant firm, while the remaining 20%is affiliated with non big four public accountant firm. This shows that, from 13 manufacturing companies listed on the IDX, most of them use auditor from The Big Four.

From the calculation results can be seen that the average financial distress in manufacturing companies have an increasing trendline. The beginning of 2011 they have a healthy company condition with a number of 8.91, in 2012 has increased by 9.02, in 2013 the companies' health has increased considerably that is 9.40, and in 2014 and 2015, the health of companies experienced a slight decline but still higher than in 2011 and that is shown at 9.37 and 9.42. even in 2015 is still higher than in 2013.

Based on the calculations, the average growth of manufacturing companies tend to decrease each year. The beginning of 2011 the growth of the companies showed of 0.07, in 2012 the growth of the companies decreased by 0.02, in 2013 the companies' growth have increased as in 2011 that is 0.07 and in 2014 down to 0.04, while in 2015 the companies' growth have decreased to -0.06.

From the calculation result, sig value obtained is 0.860 and greater than 0.05, so with a 95% confidence level can be decided to accept Ho and reject Ha or in other words company size has no significant influence on auditor switching. This research fails to show any influence of the client's company size towards auditor switching, and rejects opinions of Watts and Zimmerman (1990) cited by Mutiara (2012) that larger auditee companies are in the need of a public accountant firm that can reduce agency costs. The results of this study are also not in line with Francis et al. (1988) cited by Aurora (2013), Naaser et al. (2006), and Suparlan and Andayani (2010) where the results of their research indicate that the size of the client company has a significant influence on the selection of public accounting firm.

Clients with small total assets tend to move to a non-big four public accountant firm, while issuers with large total assets still choose big 4's public accountant firm as their auditor, reflecting the suitability of the size between the firm and its clients. Most of the study sample consisted of clients with a small asset total and most of them were already using non-big 4 public accountant firms, therefore there was no tendency to do auditor switching.

From the calculation result, sig value obtained is 0.003 and smaller than 0.05, so with a 95% confidence level it can be decided to reject Ho and accept Ha or in other words public accountant firm size has a significant influence on auditor switching.

The results of this study accept the opinion that has been proposed by DeFond (1992) cited by Wijaya (2013) that audit quality can also be determined by the size of the public accounting firm itself. Small firms have smaller resources, which are perceived to be of lower quality.

The results of this study are also in line with research conducted by Mardiyah (2002); Nasser, et al. (2006); Damayanti and Sudarma (2008); and Wayan and Ketut (2013) that there is aninfluence of public accountant firm size on auditor switching.

The size of public accountant firm becomes one of the factors that encourage auditor switching because public accountant firm size reflects better reputation and quality (Pangky: 2011). The size of public accountant firm also determines the credibility of the auditor. Therefore, companies that cooperate with big four's public accountant firm will rarely make a change of auditors.

The results, showed that financial distress has a significant influence on auditor switching. The results of this study accepted the opinion of Sihombing (2012), that the company's financial condition may have important implications on the decision to retain public accountant firm.

The results of this study are also in line with Schwartz and Soo (1995) cited by Sihombing (2012) concluded that companies experiencing financial difficulties or financial distress more are often do auditor switching than companies that do not experience financial distress. The condition of client's companies that are experiencing financial difficulties and threatened with bankruptcy tend to have an impact on the increase of caution and evaluation of auditor's subjectivity, because if a company that experienced bankruptcy chooses the wrong public accountant firm, it will worsen the condition of the company.

The company growth has a significant influence on auditor switching. The results received an opinion from Sihombing (2012) which stated that if the growth of the company is increasing then the profits will increase. Usually if the company is experiencing growth, it will also affect the company's need for quality auditors, as followed by increasing needs and fast demands from company. If this is not met by the auditor, it is likely that the company will replace public accountant firm.

CONCLUSION

Test results and discussion in the previous section can be summarized as followed: (1) The result of logistic regression analysis shows that statistically client'scompany size does not have an influence on auditor switching. (2) The result of logistic regression analysis shows that statistically Public Accountant Firm size has an influence to auditor switching. (3) The result of logistic regression analysis shows that statistically client's company's growth rate does not have an influence on auditor switching. (4) The result of logistic regression analysis result shows that statistically financial distress has an influence to auditor switching.

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APPENDIX

Table 1. Operasionalization of Variable

No	Variable	Indicator	Scale Measurement
1	Client's Company Size (Nasser et al., 2006)	This client's firm size variable is calculated by performing natural logarithms (Ln) over the total assets of the firm (Nasser et al., 2006)	Ratio
2	KAP's Firm Size (Estralita dan Hansen, 2009	Dummy variable, besides "The Big Four"Public Accountant Firm (1) and "The Big Four" Public Accountant Firm(0)	Nominal
3	Client's Firm (Weston and Copeland, 1992 in Satriyo:2015)	$\Delta S = \frac{St\text{-}St\text{-}1}{St\text{-}1}$	Ratio
4	Financial Distress (Nasser et al, 2006)	Z" = 6,56(WC/TA) + 3,26(RE/TA) + 6,72(EBIT/TA) + 1,05(BVE/BVD)	Ratio
5	Auditor Switching (Prastiwi and Wilsya, 2009)	Dummy variable, 1value is given if the company replaces the Public Accountant Firm, and 0 for the company that does not replace the Public Accountant Firm	Nominal

Trikonomika
Volume 16, No. 2, December 2017, Page. 88-94
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

PROFITABILITY, EARNINGS PER SHARE ON STOCK RETURN WITH SIZE AS MODERATION

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Abstract

The purpose of this study was to analyze the effect of profitability and earnings per share on stock returns and the role of size as a moderating variable in state-owned companies listed in the Indonesia Stock Exchange (IDX) in the period of 2011-2016. By using purposive sampling, the number of samples included 18 companies. Method was conducted by downloading summary of financial statements in the Indonesia Stock Exchange. The research began with classical assumption test, multiple linear regression analysis was done with the absolute difference test. The research found that profitability had no effect on stock return. Earnings per share and size had a significant negative effect on stock return. The role of size as a moderating variable strengthened the relationship of earnings per share with stock returns, but it did not play a role in the relationship of profitability with stock returns.

