TARGETING YOUNG FEMALE CONSUMER IN MALAYSIA: 
THE EFFECT OF FASHION LIFESTYLE ON BRAND LOYALTY

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ABSTRACT

The objective of study is to identify the relative important of determinants of brand loyalty among young female consumers. The five factors of fashion lifestyle and socio-demographics have been investigated to seek the relationship toward brand loyalty. The data were collected from a sample which is the students’ of university in northern region of Malaysia (N=350). Based on the results, it is found that shopping enjoyment, brand consciousness, personally pursuit, medium-pocket money, and high-pocket money are associated with brand loyalty. Ethnicity of participants does not play any significant role as predictors of brand loyalty.

Keywords: Lifestyles, fashionable clothing, marketing channel, socio-demographics

INTRODUCTION

The young female consumers are very sensitive in changing fashion trend. This is the characteristics of young female consumers who prefer to use fashionable clothes rather than keeping loyalty to use certain brand. Budget also becomes main reason to use fashionable clothes. However, some of them are really adore using fashionable and branded clothes. Most of the time, media and also idol have influenced their fashion’s style. In fashion business, a loyal consumer is important for the company to sustain in the market. Loyal customers do not only increase a number of purchasing but also enhance frequency of purchase. Thus, reevaluate marketing strategies to position products and services are necessary to serve the market to be more efficiently (Sin et al., 2001). Marketers have to do sufficient homework to track contemporary fashion lifestyle trends of targets and reflect it in the product development, communication message, or promotion strategy (Sung & Jeon, 2009). To get robust study on branded fashion clothing, Hogg et al. (1998) suggest that age and gender must take into account in the research design.

LITERATURE REVIEW

Young Female

Young female who are the main customers of fashion product and target market of fashion marketer is one of the fastest growing demographic groups and the new fashion leaders of the youth consumer market with buying power (Meyer & Anderson, 2000; Marshall, 2004; Grant & Stephen, 2005). The ageing baby boomers, as a new group of consumers, have already changed consumer attitudes towards ageing and challenged the traditional stereotype of older people. They want to be physically active as well as psychologically young. Young female customers tend to be loyal brand, with income and an education also having a positive relationship with brand loyalty (Kim & Rhee, 1995).
Brand Loyalty
Branding is one of the core strategies in marketing. It is ideally encouraging consumers to select a given product on being able to differentiate it from others (Aaker, 1996). Brand loyalty is not only consumers' preference, but also actual purchasing behaviour (Jacoby & Chestnut's, 1978). There are two constructions of brand loyalty. The first one is concerned with the consistent of purchases behavior of a specific brand over time. This is behavioral approach to brand loyalty and has been widely used to define the construct. The second is a favorable attitude towards a brand (Quester & Lim, 2003). Jacoby and Kyner (1973) define that brand loyalty is more than just a repeat purchase behavior.

Fashion Lifestyle
Fashion lifestyle is the most people pursuit way to life. Particularly, young female like to chase the latest fashion style. They like the new fashion model and unique things. According to Ahn et al. (2005), lifestyle is subdivided into product-related lifestyle which is a person’s activities, interests, and opinions about specific products. Fashion is primarily concerned with newness (Evans, 1989), and is often considered as a novel way for fashion adopters to express their self to others (Midgley & Wills, 1979). This study is focus on Psychographic variables that investigate the reason why consumer is willing to buy. There are five fashion lifestyle dimensions under investigation (Sung & Jeon, 2009).

Fashion Consciousness
Fashion consciousness directly influence the social self-concept or the image (Sirgy, 1982). A consumer in fashion category consciousness spends a lot of time to get more value from clothing. This is to make them to be different in social status. Parker et al. (2004) conducted a study on teen fashion consciousness and found that Japanese and American teens are generally very similar in terms of their fashion consciousness. They argued that Westerners tend to be much more individualistic rather than those from Confucian societies (e.g. Japan & China). Many people in Japan and China are under constant pressure to live up the expectations of others in order to save face (Parker et al., 2004 p. 183).

H1: Fashion consciousness will have a positive and significant relationship with brand loyalty.

Shopping Enjoyment
Shopping enjoyment is defined as a consumer's personality trait that finds shopping more enjoyable and experiences greater shopping pleasure than other consumers (Bellenger & Korgaonkar, 1980; Reynolds & Beatty, 1999; Odekerken-Schroder, 2003). The consumer will have pleasure to choose any product that they like and make comparison with other product. Consumer in this category has treat shopping as part of leisure and recreational. Consumers who enjoy shopping tend to be drawn to bargain hunting. They gain intrinsic rewards from beating the retail system and seek low prices to feel pride, excitement, and a sense of accomplishment (Cox et al., 2005).

H2: Shopping enjoyment will have a positive and significant relationship with brand loyalty.

Brand consciousness
Brand consciousness represents the confidence and quality in connection with well-known brands (Sung & Jeon, 2009). A modern Asian consumer has reported as most brand consciousness. Hanzaee and Aghasibeig (2010) indicate that around 48 percent of young Iranian female consumers are associated with the habitual-brand consciousness trait. Lee and Workman (2009) have studied the determinants of Korean consumers’ brand consciousness. Empirically, they found that Korean consumers are brand consciousness. According to Warrington and Shim (2000), female consumers are more likely to have a higher level of brand-consciousness than males.

H3: Brand consciousness will have a positive and significant relationship with brand loyalty.

Personality pursuit
According to McShane and Von Glinow (2000), personality refers to the relatively stable pattern of behaviors and consistent internal states that explain a person's behavioral tendencies. Personality trait may only offer some significant explanations where consumer involvement is high for the retail product category.
(Odekerken-Schröder et al., 2003). Personality pursuit prefers to be loyal to the brand that has personal taste with them.

**H4:** Personality pursuit will have a positive and significant relationship with brand loyalty.

**Economical Orientation**

Economical orientation is an inclination to consider values for the money (Sung & Jeon, 2009). In general, college students did not have much money to buy branded clothing. Customer loyalty is a significantly linked with economic factor, especially at a time when many customers find they have far more choice of where they spend their money than they used to have (Bove & Mitzifiris, 2007).

**H5:** Economical orientation will have a positive and significant relationship with brand loyalty.

**Socio-demographics**

Previous studies have found that various results of socio-demographics on brand loyalty. A study of Korean women's clothing brand loyalty which was conducted by Oh and Fiorito (2002) reveal that demographic variables are statistically significant to distinguish the brand loyal customers from the non-brand loyal customers. Martínez and Montaner (2008) found that socio-demographics are not powerful in identifying store brand consumers. Study shopping enjoyment on consumers' income, Cox et al. (2005) argue that social and kinaesthetic aspects of shopping are much higher among low-income consumers compared to their middle- and upper-income counterparts. The Mokhlis (2009) suggest that the differences in ethnic attitude are found to bring the differences in certain aspects of shopping orientations.

**H6:** Pocket money (low=H6.1; medium=H6.2; & high=H6.3) and ethnicity (Malay=H6.4; Chinese=H6.5; Indian=H6.6; & others=H6.7) groups will tend to have significant relationship with brand loyalty.

**METHODOLOGY**

To examine the objectives of the current paper, quantitative method was employed. The survey instrument was prepared in a set of questionnaire and divided into four sections (section A= respondent profile; B= consumer behaviour; C= fashion lifestyle; & D= brand loyalty). The fashion lifestyle instrument was adopted Sung and Jeon (2009). The instruments was measured by using a five-point scale from strongly disagree (1) to strongly agree (5). A cover letter was attached to gain more participation and a snowballing technique was used. Respondent were asked to respond the questionnaire based on their experience and perception. About 400 questionnaires were personally distributed to the female students of certain University in northern region of Malaysia. Students in public universities were targeted where the best student nurturing. They were the agents of change for future Malaysia's market. Malaysia has unique ethnic diversity that has been classified into four major ethnicities (Malay, Chinese, Indian, & Sabahan/Sarawakian etc). Besides, Malaysia also played an important role as an education hub in Asian region which has a lot of International students with different background. A total of 350 questionnaires were ready to proceed in statistical software (SPSS 16.0). The rest were refused to participates with varies reasons (hurry for the class, assignment due date, appointment with lecturer etc).

**RESULTS**

A study has been conducted amongst 350 young female consumers in northern region of Malaysia. Sabahan, Sarawakian and other local ethnic group have combined into Indian group. This is due to the small number of respondents in this study. Various age groups are represented in the sample. It includes 21 years old (35.1%), 22 years old (32.0%), 20 years old for about 16.9%, 12% are above 23 years old and only 4% are under 19 years old. The majority of the respondents who have joined the university in 2008 is 69.1%, 10% in 2007, after 2009 (18.6%) and 2.3% are before 2006. Stream of study has classified into two groups; arts (business, soc. science, humanities, pure art etc) and sciences (comp. science, biology, engineering, medical and so on). Over 70% of the consumers are from arts stream and the reminder of consumers comes from sciences (28.3%).

Table 1: Profile of the respondent's
### Respondents' Profile

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 years old</td>
<td>14</td>
<td>4.0</td>
</tr>
<tr>
<td>20 years old</td>
<td>59</td>
<td>16.9</td>
</tr>
<tr>
<td>21 years old</td>
<td>123</td>
<td>35.1</td>
</tr>
<tr>
<td>22 years old</td>
<td>112</td>
<td>32.0</td>
</tr>
<tr>
<td>23 years old</td>
<td>42</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>What year did you join this school?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>before2006</td>
<td>8</td>
<td>2.3</td>
</tr>
<tr>
<td>2007</td>
<td>35</td>
<td>10.0</td>
</tr>
<tr>
<td>2008</td>
<td>242</td>
<td>69.1</td>
</tr>
<tr>
<td>after2009</td>
<td>65</td>
<td>18.6</td>
</tr>
<tr>
<td><strong>Stream of study</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts</td>
<td>251</td>
<td>71.7</td>
</tr>
<tr>
<td>Science</td>
<td>99</td>
<td>28.3</td>
</tr>
</tbody>
</table>

### Goodness of Measure

There are two tests which have been conducted in order to see the goodness of measure. First is exploratory factor analysis and the second test is reliability analysis. These tests are necessary to ensure the validation and reliability of data in Malaysia setting. Based on exploratory factor analysis, one out of five dimension of fashion lifestyle is omitted. Economic orientation has merged into personality pursuit dimension. Two questions in economic orientation and one question in personality pursuit are deleted. This is due to a higher cross loading (>0.35) and lowest factor loading (<0.50). Fashion lifestyle constructs have perceived valid KMO (0.855), Bartlett's Test is significant at p<0.001 (2.6883) and eigenvalue >1. Varimax Rotation is used to explore the fashion lifestyle questions. Shopping enjoyment value has the strongest ability to provide ample explanation (21.6%), followed by fashion consciousness (16.2%), brand consciousness (12.1%), and personality pursuit (10.9%). Thus, the hypothesis is revised. H1 to H4 are to examine fashion lifestyle and H5 (H5.1-H5.7) is to investigate socio-demographics factors. Brand loyalty has been extracted into single construct. Meanwhile, the fashion lifestyle has four constructs to proceed for next tests. Reliability test was conducted to ensure whether the multi-item instrumentals are positively correlated to one another. Overall, four dimensions of fashion lifestyle and single dimension of brand loyalty ($a=0.781$) are reliable ($a\geq 0.70$). Table 2 shows the summary of factor analysis and reliability test.

<table>
<thead>
<tr>
<th>Fashion Lifestyle</th>
<th>Questions</th>
<th>Loadings</th>
<th>Eigenvalue</th>
<th>% of variances</th>
<th>Crohnbach's $a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping enjoyment</td>
<td>I often go shopping even though I do not need anything</td>
<td>.832</td>
<td>3.900</td>
<td>21.664</td>
<td>0.793</td>
</tr>
<tr>
<td></td>
<td>It is my pleasure to buy fashion products</td>
<td>.830</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I make my shopping trip fast</td>
<td>.815</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I usually shop with others</td>
<td>.805</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I like to shop for fashion products even though I have no intention to buy</td>
<td>.795</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I am pleased to shop</td>
<td>.527</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fashion consciousness</td>
<td>I am the first to try new fashion</td>
<td>.728</td>
<td>2.926</td>
<td>16.258</td>
<td>0.892</td>
</tr>
<tr>
<td></td>
<td>Many people regard me as being a fashion leader</td>
<td>.725</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I am confident in my ability to recognize fashion trends</td>
<td>.699</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
I buy styles which I see on TV or the internet  .693
I consume a time to coordinate color or style of my garments  .682

Brand consciousness
I can trust in well-known brands  .726
A well-known brand means good quality  .693
I purchase well-known brand products although they are expensive  .675
Clothes are one of the most important ways to express my individuality  .639

Personality pursuit
I buy clothes I like, regardless of current fashion  .889
I consider value for money  .858
I try to choose clothes that are new and unique  .528

Hypothesis Testing
Table 3 shows the regression results of predictor variables on criterion variable. Pocket money and ethnicity are categorized into three levels and four classifications.
To test the hypothesis, each level and classification have transformed to dummy variable. This is to examine a single regression from multiple groups. Value was given for each level and classification (e.g. control=0, & treated group=1). The low, medium and high-pocket money, ethnicity (Malay, Chinese, Indian, & Other) and fashion lifestyle (fashion consciousness, shopping enjoyment, brand consciousness, & personality pursuit) are regressed on brand loyalty. Low-pocket money and Chinese respondents are found excluded from the model. This is maybe due to the largeness number of respondent in these categories.

Table 3: The regression analysis for the characteristic of young female consumers, fashion lifestyle and brand loyalty

<table>
<thead>
<tr>
<th></th>
<th>Standardized Coefficients (ß)</th>
<th>t-value</th>
<th>p-value</th>
<th>Model significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-Pocket Money</td>
<td>.164</td>
<td>3.457</td>
<td>.001</td>
<td>R²=.321</td>
</tr>
<tr>
<td>High-Pocket Money</td>
<td>.110</td>
<td>2.295</td>
<td>.022</td>
<td>R²=.303</td>
</tr>
<tr>
<td>Malay</td>
<td>.019</td>
<td>.402</td>
<td>.688</td>
<td>D-W= 1.611</td>
</tr>
<tr>
<td>Indian</td>
<td>.029</td>
<td>.630</td>
<td>.529</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>-.080</td>
<td>-.1667</td>
<td>.096</td>
<td></td>
</tr>
<tr>
<td>Fashion consciousness</td>
<td>.081</td>
<td>1.526</td>
<td>.128</td>
<td>F=17.894</td>
</tr>
<tr>
<td>Shopping enjoyment</td>
<td>.205</td>
<td>3.944</td>
<td>.000</td>
<td>P=.000</td>
</tr>
<tr>
<td>Brand consciousness</td>
<td>.313</td>
<td>6.091</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Personality pursuit</td>
<td>.103</td>
<td>2.086</td>
<td>.038</td>
<td></td>
</tr>
</tbody>
</table>

Note: Low-Pocket Money= <RM400; Medium-Pocket Money= RM401-800; High-Pocket Money= >RM800

The regression analysis is used to determine the relationship of fashion lifestyle, and socio-demographics on brand loyalty. Regression assumptions are fulfilled. First, Durbin-Watson value is in acceptable range (1.611), tolerance value should be less than 1, VIF value less than 10 and condition index must not exceed 40. There are no serious problems of auto correlation and multicolinearity. The model is significant with R square=.321, adjusted R square=.303, R and F =17.894; p value less than 0.001. This model provides evidence of positive and significant relationships between the predictor variables and criterion variable. Shopping enjoyment (ß=0.205, p<0.001), brand consciousness (ß=0.313, p<0.001), personality pursuit (ß=0.103, p<0.05), medium-pocket money (ß=0.164, p<0.001), and high-pocket money (ß=0.110, p<0.05) is found to be significantly correlated with brand loyalty among young female consumers in northern region, Malaysia. Thus, H2, H3, H4, H5.2, H5.3 are accepted. Nevertheless, fashion consciousness (ß=0.081,
low-pocket money (excluded in the model). Malay (β=0.019, p>0.05), Chinese (excluded in the model), Indian (β=0.029, p>0.05), and other (β=0.080, p>0.05) are found not to have relationship with brand loyalty whilst H1, H5.1, H5.4, H5.5, H5.6, and H5.7 are rejected respectively.

CONCLUSION AND RECOMMENDATIONS
The purpose of this paper is to identify the relative important of determinants of brand loyalty among young female consumers. The five fashion lifestyle categories has been extracted into four fashion lifestyle constructs. This is due to merge the item of economical orientation on personality pursuit. The four fashion lifestyle constructs found different from the original measurement by Sung and Jeon (2009). This is due to the fact that consumers in different nations have different perspectives. Sung and Jeon’s (2009) study and setting also different where they conducted women fashion lifestyle in e-retail business. Therefore, current study found that brand consciousness is relative important in determining brand loyalty. The label designer and fashion marketer also need to be careful of treatment of counterfeit products. Perhaps the young female used the counterfeit fashion brand to influencing self-concept.

REFERENCES
HOW TO DEVELOP CREATIVITY AND INNOVATIVE TEAMS IN 21ST CENTURY

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ABSTRACT

Creativity, innovation and teams concern the process of creating and applying new knowledge. As such they are at the very heart of knowledge management. Knowledge management, however, is an emerging discipline and creativity, innovation, technological innovation system, social innovation, economic innovation, organization and teams need to be thought about in this new context. This paper creates a framework in which to discuss these concepts. It goes on to explore how our creativity is 'blocked' in a variety ways, including deep-seated beliefs about the world. It is often thought, for example, that creativity is a serious analytical task limited to certain disciplines such as R&D. This could not be further from the truth. Finally this paper takes a brief look at tools to support knowledge management and creativity - one in the human domain and the other in the technology domain. We are also needs to boost its capacity for continuous creativity and innovation for both technology, social, economic, and organization reasons.

Keywords: creative problem solving, technological innovation system, social innovation, innovation economic, organization innovation, knowledge management

Introduction

Creative problem solving is the mental process of creating a solution to a problem. Richard Fobes (1993) noted, it is a special form of problem solving in which the solution is independently created rather than learned with assistance. Alex Osborn (2001) stated, the creative problem solving always involves creativity. However, creativity often does not involve creative problem solving, especially in fields such as music, poetry, and art. Creativity requires newness or novelty as a characteristic of what is created, but creativity does not necessarily imply that what is created has value or is appreciated by other people.

Innovation is the introduction of new goods or services. The company must adapt to change on consumer demands and to new competitors. Innovation is a change in the thought process for doing something, or the useful application of new inventions or discoveries. Byrd and Jacqueline noted (2003, p.8) it may refer to an incremental emergent or radical and revolutionary changes in thinking, products, processes, or organizations. In many fields, Cabral and Regis (2003, p.19) stated, such as the arts, economics and government policy, something new must be substantially different to be innovative. In economics the change must increase value, customer value, or producer value. The goal of innovation is positive change, to make someone or something better. Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy. When the internet allowed merchant to bypass traditional distribution channel and reach buyers directly, and Bellman states (2001, p.21) that traditional marketers had to learn how to innovate to remain competitive.

Technological Innovation System is a concept developed within the scientific field of innovation studies which serves to explain the nature and rate of technological change. A Technological Innovation System can be defined as "a dynamic network of agents interacting in a specific economic/industrial area under a particular institutional infrastructure and involved in the generation, diffusion, and utilization of technology". Gary Hamel, notes (2001, p.139) that the real competitive battle was never between the heralded new Internet economy and an old economy. Lundvall states, the concept of the innovation system (1985) stresses that the flow of technology and information among people, enterprises and institutions is key to an innovative process. Freeman (1988) notes, it contains the interaction between the actors who are needed in order to turn an idea into a product, process or service on the market. Innovation economics, Evangelista Rinaldo states (2000, p.183)) is an economic doctrine that reformulates the traditional model of economic growth so that knowledge, technology, entrepreneurship, and innovation are positioned at the center of the model rather than seen as independent forces that are largely unaffected by policy. Innovation economics is based on two fundamental tenets: that
the central goal of economic policy should be to spur higher productivity and greater innovation, and that markets relying on price signals alone will not always be as effective as smart public-private partnerships in spurring higher productivity and greater innovation. Social innovation, Howaldt and Schwarz (2010) refers to new strategies, concepts, ideas and organizations that meet social needs of all kinds - from working conditions and education to community development and health - and that extend and strengthen civil society.

Discussion
Creative Problem Solving

To qualify as creative problem solving the solution must either have value, clearly solve the stated problem (Lau & Cheung, 2010, p.329), or be appreciated by someone for whom the situation improves. The situation prior to the solution does not need to be labeled as a problem. Alternate labels include a challenge, an opportunity, or a situation in which there is room for improvement. Solving school-assigned homework problems does not usually involve creative problem solving because such problems typically have well-known solutions. If a created solution becomes widely used, the solution becomes an innovation and the word innovation also refers to the process of creating that innovation. A widespread and long-lived innovation typically becomes a new tradition. "All innovations begin as creative solutions, but not all creative solutions become innovations." Some innovations also qualify as inventions. Altshuller and Henry (1994) noted, that the inventing is a special kind of creative problem solving in which the created solution qualifies as an invention because it is a useful new object, substance, process, software, or other kind of marketable entity. Many of the techniques and tools for creating an effective solution to a problem are described in creativity techniques and problem solving.

Creative-problem-solving techniques as McFadzean (1997, p. 220) notes can be categorized as follows:

- Creativity techniques designed to shift a person's mental state into one that fosters creativity. These techniques are described in creativity techniques. One such popular technique is to take a break and relax or sleep after intensively trying to think of a solution.
- Creativity techniques designed to reframe the problem. For example, reconsidering one's goals by asking "What am I really trying to accomplish?" can lead to useful insights.
- Creativity techniques designed to increase the quantity of fresh ideas. This approach is based on the belief that a larger number of ideas increases the chances that one of them has value. Some of these techniques involve randomly selecting an idea (such as choosing a word from a list), thinking about similarities with the undesired situation, and hopefully inspiring a related idea that leads to a solution. Such techniques are described in creativity techniques.
- Creative-problem-solving techniques designed to efficiently lead to a fresh perspective that causes a solution to become obvious. This category is useful for solving especially challenging problems. Some of these techniques involve identifying independent dimensions that differentiate (or separate) closely associated concepts. Such techniques can overcome the mind's instinctive tendency to use "oversimplified associative thinking" in which two related concepts are so closely associated that their differences, and independence from one another, are overlooked.

The following formalized and well-known methods and processes combine various creativity and creative-problem-solving techniques:

- TRIZ, which is also known as Theory of Inventive Problem Solving (TIPS), was developed by Genrich Altshuller (1994) and his colleagues based on examining more than 200,000 patents. This method is designed to foster the creation and development of patentable inventions, but is also useful for creating non-product solutions.
- Mind mapping is a creativity technique that both reframes the situation and fosters creativity.
• Brainstorming is a group activity designed to increase the quantity of fresh ideas. Getting other people involved can help increase knowledge and understanding of the problem and help participants reframe the problem.

• Edward de Bono has published numerous books that promote an approach to creative problem solving and creative thinking called lateral thinking\(^{xxv}\).

• The Creative Problem Solving Process (CPS) is a six-step method developed by Alex Osborn and Sid Parnes (2001) that alternates convergent and divergent thinking phases.

Even if people knew how to systematically and routinely innovate beyond brainstorming, there are other challenges\(^{xxvi}\). They may resist trying for fear of failure (Lee, Edmondson & Worline, 2004). Status-conscious employees often keep their good ideas to themselves, afraid to test them in the workplace, fearing embarrassment and loss of status if their ideas fail\(^{xxvi}\).

Another barrier is that even when people generate novel ideas for the good of the organization, their colleagues may see these ideas as tainted. Menon & Pfeffer (2003) states, that acknowledging a superior idea from a colleague implies deference to their internal rival and devalues their own status and distinctiveness within the organization\(^{xxvii}\).

Employees may resist sharing their best ideas for fear of colleagues stealing or \"free-riding\" on that idea (Kerr & Bruun, 1983). People may harbor ideas waiting for the ideal time to reveal them in a way that limits their colleagues from taking credit\(^{xxviii}\).

A frequent approach to teaching creative problem solving is to teach critical thinking in addition to creative thinking, but the effectiveness of this approach is not proven. As an alternative to separating critical and creative thinking, some creative-problem-solving techniques focus on either reducing an idea's disadvantages or extracting a flawed idea's significant advantages and incorporating those advantages into a different idea. Creative-problem-solving tools typically consist of software or manipulate objects (such as cards) that facilitate specific creative-problem-solving techniques\(^{xx}\). Electronic meeting systems\(^{xxi}\) provide a range of interactive tools for creative-problem-solving by groups over the Internet.

**Innovation**

Innovation is an important topic in the study of economics, business, entrepreneurship, design, technology, sociology, and engineering. Colloquially, the word \"innovation\" is often synonymous with the output of the process. However, economists tend to focus on the process itself, from the origination of an idea to its transformation into something useful, to its implementation; and on the system within which the process of innovation unfolds. Since innovation is also considered a major driver of the economy, especially when it leads to new product categories or increasing productivity, the factors that lead to innovation are also considered to be critical to policy makers. In particular, followers of innovation economics stress using public policy to spur innovation and growth.

Those who are directly responsible for application of the innovation are often called pioneers in their field, whether they are individuals or organizations.

In the organizational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share, etc. All organizations can innovate, including for example hospitals, universities, and local governments.

While innovation typically adds value, innovation may also have a negative or destructive effect as new developments clear away or change old organizational forms and practices. Organizations that do not innovate effectively may be destroyed by those that do. Hence innovation typically involves risk. A key challenge in innovation is maintaining a balance between process and product innovations where process innovations tend to involve a business model which may develop shareholder satisfaction through improved
efficiencies while product innovations develop customer support however at the risk of costly R&D that can erode shareholder return. Innovation can be described as the result of some amount of time and effort into researching an idea, plus some larger amount of time and effort into developing this idea, plus some very large amount of time and effort into commercializing this idea into a market place with customers.

Innovation has been studied in a variety of contexts, including in relation to technology, commerce, social systems, economic development, and policy construction. There are, therefore, naturally a wide range of approaches to conceptualizing innovation in the scholarly literature.

**Distinguishing from invention.** Invention is the embodiment of something new. While both invention and innovation have “uniqueness” implications, innovation also carries an undertone of profitability and market performance expectation.

An improvement on an existing form or embodiment, composition or processes might be an invention, an innovation, both or neither if it is not substantial enough. According to certain business literature, an idea, a change or an improvement is only an innovation when it is put to use and effectively causes a social or commercial reorganization.

In business, innovation can be easily distinguished from invention. Invention is the conversion of cash into ideas. Innovation is the conversion of ideas into cash. This is best described by comparing Thomas Edison with Nikola Tesla. Thomas Edison was an innovator because he made money from his ideas. Nikola Tesla was an inventor. Tesla spent money to create his inventions but was unable to monetize them. Innovators produce, market and profit from their innovations. Inventors may or may not profit from their work well having those is unsustainable.

