



The 2nd International Business Management Research Conference (IBMRC)

IBMIRC

16th November, 2012

at Faculty of Business Administration, Chiang Mai University, Chiang Mai, THAILAND



Message From Editor-in-Chief

Every year, our Conference brings together academicians and researchers in the areas of business management and other related areas in order to disseminate knowledge and exchanged the knowledge between academicians, researchers, as well as Master's and Doctorate students who are extending their studies on the innovative knowledge.

For year 2012, we are proud to present the publication of The 5th and 2nd volume of BMRC and IBMRC Conference Proceeding which had produced by the Conference Publications Committee of Faculty of Business Administration, Chiang Mai University. All BMRC and IBMRC Conference Proceeding articles are subject to a stringent process of review by at least two members of our Editorial Advisory Board. Manuscripts are carefully accepted for possible inclusion in the Proceedings before being considered for final publication.

For the 5th BMRC and 2nd IBMRC in the year 2012, the Faculty of Business Administration at Chiang Mai University proudly organized the events on November 16, 2012. The events had brought together around 100 delegates consisting of academic experts, businessmen, graduate students and representatives from both government agencies as well as private organizations. The conference encompasses manuscripts including three themes which are: 1) Logistics, Information Technology and Management, 2) Financial and Accounting, and 3) Hospitality and Marketing.

We would like to express our sincere thanks to our stakeholders and the editorial boards as well as especially our delegates.

We would like to thank all the contributing authors for providing such a rich variety of outstanding research articles on a broad range of exciting topics.

Narumon Kimpakorn, Ph.D.

Editor-in-Chief

BMRC & IBMRC Conference Editorial Broads

Principle & Rationale

The vision of the faculty of business administration at Chiang Mai University is to focus on enhancing the academic knowledge of business management. The faculty encourages the creation and development of ongoing research to academic scholars and students. This would lead to the expansion of new knowledge in managing a business which can provide a benefit to the profession itself, the local community, and industries nationwide. The business administration conference is one of the methods in disseminating knowledge by the Board of Administration.

Chiang Mai University has heeded to the importance of endorsing the development and propagation of knowledge. The effort is demonstrated in producing a channel to have participants from the private business sector, government institutions, and academic research centers to come together and exchange their experiences and ideas as well as collaborate on upholding the profession of business management. Under the provision of Chiang Mai University, the business management research conference has continued on from 2008. The conference has received accolades from the participants of the seminar. Therefore, it is the aim of the institution to strengthen the academic administration line in providing leadership and knowledge in business management. Moreover, the purpose of creating this forum is to disseminate knowledge in the business management. This is to stimulate a continuation of ideas being exchanged between academics, researchers, and students who are extending their studies on the master's and doctorate in business management and other related fields. The Faculty of Business Administration at Chiang Mai University is proud to hold the second international annual conference in "International Business Management Research" which will be held on November 16th, 2012.

Objectives

- To promote the academic center's view of business management.
- To promote the development of research which will lead to a result in new knowledge and on the application of knowledge management as a benefit for business management in the community and the nation level.
- To Create opportunity to exchange knowledge, vision and experience in developing research in business management.
- To impart benefit of research and development of business continuity management.
- To provide a forum to publish academic works in business management.

The area of manuscript

- 1) Marketing management research
- 2) Financial management research
- 3) Organizational management research
- 4) Human resource management research
- 5) Accounting research
- 6) Consumer behavior management research
- 7) Entrepreneurship development research
- 8) Information technology and management research
- 9) Organizational communication and marketing communication research
- 10) Corporate social responsibility research
- 11) Other related research topics

Acceptance Manuscript

Individuals who are interested in taking part in the conference can submit a completed article which will be reviewed and selected by 2/3 experts to decide if the work meets with the conference requirements. Upon acceptance authors of the article will be asked to attend the forum to give a presentation. The presentation can be done in two ways.

The awarding of the “Best Paper Award” is in accord with the criteria and discretion of the organizing committee. Papers will only be considered in the proposed meeting room. In addition, the owner of manuscript has a right to request on prohibiting their work to be published in the Journal of Research and Conference Management (ISSN1906-7135), published by the Faculty of Business Administration, Chiang Mai University. However, the request will be fulfilled only if the editor board accept the manuscript



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27. Dr.Pichayalak Pichayakul Chiang Mai University, Thailand





The 2nd International Business Management Research Conference
Venue: Faculty of Business Administration, Chiang Mai University,
Chiang Mai, Thailand

Friday 16th, November 2012

Schedule

| | |
|------------------|---|
| 8.30–9.00 am. | Registration (Convention Hall at 6 th Floor) (Upload powerpoint file for presentation at registration desk) |
| 9.00–9.15 am. | Opening Ceremony by President/Representative of Chiang Mai University (Convention Hall at 6 th Floor) |
| 9.15–10.30 am. | Special seminar on topic “Branding Issues in Asia Context” by Associate Professor Dr.Gerard Tocquer, Vice Dean International Program College of Management Mahidol University and Chair of the General Management Program in the College of Management at Mahidol University (Convention Hall at 6 th Floor) |
| 10.30– 10.45 am. | Coffee–Break (Convention Hall at 6 th Floor) |
| 10.45–12.30 am. | Seminar presentation – Session 1 (presentation 15 min. , Q&A 5 min./paper) – Room No.2502 (5 th Floor) – Room No.2503(5 th Floor) |
| 12.30 –13.30 pm. | Lunch (Convention Hall at 6 th Floor) |
| 13.30 –14.30 pm. | Seminar presentation – Session 2 |
| 14.30–14.45 pm. | Coffee–Break (in front of seminar room) |
| 14.45–16.00 pm. | Seminar presentation – Session 3 |





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International Business Management Research Conference





THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY, CORPORATE GOVERNANCE AND FINANCIAL DECISION ON CORPORATE VALUE

Agus Purwanto*

ABSTRACT

This study tested the effect of disclosure of corporate social responsibility, corporate governance practices, and financial decisions on the value of companies listed on the Stock Exchange Indonesia, using data 93 public companies listed on the Indonesia Stock Exchange using the data in 2009. To perform the analysis, this study uses multiple regression analysis techniques.

The results showed that the influence of corporate social responsibility of companies: disclosure of environment, energy, labor safety, production, and the community involvement, it can be concluded that only the production variables significantly influence to the corporate value. The results showed that the influence of corporate governance practices which consist of: independent commissioner board, audit committee and external auditor reputation, it can be concluded that only independent commissioner board variable that affect to the corporate value. The results showed that the influence of financial decisions: investment decisions, financing decisions and dividend decisions, it can be concluded that only investment decisions variables that affect to the corporate value. While the financing decision variables, and the dividend decision does not affect to the corporate value.

Keywords : corporate social responsibility, corporate governance, financial decisions, investment decision, financing decision, dividend decision, corporate value.

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INTRODUCTION

The accountability of the financial statements may reflect a reasonable company to keep the information relevant to meet the needs of users of financial statements on the decision making. Disclosure of social and economic environment in the annual report to reflect the level of accountability, responsibility and corporate transparency to investors and other stakeholders. Disclosures aim to establish good relationships and effective communication between the company with the public and other stakeholders about how the company has been integrating corporate social responsibility (CSR) and social environment in every aspect of company operations (Darwin, 2007). Consistent application of CSR is part an effort to maximize the value of the company, because the CSR is the company's commitment to behave ethically and contribute to sustainability of economy development while promote to quality improvement of life of employees and their families, local communities, the wider community (Ray Hope, 2006).

The existence of the failure of some companies and the emergence of financial malpractice cases as a result of poor corporate governance practices. Since the financial crisis in various countries in the years 1997 – 1998 which preceded the crisis in Thailand, Japan, Korea, Indonesia, Malaysia, Hong Kong and Singapore, which eventually turned into the Asian crisis was seen as due to weak corporate governance practices. Corporate governance eventually become important issues in Indonesia, which suffered the most severe crisis, and still continues to this day. Good corporate governance is a sound corporate principles that need to be applied in the management of the company that carried out solely for the sake of keeping the company's interests in order to achieve the aims and objectives of the company.

The company's goal is to increase corporate value which reflected the company's stock price (Fama, 1978; Wright and Ferris, 1997; Walker, 2000). The higher the value of the company the greater the prosperity that will be received by the owner of the company. Stock return is a reflection of the company's ability to generate profits by using resources efficiently. Thus the higher the profits the company the higher the value the company. The company's goal can be achieved with the precise implementation of financial decisions and financial decision taken will have an impact on firm value (Jensen and Smith 1984, Fama and French 1998). The decision includes the company's financial investment decisions, financing decisions and dividend decision. These three financial decisions will affect or determine the value of the company. Optimal decision of the three decisions that will maximize the financial value of the company.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Agent theory is a theory that is widely used in various research studies in the realm of economics, both management science, behavioral, financial and public administration. Agency relationship is a contract in which one or more people (principle) binds to another person (agent) to perform services on their will, by delegating some decision making authority to the agent. Application of agency theory can be realized in the employment contract that will govern the proportion of the rights and obligations of each party to take into account the overall benefits. Employment contract is a set of rules governing profit-sharing mechanism, either in the form of benefits and risks approved by the principle and agent. Employment contract would be optimal if the contract can be fairness, that is able to balance between the interests of principle and agent.

Corporate Value

The company's goal is to maximize shareholder value (Suharli, 2006). Shareholder value would increase if the value of the company is also increasing which is characterized by a high rate of investment return to shareholders. Literally the value of the company itself was observed through shareholder wealth that can be measured through the company's stock price in the stock market. Stock prices can be used as a proxy for market value if the company has been qualified as informational efficient. Nevertheless, stock prices in the capital market is formed by appointment between supply and demand of investors, so the share price is a fair price that can be used as a proxy for corporate value. There are some basic concepts of assessment, namely: 1) the value determined for a certain period of time or, 2) the value should be determined on a reasonable price, 3) the assessment is not affected by a particular group of buyers.

Management is always trying to maximize the expected incentives, meaning that management generally has a complete and accurate information than the parties outside the company (investors) about the factors that affect corporate value.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a mechanism for an organization to voluntarily integrate social and environmental concerns into its operations and its interactions with stakeholders, which exceeds the organization's responsibilities in law (Darwin, 2004). Corporate social responsibility is expressed in the report called sustainability reporting. Sustainability Reporting is reporting on economic policy, environmental and social, influence and performance of the organization and its products in the context of sustainable development. Sustainability Reporting includes reporting on economic, environmental and social influences on organizational performance (ACCA, 2004). Responsibility is an obligation of a company that not only provide goods and services both for society and also in maintaining the quality of the physical and social environment contributes positively to the welfare of the communities in which they are located.

Socially responsible companies when management has a vision for the performance of its operations, not just put on the earnings / profit company but also in carrying out its activities, the environment around it. The Company does not regard profit as the only goal of the company but there are other goals that concern the company to the environment, because companies have a broader responsibility than just looking for a profit for shareholders (Gray et al., 1987).

Disclosure of corporate social responsibility is very necessary, because after the company acquired the added value of the contribution of communities around the company, including the use of social resources.

Corporate Governance

Corporate governance is the system the way an organization is managed and controlled. System of governance, among others, regulate the decision-making mechanism at the top level of the organization. Corporate governance regulates the relationship between commissioner, and corporate management in order to place checks and balances in the management of the organization. Encourage good corporate governance is more democratic management of the organization (as it involves the participation of many interests), more accountable (because there is a system that will hold accountable for any acts), and more transparent. La Porta et al. (1999) showed that in many countries, corporate governance is an important factor in the development of financial markets and corporate value.

Corporate control mechanisms that contribute to the corporate governance practices include: the com-

position of an independent commissioner board, the audit committee, and the quality / reputation of the external auditors, Bachtiar Veronica (2005). According to the World Bank (1999) mechanism (control), among others, is the company's internal control conducted by the board of commissioners in this case the composition of the board of commissioners. Board of Commissioners is believed to have an important role in corporate management, particularly in monitoring top management (Fama and Jansen, 1983 as stated by Pranata, 2002). Beasley (1996) investigated the relationship between the proportion of the board of commissioners and deception (fraud) financial statements, and can prove that the companies who commit fraud have a percentage of external board which is lower than the companies that do not commit fraud. Financial Decisions.

The company's goal is to increase corporate value, which is reflected in its stock price (Fama, 1978; Wright and Ferris, 1997; Walker, 2000). The company's goal can be achieved through the implementation of financial decisions that impact on firm value (Jensen and Smith, 1984; Fama and French, 1998). Financial decisions consist of: investment decisions, financing decisions and dividend decisions. Investment capital is one aspect of investment decisions in addition to the determination of the composition of assets. Capital allocation decisions into investment proposals whose benefits will be realized in the future should be carefully considered. Investment decisions is important because in order to achieve corporate objectives will only be generated through the activities of investment companies (Modigliani and Miller, 1958) which introduced the investment opportunity set (IOS).

Financing decision is a decision relevant to the achievement of corporate goals (Modigliani and Miller, 1963). The decision to concentrate funding on the right side of the balance sheet and includes two main components. First, the combination of short-term debt and long-term debt is appropriate. Second, to select any source of funding both short and long term. Dividend decisions concerning the use of profits to be the rights of shareholders. Basically, these profits can be distributed as dividends or retained for reinvestment. Bird in hand theory of Lintner (1962), Gordon (1963), and Bhattacharya (1979) explains that investors prefer high dividends because the dividends received like a bird in hand that the risk is smaller than the dividends that are not shared. Furthermore, Rozeff (1982) and Easterbrook (1984) show more and more dividends paid by companies who want the greater the possibility of reducing retained earnings.

Based on the theoretical framework and the development of the hypothesis then the hypothesis of this study are as follows:

- H1, Disclosure of corporate social responsibility effect on the corporate value.
- H2, Corporate governance mechanisms: (independent board, audit committee, external auditor reputation) affect on the corporate value.
- H3, Financial decisions (investment decisions, financing decisions, dividend decisions) affect on corporate value.

RESEARCH METHODS

Types and sources of data required this study uses secondary data. Necessary data in this study is the data relating to the disclosure of corporate social responsibility, corporate governance mechanism, the data the company's financial decisions, and data on value of the company, which can be obtained from the company's annual report, and the Capital Market Reference Center for Indonesian Stock Exchange, as well as Wibe Site (www.idx.co.id) of Indonesia Stock Exchange (IDX).

Independent Variables

Corporate Social Responsibility Variables

Corporate Social Responsibility consisting of: the disclosure of environmental, energy, labor safety, products, and community involvement. Measurement of this variable by using the index disclosure of corporate social responsibility, which consists of aspects: Environment includes disclosure of: the control of pollution, prevention or repair of damage to the environment, nature conservation, and other disclosures relating to the environment. Energy include disclosure of: the company's energy policy, energy efficiency, energy conservation, energy efficiency, etc.. Labor Safety include disclosures about: the risk in the work environment, labor safety both physically and mentally, work accident statistics, safety awards, safety committees, etc.. Products include disclosure of: product development information, research and product development, standards of safety / security products, product quality, product certification, pollution abatement, etc.. Community involvement includes disclosure of: the contribution and support of community activities / education / arts, sponsorship of community health activities, development of local industry, scholarship programs, etc.

Corporate Governance Variables

Corporate governance mechanism comprising: an independent commissioner board, audit committee, external auditor's reputation. Independent commissioner board is measured by using instruments of the percentage of the overall independent commissioners by commissioners. Audit committee is a committee that serves companies in the company's internal control. Audit Committee Variables measured using the instrument number in the company's audit committee members. Reputation or quality of external auditors who used an external audit firm reputation variables were measured with the use of the company towards a reputable external auditor (Big 4) during the observation period.

Financial Decision Variables

Financial decisions consist of investment decisions, financing decisions, dividend decisions. Investment decision is a decision in the proposed allocation of capital to invest, so the company can increase the growth rate of firms (growth firms). Investment decisions will be proxied with the investment opportunity set (IOS) which is a composite measurement result of: market to book assets, market to book equity, price earnings ratio, ratio of total capital expenditure to book total assets, to determine the level of corporate growth (growth firms), Prasetyo Ady, (2000). Financing decisions are the company's decision to obtain an economical source of funding and corporate funding decisions efisien. Variabel measured by debt to equity ratio, ie the ratio of total debt divided by total equity, Prasetyo Ady, (2000). Debt to equity ratio is measured by the following formula: Debt to equity ratio = total debt divided by total equity. Dividend decisions are corporate decisions regarding dividend payment policy. Firm's dividend decision variables measured by the dividend payout ratio, which is the proportion of dividend per share divided by earnings per share, Prasetyo Ady, (2000). Dividend payout ratio is measured by the following formula: Dividend payout ratio = dividends per share divided by earnings per share.

Dependent Variables : Corporate Value (Tobin's Q).

Corporate value is the result of appraisal firms with (Tobin's Q) value firms. Variable value of the company using the value of Tobin's Q which is a proxy of the ratio of equity market value plus total debt to equity book value plus total debt, Himmelberg et al., (1999), Itturiaga and Sanz (2000), Makaryanawati (2002), Suranta and

Machfoedz (2003), or can be formulated as follows:

$$Q = (EMV + D) / (EBV + D)$$

where:

| | |
|-----|-----------------------|
| Q | = corporate value |
| EMV | = equity market value |
| EBV | = equity book value |
| D | = total debt |

Method of Analysis

Methods of analysis of this study using multiple regression analysis with the following equation:

$$\text{FIRMV} = \delta_0 + \delta_1\text{LING} + \delta_2\text{ENG} + \delta_3\text{TNG} + \delta_4\text{PROD} + \delta_5\text{MSY} + \delta_6\text{BOARD} + \delta_7\text{AUDCOM} + \delta_8\text{AUDREP} + \delta_9\text{INV} + \delta_{10}\text{FIN} + \delta_{11}\text{DEV}$$

where:

| | | | |
|--------|----------------------------------|--------|-------------------------|
| FIRMV | : Corporate Value | LING | : Environment |
| ENG | : Energy | TNG | : Labor safety |
| PROD | : Production | MSY | : Community involvement |
| BOARD | : Independent commissioner board | AUDCOM | : Audit committee |
| AUDREP | : Reputation external auditor | INV | : Investment decision |
| FIN | : Financing decision | DEV | : Dividend decision |

RESULTS

The population used in this study were non-financial companies listed on the Indonesia Stock Exchange (BEI) in 2009. Based on data obtained from the Indonesian Capital Market Directory (ICMD) 2009, non-financial companies listed on the Indonesia Stock Exchange in 2009 was some 327 companies that are divided into 12 industry sectors namely Agriculture, Forestry and Fishing, Animal Feed and husbandry, Mining and Mining Services, Constructions, Manufacturing, Transportation Services, Telecommunication, Whole Sale and Retail Trade, Real Estate and Property, Hotel and Travel Services, Holding and Other Investment Companies, and Others.

In this research, sample selection is done by purposive sampling method using criteria that have been determined. Samples selected for companies that disclose corporate social responsibility in the annual report company in 2009. Thus obtained the number of samples in this study is 93 companies. Corporate social responsibility disclosure in annual reports is measured by content analysis using the 77 disclosure items consisting of the theme of environment, energy, safety labor, and products, and community involvement. Data index of social responsibility disclosure in annual reports by non-financial companies in Indonesia in 2009. Here is presents the disclosure of corporate social responsibility based on the industrial sector as seen from the number and percentage of disclosures made by the company. The industrial sector who perform social responsibility disclosure is at most industrial sectors of Real Estate and Property in the amount of 337 disclosure disclosure or 23.72% of total disclosure. This was followed by the industrial sector Whole Sale and Retail Trade is the number of disclosures of 174 disclosure or 12.24%

of total disclosure. While the industrial sector who perform at least disclosure of social responsibility is a sector- Consumer Goods Manufacturing industry is the number of disclosures is 10 disclosure or 0.70% of total disclosure.

The theme of social responsibility disclosure of the most widely disclosed by the company are the themes of labour, the disclosure of which is the amount of 831 disclosure or 58.48% of total disclosure. Then the theme of the products and the number of disclosures by 235 disclosure or 16.54% of total disclosure. While the theme of social responsibility disclosure at least expressed is the theme of energy, which is the amount of disclosure is only 20 disclosure or 1.41% of total disclosure, and only disclosed by 12 companies or 12.90% of the total company.

Descriptive statistics provide a picture or description of the data seen from the minimum value, maximum value, the average (mean), and standard deviation. Here are the results of the study variables descriptive statistical tests with SPSS 16.0:

Table1 Variables Descriptive Statistics Research

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|----|---------|---------|----------|----------------|
| LING | 93 | .0000 | .6923 | .095120 | .1367593 |
| ENG | 93 | .0000 | .5714 | .030722 | .0914476 |
| TNG | 93 | .1081 | .4865 | .266492 | .0801545 |
| PROD | 93 | .0000 | .8182 | .229717 | .1364238 |
| MSY | 93 | .0000 | .6667 | .160096 | .1231000 |
| CSR | 93 | .0519 | .4026 | .198436 | .0721402 |
| BOARD | 93 | .2500 | .6667 | .402486 | .0913205 |
| AUDCOM | 93 | 2.0000 | 4.0000 | 3.010753 | .2756267 |
| AUDREP | 93 | .0000 | 1.0000 | .430108 | .4977744 |
| INV | 93 | .9791 | 4.0958 | 1.070484 | .3228684 |
| FIN | 93 | .0036 | 3.5022 | 1.126296 | .8093372 |
| DEV | 93 | .0000 | 52.7500 | 7.472161 | 14.1663016 |
| FIRMV | 93 | .2043 | 5.5012 | 1.289373 | .8079334 |
| Valid N (listwise) | 93 | | | | |

Sources : Secondary Data Processed, 2011

Analysis of the data used in this study is the multiple regression model. Data analysis was performed using SPSS 16.00 with the following results Table 2.

Table 2 : Regression Analysis Results

| Coefficients ^a | | | | | | |
|---------------------------|------------|-----------------------------|------------|---------------------------|--------|------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .989 | .851 | | 1.162 | .248 |
| | LING | .106 | .631 | .018 | .167 | .867 |
| | ENG | .707 | .916 | .080 | .772 | .442 |
| | TNG | .774 | .967 | .077 | .800 | .426 |
| | PROD | .875 | .520 | .148 | 1.684 | .096 |
| | MSY | .082 | .629 | .013 | .131 | .896 |
| | BOARD | 1.391 | .764 | .157 | 1.820 | .072 |
| | AUDCOM | .327 | .249 | .111 | 1.310 | .194 |
| | AUDREP | .043 | .161 | .026 | .265 | .792 |
| | INV | 1.473 | .216 | .589 | 6.835 | .000 |
| | FIN | -.118 | .083 | -.118 | -1.419 | .160 |
| | DEV | .003 | .006 | .055 | .562 | .576 |

a. Dependent Variable:
FIRMV

The Affect of Corporate Social Responsibility on Corporate Values.

Based on Table 2 indicate that the variables of corporate social responsibility consisting of: a variable environment, energy, labor, production and social aspects, only the production variables are significant influence on the value of a company with a significance level $\alpha = 0.10$. This indicates that the disclosures in the financial statements of the company's production has a positive effect on corporate value, while variable disclosure of environmental, energy, labor and community activities disclosure had no effect on corporate value.

The results of this study also indicated by the index of social responsibility disclosure by companies that tend to be low. With the average value of social responsibility disclosure of 0.198436 or about 19.84% disclosure of social responsibility undertaken by the company, it is known that companies that make disclosure more than the average value is a sample of 36 companies from 92 companies. In addition, based on social responsibility disclosure index data, it is known that the theme of community involvement disclosure, its of the items most widely disclosed the company is a gift donated by the company or activities that are charitable. Environment and Energy as well as themes that tend to be low-disclosed by the company. Another thing that needs to be a concern is there are companies that do the disclosure is limited to products, human resources, and / or financial condition of the company, although it is known that the company's core business is closely related to the utilization of the environment. So that it can be stated that there are still companies that do the least social responsibility disclosure in annual reports company.

The Effect of Corporate Governance on Corporate Value

Based on Table 2 indicate that corporate governance variables consisting of: a variable independent commissioners, audit committee and external auditor's reputation, only variable of independent commissioners who significantly influence the value of a company with a significance level $\alpha = 0.10$. Companies with good corporate governance will have more effective monitoring mechanism that will make the company's operations into efficient, thereby increasing the value of the company, (Mitton 2002, Fuerst 2000, La Porta et al. 1999, Rosenstein and Wyatt 1990, Yermack 1996, Mehran 1995, Core et al. 1999). Discussion of results of testing hypotheses about the influence of corporate governance practices on firm value can be explained as follows.