Keywords: profitability, earnings per share, size, stock return

INTRODUCTION

The capital market in Indonesia as a container can awaken spirit, create or use it to build a more equitable and better economy that provides direct benefits to society. Therefore, its presence is very important for companies and investors. Companies that need funds can sell stocks and bonds to fund the activities of the company, while investors who have excess funds can invest in the capital market to get a return. Returns to shareholders other than dividends can also be capital gains, while returns for bondholders are in the form of interest.

Investors are very fond of the high income from each investment. But before they invest their funds, they need to do an analysis of the condition of the company to predict the future stock price in order for their expectations to be achieved. There are several sources of information that can be used to predict future stock prices such as the financial statements and economic conditions of a country. On the other hand, investors also need to consider the risks both systematic and non-systematic. In addition, the difference in information between managers and investors can lead to losses for investors.

Some information from the financial statements can be a source to know the condition of a company such as profit. Companies that earn high profits are considered good for investors, that managers are able to manage their assets well. Profitability can be used to finance the company's operations and as a source of internal funds in the framework of corporate sustainability. It can also be used to improve shareholder wealth through dividend distribution. Companies that earn profits provide good news for potential investors. This will sign that the company is able to provide return to investors. So that potential investors will be interested to buy shares of the company. In the end, it will also increase the stock return.

Earnings per share is a ratio that shows net income for each share for shareholders. A higher ratio will be well valued by investors. Therefore, the tendency of potential investors to invest in shares of companies with high earnings per share will also increase. In the end, it will increase return for shareholders. Vice versa, if the ratio of earnings per share is low then potential investors will view the information content.

Companies that have large total assets will be easier to obtain loans than small companies. It has the resources to be used as collateral. On the other hand, large-scale companies have relatively greater growth compared to smaller companies. Therefore, the rate of return of a large company stock is higher than that of a small company. Therefore, investors will invest in large-scale companies in the hope of getting a great return as well.

Research conducted by Kheradyar et al (2011) find that financial ratios can be used to predict stock returns on the Malaysia Stock Exchange in the period of January 2000 to December 2009. While Suteja and Seran (2015) show that ROE, DER, NPM, inflation, exchange rate and interest rate provide a positive influence on stock returns of the automotive industry and components listed on the IDX in the period of 2009-2013. Masum (2014) finds that return on equity has a significant effect on stock price, while profit after tax and dividend yield have negative and significant effect on stock price at commercial bank which list in Dhaka Stock Exchange Bangladesh in the period of 2007-2011.

Research conducted by Farkhan and Ika (2013), Angraini (2014) and Safitri, et al. (2015) prove that profitability proxyed with return on asset have positive and significant effect on stock return. However, the findings of Bukit and Anggono (2013) show that return on assets has a negative and significant effect on stock returns. While the findings of Marlina and Sari (2009), Susilowati and Turyanto (2011), Arista and Astohar (2012) and Budialim (2013) show that profitability proxyed return on assets (ROA) has no effect on stock return. Azzam's finding (2010) shows that return on assets can reduce stock volatility.

Research conducted by Solechan (2009), Hermawan (2012), Bukit and Anggono (2013), & Purwaningrat and Suaryana (2015) found that earnings per share has a positive and significant effect on stock return. Khan et al. (2013) found that earnings per share had a positive effect on stock returns on the Pakistani textile company in 2003-2009. Similarly, the findings of Ali et al. (2015) showed that earnings per share as a positive and significant effect on stock prices on non-financial companies in the KSE-100 index. In contrast to the findings of Susilowati and Turyanto (2011), Arista and Astohar (2012), Budialim (2013), and Zulaikha (2013) find that earnings per share had no significant effect on stock returns.

Research conducted by Sugiarto (2011), and Purwaningrat and Suaryana (2015) proved that size has a positive and significant effect on stock returns. In contrast, the findings Solechan (2009) and Anggriani (2014) found that size did not affect stock returns.

Motivation of this research is based on the curiosity of researchers to determine the effect of profitability and earnings per share on stock returns and how the role of company size in the relationship is. Interest to examine the stock returns on state-owned enterprises is based on the phenomenon of return that occurs and investor interest to invest in companies whose majority ownership of shares owned by the government. In addition, there is still a research gap on the relationship. The fundamental difference of this study with other studies is the size used as a moderating variable and using multiple linear regression analysis method with the value of absolute difference to see the effect of moderating variable.

According to the opinion of Jogiyanto (2010), information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains good news, the market reaction at the time of the announcement is accepted by the market. One of the information released by the company to potential investors is the annual financial statements. The information contained in the annual financial statements can be in the form of information about the condition of the company in the present. In addition to the fundamental information sourced from the company's financial statements, the information also comes from outside the company in the form of a country's economic conditions.

When information is announced and all market participants have obtained the information, market participants first interpret and analyze the information whether it's a good signal or a bad signal. If the announcement is considered good for investors, there will be increase in price and stock trading volume. But if the information is considered bad, it will reduce the price and volume of stock trading.

However, asymmetric information may occur when managers know more about internal information and future prospects of the company than shareholders and other stakeholders. The higher information asymmetry can lead to serious implications for company performance and sustainability. These two problems can drive managers to behave lazily and unethically. They can trick owners and other stakeholders into reporting information about the company's economic performance and resources.

According to the opinion of Joyianto (2010), return is the result of investment. Return can be realized return and expected return. Realized return is a return that has occurred, whereas expected return is a return that is expected and will be obtained by investors in the future. According to the opinion of Tandelilin (2010), return is an advantage gained from investment. The difference between the expected return and the received return is the risk that should always be considered in the investment process. Stock return is the main objective of every investor in investing. Stock return can be obtained by investors such as capital gains and dividends. Stock return on research only in terms of capital gains, where the capital gain is the difference between the purchase price and the selling price of stock.

According to the opinion of Ang (1997), return on assets is one of the profitability ratios used to measure the ability of companies in generating profits by utilizing assets owned. According to the opinion of Prastowo and Juliaty (2008), return on assets measures the ability of companies to utilize their assets to earn profits. Companies always strive to improve return on assets.

This is because the higher return on assets shows the more effective the company utilizes the assets owned to obtain net profit after tax. With the increasing of return on assets, the profitability of the company becomes the better also.

Earnings per share is one of the market ratios that measure management's ability to create market value that goes beyond investment spending (Ang, 1997). This ratio is the most complete measurement to assess the company's achievements related to the company's goal of maximizing corporate value and shareholder wealth.