**In organizations.** A convenient definition of innovation from an organizational perspective is given by Luecke and Katz (2003), who wrote:

"Innovation . . . is generally understood as the successful introduction of a new thing or method . . . Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services.

A content analysis on the term "innovation" carried out by Baregheh et al. (2009) within the organizational context, defines innovation as:

"Innovation is the multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace."

Innovation typically involves creativity, but is not identical to it: innovation involves acting on the creative ideas to make some specific and tangible difference in the domain in which the innovation occurs. For example, Amabile et al. (1996) propose:

"All innovation begins with creative ideas . . . We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is necessary but not sufficient condition for the second".

For innovation to occur, something more than the generation of a creative idea or insight is required: the insight must be put into action to make a genuine difference, resulting for example in new or altered business processes within the organization, or changes in the products and services provided.

"Innovation, like many business functions, is a management process that requires specific tools, rules, and discipline."

From this point of view emphasis is moved from the introduction of specific novel and useful ideas to the general organizational processes and procedures for generating, considering, and acting on such insights
leading to significant organizational improvements in terms of improved or new business products, services, or internal processes.

Through these varieties of viewpoints, creativity is typically seen as the basis for innovation, and innovation as the successful implementation of creative ideas within an organization.

It should be noted, however, that the term 'innovation' is used by many authors rather interchangeably with the term 'creativity' when discussing individual and organizational creative activity.

A Collaborative Innovation Network, or CoIN, is a social construct used to describe innovative teams. It has been defined by the originator of the term, Peter Gloor (a Research Scientist at MIT Sloan's Center for Collective Intelligence) as "a cyber team of self-motivated people with a collective vision, enabled by the Web to collaborate in achieving a common goal by sharing ideas, information, and work."  

COINs feature internal transparency and direct communication. Members of a COIN collaborate and share knowledge directly with each other, rather than through hierarchies. They come together with a shared vision because they are intrinsically motivated to do so and seek to collaborate in some way to advance an idea.

The five essential elements of collaborative innovation networks (what Gloor calls their "genetic code") are as follows:

1. Evolve from learning networks
2. Feature sound ethical principles
3. Based on trust and self-organization
4. Make knowledge accessible to everyone
5. Operate in internal honesty and transparency

COINs rely on modern technology such as the Internet, e-mail, and other communications vehicles for information sharing. Creativity, collaboration, and communication are their hallmarks. COINs existed well before modern communication technology enabled their creation and development. The most valuable and complex technologies are increasingly innovated by networks that self-organize. Networks are those linked organizations (e.g., firms, universities, government agencies) that create, acquire, and integrate diverse knowledge and skills required to innovate complex technologies (e.g., aircraft, telecommunications equipment). In other words, innovation networks are organized around constant learning. Self-organization refers to the capacity these networks have for combining and recombining these learned capabilities without centralized, detailed managerial guidance. The proliferation of self-organizing innovation networks may be linked to many factors, but a key one seems to be increasing globalization. Indeed, globalization and self-organizing networks may be coevolving. Changes in the organization of the innovation process appear to have facilitated the broadening geographical linkages of products, processes, and markets. At the same time, globalization seems to induce cooperation among innovative teams in organizations.

Technological Innovation System

The Technological Innovation System is a concept developed within the scientific field of innovation studies which serves to explain the nature and rate of technological change. A Technological Innovation System can be defined as 'a dynamic network of agents interacting in a specific economic/industrial area under a particular institutional infrastructure and involved in the generation, diffusion, and utilization of technology.'

The approach may be applied to at least three levels of analysis: to a technology in the sense of knowledge field, to a product or an artifact, or to a set of related products and artifacts aimed at satisfying a particular
societal function’. With respect to the latter, the approach has especially proven itself in explaining why and how sustainable (energy) technologies have developed and diffused into a society, or have failed to do so.

The concept of a Technological Innovation System was introduced as part of a wider theoretical school, called the innovation system approach. The central idea behind this approach is that determinants of technological change are not (only) to be found in individual firms or in research institutes, but (also) in a broad societal structure in which firms, as well as knowledge institutes, are embedded. Since the 1980s, innovation system studies have pointed out the influence of societal structures on technological change, and indirectly on long-term economic growth, within nations, sectors or technological fields.

The purpose of analyzing a Technological Innovation System is to analyze and evaluate the development of a particular technological field in terms of the structures and processes that support or hamper it. Besides its particular focus, there are two, more analytical, features that set the Technological Innovation System approach apart from other innovation system approaches.

Firstly, the Technological Innovation System concept emphasizes that stimulating knowledge flows is not sufficient to induce technological change and economic performance. There is a need to exploit this knowledge in order to create new business opportunities. This stresses the importance of individuals as sources of innovation, something which is sometimes overseen in the, more macro-oriented, nationally or local oriented innovation system approaches.

Secondly, the Technological Innovation System approach often focuses on system dynamics. The focus on entrepreneurial action has encouraged scholars to consider a Technological Innovation System as something to be built up over time.

Technological Innovation Systems are defined in terms of knowledge/competence flows rather than flows of ordinary goods and services. They consist of dynamic knowledge and competence networks. In the presence of an entrepreneur and sufficient critical mass, such networks can be transformed into development blocks, i.e. synergistic clusters of firms and technologies within an industry or a group of industries.

This means that a Technological Innovation System may be analyzed in terms of its system components and/or in terms of its dynamics. Both perspectives will be explained below.

Structures. The system components of a Technological Innovation System are called structures. These represent the static aspect of the system, as they are relatively stable over time. Three basic categories are distinguished:

- **Actors**: Actors involve organisations contributing to a technology, as a developer or adopter, or indirectly as a regulator, financer, etc. It is the actors of a Technological Innovation System that, through choices and actions, actually generate, diffuse and utilise technologies.

- **Institutions**: Institutional structures are at the core of the innovation system concept. It is common to consider institutions as ‘the rules of the game in a society, or, more formally, the humanly devised constraints that shape human interaction’.

- **Technological factors**: Technological structures consist of artefacts and the technological infrastructures in which they are integrated. They also involve the techno-economic workings of such artefacts, including costs, safety, reliability. These features are crucial for understanding the feedback mechanisms between technological change and institutional change. For example, if R&D subsidy schemes supporting technology development should result in improvements with regard to the safety and reliability of applications, this would pave the way for more elaborate support schemes, including practical demonstrations.
The structural factors are merely the elements that make up the system. In an actual system, these factors are all linked to each other. If they form dense configurations they are called networks. An example would be a coalition of firms jointly working on the application of a fuel cell, guided by a set of problem-solving routines and supported by a subsidy programme. Likewise, industry associations, research communities, policy networks, user-supplier relations etc. are all examples of networks.

An analysis of structures typically yields insight into systemic features - complementarities and conflicts - that constitute drivers and barriers for technology diffusion at a certain moment or within a given period in time.

**Dynamics of Technological Innovation Systems.** Structures involve elements that are relatively stable over time. Nevertheless, for many technologies, especially newly emerging ones, these structures are not yet (fully) in place. For this reason, mostly, the scholars have recently enriched the literature on Technological Innovation Systems with studies that focus on the build-up of structures over time. The central idea of this approach is to consider all activities that contribute to the development, diffusion, and use of innovations as system functions. These system functions are to be understood as types of activities that influence the build-up of a Technological Innovation System. Each system function may be "fulfilled" in a variety of ways. The premise is that, in order to properly develop, the system should positively fulfill all system functions. Various 'lists' of system functions have been constructed. Note that it is also possible that activities negatively contribute to a system function. These negative contributions imply a (partial) breakdown of the system. As an example, the seven system functions defined by Suurs are explained here:

- **F1. Entrepreneurial Activities:** The classic role of the entrepreneur is to translate knowledge into business opportunities, and eventually innovations. The entrepreneur does this by performing market-oriented experiments that establish change, both to the emerging technology and to the institutions that surround it.
- **F2. Knowledge Development:** The Knowledge Development function involves learning activities, mostly on the emerging technology, but also on markets, networks, users etc. There are various types of learning activities, the most important categories being learning-by-searching and learning-by-doing. The former concerns R&D activities in example in the form of laboratory experiments or adoption trials.
- **F3. Knowledge Diffusion / Knowledge Exchange:** The characteristic organisation structure of a Technological Innovation System is that of the network. The primary function of networks is to facilitate the exchange of knowledge between all the actors involved in it. Knowledge Diffusion activities involve partnerships between actors, for example technology developers, but also meetings like workshops and conferences.
- **F4. Guidance of the Search:** The Guidance of the Search function refers to activities that shape the needs, requirements and expectations of actors with respect to their (further) support of the emerging technology.
- **F5. Market Formation:** Emerging technologies cannot be expected to compete with incumbent technologies. In order to stimulate innovation, it is usually necessary to create artificial (niche) markets.
- **F6. Resource Mobilisation:** Resource Mobilisation refers to the allocation of financial, material and human capital. The access to such capital factors is necessary for all other developments.
- **F7. Support from Advocacy Coalitions:** The rise of an emerging technology often leads to resistance from actors with interests in the incumbent energy system. In order for a Technological Innovation System to develop, other actors must counteract this inertia. This can be done by urging authorities to reorganise the institutional configuration of the system. The Support from Advocacy Coalitions function involves political lobbies and advice activities on behalf of interest groups.

In this context, cumulative causation is the phenomenon that the build-up of a Technological Innovation System accelerates due to system functions interacting and reinforcing each other over time. For example, the successful realisation of a research project, contributing to Knowledge Development, may result in high expectations, contributing to Guidance of the Search, among policy makers, which may, subsequently, trigger the start-up of a subsidy programme, contributing to Resource Mobilisation, which
induces even more research activities: Knowledge Development, Guidance of the Search, etc. System functions may also reinforce each other ‘downwards’. In that case interactions result in conflicting developments or a vicious circle! Recently scholars have increasingly paid attention to the question of how cumulative causation may be established, often with a particular focus on the development of sustainable energy technologies.

Social innovation

Over the years, the term has developed several overlapping meanings. It can be used to refer to social processes of innovation, such as open source methods and techniques. Alternatively it refers to innovations which have a social purpose - like microcredit or distance learning. The concept can also be related to social entrepreneurship (entrepreneurship isn’t always or even usually innovative, but it can be a means of innovation) and it also overlaps with innovation in public policy and governance. Social innovation can take place within government, within companies, or within the nonprofit sector (also known as the third sector), but is increasingly seen to happen most effectively in the space between the three sectors. Recent research has focused on the different types of platforms needed to facilitate such cross-sector collaborative social innovation. Currently, social innovation is becoming increasingly important within the academic debate, also regarding its theoretical concepts.

The idea of social innovation has become much more prominent with ongoing research, blogs and websites (such as the social innovation exchange), and a proliferation of organisations working on the boundaries of research and practical action. Several currents have converged in this area, including:

- new thinking about innovation in public services, pioneered particularly in some of the Scandinavian and Asian countries. Governments are increasingly recognising that innovation isn’t just about hardware: it is just as much about healthcare, schooling and democracy.
- growing interest in social entrepreneurship.
- business, which is increasingly interested in innovation in services.
- new methods of innovation inspired by the open source field.
- linking social innovation to theory and research in complex adaptive systems to understand its dynamics.
- collaborative approaches to social innovation, particularly in the public sector.

A recent overview of the field highlighted the growing interest of public policy makers in supporting social innovation in these different sectors, notably in the UK, Australia, China and Denmark. A focus of much recent work has been on how innovations spread and on what makes some localities particularly innovative.

Innovation economics

Innovation economics is an economic doctrine that reformulates the traditional model of economic growth so that knowledge, technology, entrepreneurship, and innovation are positioned at the center of the model rather than seen as independent forces that are largely unaffected by policy. Innovation economics is based on two fundamental tenets: that the central goal of economic policy should be to spur higher productivity and greater innovation, and that markets relying on price signals alone will not always be as effective as smart public-private partnerships in spurring higher productivity and greater innovation. This is in contrast to the two other conventional economic doctrines, Neoclassical economics and Keynesian economics. Innovation economists believe that what primarily drives economic growth in today’s knowledge-based economy is not capital accumulation, as claimed by neoclassic lists, but innovation. The major changes in the U.S. economy of the last 15 years have occurred not because the economy accumulated more capital to invest in even bigger steel mills or car factories; rather they have occurred because of innovation. The U.S. economy developed a wide array of new technologies, particularly information technologies, and used them widely.
Although capital was needed for these technologies, capital was not the driver; nor was capital a commodity in short supply.

The major drivers of economic growth are productive efficiency and adaptive efficiency. If the focus in neoclassical economics is “the study of how societies use scarce resources to produce valuable commodities and distribute them among different people,” the focus in innovation economics is the study of how societies create new forms of production, products, and business models to expand wealth and quality of life.

In contrast to neoclassical economics, which is focused on getting the price signals right to maximize the efficient allocation of scarce resources, innovation economics is focused on spurring economic actors – from the individual, to the organization or firm, and to broader levels, such as industries, cities, and even an entire nation – to be more productive and innovative. From the standpoint of innovation economists, if government policies to encourage innovation “distort” price signals and result in some minor deadweight loss to the economy, so be it, because allocate efficiency is not the major factor in driving economic growth in the 21st century knowledge-based economy.

Spurring evolving and learning institutions is the key to growth. Neoclassical economics, which focuses principally on markets and individuals and firms acting in them as atomistic particles responding pretty much exclusively to price signals along supply and demand curves does explain a share of the economy. But innovation in the neoclassical economic model is an exogenous process – a black box, if you will, that works its magic solely in response to price signals. In this sense, the neoclassical model sees innovation as falling like “manna from heaven,” not something that can be induced by proactive economic policies.

In innovation economics, innovation is central. Innovation economists recognize that innovation and productivity growth take place in the context of institutions. Indeed, it is the “social technologies” of institutions, culture, norms, laws, and networks that are so central to growth, yet are so difficult for conventional economics to model or study. Innovation economists view innovation as an evolutionary process in a market where firms act on imperfect information and where market failures are common.

Organizational Innovation

Programs of organizational innovation are typically tightly linked to organizational goals and objectives, to the business plan, and to market competitive positioning. One driver for innovation programs in corporations is to achieve growth objectives. As Davila et al. (2006) note, “Companies cannot grow through cost reduction and reengineering alone... Innovation is the key element in providing aggressive top-line growth and for increasing bottom-line results” (p.6)

In general, business organizations spend a significant amount of their turnover on innovation, such as making changes to their established products, processes and services. The amount of investment can vary from as low as a half a percent of turnover for organizations with a low rate of change to anything over twenty percent of turnover for organizations with a high rate of change.

The average investment across all types of organizations is four percent. For an organization with a turnover of one billion currency units, this would represent an investment of forty million units. This budget will typically be spread across various functions including marketing, product design, information systems, manufacturing systems and quality assurance. The investment may vary by industry and by market positioning.
One survey across a large number of manufacturing and services organizations found, ranked in decreasing order of popularity, which systematic programs of organizational innovation are most frequently driven by:

1. Improved quality
2. Creation of new markets
3. Extension of the product range
4. Reduced labour costs
5. Improved production processes
6. Reduced materials
7. Reduced environmental damage
8. Replacement of products/services
9. Reduced energy consumption
10. Conformance to regulations

These goals vary between improvements to products, processes and services and dispel a popular myth that innovation deals mainly with new product development. Most of the goals could apply to any organization be it a manufacturing facility, marketing firm, hospital or local government. Whether an innovation goal is successfully achieved or otherwise depends greatly on the environment prevailing in the firm.

Research findings vary, ranging from fifty to ninety percent of innovation projects judged to have made little or no contribution to organizational goals. One survey regarding product innovation quotes that out of three thousand ideas for new products; only one becomes a success in the marketplace. Failure is an inevitable part of the innovation process, and most successful organizations factor in an appropriate level of risk. Perhaps it is because all organizations experience failure that many choose not to monitor the level of failure very closely. The impact of failure goes beyond the simple loss of investment. Failure can also lead to loss of morale among employees, an increase in cynicism and even higher resistance to change in the future.

Innovations that fail are often potentially good ideas but have been rejected or postponed due to budgetary constraints, lack of skills or poor fit with current goals. Failures should be identified and screened out as early in the process as possible. Early screening avoids unsuitable ideas devouring scarce resources that are needed to progress more beneficial ones. Organizations can learn how to avoid failure when it is openly discussed and debated. The lessons learned from failure often reside longer in the organizational consciousness than lessons learned from success. While learning is important, high failure rates throughout the innovation process are wasteful and a threat to the organization’s future.

The causes of failure have been widely researched and can vary considerably. Some causes will be external to the organization and outside its influence of control. Others will be internal and ultimately within the control of the organization. Internal causes of failure can be divided into causes associated with the cultural infrastructure and causes associated with the innovation process itself. Failure in the cultural infrastructure varies between organizations but the following are common across all organizations at some stage in their life cycle (O’Sullivan, 2002): xli

1. Poor Leadership
2. Poor Organization
3. Poor Communication
4. Poor Empowerment
5. Poor Knowledge Management
Common causes of failure within the innovation process in most organizations can be distilled into five types:

1. Poor goal definition
2. Poor alignment of actions to goals
3. Poor participation in teams
4. Poor monitoring of results
5. Poor communication and access to information

**Individuals and Teams Innovation**

Effective goal definition requires that organizations state explicitly what their goals are in terms understandable to everyone involved in the innovation process. This often involves stating goals in a number of ways. Effective alignment of actions to goals should link explicit actions such as ideas and projects to specific goals. It also implies effective management of action portfolios. Participation in teams refers to the behavior of individuals in and of teams, and each individual should have an explicitly allocated responsibility regarding their role in goals and actions and the payment and rewards systems that link them to goal attainment. Effective communication and access to information are important for individual members and teams on daily activities in innovation process. Finally, effective monitoring of results requires the monitoring of all goals, actions and teams involved in the innovation process.

Innovation can fail if seen as an organizational process whose success stems from a mechanistic approach i.e. ‘pull lever obtain result’. While ‘driving’ change has an emphasis on control, enforcement and structures it is only a partial truth in achieving innovation. Organizational gatekeepers frame the organizational environment that “enables” innovation, however innovation is "enacted" – recognized, developed, applied and adopted – through individuals and teams.

Individuals and teams are the 'atom' of the organization close to the minutiae of daily activities. Within individuals gritty appreciation of the small detail combines with a sense of desired organizational objectives to deliver (and innovate for) a product/service offer. With these constraints, it appears that people place a premium on getting the idea out of their head and over to their partner first rather than pre-judge the merits of the idea and the value to their personal status for having thought of it. Working in pairs seems to create a sense of accountability and transparency. Once the idea is out on the table, each partner gives some sense of oversight or verification that the idea has been shared with the larger group. A participant may think afterward that one of his or her ideas is brilliant and thus too good to share with the teams, but it is too late. The idea has been captured for the larger group to consider.

The systematic inventive thinking method produces several dozens to several hundreds of ideas depending on the amount of time dedicated to the activity. Skillful facilitation is required again to help overcome the problem of peer acceptance of those ideas.

**First**, the facilitators create an environment of non-attribution so that no one individual is associated with a specific idea. Because the idea was generated in a small team of two or three, and because the moment of truth was born out of a stepwise contribution of their insights and notions during the mini-exercises, it is often hard to distinguish who actually could be credited with generating one specific idea. Idea anonymity reduces the internal competitive threat among colleagues and makes ideas no longer tainted. Participants come to recognize idea contribution as process output.

**Second**, the facilitation process emphasizes only newly-created ideas rather than ideas participants had before coming to the workshop. This inhibits the problem of people selling their pet ideas to their peers, which are usually ideas that the peers have already rejected.
Third, the facilitators lead the larger team to develop a specific set of objective, weighted criteria to judge each of the new ideas generated in the workshop. Diverse teams bring the value of diverse thinking but also the added cost of having to converge on a set of guiding principles.

With these criteria in place in the form of a linear weighted model, ideas are allowed to rise to the top without the stigma of who generated them or who judged them. Internal competition among peer rivals is minimized allowing for a more objective evaluation of ideas. Thoughtful facilitation seems to bring about this alignment much more efficiently than what internal teams can do left on their own.

There are two fundamentally different types of measures for innovation: the organizational level and the political level.

- The measure of innovation at the organizational level relates to individuals, team-level assessments, and private companies from the smallest to the largest.
- Measure of innovation for organizations can be conducted by surveys, workshops, consultants or internal benchmarking.

There is today no established general way to measure organizational innovation.

**How Organization more innovative**

We've identified three set of variables that have been found to stimulate innovation; the organization structure, culture, and human resource practices, as figure below:

**Human Resources Variables**
- High Commitment to Training and Development
- High Job Security
- Creative People

**Structural Variables**
- Organic structure
- Abundant resources
- High Inter unit communication
- Minimal Time Pressure
- Work and Non-work support

**Cultural Variables**
- Acceptance of Ambiguity
- Tolerance of the Impractical
- Low External Controls
- Tolerance of Risk
- Tolerance of Conflict
- Focus on Ends
- Open System Focus
- Positive Feedback

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**STIMULATE INNOVATION**
Conclusions

- A widespread and long-lived innovation typically becomes a new tradition. All innovations begin as creative solutions, but not all creative solutions become innovations. Some innovations also qualify as inventions.
- If we find a better product and services, process or procedure to accomplish our task, we have an innovation. Two fundamental types of innovation are product and process innovation. Product or services innovation are changes in the actual outputs themselves. Process innovation are change in technology—a departure from previous ways of doing things.
- There are definable and predictable patterns in the way technologies emergence, develop, and are replaced. Critical forces convergence to create new technology, which then follow well-defined life cycle pattern. Programs of organizational innovation are typically tightly linked to organizational goals and objectives, to the business plan, and to market competitive positioning.
- There is science behind making new product or services. Understanding what is happening in the process helps you achieve the desired results. This is true for every domain in which we are see people working in the trenches of innovation. No matter what you are doing, there is a body of knowledge that precedes your efforts. If you don't have good access to this knowledge, you are destined to repeat the mistakes of the past and waste a lot of effort reinventing the wheel.
- Social innovation can take place within government, within companies, or within the nonprofit sector (also known as the third sector), but is increasingly seen to happen most effectively in the space between the three sectors. Recent research has focused on the different types of platforms needed to facilitate such cross-sector collaborative social innovation.
- In innovation economics, innovation is central. Innovation economists recognize that innovation and productivity growth take place in the context of institutions. Indeed, it is the “social technologies” of institutions, culture, norms, laws, and networks that are so central to growth, yet are so difficult for conventional economics to model or study. Innovation economists view innovation as an evolutionary process in a market where firms act on imperfect information and where market failures are common.
- Organizational gatekeepers frame the organizational environment that "enables" innovation, however innovation is “enacted” – recognized, developed, applied and adopted – through individuals and teams.

Suggestion

- R&D of organization must proactive to recognized, developed, applied and adopted – innovation through individuals members and teams.
- High performance innovation organizations understand the need to knowledge enable their innovation individuals members and teams by providing them with the best, purposeful knowledge research and delivery systems.
- In the organizational context, innovation may be linked to performance and growth through improvements in efficiency, productivity, quality, competitive positioning, market share, etc. All organizations can innovate, including for example hospitals, universities, and local governments.
- Participation in teams refers to the behavior of individuals in and of teams, and each individual should have an explicitly allocated responsibility regarding their role in goals and actions and the payment and rewards systems that link them to goal attainment.
- Effective communication and access to information are important for individual members and teams on daily activities in innovation process.
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DID INDONESIA “BALANCED” BOARD GIVE POSITIVE IMPACT TO THE IMPLEMENTATION OF CORPORATE GOVERNANCE?  
(Case Study; Indonesian State-owned Enterprises)

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ABSTRACT

The paper focuses on the impact of Indonesia board structure to the implementation of corporate governance in Indonesia state-owned enterprises. The board structure which describes the position and responsibility line of the board will give an impact to the relationships and performance of the board of commissioners in improving good governance. Indonesia follows a two-tier model in which there is a board of commissioners and a board of directors. The functioning of the board of commissioners has reflected the history, tradition and culture of Indonesian state-owned enterprises. Agency theory is used to provide a more detailed and institutionally focused lens for understanding the issues surrounding the relationship of the boards. The study draws on case studies of specific enterprises and an analysis of the SOE sector.

The board structure has an important contribution to make in addressing the obstacles to and challenges in reforming the corporate governance of SOEs. However, the findings reported in this paper indicate that in terms of internationally accepted principles of corporate governance, the Indonesia board structure made roles, responsibility and relationships of the two boards lack clarity; and that boards are not playing significant roles in applying corporate governance to SOEs. This has important implications for the operation of state-owned enterprises and their control of major resources for the development of Indonesia.

Introduction

Corporate governance has been an issue for several decades. The Indonesian government has been seeking to improve good governance since 1999 as a result of the Asian crisis 1997-1998, which triggered political, economic and social chaos. One of the reasons for the collapse of the business sector was ineffective management and the weakness of board governance. The boards' relationship problems and the poor performance of the boards, especially in the Indonesian public sector, have contributed to low economic growth rates in recent years (McLeod 2006). The weakness of the board governance is caused by many factors including the structure of the board. The formal structure of the board is an important issue in corporate governance.

This paper focuses on the board structure in improving good governance in Indonesian state-owned enterprises. The relationship and performance of the boards depends on the board structure. Two types of systems have been used internationally for boards. The first is derived from the Anglo-Saxon legal system and has a one-tier system in which a company has a single Board of Directors (BoD) consisting of senior managers (executive directors) and independent directors who work on a part-time basis (non-executive directors). The other is from the European Continent and is a two-tier system that comprises two separate boards, namely a supervisory board (the board of commissioners) and a management board (the board of directors). Countries with this system include Denmark, Netherlands, Germany, and also Indonesia and Japan (FCGI 2001).

This paper uses Indonesia, which has unique system in board structure, as a case study. Conditions, culture and political involvement in the board will have an impact on the implementation of corporate governance in a state-owned enterprise. This system may also be found in other countries which have similar conditions to Indonesia. It is expected that this paper will provide a contribution to the international perspective of corporate governance.

The paper is structured as follows: the next section reviews the board structure, governance relationships between the boards, and previous studies. It is followed by research method and a consideration of the Indonesia context, before analyzing “balanced” board in finding and discussion.
Board Structure
The architecture of corporate governance concerns the design and style of governance and the way its structures match form with function (Tricker 2009). There are two kinds of design of board structure: the one tier or unitary system and the two-tier system. This structure design will influence the roles of the chairman of the board and the management board, called Chief Executive Officer (CEO). The roles continue to be one of the contentious and unresolved dilemmas in corporate governance.

The dilemma in contemporary corporate governance revolves around whether the chairman of the board and the CEO roles should be separate or combined in one person. According to the code of corporate governance, the roles should be separate to provide duality at the top of the company. The duality will create a check and balance mechanism, avoid central power and help the CEO to focus largely on managing the business whilst the chairman handles the running of the board and relations with shareholders, government, the regulators and the media. However, the duality needs greater clarification of the separation of the roles to enhance the good relationships and communication among them.