The Effect of Independent Commissioner Board on Corporate Value

Based on Table 2, the regression coefficients of independent variables commissioners of -0.157 which indicates that the independent commissioners variable has a positive effect on corporate value. This means that the higher of the independent commissioners variables then the value of these companies tend to be higher. Thus, this study gives an indication that an independent commissioner board influence on the value of the company. This condition indicates that the corporate value depends on the high or low of the independent commissioners. The average of the independent commissioners for 40.24% including both categories. This suggests that independent commissioners have been performing their duties and responsibilities as well, in order to enhance corporate value. This is caused by: 1) provision of independent commissioners minimum of 30% is sufficient to cause an independent commissioner may dominate the measures taken by the board of commissioners; 2) the integrity and capabilities of the independent commissioners, could dramatically increase the value of the company.

The results of this study support the results of research conducted Rosenstein and Wyatt (1990), stated that the board of independent commissioners positive effect on return perusahaan. However, results of this study do not support the study by Yermack (1996), and Mehran (1995) which states that there is no correlation between the independent board with firm value (firm value). Similarly, Hermalin and Weisbach (1991) and Bhagat and Black (1998) research results saw is no relationship between the board of independent commissioners with the performance of the company or the value of the company. Eisenberg, et al (1998) showed a negative correlation between the independent commissioner board with the company's performance

b) The Effect of the Audit Committee on Corporate Value

Based on Table 2, the regression coefficient of 0.111 for the audit committee variable that indicates that the audit committee variables have a positive influence on firm value. This means that the higher the value of audit committee variable then the value of the company's is likely to be higher, but the effect was not significant. Thus the results of this study indicate that the audit committee variable had no effect on the corporate value. This condition indicates that the value of the company is not dependent on high or low value of the audit committee variables. Value of 3.01 for the audit committee variables including good categories. This indicates that the audit committee have been performing their duties and functions as well, although not optimally can increase firm value. The findings of this study is consistent with research conducted by Mayangsari and Murtanto that audit committees affect the abnormal returns. Likewise Sugiarta (2004) found that there was no reaction of the market (market reaction) caused by the news of the establishment of audit committees. Indonesia Stock Exchange beginning July 20, 2001 has been set that all public companies must have an audit committee which is the implementation of good corporate governance. Members of the audit committee of at least three people from outside the company (independent), and one of the members must master the accounting and finance.

c) The Effect of the External Auditor Reputation on Corporate Value

Based on Table 2, the regression coefficient of variable external auditor reputation by 0.43 which indicates that the external auditor reputation variable has a positive effect on corporate value. This means that the higher the external auditor reputation variable then the value of these companies tend to be higher, but the effect was not significant. Thus the findings of this study indicate that the external auditor reputation variable has no effect on corporate value. This condition indicates that the value of the company is not dependent on high or low value of the external auditor reputation variable. The results of this study do not support previous studies: Jang and Lin (1993) found that the market prefers the quality of audit services is greater.

The Effect of Financial Decisions on Corporate Value

Based on Table 2 indicate that the financial decision variables consist of: variable investment decisions, financing decisions and dividend decisions, investment decisions are only variable that significantly affected the corporate with a significance level $\alpha = 0.10$. In accordance with the results of testing hypotheses about the influence of financial decisions: investment decisions, financing decisions and dividend decisions, state that the investment decision variables significantly influence the corporate. While the financing decision variables, and the dividend decision does not affect to corporate value. While, the financial decisions will made directly impact the company to increase corporate value, (Fama 1978, Modigliani and Miller 1963, Rozeff 1982, Charest 1978, Aharony and Swary, 1980, Mc Connell Muscarella nd, 1984, Trueman 1986, and Masulis 1980, Jensen and Smith, 1984, Fama and French 1998). Discussion of results of testing hypotheses about the effect of financial decisions on firm value can be explained as follows.

The affect of Investment Decision on Corporate Value.

Based on Table 2, the regression coefficient of 0.589 for the investment decision variables which indicate that the investment decision variables have a positive influence on firm value. This means that the higher the investment decisions variable then the value of the company's are likely to be higher. Thus, this study indicates that the investment decision variables significantly affect to the corporate value. This condition indicates that the corporate value depends on the high or low value of the investment decision variable. The higher the value of an investment company, then the corporate value has also increased. The findings in this study support the research conducted by: Fama (1976) says that firm value is determined solely by the investment decision. Meanwhile, according to Modigliani and Miller (1958) argues that in order to achieve corporate goal will only be generated through the company's investment activities. Smith and Watts (1992) argues that the component of firm value is the result of investment choices in the future is the IOS.

The affect of Financing Decisions on Corporate Value

Based on Table 2, the regression coefficient of -0.118 indicates that the financing decision variable negatively affect the value of the company. This means that the higher the value of the funding decisions variable then the value of these companies tend to be lower, but the effect was not significant. Thus, this study indicates that the financing decisions variable have no effect on the value of the company. This condition indicates that the corporate value is not dependent on high or low value corporate financing decisions variable. Husnan and Enny (2004) mentions that the company's financing policy regarding of the shape and composition of financing that will be used by the company, namely the shape and composition of debt and equity. Round of financing policy is one of the causes of conflict between management and shareholders. To meet the financing needs, shareholders tend to prefer a fund

that is financed with debt due to the use of debt, their rights against the company will not be reduced. However, management does not like the financing with debt, because debt has a high risk. However, the financing of this study indicate that the financing decision does not affect firm value. For verily not the source of financing that can affect firm value, but results from the user's investment fund that will affect the corporate value.

The Affect of Dividend Decisions on Corporate Value

Based on Table 2, regression coefficient of dividend decision variable of 0.055 which indicates that the dividend decision variable has a positive effect on corporate value. This means that the higher the value of the dividend decision variables then the corporate value tend to be higher, but the effect was not significant. Thus, this study indicates that the dividend decision variable does not affect the corporate value. This condition indicates that the corporate value is not dependent on high or low value of the dividend decision variables. This is because that the dividend decision is a decision to split the profits in dividends or reinvested in order to keep him in the company. The findings of this study indicate that the amount of dividends distributed by companies, consider the presence or absence of profitable investment opportunities. Whenever, there is a profitable investment opportunity, then the funds obtained from the company's operations will be used to take the investment. If there is a remainder, then the remainder is distributed as a dividend, which is referred to as the residual of the dividend decision.

CONCLUSIONS AND RESEARCH IMPLICATIONS

Conclusion

This study tested the effect of disclosure of corporate social responsibility, corporate governance practices, and financial decisions on the value of companies listed on the Indonesia Stock Exchange (IDX). The conclusions that can be formulated from the results of this study are as follows. The results of testing hypothesis one, the influence of corporate social responsibility of companies consisting of: environment, energy, labor safety, production, and the community involvement to the corporate value, it can be concluded that only the production variables significantly influence to the corporate value.

The results of testing hypothesis two, about the influence of corporate governance practices which consist of: independent commissioner board, audit committee and external auditor reputation variables to the corporate value, it can be concluded that only the independent commissioner board variable that affect on the corporate value. Thus, independent commissioners board have been performing their duties and responsibilities as well, so as affect to the corporate value.

While the results of testing hypotheses three, about the effect of financial decisions: investment decisions, financing decisions and dividend decisions, to the corporate value, it can be concluded that the investment decision variable significantly influence to the corporate value. While the financing decision and dividend decision do not affect on corporate firm value.

Implication

These research findings indicate that just only the product development variable affect on corporate value, while the environment concern variable, energy conservation, labor safety, and community involvement have no effect on corporate value. Thus to increase the corporate value the management should always attent to the product development level to improve the company's growth, thereby increasing corporate value. Therefore, the management should be able to improve the product development.

The results of this study the variables of corporate governance practices, only independent commissioner board that affect on corporate value. Corporate governance variables used in this study are independent commissioner board, audit committee and external auditor's reputation, which are a form of overseeing the company. Therefore, the role of independent commissioner board needs to be improved in overseeing the company. The role of audit committees and external auditors also need to be optimized so that it will affect the value of the company. These research findings indicate that the investment decisions variable affect on corporate value, while the funding decisions variable and dividend decisions have no effect on corporate value. Thus to increase the corporate value the management should always attend to the level of investment to improve the company's growth, thereby increasing corporate value. Therefore, the management should be able to take the right investment decisions or favorable investment decisions.

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THE EFFECT OF VOLUNTARY DISCLOSURE, ASYMMETRY INFORMATION
AND EARNING MANAGEMENT ON COST OF EQUITY CAPITAL

Agus Purwanto*

ABSTRACT

This research analyzes the effect of voluntary disclosure levels in annual reports, information asymmetry, and earnings management on the cost of equity capital. The purpose of this study is to provide empirical evidence about the effect of voluntary disclosure levels in annual reports, information asymmetry, and earnings management on the cost of equity capital.

Data on this research were the resource persons collected by observation and literature study method. Data collected were the resource persons tested with classic assumption test and analyzed using multiple linear regression to test the hypothesis that already constructed. The test was done by multiple regression with the cost of equity capital of dependent variables, and use dependent variables are voluntary disclosure index, information asymmetry, and earnings management with size used as control variable.

The result, using 5% alpha level to the formed hypothesis is rejecting a first hypothesis, that voluntary disclosure is proved have no significant effect on the cost of equity capital. Nevertheless, on this second hypothesis successfully supported research, that is information asymmetry has a positive effect and significant to the cost of equity capital. Provide contribution this research about the inconsistency in previous studies, that is variable provide evidence that the which has the most effect on cost of equity capital is information asymmetry, while voluntary disclosure and earnings management level considered to be less affecting cost of equity capital, because information size disclosed in the annual report is not sufficient yet. This condition gives implication for management to provide complete and broad information in their annual report it so that could increasing the value of their company.

Keywords : the level of voluntary disclosure, information asymmetry, earnings management, the cost of equity capital

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INTRODUCTION

The financial statements are a media liaison and placement information that is useful both for companies listing on the Stock Exchange as well as for stakeholders. In the Statement of Financial Accounting Concepts (SFAC) No. 1, stated that the financial statements should present information that is useful to investors and potential investors, creditors, and other users in decision-making investment, credit, and other similar decisions are rational.

According to Elliot and Jacobson (in Asiah Siti Murni, 2004), management will disclose information voluntarily if the benefits of disclosure outweigh the costs. These benefits are obtained because the disclosure of information by the company will help investors and lenders in understanding the investment risks. Verrechia and Komalasari (in Asiah Siti Murni, 2004), showed that by expressing information private, then the investor against the compensation claims declined due to transaction costs down so that the components of adverse selection and bid-ask spread is reduced and ultimately cost of equity capital also fell. Or it can be concluded that there was a significant relationship between the disclosure of information with the cost of equity capital.

Effects disclosure of cost of equity capital itself is an interesting problem to investigate. Berton (in Yamo-tuho Gulo, 2000), states that some asset pricing model suggests that the more extensive disclosure, will lower the cost of equity capital. But still there is little empirical evidence that supports the statement. The lack of empirical evidence that increased the debate among practitioners about the benefits of increasing the extent of disclosure made by the company. For example, the Jenkins Committee stated that the important benefits of the expansion of disclosure is the decline in cost of equity capital. But the statement is refuted by the Financial Executives Institute on the grounds that the expansion of disclosure mentioned in the Committee report is addressed to traders of stocks, thereby increasing the risk and bring the cost of equity capital is high.

Although the empirical studies that exist tend to support a negative relationship between the extent of disclosure of the cost of equity capital, but the authors at the Jenkins Committee (1994) reported that the empirical evidence that exists today does not show the empirical case that states that the disclosure is informative lower cost of equity capital (Gulo, 2000). This is because previous studies test the impact of disclosure on variables that are expected to be positively related to the cost of equity capital and not at the cost of equity capital itself. The inconsistency in the results of previous studies further add to the debate among practitioners about the benefits of increasing the extent of disclosure made by companies, so research to determine the effect of the level of disclosure, information asymmetry and earnings management on the cost of equity capital is an important thing to do.

THEORETICAL FRAMEWORK AND HYPOTHESIS

The Affect of Voluntary Disclosure in Corporate Annual Reports on the Cost of Equity Capital

In accordance with FASB mandate No.1 financial statements should be useful for those with an interest in the company, the financial statements should assist investors and creditors to interpret the state of the company. Managers can provide signals about the condition of the company to investors in order to maximize the value of company stock. Given signal can be done through disclosure (disclosure) of accounting information in financial statements. The more extensive disclosures by companies as a signal given to the investors would lower transaction costs and risks are determined by investor against the company that will ultimately lower the cost of equity capital companies (Asisah Siti Murni, 2004). Botosan (1997) investigated the relationship between the disclosure levels of volunteering to the cost of equity capital, the cost of equity capital expressed (which is measured by market beta), firm size and level of disclosure as measured by a score developed by researchers in question. The results showed

that the greater the level of disclosure of the accounting done by the company, the lower the cost of equity capitalnya for companies that receive little attention from analysts.

Elliot and Jacobson (in Rahmawati, Yacob and Nurul, 2006), found that the benefits of a voluntary disclosure of information is increasingly smaller capital costs. The results Diamond and Verrecchia (in Rahmawati, Yacob and Nurul, 2006) also showed that by revealing private information, then the investor against the compensation claims declined due to decreased transaction costs so that the adverse selection component of bid-ask spread is reduced and ultimately cost of equity capital also be down, or it can be concluded that there was a significant relationship between the disclosure of information with the cost of equity capital.

Gulo (2000) tested the effects of widespread voluntary disclosure conveyed by management in annual financial statements of the company's cost of equity capital. The results of empirical testing showed that the disclosure variable index voluntarily submitted by the company in the annual report does not have a statistically significant negative relationship with the estimated cost of equity capital firms.

The Effect of Information Asymmetry on the Cost of Equity Capital

In agency theory says that the asymmetry of information arises when the manager (agent) is more aware of information internal and future prospects of the company than shareholders and other stakeholders (principal). Arise when information asymmetry, disclosure decisions made by managers affect stock prices because of information asymmetry between investors who are more informed and less informed investors who raises transaction costs and reduces the expected liquidity in the market for company shares. This means that the smaller the asymmetry of information that occurs between capital market participants will be smaller then boarding own capital (cost of equity capital) are borne by the company (Komalasari, 2000).

Gonedes (1980) (in Pure, 2004) argues that the phrase has the potential to reduce information asymmetry. Decline in information asymmetry will lead to a reduction in transaction costs.

Komalasari (2000) investigated the relationship between the asymmetry of information with the cost of equity capital, where information asymmetry is measured by using the bid-ask spread. The results show that there is a positive relationship between information asymmetry with the cost of capital. From several previous studies, asymmetry of information is often proxied with bid-ask spread. Mardiyah (2002) found no positive effects of information asymmetry between the cost of capital. This means that the lower of information asymmetry that occurs between capital market will reduce cost of equity capital.

The Effect of Earnings Management on Cost of Equity Capital

Agency theory states that the practice of earnings management is affected by the conflict of interest management (Agent) and owner (principal) that arises when each party seeks to achieve and maintain a desired level of prosperity. Stolowy and Breton (in Utami, 2006) explains that the manipulation of accounts made solely based on the desire of management to influence investor perceptions of risk the company. These risks can be divided into two components, namely: (1) Risks associated with yield variation as measured by the earnings per share (earnings per share), and (2) Risks associated with the company's financial structure as measured by the debt equity ratio . Thus the purpose of earnings management itself is to improve both the size of the risk. The higher the level of earnings management suggests the higher the risk of stock returns and consequently investors will raise the rate of cost of equity capital.

Dechow et al (in Wiwik Utami, 2006) examined the causes of the consequences of earnings manipulation measures, one of which was to determine the extent of the manipulation of earnings toward the cost of equity capital. Research results show that companies that receive sanctions from the SEC have higher capital costs com-

pared to companies that did not receive sanctions from the SEC.

Mandy Utami (2006) examined the effect of earnings management on the cost of equity capital in public sector manufacturing enterprises with moderate variable beta stocks and market capitalization. Earnings management based on the ratio of working capital accruals to sales. Research results show that earnings management has a positive effect on the cost of equity capital. This suggests that the greater the earnings management by managers, it will increase the cost of equity capital.

RESEARCH METHOD

Dependent Variable (Dependent Variable)

Dependent variables in this study is the cost of equity capital firms. Company’s cost of equity capital is calculated based on the discount rate used by investors to present value of the future cash flow (Ohlson 1995, Botosan 1997, Mandy Utami 2006). Estimated cost of equity capital is done by using the Ohlson model approach. Calculating cost of equity capital based on Ohlson model is as follows:

Description :

- P_t = stock price at period t
- B_t = book value per share at period t
- x_{t + 1} = earnings per share in period t +1
- r = cost of equity capital

To estimate earnings per share in period t +1 the Random Walk model is used as follows:

$$E(x_{t+1}) = x_t + \sigma \dots \dots \dots (2)$$

Description :

- E(x_{t + 1}) = estimated earnings per share in period t +1
 - x_t = actual earnings per share in period t
 - σ = Drift terms which are rat-average change in earnings per share for 5 years
- For the purposes of one year’s estimated earnings (t +1) used data on average change in earnings per share for five years or since going public if the issuer was not yet five years as a public company. Thus, the estimated cost of equity capital in equation (1) can be simplified into the following:

Description :

- x_{t + 1} = earnings per share of period t +1 is estimated by the random walk model as in equation (2).

Having simplified mathematically, the equation (3) becomes:

Description:

- r = cost of equity capital
- B_t = book value per share of period t
- X_{t + 1} = earnings per share in period t +1
- P_t = stock price at period t

Company's share price in period t (P_t) is the average price of company stock during the three days of observation t , one day before the date of publication of financial statements ($t-1$), on the day of publication of financial statements ($t = 0$), and one day after the date of publication of the financial reporting ($t + 1$). Considerations for using a three-day window are: (a) of the time difference between the financial statements are reported or submitted to Bapepam and the BEI with the publication of financial statements in the media, is usually different from one day, (b) with a short window to minimize the affect counfounding, and (c) according to Scott (2003) in Wiwik Utami (2006), if the research goal is to see the effect, then you should wear a short window.

Independent Variable

Voluntary Disclosure

In this study, the development of voluntary disclosure Based on the development of lists of items made voluntary disclosures of earlier studies ever conducted in Indonesia, namely by Susanto (1992), Suropto (1998), Marwata (2000), Gulo (2000), Widiastuti (2001) and Pure (2004) is relatively broad disclosure of any company is measured by an index which is the ratio of the total score given to a company with a score that is expected to be acquired by the company. Given a score of 1 if the company disclose information items in the instrument and given a score of 0 if it does not reveal. Thus, more and more elements of information in the instrument met by the company, the greater the company's voluntary disclosure indexes.

Information Asymmetry

Information asymmetry can be measured using the bid-ask spread. Bid-ask spread that is used is market spreads, namely the difference between the highest sale price (highest ask) the offering price / buy the lowest (lowest bid) for a particular stock.

This study measured the asymmetry of information by using the relative bid-ask spread which operated as the Greenstein and Sami (1994), Halim and Hidayat (2000), Komalasari and Baridwan (2001), as well as Mardiyah (2002) as follows:

Description:

$ask_{i,t}$: highest ask price of stock i occurs on day t

$bid_{i,t}$: the lowest bid price of shares of company i is occurs on day t

Earning Management

Earnings management is an intervention with the specific purpose of external financial reporting process deliberately to gain some personal advantage. Earnings management (DACC) can be measured by discretionary accruals are calculated by opposite total accruals (TACC) and nondiscretionary accruals (NDACC). This study uses the Modified Jones model in calculating the DACC. Reasons for the Modified Jones model to calculate DACC is because the Modified Jones Model to detect earnings management is better when compared to other models in line with the results of Dechow et al (in Wiwik Utami, 2006). Calculation of the Modified Jones Model DACC are as follows:

$$TA = Nit - CFOit$$

The total value of accruals (TA) are estimated by OLS regression equation as follows:

$$TA_{it}/A_{it-1} = \beta_1 (1 / A_{it-1}) + \beta_2 (\Delta Rev_t / A_{it-1}) + \beta_3 (PPE_t / A_{it-1}) + e$$

By using the above regression coefficient values, non-discretionary accruals (NDA) can be calculated by the following formula:

$$NDA_{it} = \beta_1 (1 / A_{it-1}) + \beta_2 ((\Delta Rev_t / A_{it-1}) - (\Delta Rect_t / A_{it-1})) + \beta_3 (PPE_t / A_{it-1})$$

Further discretionary accrual (DA) can be calculated as follows:

$$DA_{it} = TA_{it} / A_{it-1} - NDA_{it}$$

Description:

| | |
|-------------------|--|
| Dait | = Discretionary Accruals firm i in period t |
| NDA _{it} | = Non-Discretionary Accruals firm i in period t |
| Tait | = Total accruals to the company i in period t |
| Nit | = Net income in the period the company i-t |
| CFO _{it} | = cash flow from operating activities of company i in period t |
| A _{it-1} | = Total assets of firm i in period t-1 |
| ΔRev _t | = Changes in corporate earnings in the period i to t |
| PPE _t | = Fixed assets to the firm in period t |
| ΔRect | = Changes in accounts receivable to a firm i in period t |
| e | = error |

Control Variables

Several previous studies showed that firm size (size) has a significant influence on the cost of equity capital. Thus, firm size variables used as control variables in this study. Control variable is a variable that participated to influence dependent variable. In calculating the size of the company's market capitalization value used proxies, namely the number of shares outstanding multiplied by closing stock price (closing stock price) during the event window.

Population

The population in this study is a public company that has been registered manufacturing sector (listing) in the BEI. The manufacturing companies have an annual report for 3 years, ie from 2005 to 2007, and its shares have been listed on the Indonesia Stock Exchange no later than began in January 2005. The choice of one group of manufacturing industry as a population that is intended to avoid bias caused by the effects of industry and besides the manufacturing sector has the largest number of firms than other sectors.

Analysis Method

In testing the hypothesis presented in this study, researchers used multiple linear regression analysis method because it involves the relationship of two or more independent variables. Before performing the multiple linear regression analysis, in this study tested the classical assumption in order to obtain good results and no bias. Ghazali (2006) explains that the regression by the method of Ordinary Least Squares estimation (OLS) will give the Best Linear Unbiased Estimator (BLUE) if it satisfies all the classical assumptions. After all the tests met the

assumptions of classical or with other words all the samples in this study meets the test of classical assumptions, the next step is to test the hypothesis presented in this study.

The equation used to test the hypothesis first, second and third are as follows:

Description:

- CEC = Cost of Equity Capital
- INDEX = Voluntary disclosure index
- SPREAD = Asymmetry of information
- DA = Earning management
- SIZE = Firm size (market capitalization)
- β_0 = constant
- $\beta_1 \beta_2 \beta_3 \beta_4$ = regression coefficient
- ϵ = error

RESULTS

Sample Description

The population in this study is a public company manufacturing sectors that have been registered (listing) on the Stock Exchange. The manufacturing company has published and publish at least an annual report for 3 years (2005–2007), and its shares have been listed on the Indonesia Stock Exchange no later than began in January. The choice of one group of industries manufacturing industry as a population that is intended to avoid bias caused by the industrial effect, and in addition the manufacturing sector has the largest number of companies than any other sector. While the sample which includes the criteria in this study as many as 18 companies, as presented in Table 1.

Table 1 : Sample Description

| Description | Number |
|--|--------|
| Manufacture Companies listed in Indonesia Capital Market, on 2007. | 151 |
| Manufacture Companies listed in Indonesia Capital Market, period 2006–2007. | (13) |
| Manufacture company that have non–active stock, based on regulated PT BEJ No SE–12/BEJ 11–1/X/1994 | (90) |
| Manufacture Companies have no annual report publication, serially on 2005 – 2007. | (30) |
| Companies sampel | 18 |
| Total of unit observation = 18 x 3 | 54 |

Descriptive Statistics

In Table 2 can be seen that the whole enterprise samples analyzed the average – average CEC of –0.16548 with a standard deviation of 0.80195. Negative sign means the investors get a negative return, or in other words bear the losses on investments made. INDEX has a minimum and maximum value 0.30303 and 0.72727, as well as having an average of 0.56453 with a standard deviation of 0.09960, which implies that the

level of disclosure made by a public company manufacturing sector in Indonesia is still low. SPREAD has a minimum value of -2.0779 and a maximum of 16.14206 , as well as having an average of 2.27284 with a standard deviation of 3.18179 , this suggests that the asymmetry of information that occurs between the company (managers) and investors is quite high. DA has a minimum value and maximum -0.27474 0.38157 , and the average rate of -0.017818 with a standard deviation of 0.10286 . The negative sign indicates Decreasing income accruals, this signifies that the manufacturing companies in Indonesia do with the pattern of earnings management actions to minimize its earnings.