Company size is a description of the size of the company related to company's ability and opportunity to earn a profit. Large companies are considered to have larger resources and will generate higher profits than smaller companies. Therefore, the classification of this company can affect the value of the company.

METHODS

Population used in this research was all state-owned companies listed in Indonesia Stock Exchange (IDX) in the period of 2011-2016. Data was collected by purposive sampling technique which consisted of 1) State owned company listed in IDX during the period of 2011-2016, 2) the company presented by the summary of financial statements in IDX in the period of 2011-2016, 3) the company had required data for research including profitability, earnings per share, size and stock return. Based on these criteria, the number of companies that met the criteria as a sample was 18 companies for 6 years of observation.

The type of data in this study was secondary data obtained from Indonesia Stock Exchange (IDX) in the period of 2011-2016. Secondary data studied was panel data that is a combination of time series and cross section. The research variables included independent variables consisting of profitability proxyed with return on asset (X1), earnings per share (X2). Dependent variable was stock return (Y), while size (Z) as moderating variable. In order to avoid multiple interpretation, it would be described in detail such as stock return was percentage of current year closing stock price divided by last year's closing stock price (Tandelilin, 2010), return on asset was percentage of net profit divided by total asset of the current year (Ang, 1997), earnings per share was the percentage of net income divided by the number of shares outstanding in the current year (Ang, 1997), and size was the total asset logarithm of the current year.

This study began with classical assumption test so as not to deviate from the BLUE assumption (best, liniear, unbiased, and estimator). The classical assumption test used was normality test, multicollinearity test, and autocorrelation test. After that, hypothesis test with significance level of 5%. To test the hypothesis used multiple liniear regression analysis with absolute difference test by means of independent variables minus moderating variables. The model in this research is:

$$\mathbf{RS = \alpha + \beta_1 PROF + \beta_2 EPS + \beta_3 Size + \beta_4 Abs|X_1 - Z| + \beta_5 Abs|X_2 - Z| + \varepsilon}$$

Description:

RS	: stock return
PROF	: profitability
EPS	: earnings per share
Size	: company size
$\lvert X_1\text{-}Z \rvert$	: absolute difference in profitability with size
$\lvert X_2\text{-}Z \rvert$	: absolute difference in earnings per share with size
α	: constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$	: regression coefficient
e	: error term

RESULTS

To know whether the residual distributed normally or not, it is further using non-parametric statistical test, Kolmogorov-Smirnov test (K-S). The residual value is normally distributed if the significant value is greater than 5% (Ghozali, 2014). The results of the normality test using one-sample Kolmogorov-Smirnov test show that the significant value (Asymp.Sig. (2-tailed)) is 0.832 which means greater 0.05. It can be concluded that the residual values is normally distributed (Table 1).

Table 1. Normality Test Result
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		107
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.71435893
Most Extreme Differences	Absolute	.060
	Positive	.057
	Negative	-.060
Kolmogorov-Smirnov Z		.624
Asymp. Sig. (2-tailed)		.832

a. Test distribution is Normal.
b. Calculated from data.

Multi-colinearity can be seen on tolerance or variance inflation factor (VIF) with the provision of tolerance value >10% and VIF value <10 then there is no multicollinearity. The multicollinearity test results in Table 2 shows that the value of variance inflation factor (VIF) is smaller than the critical limit value of 10. In addition, the tolerance value is not below 10%. Therefore, it can be concluded that there is no high correlation deviation of independent variables or multicollinearity.

Table 2. Multicolinearity Test Result

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Zscore: Profitability	.790	1.266
	Zscore: Earnings per Share	.286	3.501
	Zscore: Size	.897	1.115
	AbsX1_Z	.624	1.604
	AbsX2_Z	.241	4.156

Autocorrelation was detected using the Durbin-Watson test (DW Test). The Durbin-Watson value between the du and 4-du value indicate a model with no autocorrelation problem (Ghozali, 2014). Based on Table 3, the Durbin-Watson value is 2.142. The value of table du for k = 3 and 107 data is obtained at 1.736. Thus, 4-du = 4-1,736 = 2,264. So that's 1,736 <2,142 <2,264. This means no positive and negative autocorrelation.

Table 3. Autocorrelation Test Result
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.279[a]	.078	.051	215.37735	2.142

a. Predictors: (Constant), Zscore(Z), Zscore(X_1), Zscore(X_2)
b. Dependent Variable: Stock Return

In Table 4 the coefficient of determination shown by Adj. R2 of 0.089 (8.9%). This indicates that Zscore profitability, Zscore earnings per share, Zscore size, AbsX1-Z and AbsX2 - Z in explaining stock return is 8.9%. The remaining 91.1% is explained by other variables outside the model. With low Adj R2 value, the model built in this research has not been good. In other word, there are still variables outside the model that is very influential on stock returns.

Based on Table 4, it shows the F-Statistic value of 3,069 with a significant value of 0.013 smaller than 0.05. This means that all independent variables simultaneously affect the stock return. The beta coefficient value of profitability is -0.571 with a significance value of 0.569 greater than 0.05. Negative coefficient value can be interpreted with the increase profitability of 1%, stock return that will decrease to 57,1% and vice versa. With a significance value greater than 0.05 then profitability has no significant effect on stock return.

The value of beta coefficient of earnings per share is -1.989 with a significance value of 0.049 smaller than 0.05. The value of negative and significant coefficients can be interpreted that the increase of 1% earnings per share of the company, the stock return will fall by 198.9%. Therefore, the earnings per share has a significant negative effect on stock return.

The beta coefficient value of size is -2.818 with a significance level of 0.006 smaller than 0.05. Negative and significant coefficient value can be interpreted that the increase of 1% company size, the stock return will decrease by 281.8% and vice versa, if other variables are considered constant. Therefore, it can be concluded that size has a significant negative effect on stock return.

Tabel 4. Multiple Regression Result Summary
by using Absolute Difference Test

	Standardized Coefficients	T	Sig
(Constant)		-.228	.820
Zscore: Profitability	-.060	-.571	.569
Zscore: Earnings Per Share	-.345	-1.989	.049
Zscore: Size	-.276	-2.818	.006
$AbsX_1$_Z	-.107	-.908	.366
$AbsX_2$_Z	.468	2.474	.015

N = 107
R^2 = .132
Adj R^2 = .089
F-Statistic = 3.069
Sig. = 0.013[b]

The beta coefficient value of AbsX1-Z is -0.107 with a significance level of 0.366 greater than 0.05. This shows that if the value of absolute difference between profitability and firm size increases by 1% then stock return will decrease by 10.7%. A significance value greater than 0.05 indicates that size does not act as a moderating variable on profitability relation with stock return.