Another issue of corporate governance concerns the formal structure of the board. This formal structure can lead to other issues, including the balanced of the numbers between the executive and non-executive members in the one tier system (Lorsch and McIver 1989) and the effectiveness of the board. This can be determined by areas, such as strategy formulation and implementation; board experiences and the selection process; the decision-making process; monitoring and evaluation of the business and the performance of the board and the executive (Rahman and Rahman 2005). The non-executive director is a member of the board who does not hold any executive management position in the company. A further distinction is established between those non-executive directors who are independent of the company, called independent non-executive directors (INEDs), and those who are not executives but have other connections with the company, called connection non-executive directors (CNEDs). The CNEDs usually represent the interests of the employees and shareholders (Tricker 2009).

In the unitary system, the culture of the board, the internal relationships and activities are likely to be different when non-executive directors are in the majority on the board and when the board is dominated by executive directors (LeBlanc and Gillies 2005). The majority of executive directors will create a CEO likely to have enough power over the company and the non-executive directors will have little influence over the direction of the firm (Keasy and Wright 1993). Following the world crisis and scandals in both the USA and Europe, the importance of an independent board and having a majority of non-executive directors has become crucial (Berghe and Baelden 2005). This composition has been followed by several countries such as the United States, the United Kingdom, and similar developed countries. The non-executive directors are expected to provide oversight and monitor the performance of executive activities, the achievement of corporate objectives and assurance of compliance with corporate governance requirements (Abdullah 2004). They are also expected to provide expertise in decision-making in order to balance the power of executive directors.

In contrast, in the two-tier system as is commonly the members of the board practiced in Europe are defined as members of a supervisory board and the management as members of a management board. The supervisory board is comprised entirely of outside directors and the management board entirely of executive directors in order to ensure the independence of the supervisory board. The supervisory board exists to serve the interest of stakeholders, including shareholders, employees, creditors and the community (Charkham 1995). In Germany, the supervisory board (Aufsichtsrat) appoints a management board (Vorstand). The management board conducts the day to day operations and is accountable to the supervisory board (Keasy and Wright 1993). The full separation of the supervisory board and the management board has both advantages and disadvantages. The advantage of this complete separation is that it also creates a sharing of power and a check and balances mechanism. However, the separation also creates a conflict between the Chairman and the CEO and can lead to major corporate problems and considerable personal stress (Cadbury 2002). Additionally, it is possible that the INEDs, which is required to have no relationship with the company, other than the directorship could have relatively little knowledge of the company’s industry or markets. The result is that in practice, the role of the formulation strategy is still held by the CEO, with the board questioning to ensure the strategic development follows an appropriate
direction and the business has been appropriately assessed. This action can also lead to the CEO having too much power by making the CEO responsible for strategy as well as the day to day running of the enterprise.

**Relationships between boards**

A major focus of corporate governance is the set of relationships between the board, a company's management, shareholders and stakeholders. The key to corporate governance is to add value for stakeholders and to protect minority shareholders (OECD 2004). Corporate governance can be described as the role and practices of the board of commissioners, directors, managers and shareholders (FCGI 2001). Corporate governance also provides the structure and guidance for evaluating the performance of the company against its objectives.

Good corporate governance is designed to develop proper incentives for the boards of commissioners and directors to minimize agency problems as well as to enhance the relationships between them. The important point for agency theory is how to minimize the agency problem and the associated costs. Ensuring that the agent does not act opportunistically and pursue his own interest at the expense of their principal (agency shirking) is the challenge of principal-agent theory (McCubbins and Schwartz 1984). Corporate governance should enable the avoidance of agency shirking. The accountability relationship between the boards and shareholders is clarified in these principles (OECD 2005). However, the contract also gives the agent enormous power, autonomy and managerial flexibility to accomplish their obligations efficiently.

**Previous studies**

Previous studies indicate that there is no single model of good corporate governance, because it always depends on relationships between a company’s management, the board, shareholders and stakeholders (OECD 2004). These relationships are generally different in every country, including Indonesia. There is no published research on how the board of commissioners perceives their role and relationships will impact on corporate governance implementation in Indonesia.

Moreover, according to Fama, Jensen and Dalto (cited in Bonn et al 2004), the board of commissioners represents formal relationships between shareholders and management. The board of commissioners is an important key because their responsible is not just to monitor the BoD, but to offer expertise and advice and to offer a linkage with external resources (Heracleous 2001). Tabulajan (2001) has argued that the Indonesian board structure influences the boards and shareholders’ relationship. The adoption of a Dutch civil law model lead to Indonesian companies having two-tier type of system in their board structure (see Figure 1). It is important to note that a number of industrial and legal codes in modern Indonesia are derived from the Dutch colonial administration instituted in the 1930s (Hill 2000).

According to Garrat (1997), there is a distinction between BoC and BoD. BoD is the management runs the business, involved day-to-day activities. BoC is to ensure that everything is being well run in the right direction (according to principles of corporate governance). If we use Tricker’s (2009) illustration to explain the basic distinction in two-tier board structures between the supervisory board (BoC), the so called ‘governance circle’, and management (BoD), called the ‘managerial pyramid’, they appear as follows:

![Figure 1; Distinction between BoC and BoD in two-tier model](image-url)
In two-tier systems, the primary function of BoC is to direct, govern, guide, monitor, oversee, supervise and comply, and the BoD function is to manage day to day business of the corporation (Garrat 1997). The overall task of BoC is to govern or direct the company and that of BoD is to manage the day-to-day business of the corporation. According to Plessis, McConvill and Bugarcic (2005), an effective board structure can be achieved not only with the government “circle” and management “triangle” separated (as in the two-tier system), but also the positions of governance and management have to be side by side to allow a healthy relationship between them. This type of relationship will make the exchange of information, consultation and collaboration easier.

In the one-tier system, the activity or roles of board of directors involved four basic elements (Tricker, 2009): strategy formulation, policy making, supervision of executive management, and accountability to shareholders and others. These basic elements are shown in Figure 2.

As in the matrix above, in formulating strategy, the board works with top management, looking inside and outside of the firm. These strategies then need to be translated into policies to guide management into action. These kinds of roles are called performance roles because the board needs to be more future focused with inward and outward activity. On the left side of the Figure 3, the board also has to supervise the executive for their past and present activities and has to looking outward for responsibility to shareholders and other stakeholders with legitimate claims to accountability. These roles are more concerned with conformance.

Moreover Tricker (2009) in explaining the two tier-system, indicates that the roles of the supervisory board (BoC) is more one of supervising executive activities and accountability than make strategic formulation and policy, because there is a separation between the supervisory board (BoC) and management (BoD). The performance roles in the one-tier system are held by top management in two-tier systems with the approval of supervisory board. In other words, in the two-tier model, the supervisory board only undertakes conformance roles.

**Indonesia Context**

The weaknesses of board and corporate governance, which were factors in the collapse of the business sector, are related to the broader Indonesian context. According to Transparency International’s Corruption Perception Index 2007, Indonesia ranks 143rd out of 180 countries (McLeod 2008), and has the lowest position for the quality of corporate governance in Asian countries (CLSA 2007). Moreover, according to EDB Singapore (2007), Indonesia ranked 10 out of 12 Asian countries with a score of 7.5 on a survey of perceptions of corporate governance standards. The weakness of corporate governance are shown by major scandals in Indonesian state-owned enterprises such as the Indonesia National Bank (BNI)
Most of these scandals were related to weaknesses in the role and function of the board of commissioners. As Gideon (2005) has argued, the board of commissioners in Indonesia exists only to fulfill the government regulations for corporate governance.

Indonesian SOEs consist of 149 companies that operate in 38 industries (Directory of SOEs 2010). The 149 companies are divided into two types of companies: First, there are 14 public enterprises (Perusahaan Umum/Perum), which are fully owned by the government and operate in areas considered vital to the general welfare of the public. They provide public services as well as conducting profit-making activities. Second, there are 125 limited liability enterprises (Perusahaan Perseroan/Persero), which consist of 10 listed companies and 115 un-listed companies. This type of company is owned fully or partially by the government as represented by the Ministry of State-owned Enterprises and is operated on commercial basis. These companies are led by a board of directors and board of commissioner, which are appointed by the shareholders.

Historically, many Indonesian SOEs were transferred from the Dutch and other foreign enterprises nationalized in the late 1950s and early 1960s to the Indonesian government and they were mostly run by the military (Hill 2000). The forces’ role in organizing and operating most Indonesian SOEs, gave them a substantial source of patronage and unofficial finance (Abeng 2001). Using state-owned enterprises as a military cash cow and practicing management by command led to the poor performance of SOEs (McLeod 2008). The strong resistance from the military and senior officers due to this control and supervision of SOEs explained why reform in Indonesian SOEs created conflict and high costs. It would seem that only a sufficiently strong force or a massive failure (Flinders 2008) can create significant change to Indonesian SOEs for improving good corporate governance.

There has also been strong political resistance for privatization of Indonesian SOEs in order to improve their performance. One of the sources of resistance has come from the nationalist sentiment of the indigenous citizen (Pribumi) who is strongly opposed to the sale of state assets to foreign or Chinese businesses. Resistance has also been driven by individuals or institutions that have benefited from the status quo who have sought to protect their own interests. Other resistance came from directors of SOEs and business elites with strong political connections who use SOEs for their private activities. The implementation of good corporate governance (e.g. transparency, accountability) and privatization would threaten the ability of these interests to use SOEs for their private benefit (Abeng 2001).

Corporate governance has already been used as an ethics code in every state-owned enterprise since 2002 by the law of corporate governance. Even though the code of corporate governance is meant to be obeyed in all Indonesia SOEs, few of them have properly implemented this code in their daily activities. Awareness of the the implementation of the code as best practices remains low because of the overly bureaucratic structures of the internal organization. Instead, power has been concentrated in the board of directors (Abeng 2001). Moreover, there have been extensive government interventions (Mardjana 1999) and the culture of Indonesian SOEs has relied on “management by lobby” and practicing Javanese cultural patterns whereby instead of taking initiatives, the boards are motivated to keep the Bapak (the leader or superior) happy (Asal Bapak Senang). This tradition made the SOE bureaucracy and the leaders politically and financially oriented (Abeng 2001). Finally, the Indonesia board structure (see Figure 1) placed the board of commissioners in a weak position and has not encouraged professionalism in performing its roles (Kamal 2008).

Research methods
Corporate governance is more about relationships, how the individual acts and interacts than the rules itself (Huse 2005) and the board structure will have an impact on board’s dynamics (Kakabadse and Kakabadse 2007). This research investigates what kind of board structure Indonesia have which related to relationship between the board of commissioners, the board of directors and shareholders in improving corporate governance in Indonesian SOEs.

For this research agenda, the interview is more appropriately used in collection of the data in addition to written documents. Qualitative methodology based on a case study approach is used for answering
research questions (Bryman 2008). To avoid standard criticisms of the case study that findings cannot be generalized and that evidence is limited because it has restricted external validity and bias (Yin 2009), this research use multiple case studies.

Primary data was collected by semi-structured interview from a selection of eight SOEs, which consist of seven limited liability enterprises (Perusahaan Perseroan/Persero) of which three of them are listed on the stock exchange and one public enterprise (Perusahaan Umum/Perum). The eight SOEs are from construction, energy, banking, and telecommunication and plantation industries (see Appendix A).

Nineteen participants in SOE governance were interviewed on average for one hour. The interviewees have varying years of experience as board of commissioners, board of directors, government officers and corporate governance experts. They do not statistically represent the views of Indonesian SOE boards but provide preliminary perspectives on their operation.

Findings and Discussion

Indonesia Board’s Structure

Before discussing the roles of board commissioners, the board structure in Indonesia and the terminology need to be clarified. As previously mentioned, Indonesia follows the two-tier model for corporate board structure with some variations (see Figure 3). In the one-tier (unitary) model there is a board of directors (consisting of non-executive directors and executive directors) and management (other managers not on the board); while in the two-tier model, there is a supervisory board and a management board. In the Indonesian system, the supervisory board is called the board of commissioners (BoC) and the management board is called the board of directors (BoD). In the two-tier system, the shareholders in general meeting of the shareholders select and dismiss the supervisory board. It is this reason that the supervisory board has to give responsibility to the shareholders. Conducting their duty, the supervisory board members who are representative of the shareholders select and dismiss the management board members who are responsible for day to day activities and responsible to the supervisory board.

In case of Indonesia as seen in Figure 3, the shareholders in a general meeting of shareholders select and dismiss the board of commissioners and the board of directors, but only the board of directors is responsible to shareholders. These board structure variations undoubtedly have an impact on the roles and functions of the board. The board of commissioners who are representative of the shareholders only have an obligation to supervise the board of directors without any direct responsibility to the shareholders for company performance. The only demand to the board of directors is to give a report to the board of commissioners on company performance. The board of commissioners then conduct an evaluation of the report and gives the result to the shareholders. The role of the board of commissioners as supervisory and adviser to the board of directors.

Figure 3:
Indonesia Board Structure
This structure made limitation roles of the board of commissioners and there is no doubt has an impact on the inter-relations between the board of commissioners and the board of directors. Their relationship is largely a formality because, as Gideon (2005) has argued, the board of commissioners in Indonesia exists only to fulfill the government regulations for corporate governance. These weaknesses were factors in the collapse of the Indonesia business sector. Finally, the Indonesian board structure places the board of commissioners in a weak position and has not encouraged professionalism in performing its roles (Kamal 2008).

“Balanced” Board Model

The findings of this study indicate that Indonesia board structure is a distinctive variant of the two-tier model. Whilst the separation between board of commissioners (BoC) and board of directors (BoD) appears similar to the conventional two-tier model, the results indicate that BoC is more at an equal level with BoD, deviating from the usual structure of the supervisory board (BoC) which is above the management board (BoD). This appears to differ from Tricker’s (2009) ‘governance circle’ and ‘management pyramid’ model, which illustrates the separation of and interaction between the two boards as depicted in Figure 4.

The functions of governance circle (BoC), managerial pyramid (BoD) and general meetings of shareholders (GMoS) are separated, with GMoS having the power to elect and dismiss both BoC and BoD and demanding accountability from BoD for their activities in running the company. The fact that BoC and BoD are on an equal position or called “balanced” model give an impact to the roles and relationship of BoC and BoD. The “balanced” model will reflect the supposedly healthy interaction to fulfill their respective roles (Plessis et al, 2005). Good relationships and healthy interaction among the BoC and BoD become key factors in facilitating good corporate governance. Moreover, Hamel et al. (1998) suggest that there must be a proper balance between chairman and CEO. The mutual trust and respect must grow and be maintained. As such, the supervisory board should have a combination of “actual added value” and “well-balanced influence” to create productive interaction with the management board.

The “balanced” board model could create a healthy relationship between president commissioners and president director in the two tier system. As been discussed by Hamel (1998), these two persons have to aware of their roles and come to good mutual agreement. Also required is bilateral communication, certain joint responsibility and a personal relationship, although not too close. Recently, these two boards have had to pay more attention to self-reflection and vision development in regard to the actual interpretation of the concept of contemporary corporate governance in their enterprises (Peters Committee 2000).
Unfortunately, we found three weaknesses with Indonesia “balanced” board. First, during the initial years (of five year contracts) the BoD and the BoC have to adjust to and understand each other. During the adjustment, they usually have conflicting ideas. This conflict will create personal stress and jeopardize the relationship among them. But, as soon as differences are settled, they are expected to become a working team; otherwise the mutual trust between the two boards will not be develop and disagreement will prevail in making decisions for the company.

Second, the “balanced” model between boards of commissioners and directors appears to reflect unclear relations in terms of the position and legitimate power of the boards of commissioners and directors, especially with a board structure such as Indonesia’s. The structure means that the board of directors has no obligation to listen to or follow the directions or guidance of the board of commissioners. Furthermore, the board of directors cannot prevent conflict from escalating unnecessarily. This may also lead to the misuse of the SOE’s resources, for example for personal benefit or for the benefit of political parties. As a BoC member stated:

[We] provide suggestions and it is not obligatory that the BoD must follow... BoD may have different opinions and they can take action accordingly. But we usually compromise [on the differing opinion].

A major problem occurs when the enterprise conditions are deteriorating, as in the case of threatening internal and external crises. The board of commissioners lacks the power to interfere and if necessary, take immediate action. However, the intervention can also create interference and break the mutual trust between the two boards.

Third, the structure appears to have lead to a lack of clarity in the roles of BoC. According to Tricker (2009), the roles of the BoC in two-tier systems are to supervise the management activities and accountability (conformance roles). In Indonesia’s case, because BoC position is equal to BoD and they are not responsible to shareholders (GMoS) for company performance, the BoC roles is merely to supervise and advice the management activities. This means that BoC only carries out the limited function of conformance. Moreover, the performance roles (formulate the strategy and making policy) and the other half of conformance (accountability to shareholders) is held by BoD. The BoD who act as an agent (in agency theory) is not only responsible for day-to-day operations, but also responsible for strategy, policy and accountability. Meanwhile, the BoC who act as principal and important key to ensure corporate governance is being implemented in corporations only as supervisor. The governance function (as depicted in Figure 2) not being held by Indonesia BoC. This is one of reason why Indonesia still cannot implement corporate governance effectively.

CONCLUSION

The “balanced” board which has supervisory and management boards at an equal level would work well if accompanied by effective mechanisms that ensure that the relationship between BoC and BoD is a relationship between partners. However, as the findings in this study demonstrate, the Indonesia “balanced” board is less likely to work if the boards do not have a good relationship or if the boards’ position and legitimate power are unclear and the supervisory board has only a minimum conformance role (supervisory role only, without an accountability role), thus neglecting its governance role. The study also reveals that when the supervisory board of the “side-by-side” board architecture is ineffective, SOEs operate with poor corporate governance.
REFERENCES


## APPENDIX A

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* LLE = Limited Liability Enterprises (Perusahaan Perseroan/Persero)
** PE = Public Enterprises (Perusahaan Umum/Perum)
*** 1 US $ = Rp. 10.950 (source: Bank of Indonesia per 31 December 2008)

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Wordpress.com (2006) "Membongkar Korupsi Direksi BNI."

ENTREPRENEURSHIP: ENTREPRENEURS TO WIN THEIR SUSTAINABLE COMPETITIVE ADVANTAGES WITHIN GLOBALIZATION ERA

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ABSTRACT

The purpose of this paper is to discuss globalization’s impacts on the world’s financial characteristics today. Also whether globalization encourages entrepreneurship by giving positive contributions through trade liberalization and financial liberalization or it actually builds barriers for entrepreneurs on winning their business competitive advantages because of the tighter competitions it creates.

The findings inform that globalization promotes entrepreneurship because through globalization, financial markets have grown to be more efficient and flexible which can be seen through lower transaction costs, less binding financial regulations than before, less governments’ intervention within private sector and national economy structures, increasing number of market participants which leads to more access to information. Thus, globalization does create a better environment for entrepreneurs in achieving their competitive advantages and further to sustain them. One of the finding also indicates that globalization through technology innovation intensifies business competition level which leads to a shorter period of time in keeping competitive advantages sustainable.

This research was done by collecting data from papers, journals, modules, and internet databases. The data was analysed and then concluded. Having applied the analytical process, it can be concluded that globalization does promotes entrepreneurship because it enables entrepreneurs to gain greater benefits at a certain degree of freedom than before in order to achieve and maintain their competitive advantages.

Key words: globalization, entrepreneurship, market’s efficiency, sustainability competitive advantage.

A BRIEF OVERVIEW OF THE LITERATURE

The word globalisation itself has been heard and become so familiar within the recent two decades. Globalization has raised different reactions within the society. Some agree and give full supports to it; nonetheless many are being reluctant and unprepared on getting involved, why so? According to the currency transaction tax website (2004), it is because economic globalization involves two main lines: trade liberalization and financial liberalization.

According to the International Monetary Fund noted by Wikipedia (2007), globalization refers to: the interdependence within countries worldwide which has grown significantly within economic field through rising volume and variety of cross-border transactions, free international capital flows, also through more rapid and widespread diffusion of technology. Thus, many businesses and entrepreneurs are required to work efficiently in order to keep up with the globalization’s rapid pace.

Societies who prefer to keep their businesses’ access internally and those who are unprepared for liberalization might undergo great pressures on operating their businesses because they could not keep up with the requirements and follow the fast-paced the way global business is conducted today, thus there are reluctance reactions on accepting it. Those parties, who are not ready or purposely intended to keep their markets less exposed from other parties, will also be unwilling to loosen their controls over the financial and trade regulations.

Nowadays, globalization’s role has increased significantly and given an unavoidable impact to finance today, business has grown into a world-wide fast-paced simultaneous economic activities where one economic transaction in one side of the world able to impact other economic entities in most parts of the world within short period of time. Globalization does stimulate greater transaction volume, greater range of financial products, more flexible capital flows within countries, also greater chances upon market access throughout the world (Ariff, et. Al., 1998). Those aspects above have incorporated changes in businesses
that actually have a good impact, which is the fact that through globalization, entrepreneurship increases economic growth and development (Quanita Amina Mahmood, ?).

Therefore it is safe to say that globalization refers to the constantly changing global environments due to the face-paced business conduct since globalization era has been accelerated at the late 90'ish. The main question we need to address then, how to deal with these changes while still sustaining the firm’s position or move even further to the top of the game?

WINNING COMPETITIVE ADVANTAGES WITHIN GLOBALIZATION ERA

"Change is ubiquitous - in every industry, within every geography, in every firm. Change can come from inside or outside the firm." (Brown & Eisenhardt; 1998). Within their book “Competing on the Edge” (1998) they clearly address that companies have to deal with this changes and even embraces them in order to survive by doing the following actions which are: reacting, anticipating and finally leading the changes.

Reacting is a self-protective action which unlikely to create new opportunities however it is necessary to protect a firm from being out of the business. Second, anticipating is a preventive action where a firm is able to predict what is coming and reading the symptoms of the way the industry is heading, thus they will also try to adapt by changing some business area and/or environment which are still within their power. Third the utmost position is leading: means the firm is in charge of creating the changes, possessing the ability to force the other firms within the same industry to follow the games, the pace, the market, the products, the environment or even the rules the leader has created thus the particular firm possess the power on showing the path where the industry is heading. Further information is available in figure 1.1.

Having said that, entrepreneurs in order to succeed would need to gain their competitive advantages, according to Michael Porter (1985) in his book “Competitive Advantage: Creating and Sustaining Superior Performance” competitive advantage is: "a firm which sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.” He identified two basic types of competitive advantage which are cost advantage and differentiation advantage. Further information can be attained from figure 1.2.

Therefore, we can conclude here that firms which own the leading power they also hold competitive advantage over their rivals and outperform the others through cost and/or differentiation advantages within the industry.

GLOBALIZATION ENHANCES MARKETS’ EFFICIENCY AND FLEXIBILITY

OECD (1999): Globalization promotes efficient financial markets. The statement can be proven by looking at the effect of globalization in business. Because of the globalization pressure, governments have been pushed to alleviate trade barriers and unnecessary regulations, they are also being forced to some extent to open their economies to the private sector, allowing them to participate and contribute greater contributions within the economy without the same level of government supervision as before thus the phenomena gives greater flexibility level for entrepreneurs on conducting their business since the changes have given them more conducive business environments.

Globalization also enhances market efficiency, let us go through what is market efficiency that is applicable within globalization context, (Financeprofessor website, 2007); an efficient market is said to have price that already reflects the available information and thus buying or selling the stock should, on average, return you only a "fair" measure of return (after transaction costs) for the associated risk.

The definition gives us a clear description that within globalization era, market participants are gaining almost the same amount of return under an efficient market due to the widespread and diffusion of technology that allows information and data to flow simultaneously and fast to address businesses’ needs and therefore maximize entrepreneurs’ chances on getting the same level information almost at the same time.

Adding to that, OECD’s book (1999) Flourishing Entrepreneurship states that entrepreneurship requires efficient financial markets, a flexible labor market, a simpler and more transparent corporate taxation system, and bankruptcy rules to be better adapted to the business world realities.

Along with the paper written by OECD, Ariff, et. Al. (1998) states that: “Liberalization leads to higher financial market efficiency via greater capital mobilization”. Since globalization leads to trade liberalization
and financial liberalization, the greater participant numbers in business indicate more efficiency because it also means entrepreneurs will have those greater choices of products, services and other resources to support their businesses in more competitive prices. Consequently globalization constructs more competitive environments. Accordingly, all parties will be forced to conduct business in more efficient ways in order to survive in efficient markets.

GLOBALIZATION INCREASES BUSINESS COMPETITION

Globalization also forces countries to open their economy towards the arrival of foreign labors, products/services and other resources according to Hill (2007: 6-8) By doing so, many parties need to adjust their commerce and financial regulations to a certain degree in order to adjust with the global business requirements. From the entrepreneurs’ side, they actually gain benefits from the arrival of foreign resources and the less restricted global regulations because it accommodates them with more competitive rates when they intend to hire staffs, managers or professionals with better skills, knowledge and competencies.

On the other hand, globalization allows entrepreneurs face the increasing level of competitions as the result of greater global market access allowed by governments around the world. Secondly, more educated market participants and the fast improvement within the technology era will channel information and data to participants’ specific needs allowing them to regain and maintain their competitive advantages in a more conducive regulation and governments’ requirements than pre-globalization era. Therefore we can conclude that globalization also creates higher level of business competition among its participants.

SUCCESSFUL ENTREPRENEURS’ CHARACTERISTICS

It is honest to say that not all entrepreneurs are destined to be successful; we will need to figure out which entrepreneurs are fulfilling the requirements to compete in intense competition level that globalization era has created. Entrepreneurs are those who bear the risks and uncertainty while creating new businesses. Their goals are achieving profit and business growth by taking and creating opportunities and using their resources in achieving their business targets.

From the definition above then, the successful entrepreneurs should own these seven characteristics according to Ir. Ciputra (2006): has to show passion in the business the person is doing, being independent in conducting his/her business, having the sensitivity to see market’s needs and the upcoming trend, being creative and innovative in seizing and spotting or even creating the new opportunities within the existing or new markets, able to take risk but also able to let go when it is overpowering his/her capabilities, has to own persistency in keep doing and trying the best way of conducting business, and finally practice good ethical behavior within day to day operations.

GLOBALIZATION REQUIRES ADEQUATE BUSINESS TRANSPARENT LEVEL

The fifth phenomena will be the need to provide a simpler and more transparent corporate taxation system.

Contributing to the increasing interdependence within countries worldwide, the rising volume and variety of cross-border transactions and the free international capital flows, certainly entrepreneurs will be required to provide more transparent financial reports, satisfactory compliance to corporate governance and adequate disclosure level regarding their business systems since different governments, parties, participants and investors are involved. Especially when entrepreneurs own and intend to make their businesses go-public (including to be listed within other developed stock markets), they surely will also be acquired to provide this level of scrutiny in order to gain investor’s confidence and growing their businesses.