Table 2 : Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. | Deviation |
|---------|----|----------|----------|-----------|------------|-----------|
| CEC | 54 | -.95214 | 2.77698 | -.1654768 | .80195080 | |
| INDEKS | 54 | .30303 | .72727 | .5645342 | .09960267 | |
| SPREAD | 54 | -2.70779 | 16.14206 | 2.2728392 | 3.18178646 | |
| DA | 54 | -.27474 | .38157 | -.0178178 | .10285924 | |
| LN_SIZE | 54 | 11.33 | 18.52 | 14.8731 | 2.02860 | |
| Valid N | 54 | | | | | |

Testing Assumptions of Classical

Kolmogorov–Smirnov test results earlier shows that the Kolmogorov–Smirnov value is equal to 0.029 and the significance value below 5% confidence level. This means data is not normally distributed residuals. Therefore it is necessary for the removal of data / data outliers that make the distribution becomes normal (Ghozali, 2006). Test results obtained after removal of data Kolmogorov–Smirnov value is equal to 0.066 and the significance values above the confidence level of 5% . This means that the data were normally distributed residuals. Multikolonierity test results for background factors, indicating the absence of Tolerance values less than 0.10 and VIF values are no more than 10 . So it can be concluded that there is no multikolonierity among these variables. Autocorrelation test results show that the regression model has no autocorrelation problem. This is indicated by the significant results obtained for 1.000 Run test greater than the significance level was set at 0.05 . The Glejser test results in Table 6 shows that none of the independent variables are statistically significant influence residual absolute value, so it can be concluded that there was no heteroskedastisity in regression models.

CONCLUSIONS AND RESEARCH IMPLICATION

Conclusions

The hypothesis was tested by performing regression between cost of equity capital companies with voluntary disclosure), information asymmetry, Earning Management and Size Size Company jointly. Test models of the first hypothesis suggests that the model that included good enough. It can be seen in Table 3 which shows the significance of F test of 0.001 and in Table 10 which shows a value of 0.286 Adjusted R2. The analysis showed that the overall model has the ability to explain its relationship with the company's cost of equity capital.

Table 3 : The Significance of F test

| ANOVA ^b | | | | | | |
|--------------------|----------------|----------|-------------|-------|-------|-------------------|
| Model | Sum of Squares | df | Mean Square | F | Sig. | |
| 1 | Regression | 8.610 | 4 | 2.152 | 5.913 | .001 ^a |
| | Residual | 16.38245 | .364 | | | |
| | Total | 24.99249 | | | | |

a. Predictors: (Constant), SIZE, DA, SPREAD, INDEKS
b. Dependent Variable: CEC

Table 4 The Significance of T test

| Model | Unstandardized Coefficients | Standardized Coefficients | T | Sig. | | |
|--------------|-----------------------------|---------------------------|-------|-------|--------|------|
| | B | Std. Error | Beta | | | |
| 1 (Constant) | .568 | .614 | .925 | .360 | | |
| INDEKS | -.538 | 1.089 | -.076 | .624 | | |
| SPREAD | .143 | .057 | .349 | .015 | | |
| DA | .333 | .866 | .049 | .702 | | |
| SIZE | -1.573E | -.8 | .000 | -.396 | -.2543 | .015 |

a. Dependent Variable: CEC

Results Testing Hypothesis One (H1)

The results of regression analysis in Table 4 shows the value of the voluntary disclosure of a negative index coefficient of -0.538 with a significance level of 0.624 . These results were not statistically significant due to well above the specified level of significance of 0.05 , therefore the first hypothesis is rejected. From these results it can be concluded that there was no significant effect between the area of voluntary disclosure in the company's annual report on the company's cost of equity capital.

Results Testing Hypothesis Two (H2)

Testing the second hypothesis proposed to declare a positive effect of information asymmetry on the cost of equity capital firms. The results of regression analysis in Table 4 shows the value of positive information asymmetry coefficient of 0.143 with a significance level of 0.015 . These results were statistically significant because it is far below the specified level of significance of 0.05 , therefore the second hypothesis accepted / supported. From these results we can conclude that information asymmetry has positive and significant impact on cost of equity capital. When associated with agency theory and the theory of the bid ask spread, it can be said that arise when information asymmetry, disclosure decisions made by managers affect stock prices because of information asymmetry between investors better informed and less informed investors who raises transaction costs and reduce liquidity expected in the market for company shares. This means that the smaller the asymmetry of information that occurs between capital market participants will be smaller then boarding own capital (cost of equity capital) are borne by the company, in other words there is a

positive relationship between the asymmetry of information with the cost of equity capital.

Results Testing Hypothesis Three (H3)

Tests on the three hypotheses proposed stating a positive effect on earnings management cost of equity capital firms. The results of regression analysis in Table 4 shows the coefficient of positive earnings management at 0.333 with a significance level of 0.702. These results were not statistically significant due to well above the specified level of significance of 0.05, therefore the third hypothesis is rejected. From these results it can be concluded that there was no significant effect of earnings management on the cost of equity capital firms. These results indicate that the cost of equity capital will not be greater with increasing earnings management.

Firm size (Size) as a control variable and a significant negative effect on the cost of equity capital. The results of this study indicate that the cost of equity capital firms are increasingly smaller with the increasing size of the company and vice versa that the smaller size of the company, the cost of equity capital the company is also getting bigger. These results are consistent with previous research results by Botosan (1997), Pure (2004) and Utami (2006), but not consistent with the results of Gulo (2000) which states that the cost of equity capital the company is not affected by the size of the market value of equity company.

Research Implications

This study aimed to obtain reasearch empiric the impact of the voluntary disclosure, information asymmetry and earnings management on the cost of equity capital. Based on the analysis performed by using a sample of 18 manufacturing companies listed on the Stock Exchange from 2005 to 2007 period can be concluded as follows: The results of testing the first hypothesis suggests that the widespread disclosure of a voluntary no significant effect on cost of equity capital. The results of this study indicate that the area of voluntary disclosure made by management in the company's annual financial statements in the year 2005–2007 did not lower the cost of capital (cost of equity capital) of the company. This finding is consistent with the findings of Gulo (2000), but not in line with what was found by Botosan (1997) and Siti Asiah Pure (2004).

The second hypothesis test results indicate that information asymmetry has positive and significant impact on cost of equity capital. This means that the smaller the asymmetry of information then the cost of equity capital the company will also go down, and vice versa will also increase information asymmetry would increase the cost of equity capital of the company. The findings are in line with what was found by Mardiyah (2002) and Siti Asiah Pure (2004).

The third hypothesis test results indicate that earnings management does not significantly influence the cost of equity capital. This shows that the cost of equity capital the company will not increase with increasing earnings management. These findings differ from those found by Mandy Utami (2006) who showed that the cost of equity capital will increase with increasing earnings management.

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THE POWER OF CORPORATE GOVERNANCE IN FINANCIAL REPORTING PRACTICE: AN INDONESIAN CASE STUDY

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ABSTRACT

This study is a qualitative study aimed to understand and explore the role of power of corporate governance actors in the construction of financial reporting practice. Specifically, this study is conducted to answer the question of how a company implement corporate governance mechanism and how actors involved in corporate governance mechanism exercise their power to construct financial reporting practice. PT. AB a national company listed in the Indonesian Stock Exchange was used as a research setting to collect data through observation, interview and organizational records analysis. Data were then analysed and interpreted using power mobilisation theory proposed by Hardy (1996) as a lens of understanding the phenomena being researched. The research finding showed that there are at least four actors who are seen as powerful in supervising the Board of Directors of PT. AB in setting and implementing company policies, and in shaping financial reporting practice: the Board of Commissioners, the audit committee, external auditors, and internal auditors. In PT. AB, the balance of power among actors is seen as an essential element in creating an effective control of financial reporting practice. Indeed, to create quality financial reporting practice, a balance in distribution of power among actors involved in the corporate governance mechanism is needed. The actors do not only hold power but they also have to mobilise power to construct financial reporting practice.

Keywords : corporate governance, financial reporting, power mobilisation,
qualitative research

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INTRODUCTION

Studies of financial reporting have raised concerns about the roles of corporate governance mechanisms, auditors and regulators in monitoring managers' behaviour (Berle and Means 1975; Cohen, et al. 2004; Fama and Jensen 1983; Forker 1992; Jensen 1986; Jensen and Meckling 1976; Weir, et al. 2002; Williamson 1985b). However, findings of empirical studies on the association between a corporate governance mechanism and quality financial reporting showed contradicting evidence (see for example, Beasley 1996; Beasley, et al. 2000; Chen and Jaggi 2000; Dunn 2003; 2004; Forker 1992; Goodwin and Seow 2002; Gastón, et al., 2007; Deo et al. 2008, Santanu and Mahmud; Chen, et al 2012). The studies produced different results, but they did not provide conclusive and convincing explanations for such different findings.

It is recognised that the current research in accounting and corporate governance is alert to the fact that actors' behaviour is modified by procedures, rules, incentives and other economic factors. Most research to date has all but ignored political environment in which financial reporting practice takes place. Financial reporting practice is influenced not only by economic variables as claimed by the proponents of positive research, but also by institutional, political and cultural environments (Adams 1997; Gray 1988; Rezaee 2002; Miller 1994; Munro 1998). Thus, this study ontologically claims that financial reporting practice is a political practice concerning the supply of information, and involving rules of the game (regulations/rule) and players (interested parties).

Financial reporting practice does not exist in a vacuum, but operates in an environment characterised by a specific political arena. It has been argued that the presence of a corporate governance mechanism does not guarantee transparent financial reporting practice (Kalbersand Fogarty 1998; Tricker 1994). The effectiveness of a control mechanism depends on values, norms and beliefs accepted in an organisation (Jennings 2004a; 2004b; 2005a; Oliver 2004) and the involvement of actors in control structures in monitoring managers (Cohen, et al. 2004; Jennings 2005b). It is believed that to create quality financial reporting practice, a balance in distribution of power among individuals involved in the mechanism is needed

This study is a case study conducted to answer: how a company implement corporate governance mechanism and how actors involved in corporate governance mechanism exercise their power to construct financial reporting practice. The significance of the present study comes from two sources. First, the concepts developed here are relatively new to financial reporting studies. As such, the study represents a first effort to familiarise accountants with power politics in financial reporting practice. This study can enhance sociological studies on accounting and develop the understanding of accounting knowledge and practice within political contexts.

THEORETICAL FRAMEWORK

Understanding power in organisations should not be focused on something that is possessed but should be focused on something that is exercised. This is because organisational life is never static but dynamic. An organisation always moves, adapts and changes in regard to its environmental context. Thus, power in organisations must be understood as a continuous process within a social relationship. Foucault (1979, p. 334–335) remarks that “power is not something that is acquired, seized or shared, something that one holds and allows to slip away; power is exercised from innumerable points, in the interplay of non-egalitarian and mobile relations”

Apropos to understanding of the way a leader directs members of the organisation to commit to quality financial reporting practice, power must be exercised and mobilised in an organisation. A basis of power is not

enough to accomplish the intended outcomes and individuals must act. To avoid or reduce complications such as resistance and conflicts when exercising power, individual's actions must be in congruence with the context of organisational uniqueness (Buchanan and Badham 1999). For Hardy (1996), power is multi-dimensional. She (1996) classifies power into four dimensions: power of resources, power of decision making, power of meaning, and power of systems.

The first dimension is power of resources. This type of power explains how actors use and restrict key resources to modify the behaviours of other actors. A manager can deploy resources to control or modify the behaviours of subordinates. This concept is related to task-orientation and involves "carrot and stick" persuasion and coercion. Specifically, Hardy (1996) claims that this type of power plays important roles when organisational actors depend on certain resources such as information, skills, political access or monetary rewards. Consequently, issues of power and control in organisations are associated with rules, procedures, practice, and formal and less formal relations as well as accounting techniques and methodologies (Sisaye 1997). To avoid or minimise resistance of employees to change, the key organisational actors can manage the resources. This claim is consistent with other scholars. Bourgeois (1991) and Vecchio (1997) for example, believe that managers can force subordinates to obey their request as managers control key organisational resources.

The second dimension of power is power of decision making referring to the individual power to restrict or enable access to organisational decision-making (Hardy 1996). In the political choice model, decision making processes such as resource allocation and the design of accounting systems, are more a function of the on-going resolution of power struggles among coalitions and the influence of political processes, including dominant organisational ideologies as well as individual and group interest, than organisational economic objectives (Sisaye 1997). This type of power is exercised to influence subordinate participation in the process of decision-making. The exercise of this power can either motivate or diminish subordinate participation. This power comes from symbolic sources (hierarchy structure).

As decisions are reached through bargaining, compromise, and negotiation, politics becomes the predominant factor determining organisational decisions. Pfeffer and Salancik (1974, p. 139) argue that "organizational decision making, particularly resource allocation decision making is a political process and can be explained by consideration of relative subunit power, as well as by consideration of possible bureaucratic criteria". Accordingly power of decision-making can be mobilised to reduce conflict and to legitimate outcomes so that the symbols can be accepted in organisation (Hardy 1996).

The third dimension of power is power of meaning. This type of power can influence perception, cognition, and preference of actors in order to make them accept the status quo or perceive that changes are intended, rational and legitimate (Hardy 1996). Bradsaw (1998) views this power as "deep-cultural power" of reality. If managers can use symbols and meaning to convey to subordinates that changes are legitimate, then resistance to changes will decrease (Hardy 1991). Within this perspective, those who are able to define organisational reality have considerable power over those accepting reality as their own (Bradsaw 1998; Hardy 1985)

The fourth dimension of power is power of system. This power is embedded in organisation systems in which every actor takes it for granted (Hardy 1996). Such power is far from the direct involvement of organisational members because this power exists in the unconscious acceptance of values, traditions, cultures and institutional structure and captures all actors within organisational networks (Hardy 1996). This dimension is the most difficult dimension to change as the dimension involves unspoken rules and norms of organisations that can motivate and provide stability to organisation activities (Boonstra and Bennebroek-Gravenhorst 1998; Burns and Scapen 2000). Hardy (1996) believes that to make changes, managers need to mobilise all dimensions of power. Consequently, power over resources, decision-making, and meanings must be so effectively mobilised and targeted that the ac-

tors in making the process of change do not resist their own preference. Hardy (1996, p. 9) claims that “by managing meanings, managers can change underlying values and norms but, used alone, its inability to target specific behaviours will hinder effective strategic change”.

Based on such arguments, changes will flow effectively when managers are able to develop integrated strategies by considering the three dimensions of power. Power mobilisation, for Hardy (1996, p. 10) involves “a coordinated approach that encompasses all three dimensions to influence actions, awareness and values, and avoid both inertia and confusion”. In addition, Pettigrew and McNulty (1995) claim that power and influence of part-time board members is shaped by the simultaneous and interactive effects of a set of structural contextual factors, positions and skills in mobilising a constellations of power sources; and skills as well as wills in converting potential power into actual influence.

The concept of power as described by Hardy (1996), power mobilisation, helps to explain the dynamic of financial reporting practice. Although her work explains changes in the context of organisational strategies, her contribution can be used to explain complexity of financial reporting practice. Specifically, Hardy’s (1996) concept is useful in explaining why and how actors in corporate governance mechanism construct quality financial reporting practice.

RESEARCH METHOD

This study is based on the understanding that reality exists as a social product and as a result of human interaction, symbolic discourse and creativity (Burrell and Morgan 1979; Denzin 1983; Hopper and Powell 1985; Morgan 1980; 1988; Tomkin and Groves 1983). The inability quantitatively to measure some phenomena has led to intense interest in using other approaches to particularly human phenomena. Based on the ontological point of view, this study has been designed with an interpretive method of inquiry. Following a view by Hopwood (1983), such research must focus on financial reporting practice in its organisational setting and consequently employ a case study method. Data were collected through participant observation, in-depth interview and document analysis. Considering the research questions data were manually analysed using a method suggested by Marshall and Rossman (1999) and Seidel (1998) consisting of data reduction and interpretation.

This study used PT. AB—a national company listed on the Indonesia Stock Exchange since 1989—as a research setting. The reason for using PT. AB is that the company can be seen as successful in implementing a corporate governance mechanism. This can be inferred from PT. AB’s ability to cope with the Indonesian economic crisis that saw other companies go bankrupt. PT. AB has also been able to show itself as a transparent and accountable company. Annual report awards received by the company since the 1980s are evidence that the company is an example of one who practises good financial reporting practice in Indonesia.

RESULTS

It is believed that a problem with a corporate governance mechanism concerning financial reporting practice is mainly caused by ineffectiveness of actors in performing their roles in the mechanism. The main reason for such ineffectiveness is that power is distributed asymmetrically among the actors. In other words, to create quality financial reporting practice, a balance in distribution of power among individuals involved in the mechanism is needed. The case of PT. AB provides interesting evidence of how symmetry of power creates balance of control and drives commitment to a transparent financial reporting practice. The following section will discuss the implementation of a corporate governance mechanism as a basis of discussing power distribution among actors involved in the mechanism.

Implementation of Corporate Governance in PT. AB

The case of PT. A exhibits that a corporate governance mechanism plays an important role in managing business practice, including financial reporting practice. Hence, the implementation of good corporate governance principles is seen by organisational members of PT. AB as not only mandatory but also moral obligation. The implementation of good corporate governance principles is claimed to be crucial to PT. AB in running an ethical business, especially in the Indonesian business environment, which is surrounded by unethical business practice. PT. AB has struggled to implement good corporate governance principles even though the business environment in Indonesia does not support ethical and transparent business practice.

The most successful implementation of good corporate governance principles in PT. AB is a principle of transparency. The company can be seen as a company that is able to provide transparent and reliable information to the public. Efforts conducted by the company to publish quality annual reports are intended to persuade those who are interested in insurance business to support what the company has currently conducted in running such a business. In other words, PT. AB seeks support for its legitimacy. Consequently, corporate financial reporting is used by the company as a means of gaining legitimacy by informing readers that the company's values, beliefs, norms and practices are in congruence with socially accepted values in the community in which PT. AB operates.

The reason for this success is that transparency has been seen as a taken-for-granted belief in PT. AB. In fact, Oliver (2004) points out that commitment to transparency needs an ethical culture. The practice of transparency is accepted as a part of PT. AB's ethical culture, which guides daily activities of its organisational members in conducting business. The financial reporting practice of PT. AB signals that its actors—especially those who perform and oversee the financial reporting practice, are effective and powerful in playing their roles in constructing such a practice. It seems that there is a balance in the distribution of power among actors in the corporate governance mechanism. For this, the following section will discuss how power is distributed in PT. AB to accomplish an effective oversight of financial reporting practice.

Power Distribution and Effectiveness of Oversight

Theoretically, to accomplish an effective corporate governance mechanism that promotes quality financial reporting practice it requires a balance of power among actors involved in the mechanism. Power should be distributed equally among these individuals according to their roles, especially those who are related to financial reporting practice.

An assessment of an individual's power bases and strategies of influence are essential to an understanding of power distribution in an organisation. The successful use of a certain strategy in the exercise of power depends on supporting power bases, power bases of others, time perspectives and personal styles (Greiner and Schein 1988). Using the source of power discussed by Finkelstein (1992), actors in any corporate governance mechanism might gain power from four sources: structural power, ownership power, expert power and prestige power. In Greiner and Schein's (1988) words, this power refers to positional power bases (structural and ownership power) and individual power base (expert power and prestige power).

In PT. AB, the balance of power among actors is seen as an essential element in creating an effective control of financial reporting practice. There are at least four actors who are seen as powerful in supervising the Board of Directors of PT. AB in setting and implementing company policies, and in shaping financial reporting practice: the Board of Commissioners, the audit committee, external auditors, and internal auditors.

The Power of the Board of Commissioners

In PT. AB, it can be seen that the roles of all members of Board of Commissioners tend to be reactive not proactive. Currently, within PT. AB, the Board of Commissioners has two power bases. In light of Finkelstein's

(1992) concept of power bases, members of the Board of Commissioners whose backgrounds are founders or a family of founders gain power from “prestige power” that comes from their charisma and their figures as Bapak-father; whereas the power base of independent commissioners is expertise that comes from educational background and business experience.

The Power of the Audit Committee

In PT. AB, the Audit Committee plays a crucial role in shaping transparent and ethical business practice, including financial reporting practice. The Audit Committee is a crucial part of the corporate governance mechanism, with the functions of improving quality of information flow between the Board of Directors and the Board of Commissioners. This is because the Audit Committee is responsible for monitoring financial reporting practice, internal control structure and audit functions (Rezaee 2002). The ability of the Audit Committee in preventing and detecting the likelihood of financial reporting fraud mostly depends on its effectiveness in exercising power. To make its role effective, members of the Audit Committee must have regular meetings both in a group and in private.

From the case of PT. AB it can be seen that the Audit Committee has successfully performed its roles. Most employees in PT. AB recognised the importance of the Audit Committee, especially its role in constructing financial reporting practice. The case of PT. AB also supports a claim by Collier (1997) that the Audit Committee is a useful device, which provides twin benefits of a link between the non-executive directors (board of commissioners) and the auditors, and the enhancement of information flow to non-executive directors (board of commissioners)

The Power of External Auditor

As a part of an external mechanism, an external auditor is seen as playing a crucial role in ensuring quality financial reporting. To ensure the quality of financial reports, external auditors are engaged to give an opinion regarding the presentation of financial reports, and provide an assertion that they comply with regulations and laws and are free from material misstatement. By virtue of their professional status, an external auditor is deemed to be independent and knowledgeable.

In the case of PT. AB, external auditors are effective and powerful in shaping financial reporting practice. It is believed that avoiding a conflict of interest is the key aspect of ensuring the effectiveness of external auditors. PT. AB changes external auditors every two years. Previously, PT. AB had appointed a single auditor from 1956 to 2000. One of the criteria adopted by PT. AB to appoint an external auditor is that an auditor must come from one of the big five firms. The reason for this is that auditors in the big five category are deemed more credible than others, especially in an environment in which business practice is surrounded by corruption and collusion involving a number of players, including external auditors.

Setting such criteria is consistent with arguments by Knapp (1991) and Carcello, et al. (2002). Knapp (1991) posited that the reason the audit committee appoints a reputable auditor is because such an auditor is more likely to disclose discovered errors. Moreover, Carcello, et al. (2002) suggested that a company hires better auditors because they will be more effective in influencing management with regard to financial reporting practice.

The Power of Internal Auditor

The role of the internal auditor is another important facet of a corporate governance mechanism dealing with the assurance of quality financial reporting. Indeed, internal auditors ensure that management teams govern companies ethically and effectively and evaluate and improve financial reporting practice. The involvement of internal auditors in daily activities concerning operational and financial reporting systems and internal control structures

enable the internal auditor to perform thorough and timely assessment of high-risk aspects of the financial reporting process (Rezaee 2002).

In PT. AB, internal auditors have performed their jobs very well. Organisational members of PT. AB recognise the importance of internal auditors in shaping financial reporting quality and reviewing the implementation of company's policies. The involvement of internal auditors in daily activities place them in the best position to oversee continuously the company's internal control structure and financial reporting practice.

To quote Rezaee (2002), the appropriate position of internal auditors in an organisational structure and their knowledge and familiarity with managerial policies and operating procedures, enable them to identify and assess red flags signalling the possibility of a financial statement fraud. Internal auditors provide assurance on the quality of financial and non-financial measures (Melville 2003). With their knowledge and expertise, internal auditors of PT. AB have power to influence financial reporting practice. Nevertheless, it should be noted that the effectiveness of internal auditors to prevent and detect the possibilities of financial statement fraud also depends on their organisational status and reporting mechanism.

The case of PT. AB signals that an effective corporate governance mechanism can be accomplished when actors involved in the mechanism recognise their presence in the company and have symmetric power to play their roles. Individuals, as Pfeffer (1981, p. 181) explained, have a need to develop an understanding of their organisational environments. Such understanding must be meaningful and makes sense in order to explain actions, why they are performed, how they make sense, what they relate to and how they fit into the organisation's rationale. In order to do so, referring to the works by Pfeffer and Salancik (1978) and Pfeffer (1981; 1992), actors must have power to interpret, translate, implement and operationalise the discourses of transparency, public accountability and ethical business. This means that in a social relationship, power can be distributed symmetrically among individuals if there is a strong sense of public accountability and ethical conduct among them.

Tetlock (1985b; 1992) claims that accountability is closely associated with ethical behaviour because accountability denotes the perception of defending or justifying one's conduct to an audience that has reward or sanction authority, and where rewards and sanctions are perceived to be conditional on others' evaluation of such conduct. Because a social relationship mutually connects with characteristics of the individual, issues and organisations in influencing unethical behaviour (Brass, et al. 1998), it is believed that the possibility of unethical behaviour between two individuals will be reduced if "their relationship is strong, multiplex and symmetric in terms of power" (Beu, et al. 2003, p. 89).

In general, it can be inferred that the case of PT. AB is congruent with claims by Finstad (1993) and Jepperson (1991), that in response to institutional pressures, political actors or leaders interpret the pressures and mobilise power in their organisations to control or influence their organisational responses and to cope with the outcomes of the pressures. By so doing, targeted objectives of the organisation can be reached without any significant resistance from other members of the organisations. The next section will discuss how powerful actors in PT. AB mobilise power to drive its organisational members to be committed to ethical and transparent business practice, including financial reporting practice.