The beta coefficient value of AbsX2-Z is 0.468 with a significance level of 0.015 smaller than 0.05. This shows that if the value of absolute difference between earnings per share and firm size increases by 1% then stock return will also increase by 46.8%. Therefore, it can be concluded that size can be a moderating variable on the relationship of earnings per share with stock returns.

DISCUSSION

Based on the test results, it indicated that profitability had no significant effect on stock return of state-owned companies listed in Indonesia Stock Exchange (IDX) period 2011-2016. Thus, the increase in profitability did not increase the stock return of companies that could prosper the investors. The result of this research is caused by asymmetry information between investor and manager. Investors do not make profitable profits from the use of corporate assets as a fundamental factor that can influence stock prices to rise, but there are other elements such as government-majority ownership that contains a lot of pressure and regulation.

These finding was in line with research conducted by Sunardi (2010), Susilowati and Turyanto (2011), Arista and Astohar (2012) who found that profitability had no effect on stock returns. Similarly, the findings of Har and Ghafar (2015) found that during pre-recession economy, return on assets affected stock return but at the time of recession return on assets had no effect on stock return. In contrast to Allozi and Obeidat (2016), this study found that GPM, ROA, ROE had a significant effect on stock return on manufacturing companies registered in Amman Stock Exchange. Khan et al. (2013) found that the return on equity ratio had a positive effect on stock return on textile companies in Pakistan for the period 2003-2009.

Test results showed that earnings per share had a negative and significant effect on stock return of state-owned companies listed in Indonesia Stock Exchange (IDX) in the period of 2011-2016. This meant that companies that experience an increase in earnings per share, the stock return would fall. In contrast to the theory that investors capture information with an increase in earnings per share will increase the company's stock price, also impact on increasing stock return of the company. This occurs because of certain characteristics in state-owned companies and preferences of investors other than the government.

This result was different from Uddin et.al. (2013) who found that earnings per share had a strong relationship with stock price in the financial sector in Bangladesh. Hermawan (2012), Bukit and Anggono (2013), Purwaningrat and Suaryana (2015) found earnings per share had a positive and significant effect on stock return. Allozi and Obeidat (2016) found that EPS had a significant effect on stock return on manufacturing companies listed in the Amman Stock Exchange in the period of 2001-2011. Khan et al. (2013) found that earnings per share had a positive effect on stock returns on the Pakistani textile company in 2003-2009. Masum (2014) found that return on equity and earnings per share had a positive and significant effect on stock price, while profit after tax and dividend yield had negative and significant effect on stock price at commercial bank which list in Dhaka Stock Exchange Bangladesh in the period of 2007-2011.

The test results showed that size had a negative and significant effect on stock return of state-owned companies listed in Indonesia Stock Exchange (IDX) in the period of 2011-2016. This means that the larger the size of the company then stock return will fall. These results indicated the company size that was proxyed by total assets

This is different from the theory that the higher the size of the company the higher the stock return of the company. This finding was different from the findings by Sugiarto (2011), Purwaningrat and Suaryana (2015) that found that company size had a positive effect on stock returns on companies listed in Indonesia Stock Exchange in the period of 2011-2013. Research conducted by Sugiarto (2011), and Purwaningrat and Suaryana (2015) proved that size had a positive and significant effect on stock returns. In contrast to findings by Solechan (2009) and Anggriani (2014) who found that size did not affect stock return.

Based on the results of testing of moderating variables using multiple regression analysis model with absolute difference value, it indicated that size could not act as moderating variable on profitability relation with stock return on state-owned company listed in Indonesia Stock Exchange (IDX) period 2011-2016. The existence of size variable could not strengthen or weaken the relationship between profitability with stock returns indicating that firm size was not a moderating variable of the relationship between profitability and stock return. Thus, large and low size companies did not increase or decrease the impact of profitability on stock return.

Based on the results of testing of moderating variables using multiple regression analysis model with absolute difference value, it showed that the size acted as a moderating variable on the relationship of earnings per share with stock return. The value of positive coefficient can be interpreted that size strengthens the effect of earnings per share on stock return on state owned companies listed in Indonesia Stock Exchange period 2011-2016. This finding showed that the higher earnings per share of a company will increase the stock return and will increase if the size of the company is also large. This finding was in line with Sugiarto (2011), and Purwaningrat and Suaryana (2015) that proved that size had a positive and significant effect on stock returns.

CONCLUSION

Research findings on state-owned companies listed on the IDX in the period of 2011-2016 that are profitability did not significantly affect the stock return. The ability to earn both high and low earnings has not been able to affect stock return. Earnings per share had a negative and significant effect on stock return. Companies that have high earnings per share will result in low stock returns. Size had a negative and significant effect on stock return. Companies that have firm size in this case high total assets will result in low stock returns. Company size could not be used as a moderating variable between profitability and stock return. Company size strengthen the relationship between earnings per share and stock return. Therefore, companies with good earnings per share will increase stock return on companies with large assets.

The results of this study contribute to profitability does not affect the stock return. Therefore, it can be used as reference for further research in the field of financial management. Earnings per share gives a negative signal to stock returns. Size can be used as independent variable and also moderating variable. In addition, managers of state-owned companies need to be more efficient and effective in using their assets to generate profits to attract investors to invest according to signaling theory.

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Trikonomika
Volume 16, No. 2, December 2017, Page. 95-104
ISSN 1411-514X (*print*) / ISSN 2355-7737 (*online*)

STRATEGY IMPLEMENTATION IN BANK PERFORMANCE ACHIEVEMENT BASED ON THE BALANCED SCORECARD

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Abstract

The purpose of this research was to know the influence of strategy implementation to the performance achievement of bank based on the balanced scorecard. The research had been done on Branch Office (BO) of Bank Bjb in West Java. Explanatory case study type was used as the research design. The population included all the functional managers (heads of division) of all BO of Bank Bjb in West Java. There were 48 heads of division in 16 BO with purposive sampling method. Data type was cross-section and questionnaire that were given to three functional managers. Path analysis was used. The result showed that the strategy implementation which had been done in credit management, credit supervision and recovery management, also fund and service management, simultaneously and partially had positive influence in the performance achievement of bank based on the balanced scorecard.