Having said that, it is safe to believe that globalization allows entrepreneurs to hold greater possibilities reaching a better level of market efficiency. These can be attained from greater access to the market that enables entrepreneurs to gather information faster and in more efficient and profitable ways through advance technology and communication innovations and systems.
GLOBALIZATION PROMOTES ENTREPRENEURSHIP THROUGH GREATER OPPORTUNITIES

Globalization also offers broader and more diverse financial products which can be used to reduce business’ risks and costs, thus entrepreneurs and other market participants are supplied with more flexibilities to choose which products suits their needs the best. Along with the paper “Capital Markets in the Asia Pacific Region” written by Ariff et. Al. (1998), Ariff mentioned that liberalized market will be able to offer less transaction costs and lower interest rates thus markets will be more competitive and efficient under no suppression and unnecessary barriers.

Entrepreneurs will also benefit greater advantages from greater efficiency level within the market, in the forms of: no excessive tariffs, taxes, subsidies, quotas and less financial distortions such as: borders and domestic protections. As the result markets are enabled to trade with less binding regulations and with more flexibility which allow and provide entrepreneurs the better chances on gaining and maintaining their sustainable competitive advantages.

Adding to that, foreign investments and private sectors which are interested in doing business within the domestic markets as the result of globalization certainly will enable and creates new entrepreneurs to provide more job vacancies within that certain country in order reduce unemployment level and increase the particular country’s economy level as well.

In responding to globalization and entrepreneurship issue, we should start immediately to simultaneously intensifying our education and training fields. They need to be taken more seriously from now on because the better skills, knowledge and competencies the human resources within a country, the greater chances new businesses will be able compete and survive within the increasingly fast-paced and competitive global business environments has become.

DISCUSSION AND RESULT

Globalization has enabled entrepreneurs to gain greater benefits at a certain degree of freedom which allow them to achieve and maintain their competitive advantages. Globalization has given them the more conducive business environments which was not available as it is today in pre-globalization era. The more conducive environments have been created since governments and other parties have been forced to loosen their controls over the financial regulations and restrictions over the past decades.

Having said the positive impact globalization brings to entrepreneurship, in contrast we cannot deny that globalization has also been stiffening the business competition among market players. Thus we are required to intensify and develop our education and training fields in order to be able to keep up and answer the challenge of providing more competent human resources and increasing the country’s economy level.

After all, globalization and entrepreneurship create a win-win situation for the favourable environments it provides towards more efficient market and the business efficiency itself.

CONCLUSION

Entrepreneurship is actually promoted by globalization because globalization enhances the efficiency of financial markets and the market participant’s flexibility on adopting the new changes which happens every now and then in global business today. Globalization also increases business competition level through the ability of providing more products, services, labour and other resources availability, it also provides the greater and faster access to information, data and the markets. It also accommodates market participants the lower transaction costs through lower interest rates and free capital flow throughout regions and borders.

Moreover, globalization also requires adequate business transparency level through obliging businesses and entrepreneurs to provide satisfactory disclosure upon their financial statements, adopting the proper corporate governance implementation and also the indicating the business systems used on running their business in order to gain investor’s confident and retain growth for their businesses.

Finally globalization promotes entrepreneurship through greater opportunities by forcing countries to loosen their financial regulations such as: alleviate unnecessary tariff barriers, taxes, quotas and impose less binding financial regulations which overall helps entrepreneurs to achieve a better and more efficient way on conducting their business in order to gain their competitive advantage and finally sustain it within the constantly changing global business.
Bibliography


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<table>
<thead>
<tr>
<th>Levels of Change</th>
<th>Events</th>
<th>Strategy</th>
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<td>- Force other firms to follow</td>
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<tr>
<td></td>
<td>• Launch new markets</td>
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<td>• Raise industry standards</td>
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Figure 1.1 Brown & Eisenhardt’s Managing the Strategic Challenge of Change Model (1998)

![Diagram of Porter's Model of Competitive Advantage](image)

Figure 1.2. Michael Porter’s Model of Competitive Advantage (1985)
BUSINESS STRATEGY FORMULATION
FREIGHT FORWARDING/LOGISTICS SERVICES COMPANY
2011-2015, THE INDONESIA PERSPECTIVE

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ABSTRACT
Business strategy is about how a business unit will compete in the industry, therefore critical issues in the business strategy is how to achieve and maintain competitive advantage. It involves making choices about which industries to participate in, what products and services to offer, and how to allocate company resources.

Some questions that must be answered in business strategy formulation consist of how do external conditions faced by the company both the macro and industry? how is the internal condition of the company? What opportunities and threats faced and the key success factors in the business forward? What are the strengths and weaknesses of the company? What alternative strategies are suitable for companies? How strategic priorities should be drawn?

With using descriptive research against the external and internal environment of the company then opportunities, threats, strengths, and weaknesses as well as key success factors can be defined. The key success factors for freight forwarding/logistics industry in Indonesia encompasses quality of human resources (have a certification in the field of forwarding / logistics), adequate company experience, strong working capital, ownership of assets for supporting logistics activities, international quality certification, wide network, adequate information system and technology, comprehensive financial report, complete company's legal documents, and strong price competitiveness.

Based on input stage, matching stage, and decision stage in formulating business strategy, then the strategy that can be carried out by the company is **grow and build strategy**. In the position, intensive or integrative strategies can be most appropriate for this company, the strategies and its priorities respectively comprise market penetration, market development, product development, backward/forward integration, and horizontal integration.

**Keywords**: strategy, business strategy, key success factors, strategy formulation, intensive strategy, integrative strategy

I. PRELIMINARY

The definition of freight forwarding or logistics services if refer to the term of *Jasa Pengurusan Transportasi (JPT)* in the Decree of Transportation Minister No. KM/10, 1988, *is an effort intended to represent the interests of cargo owners, to take care of all the activities needed for implementation of delivery and receipt of cargoes by land, sea and air that can include activities of receiving, storing, sorting, packing, marking, measuring, weighing, completion of documents, issuance of transport documents, insurance claims, for cargoes delivery and billing settlement as well as other costs refer to delivery of the cargoes until the cargoes received by consignee.*

In 2008, the number of freight forwarding/logistics companies listed in Indonesia is about 1.350 companies (Gafeksi, 2008) and about 60% of that is operating in the Jakarta area. The number of companies reflects the level of competition in this business is high especially with the increasing number of foreign freight forwarding / logistics companies operating in Indonesia. Therefore, the preparation and implementation of appropriate business strategy is needed by every freight forwarding / logistics company to keep exist playing in the market.

A strategy is a fundamental pattern of present and planned objectives, resource deployments, and interactions of an organization with markets, competitors, and other environmental factors (Walker, 2005). Strategies for the Manager is to plan a large scale, with a future orientation, in order to interact with the
conditions of competition to achieve company goals (Pearce / Robinson, 2008). Therefore, the process of crafting a strategy can be organized around three key questions: Where are we now? Where do we go? and How do we get there? (Kluyver & Pearce II, 2006). In managing the strategy, by Kuncoro (2006) is basically to learn why the company is able to have a performance that outperformed the other companies. This means focusing on two main questions: First, how the company must compete within the framework of creating a competitive advantage in the marketplace? Second, how to maintain a sustainable competitive advantage, and not just temporary. To sustain themselves in the marketplace, practitioners of strategy focus on building advantages over the competition, usually by assessing what competitors do and striving to do it better. (Kim, 2005)

The typical business firm usually considers three types of strategy: corporate, business, and functional. Business strategy focuses on improving the competitive position of a company’s or business unit’s products or services within the specific industry or market segment that the company or business unit serves (Wheelen & Hunger, 2008). According to David (2007) that strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. So basically the strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation.

Strategy formulation includes developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Important strategy formulation techniques can be integrated into a three-stage decision-making framework (David, 2007):

- **Stage 1 (input stage)**, summarizes the basic input information needed to formulate strategies. The process consist of the External Factor Evaluation (EFE) Matrix, Internal Factor Evaluation (IFE) Matrix, and the Competitive Profile Matrix (CPM).

- **Stage 2 (matching stage)**, focuses upon generating feasible alternative strategies by aligning key external and internal factors. Stage 2 techniques include the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix.

- **Stage 3 (Decision Stage)**, involves a single technique, the Quantitative Strategic Planning Matrix (QSPM). A QSPM uses input information from stage 1 to objectively evaluate feasible alternative strategies identified in stage 2. A QSPM reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies.

Based on the above concepts, then some questions or problems that must be answered in formulating a business strategy include:

- How do external conditions faced by the company both the macro and industry?
- How is the internal condition of the company?
- What opportunities and threats faced and the key success factors in the business forward?
- What are the strengths and weaknesses of the company?
- What alternative strategies are suitable for companies?
- How strategic priorities should be drawn?

**II. RESEARCH METHOD**

This research is descriptive research, namely research conducted to determine the value of independent variables, whether one or more variables (independent) without making comparisons, or connect with other variables (Sugiyono, 1999). Sources of primary data comes primarily from company management in the form of ideas and commitment to grow the company in the future. The secondary data obtained through studies on the financial statements, company profile, management reports, books, journals, newspapers, magazines, and so forth. The research conducted at PT. XYZ, one of freight forwarding/logistics services company that has headquarter in Jakarta, Indonesia. As for the research framework that will be used as shown in the following pages.
III. RESULT AND DISCUSSION

3.1. External Macro Environment Analysis

Political Conditions and Government Policies
Political conditions in Indonesia at this present moment in general is still not stable, less current reform process as expected, so that political conflicts are still often come to the surface. While the condition of politics in Indonesia in the future is expected to more stable, people have started an experienced and educated about political issues. Based on the Presidential Decree of the Republic of Indonesia No. 36, 2010, that the freight forwarding/logistics (Jasa Pengurusan Transportasi) is an industry that restricted foreign investment up to 49%. So there's still time for local freight forwarding/logistics companies to develop strengths in the face of economic globalization, either independently or in cooperation with foreign companies. In addition, the government also issued a Presidential Instruction No. 3, 2006, concerning improvement of investment climate policy package, which is expected to restore Indonesia become an attractive investment destination for both domestic investors and foreign investors. Then also Instruction No. 6, 2007, on the packet acceleration of development of real sector and the development of SMEs and Presidential Instruction No. 5, 2008, regarding the investment climate policy package focusing economic development 2008/2009.

Research Framework

The policies in export-import initiated by the government in an effort to improve Indonesia’s economic competitiveness in global markets, among others:
- June 4, 1996, Deregulation Package, which is a follow-up of the Deregulation Package May 20, 1995, regarding the establishment of the implementation schedule of tariff reduction until 2003, when AFTA in ASEAN free trade applies as well as providing ease of export
- Coordinating Minister for Economic Affairs Decree No. KEP-42/M.EKON/12/2009, the establishment of the Coordination Team for the reduction of barriers to trade and industry
- Application of China-Asean Free Trade Agreement as of January 2010
• Preparation of blue print settlement and development of logistics sector, Indonesia (2008)

With the existence of several policies, the expected non-oil exports and imports to rise and its impact can be felt by the industrial freight forwarding / logistics because it has a larger market opportunity. In economic policy, the policies of a stimulus in the field of customs, refund of import duties, implementation of the priority lane, and commitment to combat smuggling, and the stimulus in the field of taxation. Stimulus, of course, would stimulate exports and encourage the development of foreign investment.

In addition, with the enactment of Law No. 22 and Law No. 25, 1999, which was subsequently revised by Act No. 32, 2004, on regional autonomy and financial balance between central and local government, it will encourage economic growth in these areas, especially areas that have high enough income, such as East Kalimantan, Riau, Irian Jaya, and so forth. Meanwhile, regarding the policies in terms of employment, for example concerning the Minimum Wage and Trade Unions, is one factor affecting the reduction in the attraction of foreign investors or multinational companies to expand investment in Indonesia. It is characterized by the declining number of foreign investment in Indonesia as well as the relocation of several factories multinational companies, such as Sony, Reebok, and Aiwa.

Economic Conditions

Indonesia's economic growth rate in 2010 is estimated around 6% (World Economic Outlook / WEO), a slight increase from the previous year (2009) which amounted to 4.5% (BPS). This is driven by the improvement of international trade, investment, and consumption. Meanwhile, Indonesia's economic growth until 2015 is estimated around 6.3% - 6.9% (Kadin, 2009). Economic growth is influenced by world economic outlook is expected to grow 4%-5% (IMF). While the economies of developing countries is estimated around 4%-5%, which encouraged economic growth in Asia with China as an engine of growth estimated at 7.5%. Recovery of the world economy is spurred improvements in world trade that is predicted to grow about 9% - 10% (WTO).

Indonesian non-oil exports over the past five years, the average increased by 16% per year. As in 2009, non-oil exports reached 97.4 billion U.S. dollars, or down about 9.6% compared to non-oil exports, 2008. While in the year 2010 is expected to increase by 16% from the year 2009 with a value of about 113 billion U.S. dollars. In the future until the year 2015 non-oil exports will continue to increase approximately 11-12% per annum and non-oil imports will continue to increase around 12% per year (Kadin, 2009).

In 2009, the rupiah against the dollar by an average of Rp 9,500, while in 2010 is estimated in the range of Rp 9,200 - Rp 9,300, while the years 2011 to 2015 are expected in the range of Rp 9,200 - Rp 9,300 (BI, 2008). While the average inflation rate in 2009 was 6.5%, roughly equal to the inflation rate in 2008. In 2010, the inflation rate is estimated at 5.5%. Whereas until 2015, inflation is estimated at around 5.0% - 5.5% (BI, 2008). The inflation rate will greatly affect the company's increased operating costs, while not necessarily followed by increase in revenues.

The interest rate (SBI 3 months) in 2009 was about 8.5% range, whereas in 2010 is estimated at 7.2%. Until 2015, the estimated interest rate will be maintained in the range of numbers 7.0% - 7.5%. Interest rates will be enough to affect the fluctuation of foreign exchange rates (Fisher effect) and the investment climate in Indonesia. So that will directly affect the company's business conditions forw arder in Indonesia.

Technology

Several important technologies that can be used in business applications freight forwarding / logistics are as follows:

1. Internet Technology, In the freight forwarding industry, with the development of internet technology can help to help speed the exchange of information and support marketing activities through e-commerce or sites on the Internet.

2. Electronic Data Interchange, on April 1, 1997 into force of Law No. 10 of 1995 regarding Customs (Customs Act). This law set a few things, including the possibility of delivery of notices by electronic means (via computer), the EDI system. With the implementation of EDI systems, processing of customs documents to be more simple, quick and transparent, the costs of administration can be done by transferring funds to a designated bank account and to minimize the possibility of facilitating payments to Customs officials.

3. Software applications, broadly speaking, equipment / software that can be used in the field of logistics or supply chain management can be grouped as follows:
• Enterprise Resource Planning (ERP): SAP, PeopleSoft, JD Edwards, Baan, Oracle, QAD
• Supply Chain Management (SCM): Manugistics, I2, SAP SCOPE, Numetrix, Red Papper, GEMMS.
• Integration Tools: CrossWorlds, Oberon, Cross Route, ERP Mapping Tools, Internet links to Customers / Suppliers modular.

3.2. Analysis of Freight Forwarding/Logistics Industry

Industry analysis is conducted to determine the attractiveness and key success factors (KSF) on the freight forwarding/logistics industry factors are analyzed based on the model of Porter's five forces, namely the intensity of competition, the threat of new entrants (barriers to entry), the bargaining power of customer, the bargaining power of supplier, and the threat of product substitution.

Porter's Five Forces Analysis

a. The intensity of competition

The intensity of competition in the freight forwarding industry today is high. While the future is expected to moderate, because the players will be grouped with the boundaries of each group of competitors is more strict and clear. In addition, many freight forwarding companies, especially small ones out of business.

b. The threat of new entrants

The threat of new entrants or barriers to entry in this industry right now is relatively moderate. While in the future predicted relatively high barriers to entry so that the threat of new entrants is low. This is caused by the influence of the more significant economies of scale, the need for access to technology and capital are higher, access to distribution channels are increasingly restricted, and the influence of the more significant experience.

c. The bargaining power of customer

The bargaining power of customers in the freight forwarding industry is now relatively high. While in the future, the bargaining power of customers is expected to be relatively moderate, because the transfer of customers’ logistics activities to freight forwarding or logistics companies (outsourcing), the percentage is greater with higher customer profitability.

d. The bargaining power of supplier

The bargaining power of supplier in the freight forwarding industry today is relatively moderate. While on the future the bargaining power of suppliers is expected to be relatively low, because the number of suppliers will increase with the number and capacity of equipment / fleet is getting bigger, but it will more and more companies are doing forwarding vertical integration of suppliers, especially trucking and warehousing company.

e. Threat of substitute products

The threat of product substitution in the freight forwarding industry today is relatively moderate. While the future threat of substitute product is expected to very low or absent, due to the process of unification of the two businesses into an integrated logistics services.

Based on the results of industry analysis above, it can be concluded that the attractiveness of freight forwarding/logistics industry today is moderate, while in the future (2015) estimated quite attractive, because the intensity of competition is moderate, the threat of new entrants is low, the bargaining power of customer is moderate, the bargaining power of suppliers is low, and the threat of substitute products is low.
Key Success Factors Freight Forwarding/Logistics Industry

In accordance with the results of analysis of industrial structures mentioned above, it can be concluded that the key success factors (KSF) on the freight forwarding/logistics industry in Indonesia is as follows:

1. Quality of human resources (have a certification in the field of forwarding / logistics)
2. Adequate company experience
3. Strong working capital
4. Ownership of assets for supporting logistics activities
5. International quality certification
6. Wide network
7. Adequate information system and technology
8. Comprehensive financial report
9. Complete company’s legal documents
10. Strong price competitiveness

Opportunities and Threats

Based on the analysis of macro and industry environment that has been described previously, the opportunities and threats for freight forwarding / logistics industry in Indonesia are as follows:

a. Opportunities:
   • Indonesia’s economy likely to continue growing
   • Political and security condition are more stable
   • Management of logistics activities by third parties (outsourcing) tended to increase
   • Economic development in several areas relating to the implementation of regional autonomy is increasingly widespread.
   • The expansion into the ASEAN market more easily since the enactment of AFTA
   • The expansion into the Chinese market more easily because the force of the China-Asean Free Trade Agreement (CAFTA)
   • Technological developments in the field of logistics / SCM
   • Easily export licensing from the government

b. Threats:
   • The entry of new competitors from the ASEAN countries and China in connection with the AFTA agreement and CAFTA.
   • Relocation of some factories multinational companies from Indonesia.
   • Economic growth in some export destinations is slow / stagnant

3.3. Internal Analysis

Finance

Financial performance of PT. XYZ during the period of 2007 until 2009 showed good growth in profitability, with an average net profit margin attainment above 10%, while in general the growth of profitability in the industry concerned under 10%.

Marketing

Customers of PT. XYZ can be divided into Direct Customer and Indirect Customer (Third Party), with the composition is 68% and 32% respectively. The type of direct customer’s products is very diverse, covering electronics, consumer goods, textiles, wood, oil & gas, and so forth. For marketing activities in various areas in Indonesia, PT. XYZ is supported by approximately 18 branch offices, while outside the country supported by the Network Agent in overseas. With multi-product strategy (FCL, LCL, Air Freight, Customs Clearance, Project, Agency, and Trucking), flexible and competitive rates (above, at, or below market pricing), as well as the aggressive promotion (personal selling, direct marketing, and advertising), PT. XYZ gain market share in the year 2007 around 5.6%, in 2008 approximately 7.2%, and in 2009 approximately 8.5%. With our own ISO 9001:2008 and OHSAS certification, is a distinctive advantage to build corporate image in the marketplace.
Operation
To support the effectiveness and operational efficiency, PT. XYZ formed a partnership with several vendors in the form of rates contract, service agreement, or others such as the Shipping Companies (Shipping Lines), Airlines, Warehousing Companies, Heavy Equipment Providers and so forth. With the support network agents in various countries as well as branch offices in various provinces in Indonesia support the overall operating performance. To make the process of continuous improvement of the existing operating system, PT. XYZ is evaluating the existing SOP for better and more complete, thus supporting the implementation of an integrated computerized system.

Human Resources
Human resources owned by PT. XYZ now numbered about 265 people scattered in the head office and branch offices. Of this amount, about 2% (6 persons) S2 graduates, 25% (65 persons) S1 graduates, 38% (100 people) D3 graduates, another 35%. In addition, there were about 25 people who already have a certificate of Freight Forwarding Course. Human Resources at PT. XYZ recruited through a fairly rigorous selection process by the company and the Division of Personnel Group. Program development continues to be done either through training, seminars, and so forth. Some training will include English, Freight Forwarding, PPJK, Leadership, Management, Balanced Scorecard, Supply Chain Management, and others.

Information System/Technology
Existing information systems and technology at PT. XYZ is still not optimal, both concerning hardware, software, databases, networks, procedures, and people. In addition, the information system is completely integrated inter-department or inter-branch as well not exist. As for some of the information technology used by PT. XYZ including the Internet, email, websites, LAN, EDI, freight forwarding software and financial applications, and so forth.

Internal Analysis based on the Key Success Factors
To determine the relative competitive position of PT. XYZ in its industry, then the comparison competency of the company against closest rivals on the basis of the criteria for key success factors (KSF) generated from analysis of the industry. The criteria relied upon in the selection of the closest competitors are:
- Controlling management; based on these criteria competitors are viewed by the controlling company's own management / parent company or foreign partners.
- Type of products: on the basis of these criteria is divided based on the general (multi-product) or specialized.

Strategic Competitors Group of PT. XYZ

<table>
<thead>
<tr>
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<tr>
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<td>RGI, MLT, MPC, PHR, EDN, MUP, TRL</td>
<td>DLI, LUL, CRL, CL</td>
</tr>
<tr>
<td>Kind of Products</td>
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Own Company or Parent Company
Remarks:
A : XYZ, Ritra Cargo (RC), GPI Logistics (GPI), Silkargo (SIL)
B : Schenker Petrolog Utama (SPU), KN Sigma Trans (KN), DHL Indonesia, Agility (AGL)
C : Hagajaya (HGU), Multitrans (MLT), Masaji Prayasa Cargo (MPC), Puninar (PNR), FIN Logistics (FIN),
    Meratus (MIF), Tanjung Priok Indah Line (TPIL)
D : Damco Logistics Indonesia (DLI), Panalpina (PLP), GAC-Samudera Indonesia Logistics (GSIL), Ceva
    Logistics (CL),

Based on the strategic group map of the above, it can be concluded that the PT Ritra Cargo, PT
GPI Logistics, and PT Silkargo Indonesia is the closest competitor of PT. XYZ. Furthermore, the ability of
PT. XYZ in KSF compared with its nearest competitor is through analysis of Competitive Profile Matrix
(CPM).

### Competitive Profile Matrix (CPM)

<table>
<thead>
<tr>
<th>Key Success Factors (KSF)</th>
<th>Weight</th>
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<td>HR Quality</td>
<td>0.150</td>
<td>4</td>
<td>0.600</td>
<td>3</td>
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</tr>
<tr>
<td>Company experience</td>
<td>0.100</td>
<td>3</td>
<td>0.300</td>
<td>3</td>
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</tr>
<tr>
<td>Working capital</td>
<td>0.120</td>
<td>3</td>
<td>0.360</td>
<td>3</td>
<td>0.360</td>
</tr>
<tr>
<td>Ownership of logistics facilities</td>
<td>0.080</td>
<td>2</td>
<td>0.160</td>
<td>3</td>
<td>0.240</td>
</tr>
<tr>
<td>International quality certification</td>
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<td>2</td>
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<tr>
<td>Network</td>
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</tr>
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</tr>
<tr>
<td>Financial report</td>
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<td>0.240</td>
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<tr>
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<td>0.240</td>
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<tr>
<td>Price competitiveness</td>
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<td>0.300</td>
<td>2</td>
<td>0.300</td>
</tr>
<tr>
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<td>Ranking</td>
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<td>3</td>
<td>1</td>
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</tr>
</tbody>
</table>

Remarks:
Weight : show relative interest from the factors in order to succeed in the freight forwarding industry
Rating: 1=major weakness, 2=minor weakness, 3 =minor strength, 4=major strength

Based on the above table, it can be concluded that overall PT. XYZ has a good ability in developing
freight forwarding / logistics business in the future, although still below Silkargo in terms of experience,
working capital, logistics facilities, IT, Financial report, and price competitiveness.

### Strengths and Weaknesses

Strengths and weaknesses of PT. XYZ based on the results of internal and competitor analysis
can be summarized as follows.

a. **Strengths**
   - Quality of human resources
   - Company experience
   - Working capital
   - International quality certification
   - Network
   - Company legality

   Strengths and Weaknesses

Strengths and weaknesses of PT. XYZ based on the results of internal and competitor analysis
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a. **Strengths**
   - Quality of human resources
   - Company experience
   - Working capital
   - International quality certification
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   Remarks:
   Weight : show relative interest from the factors in order to succeed in the freight forwarding industry
   Rating: 1=major weakness, 2=minor weakness, 3 =minor strength, 4=major strength

   Based on the above table, it can be concluded that overall PT. XYZ has a good ability in developing
   freight forwarding / logistics business in the future, although still below Silkargo in terms of experience,
   working capital, logistics facilities, IT, Financial report, and price competitiveness.
b. Weaknesses
   • Logistics facilities
   • System/Technology information
   • Financial report
   • Price competitiveness

3.4. Strategy Formulation
Formulation of business strategy is based on the strengths and weaknesses which is owned by PT. XYZ as well as opportunities and threats freight forwarding/logistics industry in Indonesia. The process includes, setting goals with consideration of assumptions, mission and vision of the company, as well as corporate policy. Next, make the summary information according to external and internal conditions.

External Factor Evaluation (EFE) Matrix
Based on the analysis of EFE matrix as in the table on the next page, it can be concluded that Indonesia's economic growth is the most important factor affecting the freight forwarding industry, as indicated by the weight of 0.125. The total weighted value of 3.085 indicates that the ability of PT. XYZ above average (the average value is 2.5) in an attempt to execute strategies that take advantage of external opportunities and avoid threats.

Internal Factor Evaluation (IFE) Matrix
IFE matrix is useful in summarizing and evaluating the strengths and weaknesses in various areas of functional major in PT. XYZ. Also, it can provide a basis to identify and evaluate the relationship between these areas. Based on the IFE matrix as in the table on the next page, it can be concluded that generally the internal strength of PT. XYZ is above the industry average (2.5), this is indicated with a value of 3,000. In addition, the table can be seen that the quality of human resources and price competitiveness is the most important of KSF, this is indicated by a weighting of 0,150.

Internal-External (IE) Matrix
IE matrix is used to generate alternative strategies that can be used by PT. XYZ. This matrix is based on two key dimensions, namely the total value of IFE which is weighted on the X-axis and the EFE total value of the given weight on the Y-axis. Based on IE matrix in the table on the following pages can be concluded that the position of PT. XYZ is located in quadrant I. Therefore, the best strategy is run by a company is **grow and build strategy**.

Effective strategies for this position include:
   • Intensive strategies (market penetration, market development, and product development), the intensive strategy undertaken by the company to improve its position in the market.
   • Integrative strategies (backward integration, forward integration, and horizontal integration), namely the strategy undertaken by the company to master the supply chain, closer to customers, or controlling competitors.