Power Mobilisation and Financial Reporting

The above discussion showed that all actors involved in an organisation behave to influence each other. Salancik and Pfeffer (1977) argue that organisations are typically run by a dominant coalition of individuals or group that accrue power on the basis of being able to cope with critical organisation problems. Accordingly, individuals will look for and develop sources of power to gain some benefits, either for themselves or for a company.

For Hardy (1996) power is multidimensional. She classifies power into four dimensions: power of re-

sources, power of decision making, power of meaning and power of systems. Power mobilisation, according to Hardy (1996, p. 10) “involves a coordinated approach that encompasses all three dimensions to influence actions, awareness and values, and avoid both inertia and confusion”. Based on Hardy’s (1996) concepts of power, the following section describes how powerful actors in PT. AB mobilise power to influence other organisational members to be committed to quality financial reporting practice.

Power Mobilisation by the Board of Directors (CEO)

With respect to power over resources and power over systems, the PT. AB Board of Directors has determined a strategy to bond all individuals within it by institutionalising rules to commit them to transparent and ethical business practice. The use of KesepakatanKerjaBersama (Mutual Working Agreement) as a code of conduct, and Sismajaprima as a procedure of individual performance assessment, and the formation of ethical culture are examples of how the Board of Directors mobilise power over resources and systems to accomplish targeted outcomes (such as quality financial reporting practice). As a result, most people are committed to ethical and transparent business, including the practice of financial reporting.

Through the implementation of KesepakatanKerjaBersama and Sismajaprima, all people of PT. AB are directed to a condition of either obeying the rules or leaving the company. For example, statements by Mr Amir and Mr Gani showed that to continue working at PT. AB, organisational members must obey all rules and accept the organisational culture of PT. AB. Otherwise, they will individually leave the company or be fired.

To quote Greiner and Schein (1988, p. 47), in mobilising power, the Board of Directors has employed the strategy of “going around the formal system” by institutionalising formal organisational rules. Furthermore, what the Board of Directors has undertaken shows that compliance to obey organisational rules and other regulations can be mobilised through the exercise of reward power and legitimate/position power (Yukl 1989).

The Board of Directors has also been able to mobilise power over meanings and decision making. The establishment of a number of executive committees can be seen as a strategy set by the Board to manipulate symbols. By involving key organisational members from different divisions or units in the committees, employees perceive that their roles in PT. AB are seen as important and appreciated by the Board.

In addition, the committees can be seen as symbols of sharing power because all crucial decisions are made based on teamwork (Northouse 2004) through musyawarah and mufakat (consensus not confrontation). The establishment of executive committees is an attempt to show employees that all crucial decisions are made by a team. Thus, the Board of Directors wants to show to all company individuals that it is not the Board that makes the decisions, but the committees. The committees are perceived as “collective activities that are socially perceived essential by those who share culture” (Hofstede 1987, p. 3). Consequently, organisational members will support the implementation of transparent and ethical business in PT. AB, including financial reporting practice.

Power Mobilisation by the Board of Commissioners

A previous section discussed how PT. AB’s Board of Commissioners performs its roles through independent commissioners. Even though the Board of Commissioners is not directly involved in daily activities of PT. AB, it has successfully mobilised power. Through the Chairman of the Board of Commissioners, who is the charismatic founder of PT. AB, the Board of Commissioners has mobilised power over systems and meaning by institutionalising the principles of public accountability, conservatism, transparency and ethical conduct in the company. The adoption of the public accountability principle is crucial to build ethical conduct. Willmott (1998) argues that by describing corporate values, codes of conduct invite and require the accountability of organisational members to these values. This means that ac-

countability, as a universal social norm, can be seen as leading to internal pressures to comply (Tetlock 1985b; 1992).

Consequently, employees are likely to act and make ethical decisions based on explicit knowledge of the values of those to whom they are accountable (Brief, et al. 1991). Through the use of very close relationships (rukun) and increasing the understanding of normatively acceptable behaviour, as Beu, et al. (2003) suggested, accountability should lead to more ethical behaviour. This is because when individuals endeavour to behave ethically, they face an ethical dilemma, either acting according to their own values or complying with the values of their boss or prevailing culture (Brief, et al. 1991).

Considering the above views, it is reasonable to believe that principles such as accountability, transparency and conservatism are well accepted in PT. AB and have shaped the behaviours of its organisational members, from the Board of Directors to the lowest positions. DiMaggio (1995, p. 13) claims that institutionalisation of such principles reflects “the relative power of organized interests and the actors who mobilize power around them”. Showing ethical conduct to organisational members is another example of how the Board of Commissioners mobilises power over meaning and symbols. By doing this, what is done by commissioners can be seen as a symbolic way to show all organisational members that what commissioners say is what they do. Leadership and the behaviours of commissioners are symbols used to exercise power to influence organisational members of PT. AB. To quote Hunt and Laing (1997, p. 32), “effective leaders use a variety of behaviours plus oral and written communications to transmit their visions, their differences, and their values” into organisational members.

Similarly, Schein (1996, p. 61) adds that the process of such transformation is performed by “developing his/her [leader’s] behaviour as a model that encourage subordinates to identify with them and thereby internalise their beliefs, values, and assumptions”. As the beliefs, values and assumptions are perceived to be successful in shaping transparent and ethical business practice, including financial reporting practice, individuals in PT. AB begin to accept them as taken-for-granted beliefs, and they become unique symbols of the company.

In mobilising power, the Board of Commissioner cannot separate power over resources and power over decision making. These two dimensions of power are mobilised together, especially in monitoring the Board of Directors. In light of Greiner and Schein’s (1988, p. 47) views, strategies employed by PT. AB’s Board of Commissioners in mobilising these dimensions of power are the use of “social networks” (deal directly with the audit committee), “playing it straight” (using data provided by the audit committee to convince others), and “going around the formal system” (the use of organisational rules).

With such strategies, the Board of Commissioners has been successful in preventing the Board of Directors from getting involved in fraud and irregularities in financial reporting practice. In fact, the Board of Commissioners, through the general meeting of shareholders, has a right to set directors’ remuneration, hire and fire directors and appoint external auditors.

Power Mobilisation by the Audit Committee and Internal Auditors

The role of the Audit Committee of PT. AB cannot be detached from the role of internal auditors. The Audit Committee and internal auditors work together to review the implementation of PT. AB’s policies and to create quality financial reporting practice. Thus, both the Audit Committee and internal auditor perform their roles together in mobilising power. Cohen, et al. (2004, p. 125) argue that the effectiveness of an audit committee is strengthened when it is able to allocate the resources of internal audit staff to gather important information on “issues within the company of concern such as the strength of internal controls and quality of accounting policies”.

The role of internal auditors is to review the implementation of company policies and to audit financial statements of branch offices. In doing this job, internal auditors use company values, symbols and rules as a legiti-

mate means of influencing the organisational members of PT. AB, especially in branch offices, to be committed to transparent and ethical business practice. Thus, internal auditors mobilise power by manipulating symbols and rules so as to convince others that what internal auditors do is legitimate and rational (Bradsaw 1998; Hardy 1996).

Company policies and operating procedures are examples of organisational rules used by the internal auditor to influence others. Through these policies and procedures, internal auditors can determine whether organisational members comply with the organisational rules. Sisaye (1997) argues that power control issues in organisations are associated with rules, procedures and practices, as well as formal and less formal relations. Consequently, any findings by internal auditors apparently force PT. AB's organisational members to commit to ethical and transparent business practice because based on the findings, internal auditors can place them in unfavourable positions. Indeed, findings by internal auditors can be used by the Board of Directors to either fire or promote employees. Bourgeois (1991) and Vecchio (1997) claim that organisational members can be forced to obey what a leader requests because the leader controls key organisational resources (such information, skills and monetary reward). Within the framework of Greiner and Schein (1988, p.47), the above description shows that audit committee and internal auditors are able to mobilise power over resources and meanings by employing a strategy of "going around the formal rules" (using company procedures and rules) and "developing a social network" (alliance and coalition between the audit committee and internal auditor).

In mobilising power over decision making, the Audit Committee and internal auditors have the authority to arrange a meeting and to force the Board of Directors of PT. AB to attend it meeting. The Audit Committee has also authority to ask the appointed external auditor to be present at the meeting. During this process, the Audit Committee can employ any findings from the audit processes by both internal auditors and external auditors to influence the Board of Directors. Gendron and Bedard (2004) argue that the social construction of the effectiveness of the audit committee is determined by "the ability of the audit committee to ask questions, have private meetings with external auditors and through ceremonial and substantive components of the meeting" (cited by Cohen et al. 2004, p. 96).

A number of meetings held by the Audit Committee showed its ability to mobilise power over decision making to influence the Board of Directors. An example of this is a meeting held by the Audit Committee, where it discussed findings concerning a problem with financial reporting disclosure and the possibility of fraud in PT. AB. By involving the appointed external auditor and internal auditors, the Audit Committee was able to force the Board of Directors to take necessary actions and disclose necessary information in annual reports.

An audit committee can mobilise power over decision making because the committee has knowledge, expertise and information that enables it to frame the agenda of meetings. Indeed, Kahneman and Tversky (2000) contend that individuals' decisions depend critically on how their options are framed. In regard to the case of PT. AB, the above example shows that the Audit Committee sets the agenda for a meeting and hence controls how issues are framed to direct discussions with external auditors and the Board of Directors. This is what Greiner and Schein (1988, p. 47) refer to a strategy of "playing it straight" by using data/findings to convince and influence others and focusing on the needs of a targeted audience through framing the agenda of meetings.

CONCLUSION AND RESEARCH IMPLICATION

This study is ontologically built on a belief that financial reporting practice is a political practice concerning the supply of information, and involving rules of the game (regulations/rule) and players (interested parties). Specifically, this study is conducted to answer the question of how a company implement corporate governance mechanism and how actors involved in corporate governance mechanism exercise their power to construct financial reporting practice.

The research finding showed that the company has been successful in the implementation of good corporate governance principles especially the implementation of a principle of transparency. The reason for the success is that actors involved in the corporate governance mechanism of the company believed that transparency is a crucial part of communication to persuade those who are interested in insurance business to support what the company has currently conducted in running such a business. In other words, PT. AB seeks support for its legitimacy.

In addition actors in the corporate governance mechanism are seen as powerful in supervising the Board of Directors of PT. AB in setting and implementing company policies, and in shaping financial reporting practice. Through a discussion of power it can be seen the corporate governance mechanism in PT. AB has been successful in shaping quality financial reporting practice because there is a balance of power distribution among actors involved in the mechanism.

Interestingly, considering their power bases, power bases of other players and strategies of exercising power, most of the actors have mobilised power through the use of strategy of alliance and coalition to influence other actors. In doing so, the actors will involve other players when they want to convince others regarding certain issues. For example, the Audit Committee will engage either internal auditors or external auditors to influence the Board of Directors regarding financial reporting practice. In a similar way, in spite of directly dealing with the Board of Directors, external auditors always involve the Audit Committee in discussing their findings in regard to internal control weaknesses or procedures and other financial reporting issues.

To sum up, in PT. AB, the balance of power among actors is seen as an essential element in creating an effective control of financial reporting practice. In fact, to produce quality financial reporting practice, a balance in distribution of power among the actors is needed. The actors do not only hold power but they also have to mobilise power to construct financial reporting practice. Hence, financial reporting practice in PT. AB is a dynamic process involving a number of actors that are strongly constructed by the political environment.

As other case study research, this study may suffer from limitations. First, the findings of this study are constrained by a single company, and are also constrained by a relatively short data collection period (six months), during which there were no new regulations or pressure during data collection that might influence the company. Possibly, a more complete and comprehensive analysis of institutional, political, and cultural change is needed. Second, even though this study was undertaken by prolonged engagement in the organisational setting, and by using a triangulation approach in collecting data and interpreting research findings, this study may have suffered from a subjective bias, especially in interpreting data or facts. Meanings, symbols, and facts gathered and discussed in this study were translated by the researcher without endorsement by an impartial third party. Thus, it is possible that meanings, symbols, and facts are misinterpreted unintentionally. Nevertheless, this should not be a crucial problem because no research approach is free from a subjective bias, whatever research paradigm is used. In fact, interpreting and reporting research findings is a matter of rhetoric of how the researcher uses argumentation and logic to persuade an audience.

Finally, considering limitations of this study, further studies involving different companies from different industries are needed. In order to examine the consistency of research findings and to generalize the findings, such studies should be still directed toward answering questions of how a company implement corporate governance mechanism and how actors involved in corporate governance mechanism exercise their power to construct financial reporting practice.

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AUDIT TEAM DYNAMICS AND AUDIT QUALITY

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ABSTRACT

Audit quality is an important outcome of the work performed by audit team. Works of audit firm generally performed by team and teamwork performance will lead to a good audit quality. Good audit quality, in turn, will result in good audit report. Related to the interaction among audit team members, some factors that need to be highlighted is the structure or composition of the team, communication among team members, and effective use of time. This research intend to explore audit team dynamics in constructing audit quality. The test of audit team dynamics effect on audit quality is performed through a survey research toward auditors who work in audit firms. Result shows that significant aspect of audit team dynamics which affect audit quality are communication and effectiveness of audit time.

Keywords : audit quality, audit team, team dynamics, audit communication, audit effectiveness

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INTRODUCTION

Every profession emphasizes attention to the quality of services provided, and public accounting profession is no exception. Quality of service is important to ensure that the profession has fulfilled its responsibilities to clients, public, and government (Boynton et al., 2003: 33). Based on this, public accountant has an obligation to maintain the quality of audit effort as a form of attention to quality. Good audit quality will result in good audit report which can present client's financial report fairness and can be used as the basis for decision making.

De Angelo (1981) defines audit quality as the joint probability of discovering and reporting a material misstatement. The auditor's ability to discover a material error, when one exists, depends on the auditor's technical competence, whereas the willingness to report a discovered error relates to the auditor's independence. The possibility that an auditor can find and report the misstatement is dependent on several factors, including the audit team (Hardies et al., 2009). Attention should be drawn to the issue of audit team to achieve a good audit quality because audit process is controlled fully by an audit team. From a broader view, team can become a means by which organization operates productively, more flexible, decrease errors and irregularities and improve quality as well as public's satisfaction. Management always set a team condition to make an effective audit process (Keen dan Keen, 1998). Audit quality, in this case, will be formed through the dynamics of the audit team.

Audit team dynamics can be viewed through the characteristics and interaction among its members. Characteristics of the main audit team members can be seen from the auditor's competence and independence. Competence and independence of audit team members is the focus that must be considered in relation to the quality of audit (Chaney et al., 2003). The audit team is usually formed by considering the competencies necessary to achieve the audit objectives. In addition to competence and independence, public accountants must continue to hone their professionalism through a series of audit experience. According to Libby and Trotman (1993), experience of the auditors in conducting audits can be a determinant of qualified auditor. Ho and May (1993) argue the experience will generate knowledge and knowledge is stored in the memory of the auditor. Tubbs (1992) revealed that experienced auditor has advantages in terms of detecting fraud, understanding fraud accurately and identifying causes of fraud.

Related to the interaction among audit team members, some factors that need to be highlighted is the structure or composition of the team (Muhammad, 2005), communication among team members (Prasetyo and Bramantyo, 2007), and effective use of time (Keen and Keen, 1998). According to Muhammad (2005), the audit team is a team that was formed in stages and consists of several individuals (senior, supervisors, and managers) who work together in order to carry out the audit. From composition aspect, existing audit team has the task of each and is expected to complement each other so that the audit is carried out smoothly and can achieve good quality. Before interact with external parties, auditor should have adequate internal communication mechanisms to make the audit team solid and have the same perceptions and objectives (Prasetyo and Bramantyo, 2007: 31). The more intense the communication that occurs between members of the audit team, the more things can be shared among audit team member so that they can discover material error. The success of internal communication in one audit team strongly support audit execution and will lead to on time and on quality audit process completion (Prasetyo and Bramantyo, 2007: 31). Finally, audit time usage is an important factor to see how far cooperation between team member is being built. The existence of clear structure and intense communication will lead audit team work effectively. Effectiveness will be reflected in time effectiveness. Based on those arguments, this paper focused on audit team dynamics as determinant of audit quality.

Research Problem

Audit team dynamics has been a focus of attention in analyzing audit quality because it is audit team who is mastering auditing process performed. A good audit team dynamics will create audit synergies in audit execution. Reversely, poor characteristics of team members (from their competence, independence and experience) will lead to ineffective teamwork. Structure or team composition will play an important role on covering team weaknesses. Audit team which has adequate composition will lead to a clear segregation of tasks that ultimately impact on the achievement of audit objectives. Practically, good cooperation will be created through good communication among team members. Communication and clear structure or composition would make the team can use the time as effectively as possible. Based on these conditions, the study was conducted to obtain a clear picture of the influence of audit team members characteristics (competence, independence, and experience) and interactions (structure or composition, communication and effective use of audit time) on audit quality.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Audit Quality

De Angelo (1981) defined audit quality as the joint probability of discovering and reporting a material misstatement. The auditor's ability to discover a material error, when one exists, depends on the auditor's technical competence, whereas the willingness to report a discovered error relates to the auditor's independence. De Angelo developed two dimensions to define audit quality, that is misstatement discovering and reporting. Watkins, Hillison, and Morecroft (2004) defines audit quality as the ability of auditors to ensure that cheating does not happen (at least materially) and "dare" to report such fraud. Basically, two definitions have in common. The auditor should be able to detect material misstatement, and then report the misstatement in order to achieve a good audit quality. A good audit quality will produce audit report which are able to present the truth about client's financial situation, and can be trusted as a basis for decision making.

Audit Team Members Competence

Bedard (1986) in Elfarini (2007) argue that the competence of the audit is knowledge and procedural skill demonstrated in extensive audit experience. In the auditing standards, in particular the general standard states that the audit should be conducted by one or more who have enough expertise and technical training as an auditor, and in the audit and the preparation of his report the auditor must use his due professional care. Auditor competence is shown by the presence of specific knowledge about something that is done. Bonner (1999) in Nizarul et al. (2007) suggests that knowledge of specific tasks can improve the performance of auditors. Specific knowledge of the auditor must be honed through participation of auditors in courses, seminars or regular education.

Audit Team Member Independence

An auditor has a responsibility to the client, community, colleagues and the auditor itself for the sake of profession continuity and services rendered (Mautz and Sharaf, 1961). To be able to carry out its obligations, there are three components auditor must have, that are competence, independence and due professional care. Qualified audit report depends on the auditor to perform their jobs professionally.

Independence is one of the essential norms for accountant because the opinion of independent accountants is given for the purpose of adding credibility of financial statements which is basically a management overview. Independence is auditor's attitude in maintaining the integrity and objectivity when performing their duties

(Noviyanti and Kusuma, 2001).

Audit Team Member Experience

Auditor's experience is experience in performing audits of financial statements in terms of duration and number of assignments that once handled (Nurchasanah and Rahmanti, 1999). According to Libby and Trotman (1993), experience of the auditors in conducting audits can be a consideration of qualified auditor. Ketchend and Strawser (1998) argues that the auditor is said to gain experience if the auditor has conducted audits of more than two years. Ho and May (1993) argues the experience will generate knowledge and knowledge is stored in the memory of the auditor. Tubbs (1992) revealed that experienced auditor has advantages in terms of detecting fraud, understanding fraud accurately and identifying the cause of the fraud.

Audit Team Composition

Composition of the audit team's reflects first application of general standards of Certified Public Accountants Professional Standards (SPAP): "The audit should be conducted by one or more who have the expertise and adequate technical training as an auditor" (Farkhani, 2004: 12). Although the audit is said to be performed by an auditor, but usually an audit team should be established by taking into account the competencies required to achieve the audit objectives. Farkhani (2004: 12) argues, at least two factors that can be used as attention or consideration in the preparation of the audit team composition (a) the educational background and training of team members and (b) years of service and experience of team members. Both of these can be reflected through a common organizational structure contained in the Public Accountants.

According to Guy et al. (2002), most firms have a similar organizational structure consisting of staff accountant, senior accountant, manager, and a partner or owner. By the time someone first joins a public accounting firm, they are generally classified as a staff accountant or sometimes called assistant or junior accountant. Staff accountants frequently perform routine tasks more detailed audit, but because they have very limited experience, then they should continue to be guided from the close. Senior accountant in charge of carrying out the audit field work and usually have two to five years experience in the field of audit. Senior accountant conduct an audit assignment at a client's office and at the same time to plan and supervise the work of audit staff and reviewing paperwork, comply with deadlines, and ensure that the development of audit work in accordance with the target. Manager in an accounting firm typically have at least five years experience in accounting firms. Senior accountant manager helped them plan the audit program, reviewing their working papers on a periodic basis, and provide other guidance to senior accountant if necessary. Partner is the owner or owners of the CPA's office. Partner or owners usually have had experience over the past ten years or more in an accountant's office. Partner or owner holds all responsibility for the implementation of a final audit and, therefore, review the audit work carried out staff, senior accountant and manager and was responsible for solving problems with the audit client, approve the form and content of audit reports (Guy et al., 2002 : 22).

Communication Among Members of the Audit Team

If communication skills are applied properly, the audit will be run effectively and efficiently. Effective in a sense, an audit can achieve the desired results, efficiently because of the audit process can be carried out smoothly so that audit resources are actually used to achieve the audit objectives (Prasetyo and Bramantyo, 2007: 4). Communication within a group, according to Ivancevich and Matteson (1987) is the transmission of information by a member of the group to other members using certain symbols. In the audit, supervision is always in communication with subordinates about task instructions and the purpose of the tasks assigned to subordinates, providing advice

that can assist subordinates in performing their duties (Muhammad, 2005). Therefore, the communication that exists among the audit team members is important because the success of the team work is strongly influenced by the intensity of communication among the audit team members.

Effective Use of Audit Time

Good teamwork will be reflected in the effective use of time. The effectiveness of the use of the audit was the use of time by the audit team that supports the achievement of audit objectives. Keen and Keen (1998) emphasizes that the effective use of audit time is an important factor to look at the interaction among audit team members.

Effect of Audit Team Member Competence on Audit Quality

Competence must be owned by an auditor. Bonner (1990) in Nizarul et al. (2007), suggests that knowledge of specific tasks can improve the performance of an experienced auditor, although only in the analytical determination of risk. This suggests that the good opinion of the auditor will depend on the competence and the audit procedures performed by the auditor (Hogarth, 1991 in Nizarul et al, 2007). Libby and Frederick (1990), Kusharyanti (2003) and (Elfarini, 2007) found that more experienced auditors have a better understanding of the financial statements so that decisions can be better. Another consideration in the decision-making must be owned by an auditor, in the implementation of audit task is not easy to determine the best decision and therefore other considerations that can support decision-making must be made by the auditor. In another sense it can be said that a competent auditor is the auditor who can make other considerations in decision making so that the resulting quality will be enhanced. When an auditor has more knowledge he will have many sources of reviews, resulting in a decision which is based on more consideration and will end up in higher audit quality. Therefore, it can be concluded that the more competent an auditor, the higher the quality of the resulting audit will be. Based on those arguments we hypothesize as follows:

H1: *Auditor competence affects audit quality*

Effect of Audit Team Members Independence on Quality Audit

Independence is one of attitude that must be owned by an auditor. Without the independence auditor can not obtain a qualified audit. Independence is reflected when an auditor in carrying out its audit duties and he was not being subjective or siding with one party, and also when the auditor does not work at companies that have a special relationship with him. If the accountant is not independent of his client, then his opinion will not provide any additional value (Mautz and Sharaf, 1961:246). Code of Ethics for Public Accountants explains that the independence of attitude is expected from a CPA for not having a personal interest in the execution of his duty, which contrary to the principles of integrity and objectivity. If the auditor performs audits on companies with family ties, there will be possibilities to help companies in order to be viewed good by a prospective investor, and a lot of inner conflict that must be faced by auditors when carrying out their audit duties. When these things happen then the independence of the auditor will be low, because the auditor will begin to think to do things that are less objective due to the pressures that exist and the nature of subjectivity. Based on the arguments we hypothesize as follows.

H2: *Auditor independence affects audit quality*

Effect of Audit Team Experience on Audit Quality

Public accountant with experience will be better able to identify the errors and fraud that occurred. Usually a person with experience is able to solve the problems quickly, and an auditor is no exception. Experienced auditors perform

an audit to know what things will be done to complete the job. Therefore we can conclude that the auditor experience can determine audit quality through knowledge and the advantages gained from the experience of doing the audit. The more experienced an auditor, the better the results and audit quality. This can increase the quality of audits.