Keywords: strategy implementation, credit management, credit supervision and recovery management, fund & service management, balanced scorecard

INTRODUCTION

Undang-Undang No. 24 of 2004 on the financial balance between Central Government and Regional Government and *Undang-Undang* No. 9 of 2015 on regional government stated that the performance of regional government was influenced by the direction of fiscal and monetary policy, therefore that the measurement of regional economic performance cannot be separated from the banking sector. Bank is a real form of government investment and business world. The role of collecting and distributing funds from and to the community is expected to be a trigger of the economic activity in a region, which resulted in Bank Indonesia not providing assistance to third parties, either the government or the business world (small businesses). Achyar Iljas (2012:18) stated that the implementation of regional autonomy through central and regional balance funds is an excellent complement factor. Lack of financing sources, especially for small and medium enterprises, can be covered partially by liquidity due to the flow of funds derived from the balancing funds. This is evident from the higher banking liquidity, especially in BPD with the dropping of balancing fund.

Bank management faced the problem of business competition in the region in maintaining its performance. According to Mardiasmo (2015: 385) in the era of regional autonomy, regional governments are no longer obliged to use one bank (BPD) for regional financial affairs. In principle, regional governments can work with banks that provide the greatest benefits to regional governments, whether BPD, BRI or others.

In order to achieve the company's performance goals, managers must have the ability to develop and execute management strategies appropriately (Jauch and Glueck, 2013:5; Wheelen and Hunger, 2015:14). The use of performance appraisal methods is critical to the successful achievement of bank performance goals. According to Nurmadi H. Sumarta (2013:49), important corporate performance appraisals are performed by management, shareholders, government or other interested parties and related to the distribution of welfare among them, including banks.

Assessment of the performance of bank companies related to bank soundness based on Director Decree of Bank Indonesia 13/1/ PBI/2011 dated January 5, 2011 regarding the rating of commercial bank health that bank is required to conduct bank rating based on risk-based bank rating. Assessment of bank health is performed on the bank individually or consolidated. The bank appraisal stage at RGEC (Risk Profile, Good Corporate Governance, Earning, and Capital) is called the bank health model that is full of risk management. To that end, bank management needed to pay attention to general principles of risk-oriented, proportionality, materiality and significance, as well as comprehensive and structured as the foundation in assessing bank health. Aspects of bank soundness rating were based on financial and non-financial performance indicators of bank companies, therefore the performance scoring method of balanced scorecard is used (Kaplan and Norton, 2015: 2; Ittner and Larcker, 2014; Nanni, et.al., 2012; Shank and Govidarajan, 2015; Wughanga, 2010; D' Souzo, 2007; Ozturk & Coskun, 2014).

Utilization of measurement of performance achievement of manufacturing and service companies in Indonesia with balanced scorecard is still rare. Although many companies in the USA have been successful in using it to double the company's financial performance (Anthony, 2014, Hansen and Mowen, 2017), few Indonesian companies have the courage to experiment in implementing the balanced scorecard to boost the company's ability to deliver financial performance (Mulyadi, 2015: 22).

The national companies experienced the phenomenon, especially banking, so that the use of balanced scorecard method approach can be used as a consideration of the bank managers to measure the achievement of their performance. Various researches were conducted on the implementation of functional management strategy, the implementation of balanced scorecard in achieving company performance, bank performance evaluation (CAMEL method) and balanced scorecard, Prasetyono's (2001: 127) said that functional management contribution in the implementation of company strategy on performance achievement of manufacturing company based on balanced scorecard approach is 98.30% and partially production management, marketing management, financial management, research and development (R&D) management, and human resource management contributes positively and significantly, with research and development management (R&D) contributed the highest.

Research in the implementation of balanced scorecard in manufacturing and banking companies shows the difference. Functional management in manufacturing companies includes production, marketing, finance, research and development and human resources management; while functional management in banking includes credit management, credit supervision and recovery management, and fund and services management. The use of balanced scorecard assessment method in developing CAMEL method variable in assessing bank performance focused on financial performance, while balanced scorecard method is based on financial and non-financial aspects and its development. The problem formulation is how much the implementation of credit management strategy; credit supervision and recovery management; as well as direct and indirect fund and services management give influence to bank performance achievement based on balanced scorecard approach.

METHODS

The research object consisted of two independent variables, namely the implementation of credit management strategy (X_1), implementation of credit supervision and recovery management strategy (X_2), and implementation of fund management and service strategy (X_3) and a dependent variable that was bank performance achievement based on balanced scorecard approach (Y). The research method was explanatory case study with the population of the heads of divison in all branch offices (BO) of Bank Bjb in 2016 in West Java as much as 62 Branch Offices. Each BO of Bank Jabar has three main functional areas namely credit, credit supervision and recovery and funds and services led by the manager or head of department.

Sampling method used was purposive sampling with the consideration of the distance of research sample location closer to where the researcher and each member of sample is homogeneous with the status same as the Head of Division at BO of PT Bank Jabar to produce representative conclusion of the population. The minimum number of samples was taken using the Yamane formula involving 48 heads of division in 16 BO of Bank Bjb.

The type of data used was cross-section data with primary and secondary data sources. Primary data sources came from the respondents through the distribution of questionnaires and interviews. Respondents were functional managers (heads of divisions) in each BO of PT Bank Jabar selected as samples who were the Head of Credit, the Head of Credit Supervision and Recovery, and the Head of Funds and Services. Secondary data used documentation technique from Bank Jabar in the form of financial data (financial report) and non-financial data (data of objectives, mission and general strategy of company, bank products and services, branch office along with its organizational structure) and Bank Indonesia in the form of financial data (banking data in West Java) and non-financial data (Law and Decree on National Banking). Operationalization of variables is shown in Table 1. The method of analysis used is the path analysis.

RESULTS

The results of data analysis using path analysis are shown in Table 2.

Tabel 2. Path Coefficient

Path Coefficient X_1 on Y	$p_{Y.X1}$	0.4922
Path Coefficient X_2 on Y	$p_{Y.X2}$	0.5517
Path Coefficient X_3 on Y	$p_{Y.X3}$	0.5087

Results of calculation for multiple determination coefficient, multiple correlation coefficient, coefficient of determination of other variables towards Y, and path coefficient of other variables towards Y are shown in Table 3.