Mapping Analysis of Alternative Strategies
Alternative strategies that are generated through IE matrix needs to be done to obtain the chosen alternative strategy, namely by combining or grouping of alternative strategies that are interconnected or corresponded with one another. The alternative strategy is as follows:
   • Market penetration
   • Market development
   • Product development
   • Backward/forward Integration
   • Horizontal Integration
External Factor Evaluation (EFE) Matrix

<table>
<thead>
<tr>
<th>Key External Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PELUANG</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Indonesia’s economic growth</td>
<td>0.125</td>
<td>4</td>
<td>0.500</td>
</tr>
<tr>
<td>2. Increase in logistics outsourcing</td>
<td>0.100</td>
<td>3</td>
<td>0.300</td>
</tr>
<tr>
<td>3. Regional autonomy program</td>
<td>0.090</td>
<td>4</td>
<td>0.360</td>
</tr>
<tr>
<td>4. Expansion to Asean market (AFTA)</td>
<td>0.100</td>
<td>3</td>
<td>0.300</td>
</tr>
<tr>
<td>5. Development of logistics/SCM technology</td>
<td>0.080</td>
<td>2</td>
<td>0.160</td>
</tr>
<tr>
<td>6. Ease of export from Government</td>
<td>0.075</td>
<td>3</td>
<td>0.225</td>
</tr>
<tr>
<td>7. Political and security conditions will be more stable</td>
<td>0.100</td>
<td>4</td>
<td>0.400</td>
</tr>
<tr>
<td>8. Ease of expansion to China’s market (CAFTA)</td>
<td>0.100</td>
<td>3</td>
<td>0.300</td>
</tr>
<tr>
<td><strong>ANCAMAN</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Ease of foreign company enter to Indonesia</td>
<td>0.080</td>
<td>3</td>
<td>0.240</td>
</tr>
<tr>
<td>10. Relocation of some multinational companies</td>
<td>0.075</td>
<td>2</td>
<td>0.150</td>
</tr>
<tr>
<td>11. Economic growth in some export destination countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Still slow/stagnant</td>
<td>0.075</td>
<td>2</td>
<td>0.150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.000</td>
<td></td>
<td>3.085</td>
</tr>
</tbody>
</table>

**Remarks:**
Weight show the important factor (relative) for success in the industry
Rating show existing strategy effectiveness of company in response the factors
4=superior, 3=above average, 2=average, 1=poor

Business Strategy Priority

Based on the results of mapping alternative strategies generated through IE matrix. Then next is the prioritization of alternative strategies through quantitative strategic planning matrix (QSPM). The results of the analysis QSPM (on the next page) are as follows:

- Priority 1: Penetration strategies
- Priority 2: Market development strategies
- Priority 3: Product Development Strategies
- Priority 4: Integration of backward / forward strategies
- Priority 5: Horizontal Integration Strategies

Internal Factor Evaluation Matrix

<table>
<thead>
<tr>
<th>Key Internal Factors</th>
<th>Weight</th>
<th>Rating</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRENGTHS:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. HR quality</td>
<td>0.150</td>
<td>4</td>
<td>0.600</td>
</tr>
<tr>
<td>2. Company experience</td>
<td>0.100</td>
<td>3</td>
<td>0.300</td>
</tr>
<tr>
<td>3. Working capital</td>
<td>0.120</td>
<td>3</td>
<td>0.360</td>
</tr>
<tr>
<td>4. Int'l quality certification</td>
<td>0.060</td>
<td>4</td>
<td>0.240</td>
</tr>
<tr>
<td>5. Network</td>
<td>0.120</td>
<td>4</td>
<td>0.480</td>
</tr>
<tr>
<td>6. Company legality</td>
<td>0.060</td>
<td>4</td>
<td>0.240</td>
</tr>
<tr>
<td><strong>WEAKNESSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Logistics facilities ownership</td>
<td>0.080</td>
<td>2</td>
<td>0.160</td>
</tr>
<tr>
<td>8. System/technology information</td>
<td>0.100</td>
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<td>0.200</td>
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<td>9. Financial report</td>
<td>0.060</td>
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<td>0.120</td>
</tr>
<tr>
<td>10. Price competitiveness</td>
<td>0.150</td>
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<td>0.300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.000</td>
<td></td>
<td>3.000</td>
</tr>
</tbody>
</table>

**Remarks:**
Weight show interest factors (relative) for success in the industry
Rating: 4=major strength, 3=minor strength, 2=minor weakness, 1=major weakness
## INTERNAL-EXTERNAL (IE) MATRIX

### THE IFE TOTAL WEIGHTED SCORES

#### Quantitative Strategic Planning Matrix (QSPM)

<table>
<thead>
<tr>
<th>Key Factors</th>
<th>Weight</th>
<th>Strategic Alternatives</th>
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<tr>
<td></td>
<td>S1</td>
<td>S2</td>
</tr>
<tr>
<td><strong>OPPORTUNITIES</strong></td>
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<td></td>
</tr>
<tr>
<td>1. Indonesia's economic growth</td>
<td>0.125</td>
<td>4</td>
</tr>
<tr>
<td>2. Increase in logistics outsourcing</td>
<td>0.100</td>
<td>4</td>
</tr>
<tr>
<td>3. Regional autonomy program</td>
<td>0.090</td>
<td>3</td>
</tr>
<tr>
<td>4. Expansion to Asean market (AFTA)</td>
<td>0.100</td>
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<tr>
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<td>0.080</td>
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<td>6. Ease of export from Government</td>
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<tr>
<td>7. Political and security conditions will be more stable</td>
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</tr>
<tr>
<td>8. Ease of expansion to China's market (CAFTA)</td>
<td>0.100</td>
<td>4</td>
</tr>
<tr>
<td><strong>THREATS</strong></td>
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<td></td>
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<tr>
<td>1. Ease of foreign company enter to Indonesia</td>
<td>0.080</td>
<td>2</td>
</tr>
<tr>
<td>2. Relocation of some multinational companies</td>
<td>0.075</td>
<td>2</td>
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<tr>
<td>3. Economic growth in some export destination countries is still slow/stagnant</td>
<td>0.075</td>
<td>2</td>
</tr>
<tr>
<td><strong>STRENGTHS:</strong></td>
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<tr>
<td>1. HR quality</td>
<td>0.150</td>
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<tr>
<td>2. Company experience</td>
<td>0.100</td>
<td>4</td>
</tr>
<tr>
<td>3. Working capital</td>
<td>0.120</td>
<td>4</td>
</tr>
<tr>
<td>4. Int'l quality certification</td>
<td>0.080</td>
<td>3</td>
</tr>
<tr>
<td>5. Network</td>
<td>0.120</td>
<td>4</td>
</tr>
<tr>
<td>6. Company legality</td>
<td>0.060</td>
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</table>
WEAKNESSES

<table>
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<tr>
<th></th>
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<th>AS</th>
<th>TAS</th>
<th>AS</th>
<th>TAS</th>
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<th>AS</th>
<th>TAS</th>
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<tr>
<td>2. System/technology information</td>
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<td>0,300</td>
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</tr>
<tr>
<td>3. Financial report</td>
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<td>0,060</td>
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<td></td>
<td></td>
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<tr>
<td>4. Price competitiveness</td>
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<td>4</td>
<td>0,600</td>
<td>3</td>
<td>0,450</td>
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<td>2</td>
<td>0,300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sum Total Attractiveness Score</strong></td>
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<td></td>
<td>6,715</td>
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</tbody>
</table>

Remarks:
AS= Attractive Score, TAS= Total Attractiveness Score
Attractiveness Score: 1 = not attractive, 2 = somewhat attractive, 3=reasonably attractive, 4=highly attractive

3.5 Conclusion

Based on the external analysis, it can be identified opportunities and threats for the freight forwarding/logistics industry in Indonesia. The opportunities are Indonesia’s economy likely to continue growing, political and security condition are more stable, management of logistics activities by third parties (outsourcing) tended to increase, economic development in several areas relating to the implementation of regional autonomy is increasingly widespread, the expansion into the ASEAN market more easily since the enactment of AFTA, the expansion into the Chinese market more easily because the force of the China-ASEAN Free Trade Agreement (CAFTA), technological developments in the field of logistics / SCM, easily export licensing from the government. The threats are the entry of new competitors from the ASEAN countries and China in connection with the AFTA agreement and CAFTA, relocation of some factories multinational companies from Indonesia, and economic growth in some export destinations is slow / stagnant

Meanwhile, based on analysis of the company's internal conditions and the comparison with the closest competitors on the key success factors, PT. XYZ has strengths in quality of human resources, company experience, working capital, international quality certification, network, company legality. While the weaknesses are logistics facilities, system/technology information, financial report, and price competitiveness.

According to analysis by IE and QSPM matrixes, then the strategy must be carried out by PT XYZ is grow and build strategy, with strategic priorities in order as follows:

- Market penetration, that is by way of implementing effective promotional programs and competitive selling prices and improve service quality.
- Developing markets, namely the development of the domestic market and abroad.
- Developing products, such as integrated logistics, SCM Consultant, Halal logistics, and so forth
- Backward/forward strategies, acquisition of trucking company, warehouse company, shipping lines, heavy equipment company, and so forth
- Horizontal integration, which is developing strategic alliances with overseas agents network and merge with similar companies in the country.

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CUSTOMER AWARENESS AND BEHAVIOR INTENTION TOWARDS THE USE OF HALAL LOGO IN THE RESTAURANT

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Universiti Teknologi Mara, Penang, Malaysia

ABSTRACT

The trend of eating out has leads the food service industry to the needs of managing the customer and making sure that all their needs and preferences can be fulfilled. The Certification and recognition of an establishment also become an in-thing in the hospitality industry. This includes the certification of Halal, HACCP, ISO, grading of the restaurant by the authority and others. The establishments with the certification used it as a marketing strategy to attract more customers to their place. This paper discuss on level of awareness of the customer towards the Halal logo used in the restaurant. Due to its importance, this study was carried out to give evidence to the restaurant operators on the importance of having a genuine Halal logo in the restaurant. From the findings, it showed that customer do aware of the use of Halal logo in the restaurant and it is one of the factor been considered in choosing a restaurant. The study concluded that Halal logo is one of the main factors for a customer to choose a restaurant which in returns can be one of the main strategy used to attract and retain more customer in the future, not only for the local customer but also to foreigners.

Keywords: Halal logo, restaurant, awareness

Introduction

Over the years, Malaysia has witnessed increased growth in the hospitality and tourism sectors. Tourism has now become one of Malaysia's most important economic sectors. The numbers of Muslims are growing rapidly all around the world. This emergent is followed by the demand for Halal foods. Tourism Malaysia has becomes one of the industries that generate high income to our country. To increase more income, our government has to attract more tourists to Malaysia. Since Malaysia becomes a Global Halal Hub, Malaysia have a capability to advancing the research development and technology has created products with more complex and scientific ingredients, it makes it more important for the food products to have the Halal logo.

For the purpose of this paper, the researchers reviewed the awareness and behavioural intention of the customer towards the use of Halal logo in the restaurant. It will explore the relationship of these variables

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and investigate the significant impact towards the restaurant industry. This study is done to find on the followings:

a. The level of awareness towards Halal logo among the customers.
b. The importance of Halal logo as a marketing tool to attract customer to the restaurant.

Brief synopsis of the literature

Halal

Nowadays, issue Halal and Haram food become a hot topic discussed because the food will be taken into their body. This is true because all Muslims must find and eat the acceptable and good food (Arsat 2009). The term Halal is from (halla), Halal food is food that is prepared, stored, manufactured, slaughtered and served in a manner required by the Syariah Law. The term Haram is Arabic word which means prohibited or unlawful. Haram foods and drinks are absolutely prohibited by Allah. Eating haram thing is forbidden for every Muslim. The ingredients and the preparation of the foods must be permitted based upon Islamic teachings: the equipment used in preparing and processing the food must be clean from the Islamic point of view, the food is stored and served in a manner required by Syariah.

According to Islamic Food and Nutrition Council of America, (IFANCA), Agriculture and Agri-Food Canada (2006), and Jabatan Kemajuan Islam Malaysia, JAKIM (2007), Halal is an Arabic word means lawful and permitted. The opposite of Halal is Haram, which means unlawful or prohibited. These three organizations agreed that Halal and Haram are universal terms that apply to all facets of life. However, these terms are used mostly in relation to food products, food ingredients and food contact materials and other aspects of life such as appearance items. In a simple description as indicated by (Yaakob Che Man, Jamil Bojei, Awis Qurni Sazili & Abdullah, 2007), it concludes that the term Halal is referred to as permissible based on Syariah perspectives, which are from religious and spiritual faith beliefs. However, the term Toyibbah is referred to being good or wholesome, with respect to quality, safety, hygiene, cleanliness and nutrition and authentically scientific. While many items are clearly Halal or clearly Haram, there are still some things which are not clear. These kinds of items are considered to be questionable or of being of a suspicious nature and therefore more information is needed to categories them as Halal or Haram. When there is uncertainty, the item is referred to as being questionable or referred to as Mashbooh (IFANCA, 2007; JAKIM, 2007).

Halal logo

Restaurant or food are in compliance with Islamic dietary laws are sometimes marked with the symbols that are registered with the Department of Islamic Development, Malaysia. Signifying the food served is fit for consumption by Muslims. The symbol is known as “Halal Logo”. According to Sadik (2001), states that the desire among Muslims consumers to eat only Halal food made it incumbent upon Malaysia government to enact laws, procedures, and guidelines with regards to Halal Food, the passage of Trade Description (Use of Expression “Halal” ) Order. 1975 and Trade Description Act (Halal Sign Marking ) 1975 makes it an offence to falsely label the food as Halal and also the use of the Halal sign marking on the specific food products indicating food is Halal when actual sense it is not. Plus under section 3 it is mention that if the company or person who wrong or not following the Halal meaning and procedure but put the sign Halal at the restaurant but actually does not follow the rules will found as a criminal offences.

Zulkifli (2008) also mentioned about the Food Act 1983 that stipulates it is an offence for any person to prepare, pack, label or sell food in any false, misleading or deceptive manner as to its character, nature, value, substance, quality, composition, merit or safety strength, purity, weight, age, origin and proportion. Although this Act does not mention any abuse or illegal use of Halal, but it does concern the misleading or deceptive acts in which a product is marked as ‘halal’ when it is not. The Food Regulations 1985, a regulation under this act provides that where the food contains beef or pork or its derivates, or lad, a statement of its presence in that food should be written on label (Ramli & Ibrahim, 2008).

In Malaysia, the restaurant is identified by the recognition given by the authority. The guidelines are prepared by Ministry of Health, Malaysia for restaurant operators. For the premise that get A and B grade, it shows that the premises have achieved the standard of cleanliness and sanitation and high quality of food. As for the grade C, there shows that there is still room for improvement in terms of the quality. Inspections will be conducted every 3 month s to make sure that the operator maintain the quality, cleanliness, hygiene and sanitation in the restaurant (Jabatan Kesihatan Negeri Sembilan).
Halal logo and customer behavior

Halal logo is also seen as an in thing in a Muslim country. People especially Muslims now become more concerned about Halal foods. According to (Habibah Abu Talib, Khairul Anuar Mohd Ali, & Khairur Rijal Jamaluddin, 2008), Halal food covers all aspects in terms of quality and safety of food, health and also nutrition. The ethnic and religious diversity in Malaysia has encouraged the food industry to prepare products which are suitable to different groups that can fulfill the consumer needs. Clearly, Halal is a big and the 'in' thing in Malaysia. As reported by Chang (2006), the Malaysian government is encouraging local food manufacturers and operators to expand their exports and take opportunity of the USD 500 billion global Halal foods market. Malaysia’s Halal standards are widely recognized in the Muslim world. Domestic agriculture cannot supply sufficient raw materials. (Sumali Amat, 2006) stated that, by getting Halal products certified by JAKIM, manufacturers and producers are getting the assurance that their ingredients, its preparation, processing, hygienic and sanitation procedures are not only meet the Halal standards, but also consistent with HACCP and other established quality assurance standards.

From the muslim consumer perspectives, products with Halal logo are much more meaningful and crucial compared to those with International Organization for Standard (ISO) recognition or similar certification to produce and provide Halal foods. Therefore the problems arise when there will be varieties of people, ethnic and background to be served by restaurants in Malaysia. The usage of Halal logo in the restaurants in Malaysia will be questioned as if it can increase the number of customers.

Parallel with above nation, it is essential for the Malaysian restaurant operators to own the Halal certification and logo in their restaurants. As reported by Bernama (2009), the uncertainty of Halal status is seen as one the main reasons why Muslims in Malaysia or Japan are not motivated to have their meals in Japanese restaurants or foodstuff. This situation might be difference once Japanese chain stores or restaurants applied for the Halal logo certificate, (Arsat, 2009).

Looking at the past literature, it can be concluded that certification of a restaurant do have a positive relationship towards purchase behavior. The increasing level of awareness towards cleanliness and halal food is seen as a pushing factor for a restaurant operator to get a certification and build their good reputation in the customer’s eyes. By doing this, the restaurant can generate more income for the restaurant and at the same time gain the trust of the customer’s to dine-in the restaurant.

Based on the deliberation of the above construct, the study proposed: Proposition 1: To determine the customer awareness towards the use of of halal logo in the restaurant.

Proposition 2: To examine whether the use of Halal logo in the restaurant will affect customer behavioral intention.

From the research, a study framework was developed as below:

**Research Design**

The method of measurement that was used to collect data is through survey. The instrument used was questionnaires which were distributed to four universities, focusing on the international students in the universities. There are about four universities in Malaysia that were selected (USM, UKM, UTP and UiTM) completed this questionnaire with implementation of Halal logo and certification in this country. These universities were selected as they have the highest number of international Muslim students.

The researchers have collected the data from the sample of the population from the students in four of the university in Malaysia. The researchers have distributed 600 copies of the questionnaires but only 515 questionnaires were received back. Each subject from the sample is a foreigner student who came from Asia, South Africa and also Middle East. All of them have different ethnic background. The targeted population is all of the students from the University Teknologi PETRONAS (UTP), University Sains Malaysia (USM), Universiti Teknologi MARA (UiTM), University Kebangsaan Malaysia (UKM). The targeted sample is the foreigner student from four universities in Malaysia.
The reason the researchers choose foreigner students as the sample for this study is because they spend more time in the country. Undergraduate programs offered in that University requires them to spend 4 years to complete the study. Meanwhile, the postgraduate programs will took 2 years of study. It is believed that the targeted sample has more understanding about the Halal logo and requirements since Malaysia is known as one of the Islamic country in South East Asia.

The survey consist of the respondent’s background, general information about the halal logo and the respondent’s understanding about the use of Halal logo in the restaurant. The interitem consistency reliability or the Cronbach’s alpha reliability coefficient of the variables were obtained. The result is .812. This is means that all the variables are positively correlated. In other word, .812 range are consider good, the respondents understand what it is about, which is question are very clear and easy to understand. Perhaps in future, this questionnaire will be used in future and give an effective and efficiency result.

**Analyses and Findings of the Survey**

To achieve all the objective of this research, the relationship between the two variables, was tested through conducting hypothesis testing. The entire item is tested with the cross tabulation (p<0.05) to find the correlation between two variables. The results for hypothesis testing are shown in Output 1 and Output 2.

**Hypotheses 1:** There is a relationship between customer’s awareness towards the use of halal logo in the restaurant.

Since both variables are nominal, a chi-square test (X²) was done. The results of which are shown in the Output 1. It is related because .000 is less than .05 significant mean (p=.000<.05). There is a relationship between the awareness of customers towards the use of halal logo in the restaurant.

**Hypotheses 2:** There is a relationship between Halal logo and behavioural intention.

To interpret this data, a chi-square test (X²) was done. The results of which are shown in Output 2. The cross-tabulation indicates that the total number of respondents who identify that halal logo implementation have a strong relationship with the performance of that restaurant. It may be seen that the X² value of 19.257 with four degrees of freedom, (df) is significant. The variables are related because .000 is less than .05 significant mean (p=.000<.05). The null hypothesis is rejected. Thus, there is a strong relationship between the important of Halal logo and restaurant development.

**Output 1: Customer awareness of the use of halal logo in the restaurant**

```
<table>
<thead>
<tr>
<th></th>
<th>logo_quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>know_logo</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Disagree</td>
</tr>
<tr>
<td></td>
<td>14</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
</tr>
</tbody>
</table>
```

Chi-Square Tests

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>36.677*</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>30.265</td>
<td>3</td>
<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>17.778</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 3 cells (37.5%) have expected count less than 5. The minimum expected count is 1.54.
Output 2: Implement Halal logo toward Restaurant’s Performance.

### Crosstabulation

<table>
<thead>
<tr>
<th>logo_development</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>important_logo</td>
<td>Yes</td>
<td>15</td>
<td>263</td>
<td>432</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>68</td>
<td>0</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>83</td>
<td>263</td>
<td>500</td>
</tr>
</tbody>
</table>

### Chi-Square Tests

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
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<td>Pearson Chi-Square</td>
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<tr>
<td>Likelihood Ratio</td>
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<td>.000</td>
</tr>
<tr>
<td>Linear-by-Linear Assoc</td>
<td>225.714</td>
<td>1</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.29.

### Discussion

After the interpretation from the dependent and independent variables, all results are gathered to distinguish the relationship of both variables and relate it with the research objectives and research questions that have been stated earlier. Looking at the results, it showed that there are significant relationships between all the variables in the study.

It is not surprising because the food industry is an evergreen industry and the Halal food is the latest trend in the world market. On that issue customers’ demand for Halal food is increasing not only in the Islamic countries but also in Europe and America. Taking into account the increasing of Halal product market, especially food, the Malaysia government intends in making Malaysia a regional Halal hub. Therefore the manufacturer in Malaysia should take this opportunity to increase the country’s Halal products for export purpose.

There is a strong relationship between awareness levels among customer with Halal concept itself. The consumers especially muslim are aware of the concept of Halal and elements of Halal logo itself. The elements include; the recognition of Malaysia a World Wide Halal Hub, the standardization of Halal logo, the cleanliness of equipment and facilities in the restaurant, and also the quality of food served. When the elements were positively correlated, it shows at the degree of respondents’ awareness about Halal; which is good. Not only looking at the aspect of Halal foods; which is free from pork, but also the cleanliness aspect, the food quality aspect and also the authorization from local government. Nowadays, Halal food industry are not only restricted to Muslim, but also to other religions; including Christian, Jews and others. This is because Halal foods guaranteed the safety, non-harmful and nutritious values to the consumer.

Halal food products are quickly gaining worldwide recognition as a new benchmark for quality and safety assurance. Food products that are Halal-certified are readily acceptable by Muslim consumers due to the concept of Halal that is wholesome, as required by Shariah, and covers safety aspects of hygiene, safety and sanitation. These attributes appeal to non-Muslims as well.

Nowadays, The Halal industry is the fastest growing global business across the world. The reason customer can recognize the logo is because Halal logo comprises of HACCP, good hygiene practice and good manufacturing practice. This is one of the reasons of non-Muslim customer look in Halal foods. They believe that Halal seal
food quality and health assurance. Muslim and non-Muslim nowadays are health conscious and only demand for healthy and nutritious foods. In addition, Halal logo provides consumer confidence which is allowing the consumer to make informed choice of their purchase. It is because Halal logo refers to the examination of food process in its preparation, slaughtering, cleaning, processing, handling, disinfecting, storing, transportation and also management practice. Due to recognition Malaysia as World Halal Hub, the application of Halal are apply to all stage of processing “from farm to table”. Therefore the consumer especially tourist are very confident, enjoy eating and spending their day at Malaysia.

Halal logo is also one of the factors in choosing a restaurant to dine-in. This is shown through the relationship of Halal logo towards behavioural intention. Therefore the restaurant performance will increase due to Halal implementation. The data provided that the restaurant will gain more profit because nowadays demand of Halal food are boost. The research notes that demand of Halal food are not consider to Muslim consumer but from different of race or ethnic in all over the world. It also is a competitive advantage, so the manufacturer can use it as marketing tool to secure bigger market share as Halal food is suitable for both Muslim and non-Muslim. Most important, the implementation of the Halal logo itself which provide an information of the products been served in the restaurant.

Limitations and Future Research
In this study, it is utilized on a small sample size. Only 4 universities in Malaysia participated in the study. As for the scope of study, it only focused on the factors, constraints and the impacts on implementation of the Halal logo and certification based on the international students point of view. The results obtained have only revealed minor aspect of the whole restaurant operations. Despite of these limitations, some useful insights and information relating to the implementation of Halal logo and certification were obtained, and thus became a foundation to the potential researcher to explore further on this kind of the study.

Therefore, in the future, it is recommended for researcher to look into the same aspects, plus some extra elements such as the processes and the procedures, both from the manager’s and employee’s perspectives. The same framework can also be applied to other samples of customers, and comparison can be made in terms of local and international customer. It is recommended to analyse the impact and awareness of Halal logo in terms of customer background. This will contribute more in terms of theoretical and practical in the hospitality industry.

CONCLUSION
The food market in Muslim countries and indeed all over the world is largely controlled by non-Muslim multinational conglomerates whose only concern on profit. The demand for Halal food is growing. Therefore the food industry must continue to meet the needs of Muslims whose eating habits and food patterns are changing. Malaysia is said to have the capability of being a major Halal food suppliers globally but this opportunity was not optimized, as it need proper and professional management. On the other hand, the food manufacturing sectors must understand the applications of the Halal law to meet the demands of the local Muslim population as well taking the opportunity of the lucrative Muslim market all over the world. As Malaysia is a multi-religious country with Islam as the official religion, it provides a solid platform for an efficient system for the certification of Halal food in relation to foodservice operation and a strong base for Halal food industry, which results a big business for Halal foods.

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STRATEGY OF STRENGTHENING CAPABILITY THROUGH EDUCATIONAL MANAGEMENT, ORGANIZATION RESOURCES AND SYSTEM QUALITY INSURANCE TO INCREASE COMPETITIVENESS AND HIGHER EDUCATION PERFORMANCE (Research on Private University DKI Jakarta)

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ABSTRACT

Education in Indonesia is set in the legislation of the National Education System (National Education Law no. 20 of 2003) in which, among others on the path of education namely formal education, non-formal, and informal and the formal education level of primary education, secondary education, and higher education. And the research objectives is develop strategy recommendations Strengthening Capabilities through Knowledge Management, Organizational Resources and Quality Assurance System to Enhance Competitiveness and Performance of Private Higher Education Wil.

In higher education, management focuses on the 3 (three) important groups, namely the management of the process, the content (content), and resources (resources) and In accordance with research objectives to be achieved, then it is used two types / forms of research, namely descriptive and verification research.

Keywords: strategic, education management, organization resources.

BACKGROUND

One of the ideals of the Indonesian nation is the nation's intellectual life through education, as stated in the Preamble to the Constitution of 1945. Education in Indonesia is set in the legislation of the National Education System (National Education Law no. 20 of 2003) in which, among others on the path of education namely formal education, non-formal, and informal and the formal education level of primary education, secondary education, and higher education.

A university is one institution that is formally entrusted with duties and responsibilities to prepare students in accordance with national education goals, namely to fill the needs of the community with the availability of experts and skilled workers with the level and type of ability that is very diverse. Therefore, students as learners and young people who have a position and an important role in realizing national development goals, always need to be guided and developed.