According Ketchend and Strawser (1998) auditor experience (more than two years) can determine the quality of audits through the knowledge gained from the experience of doing the audit. Associated with the work of Ho and May (1993) which states that experience will generate knowledge and knowledge is stored in the memory of the auditor, it is said that auditor memory plays an important role in the quality considerations (Johnson 1994). Meidawati (2001) in Widagdo et al. (2002) argues experience is an essential attribute being owned by the auditor. It is proved by the mistakes made by inexperienced auditors which is more than the one made by experienced auditor. Isaac (2000) in his research suggests that audit experience significantly influence audit quality. Based on the above arguments, we hypothesize:

H3: Experience in conducting audits affects audit quality

Effect of Audit Team Composition on Audit Quality

Audits are generally not carried out solely by one auditor. The audit team is usually formed by considering the competencies necessary to achieve the audit objectives (www.kp2ma.uajy.ac.id). Audit team structure refers to the degree to which each member has the burden of limited activity and a different behavior. Purpose of given task load limit is to ensure the suitability level of coordination and integration activities of the audit team to achieve the goals of auditing (Muhammad, 2005: 127). Francis in Hardies et al. (2009) stated that the audit team characteristics such as composition of the audit team are factors that affect audit quality. If the composition of the staff accountants, senior accountants, managers, and colleagues in an audit team is in accordance with the requirements, then the audit will not be interrupted so that audit quality will be maintained. Based on these arguments we hypothesize as follows:

H4: *Audit team composition affects audit quality*

Effect of Communication Among Audit Team Members on Audit Quality

The audit team is a team that was formed in stages and consists of several individuals who work together in order to carry out the audit (Muhammad, 2005). Because it consists of a few individuals, then the communication between members of the audit team is the basic activity to combine information from each member to be a useful unit for the implementation of the audit. Since the beginning of the process of planning the audit until the end of the reporting of audit results, communication will be required as a medium for information sharing and coordination among audit team members. With adequate internal communications, the audit team will be solid compact and have the same perceptions and goals. As revealed by Prasetyo and Bramantyo (2007) the success of internal communications within the audit team strongly support the smooth implementation of the audit so that audit can be completed on time and on quality. These arguments lead to the following hypothesis:

H5: *Communication among team members affects audit quality*

Effect of Audit Time Effectiveness on Audit Quality

The audit team worked with a certain time limit. Time constraints must be addressed appropriately in order to achieve the audit objectives. Coordination and communication among members of the audit team will lead the audit team to work effectively. Keen and Keen (1998) states that the effective use of time showing the spirit of all team members to achieve the audit objectives set. Passion and desire to achieve goals and complete audit assignments as indicated by the effective use of time will cause the realization of an adequate audit quality. Based

on these arguments we hypothesises as follows:

H6: *The effectiveness of audit affects audit quality*

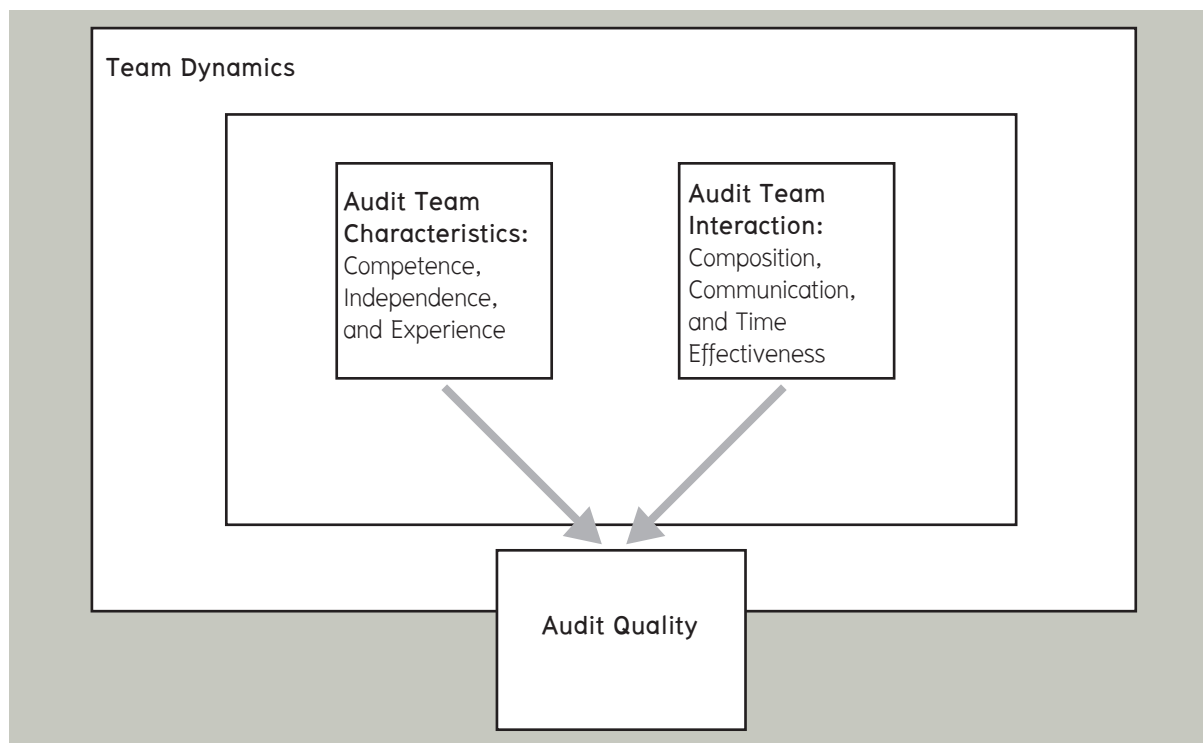


Figure 1 : Research Model

RESEARCH METHOD

Types and Sources of Data

This study uses primary data, ie data derived from the original source (Priadana, 2009: 36). Primary data obtained from questionnaires to respondents, which include auditors who worked on the public accounting firm in Java, Indonesia

Population and Sample

Indonesia terdiri dari banyak pulau, namun pusat pemerintahan dan populasi penduduk dan usaha terbesar berada di pulau Jawa. Dalam konteks KAP, sebaran KAP terpusat pula di pulau Jawa baik KAP afiliasi maupun KAP lokal. Sehingga konsentrasi pengambilan data dipusatkan di pulau Jawa.

The population in this study is the auditor who worked in public accounting firm in Java. The study was conducted to examine some of the elements referred to the study population or sample (Priadana, 2009: 103). Sampling techniques used for this study is judgment sampling as part of a purposive sampling. Judgment or purposive sampling that is conducted for research purposes is only meant to uncover the variables in the sample (Priadana, 2009: 167). Respondents selected are those that have special characteristics and in a position to provide the desired information. Sample is not randomly determined but is based on specific criteria such as auditor who works as junior auditor, senior auditor, manager and owner in public accounting firm. Data collection is performed directly, by visiting the Office of Public Accounting in Java and disseminates questionnaire to the auditor to obtain the necessary data in this study.

Measurement of Variables

Audit Team Members competencies (X1)

Competence includes a lot of things, one of which is decision making. If someone has a high competence the possibility of any decision that he would take is qualified. Competence is generally measured using five questions relating to the auditor's specific expertise in the auditing process. Through the identification of specific expertise, we can assess auditor's competence in performing tasks.

Independence of the Audit Team Member (X2)

Independence is attitude in which someone does not take a side with one party only, or be objective in carrying out audit duties. In addition, auditor also should perform audit on entities that do not have a relationship with him (Arens, 2004). The independence will be measured by several questions about attitudes and opinions of the auditor's independence when confronted with the task of the audit which has a special relationship.

Experience of Conducting Audit (X3)

Experience of audit team members in performing the audit can be seen from the time span working as an auditor. Experience variables in this study will be measured by using time span questions about working as an auditor.

Audit team composition (X4)

Audit team composition as defined in this study is the proportion of the number of staff accountant, senior accountant, manager, and a team of audit partner on an audit activities. The instrument used to measure the composition of audit teams related to the proportion of the audit team associated with the resulting audit quality include: (1) the number of staff accountants more than the other team composition, (2) the number of senior accountant more than the other team composition, (3) the number of managers more than the other team composition, (4) the owner or partner more than the composition of the team.

Communication Between Members of the Audit Team (X5)

Communication between team members is a basic activity in order to incorporate a variety of information into a final product in the form of audit opinion (Muhammad, 2005). Empirical indicators used to measure the variables of communication adopted from Rudolph and Welker (1998), include: (1) information overload, (2) boundary spanning, (3) satisfaction with supervision, (4) the accuracy of the information (Muhammad, 2005: 128).

Effectiveness of the Audit Time (X6)

The effectiveness of the audit time showed satisfaction with the experience of audit, performance of audit team, and team spirit (Keen and Keen, 1998). Audit team effectiveness is measured by comparing the time the audit is realized and the time of the planned audit.

Audit Quality (Y)

Audit quality is a possibility that an auditor will discover and report material misstatements in financial statements (Hardies et al., 2009). Empirical indicators used as the indicators of audit quality suggested by Harhinto (2004) and Kartika Widhi (2006) is as follows: (a) report all the errors the client, (b) understanding of client accounting information systems, (c) a strong commitment in complete the audit, (d) based on the principles of auditing and accounting principles in the conduct of field work, (e) does not believe the client's claim, (f) caution in decision making (Elfarini, 2007: 49).

RESULTS

The research was conducted by distributing questionnaires to the accountants who worked at several public accounting firm in Jakarta, Semarang, Yogyakarta, and Surabaya. The results of questionnaires dissemination can be seen as follows:

Table 1 : Detail of Questionnaire Dissemination

| No. | KAP | Delivered | Returned | Processed |
|-----|--|-----------|----------|-----------|
| 1 | KAP Kumalahadi – Yogyakarta | 4 | 4 | 3 |
| 2 | KAP Doli, Bambang, Sudarmadji & Dadang–Yogyakarta | 10 | 10 | – |
| 3 | KAP Hadori Sugiarto Adi & Rekan–Yogyakarta | 15 | 4 | 2 |
| 4 | KAP Abdul Muntalib – Yogyakarta | 15 | – | – |
| 5 | KAP Henry & Sugeng – Yogyakarta | 5 | 5 | 5 |
| 6 | KAP DR. Payamta – Surakarta | 10 | 5 | 3 |
| 7 | KAP Wartono – Surakarta | 5 | 5 | 5 |
| 8 | KAP Drs. Afrizal SY – Jakarta | 5 | 5 | 4 |
| 9 | KAP Drs. Yuwono HACO – Jakarta | 10 | 10 | 5 |
| 10 | KAP Drs. Effendy – Jakarta | 10 | 10 | 10 |
| 11 | KAP Armen Budiman & Rekan – Jakarta | 10 | 10 | 8 |
| 12 | KAP Drs. Suhartati & Rekan – Jakarta | 2 | 2 | 2 |
| 13 | KAP DSR – Jakarta | 10 | 2 | 2 |
| 14 | KAP Akhyadi – Jakarta | 20 | 9 | 8 |
| 14 | KAP Doli, Bambang, Sudarmadji & Rekan – Jakarta | 10 | 10 | – |
| 16 | KAP Drs. Bambang Sudaryono & Rekan – Jakarta | 5 | – | – |
| 17 | KAP Drs. Victor T. H. Pandjaitan, Msi. & Rekan – Jakarta | 10 | – | – |
| 18 | KAP Drs. Sofyan Syafri & Rekan – Jakarta | 10 | – | – |
| 19 | KAP Drs. Sudin Sitorus – Jakarta | 10 | – | – |
| 20 | KAP Bayudi Watu – Semarang | 12 | 6 | 6 |
| 21 | KAP Yulianti – Semarang | 3 | 2 | 2 |
| 22 | KAP Dra. Suhartati – Semarang | 10 | 5 | – |
| 23 | KAP Drs. Soekamto – Semarang | 8 | 6 | 1 |
| 24 | KAP Tahir – Semarang | 5 | 2 | 1 |
| 25 | KAP Sugeng Pamudji – Semarang | 10 | 5 | – |
| 26 | KAP Darsono & Budi Cahyo Santoso – Semarang | 2 | 2 | 2 |
| 27 | KAP KJA Duta Karya – Semarang | 10 | 10 | 5 |
| 28 | KAP Amir Abadi Jusuf – Surabaya | 10 | – | – |
| 29 | KAP Boentaran & Boentaran – Surabaya | 10 | – | – |
| | Total | 256 | 129 | 74 |

Table 2 : Summary of Survey Questionnaire Data

| Item | Amount | Percentage |
|---------------------|-----------|--------------|
| Total Questionnaire | 256 | 100% |
| Not returned | 127 | 49,6% |
| Returned | 129 | 50,4% |
| Incomplete | 55 | 21,48% |
| Total | 74 | 28,9% |

The descriptive statistics of collected research data are summarized as follows:

Table 3 : Characteristics of Respondents

| Item | Category | Frequency | Percentage |
|-----------|---------------------|-----------|------------|
| Gender | Male | 48 | 64,9 |
| | Female | 26 | 35,1 |
| Education | D3 | 5 | 6,8 |
| | S1 (under graduate) | 68 | 91,9 |
| | S2 (post graduate) | 1 | 1,4 |
| Position | Auditor Staff | 46 | 62,2 |
| | Senior Auditor | 26 | 35,1 |
| | Manager | 2 | 2,7 |

Table 4 : Descriptive Statistics

| Variable | Minimum | Maximum | Average |
|---------------|---------|---------|---------|
| Age | 20 | 61 | 28,65 |
| Audit Quality | 18 | 30 | 25,01 |
| Competence | 8 | 25 | 19,30 |
| Independence | 11 | 24 | 17,95 |
| Communication | 7 | 25 | 18,11 |
| Effectiveness | 0,43 | 2,50 | 1,18 |
| Experience | 0,80 | 35 | 3,8 |
| Composition | 7 | 20 | 13,74 |

Age is calculated based on the real age of the respondents, that was 20–years old at the lowest and the highest is 61 years old. The average age was 28.6 years old, indicates that most auditors are in the range of that age.

Audit quality is measured using six questions with a Likert scale of 1–5. Based on the results, lowest and highest data ranged from 18 to 30, the sum of the answers to 6 questions averagely rated at 1.25 which indicates a tendency for audit quality at a good level.

Competence is measured using five specific questions related to expertise in the implementation of auditor duties. Measurement used a Likert scale 1–5 with the lowest and highest score of 8 and 25 obtaining the average of 19.3.

Independence is measured by 5 questions using a Likert scale of 1 to 5. The sum total of 5 questions revealing the lowest score of 11 and the highest of 24 so that the average is at 19.5 point.

Communication was measured using five questions with a Likert scale of 1–5. Total value of 5 questions was 7 at the lowest and 25 at the highest with an average range of 18.11.

Effectiveness was measured using real time ratio used to audit compared to the planned time for the audit. The result of the lowest ratio was 0.43 and the highest was 2.5, with an average of 1.18.

Experience was measured using working experience period as an auditor. The results show that the lowest was 0.8 years and the highest was 35 years. The average was then 3.8 years.

The composition of the team is measured using 4 levels which are commonly found in public accounting firms, that are junior auditor, senior auditor, manager and partner. Given the overall respondents answered that the four level are all met, then we took the proxy by counting the number of auditors at those 4 levels. The results showed that the lowest is 7 and the highest is 20.

Validity and Reliability Test

This study used questionnaire to obtain data, so it is necessary to test the quality of data used to test the validity and reliability. The essence of validity is accuracy, and reliability is consistency. The validity of research data is determined by the accurate measurement process. A measurement instrument is said to be valid if the instrument measure what it should be measured (Priadana, 2009: 112). Validity testing performed using SPSS 12.0 statistical program by looking at the correlations for each item. Minimum requirements that must be met in order for the questionnaire to be valid if r is positive and greater than r table. A valid research data, however, must be reliable because the accuracy need consistency. The concept of reliability is the consistency among the items of the question or questions in an instrument. Level of linkage between the grain question or questions in an instrument to measure a specific construct showed levels of internal consistency reliability of the instrument in question (Priadana, 2009: 112). Reliability test was calculated using Cronbach's Alpha formula. If the value of coefficient alpha greater than 0.60, we conclude that the research instrument reliable or unreliable (Elfarini, 2007: 61).

Based on the characteristics of the variables tested, here are the results of variable validity and reliability of audit quality, competence, communication, and independence:

Table 5 : Validity Test

| Audit Quality | | | |
|---------------|--------------------|----------|------------|
| Indicator | Pearson Corelation | Criteria | Conclusion |
| Ka1 | 0,688 | 0,400 | valid |
| Ka2 | 0,672 | 0,400 | valid |
| Ka3 | 0,705 | 0,400 | valid |
| Ka4 | 0,742 | 0,400 | valid |
| Ka5 | 0,745 | 0,400 | valid |
| Ka6 | 0,571 | 0,400 | valid |
| Competence | | | |
| Indicator | Pearson Corelation | Criteria | Conclusion |
| Km1 | 0,714 | 0,400 | valid |
| Km2 | 0,704 | 0,400 | valid |
| Km3 | 0,560 | 0,400 | valid |
| Km4 | 0,536 | 0,400 | valid |
| Km5 | 0,621 | 0,400 | valid |
| Communication | | | |
| Indicator | Pearson Corelation | Criteria | Conclusion |
| Kmsl1 | 0,533 | 0,400 | valid |
| Kmsl2 | 0,891 | 0,400 | valid |
| Kmsl3 | 0,902 | 0,400 | valid |
| Kmsl4 | 0,957 | 0,400 | valid |
| Kmsl5 | 0,802 | 0,400 | valid |
| Independence | | | |
| Indicator | Pearson Corelation | Criteria | Conclusion |
| Ind1 | 0,690 | 0,400 | valid |
| Ind2 | 0,528 | 0,400 | valid |
| Ind3 | 0,640 | 0,400 | valid |
| Ind4 | 0,785 | 0,400 | Valid |
| Ind5 | 0,737 | 0,400 | valid |

Test of reliability performed by reliability test using coefficient showed in cronbach's alpha with the following result:

Table 6 : Reliability Test

| Variable | Cronbach Alpha | Criteria | Conclusion |
|---------------|----------------|----------|------------|
| Audit Quality | 0,9058 | 0,600 | Reliabel |
| Competence | 0,8532 | 0,600 | Reliabel |
| Communication | 0,9192 | 0,600 | Reliabel |
| Independence | 0,8489 | 0,600 | Reliabel |

Classical Assumptions Test

Before the data were analyzed further using multiple regression analysis, it will first be tested for normality, heteroscedasticity, and multicollinearity. This evaluation was used to determine whether the multiple regression models as an analytical tool has met several classical assumptions.

Normality test performed to determine whether the data are normally distributed or not. A good regression model should have a normal data distribution, or near normal. Testing for normality using the Kolmogorov-Smirnov test, histogram graphs, and the spread of P-Plot curve (Elfarini, 2007: 63).

Normality test aims to test whether the regression model or residual confounding variables have a normal distribution.

Graphs Analysis

One way to see the normality is using histogram, comparing observational data with the distribution approaches a normal distribution, as shown in the following figure:

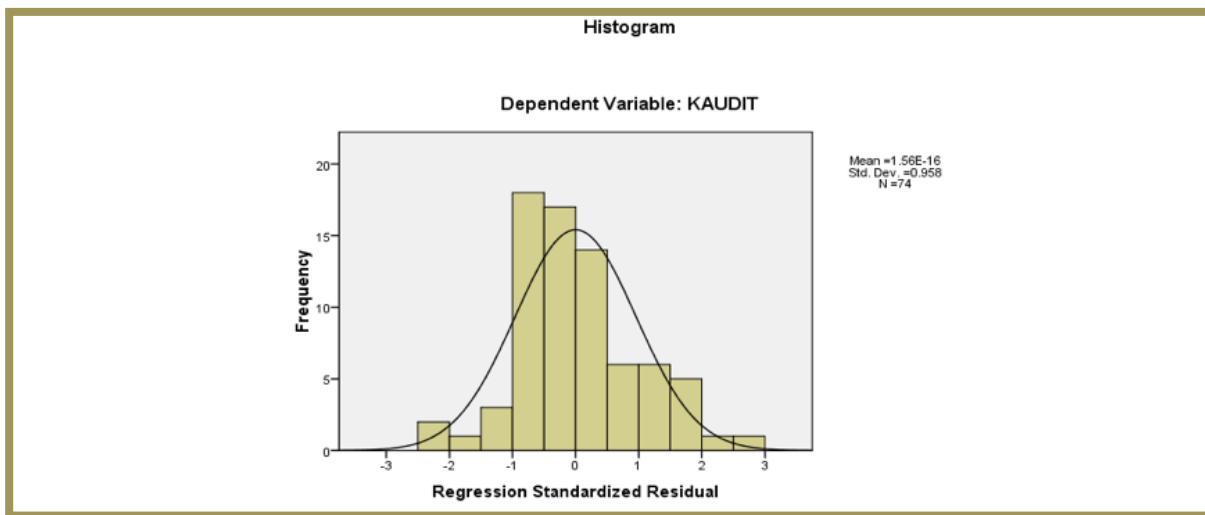


Figure 2 Histogram

While in the normal plot graphics, points are surrounding the diagonal lines and it spread in the diagonal line direction:

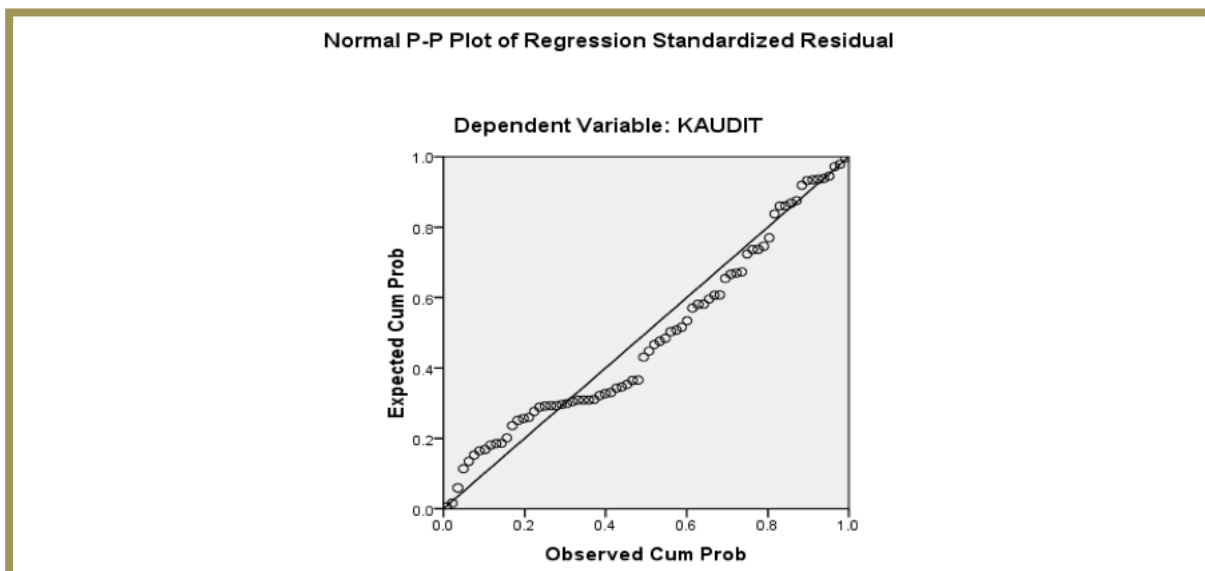


Figure 3 : Normal P-Plot

Kolmogorov–Smirnov Test

By using the Kolmogorov–Smirnov test, it is shown in the SPSS output below that the magnitude of the Kolmogorov–Smirnov is 1.088 and not significant.

This confirmed that the data was normally distributed.

Table 7 : Kolmogorov–Smirnov Test

| One–Sample Kolmogorov–Smirnov Test | | Unstandardized Residual |
|------------------------------------|------------------|-------------------------|
| N | | 74 |
| Normal Parameters ^a | Mean | .0000000 |
| | Std. Deviation | 2.38019413 |
| Most | Extreme Absolute | .126 |
| Differences | Positive | .126 |
| | Negative | –.075 |
| Kolmogorov–Smirnov Z | | 1.088 |
| Asymp. Sig. (2–tailed) | | .187 |
| a. Test distribution is Normal. | | |

Heteroscedasticity appears when an error or residual of the observed models do not have a constant variance of one observation to another observation (Priadana, 2009: 193). A good regression model is a homoskedasticity, not heteroscedasticity (Elfarini, 2007: 63). To detect the presence or absence of heteroscedasticity, it can be done by graph method, which is to see a graph plot of the predicted value of the dependent variable is ZPRED with residual SRESID. Detection of presence or absence of heteroscedasticity can be done to see whether or not a particular pattern in the scatterplot graph between SRESID and ZPRED exist, where X is the Y axis (which has been predicted ZPRED Y) and Y–axis is the residual or SRESID (Y–Y) which has been studentized.