Tabel 3. Multiple Determination Coefficient

Multiple Determination Coefficient	$R^2_{Y.X1X2X3}$	0.9176
Multiple Correlation Coefficient	$R_{Y.X1X2X3}$	0.9579
Coefficient of Determination of Other Variables towards Y	$p^2_{Y.\varepsilon}$	0.0824
Path Coefficient of Other Variables towards Y	$p_{Y.\varepsilon}$	0.2870

The calculation results are shown in Figure 1.

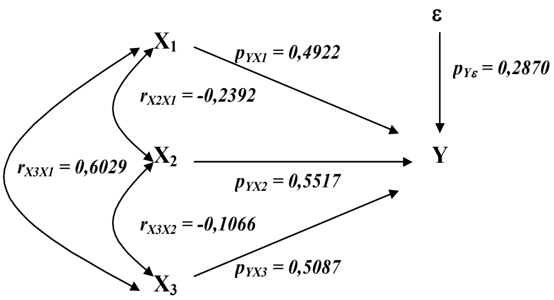

Figure 1. Path Analysis Result

Based on simultaneous test, $F_{count} > F_{table}$ then H1 is accepted or H0 is rejected. It meant there was an influence of strategy implementation by functional management simultaneously on bank performance achievement based on Balanced Scorecard approach.

Based on partial test, $t_{count} > t_{table}$ then H1 is accepted or H0 is rejected. (a) The magnitude of direct influence of X_1 variable on Y variable is 24.23%, (b) the indirect influence of X_1 variable through X_2 variable on Y variable is -6.49%, and (c) the indirect influence of X_1 variable through X_3 variable on Y variable is 15.10%. Therefore the total influence of X_1 variable on Y variable is amounted to 32.83% (positive).

Based on the partial test, $t_{count} > t_{table}$ then H1 is accepted or H0 is rejected. (a) The direct influence of X_2 variable on Y variable is 30.43%, (b) the indirect influence of X_2 variable through X_1 variable on Y variable is -6.49%, and (c) the indirect influence of X_2 variable through X_3 variable no Y variable equal to - 2.99%. Therefore the total influence of X_2 variable on Y variable is amounted to 20.95%.

Based on the partial test, $t_{count} > t_{table}$ then H1 is accepted or H0 is rejected. (a) The direct influence of X_3 variable on Y variable is 25.88%, (b) the indirect influence of X_3 variable through X_1 variable on Y variable is 15.10%, and (c) the indirect influence of X_3 variable through X_2 variable on Y variable is -2.99%. Therefore the total influence of X_3 variable to Y variable is amounted to 37.99%.

DISCUSSION

Many experts view that the process of strategy management consists of three stages namely strategy formulation, strategy implementation and strategy evaluation and control. They have a linked relationship (David, 2016). One of the levels of corporate management strategy is functional-level strategy executed by functional managers. According to Certo and Peter (2016: 115), the bank's functional managers are responsible for the implementation of the strategy according to their fields including credit distribution, credit supervision and recovery, as well as the collection of funds and the provision of bank services.

The measure used as an indicator of bank performance achievement with balanced scorecard approach measures performance with four perspectives namely finance, customers, internal business processes and learning and growth. The implementation of strategies is executed by functional managers together affect the achievement of a company's performance. Seeing the results of data analysis and testing of statistical hypotheses that the implementation of strategies by credit managers, credit supervision and recovery managers, and fund and service managers together affect the achievement of bank performance based on balanced scorecard approach at BO of Bank Bjb in West Java by 91.76%.

The magnitude of this influence belongs to a very high category of influence, so that the achievement of BO of Bank Bjb's performance in West Java is strongly influenced by the implementation of the strategies executed by functional managers. Programs, budgets, and procedures are the stages of strategy implementation in functional areas ran by functional managers showing a positive influence on the achievement of BO of Bank Bjb's performance in West Java. The performance achievement of BO of Bank Bjb is directly influenced by the ability of the Heads of Division in implementing the strategy undertaken related to the main activities in fund raising, credit distribution and provision of bank services.

The performance achievement of BO of Bank Bjb in West Java is not influenced by the strategy implementation by heads of division only, but there are other variables that influence, that is equal to 8.24%. Another variable that can affect the achievement of BO of Bank Bjb's performance is the ability of Branch Head in leading the organization of the company. In accordance with the organizational structure in the Branch Head of Bank Bjb oversees the head of division consisting of the Head of credit, the Head of credit supervision and recovery, as well as the Head of fund and services and has the authority to regulate various operational activities in BO of Bank Bjb which they led as a whole including regulating the process the main activities of bank companies run by the Heads of Division in strategy implementation. This means that the success of the main banking activities run by the Heads of Division in the implementation of the strategy to achieve the banking performance objectives is also determined by the ability of Branch Heads in leading.

Based on the result of analysis, the influence of credit management strategy implementation on bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java is 32.83%. Indirect influence through the implementation of credit supervision and recovery management strategy is -6.49% and implementation of fund management and service strategy is 15.10%. This means that credit managers in implementing their strategies are not positively influenced by the implementation of credit supervision and recovery manager's strategy but are also influenced by the implementation of fund and services manager's strategy.

In essence, the linkage of strategy implementation is executed by credit managers with fund and service managers in achieving the performance of BO of Bank Bjb in West Java on the main activities in fund raising, credit distribution and provision of bank services. Credit distribution activities are the authority of credit managers, while fund-raising activities and the provision of bank services are the authority of fund and service managers. This authority is used as the main foundation for credit managers and fund and services managers to implement strategies in accordance with their functional areas. In running the credit distribution, they should always coordinate with fund and services managers because credit funds will be distributed to customers is the result of fund raising which is the authority of fund and services managers so that credit managers can implement the strategy.

Based on result of data analysis, the influence value of implementation of credit supervision and recovery management strategy on bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java is 20.95%. The indirect influence through the implementation of credit management strategy is -6.49% and through the implementation of strategy by fund and service managers on the achievement of BO of Bank Bjb's performance in West Java is -2.99%. This shows that the implementation of credit supervision and recovery manager's strategy is not influenced by the implementation of fund and service manager's strategy.