Higher education institution management model can be compared to a service business model. The satisfaction of stakeholders (students, faculty, staff, and management) is also a measure of success. Higher educational management should be professionally managed like any other business institutions, but by keeping the academic quality as "product services" that must be achieved.

In Indonesia, the organizer of higher education conducted by the Government (PTN) and by the community (PTS). The greater role of PTS in providing higher education services cannot be covered again; government regulation has been more progress in providing more appropriate place to PTS.

DIKTI conduct monitoring, evaluation, and supervision on-educators. Especially for the PTS, DIKTI has a Private University Coordinator Office (Kopertis) in each province. Private universities in Jakarta are under the coordination of KOPERTIS region III.

Currently, private universities in Jakarta have a major problem associated with the number of students and the numbers of graduates are absorbed. Number of new students entering private universities region III in the last 4 years has decreased, and the number of graduates who absorbed by the industry / market power crimes also decreased. Decrease in number of new students at Private Universities Kopertis Region III showed a decrease in public confidence in the performance of Private Universities, particularly related to the performance of academic services. While the declining number of graduates of the Private Universities Kopertis Region III uptake also showed a decrease user confidence in the performance of graduates of private universities, particularly those related to the quality of graduates produced.
The above conditions have become the attention of the board of Private Universities Kopertis Region III. Much effort has been made but not yet gives a satisfactory result and if it continues to happen it certainly will be many private universities that closed or reduced its ability to provide services. With the decrease in the number of students will result in a decreased ability of the PTS to provide good service because of operational funds and the development of private universities rely on tuition fees paid by students. Further result is the declining quality of graduates, declining number of graduates who are absorbed, and ultimately the people’s trust to choose private universities will also decrease.

As a service organization, PTS needs to improve competitiveness for addressing the main issues above. Competitiveness PTS demonstrated the ability to produce good performance, especially in order to excel in the competition of getting new students, and placing its graduates in the workplace.

Based on the description above, it shows that the competitiveness of private universities in Jakarta Region III is weak and declining. Decline in the competitiveness of the PTS also showed a decline in quality and quality assurance in the PTS.

PTS is an organizations which is a lot related to resources, especially human resources (HR). Ability (capability) PTS strongly associated with the condition of human resources in addition to other resources. Good conditions and superior quality human resources will make the PTS can organize their education with good service.

On the other hand, as educational organizations, private universities also need to manage knowledge that it has, the knowledge that comes from learning activities, research, service, and also in managing the organization. Management of knowledge (knowledge management) in the PTS must be designed and implemented properly to improve the ability (capability) PTS concerned.

Based on the above conditions, it is very interesting and necessary to conduct research on the ability (capability) and competitiveness of private universities in Jakarta Wil III relating to the implementation of knowledge management, resource management, and quality assurance system. This study will look for causing factors by examining the relationship between variables, also will provide strategic recommendations to the Chairman of Private Universities in Jakarta Region III to help solve major problems facing.

**PROBLEM IDENTIFICATION**

- How is the implementation of Knowledge Management and Quality Assurance System in Private Higher Education Private Region DKI Jakarta.
- How is the condition of the Organization Resources, Capability and Competitiveness of Private Universities Region DKI Jakarta.
- How far is the extent of the influence of Knowledge Management on the Performance of Private Higher Education Region DKI Jakarta.
- How far is the extent to which the influence of Knowledge Management, Organizational Resources, and Quality Assurance System simultaneously on Private Higher Education Capability Region DKI Jakarta.
- How far is the extent to which the influence of Capability of Higher Education on the Competitiveness of Private Higher Education Region DKI Jakarta.
- How far is the extent to which the influence of Quality Assurance System on the competitiveness of Private Higher Education Region DKI Jakarta.
- How far is the extent to which the influence of the Competitiveness of Higher Education on the Performance of Private Higher Education Region DKI Jakarta.

**RESEARCH OBJECTIVES**

- Knowing the implementation of Knowledge Management and Quality Assurance System in Higher Education Private Region DKJ Jakarta (T-1)
- Knowing the condition of the Organization Resources, Capability and Competitiveness of Private Higher Education Region DKJ Jakarta (T-2)
• Studying the effect of Knowledge Management on the performance of Private Higher Education Region DKI Jakarta (T-3)
• Studying the effect of Knowledge Management, Organizational Resources, and Quality Assurance System simultaneously on Private Higher Education Capability Region DKI Jakarta (T-4)
• Studying the effect of Capability of Higher Education on the Competitiveness of Private Higher Education Region DKI Jakarta (T-5)
• Studying the effect of Quality Assurance System of Higher Education Competitiveness of Private Wil. DKI Jakarta (T-6)
• Studying the impact of Higher Education Competitiveness of Private Higher Education Performance Wil. DKI Jakarta (T-7) DKI Jakarta (T-7)
• Develop strategy recommendations Strengthening Capabilities through Knowledge Management, Organizational Resources and Quality Assurance System to Enhance Competitiveness and Performance of Private Higher Education Wil. DKI Jakarta (T-8)

FRAMEWORK OF THINKING

Organizational Resources and Capabilities of Higher Education

Organization of higher education in Indonesia has some similarities to one another, because it is based on the same government regulations. In general, the organization that applied to have the responsibility to perform the function of Higher Education Tri services, namely education and teaching, research, and service to the community. Higher education management system is an unique system which is a blend between academic and business interests of educational services, both of which attract each other and influence each other on the performance of universities.

In higher education, management focuses on the 3 (three) important groups, namely the management of the process, the content (content), and resources (resources). Of course, outside the 3 groups above, there will be influence on organization and organizational culture, values, work ethic, and leadership. Each group cannot be managed separately, but integrated with respect to the development of their respective universities (vision, mission, goals and objectives).

To achieve better performance, higher education institutions need to formulate and implement a good strategy. According to the Hunger and Wheelen stages of strategic management starts from an analysis of internal and external conditions, the formulation of strategy (determination of Vision-Mission, objective, and strategy), strategy implementation, and evaluation for improvement.

Basically, the determination of strategy in universities as well as to build capabilities that make college be able to compete or face the competition.

University as an organization of higher education providers must have the capability of organization, namely (1) development programs and academic resources, (2) academic operational service, (3) research and innovation, (4) social responsibility, (5) strategic cooperation, and (6) development and management of IPR.

Knowledge Management in Higher Education

Conceptually, Knowledge Management is the organization's activities in managing knowledge as an asset, it is necessary that proper distribution of knowledge to the right people and in quick time, so they can interact, share knowledge and apply it in daily work day for improving organizational performance. In line with the implementation of knowledge management, major capital organization no longer focused on tangible assets (land, buildings, money) but has been changed to intangible assets (brand recognition, patents, customer loyalty etc.), which is a form of creativity, and innovation that originates in knowledge.

The process of innovation depends largely on knowledge, especially since knowledge represents a field, much deeper than the data, information and conventional logic. Therefore, the power of knowledge lies in the subjectivity underlying values and assumptions that became the foundation for the learning process (Nonaka and Takeuchi, 1995). From this understanding, we can say that knowledge management (KM) as well as human resources is an important element in running any business. Gloet and Terziovski Studies (2004) recommend that managers at manufacturing companies need to give more attention to human resource management (HRM) when developing innovation strategies for product and process innovation. KM support
innovation performance if simultaneous approach of soft HRM practices and hard IT practices are implemented together in synergy.

KM developed into a separate field of study in organizational studies and contributes significantly in building competitive advantage (Nonaka, 1991; Nonaka & Takeuchi, 1995; Davis, 1998; Matusik & Hill, 1998; Miller, 1999; Moore & Birkinshaw, 1998, Stewart, 1997). In the study of higher education, knowledge in addition to an element forming a sustainable competitive advantage, knowledge is also the value created by the college to be conveyed to consumers. (Rowley, 2000). Thus, the perspective of knowledge in higher education implies extracting knowledge internally and externally, both as a resource as well as the output of the process of development of knowledge management that is run by the university itself.

Davenport (1998) divide the implementation of knowledge management in 4 main processes, namely (1) provides a place to store knowledge, (2) improve access to knowledge, (3) promote environmental knowledge and (4) manage knowledge as an asset. In the process of creating a place to store knowledge, universities need to provide printed or electronic documents, such as theses, thesis, dissertation, research results and publications, and results of operations of other academic services. In order to facilitate storage and retrieval, have to be improved in access to use information and communication technology (ICT). We have had a lot of technology that is easy and cheap so there’s no excuse for universities not to do so. The today’s challenge is the formation of cultural use and utilizes information technology as optimal as possible.

Once there is a place of storage and ease of access, then universities need to develop an organization that encourages a culture of knowledge creation, knowledge sharing, and knowledge utilization. The last part is to manage knowledge as an asset, meaning that knowledge can be given the same high value even more than the value of assets of a building, facility, and other tangible assets. Universities and colleges will see the product of teaching materials developed through the use of knowledge management as a valuable asset. Leveraging KM as a basis for decision-making will improve the quality of the decision itself, so that universities do not repeat the same mistakes of the past.

By using KM, the lecturers at the college are encouraged to become human capital, so the recognition of the quality is not only based on seniority over time but also based on the extent to which lecturers are to be part of the use of KM in higher education. As an element of “people” in KM, lecturers can be classified as general users, specialists, solution communities, and professional.

However, the biggest challenge is how to build a working system capable of using MI to create competitive advantage, especially through product excellence of education and learning in higher education.

Quality Assurance System of Higher Education

The paradigm of higher education management has the objective for the performance of higher education in Indonesia always refers to “continuous quality improvement”, and this can be achieved only if all parties directly involved in the administration of higher education can play a role in the framework of its duties and obligations of a clear authority.

At the university level quality setting is a very important effort and foremost, as the quality of education will determine the viability of the university. Determination of quality is difficult, because (1) higher education is always faced with a number of interested parties, each of which is entitled to have opinions in determining quality. So the measure of quality should be able to give confidence to all stakeholders of education to work together to achieve and enhance it, (2) limited university’s resources, particularly human resources which is an essential requirement in an effort to improve the quality of higher education, (3) organization of higher education is always associated and depending on the environment and surrounding communities, this resulted in that the values, norms, laws and regulations that become signs and guide the development of society, always be aware and be a reference in the management of higher education, (4) quality in addition to the dynamic nature of global as well, means of internal measures of college property must be in line with the growing size of the community both as users of educational services as well as users of graduates in national and international scope.

To manage and improve the quality, high education-oriented require quality assurance in higher education quality standards in accordance with the PP. 19 of 2005, known with 8 standard quality of education, namely 1) the standard content (content), 2) standards process, 3) competency standards, 4) educators and educational standards, 5) standard facilities, 6) management standards, 7) standard financing, and 8) assessment of educational standards.
Quality Assurance System in principle is a systematic attempt to improve the quality of higher education in the form of continuous cycle of quality assurance activities. Cycle higher education quality assurance system consists of 1) Classification Standard, 2) Implementation (including monitoring), 3) Self-Evaluation, 4) Evaluation Colleagues External / internal academic quality audit, and 5) Quality Improvement (including benchmarking).

Thus, higher education quality assurance is the process of setting and meeting quality standards of higher education management in a consistent and sustainable, so that stakeholders get satisfaction.

Performance of Higher Education

Size / university performance indicators according to Miller (2007) consists of indicators of quality, productivity, effectivity, efficiency, innovation, and stakeholder satisfaction, shown in Figure 2 below:

Each indicator above requires special attention from management colleges, and everything needs to be achieved with an integrated approach.

Competitiveness PT

Current conditions of global competition requires each country, industry (a collection of company / business type), company, or organization has the ability to create and maintain what they produce in order to achieve competitive advantage compared with other countries, other companies, or with competitors. Ability to produce an advantage as it is called as competitiveness (competitiveness), so well known is the country’s competitiveness, industrial competitiveness, competitiveness of the company / organization.

Noting the above description, the condition of higher education and universities in Indonesia today can be said that: (1) competitiveness of the country level (national competitiveness) is still weak and needs to be repaired, (2) the condition of "industry attractiveness" has a good chance future, but must be seen developments in each of the required public education, (3) the competitiveness of college-level (firm competitiveness) is weak and uneven if you have to deal with foreign universities.

The challenge of an organization today is how to obtain sustainable competitive advantage (sustainable). According to Barney (1991) "A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors when these and other firms are Unable to duplicate the benefits of this strategy ". Based on this, to get the condition of sustainable competitive advantage, the universities must be able to create a unique advantage, is not easy / not be duplicated by competitors and be able to apply appropriate at the times being needed. Unique advantages are not only of educational products, but also for education services that can provide an exceptional level of experience (delighted experience).

If to get the competitive advantage (CA) obtained from two sources, namely the superior skills and superior resources (Day and Wensley), then to get the SCA according to Prahalad and Hamel (1990) the organization must be able to combine its resources and skills into "core competencies ". Thus, universities who have the resources and skills should be able to create market-oriented strategy (market orientation) and
the networking business (*business networks*). Through its *market orientation*, the college will get the information and knowledge to create *superior customer value*, while through business network consisting of *multiple relationships* would make the college get the resources needed to build the *core competencies* related to *SCA*. So the necessary changes in the orientation of the future. Substantial shift to do is change the orientation of the acquisition of a minimum capability of mastering the knowledge, skills and attitudes appropriate curriculum courses, the competence to produce graduates who are capable of intelligent action, and full responsibility, and produce products of superior research and innovation. Changes in this orientation will provide opportunities for university to earn income beyond student tuition funds, so have the resources to do development.

**PARADIGM RESEARCH**

Based on the descriptions above, can be composed of research paradigms such as picture 2 below:
In the table below indicates the design of research to be conducted.

Table 1. Design Research

<table>
<thead>
<tr>
<th>Research Objectives</th>
<th>Design Research</th>
<th>Types of Research</th>
<th>The method used</th>
<th>Analysis Unit</th>
<th>Time horizon</th>
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<td>Descriptive survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
</tr>
<tr>
<td>T-2</td>
<td>Descriptive</td>
<td>Descriptive survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
</tr>
<tr>
<td>T-3</td>
<td>Descriptive and Verification</td>
<td>Descriptive survey and explanatory survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
</tr>
<tr>
<td>T-4</td>
<td>Descriptive and Verification</td>
<td>Descriptive survey and explanatory survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
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</tr>
<tr>
<td>T-5</td>
<td>Descriptive and Verifikative</td>
<td>Descriptive survey and explanatory survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
</tr>
<tr>
<td>T-6</td>
<td>Descriptive and Verifikative</td>
<td>Descriptive survey and explanatory survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
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<tr>
<td>T-7</td>
<td>Descriptive dan Verifikative</td>
<td>Descriptive survey and explanatory survey</td>
<td>Organization leadership? PTS Wil.DKI Jakarta</td>
<td>One shoot – cross sectional</td>
<td></td>
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</tbody>
</table>

Variable Operationalization

In the operationalization of the variables will be explained concepts, indicators, size and scale of the study variables: knowledge management, organizational resources, quality assurance, capabilities, competitiveness, and the performance of PTS.

Source Data

Based on their research objectives, it is necessary to have type and appropriate source of data, whether in the form of primary data or secondary data. The primary data is obtained through questionnaires and interviews to the leadership of Private Universities Region DKI Jakarta, while the secondary data is obtained from the report documents the results of universities and observation.

Determination of Sample Technique

Given the unit of analysis of this research is the management of Private Universities Region DKI Jakarta, while at Region DKI Jakarta, there are 325 private universities, then according to Yamane Taro cited by the Hamdi (2007:131) used the following formula:

\[
n = \frac{N}{1 + Nd^2}
\]

Where:
- \( n \) = number of samples
- \( N \) = Number of population
- \( d^2 \) = Precision (fixed at 5% with 95% confidence level)

Based on the formula above, then we use the sample of 180 PTS

Based on the form of higher education (universities, institutes, high schools, colleges, and polytechnics), the sampling technique using cluster random sampling method.
Table 2. Number of Samples

<table>
<thead>
<tr>
<th>Forms PTS</th>
<th>Total Population</th>
<th>Number of Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>University</td>
<td>5050</td>
<td>(50/325) x 180 = 28(50/325) x 180 = 28</td>
</tr>
<tr>
<td>Institute</td>
<td>99</td>
<td>(9/325) x 180 = 5(9 / 325) x 180 = 5</td>
</tr>
<tr>
<td>High School</td>
<td>140140</td>
<td>(140/325) x 180 = 77(140/325) x 180 = 77</td>
</tr>
<tr>
<td>Academy</td>
<td>115115</td>
<td>(115/325) x 180 = 64(115/325) x 180 = 64</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>1111</td>
<td>(11/325) x 180 = 6(11/325) x 180 = 6</td>
</tr>
<tr>
<td>Total</td>
<td>325325</td>
<td>180180</td>
</tr>
</tbody>
</table>

Data Collection Techniques
This study used a combination of data collection techniques, which consist of:

1. Interviews with leaders of PTS DKI Jakarta
2. Questionnaires with leaders of PTS DKI Jakarta
3. The observations, conducted on the data source in accordance with the unit of observation / analysis that have been mentioned

Analysis Method
In general, to analyze and interpret data, use two types of analysis, namely (1) descriptive analysis, is used for qualitative variables and included to explore the causes of behavior, (2) quantitative analysis, is used to measure the quantitative data and testing hypotheses with using statistical tests. This analysis is emphasized to reveal the behavior of the study variables.

The method of analysis used in accordance with their respective research objectives and research design that has been determined. For research purposes the first and second, that is to know the implementation of Knowledge Management and Quality Assurance System in Higher Education Private Wil. DKI Jakarta, and to determine the condition of the Organization Resources, Capability and Competitiveness of Private Colleges Wil. DKI Jakarta carried out a descriptive analysis using descriptive statistics. Meanwhile, a third for research purposes until the seventh, performed quantitative analysis using the SEM (Equation structural modeling). As for research purposes to eight, which are the recommended strategies to improve competitiveness and performance of private universities in Jakarta region described in the draft strategy.

Methods of analysis for each destination can be seen in Table 3 below.

Table 3. Method of Analysis

<table>
<thead>
<tr>
<th>Research Objectives</th>
<th>Metode Analisis Analysis Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-1</td>
<td>Descriptive analysis</td>
</tr>
<tr>
<td>T-2</td>
<td>Descriptive analysis</td>
</tr>
<tr>
<td>T-3</td>
<td>Quantitative Analysis using SEM (structural modeling equation)</td>
</tr>
<tr>
<td>T-4</td>
<td>Quantitative Analysis using SEM (structural modeling equation)</td>
</tr>
<tr>
<td>T-5</td>
<td>Quantitative Analysis using SEM (structural modeling equation)</td>
</tr>
<tr>
<td>T-6</td>
<td>Quantitative Analysis using SEM (structural modeling equation)</td>
</tr>
<tr>
<td>T-7</td>
<td>Quantitative Analysis using SEM (structural modeling equation)</td>
</tr>
</tbody>
</table>
DRAFT STRATEGY RECOMMENDATION

In accordance with the identification problem, by conducting research based on research objectives and methods of research in sub-section above, is expected to get the variables and the relationship between variables that can be used as variables solution for solving the problem. Having obtained the solution variables, the mapping strategy is done to obtain a clear solution model, develop operational strategies and conduct action plans.

The draft strategy as a recommendation for the management of the private higher wil Jakarta to improve the competitiveness and performance of universities under its management through the strengthening of capabilities, knowledge management, organizational resources and quality assurance systems.

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EMOTIONAL INTELLIGENCE AS ANTECEDENT OF RELATIONSHIP QUALITY IN RETAIL BANKING FROM CUSTOMERS’ PERSPECTIVE: A PROPOSED MODEL

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ABSTRACT

Relationship quality is argued by marketing scholars as a major indicator of relationship success consisting of satisfaction, trust and commitment within banking industry. In this article, the authors proposed a relationship quality model built by using causal link among emotional intelligence, relationship quality, future interaction and positive word of mouth. It is proposed that emotional intelligence acts as an antecedent of relationship quality, while positive word of mouth and future interaction act as the outcome from the relationship. The model implies the importance for banks companies to enhance relationship quality with their customers to achieve positive behavior i.e. loyalty with the banks in addition to preventing them from switching to other competitors.

Keywords: emotional intelligence, relationship quality, positive word of mouth, future interaction, retail banking

INTRODUCTION

The global market is observing a steady growth trend of the service sector in most countries. This can be seen from the contribution of services sector in country’s Gross Domestic Product (GDP) which sometimes exceeded the contribution of other sectors. USA for example displayed a GDP of 70% share of services contribution in 2006 compared 78.5% in 2007(Economy Watch 2006, 2007). Another example, Malaysia also recorded a 47.6% service share in 2009 compared to 45.7% in 2008 (Economy Watch 2008, 2009). The enormous opportunity observed within the sector has triggered fierce competition among service companies alike such as in the banking industry within domestic and also the global markets. To survive the competition, players within the banking industry must find a way on how to keep their customers happy and loyal to them rather than switching to other competitors. One way of how this can be done is through enhancing existing relationship that banks have with their customers. Relationship marketing is recognized in the literature as an effective strategy for customer retention in banking (Berry and Thompson, 1982; Day, 1985; Moriarty et al., 1983).

Relationship banking strategy has already started since 1970s when banks realized that highly cross selling opportunity can be exploited from profitable customers (Nelson, 1999). Some scholars argue that relationship marketing is an appropriate strategy for commercial banking (Berry and Thompson, 1982; Day, 1985; Moriarty et al., 1983). As relationship marketing emphasizes on customer retention, the strategy is well suited when the world is facing an economic slowdown. According to Rosenberg and Czepiel (1983), the cost in attracting new customer is six times higher than that of maintaining the existing one. Thus, in this instant, it is more lucrative for banks to maintain existing customers than to attract new ones (Perrien et al., 1993). With existing customers, banks are able to decrease costs and expenditure experienced (such as transaction cost and time) as well as increase profitability (Kandampully and Duddy, 1999), increase competitive advantage positioning and growth of the banks (Turnbull, 1983; Turnbull and Gibb, 1987; Newman and Crowling 1996).
An observation among retail banks today found the tendency for them to offer almost identical products and financial services; mainly due to the fact that any new offering will be quickly matched by the other competitors in the industry (Walker et al., 2008). This causes customers to perceive little difference of the products and services offered by the retail banks (Nasserzadeh et al. 2008). In short, retail banks will not be able to maintain their competitive advantage any longer if they are basing only on mere products and services alone. The mass and undifferentiated retail banking products and services combined with the rapid changes that happen in the banking industry have triggered banks to adopt various relationship marketing strategies to help increase their competitive advantage in the marketplace (Proença and de Castro, 2005; Trethowan and Scullion, 1997; Crane and Eccles, 1993). Previous research have noted the successes of relationship marketing implementation in various banking sectors such as corporate banking area (Turnbull and Gibbs 1987), investment banking area (Eccles and Crane 1988) and “over the counter” interface (Tyler and Stanley 2002). The essence of relationship marketing is how to establish, maintain and enhance long term relationship with the customers (Berry 1983). This long-term relationship will be successful and enduring if the relationship quality is strong (Parson 2004).

Relationship quality displayed by retail banks depends very much on their employee’s competencies in delivering quality services to bank customers; in particular the front liners as they are the ones interacting directly with bank customers before, during and after banking services are delivered (Clark Timothy et al. 2005). Goleman (2008) in his research found that emotional intelligence competency proved to be twice as important as others competencies of excellent ingredient performer for job at all level. The front liners in return, depend very much on the bank customers who evaluate the quality of interaction they receive with the bank’s employees. This means that the employees must be able to acquire, develop and maintain quality relationship with their customers.

The higher relative cost of customer acquisition has shifted the emphasis of banks to building and maintaining long-term customer relationship to improve profitability (Ennew and Binks, 1996). Customer commitment is very essential as basic motivation for customers to maintain and develop long term relationship with the organizations like banks (Morgan and Hunt, 1994; Birgelen van Marcel et al, 1998; Malewicki S.D., 2005; Callarisa et. al 2007). Long term relationship also relies on the exchanges within the relationship that are based on trust and high satisfaction (Zeithaml et al., 1996; Caceres and Nicholas, 2007; Callarisa et. al 2007). Previous research found that satisfaction has strong prediction to customer behavioral intention (Anderson et al., 1994; Zeithaml et al., 1996; Caceres and Nicholas, 2007). Therefore, customer satisfaction with the bank services will lead to customer’s intention to maintain long term relationship which can be in terms of future interaction (Crosby et al 1990) and positive word of mouth (Finn 2005).

The authors propose that a relationship quality model for retail banks can be developed using causal links amongst bank employees’ emotional intelligence, relationship quality and future interaction and willingness to provide positive word of mouth/referral. Emotional intelligence is proposed to be the antecedent of relationship quality whereas future interaction and willingness to provide positive word of mouth/referral as its consequences in the proposed model. The authors will also forwarded related hypotheses on the proposed relationship between the variables.

LITERATURE REVIEW

Many marketing scholars have argued the important of relationship quality in maintaining relationship success between customer and service provider. Many previous researches have addressed the antecedents and consequences of relationship quality. For instance, some variable such as expertise (Crosby et al 1990; Dong et al 2007), share value (Crosby 1990; Dong et al 2007), transformational leadership behavior (Jayakoday 2006), and communication (Crosby 1990; Dong et al 2007) have been found has positive significant effect to relationship quality. In addition previous researchers also have found two major consequences of relationship quality, future interaction (Crosby 1990; Dong et al 2007; Chow et al 2008 and positive word of mouth (Crosby 1990; Dong et al 2007; Chow et al 2008).
The Relationship Quality

Relationships between customers and salespeople are like marriages and the ability of exchange partners to manage their interactions will influence the quality and duration of the relationship (Perrien, Filiatrault and Ricard 1993). Perceived relationship quality can be seen as a mega-construct made up of other key components that reflect the overall nature of a relationship between two parties (Henning-Thurau et al., 2002). In addition, it can be considered as a fundamental aspect of the formation of the attitude towards a seller (supplier) (Moliner et al 2007).

Relationship quality has been discussed as a bundle of intangible values which augments products or services and results in an expected interchange between buyers and sellers (Levitt, 1986). Meanwhile, Henning-Thurau and Klee (1997) defined relationship quality as the “degree of appropriateness of a relationship to fulfill the needs of the customer associated with the relationship. In general, relationship quality describes the overall depth and climate of a relationship (Johnson, 1999). Relationship quality also refers to a customer’s perceptions of how well the whole relationship fulfills the expectations, predictions, goals, and desires the customer has concerning the whole relationship (Jarvelin and Lehtinen, 1996). As such, it forms the overall impression that a customer has concerning the whole relationship including different transactions.