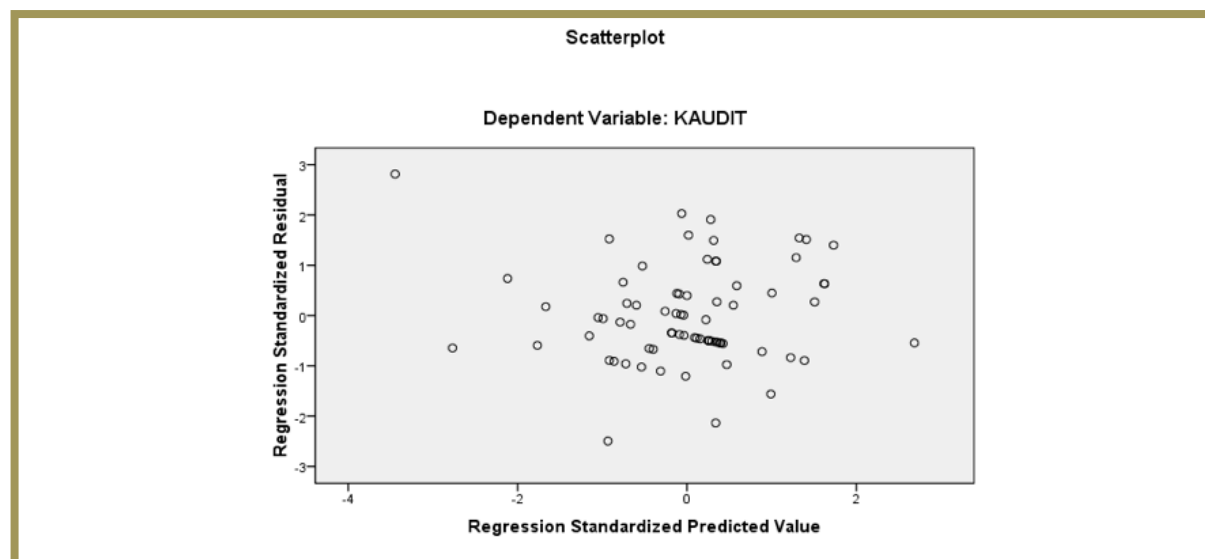


Figure 4 : Scatterplot Diagram

From the above scatterplot it appears that there is no clear pattern, the points spread above and below zero on the Y axis at random, then heteroscedasticity does not happen.

Multicollinearity is the presence of a perfect linear relationship (nearly perfect) between some or all of the independent variables (Priadana, 2009: 193). Gujarati in Priadana (2009: 194) said that if the correlation between two independent variables exceeds 0.8 then multicollinearity is a serious problem.

Based on the results of the correlation matrix output, pair-wise correlation between experience and COMPETENT of 0.212, the correlation between experience and INDEPEND of 0.121, the correlation between experience and the Community of -0.181, the correlation between experience and EFFECTIVE at -0.228, the correlation between experience and KOMPOSIS for 0.236, the correlation between COMPETENT and INDEPEND of 0.028, the correlation between COMPETENT and Community at -0.533, and so on. It appears that there is no pair-wise correlations which are higher than 80%, so it can be concluded that there is no multicollinearity between the independent variables.

Table 8 : Coefficient Correlations

| Coefficient Correlations ^a | | | | | | |
|---------------------------------------|----------|----------|----------|----------|---------|----------|
| Model | KOMPOSIS | INDEPEND | PENGALAM | KOMUNIKA | EFEKTIF | KOMPETEN |
| 1 Correlations KOMPOSIS | 1.000 | .095 | .236 | -.256 | -.080 | -.140 |
| INDEPEND | .095 | 1.000 | .121 | -.214 | -.455 | .028 |
| PENGALAM | .236 | .121 | 1.000 | -.181 | -.228 | .212 |
| KOMUNIKA | -.256 | -.214 | -.181 | 1.000 | .510 | -.533 |
| EFEKTIF | -.080 | -.455 | -.228 | .510 | 1.000 | -.210 |
| KOMPETEN | -.140 | .028 | .212 | -.533 | -.210 | 1.000 |
| Covariances KOMPOSIS | .028 | .002 | .002 | -.005 | -.012 | -.004 |
| INDEPEND | .002 | .011 | .001 | -.003 | -.042 | .001 |
| PENGALAM | .002 | .001 | .003 | -.001 | -.012 | .002 |
| KOMUNIKA | -.005 | -.003 | -.001 | .016 | .055 | -.011 |
| EFEKTIF | -.012 | -.042 | -.012 | .055 | .754 | -.031 |
| KOMPETEN | -.004 | .001 | .002 | -.011 | -.031 | .029 |

a. Dependent Variable:

KAUDIT

Based on Tolerance and VIF values it can be seen that there is no tolerance value below 0.10 (Tolerance value ranges from 0.459 to 0.843), as well as no VIF value above 10 (VIF values ranged from 1.273 to 2.180) so it proved to be no serious multicollinearity.

Table 9 Collinearity Statistics

| Coefficients ^a | | | | | | | |
|---------------------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
| | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 (Constant) | 18.734 | 3.436 | | 5.453 | .000 | | |
| PENGALAMAN | -.057 | .059 | -.121 | -.967 | .337 | .843 | 1.186 |
| KOMPETEN | -.009 | .170 | -.008 | -.051 | .960 | .585 | 1.709 |
| INDEPEND | .071 | .107 | .085 | .660 | .511 | .785 | 1.273 |
| KOMUNIKA | .217 | .125 | .295 | 1.743 | .086 | .459 | 2.180 |
| EFEKTIF | 1.534 | .868 | .265 | 1.767 | .082 | .586 | 1.705 |
| KOMPOSIS | -.027 | .167 | -.021 | -.160 | .874 | .751 | 1.331 |

a. Dependent Variable:

KAUDIT

Autocorrelation test aimed at testing whether a linear regression model has no correlation between the residuals. This problem can arise because the residual is not free from one observation to another observation. To detect the presence or absence of autocorrelation it can be tested with Durbin–Watson (DW test).

Durbin–Watson Test

Table 9 Durbin–Watson Test

| Model Summary ^b | | | | | |
|----------------------------|-------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin–Watson |
| 1 | .344a | .118 | .039 | 2.484 | 1.864 |

a. Predictors: (Constant), KOMPOSIS, INDEPEND, PENGALAMAN, KOMUNIKA, EFEKTIF, KOMPETEN
 b. Dependent Variable: KAUDIT

When compared with the value of Durbin–Watson table with K = 6 and n = 74 , it is obtained that dL = 1.458, du = 1.801.

Durbin–Watson value is above the 1.864 du = 1.801, then it can be concluded that there is no autocorrelation among the residuals.

Hypothesis testing

Testing of hypothesis in this study carried out by using multiple regression. It included a statistical test F and test of t statistic. F statistics test basically shows that all independent variables included in the model have jointly influence the dependent variable (Priadana, 2009: 188). T statistical test basically shows how far the influence of individual explanatory variables in explaining the variation in the dependent variable (Priadana, 2009: 187).

$$KA (Y) = a + b1 komp + b2 Indp + b3 Pglm + b4 Kosi + b5 Komu + b6 Efek + e$$

The test results showed that overall of the six independent variables used to predict the quality of audit is only able to explain 11.8% variation in audit quality. It can be seen through the coefficient of determination (R²) in the following table.

Table 9 : Durbin–Watson Test

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1 | .344(a) | .118 | .039 | 2.484 |

a Predictors: (Constant), KOMPOSIS, INDEPEND, PENGALAM, KOMUNIKA, EFEKTIF, KOMPETEN

Furthermore, based on a variable partial test on audit quality, the following analytical result is obtained.

Table 10 : Regression Result

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 18.734 | 3.436 | | 5.453 | .000 |
| | PENGALAM | -.057 | .059 | -.121 | -.967 | .337 |
| | KOMPETEN | -.009 | .170 | -.008 | -.051 | .960 |
| | INDEPEND | .071 | .107 | .085 | .660 | .511 |
| | KOMUNIKA | .217 | .125 | .295 | 1.743 | .086 |
| | EFEKTIF | 1.534 | .868 | 1.767 | .082 | |
| | KOMPOSIS | -.027 | .167 | -.021 | -.160 | .874 |

a Dependent Variable: KAUDIT

The analysis showed that of the six variables which are thought to have an influence on the audit quality, only two variables, namely communication and effective use of time, which affect the quality of the audit – demonstrated a significant level of significance at an alpha of 10%. Thus only hypothesis 5 and 6 are supported. While 1, 2, 3, and 4 fail to reject the null hypothesis.

CONCLUSION AND RESEARCH LIMITATION

The results of the above analysis have shown that only communication and effective use of time is significant. In the context of the audit team dynamics, communication and the use of time is important to support the establishment of good audit quality.

The results of this analysis do not support the hypothesis of independence, experience, and competence because these variables may better reflect individual factors rather than the variable of team. From individual perspective, these variables might have an influence – but in team they do not have significant effect on quality. In addition to these variables, the variable composition of the audit team that was initially thought to have the effect was not supported as well. This may indicate that the composition does not really matter, what matters in group dynamics is how good is the communication and how effective is the use of audit time. In extreme conditions, perhaps even without a complete composition, the audit team will be able to demonstrate a good audit quality, if in the audit team there is a good communication.

Limitations of the study

This study has limitations in terms of data collection. Since the primary data is used, the fundamental limitation is that researchers can not assist the respondents in filling out questionnaires – meaning, researcher can not be sure whether it is really filled in by the respondents. Untuk mengatasi keterbatasan tersebut, digunakan pertanyaan kontrol yang dalam pengolahannya kemudian dibalik, untuk mengidentifikasi kesesuaian responden yang mengisi dengan responden yang dihipotesiskan. However, in the distributed questionnaires, researchers have put the control questions to minimize respondent errors.

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A STUDY OF CORPORATE BUDGET PLANNING, CONTROL AND PERFORMANCE EVALUATION IN MAURITIUS

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ABSTRACT

The main purpose of this study is to understand the perception of managers on the use of budgets as a tool of performance evaluation. Furthermore, it investigates problems associated with budgeting and examines the budgeting approaches that companies use in Mauritius. A structured questionnaire was administered to 65 managers in both listed and unlisted Mauritian companies. Subsequently, data was analysed using SPSS 20. Results suggest that most companies are using the budgeting system, which in turn could explain the extensive use of budgets as a means of performance evaluation. The study also reveals that the main purpose of budgeting is to promote forward thinking. Budgets also assist in the identification of potential problems. Its main disadvantage is that it encourages “incremental thinking”. Comparisons between listed and unlisted companies were made. Finally, most companies use profit planning technique along with other budgeting techniques. By analysing the responses of the managers and their views towards the budgeting function in Mauritian companies, it has been noticed that most companies tend to improve their budgeting process rather than shifting to changes that would do away with budgets altogether.

Keywords : corporate, budget planning, performance

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INTRODUCTION

Budgeting is an essential tool that helps organizations evaluate their income and expenses for an accounting period and provides them with a financial plan of their expectations over time. Budgeting, when done effectively, can serve as a planning and controlling system. Budgetary control is adopted by organizations for various reasons. An obvious one is certainly for performance evaluation. The budget is a standard against which actual performance can be compared and measured, (Joshi et al, 2003). However, actual results may not always equal to what has been budgeted. Changes happen within a business due to the internal as well as the external environment. These changes may hamper the coordinating role of budgets which may lead to high cost, low quality, missed opportunities and dissatisfied customers. In order to restore any deviations of actual performance from budgeted performance, budget planning and control are necessary. Furthermore, Drury (2006) avers that increasing individual's active participation in budget preparation and using budgets as a tool to assist managers in managing their department can be a strong motivating device due to the challenge they provide. This is due to the fact that budget provides standards by which performance are judged. According to Joshi et al (2003), participation in budgeting is an important issue as it reflects the degree of consensus and consequently management style.

Very little is known on budget practices of firms in Mauritius, more particularly so in listed and non-listed companies. As Joshi et al (2003) aver most studies on budgeting report on practices in advanced countries. The main objective of the study is to delve into budget practices of listed and non-listed companies in Mauritius. More particularly, the study discusses the following:-

Views of managers with regards to performance evaluation.

Understanding how participation of managers is effective in using budgetary control to improve performance.

An assessment of budgeting approaches that companies use and possible problems associated with budgeting will be investigated.

The remainder of the paper is organized as follows: after the introduction, the second section provides findings of previous studies. The third section discusses the methodology used. The fourth section which is on empirical data analysis, discusses the results and findings. Finally, the conclusion and recommendation is presented.

LITERATURE REVIEW

Using budgets for performance evaluation

Many studies (Anderson, 1993; Douglas, 1994; Guilding et al., 1998; Blansfield, 2002) have shown that budgets are used as a main performance measurement system. It is evident that when budgets are used for evaluation purposes, they intend to 'force' subordinates to improve their performance. This explains why evaluation is related to the reward systems. It makes employees' payment and promotions depend on their evaluation (Lau and Buckland, 2001). In their study, Fisher et al (2001) found that using budgets both as a basis for allocating scarce resources among subordinates and as a basis for evaluating subordinates decreases slacks in final budgets and increases subordinates performance. However, Hansen et al (2003) aver that practitioners are concerned about using budgets for planning and performance evaluation as according to them "budgets impede the allocation of organizational resources to their best uses and encourage myopic decision making and other dysfunctional budget games." On the other hand, there is extensive literature which have criticised the use of financial measures as a means of performance evaluation, (e.g. Ittner et al., 1997; Kaplan and Norton, 1996; Shields, 1997). These studies propose that such measures are distorted

by external reporting conventions, they promote short-termism and accounting manipulation, and do not take into consideration the cost of capital or non-financial “leading” measures such as customer satisfaction, labour efficiency or innovation.

Hopwood (1976), in his study on the role of accounting data in performance evaluation makes use of three different styles of performance evaluation, namely budget constrained style (performance is primarily evaluated on the ability to continuously meet short-term budgets), profit conscious style (the manager is primarily judged on their ability to increase the long-term effectiveness of their departments) and non-accounting style (budgetary information does not play a big part in evaluation). The study reveals that cost center heads who feel that they are being evaluated on the basis of a Budget Constrained style report a significantly higher level of job related tension than those who are evaluated on the basis of either a Profit Conscious or a Non-accounting style. However, all of the accounting related styles of evaluation result in a similar level of specific cost tension. A Profit Conscious style does lead to worrying about costs and the budget, but unlike the Budget Constrained style, this does not spread to more general features of the job. These three dimensions will further be investigated in the study.

Participative budgeting

Brownell (1982) describes budgetary participation as “a process in which individuals, whose performance will be evaluated and possibly rewarded on the basis of their achievement of budgeted targets, are involved in and have influence on the setting of these targets.” This creates an environment that encourages the exchange and use of organisational information and can consequently improve performance, since the subordinate’s experience will be transferred to supervisors, commitment will be raised and structured information exchange will be supported (Clinton and Hunton, 2001).

Mixed results have been published in prior literature with regards to budgetary participation. Garrison et al (2008) state that participative budgets have several advantages over imposed budgets, such as, motivation and commitment from participants. Organisational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 1997). Furthermore, Subramaniam and Ashkanasy (2001) found that managers, who have a high perception of innovation when participating in budget-setting, do contribute to improved performance. Sord and Welsh (1958) also aver that a high degree of participation is conducive to better morale and greater initiative.

On the other hand, Stedry (1960) and Cherrington and Cherrington (1973) reported negative relationship between budget participation and performance. A more recent study by Parker and Kyj (2006), examining vertical information sharing as an dominant variable in understanding the performance effects of the relationship between budgetary participation and organisational commitment, found that there is no direct relationship between budgetary participation and organisational commitment. However, participative budgets must be reviewed by a higher level of management to avoid budgetary slack, according to Garrison et al. (2008).

Budgeting benefits or problems

It is believed that of all business activities, budgeting is one of the most important. However, it has been criticised on several fronts. For instance Neely et al (2003) find that traditional budgeting to be time consuming and costly. Moreover, Hansen et al (2003) put forward several criticisms with regards to budgeting and on the assumptions that underlie the use of budgets. For instance, they find that budgets hinder firms from adapting to changes in a timely manner due to their fixed nature and that the use of budgets as a “fixed performance contract” lead to subjective performance evaluation.

The Beyond Budgeting Round Table (BBRT) was set up in response to growing dissatisfaction, indeed to frustration, with traditional budgeting, in the late 1990s. To abandon the traditional budget and replace it with the Beyond Budgeting concept is not about adding another management tool (Hope & Fraser, 2003), it is about re-thinking the way of managing whole organisation and implement new ways of doing things (Bognes, 2009; Hope &

Fraser, 2003). However, despite recent criticisms, in their study of North American firms, Libby and Lindsay (2010) found that the vast majority of companies report that they will continue to use budgets for control purposes as “the benefits of doing so outweigh the costs. That is, they believe budgets and the budgeting processes are value added.”

METHODOLOGY

Sampling

Questionnaires were circulated by post and online. The target population from which the sample was chosen were financial managers of listed and non-listed companies in Mauritius. The list was made by searching the phone directory. Among the probability sampling techniques, a stratified random sampling was chosen.

Questionnaire construction

Items of the survey instrument contained questions identical to those used by Joshi et al (2003). The questionnaire was divided into 5 sections. Section A, B, C, and D comprised of questions related to the use of budgetary control, budget implementation, budget participation, budgets and performance evaluation and problems associated with budgeting. Different options were proposed on a likert scale of 5 where 1 meant strongly disagree and 5 strongly agree. The last section contained questions about the demographic profile of respondents such as type and size of companies. A pilot test was conducted with a few respondents before it was used in full-scale survey to identify any potential problem.

Data Entry and Analysis

“Statistical Package for Social Sciences” commonly known as SPSS 20 was used for analysing the data obtained. Measures of central tendency and dispersion were used to interpret the findings.

DISCUSSION OF FINDINGS

Profile of respondents

125 questionnaires were issued and distributed to listed and non-listed companies out of which only 65 responded. Table 1 below shows respondents types and percentages.

Table 1 : Distribution of responses

| Sectors | Types of company | | Total | % of total |
|---------------------|------------------|----------|-------|------------|
| | Listed | Unlisted | | |
| Financial | 10 | 8 | 18 | 27.7% |
| Commerce | 3 | 2 | 5 | 7.7% |
| Leisure/Hospitality | 7 | 3 | 10 | 15.4% |
| Services | 9 | 7 | 16 | 24.6% |
| Industrial | 0 | 7 | 7 | 10.8% |
| Others | 0 | 9 | 9 | 13.8% |
| Total | 29 | 36 | 65 | 100% |

There were 44.6% of listed companies' and 55.4% of non-listed companies' respondents who have answered the survey. The distribution of survey was done among different sectors having various sizes to have their perspectives about budgeting. Majority of respondents were from financial sectors (27.7%).

Budgets and performance evaluation

As far as performance evaluation is concerned, respondents were asked to rate their views on the use of budgets as a tool of performance assessment from a rating scale of 5 (strongly agreed) to 1 (strongly disagree). This section also determines which of the three Hopwood's (1976) style mostly represent managers in connection to performance evaluation.

As can be seen from Table 2, there is a significant difference between listed and unlisted companies in relation to budgetary control as a tool of performance evaluation. It can be inferred that respondents of listed companies are successfully using their budgetary system as a quantitative reference against which performance of subordinates can be assessed. It can also be deduced that managers from listed companies believe that budgets identify both good and poor performance. It makes employees' payment and promotions depend on their evaluation (Lau and Buckland, 2001). With a mean nearing 5, managers of listed companies strongly believe that budgets should be used to evaluate performance and reward workers. The significant difference could be due to the fact that in unlisted companies budgeting is merely informal

In addition, there is a significant difference between the means of listed and unlisted companies with respect to the use of financial rewards as a motivator to improve performance. Further analysis show that 89.6% of listed companies consent with the fact that financial rewards motivate employees and hence their performance. However, some respondents were indifferent to this statement. This may be explained by the fact that salaries of some managers do not depend on their performance. 3.1% of respondents do not agree with the assertion. They may prefer non-financial benefits or they give more importance to a good working environment.

Table 2: Budget and Performance Evaluation

| Budget and Performance evaluation | Listed | SD | Unlisted | Overall | | t | Sig | |
|---|--------|-------|----------|---------|------|-------|--------|-------|
| | Mean | | Mean | SD | Mean | | | SD |
| Budgetary Control should be used as a tool to evaluate performance and thus be rewarded on that basis | 4.14 | 0.875 | 3.11 | 0.820 | 3.57 | 0.984 | 4.869 | 0.000 |
| Financial rewards motivate employees to improve their performance. | 4.21 | 0.620 | 3.69 | 0.889 | 3.92 | 0.816 | 2.631 | 0.011 |
| Non-financial rewards (promotions, recognitions,etc) motivate employees to improve their performance. | 3.52 | 1.022 | 3.86 | 0.961 | 3.71 | 0.996 | -1.394 | 0.168 |

| | | | | | | | | |
|---|------|-------|------|-------|------|-------|--------|-------|
| The level of difficulty of budgetary goals is an important motivational factor. | 3.07 | 0.842 | 3.31 | 0.951 | 3.20 | 0.905 | -1.049 | 0.298 |
| Manager's performance is primarily evaluated on the ability to continuously meet short-term budgets. | 3.52 | 0.688 | 3.56 | 0.695 | 3.54 | 0.686 | -0.222 | 0.825 |
| (budget constrained style) Manager is primarily judged on their ability to increase the long-term effectiveness of their department. (profit conscious style) | 4.10 | 0.976 | 4.00 | 0.956 | 4.05 | 0.959 | 0.430 | 0.669 |
| Manager use non-accounting style where budgetary information does not play a big part in evaluation. | 2.28 | 0.922 | 3.42 | 0.841 | 2.91 | 1.042 | -5.208 | 0.00 |
| Performance report is prepared to determine the variances and hence take corrective action. | 4.34 | 0.670 | 4.06 | 0.791 | 4.18 | 0.748 | 1.568 | 0.122 |

There was no significant difference between both types of companies with regards to non-monetary rewards and goal difficulty as a motivator for employees to perform better.

Hopwood's (1976) three ways of using budget information when evaluating performance

An analysis of the mean show that more positive response was obtained for the profit conscious style from both listed and unlisted companies as compared to budget constraint style and non-accounting style. It can be inferred that managers could be seen as a good performer, even if their budgets have not been met and also shows that can increase long term effectiveness. If only budget constrained style were used, managers would have been forced to limit their spending within the ambit of the budget, or else they would be penalized when budgets are overspent. This would have lead low morale to staff, increased job stress, manipulation of accounting information just to meet the budget, poor worker-manager relationship. Results are similar to findings of Dugdale and Lyne (2010) whereby only one company provided an example of a budget constrained style which had adverse consequences. In most companies, management style was characterized as more 'profit conscious' rather than 'budget constrained'.

There is significant difference between listed and unlisted companies in relation to the use of non-accounting style. This can be explained by the fact that for unlisted companies budgetary information would be a less important factor than for listed companies and therefore plays little role in performance evaluation.

Budgetary participation

Respondents were asked to rate their perception on budgetary participation. A rating scale of 5 (strongly agreed) to 1 (strongly disagreed) was used to measure the perceptions. Results are shown in Table 3.

Table 3 : Budgetary participation

| Budgetary Participation Perception | Listed | | Unlisted | | Overall | | t | Sig |
|------------------------------------|--------|-------|----------|-------|---------|-------|--------|-------|
| | Mean | SD | Mean | SD | Mean | SD | | |
| Motivation factor | 3.69 | 1.039 | 3.69 | 0.822 | 3.69 | 0.917 | -0.21 | 0.984 |
| It enhances commitment | 4.31 | 0.604 | 3.89 | 0.887 | 4.08 | 0.797 | 2.182 | 0.033 |
| Time consuming and costly | 2.97 | 1.052 | 3.03 | 0.845 | 3.00 | 0.935 | -0.265 | 0.792 |
| May foster budgetary slack | 3.10 | 0.772 | 3.00 | 0.828 | 3.05 | 0.799 | 0.516 | 0.608 |
| It encourages pseudo-participation | 3.00 | 1.363 | 3.17 | 0.845 | 3.09 | 1.100 | -0.604 | 0.568 |

Result show that respondents from listed companies rated enhancing commitment highest, followed by motivating factor, foster budgetary slack, and pseudo participation and time consuming lowest. Similar results were obtained from non listed companies except that they rate budgetary slack higher to pseudo participation. This is in line with prior research that have shown that participative budgeting processes enhance organisational effectiveness by heightening budget participants' motivation (Hofstede, 1968) and organisational commitment (Nouri & Parker, 1998). Except for enhancing commitment, no significant difference were found between listed and unlisted companies with regards to the other factors.