The absence of linkages in the implementation of credit supervision and recovery manager's strategy with credit manager's and fund and service manager's in achieving the performance of BO of Bank Bjb in West Java demonstrated its primary function of overseeing and saving the credits under which credit supervision and recovery managers are based on a common strategy applied by BO of Bank Bjb in West java. Based on the general strategy applied by BO of Bank Bjb in West Java is to increase revenues through selective and careful expansion of financing with an emphasis on small businesses without neglecting financing to medium and large enterprises with an emphasis on companies that support small business development.

The main activities that are run by credit supervision and recovery managers related to bank debtors, such as monitoring the development of the debtor, providing early warning about the decline in credit quality that is expected to contain risks for the bank, guidance to the debtor to meet their obligations, rescheduling of credit repayment, restructuring of credit terms, reorganization, recapitalization and credit recall.

Based on the result of data analysis, the influence of implementation of fund and service management strategy on bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java is 37.99%. The indirect influence of the implementation of credit management strategy on the achievement of BO of Bank Bjb's performance in West Java is 15.10% and the indirect influence of the implementation of credit supervision and recovery management strategy on the achievement of BO of Bank Bjb's performance in West Java is -2.99%. This means that fund and service managers in implementing their strategy of achieving BO of Bank Bjb's performance in West Java are influenced by the implementation of credit manager's strategy but not influenced by the implementation of credit supervision and recovery strategy. The linkage between implementation of the strategy executed by fund and service managers with credit managers in an effort to achieve the performance of BO of Bank Bjb in West Java is based on the main activities of banking.

Fund raising activities and the provision of bank services are the authority of fund and service managers, while credit distribution activities are the authority of credit managers. This authority is used as the main basis for fund and service managers as well as credit managers to implement strategies in accordance with their functional areas. Fund and service managers raise funds in particular and the provision of funds continues to coordinate with credit managers, as the result of fundraising from customers is the main capital in credit distribution which is the authority of the credit manager. Therefore the fund and service managers in implementing their strategy to achieve the performance of BO of Bank Jabar in West Java are influenced by the implementation of strategy executed by credit managers.

Functional managers together coordinate in implementing strategies to achieve company performance goals (Stoner and Freeman, 2012: 206). Functional bank managers consisting of credit managers, credit supervision and recovery managers, and funds and service managers are a common force in implementing strategies in line with their functional areas of achieving company performance goals. In order to support strategy implementation, managers develop the programs, budgets and procedures they need (Wheelen and Hunger, 2015: 185).

Conditions supporting the use of balanced scorecard approach in measuring the achievements of Bjb's performance in terms of quality and sustainable growth are implemented through long-term corporate policy through (a) fundraising, through cross selling and infrastructure development models such as sales force and employment, (b) In the field of credit, the focus is on improving non-performing loans (NPLs) through increased billing, early warning system implementation and accelerated execution of collateral. In essence, what is done by bank Bjb is a policy of selective growth, (c) In the field of services, the focus is to develop electronic and information-based services directed to providing safe, fast, easy, and consumer-oriented banking services; (d) Human Resources, capacity building through a number of trainings, implementation of punishment and reward systems are also continuously improved, (e) In the financial sector, improving the Cost Center function to monitor expenditures, resulting in efficient performance, (f) Enhancing the role of internal audit as a strategic business partners for management and the whole ranks of bank in achieving their objectives. Based on the determination of targets in the general strategy draft of Bank Bjb, it is understood that they all have a relationship with the benchmarks in balanced scorecard perspective namely finance, customers, internal business processes, and learning and growth, (g) With the use of balanced scorecard approach it can be used as an alternative consideration in measuring the achievement of Bank Bjb's performance.

CONCLUSION

Based on the results of data analysis and hypothesis testing of 16 BO of Bank Bjb in West Java with the number of respondents as many as 48 functional managers, it can be concluded that the implementation of strategies executed by credit managers; credit supervision and recovery managers; and fund and service managers jointly affect the bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java by 91.76%.

Implementation of credit management strategy has a direct effect on the bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java by 32.83%. Indirect influence through the implementation of credit supervision and recovery management strategy is -6.49% and implementation of fund management and service strategy is 15.10%. This means that the credit manager in implementing the strategy is not positively influenced by the implementation of the credit supervision and recovery management strategy but is positively influenced by the implementation of fund and service manager's strategy.

Implementation of credit supervision and recovery management strategy directly affect the achievement of bank's performance based on balanced scorecard approach at BO of Bank Bjb in West Java by 20.95%. The indirect influence through the implementation of credit manager's strategy is -6.49% and through the implementation of fund and service manager's strategy on the achievement of BO of Bank Bjb's performance in West Java is -2.99%. This indicates that the implementation of credit supervision and recovery manager's strategy is not influenced by the implementation of credit manager's and fund and service manager's strategy.

Implementation of fund and service management strategy on bank performance achievement based on balanced scorecard approach at BO of Bank Bjb in West Java is 37,99%, indirect influence through implementation of credit management strategy is 15.10% and through implementation of management credit supervision and recovery strategy is -2.99%. This means that fund and service managers in implementing their strategy of achieving BO of Bank Bjb's performance in West Java are influenced by the implementation of credit manager's strategy but are not influenced by the implementation of credit supervision and recovery management strategy.

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APPENDIX

Table 1. Operationalization of Variable

VARIABLE (1)	SUB VARIABLE (2)	DIMENSION (3)	INDICATOR (4)
Strategy Implementation (X)	Credit Management Strategy Implementation (X_1)	1. Credit Program 2. Credit Budget 3. Credit Program Implementation Procedure	1. Credit Program a. Credit Marketing : 1) Increasing the amount and value of quality of the credit 2) Making the right decision on credit request proposed by debtor candidate 3) Efficiency and effectiveness of the marketing of bank credit products through improved services and integrated promotion b. Credit Administration and Documentation : Improving the completeness, accuracy, and neatness of credit administration and documentation, particularly in the preparation of credit reports c. Employee Training of Credit Division: Maintaining and developing the knowledge and skills of employees of credit division on an ongoing basis 2. Credit Budget a. Organizational Adaptation b. Full Communication c. Realistic Expectations d. Timeliness e. Flexible Application f. Individual and Group Recognition g. Follow-Up