The literature has acknowledged the components of relationship quality may consist of two or three components i.e. satisfaction, trust, and/or commitment. Based on this, Syafrizal et al (2009) proposed relationship quality as higher order construct consisting of all three components: satisfaction, trust and commitment. The three components were based on previous literature that offer support for satisfaction (e.g. Chen et al 2007, Dong et al 2007, Chow et al 2008, Crosby et al 1990, Callarisa 2006, Tseng 2007, Paparoidamis 2005), trust (e.g. Morgan and Hunt 1994, Chen et al 2007, Dong et al 2007, Ndubisi 2007, Chow et al 2008, Crosby et al 1990, Chakrabarty et al 2007, Callarisa 2006, Tseng 2007, Paparoidamis 2005), and commitment (e.g. Morgan and Hunt 1994, Chakrabarty et al 2007, Callarisa 2006, Tseng 2007, Paparoidamis 2005).

Antecedent of Relationship Quality

Previous researchers have found some variables such as (i.e. relational selling behavior, domain expertise and share value) as antecedents of relationship quality. In addition, Syafrizal et al (2009) also proposed leadership skill and transformational leadership behavior of bank employee as others antecedent variables of relationship quality in previous model. Relational selling behavior consisting of communication and customer orientation has proven affect quality of relationship between buyer and seller (Crosby et al 1990; Collins and miller 1994; Amy L Parson 2002). Moreover, customer orientation (Amy L. Parson 2002; Kelley 1992; Thaurau-Henning Thorsten 2004), domain expertise (Amy L Parson 2002; Sharif 2005) and shared value (Crosby, Evan Cowles 1990; Morgan and Hunt 1994) proven have positive significant effect to relationship quality.

Noting the importance of relationship quality as major indicator of relationship success, the scholars never stop to discover new potential variables as antecedent of relationship quality. Some marketing scholars have started to investigate the effect of emotional intelligence to customer evaluation of service encounter. For instance, Kernbach and Schutte (2005) found that there is positive and significant effect of emotional intelligence on customer satisfaction in service provider and customer relationship. Furthermore, Weng (2008) found that there is positive significant impact of emotional intelligence on customer trust in physician and patient relationship. For enhancing the relationship quality between customers and service provider, it is imperative to include emotional intelligence as antecedent of relationship quality in the previous model.

Emotional Intelligence

The work of scholars in developing emotional intelligence theory has evolved almost two decades. There are two school of thoughts found in the literature on EI namely ability based model of EI and mixed model of EI. The first proponents are Mayer Salovey Carusuo (2000) and Schutte (1998) and the second proponents are Bar-On (1997), Goleman (1995) and Boyatzis et al (2000). The ability based school of thoughts used ability based model in constructing Emotional Intelligence Theory pioneered by Salovey and Mayer (1990) defining EI as the ability to monitor one’s own and other feelings and emotions, to discriminate among them, to use this information to guide one’s thinking and actions. This definition has been refined by
Mayer and Salovey (1997) which defined EI as ability to perceive emotion, use it to facilitate thinking, understand emotion and regulate emotion. These four types of ability of EI are very useful in improving individual performance in every job level (i.e. salespeople or bank teller). It will be elaborate more detail in the next paragraph.

Perceive emotion defined as an ability to perceive and identify emotion of one's own (self-awareness) and others (awareness of other) as well as other stimuli such as voice, work art, story and music (Brackett and Salovey 2006). Self-awareness means having deep understanding of one's own emotion, strengths, weaknesses, drive and needs. Meisel (2004) found that self-awareness is the greatest predictor of success for everyone to do. Peoples with high self-awareness will recognize how their feeling affect them, other people and their performance (Goleman 2006). In service encounter, high self-awareness employee is very helpful in delivering positive experience to customer. They will keep display positive emotion even customer bully them (Golemb and Tews, 2004). In addition, employees with strong self-awareness usually will be honest with themselves and other (customers) (Goleman 2006). This attitude will lead to customer trust.

Awareness of other is another dimension of perceive emotion which more popular with the term empathy. Empathy is defined as a person's ability in sensing other feeling and perspective and taking active interest in their concern and problem (Goleman 1998). Empathy determines the success of social support and is a motivator for altruistic behaviour. Then, it has been associated with interpersonal effectiveness (Conway 2000) and relationship-oriented style of leadership (Woodal and Kogler Hill 1982). People with empathy nature (i.e. service employee) will know intuitively what other people (i.e. customers) were feeling, encourage them to speak openly about their suggestion (complaint), and help them (customer) to raise constructive suggestion (complaint) (Goleman 2006). Therefore, empathy will help service employees know their customer better so that they can fulfill customer need better than competitor finally leading to high customer satisfaction and loyalty. By having empathy, service provider can demonstrate care and concern to customer which constitute the basis for affect-based trust (McAllister 1995).

The second component of EI (ability based approach) is using emotion to facilitate thinking. It is an important dimension of EI. Using emotion require the ability to harness feeling which can help certain cognitive process such as, reasoning, decision making, problem solving and interpersonal communication (Brackett and Salovey 2006). Service employees that have high in problem solving and communication skill will be able to develop customer trust.

The third component of EI is understanding emotion. It is the capacity to analyze emotion which includes the understanding of emotional lexicon and the manner in which emotion combine, progress and transition from one to another. Individuals who are skilled at understanding emotion have a rich feeling vocabulary and appreciate the relationship among the term describing different feeling state. In addition, they may adept at identifying the core meaning or theme behind various emotional experiences ((Brackett and Salovey 2006). Service employee with high in understanding emotion may display various positive emotions in service encounter which lead to positive customer experience and satisfaction.

The fourth component of EI is emotion regulation. It consist of two dimensions namely regulation one’s own emotion (self-regulation) and regulation of other emotion (social skill). Self-regulation is the ability to control emotion, to remain calm, encounter problem and resistance, manage stress skillfully, finds ways to handle fears, anxieties, sadness and anger and to stay focus on task performed (Samad 2009). Emotion regulation will help people (i.e. service employees) in managing their feeling and impulse which will lead them to act reasonably (Goleman 2006). Therefore in service context, this will be helpful in delivering positive customer experience constantly. In other word, emotional regulation will decrease variability of service, increase employee credibility as well as customer trust. A fundamental goal of service work is to make interactions with customers warm and friendly and prevent emotional “leakage” of boredom or frustration (Leidner, 1999; Putnam and Mumby, 1993; Schneider and Bowen, 1999; Zapf et al., 2003). Therefore, it is imperative for service provider for having emotion control ability in order to keep long term relationship with customer (Brotheridge and Grandey, 2002).

Regulating emotion of other is another dimension of Emotion Regulation which is more popular by the term social skill. Social skill/interpersonal skill refer to a person’s proficiency in managing relationship with other and building network. It involve the ability of meeting each other’s need, relating to each other over time and exchanging information about one’s feelings, though and idea (Samad 2009). Social skill also include: the ability to express oneself in social interactions, the ability to read and understand different social
situations, knowledge of social rules, norm and script, interpersonal problem solving skill and role-playing skill (Goleman 2006). Peoples (i.e. service employees) who have high social skill will become effective persuaders (Goleman 2006). Then they can influence customer to buy more, try new product and keep loyal to the company. Furthermore, they can easily make acquaintance and relationship bonding with their customer.

The proponent of mixed model constructed emotional intelligence concept by combining many personality traits such as motivation, assertiveness, persistence, well being, and good interpersonal skill with the ability component of EI (Mayer, Salovey and Caruso 2000). The proponents of this mixed model have developed some measurement scales such as Emotional Quotient inventory (EQi) by Bar-On (1997) and Self Report Emotional Inventory Test (SREIT) by Schutte et al (1998). This concept is so broad and do not focus to “emotion” and “intelligence”. For instance, Bar-On (1997) proposed EQi model which consist of five components: a) intrapersonal EQ; b) interpersonal EQ; c) adaptability; d) stress management; e) general mood. Some previous researchers have found that the measurement scale of mixed model of EI such as EQi and SREIT have moderate to strong correlation with a number of personality construct such as anxiety, optimism, impulse control and openness to experience (Schutte et al 1998; Brackett and Mayer 2003; Mayer, Salovey and Caruso 2000). This means that the mixed model not only measure emotional construct but also measure some component of personality construct.

Of the two EI model, the one that seems to suit the line of thinking is ability based model because this approach really measure EI construct based on cognitive ability approach. Initially Mayer, Salovey and Caruso (1998) developed Multifactor Emotional Intelligence test (MEIS) instrument for testing their ability based model. This instrument was subsequently improved upon, leading to a shorter, more reliable, and better norm test, call MSCEIT (Mayer, Salovey, and Caruso Emotional Intelligence Test) (Mayer, Salovey and Caruso 2001). This MSCEIT content is valid and a factor structure congruence with the four part model of EI (Mayer et al 2003). Some scholars have claimed that MSCEIT has meet several standard criteria of new intelligence (i.e it has objective answer, it has unique variance, it score correlate with existing intelligence) (Mayer, Caruso, & Salovey, 1999; Mayer et al., 2002; Mayer & Geher, 1996; Mayer, Salovey, Caruso, & Sitarenios, 2003).

The empirical researches of EI have been done by many scholars in various areas. Rubin et al. (2005) found that the component of EI (the ability to recognize emotion, maintain positive affects, and demonstrate agreeableness) positively predicted transformational leadership behavior. Rubin concluded that leaders who were able to perceive emotion more accurately were rated more highly on transformational leadership behavior. The emotional expression of leader primarily is reflected in individual consideration and idealize influence. Meanwhile, in some other research it is found that EI have positive and significant impact to behavioral outcome such as employee’s performance, commitment, citizenship behavior and organizational effectiveness (Sosik & Megerian, 1999) and effective leadership (Buford, 2001).

Many previous researches about EI have been done widely by scholar in organizational behavior instead of marketing. However, recently the interest of marketing scholars to investigate the impact of emotional competencies of service employee toward customer affect and experience increase steadily. Some scholar argue that the role of EI very important in creating positive experience and positive feeling of customer during interact with service provider. Service provider who manifest EI abilities is likely to create a service encounter that leads to high customer satisfaction (Barlow and Maul 2000; Salovey et.al 2002). In addition, Kernbach Sally and Schutte S. Nicola (2005) found that there is positive and significant effect of EI on customer satisfaction in service provider and customer relationship. Furthermore, Weng Ching-Hui (2008) found that there is positive significant impact of EI to customer trust in physician and patient relationship. In other word, EI has positive impact on relationship quality between service provider and customer.

In customer service job, emotional display rule generally require service with smile (Pugh, 2001; Rafaeli and Sutton, 1987; Van Dijk and Kirk-Brown, 2006). Positive emotional display by service provider (such as smile, friendly, and caring) will encourage positive feeling and experience of customer during interaction which leads to greater customer satisfaction. Furthermore, the awareness of service providers to customer need and feeling will allow them to increase effort in fulfilling customer expectation which can
induce better customer satisfaction. In addition, the higher the awareness of service providers to customer need and feeling the higher the credibility of them in customer mind will be. In other word, the ability of service provider to understand customer need and feeling will lead to the increasing of customer trust with them. Till date, there is limited empirical research investigating the relationship between EI and relationship quality. This research will try to fulfill this gap by proposed causal linkage between EI and relationship quality.

The Outcome of Relationship Quality

Previous researchers have found some variables such as (i.e. positive word of mouth and future interaction) as consequences of relationship quality between buyer and seller. In addition, Syafrizal et al (1999) proposed positive word of mouth and future interaction as consequences of relationship quality between customers and bank employee.

Some previous research found that there is significant positive impact of relationship quality to future interaction and positive word of mouth (Chow et al 2008, Dong et al 2007 and Crosby et al 1990). Customer satisfaction with relational exchange will lead to future interaction (i.e. repeat purchase, buy product/services more frequent and buy more product variant/line) and positive word of mouth (Chow et al 2008, Dong et al 2007 and Crosby et al 1990). In addition, customer satisfaction with relationship exchange will result their future intention (Lehmann 1994, Cronin and Taylor 1992; Zeithaml, Berry, and Parasuraman 1996). Meanwhile, the trusted relationship exchange indicate that customer believe to credibility of service provider, therefore reduce uncertainty and increase customer motivation to do future interaction and provide positive word of mouth (Chow et al 2008, Dong et al 2007 and Crosby et al 1990). If the buyer trusts the provider, he or she will more incline to want to work with the same provider again (Morgan and Hunt 1994). The higher customer commitments to relational exchange the more probability of them to do future interaction and provide positive word of mouth. Hence, maintaining high relationship quality with customers appears to increase their willingness to provide positive word of mouth/referrals (Finn, 2005).

Proposed Model

As earlier stated, the authors are proposing a model on relationship quality made up of the antecedents and consequences of relationship quality in banking industry. Based on the literature review, we propose emotional intelligence as antecedent of relationship quality. Meanwhile, positive word of mouth (provide referral) and future interaction are proposed as consequences variable of relationship quality. The framework of the proposed model is shown below.

![Proposed Model Diagram](image)

**Figure 1. Emotional Intelligence As Antecedent of Relationship Quality In Retail Banking From Customers’ Perspective: A Proposed Model**

**HYPOTHESIS**

The following hypotheses are proposed to test the validity of the model via survey using bank customers as respondents.

H1. Emotional intelligence (perception of emotion, used emotion to facilitate thinking, understand emotion and regulate emotion) will lead to positive relationship quality between customers and retail bank employees.

H2. Relationship quality between customers and retail bank employees will lead to positive future interaction.

H3. Relationship quality between customers and retail bank employees will lead to positive word of mouth.
CONCLUSION

The proposed model provides a causal link amongst emotional intelligence, relationship quality, and future interaction and positive word of mouth (provide referral). The authors' intention was to fill up the gap about the lack of research in marketing which investigates the role of emotional intelligence of bank employees in acquiring, developing, and maintaining long-term relationships with customers. The emotional intelligence competency of bank employees is very important in resulting positive feelings and emotions of customer on evaluating service encounter interaction. Self-awareness ability will encourage service employee in showing positive emotional display in service encounter interaction consistently. Meanwhile empathy will help service employees know their customers better so that they can fulfill customer needs better than competitors finally leading to high customer satisfaction and loyalty. Self-regulation ability will drive service employees to act reasonably in handling demanding customers in order to result in positive emotional display consistently. Social skill will facilitate service employees become effective persuader so that they can easily make acquaintance and relationship bonding with their customers. Furthermore, the study to be carried out resulting from the proposed model is expected to contribute in encouraging the strategic role of bank employees as the bank's salespeople in enhancing the quality of relationship with the customer in order to increase the competitive advantage of the bank.

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INTERCULTURAL DIFFICULTIES: UNCERTAINTY REDUCTION BY SOJOURNERS IN ASEAN REGION

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ABSTRACT

Culture is a cognitive element of collective learning knowledge that represents personal identity or a group. Culture shapes individual mindset and acts as references which influence individual’s cultural behaviour. Cultural conflict occurs when two or more cognitive cultural mindsets are at conflict with each other in determining the appropriate way of doing things. A sign of losing familiar cues contributes to sojourners’ intercultural difficulties when sojourning in a culturally strange place. This paper describes intercultural phenomenon that examines the role of cultural influence in order to reduce uncertainty when sojourners are abroad. Specifically, it is postulated here that cognitive aspects of individual mindset affect cultural adjustment of sojourners in intercultural environment. The implications to increase intercultural relations with host national are also explored and discussed.

Keywords: Intercultural Relations, Sojourners, Uncertainty Reduction

INTRODUCTION

A diversified natural resource in the Association of Southeast Asian Nations (ASEAN) countries, acts as an agent for economic, political-security, socio-cultural and external relation development from within and into this region. Intra-trade among member countries formed second sources of foreign direct investment (FDI) inflow which contributed $27,888.7 million (15.1 percent) of investment in 2006 – 2008 to ASEAN. In the same period, investors from European Union (EU)-25 contributed $42,210 million (22.9 percent), followed by Japan and USA. The economic emergence of the ASEAN creates developmental opportunities and challenges to craft effective sustainability strategies for each member country. Although the members are within the same radius of the geographical area, each ASEAN country member is uniquely diversified from history, economic and developmental structure, political orientation, factor endowments and socio-culture compositions (Siah, Choong & Yusop, 2009). This scenario has changed and diversified a complex multicultural structure of the society. Cultural emergence, divergence and Diasporas seem significant issues to describe recent international mobility surround. Consequently, services and tourism activities are being few of the priority sectors of ASEAN integration which attracted more than 65 million tourists with $59 billion received by the end 2008. It was 5.1 percent increment compared to 2007 and 71.4 percent increases since 2003.

Although inflow FDI and foreign expenditures are considered as cash cows to the national developments, issues such as economic volatilities, social nuisance and other internal political intervention are crucial to regional development. Recent incidents such as Thailand's 2008 and 2009 political crisis leave the international mobility as dramatic experiences for sojourners. Consequently, psychological interaction and processes that occur might switch our mindset, expectation and perception about the location and their socio-cultural possession. Cultural elements have found to contribute to the effectiveness of international business and trade especially related to the human interaction issues across-borders. Cultural influences were found in the studies on human practices such as selection, training, performance management, expatriation, repatriation, adaptation, acculturation, career management and other organizational behaviour.
(examples, Abang Ekhsan, 2009; Bruton & Lau, 2008; Caligiuri & Colakoglu, 2007; Clausen, 2010; Fang, Jiang, Makino & Beamish, 2010; Leung, Bhagat, Buchan, Erez & Gibson, 2007; Magnusson, Baack, Zdravkovic, Staub & Amine, 2008; Matsumoto & Yoo, 2006; Selvarajah, 2009). The notion of cross-cultural and intercultural found has been used intangibly to describe different practices in different group of people across-countries. Particularly, cross-cultural indicated a comparative approach to differentiate the differences (Dahl, 2004; Sinicrope, Norris & Watanabe, 2007. On the other hand, the intercultural approach explains an emergence or interactive perspective on the object studied. Recent review by Guitel (2006) on cultural literatures indicated that the integration elements of culture with other human development processes have further extended a sustainability of cultural studies. For instance, culture is a cognitive learning element which serves as a foundation for sojourners’ rational judgement when they encounter cultural surprises and differences abroad. Thus, the main question raised in regard to the cultural understanding from sojourners lenses is to what extend does the role of culture play an intervention force towards mutual interaction with the host nationals?

From Asian perspective, most of the recent cross-cultural researches put large attention on cultural adaptation with China in context (Selmer, 2007; Selmer & Lauring, 2009). Insufficient intercultural studies found include a unique Southeast Asian culture setting in the dynamic of cultural environment studies. Particularly, an explanatory nature of this study will identify the extent of cultural surprises or known as culture shock which may interfere with the sojourners’ effectiveness in dealing with intercultural adaptability in ASEAN region. Following sections will discuss related aspects of culture that influence an affective intercultural relation.

CULTURAL CONSEQUENCES

Culture is a notion formed by a set of learning elements such as attitude, value, belief, language, religion and material possession in a society which represent group image, identity and other intended meaning. Culture is defined by Hofstede (1983) as a “collective mental programming or a system of collective held values, shared with other members and is used to distinguish the members from other group” (p.76). Since born, a person’s is equipped with socio-cultural knowledge and skills about the ways of life as a basis of judgment, known as frame of reference (Torbjorn, 1985) or social mindset. In social learning theory as Bandura (1977) put in, some of such cultural knowledge and skills is taught directly from their parent, other family and society members, and some other cultural aspects is acquired by imitation. Therefore, an open system of culture is created by a cognitive set of collective actions and learning, affectively expressed (emotion reaction) which govern behaviour as group referent or customs (Segall, 1986; Kroeber & Kluckhohn, 1952). However, cultural shock occurs as sojourners are unable to match their intended cultural understanding with the social requirement at new location or surrounding. Anxiety, uncertainty, difficulties to adjust and to adapt within the new socio-cultural demand individual psychological and physically abilities to perform at workplace, thus there is a need to establish mutual relationship with host national and enjoy general living at the new place (Claus & Briscoe, 2009; Osman-Gani & Rockstuhl, 2008, 2009; Yeaton & Hall, 2008; Lee, 2007; Bhanugopan & Fish, 2006; Martinke & Douglas, 1999). Due to the inability to meet assignment target, extended assignment period or replacement of the new personnel, work disability financially affects to the organization (Forster, 1997; Harzing, 1995).

HSBC 2009’ Expat survey reported that the expatriation challenges include family matters (23 percent), language or communication barriers (18 percent), adaptation to culture (16 percent), socializing (12 percent) and attitudes (10 percent). Additionally, the Brookfield’s Global Relocation Trends Survey 2009 stated that four percent of international assignment failed. China, India and the United Kingdom were cited as the locations with the highest rate of assignment failure (p.17). However, ASEAN region is remarkable for its wide diversification of its socio-cultural composition (as shown in Table 1) in races and ethnic groups, language, culture and religion. These socio-cultural environments make sojourners’ relocation and international assignment into this region a challenging task. Founded in 1967, ASEAN historically comprises five countries: Indonesia, Malaysia, Philippines, Singapore and Thailand with the association articles for regional cooperation. The aim of the association is to sustain regional peace and stability in the field of economic, social, cultural, technical, educational and other related area. On their 30th anniversary in 1997, ASEAN applauds its representation of all ten countries in Southeast Asia region which includes Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam.
Table 1: Ethnic Group Composition in the ASEAN countries

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Brunei</td>
<td>381,371</td>
<td>Malay 66.3%, Chinese 11.2%, Indigenous 3.4%, Other 19.1%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>13,388,910</td>
<td>Khmer 90%, Vietnamese 5%, Chinese 1%, other 4%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>237,512,352</td>
<td>Javanese 40.6%, Sundanese 15%, Madurese 3.3%, Minangkabau 2.7%, Betawi 2.4%, Bugis 2.4%, Banten 2%, Banjar 1.7%, other or unspecified 29.9% (2000 census)</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>6,677,534</td>
<td>Lao 55%, Khmou 11%, Hmong 8%, other (over 100 minor ethnic groups) 26%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>25,274,132</td>
<td>Malay 50.4%, Chinese 23.7%, Indigenous 11%, Indian 7.1%, others 7.8%</td>
</tr>
<tr>
<td>Myanmar</td>
<td>56,002.6 thousands</td>
<td>Burman 68%, Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, other 5%</td>
</tr>
<tr>
<td>Philippines</td>
<td>88,700 thousands</td>
<td>Tagalog 28.1%, Cebuano 13.1%, Ilocano 9%, Bisaya/Binisaya 7.6%, Hiligaynon Ilonggo 7.5%, Bikol 6%, Waray 3.4%, other 25.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>4,608,167</td>
<td>Chinese 76.5%, Malay 13.8%, Indian 8.1%, other 1.6%</td>
</tr>
<tr>
<td>Thailand</td>
<td>64,763.0 thousands</td>
<td>Thai 75%, Chinese 14%, other 11%</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>86,116,560</td>
<td>Viet 80%, Khmer 10%, Tay 1.9%, Thai 1.74%, Muong 1.49%, Hoa 1.13%, Nun 1.12%, Hmong 1.03%</td>
</tr>
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Source: CIA, the World Factbook

The United Nation Education, Scientific and Cultural Organization (UNESCO) defined culture diversity as the way different groups and society express their identity which is transmitted by generations. Cited in the UNESCO web-sources about culture, "... not only in the varied ways in which cultural heritage is expressed, augmented and transmitted but also in the different modes of artistic creation, production, dissemination, distribution and enjoyment, whatever the means and technologies that are used" (UNESCO, 2009). Research has found that personality, styles of learning and motivation and unfamiliarity on foreign culture elements (attitudes, values and belief) will differentiate the effectiveness of intercultural relations (Lewthwaite, 1996) from one to another.

Different group of culture preserve the sets of socio-cultural and behavioural references which become an obstacle to interact effectively with the others. Culture groups or sub-culture within nations with the same political orientation and governmental system could produce an appropriate way to interact in harmonic surrounding. However, cultural surprises are stipulations that occur when a person sojourns in a place with different culture cues. In other words, the cultural experiences are beyond sojourners' imagination or expectation. Culture shock literature had demonstrated that inequality responses and expectations caused conflict in the interaction process and shows the need for adequate changes, reaction and adjustment into new cultural surrounding (Kroeber & Kluckhohn, 1952; Torbiron, 1982). The inabilitys to adjust put a culture as a signal of resistance, rejections, or pretending for social desirability or back into initial ethnocentrism stand (Jeager & Selznick, 1964; Kroeber & Kluckhohn, 1952). Therefore, in order to eliminate anxiety of moving into strange cultural location, sufficient knowledge, skills and characters are required to reduce uncertainty in the process of interacting with host nationals.

REDUCING CULTURAL UNCERTAINTY

People might feel threaten if they fail to behave accordingly to the communication and interaction demand at the host location. Learning the language and cultural norms at the location with its diversified cultural composition may create dramatic confusion and negative behavioural outcomes (Bandura, 1977). For example, an autoethnographic experience as depicted by Friedman (2009) shows frustration at the beginning, to capture and to learn the concepts of face and quanxi in Hong Kong but it gives unforgettable experience at the end. The ability of the personnel to deal with cultural consequences is crucial to the international business especially in developing countries. The success of business strategies, operation and marketing is in the hands of people. Incompetence, lack of awareness and sensitivity to tackle intercultural issues would further create misunderstandings and financial costs for image recover. The intercultural awareness covers image, attitude, values, beliefs, norms, etiquette, protocol, language, verbal, and other non-verbal
communication. Therefore, appropriate trainings, guides, and exposures are required to avoid any tiny misconception or cultural blunders and some are illustrated as follows:

1. Being served with coffee and banana in Indonesia as a sign of rejection.
2. Poor choice of advertisement in Thailand is by featuring an animal using the advertised products. It will be considered as no self respect and low form of life to wear anything worn by animals.
3. Attractive printed labels on products that have six pointed stars logo and/or with Hebrew language in Arab countries are interpreted as pro-Israeli and these will be refused by Arabs.

Uncertainty reduction theory (URT) initially is presented by a series of axioms to describe the interrelationship between seven factors: verbal communication, nonverbal expressiveness, information-seeking behaviour, intimacy, reciprocity, similarity and linking. According to Berger and Calabrese (1975), reducing uncertainty is the central motives in communicating with strangers and this involves information exchange. It is dependence on the frequency of contact to clarify uncertainty about opinion, belief and behaviour. Three strategies postulated by Berger & Calabrese (1975) in reducing uncertainties are:

1. Passive strategies: tendencies to stand still which is known as self-monitoring by observing the surrounding to find any potential clues to react.
2. Active strategies: taking a non-verbal movement by imitating behaviour closer to the target.
3. Interactive strategies: starting conversation directly with the target.

In an intercultural context, cultural aspect (value, norms and belief) adds some confusion to react. Study on Japanese and American culture by Gudykunst and Nishida (1984) found significant differences on predictors of across culture uncertainty. It was highlighted that culture similarities reduce uncertainty in interaction but was not affected by attitude similarities (p.34). Consequently, intercultural communicative competence is perceived as the abilities to avoid misconception to deal with cultural stress (Hammer, Gudykunst & Wiseman, 1978).

In contrast, uncertainty reduction model as posited by Taveggia and Santos (2001) found impracticality to clarify interaction uncertainty or affective adjustment by American public sojourners in Canada, Chile and Mexico. Uncertainty reduction factors such as prior international experience, cultural training and tenure ship appear not to facilitate expatriates’ affective adjustment. Therefore, it was suggested that additional construct investigation is needed to reduce uncertainty such as “equivocality” (Taveggia & Santos, 2001: p.153) as well as to explain intercultural difficulties and to increase behavioural learning effectiveness.