Further analysis show that 32.3% respondents of overall companies find that it is time consuming and costly. 29.3% respondents consent that budgetary slack happens when the organisation uses participatory budgetary control processes. Results are congruent with findings of Lukka (1988) who argue that there is a positive relationship between the degree of participation and the opportunity to create slack. People involved in creating a budget deliberately under-estimate the amount of revenue to be generated, or over-estimate the amount of expenses during the budget period. This allows them a much better chance of 'making their numbers,' which is particularly important for them if performance appraisals and bonuses are tied to the budget. 32.3% agree that budgetary participation leads to pseudo-participation. It can be concluded that subordinates may have the tendency to make up information or give information that is opposite to or very different from the truth. They may purposely omit information that is important or relevant to the given context. Consequently instead of working efficiently towards the objectives of the organisation, the employees may look at their personal interests. It may also be to enhance or protect their self-image, wanting to shield themselves from anger, embarrassment, or criticism.

Budgeting approach

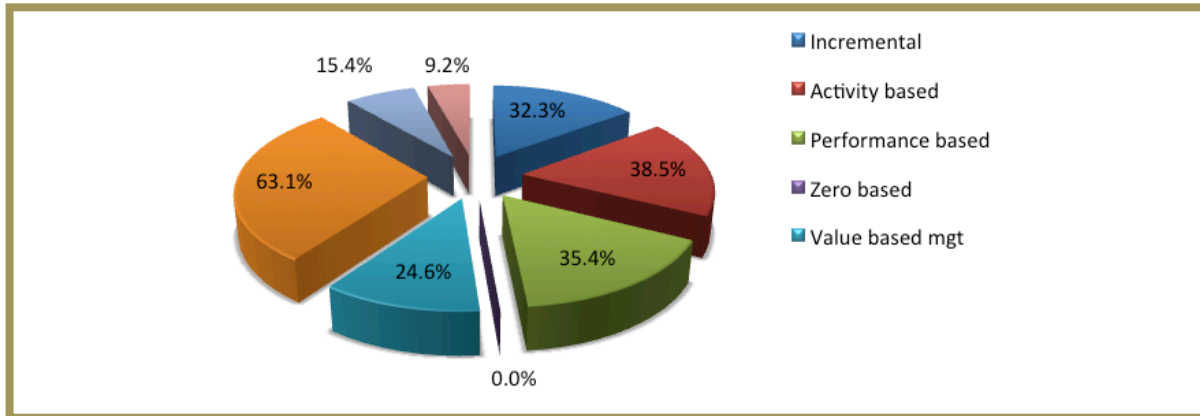


Figure 1: Budgeting Approach

As can be seen from Figure 1, the majority of respondents (63.1%) use profit planning techniques. The choice of such a budgeting approach can be explained on the basis that it provides an on-going standard against which sales performance and cost control can be evaluated. Furthermore, with such an approach, subordinates are aware of their responsibilities such as meeting sales objectives and costs control. 38.5% use activity based budgeting, 35.4% use performance based budgeting and 24.6% use value based management. Only 15.4% use Rolling budgets. 32.3% still use incremental budgeting. This may be explained by the fact that incremental budgeting is retrospective, easily understood, makes marginal changes and secures agreement through negotiation. In addition, it is administratively straightforward and therefore cheap. It also allows policy makers to concentrate on those areas that warrant change.

None of the respondents use zero based budgeting most probably because it is more time consuming than incremental budgeting i.e. it may become overly bureaucratic and produce excessive paperwork. Findings are in line with the study of Abdel and Luther (2006), whereby the study reveal that 58 % of respondents aver finding zero-based budgeting as unimportant while the rest of the sample never used it.

Purpose of Budgeting

Table 4 : Purposes of budgeting

| Purpose of budgeting | Listed | | Unlisted | | Overall | | t | Sig |
|--|--------|-------|----------|-------|---------|-------|--------|-------|
| | Mean | SD | Mean | SD | Mean | SD | | |
| It promotes forward thinking and identification of potential problems. | 4.34 | 0.553 | 4.19 | 0.749 | 4.26 | 0.668 | 0.901 | 0.371 |
| It improves the allocation of scarce resources. | 3.86 | 0.789 | 4.42 | 0.554 | 4.17 | 0.720 | -3.322 | 0.01 |
| It clearly defines responsibilities. | 3.97 | 1.085 | 3.86 | 0.683 | 3.91 | 0.879 | 0.473 | 0.638 |
| It promotes coordination and communication. | 4.10 | 0.817 | 3.92 | 0.770 | 4.00 | 0.791 | 0.946 | 0.348 |
| It focuses on activities that require attention | 4.03 | 0.778 | 3.25 | 0.967 | 3.60 | 0.965 | 3.623 | 0.01 |
| Budget targets are set to motivate good performance. | 4.34 | 0.814 | 3.58 | 1.025 | 3.92 | 1.005 | 3.257 | 0.02 |
| It provides a basis for performance evaluation. | 4.38 | 0.942 | 3.81 | 0.786 | 4.06 | 0.899 | 2.677 | 0.09 |

Drury et al (1993) aver that budgets serve multiple objectives and functions. For instance, budgets have been used as a method of planning the use of resources, has been seen as a vehicle of forecasting, as a means of motivating individuals to achieve performance levels agreed and set. Budgets have also been used as a means of communicating the wishes and aspirations of senior management. Therefore respondents were asked to give their views on budgetary purpose. Significant differences have been found between listed and unlisted companies for budget purpose serving as improving allocation of scarce resources, focusing on areas which require attention and that being set to motivate good performance. As far as the allocation of scarce resources is concerned, a higher mean was found for unlisted companies. This may be due to the fact that such businesses may be family owned enterprises whereby it is sometimes a priority to pass on knowledge and skills to the next generation whereby the significance of resource allocation.

On the other hand, listed companies, being more information driven and more geared towards good image and repute for fund raising exercises, find budgets to be important from the perspective of identifying areas which require attention and as a motivator for good performance. Such difference may further be explained by the

stringent requirements of listed companies which urge managers to save time by focussing more on those activities that need attention. This is in line with findings of Drury (2004). Furthermore, by setting clear and defined targets based on the budget, employees understand what is expected from them. Hence, they are more motivated. No significant difference was found among listed and unlisted companies with regards to other budgetary purposes as revealed by table 4.

Disadvantage of budgeting systems

As can be seen from table 5.1 below, both types of respondents claim that their current budgeting system do not deal with the fast changing environment. This statement is in line with the survey made by Libby and Lindsay (2010) who confirm that the budget does not facilitate adaption to changes in unpredictable environments. A budget is already out of date when it is used and it does not provide helpful information to managers to make decisions (Daum, 2002).

Table 5.1 Budgets cannot deal with a fast changing environment

| Type of Company | Disagree | Neutral | Agree | Strongly Agree | Mean |
|-----------------|----------|---------|-------|----------------|------|
| Listed | 17.2% | 37.9% | 41.4% | 3.4% | 3.31 |
| unlisted | 19.4% | 44.4% | 36.1% | .0% | 3.23 |

Respondents of both listed and unlisted companies find budgets to be time consuming. This is in line with previous literature (Hansen et al 2003). Indeed budgets consume a lot of management time. It may be inferred that managers consider that budget preparation consumes too much resources and that there is an unbalance between the time spent into the budgeting process and the added value of the process.

Table 5.2 Budgets are time consuming

| Type of Company | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean |
|-----------------|-------------------|----------|---------|-------|----------------|------|
| Listed | 3.4% | 34.5% | 17.2% | 27.6% | 17.2% | 3.21 |
| unlisted | 1.5% | 18.5% | 30.8% | 36.9% | 12.3% | 3.40 |

Furthermore, results reveal that 58.3% of unlisted companies agree with the fact that budgets protect rather than lower costs. This may be due to the fact that if a department is allowed a certain amount of expenditure and it does not appear that the department will spend all funds during the budget period, the department manager may authorise excessive expenditure at the last minute on the grounds that his budget will be reduced in the next period unless he spends all of the amounts authorised in the current budget. Only 24.1 % of listed companies agree with this statement. This can be explained by more stringent regulations of listed companies.

Moreover, 63.9% of non-listed companies agree that budgets encourage “incremental thinking” as compared to 34.5 % of listed companies. The reason for such a difference might be explained by the fact that

non-listed companies have less stringent requirements than listed companies. In addition, both listed and unlisted companies agree to the fact that budgets create budgetary slack with a mean of 3.41 and 3.51 respectively.

Furthermore, both types of companies agree to the fact that budgets prevent junior managers from exercising autonomy and that they do not reflect the needs of customers.

CONCLUSION AND RECOMMENDATION

The study reveals that there is a significant difference between the means of listed and unlisted companies in relation to budgetary control as a tool of performance evaluation and with respect to the use of financial rewards as a motivator to improve performance. No significant difference was found between the companies with regards to non-monetary rewards and goal difficulty as a motivator for employees to perform better.

In addition, managers have given more positive answers for the profit conscious style rather than for budget constrained style and non-accounting style and a significant difference was found between listed and unlisted companies in relation to the use of non-accounting style.

Similar results were obtained from listed and non listed companies with respect to budgetary participation except that listed company's rate budgetary slack higher to pseudo participation. As far as budgeting techniques are concerned, majority of respondents use profit planning techniques, followed by activity-based budgeting and performance based budgeting. In addition, both listed and non-listed companies consent that budget promotes forward thinking and help in problem identification

It has also been seen that budgetary participation is considered a positive process. Majority of respondents sincerely believe that it enhances commitment and regard budgetary participation as a motivating factor. 58.3% of unlisted companies agree with this statement compared to listed companies (24.1%). 63.9% of non-listed companies agree that budgets encourage "incremental thinking" which is in contrast with responses of listed companies (34.5%). However, respondents find that budgets cannot deal with a fast changing environment, time consuming, and encourages "incremental thinking".

If the increased level of goals is associated with reward, there may be an improvement in the performance of the employees. For those respondents who follow only budget constrained style, it is advisable for them to put emphasis also on profit conscious style. Budgetary slack which usually occurs where there is budget participation can be prevented or at least minimised by having good coalition between budgeting process and the organisation's strategy. This can be attained by communication and coordination between top management and line managers or among various departments to ensure that they all have the same perspective about achieving the organisational goals. In addition, good implementation of budgetary control also contributes in preventing budgetary slack. While it has been averred that budgets are time consuming, managers can consider putting in place well-designed budgeting procedures in place so that the time involved be lower. Furthermore, to avoid "incremental thinking" certain amount of overhead costs may be allocated to various departments and the managers of those departments may take issue with the allocation methods used. In addition, companies may also introduce responsibility accounting whereby managers will have to report on revenues, costs and profit to those directly responsible for them.

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EVALUATING THE ROLE OF CUSTOMER ENGAGEMENT AND PRO-ENVIRONMENTAL IDENTIFICATION ON THEORY OF PLANNED BEHAVIOR TO PREDICT GREEN CONSUMPTION BEHAVIOR

Premruedee Jitkuekul*

ABSTRACT

The purposes of this paper are to understand and to determine the factors that influence customers' intention to buy green consumption products in Thailand. The theory of planned behavior (Ajzen, 1991) will be used to examine the influence of customer attitudes toward green consumption behavior, subjective norms, perceived behavioral control, customer engagement in green consumption, and pro-environmental identification on Thai consumers' intention to purchase green product. The focus of this paper is to expand the power of the predictive in the theory by adding customer engagement and pro-environmental identification to the model. The role of customer engagement and pro-environmental identification in the theory will be examined.

Keywords : customer engagement, green, consumption behavior

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INTRODUCTION

During the last two decades Thailand has had to face environmental problems such as air and water pollution, soil degradation, water quality problems, and noise and waste problems (ONEP, 2012). The environmental problems in Thailand have emerged from two main causes. The first is due to rapid economic growth in Thailand. For economic development we have expanded the agricultural and industrial systems and use more natural resources. Moreover, we deforested the forests for housing and farming. As a result, this has created a lack of abundance and lack of balance in the ecological system. The second cause is over consumption. In the past, consumers believed that natural resources are infinite (Kotler, 2011). Consequently, consumers had used the resources without care and believed that unlimited consumption is good. Companies manufactured products to respond to customer's wants and needs without a careful analysis of the environmental repercussions. We know now economic growth and over consumption are the main factors that create and perpetuate a degradable environment and an awareness of 'going green' has begun to grow.

Green consumption consciousness has seen a dramatic increase. Consumers have begun to realize the fact that natural resources are finite and the quality of their life does not always increase with more consumption (Kotler, 2011). As a result, they have become more conscious about their habits and the impact this has on the earth (Krause, 1993). They show an intention to create a better environment by changing their habits to buy and consume products. Although consumers are concerned about the environment and know about their habits causing environmental problems, some consumers hesitate to change their behavior. Research suggested that even though consumers developed a concern about environmental issues, they did not change their purchasing behavior (Kalafatis, Pollard, East, & Tsogas, 1999). Thus, it is important to find the factors that influence customers in order to change their behavior to demonstrate green consumption.

One theory that can be used to explain consumer behavior is the theory of planned behavior (TPB). TPB is the most influential socio-psychological theory for explaining and predicting people's behavior (Ajzen, 1991). This model proposes that behavior is influenced from attitudes, subjective norms, and perceived behavioral control through their impact on behavioral intention. The TPB is a parsimonious model for explaining the relationship between attitude-behavior and the TPB can be successfully applied to predict green purchasing behavior (R. Y. K. Chan, 2001; Ricky Y. K. Chan & Lau, 2002). However, Eagly & Chaiken (1993) have argued about the sufficiency of the TPB. And Terry, Hogg, & White (1999), pointed out weak points in the TPB model; one being it only focuses on the individual's view and does not expand its analysis on the role of identification.

Furthermore, Ajzen (1991) said that the TPB is open to additional predictor constructs in the model if the construct can increase the ability of prediction in the model. From previous research, many researchers suggest that the influence of engagement and identification on intentions and behavior increase the ability of prediction in the model (Armitage & Conner, 2001; Terry, et al., 1999).

In this conceptual paper, the author uses Ajzen's (1991) theory of planned behavior (TPB) to provide an insight into customer behavior in the green consumption context. Especially, this paper expands the TPB by considering the role of customer engagement and pro-environmental identification to the model. Thus, the aim of this paper is to develop a conceptual model of how customer engagement and pro-environmental identification matter in the TPB. Also, the author has applied the TPB to green consumption context in Thailand.

RESEARCH QUESTION

What are the roles of customer engagement and pro-environmental identification when applied to the theory of planned behavior (TPB)?

PURPOSE OF THIS PAPER

The purpose of this paper is to expand the TPB by elaborating the role of customer engagement and pro-environmental identification with the model. Furthermore, the author applied the theory of planned behavior (TPB) to green consumption context in Thailand as well.

LITERATURE REVIEW

This section provides the theoretical framework and literature review for the paper. This paper is developed from the theory of planned behavior (TPB) (Ajzen, 1988, 1991). The first part introduces the theory of planned behavior. In the second part, the paper reviews the literature on customer engagement. And the third part reviews pro-environmental identification. A proposed model and proposition are presented based on the literature review after the second and the third parts.

Theory of Planned behavior

The theory of planned behavior (TPB) (Ajzen, 1991) is a model of attitude and behavior that has received extensive interest from researchers. This model evolved from the Theory of Reason Action (TRA). According to the TRA, two variables that determine a person's behavioral intentions are their attitude and the subjective norm. The TRA states that people do what they have an intention to do, and they do not do it if they do not have the intention (Ajzen, 1988). The TRA explained that only volitional behavior follows from people's intention. But because of the failure to accurately predict the behavior, Ajzen (1991) suggested that the model should examine non-volitional behavior also. For non-volitional behavior, Ajzen added a new construct; perceived behavioral control (PBC), which is the perceived ease or difficulty of performing the behavior. Thus, Ajzen had expanded the TRA to the TPB by adding perceived behavioral control to predict intentional behavior.

In accordance with the TPB (Ajzen, 1991), intentions are determined by three factors; attitudes toward the behavior, subjective norms, and perceived behavioral control. The first is attitudes toward the behavior that refer to each person feels when evaluating their performing behavior which can be reflected in a positive or negative way. The second is subjective norms that refer to the people's perception of social pressure to engage in a particular behavior. The third factor, perceived behavioral control is the person's perceived ease or difficulty of performing specific behavior (Fishbein & Ajzen, 1975) (See figure 1).

The TPB can be applied to a variety of topics (Ajzen, 2001; Davis, Ajzen, Saunders, & Williams, 2002; East, 1997; Kidwell & Jewell, 2003) such as psychology, sociology, management marketing and consumer behavior (Kidwell & Jewell, 2003; Shim, Eastlick, Lotz, & Warrington, 2001) and the TPB has proven to be a robust theory (Bamberg, 2003; East, 1997; Kalafatis, et al., 1999). Specifically, the TPB can be used in explaining and predicting buying behaviors for green purchasing and sustainable consumption behavior (Anssi & Sanna, 2005; R.Y.K. Chan & Lau, 2000; Kalafatis, et al., 1999; Tanner & Wölfing Kast, 2003). In addition, the TPB models are suitable for explaining and predicting consumer behavior in a green consumption context.

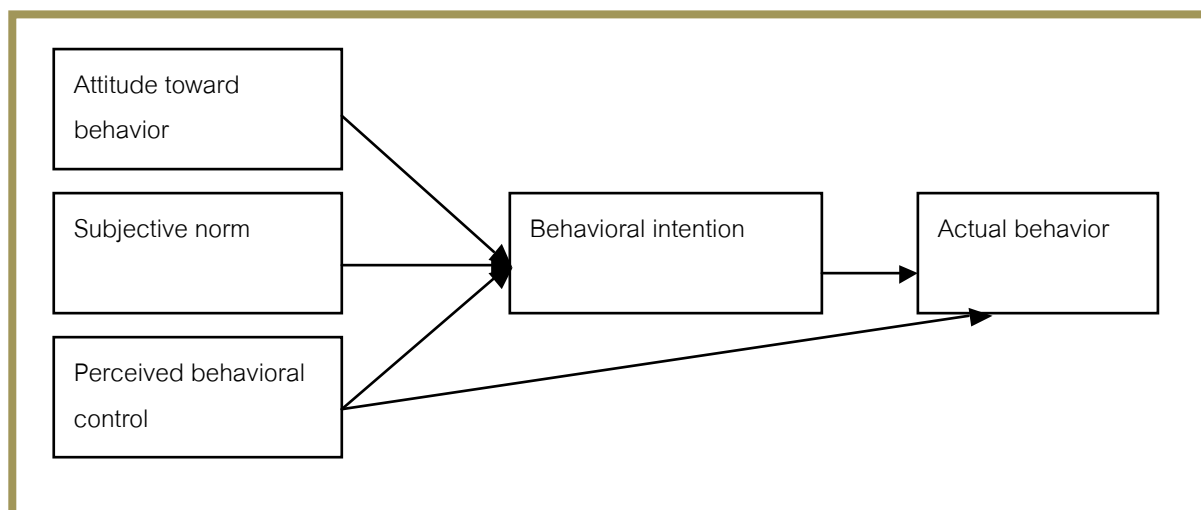


Figure 1 : Theory of planned behavior (Ajzen, 1991)

Customer engagement in green consumption

In the academic arena the term engagement has been used in a variety of disciplines including sociological, psychological, and organizational behavior. From the field of marketing and service it is used in terms of consumer engagement or customer engagement (Brodie, Hollebeek, Jurić, & Ilić, 2011). Customer engagement being the intensity of an individual's participation in and connection with an organization's offerings and/or organizational activities, which either the customer or the organization initiate (Vivek, 2009).

Several studies suggest that customer engagement is cognitively, affectively, behaviorally and/or socially involved (Alan, 2006; Patterson, Yu, & De Ruyter, 2006; Saks, 2006; Vivek, Beatty, & Morgan, 2011). Regarding the cognitive and affective components, customer engagement involves the customer's experience and feelings. Regarding the behavioral and social components, it reflects the customer's participation with other customers or potential customers (Vivek, et al., 2011).

Customer engagement involves enthusiastic interaction with an organization or activity of an organization. Interaction can be represented in many ways; searching information, involving in an activity of a firm, buying a product, and helping other customers by giving important information. In this paper, the author will apply customer engagement to the green consumption context. Therefore, the author defines customer engagement as the intensity or level of customer's participation in and cooperation with green consumption including product, activity and other customers in ways that can increase value for themselves and the environment.

Because customer engagement is a new construct, there is limited research on this facet of the model. The author employs employee engagement and work engagement literature to support the model because customers and employees are highly alike in some ways (Patterson, et al., 2006). Many researchers mentioned that sometimes customers are treated like partial employees (Bendapudi & Leone, 2003; Patterson, et al., 2006; Steve, Kim, & Barry, 1996) because the customer presents their cognitive affective and behavioral attitudes to connect with a product, company and activity, even proposing their personal opinions to the company.

Relationship between theory of planned behavior and customer engagement

From now on, the author talks about the relationship between customer engagement and theory of planned behavior (attitude toward behavior, subjective norm, and perceived behavioral control) through roots from employee engagement literature and propose the according propositions. The conceptual model is in Figure 2.

Attitude toward green consumption behavior

Attitude toward behavior means an individual's overall evaluations, whether positive or negative feelings, in performing a particular behavior (Ajzen, 1991; Ajzen & Fishbein, 1980; Armitage & Conner, 2001).

The attitude toward behavior is based on two factors; a person's salient behavioral beliefs and an evaluation of the expected outcomes from behavior (Ajzen & Fishbein, 1980). Behavioral beliefs are expected behavior's outcomes. Behavioral beliefs are measured as the belief that a specific outcome comes from performance of the behavior (the belief strength). Evaluation of the outcome is the individual's evaluation of each outcome when it happens (Ajzen, 1991; Ajzen & Fishbein, 1980; Armitage & Conner, 2001; Kalafatis, et al., 1999). In general, if people have a positive attitude or favor toward performing behavior, they have intention to perform the behavior (Ajzen, Kuhl, & Beckmann, 1985; Armitage & Conner, 2001).

A number of researches on green consumption have been focused on attitudes. Ellen, Scholder, Joshua, & Cobb-Walgreen (1991) said that green consumption behavior can be predicted by a person's attitude about environmental improvement. Although existing research found a positive relation between attitude of environmental concern and environmental friendly behavior (Roberts & Bacon, 1997; Van Liere & Dunlap, 1981), a number of researches found a low relationship between environmental attitude and performed behavior. Even though customers express a positive attitude about environmental concern, only a few customers are really willing to pay for environmental friendly products (Vermeir & Verbeke, 2006). Suchard & Polonsky (1991) claim that customer's environmental attitudes are overstated when compared with their actual behavior. Grunert & Juhl (1995) mentioned that it is not important that a positive attitude will necessarily lead to a certain performing behavior.

In general, positive attitude can lead people to become more involved rather than withdrawn with something. Newman & Harrison (2008) investigated the relationship between attitude and engagement and found that attitude has a positive relationship with engagement. Harrison, Newman, & Roth (2006) expanded this attitude theory by proposing five models and testing them to find the best model to predict work behavior and they found that engagement can increase the power of predicting behavior. They suggested that the individual, who has a positive attitude with work, contributes to the work role rather than withhold from their work roles. Then they proposed the model of attitude–engagement. From this research it can be explained that engagement plays an important role between attitude and behavior. Thus, a customer who has positive attitude with green consumption tends to engage more with green consumption.

Therefore, proposition 1 is proposed as follows:

P1: Attitude toward green consumption is positively related with customer engagement.

Subjective norm

Subjective norm is an individual's perception of social pressure in doing or not doing a particular behavior and an individual's motivation to comply with the behavior.

Subjective norm is a function of a combination of normative beliefs about reference groups and an individual's motivation to comply with the referents. Normative beliefs represent perceptions of general groups or individuals about something and whether the individual should engage in the behavior or not. Important refer-

ents who influence a person's decision making can be a family member, friends, religious groups, or co-workers. Motivation to comply represents the individuals' wishes to comply with the wishes of the referent (Ajzen, 1991; Ajzen & Fishbein, 1980).

In the environmental context, if customers believe that a referent thinks environmental friendly products are good then these customers will have more intention to buy the products. Subjective norm has a significant effect on behavioral intention in the context of green consumer behavior (Bamberg, 2003; Kalafatis, et al., 1999).

Subjective norm influence customer engagement also. Subjective norm indicates that if an individual perceives that people around them influence them to behave a certain way in regard to some activity, they will be more likely to engage with that activity (Carter & Bélanger, 2005; Hung, Chang, & Yu, 2006). Thus, in this paper, subjective norm means if an individual perceives pressure from people around them to perform green behavior, they will more likely engage in green consumption.

Therefore, proposition 2 is proposed as follows:

P2: Subjective norm is positively related with customer engagement.