		3. Credit Program Implementation Procedure a. Credit Marketing : 1) Increasing the amount and value of quality of the credit 2) Making the right decision on credit request proposed by debtor candidate 3) Efficiency and effectiveness of the marketing of bank credit products through improved services and integrated promotion b. Credit Administration and Documentation : Improving the completeness, accuracy, and neatness of credit administration and documentation, particularly in the preparation of credit reports c. Employee Training of Credit Division: Maintaining and developing the knowledge and skills of employees of credit division on an ongoing basis Source : Wheelen and Hunger (2015:9); Siswanto Sutojo (2015:41 and 165); and Welsch (2014:30)
Credit Supervision and Recovery Management Strategy Implementation (X_2)	1. Credit Supervision and Recovery Program 2. Credit Supervision and Recovery Budget 3. Credit Supervision and Recovery Program Implementation Procedure	1. Credit Supervision and Recovery Program a. Credit Supervision : 1) Overseeing credit lending conducted by credit division in accordance with Bank Credit Policy (BCP) 2) Monitoring the progress of debtor activities and providing early warning on the decline in the quality of credits that are expected to contain risks for banks 3) Supervising credit credibility assessment in accordance with the provisions of Bank Indonesia 4) Conducting guidance to debtor, so that the debtor can fulfill their obligation to the bank 5) Monitoring and supervising in particular the validity of credit lending to debtors is in accordance with BCP 6) Monitoring the implementation of credit administration and documentation is in accordance with the established provisions 7) Monitoring the sufficiency of allowance for credit losses b. Credit Recovery : 1) Rescheduling Program 2) Reconditioning Program 3) Reorganization and Recapitalization Program 4) Credit withdrawal by: direct billing, credit collection through credit guarantor, cooperating with other creditors, and selling asset c. Employee Training of Credit Supervision and Recovery Section: Maintain and develop the knowledge and skills of employees of credit supervision and recovery division on an ongoing basis 2. Credit Supervision and Recovery Budget a. Organizational Adaptation) b. Full Communication c. Realistic Expectations d. Timeliness e. Flexible Application f. Individual and Group Recognition g. Follow-Up

			3. Credit Supervision and Recovery Program Implementation Procedure a. Credit Supervision : 1. Overseeing credit lending conducted by credit division in accordance with Bank Credit Policy (BCP) 2. Monitoring the progress of debtor activities and provide early warning on the decline in the quality of credits that are expected to contain risks for banks 3. Supervising credit credibility assessment in accordance with the provisions of Bank Indonesia 4. Conducting guidance to debtor, so that the debtor can fulfill their obligation to the bank 5. Monitoring and supervising in particular the validity of credit lending to debtors is in accordance with BCP 6. Monitoring the implementation of credit administration and documentation is in accordance with the established provisions 7. Monitoring the sufficiency of allowance for credit losses b. Credit Recovery : 1. Rescheduling Program 2. Reconditioning Program 3. Reorganization and Recapitalization Program 4. Credit withdrawal by: direct billing, credit collection through credit guarantor, cooperating with other creditors, and selling asset c. Employee Training of Credit Supervision and Recovery Division: Maintaining and developing the knowledge and skills of employees of credit supervision and recovery division on an ongoing basis Source : Wheelen and Hunger (2015:9); Director Decree of Bank Indonesia No.13/PBI/2011; Siswanto Sutojo (2015:193-194, and 199); and Welsch (2014:30)
	Fund and Services Management Strategy Implementation (X_3)	1. Fund and Services Program 2. Fund and Services Budget 3. Fund and Services Program Implementation Procedure	1. Fund and Services Program a. Fund : 1) Increasing the collection of the amount and value of funds from customers 2) Maintaining public trust by providing cash funds for the benefit of public depository maintenance 3) Placing funds in the form of credit and other forms as a service effort on public needs of money 4) Managing bank capital in order to function properly in accordance with its role as activity activator 5) Efficiency and effectiveness of the marketing of bank fund products through improved services and integrated promotion b. Service : 1) Improving the provision of bank services to support and facilitate the activity of collecting and distributing funds 2) Developing the provision of quality services and improve the technology used in serving the customers 3) Efficiency and effectiveness of the marketing of bank service products through improved services and integrated promotion

		c. Employee Training of Fund and Services Division: Maintaining and developing the knowledge and skills of employees of fund and services division on an ongoing basis 2. Fund and Services Budget a. Organizational Adaptation b. Full Communication c. Realistic Expectations d. Timeliness e. Flexible Application f. Individual and Group Recognition g. Follow-Up 3. Fund and Services Program Implementation Procedure a. Fund : 1) Increasing the collection of the amount and value of funds from customers 2) Maintaining public trust by providing cash funds for the benefit of public depository maintenance 3) Placing funds in the form of credit and other forms as a service effort on public needs of money 4) Managing bank capital in order to function properly in accordance with its role as activity activator 5) Efficiency and effectiveness of the marketing of bank fund products through improved services and integrated promotion b. Service : 6) Improving the provision of bank services to support and facilitate the activity of collecting and distributing funds 7) Developing the provision of quality services and improve the technology used in serving the customers 8) Efficiency and effectiveness of the marketing of bank service products through improved services and integrated promotion c. Employee Training of Fund and Services Division: Maintaining and developing the knowledge and skills of employees of fund and services division on an ongoing basis Source : Wheelen and Hunger (2015:9); Muchdarsyah Sinungan (2015:80), Kasmir (2016:107, 159 and 171); and Welsch (2014:30)
Bank Performance Achievement based on Balanced Scorecard Approach (Y)	1. Financial Perspective 2. Customer Perspective 3. Internal Business Process Perspective 4. Learning and Growth Perspective	1. Financial Perspective : a. Risk-Oriented b. Proportionality c. Materiality and Significance d. Comprehensive and Structured 2. Customer Perspective : a. Core Group : 1) Market share 2) Customer retention 3) Customer acquisition 4) Customer satisfaction 5) Customer profitability b. Supporting Group : 1) Product/service attributes 2) Customer relationship 3) The Image and reputation of the bank

	3. Internal Business Process Perspective : a. Innovation process b. Operation process c. After sales service process 4. Learning and Growth Perspective : a. Employee capability b. Information system capability c. Motivation, empowerment, and individual alignment with the company Source : Anthony and Govidarajan (2014:467); Chang and Chow (1999:396-397); Hoque and James (2000:2-3); Kaplan and Norton (2015:136, and12015:44); and Mulyadi (2015:4)

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