Necessary adjustments require a changing, reacting or integrating of the minority and majority or compromising some psychological and socio-cultural elements in cultural adaptation process (Ali, Van der Zee & Sanders, 2003; Palthe, 2003; Rudmin, 2003). For examples, US Democrat President Obama gives respective bow to Japanese Emperor Akihito during his visit to Japan on 14th November 2009, although being criticized based on the World War II after history between Gen. McArthur and Emperor Hirohito. Specifically, adaptation is defined as “...the process whereby one’s worldview is expanded to include behaviour and values appropriate to the host culture” (Bennett, 1998: p.14).

Adjusting into new culture is depending to one’s references to appropriate behaviour in particular time of interaction. The novelty of culture as suggested by Selmer (2007) found that cultural similarity/dissimilarity between expatriates and host nationals may be irrelevant in predicting the degree of psychological adjustment. Additionally, many other psychological and socio-cultural elements may support cultural adjustments that include personalities, cultural intelligence, emotions, self-monitoring and other biological factors, such as gender, age and marital status (examples, Abbe, Gulick & Herman, 2007; Ali, Van der Zee & Sanders, 2003; Ang, Dyne, Koh, Ng, Templer, Tay, et al., 2007; Kim & Scoulum Jr., 2008; Liu & Wong, 2008; Liu & Shaffer, 2005; Selmer & Lauring, 2003; Shaffer et al., 2006; Sinicrope, Norris & Watanabe, 2007; Van der Bank & Rothmann, 2006; Van Oudenhoven, Mol & Van Der Zee, 2003; Yoo, Matsumoto, Leroux, 2006).

The uncertainty or inability to communicate with host nationals or the others of different cultural groups creates discomfort, annoyance or ignorance because of the inability to transmit or translate the message with understandable meaning. Studies (see, Bennett, 1998; David, 1971; Oberg, 1960; Taft, 1977; Torbiorn, 1982) refer this phenomenon as culture shock, culture stress, transition stress, occupational illness and behavioural disorder, hence leave negative implication such as doubts (ambiguity), stress, strain and frustration due to incompetence or fail to cope with the new cultural environment (Mumford, 1988). However, for some others, such difficulties are perceived as a challenge for international mobility to explore and this
depends on their expectation, motive and goal of mobility, lengths of stay, location and socio-cultural differences (Ali, Van der Zee & Sanders, 2003; Black, 1998; Black, Mendenhall & Oddou, 1991; Church, 1982; Searle and Ward, 1990; Haslberger, 2005; Ward & Kennedy, 1999). The greater the level of uncertainty of behaviour, cognition and interaction, the smaller would the ability or chances to predict the appropriate behaviour and contact with the surrounding would appear to be. Thus, the possible general propositions postulated are:

\[ P1. \] Personal cognitive strategies underlying the intercultural uncertainty reduction will determine the effectiveness of sojourners' mobility and cultural adaptation abroad.

\[ P1a. \] Passive strategies positively reduce uncertainty will determine the effectiveness of sojourners' mobility and cultural adaptation abroad.

\[ P1b. \] Active strategies will positively reduce the uncertainty and this determines the effectiveness of sojourners' mobility and cultural adaptation abroad.

\[ P1c. \] Interactive strategies will positively reduce the uncertainty and this determines the effectiveness of sojourners' mobility and cultural adaptation abroad.

Sojourners need to broaden their perspectives in interaction and relation creation with diverse cultural background society. Managing culture differences are beyond the learning process and to strengthen the experience and coping strategies. Issues on communication effectiveness and competency are the potentials to accommodate the interpretation of intercultural signal appropriately (Bjerregaard, Lauring & Kiltmoller, 2009; Gudykunst & Nishida, 2001). Comparatively, cross-cultural studies which express a comparison across culture group, intercultural understanding is found to be more significant to show reaction towards diversified cultural environment. It is important to note that it is efficient for sojourners to create mutual cultural relationship with host nationals by eliminating ethnocentrism and social desirability aspect while sojourning abroad. Therefore, further empirical studies are granted to investigate the implication and the extent of these cognitive barriers may break effective sojourners’ intercultural adjustments.

**CULTURAL DIFFICULTIES**

Expatriation failure is reported to be affected by many factors, especially influences from their spouse/partner’s dissatisfaction or causalities (Ali, Van der Zee & Sanders, 2003; De Chieri et al., 1991), followed by the inability to adapt, other family concerns, poor candidate selection, poor job performance and job which does not meet their expectations (GRTS, 2009: p.52). Other organizational factors such as headquarters support, personal constraints, technical competencies and perceptual skills are also found to contribute to cultural casualties (Foster, 1997; Lee, 2007; Martinko & Douglas, 1999; Mendenhall & Oddou, 1988; Tung, 1982).

Studies by Black (1988), Osman-Gani & Rockstuhl (2009), Shay and Baack (2006) and Takeuchi, Tesluk, Yun & Lepak (2005) demonstrated that cultural training facilitates expatriate adjustment but not in some cases. For example, anticipatory requirement such as cross-cultural training and previous overseas experience were found by Taveggia and Santos (2001) not to support public personnel adjustment. Scholars (example, Fenner Jr. & Selmer, 2008; Hechanova-alampay et al., 2002; Swagler & Jome, 2005; Zhou & Qin, 2009) argued that insufficient information, quality and amount of time spent for training, nature of previous experiences, locations and culture novelty contributed to different expectations. In addition, expatriation failures bring various connotations among scholars such as unsatisfactory performance, stress, premature return, unaccomplished assignment, unachieved goals, turnover, decrease productivity, underperformance and frustration, intention to leave, job promotion and early goal accomplishment (Forster, 1997; Harzing, 1995; Martinko and Douglas, 1999; Tung, 1982).

Sojourners’ cultural experience might differ or at times may appear to be beyond their expectations, especially in regard to the way of doing things, transportation, communication, foods and, other general materials and equipment used in daily basis. To recap, culture shock is a psychological discomfort experienced by sojourners and could also be a sign of losing familiar cues at new cultural locations. The culture shock phenomenon or psychological discomfort initiated by Oberg (1960) is perceived as an occupational disease or illness, behavioural disorder (David, 1971) and inability to communicate with new cultural environment (Torbjorn, 1982). The transition of culture shock involved four intervention stages: honeymoon, followed by crisis, recovery and adjustment (Oberg, 1960). In addition, this disturbance effect
occurred when a person neglected the cultural background of host nation and misunderstanding of communication cues during social interaction (Mamman & Richard, 1996). The ethnocentrism or feeling of self culture is greater than the others, and added with other difficulties to adapt with new cultural environment, the situation may worsen. The three dimensions of cross-cultural competencies conceptualized by Gertsen (1990) include communicative, behavioural affective and cognitive dimension can be used for cultural assessment. Delineated from the scenarios as discussed, another possible general proposition postulated is:

P2. Coping strategy by using uncertainty reduction technique is seen as prerequisite to eliminate culture shock effect towards sojourners affective adjustment.

Uncertainty or confusion in expectation roles, appropriate behaviour, value, forms, feeling and emotions indicated the need for adjustment on cognitive justification to cope with new cultural environment (Mumford, 1998). Additionally, Mumford (1998) argued that, culture stress occurs depending on the environmental factors such as the time frame and the degree of culture shock experienced by sojourners. Cognitive development processes involved generating a mental and emotional stability, interaction and communication skills and other cultural skills to learn or imitate the behaviour. Although culture shock features as negative implication of cultural confrontation, Church (1998) viewed a positive effect of culture shock such as appreciation of home country, broaden world views on cultural perspectives, and reduce ethnocentrism, increase complexities, greater personal awareness, self-esteem, confidence and creativity (p.557).

DESIGN AND FUTURE RESEARCH

By reviewing related cultural literatures, prior paper conceptually posited cultural consequences toward the sojourners' effectiveness achieving their international mobility goals. Therefore, it is important to sojourners' recognize a cognitive, affective and behavioural differences in order to reduce cultural difficulties, anxiety and uncertainty. Culturally competent person have a significant ability about interculturally awareness, sensitivity and effective/ adroitness (Chen & Starosta, 2005) in order to reduce ethnocentrism, and establish mutual understanding, respect and harmonious intercultural environment. Recent globalization agenda in economic, politic and social composition has contributed to the complexity in multicultural society. Personal intercultural endurance is a key to determine sojourners' success in their international mission and intercultural adjustment abroad. As mentioned earlier, countries in Southeast Asia region compose a diversified subculture or ethnic group. However, insufficient number of cultural studies found incorporated countries in this region as a subject. Hence, present paper provided a foundation for further exploration for empirically examine the practically of intercultural relation and its implication toward sojourners' success. Intercultural understanding is crucial to establish cost-effective international mobility and expatriates' selection and training effectiveness. Methodologically, quantitative or ethnographic study identified as a most effective design to quantify the impact and cultural elements interferences. Thus, facilitation of culturally competent on the sojourners' adjustment abroad is novel, feasible and useful.

DISCUSSION AND CONCLUSION

Intercultural adaptation is a psychological and social contract of the sojourners in order to fit-in with the new cultural environment. Patience, understanding, consideration and certain magnitude of competency are needed to gain pleasant experience when interacting and building relation with host nationals. The ability to be aware and sensitive with explicit and tacit characteristics of culture cues help to reduce attitudinal uncertainty, psychological, behavioural or emotional anxiety to cultural differences. Additionally, uncertainty in intercultural relation is perceived to bridge effective communicative competence in managing cultural issues in host country. This study integrates the uncertainty reduction model to understand communication process of intercultural adaptation by sojourners, especially in multiethnic location of ASEAN countries.

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EXAMINING VISITORS’ EVENT EXPERIENCE AT FESTIVALS AND SPECIAL EVENTS: PROPOSED FRAMEWORK

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ABSTRACT

Festivals and special event has becoming an important feature in a tourist destination’s general tourism development and marketing plan. Many have realized the important benefits of staging festivals and special events. Nonetheless, events require special consideration conceptualizing and understanding the event outcome based on experiential perspective. Only from the experiential view, the event researchers and organizer are able to grab the holistic view of event outcome created by a festival or special event. Hence, this study attempts to take a step towards an improved understanding and examination on the broader picture created by the festivals and special events by considering the experiential approach. Moreover, the framework strives to not only focusing on the physical products and services but also take account of emotional and value aspects, and affects of social interactions which might be very important aspects in a celebration of a festival or special event. The primary objective of this paper is to present a conceptual framework based on experiential paradigm that able to systematically assess visitors’ personal event experiences in context of festival or special event. Specifically, the framework enables examination of relationships of several important variables in event settings namely, event features, social interactions, visitor’s event experience, visitor’s overall satisfaction, future intentions, and level of experience.

Keywords: Experiential Concept, Festivals, Special Events

INTRODUCTION

Today, most tourism destinations are increasingly including festivals and special events as unique attractions for tourists. The importance of this trend of having festivals and special events as integral part of tourism development and marketing plans had been primarily pointed out by Getz (1989). Similarly, Getz (1991) stressed the point that festivals, special events and other public celebrations are recognized as one of notable major categories of tourist attractions, and championed as unique tourist attractions and as destination image-makers. This is mainly because festivals can produce generous economic benefits, specifically from expenditures from increased mass visitors spending and longer stays, employment and tax benefit. Thus realizing the substantial benefits to their tourism industry, tourist destinations are now making serious efforts to come out with new ideas of festival or special event in attempt to lure tourists from their competitions. Special themed occasions, episodes, events or incidents, or even past adventures/history are now being re-produced for tourists. Indeed, festivals and events have become one of the fastest growing categories of tourism attractions.

Certainly, more people have realized the various benefits of event tourism, especially the economics advantageous. These days, special events can be staged for various purposes and staged to satisfy different needs and motivations such as physical, culture, interpersonal, business, and status and prestige. Thus, special events are increasingly effectively staged by both profit and non-profit organizations. Moreover, the business companies are keen to be involved in producing and also sponsoring various special events. Obviously, festivals and special events are considered as excellent tools of public relations communicating to the consumers. At the festivals and special events, the business companies are able to try their best to influence the consumers’ feelings and opinions about the company and its products. Furthermore, the local festivals and special events can be excellent avenues to celebrate, educate, build friendship, foster a sense of community or kinship, and even to certain extent retain local customs, culture
and traditions. Particularly, the events may enhance local pride of their culture and traditions while at the same time providing the locals with multiple recreational opportunities. Consequently, more and more events are being organized and staged for the general community and tourist alike.

Essentially, events require special consideration conceptualizing and understanding the event outcome based on experiential perspective, since events provide experiences of pleasure to people, business, culture, fun, imaginations, entertainments, desire and nostalgia (Berridge, 2007). As Jackson (2005) suggested, the experiential concept would enable us to have a holistic view of customer experience. Only from this experiential view, the event organizers can understand the totality of what really comes about a celebration that form visitors’ event experience and consequently their satisfactions and loyalty. As suggested by Cole and Illum (2006), event organizers ought to understand visitors’ experience in order to ensure the visitors’ satisfaction, and thus the future of the festival. Thus, event organizers are urged to organize, manage, market, and stage their event in form of experiences that are special and unforgettable in order to yield value to the event attendees (Lee, Lee, Lee & Babin, 2007).

Despite the marvelous progress of the event sector within the tourism industry around the globe, there is still a relatively insufficient number of studies and knowledge collection regarding experiential aspect of festivals and special events. Like any other tourism products, the festivals and special events depend upon their success in achieving their predetermined objectives for their continued staging while sustaining financial and non-financial supports, consumer loyalty, and positive reputation. Practically, it would be a great advantage to the event organizers to continuously examining their visitors’ event experience in order to maintain event sustainability.

RESEARCH PROBLEM

Conventionally, service producers would examine success of a product based on physical aspects of a products and services such as quality, functionality, accessibility, delivery, and price (Mascarenhas, Kesavan & Bernacchi, 2006). However, the traditional approach of staging events concentrating only on physical aspects of products and services is no longer of importance and arguably realistic these days of intense business rivalry and heighten consumer demands (Mascarenhas et al., 2006). Instead, modern-day event producers need to view their production in terms of the creation of the overall outcome created by event products and services. As Carbone (1998) raised the issue of “management myopia” where businesses’ tendency to view themselves exclusively in a product and service businesses, and thus failed to take a broader aspect created by the products and services which is a total customer experience. Event organizers that focus only on the conventional marketing mixes can no longer able to address the needs of events or services (Berridge, 2007).

In addition, event producers might be overlooking the importance of emotional and value aspects if they are too intent on physical aspects of the product, (Mascarenhas et al., 2006). In view of the above problem, Carbone (1998) had suggested on the need for companies to embrace the total experience management methodologies beyond tangible attributes of products and services by managing their positive subconscious sensory and emotional elements. Event organizers need to realize the consequences related to emotional and value aspects that might be created out of the event. Subsequently, special events that fail to create engaging and memorable experiences for their customers might found them to be inadequate to create significant differentiation and sustain customer loyalty in today’s more challenging than ever business arena. This is true especially because festivals and special events are one the most important experiential products that based heavily on its ability to produce ranges of sensations, imaginations, emotions and involvement within the consumers. Hence, only from the experiential view the event organizers can understand the totality of what really comes about a celebration that form visitors’ event experience and consequently their satisfactions and loyalty.

The experiential paradigm was notably discussed by Pine and Gilmore (1998) in their writing on the experiential economy, which advocates providing special experiences and unforgettable memories. In general, experiences are viewed as important in everyday consumption of goods and services. However, it is different from just buying something. This is because an experience necessitates more involvement and addresses the psychic needs of a consumer (O’Sullivan & Spangler, 1999). In other words, key distinction differentiates experiences from goods, services and commodities is that experiences are memorable and engaging consumers in a personal way (Berridge, 2007). Similarly, Pine and Gilmore (1998) maintained that experiences are different from mere goods and services. Succinctly, experiences are defined as “memorable events that engage customers in inherently personal ways” (Pine & Gilmore, 2000, pp. 18). Since the
and examination on the broader picture created by the festivals and special events by considering the loyalty towards the events. Hence, this study attempts to take a step towards an improved understanding of future events. In the long run, this can help to develop continuous visitors’ brand awareness and statistic of events may have not been systematically documented and properly collected.

method used to get the data may also be questionable and not reliable. As Getz (1991) pointed out, the high tendency of event organizers to overstate the number of attendance of their events. Moreover, the decisions of the government or politicians. Getz (1991) pointed out the fact that attendance of events is purposely to achieve certain objectives, for example to attract sponsorships and to influence certain achievements (sales) as proof of their event’s success are somewhat subjective and might even be exaggerative. Thus, steps need to be taken to further examine and capitalize this contemporary approach into the event setting to start capitalizing the new paradigm, creating favorable visitor experiences as to differentiate themselves from competitions. As explained earlier, it would be a huge advantage to the event organizers to have an understanding on a broader view of their event from the personal viewpoint of their visitors, and examine the success of their event based on such framework. Top of that, the assessment framework need not only focusing on the physical products and services but also take account of emotional and value aspects, and affects of social interactions which might be very important aspects in a celebration of a festival or special event.

Clearly, a systematic and reliable assessment mechanism that able to measure achievement of an event via visitors’ personal event experiences is needed to enhance organizers’ decision making. This is because the assessment mechanism that based on experiential paradigm is unsubstantiated. However, such assessment framework that based on experiential paradigm is unsubstantiated. Clearly, a systematic and reliable assessment mechanism that able to measure achievement of an event via visitors’ personal event experiences is needed to enhance organizers’ decision making. This is because the assessment mechanism that based on experiential paradigm is unsubstantiated. However, such assessment framework that based on experiential paradigm is unsubstantiated. Clearly, a systematic and reliable assessment mechanism that able to measure achievement of an event via visitors’ personal event experiences is needed to enhance organizers’ decision making. This is because the assessment mechanism that based on experiential paradigm is unsubstantiated. However, such assessment framework that based on experiential paradigm is unsubstantiated. Clearly, a systematic and reliable assessment mechanism that able to measure achievement of an event via visitors’ personal event experiences is needed to enhance organizers’ decision making. This is because the assessment mechanism that based on experiential paradigm is unsubstantiated. However, such assessment framework that based on experiential paradigm is unsubstantiated. Clearly, a systematic and reliable assessment mechanism that able to measure achievement of an event via visitors’ personal event experiences is needed to enhance organizers’ decision making. This is because the assessment mechanism that based on experiential paradigm is unsubstantiated.
The primary objective of this paper is to present a conceptual framework based on experiential paradigm that able to systematically assess visitors’ personal event experiences in context of festival or special event. Specifically, the framework enables examination of relationships of several important variables in event settings namely, event features, social interactions, visitor’s event experience, visitor’s overall satisfaction, future intentions, and level of experience. In addition, development and proposal of measurement items and scale of the variables of the framework were also presented later in this paper.

**PROPOSED CONCEPTUAL FRAMEWORK**

The present research is using Attribution theory to develop an attribution model of visitor event experience. Essentially, attribution theory is said to be helpful in explaining post-consumers’ purchase behavior (Erevelles, Srinivasan, & Rangel, 2003). According to attribution theory, it is assumed that consumers would actively process information to look for reasons that explain why certain product outcome turned the way it did (Folkes, 1988). In this case, the attribution theory asserts that event visitors would assign causality (blame or credit) to their event experience, satisfaction and future intentions of an event on the basis of event products and services provided by the organizers (assumes to be internal attribution of the event from perspective of the event organizer) and social interactions with various people the visitors meet on-site of event (assumes to be external attribution or situational factors to the event from perspective of the event organizer). In addition, the attribution theory posits that causal inferences perceived by the visitors made from personal analysis of behavioral facts and figures would influence their actions/consequences regardless of accuracy, quick form and biased attributions (Brehm & Kassin, 1996). Moreover, the attribution theory suggested that visitor’s causal attributions (i.e. event features, social interaction) would influence his or her psychological consequences (i.e. visitor event experience, overall satisfaction), which in turn induces his or her behavioral consequence (i.e. future intentions) (Cort, Griffith & White, 2007).

Most importantly, this study is taking initiative to build a conceptual framework based on experiential paradigm, and which can be used as an assessment mechanism to measure visitors’ event experience founded on experience realms by Pine and Gilmore (1998) in the context of festival and special event (refer to Figure 1). For the purpose of this study, visitor event experience would be viewed as “the total immersive outcome that combines all the various elements that are experienced, as individuals and as a collective” (Berridge, 2007, pp.169). More specifically, present framework posits visitor event experience to take a role as a mediator mediating between two independent variables (event features and social interactions) and post-consumption variables, overall satisfaction and future intentions. Oh et al. (2007) had established that the experience realms had implications for customer satisfaction among other variables, arousal, memories and overall quality. Thus, they had suggested that further research on the relationship of the experience dimensions with customer satisfaction is deemed to be a valuable contribution to the tourism literature. Meanwhile, Jeong, Fiore, Niehm and Lorenz (2009) had revealed that online product presentation features on an apparel web site were positively affecting the experiences realms.

**Figure 1 Proposed Attribution Model of Visitor Event Experience**
Hence, visitor event experience would be based on the framework of experience realms proposed by Pine and Gilmore (1998). Oh et al. (2007) demonstrated the framework to have strong internal validity and strong structural consistencies. According to Pine and Gilmore (1998), there are four dimensions (or realms) of experience engaging customers. Depending on level and form of customer involvement in an event, a visitor’s experience may be positioned in entertainment, educational, esthetic (sic), or escapist realm. Still, the four experience realms are suggested to be compatible with each other and may commingle with each other to form a unique and desirable experience for each individual (Pine & Gilmore, 1999). In other words, each experience realms may contribute to consumers’ consumption experience (Oh et al., 2007). In addition to the four experience realms, another realm is added to the concept of visitor event experience. Since, the other four realms are quite general and applicable to any type of consumption experience, a special realm, which termed as festivity is included to exclusively illustrate the visitor’s personal experience at a festival or special event.

A complete understanding of visitor experiences at events cannot be essentially achieved without studying its connection to post-consumption evaluations, overall satisfaction and future intentions. Essentially, customer satisfaction in this study is defined as “the summary psychological state arising immediately from consumption experience” (Oh et al., 2007). Tourism researchers including Pizam and Ellis (1999) continuously described satisfaction as the end state of fulfillment resulting from the experience of consumption. In addition, Daengbuppha, Hemmington and Wilkes (2006) had established various processes involved in the on-site experience consumption. Furthermore, they depicted the on-site experience as mediation process between pre-consumption experience, trip motivation, and post consumption experience, trip satisfaction evaluation (Daengbuppha et al, 2006).

Many researchers agree that post-consumption variables such as customer satisfaction and future intentions are related to business success. Moreover, numerous researchers agreed that the construct of customer satisfaction is important in theory and also in practice mainly because of its relationship to desirable future behavioral outcomes – commonly assume to be intentions to repurchase and to recommend. Hence in this study, the future intentions pertain to visitor’s intentions to recommend the event to other people and intention to re-visit the event in the future.

Included in the framework, are the two independent variables identified as very essential features onsite of events. In this study, event features would refer to product attributes of special event, which are primarily provided and controlled by primary event organizers such as activities, information sources, and comfort amenities. According to Crompton and Love (1995), Childress and Crompton (1997) and Baker and Crompton (2000), there are four basic dimensions of product attributes in events – (a) Generic features commonly characterized most festivals; (b) Specific entertainment features that entail to a specific festival; (c) Information sources comprised of printed program, street maps and information booths; and (d) Comfort amenities related to overall comfort of event visitors.

Meanwhile, social interactions would refer to communications and dealings between visitors and various people on-site of event, in terms of groups of people the visitor interact with. Here, the particular interest is in interactions where one person’s action influences another person’s action. It is very important to recognize the reality that the whole operation of staging or producing an event does not only involve the event organizer, but produced by mix of contributions from a number of service providers such as exhibitors, vendors/salespeople, entertainers/performers, volunteers, and even fellow event attendees themselves. Thus, it is somewhat inefficient in the case of festival and special event, to only examine influence of event organizer or staff like most other completed researches in order to understand the total offering of event experience. It is the unique nature of festivals and special events to engage people in the celebrations. Consequently, social interactions on-site of festival or event that essentially comprised of various types of service providers and even other fellow event patrons might as well be important to be included as part of parcel of visitors’ total event experience.

Other than the above-mentioned variables, this study would also investigate the role of a moderator, visitors’ level of experience on the relationships between visitor event experience and visit satisfaction. Here, visit visitation would be defined as visitors’ past experiences to the event in terms of number of trip made. Essentially, past visit experience to an event may affect how visitors perceive, evaluate and act in an event. As mentioned by Carlin (1999), visitors’ prior visit experiences should always be considered when designing an event because previous researches has demonstrated it to be an important factor that act as a reference to the visitors. Consumers’ familiarity of a product or service is found to have impacts on consumers’ preference (Oakes, 2000). Accordingly, a consumer is posited to have higher...
preference for a certain product or service that he or she is familiar with and have experienced it before (Oakes, 2000). Yoon (2010) have demonstrated that level of customers’ experience moderates the relationships between antecedents and customer satisfaction with online banking.

CONCLUSION

Ultimately, Mascarenhas et al. (2006) had claimed that the concept of customer experience is today’s new differentiator. More and more companies have started focusing not only on traditional product offering issues concentrating only on physical aspects of products and services, but also on creating favorable customer experiences to differentiate themselves. Thus said these experiences would have a strong impact on customers’ memory and perceptions. Accordingly, the ‘experiential’ viewpoint has gradually gained attentions from both academics and practitioners alike. Nonetheless, assessment framework that based on experiential paradigm is still unsubstantiated within the context of festivals and special events.

This study attempts to add to this body of knowledge by introducing a much richer and deeper model of event outcome created by a festival or special event, which is experienced by the event visitors based on the experiential paradigm. With he model, it is hope that the event organizers are able to understand and thus assess the totality of what really comes about a celebration that form visitors’ event experience and consequently their satisfactions and loyalty. Result from this study would help both researchers and organizers toward better understanding and resolved uncertainty on the concept of event experience and its strategies toward ensuring success and sustaining future growth of the events.

The concept of experience necessitates more involvement and addresses the psychic needs of a consumer (O’Sullivan & Spangler, 1999). Important distinction that differentiates experiences from goods, services and commodities is that experiences are memorable and engaging consumers in a personal way (Berridge, 2007). In the final analysis, the distinct advantage of viewing and examining festivals and special events via event experiential model over those of service quality models or satisfaction models is that the focus here is on the memorable experience experienced by the visitors (Oh et al., 2007). What’s more, present research focuses more on the importance of examining visitor’s personal experience from his or her own perception than organizer’s assessment.

This study proposed an elaborate conceptual framework that includes a key variable, visitor event experience that is founded on five experience realms, which are education, entertainment, esthetics, escapism and festivity. Also included in the framework, are two causal factors, event features and social interactions onsite of event, two post-consumption variables, visitor’s overall satisfaction and future intentions, and a moderator, visitor’s level of experience.

REFERENCES