Perceived behavioral control

Perceived behavioral control (PBC) is a belief a person has about how easy or difficult it is to evaluate resources, opportunities, and skills to perform the behavior (De Groot & Steg, 2007). Resources, opportunities, and skills have a negative influence on an individual to perform behavior beyond the individual's favorable attitude and social pressure (Blackwell, Szeinbach, Barnes, Garner, & Bush, 1999).

As mentioned early, perceived behavioral control is the construct added to expand the Theory of Reason Action (TRA). The TRA is beneficial in purely predicting volitional behaviors. But for an individual's non-volitional behavior, perceived behavioral control plays an important role to predict behavior, both direct effect and indirect effect through intentions (Doll & Ajzen, 1992).

In the green consumption context, Sparks & Shepherd (1992) study attitudes towards consumption of organic vegetables, and they suggested that perceived behavioral control can predict intention of the consumer to purchase organic vegetables. For example, Suchomel (2005) reported that college students, who have a very positive attitude towards fair trade, will purchase over 80% fair trade goods if they have the resources to buy a product.

Perceived behavioral control (PBC) is related to the way a person evaluates his or her resources, opportunities, and skills to perform the behavior or not (Ajzen, 1988, 1991). From the view of employee and work engagement, many researches found that perceiving present resources stimulates individuals and develops and increases work engagement (Salanova & Schaufeli, 2008; Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009a, 2009b). In regard to green behavior, customers increase engagement with green consumption if he or she believes they have more resources such as time, money, and opportunity to perform green consumption behavior.

Therefore, proposition 3 is proposed as follows:

P3: Perceived behavioral control is positively related with customer engagement.

Intention to buy green product

From the TPB, behavior intention is the motivation to influence purchasing behavior. Behavior intention represents customer's willingness and effort to perform certain behavior (Ajzen & Fishbein, 1980). In this paper, the author defines intention to buy green products as the customer's willingness to buy and shop for green products.

From the the work engagement viewpoint, employee engagement and intention in regard to turnovers is connected to the high level of employee's investment and dedication to their work. Because an employee employs more of their resources to do the work, it is difficult for them to separate themselves from work (de Lange, De Witte, & Notelaers, 2008; Halbesleben & Wheeler, 2008). From the customer engagement perspective, a customer uses and invests more resources to become involved with a product, company or brand; thus, the customer feels indecision about leaving the product. Some researchers also suggest that the engagement of a customer with a product will increase the sales volume (Barth, 2007; Larry & David, 2009; Mahmood, Susan, & Richard, 2007). Consequently, the greater engagement a customer has with green consumption, the greater will be their intention to buy a green product.

Therefore, proposition 4 is proposed as follows:

P4: Customer engagement in green consumption is positively related with intention to buy green products.

Pro-environmental identification

Fisher & Wakefield (1998) said that people always define themselves as a group member and they see themselves as part of a group. In addition, people have positive attitudes about groups and if they strongly identify with a particular group (Mael & Ashforth, 1992), they try to create a good image amongst the group (Bhattacharya, Rao, & Glynn, 1995). This notion relies on the social identity theory.

Social identification means the knowledge an individual has that he or she belongs to certain groups combined with some emotional and value significance offered to them by the group membership (Henry Tajfel, 1972). Terry et al., (1999) said that students who strongly identify with a group have a high intention to engage in exercising certain behavior. And Van Knippenberg (2000) mentioned that employees will enhance their group performance if they are strongly engaged with group identity. From existing research it can concluded that group identification has an influence on performed behavior of individuals.

Nowadays, identification with environmental issues is important and the concept of identification with the environment is broadening (Clayton & Opatow, 2003). Thus, in this paper the author defines pro-environmental identification as the person who knows that they are a member or belong to a pro-environmental group and he or she has significant emotions and values with other members of the group (Bhattacharya, et al., 1995; Henry Tajfel, 1972; Henri Tajfel & Turner, 1986).

Normally, people perform behavior when they have a positive attitude (attitude toward behavior), when they are aware about what other people think about their performed behavior (subjective norm), and then utilize perceived behavioral control to overcome barriers (perceived behavioral control). Therefore, these three factors combined together influence intention to act a certain way and then eventually perform the actual behavior. But some researchers found that the TPB has a problem with its ability to predict behavior and attitude does not strongly predict behavior also (Nigbur, Lyons, & Uzzell, 2010; Wicker, 1969). Even though Ajzen added perceived behavioral control to the model to increase the ability of prediction, the effect on behavior was not evident (Terry, et al., 1999). Nigbur, et al. (2010) explained the weak point of the TPB is that it only concentrates on the role of the individual view of people behavior, regardless of the role of identification. Subsequently, many researchers suggest expanding the TPB by including identification to the model (Armitage & Conner, 2001; Terry, et al., 1999). By filling this gap in the TPB, this paper will examine the role of identification in the PTB to improve the predictive.

In the green consumption context, Sparks & Shepherd (1992) found that intention of the customer to purchase organic vegetables can predict by the scope of green consumer that customer think they are.

Therefore, proposition 5 is proposed as follows:

P5: Identification with pro-environmental is positively related with customer engagement in green consumption.

Identification not only relates to the TPB but also customer engagement. Customer engagement is a positive consequence from identification. Algesheimer, Dholakia, & Herrmann (2005) found that if customers identify themselves as a member of a brand, they are more engaged with the brand and brand community. For example, a customer who identifies him or herself as a green consumer tends to buy green products or spread by word of mouth, the good quality of the green product.

Therefore, proposition 6 is proposed as follows:

P6: Identification with pro-environmental is positively related with intention to buy green product.

Conceptual model

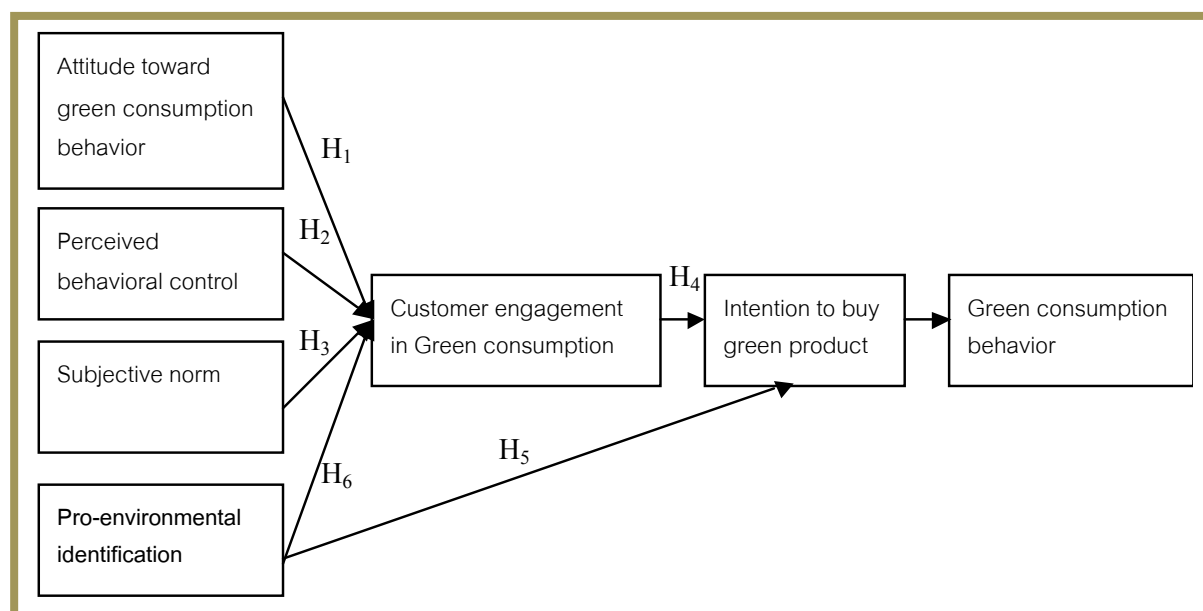


Figure 2 Conceptual model.

THEORETICAL CONTRIBUTION

This paper will be executed in two main parts. First, the author applies the theory of planned behavior to green consumption context in Thailand. And second, the author expands the theory of planned behavior by evaluating the role of customer engagement and pro-environmental identification with the model. Therefore, this paper will fill the gap of theory of planned behavior by expanding the power to predict intention to perform behavior and actual behavior. In addition, this paper also investigates the role of customer engagement as a mediator between attitude toward behavior, subjective norm, perceived behavioral control, pro-environmental identification and behavioral intention.



PRACTICAL CONTRIBUTION

This paper is useful to better understand people's green consumption behavior and will also provide deep insights for the Thai government and marketer to improve customer's behavior for buying green products. By improving green product activity and developing a green community to engage customer to be involved with, this community or group will help to create a strong engagement with green purchasing commitment.



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THE RELATIONSHIP BETWEEN EXECUTIVE COMPENSATION, EMPLOYEE COMPENSATION, AND FIRM VALUE

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ABSTRACT

As explained by the principal-agent relationship, an increase in compensation for a manager in a firm helps reduce agency conflict induced by a non-alignment objective of principal and agent. Henceforth, firm value can be increased in the firm whose executive compensation is paid higher. However, high executive pay may not be a good solution to agency problems if the higher paid executives direct their employees to work in order to benefit themselves rather than the firm (i.e. if they direct employees to work in an overinvestment project, or they grant excessive pay to employees so as to mitigate union problems etc.). In this case, the non-alignment problem might not be resolved. We propose, in this study, that not only is executive compensation related to firm value but the compensation to employees is also an important factor associated to firm value since employees are one of the key stakeholders in a firm and are regarded as a 'human asset' according to the stakeholder theory. This study examines the relationship among executive compensation, employee compensation and firm value. We question how the compensation given to executives and employees affect firm value. We also ask whether the higher payment to executive helps motivate or direct their employees towards higher firm value which is a direct support to the stakeholder theory. If the theory is supported, higher payment to executives should compensate and induce their employees to work more efficiently. Consequently, a firm's value is maximized. Our results find that both executive compensation and employee compensation are main components to firm value. The results hold after controlling for variables such as size, operating risk, and leverage. However, after adding the interaction variable between executive compensation and employee compensation to our regression model, the result shows negative value. This result suggests that just because executives are paid more does not mean they increase their motivational impact on employees in getting them to work harder to maximize firm value.

Keywords : compensation, firm value

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INTRODUCTION

Compensation paid to executives and to employees is regarded as a management tool for managers to enhance a firm's value. Previous empirical studies also provide evidence that when compensation paid to executives is higher, this results in higher firm value (Murphy, 1985; Mehran, 1995). Previous literature explores the relationship between employee's compensation and a firm's value. Most evidence shows that when compensation paid to employee is higher, performance of a firm also increases (Frye, 2004; Best, 2008). How these compensations affect a firm's value is explained in many studies and most explanations have been offered the principal-agent relationship and the stakeholder theories.

When ownership and control are separated, it can raise the 'principal-agent' problem. Given the separation of ownership and control, the firms are not operated to pursue shareholder value maximization (Jensen and Murphy, 1990; Girma et al., 2007). The principal-agent problem arises within the firm when the self-interest of managers may lead them to act other than in the interests of the shareholders. This conflict of interest between a principal and an agent, according to agency theory, is referred to as agency cost (Jensen and Meckling, 1976). Compensation given can link the goals of the shareholders with those of executives by motivating executives to make decisions that maximize shareholder wealth. Thus, the conflict between executives and shareholders can be reduced by giving sufficient compensation to executives and as a result, the firm value will be increased.

There is another theory that explains how the value of a firm is related to other stakeholders beyond shareholders. The stakeholder theory suggests that firm should manage stakeholders' interests and on the other hand must ensure the survival of the firm. This stakeholders' interest can be fulfilled by the executives who operate the firm. Thus, executives not only act as shareholders' agents, but also act as stakeholders' agents. In addition, the executives who join together with other stakeholders can generate outstanding performance. Economic value can be created if stakeholders cooperate to work efficiently together (Freeman et al., 2004).

The stakeholders can be divided into two groups which are primary stakeholders and secondary stakeholders. The primary stakeholders are "one without whose continuing participation the corporation cannot survive as a going concern" and the secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival" (Clarkson, 1995). The primary stakeholders are shareholders, investors, employees, customers, suppliers, governments and communities and the secondary stakeholders are media and other special interest groups. In addition, these primary stakeholders hold two perspectives which are "internal" and "external" (Clarkson, 1995). Galbreath (2006) referred to the idea that the "internal" stakeholders who are engaged in the work "have responsibilities to the primary stakeholders. He defined employees and shareholders as internal stakeholders, while customers, communities and suppliers are classified as "external" stakeholders. Since executives and employees are using their skills and efforts, they are not only considered as internal stakeholders, but also as importance resources of the firm. Thus, executives and employees are considered as key internal stakeholders who are responsible to ensure that the firm will survive.

There are three sources of competitive advantage. Barney (1991) cited in (Wright et al., 1994) said that not only physical capital resources (i.e. plant and equipment) but also human capital resources (i.e. experience and intelligence) and capital resources (i.e. planning, controlling and coordinating system) are important to improve a firm's efficiency over their competitors. Thus, executives and employees are regarded as human assets of the firms. The success or failure of a firm depends on how executives and employees as human assets are able to operate the firm. Although executives and employees are using their expertise, a conflict between the stakeholders can destroy the firm's objective which is maximizing shareholders' wealth.

To apply the agency conflict to the stakeholder theory, we need to investigate the role of other stakeholders (employees). Based on the theory of stakeholders, it is not only the compensation to executives that reduces the conflict of interest but the compensation paid to employees should be another relevant explanatory variable to the firm value. The reward given to these stakeholders should inspire them to work hard and use their expertise as a result increasing the firm's value.

This study is different from other researches that have tested the relationship between compensation and firm value. We propose to test the compensation of key internal stakeholders, specifically, executives and employees in relation to firm value. Our questions begin with similar questions as those in past studies. First, is executive compensation positive to firm value? Second, is employee compensation positive to firm value? We will explain beyond previous studies by investigating the relationship between executive compensation and firm value given the structure of relation between employee compensation and firm value. In other words, we are interested in testing the partial effect of executive compensation and firm value when employee compensation is positive to firm value. To explain the relationship between executive compensation (agent's interest) and firm value (shareholder's interest), this study employed the agency theory as used by previous studies. Based on the agency theory, the principal-agent problem can be diminished by using compensation to motivate managers to act in the best interests of shareholders. So, we hypothesize that there is a positive relationship between executive compensation and firm value. Compensation given to employees can motivate them for peak performance, thus we hypothesize that there is a positive relationship between employee compensation and firm value. Compensation given to executives and employees can motivate them to work efficiently and increase firm value, thus agency conflict between executives (agents) and shareholders (principles) should be diminished. In addition, the interaction between executive compensation and employee compensation is related to the stakeholder theory in that the higher compensation paid to executives should induce their employees to work efficiently and achieve good performance. Therefore, we propose to test the relationship of this interaction and firm value to assert the stakeholder theory. Finally, we hypothesize that the interaction between executive compensation and employee compensation is positive to firm value.

Using the regression model, we find that both executive compensation and employee compensation have a significant positive effect on firm value. Nevertheless, after adding the interaction between executive compensation and employee compensation into the regression model, the coefficient of the interaction between executive compensation and employee compensation is negative. This result can be interpreted that the alliance between executive and employee compensation reduces firm value. It also can be concluded that given the structure of positive relationship between employee compensation and firm value, the compensation given to executives reduces firm value. Following the stakeholder theory, the relationship between these internal stakeholders should increase the firm value. However, the interaction between executive compensation and employee compensation gave the opposite results. The reasons may be because both stakeholders put their self-interests ahead the firm's goal. In addition, as risk averse people, executives are hesitant to invest in risky projects even though these projects give net positive returns. In conclusion, even though compensation can motivate executives to increase firm value, the principle-agent problem between executives and shareholders may still exist. While previous studies contribute to agency theory in the facets of relationship between executive compensation and firm value, the contribution of this study goes beyond previous studies by testing the relationship between the interaction of executive compensation with employee compensation and firm value. The results of our study contribute to the agency theory by studying the principle-agent problem between executives and shareholders while giving compensation to employees. Our study also contributes to the stakeholder theory by studying the relationship between interaction of compensation of stakeholders (executives and employees) and firm value.

THEORETICAL FRAMEWORK/AND HYPOTHESIS

Compensation and Firm Value

The definition of compensation varies. Compensation includes salary, annual bonuses, stock options and performance plans (Core et al., 1999). Moreover, retirement plans, life insurance and health insurance, car allowances, health-club membership, travel reimbursements, paid holidays and vacations are also considered as compensation (Sigler, 2011). In this study, cash compensation paid to executives and employees is given as wages, salaries, bonuses and other benefits that are reported in a currency unit. Usually a firm has used various types of compensation together to provide an appropriate degree of motivation to executives and employees, to minimize agency costs, and eventually to improve firm value (Byun et al., 2007). From previous studies, a system that has been widely used as an effective incentive approach to motivate employees in assessing performance is called the performance-based compensation system. Murphy (1999) pointed out that to successfully motivate managers to act in the best interests of shareholders, the compensation paid to them should relate to the outcomes that can be observed such as performance. Empirical results from many studies find a positive relationship between compensation and firm value (Jensen and Murphy, 1990; Mehran, 1995; Basu et al., 2007; Conyon and He, 2011; Junarsin, 2011).

To study the relationship between compensation paid and firm value, the agency theory is widely used to explain this relationship (Ueng et al., 2000). This theory addresses the implications of contractual relationships that arise when a shareholder (principal) delegates work to managers (agent). Compensation given to managers can motivate them to reduce work inefficiency and increase their value maximizing decisions (Jensen and Meckling, 1976). In addition, the managers will not extract illegitimate benefit for themselves (Carrillo, 2007).

Among the reasons of why executives fail to maximize shareholder wealth are moral-hazard, time-horizon and risk aversion have been addressed in previous studies (Jensen and Meckling, 1976; Dechow and Sloan, 1991; Beatty and Zajac, 1994). The moral-hazard explanation of agency conflicts is proposed by Jensen and Meckling (1976). Managers are, rather than investing in positive net present value (NPV) projects, operating other projects that can increase their own stakes and consume more private perquisites. Another reason is the time-horizon which occurs with respect to the timing of cash flows. While shareholders may focus on all future cash flows because they can invest with unlimited time as long as the business is a going concern, managers may pay attention only to cash flows for their terms of employment. Thus, managers may have a bias to short-term projects which give high accounting returns rather than long-term positive NPV projects. Dechow and Sloan (1991) found that retiring executives initiate fewer research and development (R&D) expenditures because these expenditures reduce compensation in the short-term. Managerial risk aversion is another reason. Beatty and Zajac, (1994) mentioned that shareholders can be expected to be risk neutral because they can easily diversify their shareholdings. Therefore, they are willing to undertake any projects that might result in a positive net present value, regardless of its risk level. On the other hand, managers are viewed as risk averse and opportunistic because if they take risky projects, they are faced with the risk of losing their jobs. This is not the same with shareholders; managers are unable to diversify their income streams and may face personal liability in the case of corporate insolvency or financial distress. As a result, the managers may reject the project that entails high levels of risk, although a project would have a positive net present value. This inherent conflict of interest between managers and shareholders is referred to as the principal-agency problem.

One way to resolve the agency problem is through compensation. Conyon, (2006) found that if a firm designs contracts that optimize incentives, the principle-agency problem can be reduced. By aligning pay with performance, these managers (agents) are motivated to maximize shareholders (principals) value. Moreover, when the CEO is risk averse, the pay must be great to compensate them for risky projects. Thus, compensation can be

considered as a motivator to achieve a firm's objectives. In reality, this compensation paid is not only to executives but also to employees and it is used to urge them to work hard to accomplish firm goals. Many prior studies found that compensation such as bonuses and stock options paid to employees can motivate them to make their best effort (Heinfeldt and Curcio, 1997; Rayton, 2003; Summers and Hyman, 2005). When employees' wealth is linked to the value of the firm such as by receiving stock option, this way may overcome agency problems and motivate the employees to take actions that are in the firm's interests. Thus, compensation can motivate these internal stakeholders to assess firm performance and maximize shareholder value.

Stakeholders and Shareholders

"Whereas value maximization provides corporate managers with a single objective, stakeholder theory directs corporate managers to serve many masters" said by (Jensen, 2001). Jensen (2001) is concerned that two alternative concepts of a corporation exist in academic literature which have led to ongoing debate. First, the corporation must be run in the interests of shareholders, creating value on their behalf. Thus, the objective of management should be to maximize the market value of the company. Another concept, the stakeholder concept, assumes that the corporation must be run in the interests of stakeholders such as employees, suppliers, creditors and government. Abrams (1951) cited in Heinfeldt and Curcio (1997) said "The notion of stakeholder theory states that the multi-purpose corporation seeks to balance the interests of its various stakeholders so that everyone receives some degree of satisfaction".

The definition of stakeholders is wide and there is not a general consensus yet (Carrillo, 2007). The term can be interpreted as all those groups without whose support the organization would otherwise, cease to exist (Carrillo, 2007). Another definition of stakeholders is "any individual or group who can affect or be affected by the achievement of the organization's objectives" (Jensen, 1991). Blair (1999) cited in Yu (2010) commented that the firm as not just a mechanism for governing the relationship between shareholders and managers, but also among all stakeholders. The stakeholders in the firm are, for example, employees who contribute their human capital, shareholders who invest capital, and managers who input their management expertise. Freeman et al., (2004) concluded that good relationships among primary stakeholders like managers, employees, customers, suppliers, and communities is a way to help firms develop valuable intangible assets which can be sources of competitive advantage. As a result, it could lead to increased financial returns.

However, Jensen, (2001) discussed that the stakeholders have different interests. Managers face challenges as they deal with the tradeoffs among these competing interests. The success or failure of the firm can be measured by the long-term market value (Jensen, 2001). In addition, firms require both parties to join their skill and effort to compete with other firms. Carrillo (2007) also mentioned that the alliance between shareholders' and stakeholders' interests can contribute to long term efficiency. Thus, the compensation can be used as a reminder to motivate them to fulfill the firm objectives. Therefore, a positive relation between interaction of both parties' compensation and firm value should exist if both try their best to increase firm value ahead of their own interests. On the other hand, if both parties put their own interests ahead of achieving firm value, a negative relation between interaction and firm value will exist.

Hypotheses

Several researchers have examined the relationship between compensation and firm value. Most of them focus on the compensation paid to executives whose role is like an agent in a principal-agent relationship. Some of these researchers found significant links between pay and performance for executives (Mehran, 1995; Basu et al., 2007; Conyon and He, 2011; Junarsin, 2011). Not only has the relationship between executive compensation been examined, but some research has examined the relationship between employee compensation and firm per-

formance (Heinfeldt and Curcio, 1997; Rayton, 2003; Summers and Hyman, 2005; Babenko, 2009)

According to the agency theory and the stakeholder theory, this study extends the literature by applying the interaction between executive compensation and employee compensation to firm value. This study combines these perspectives, and leads to the following research questions:

Hypothesis 1: Is the executive compensation positive to firm value?

H01: There is no a relationship between executive compensation and firm value, given other variable constants.

HA1: There is a relationship between executive compensation and firm value, given other variable constants.

As we stated before with the agency theory in mind, compensation given to executives can diminish the agency problem. Compensation paid to executives can motivate them to perform well, thus the firm value will be increased. Therefore, it should be a positive sign of the relationship between executive compensation and firm value. Not only executives are, but also employees who operate the firm. To be more competitive, the firm needs their skills and efforts. Best (2008) studied the relationship between employee satisfaction and firm value using a sample of firms from Fortune magazine's list of "100 Best Companies to Work For". He found that compensation and benefits given to employees make them satisfied with the firm. He also found that the higher this satisfaction, the higher the firm value is. Because compensation paid can be used as a tool to motivate employees to perform efficiently, there should be a positive relationship between employee compensation and firm value.

Hypothesis 2: Is employee compensation positive to firm value?

H02: There is no a relationship between employee compensation and firm value, given other variable constants.

HA2: There is a relationship between employee compensation and firm value, given other variable constants.

Both executives and employees are considers as human assets of a firm. To gain outstanding competitive advantage, the firm needs these kinds of assets to give their best effort and efficient performance. In addition, cooperative relationships between executive and employee will give benefit to a firm. As mentioned in the stakeholder theory, an outstanding performance can be generated if stakeholders are cooperating to work efficiently. Compensation given can attract and retain both executives and employees greater levels of their talent. Therefore, a positive relationship between the interaction of executive compensation and employee compensation and firm value should exist.

Hypothesis 3: Is the relationship between executive compensation and firm value positive if the employee compensation is positive to firm value?

H03: There is no a relationship between interaction of executive compensation and employee compensation and firm value, given other variable constant.

HA3: There is a relationship between interaction of executive compensation and employee compensation and firm value, given other variable constant.

RESEARCH METHOD

Data

We used the total data of 729 firm-years of listed companies in the Stock Exchange of Thailand (SET) and in the Market for Alternative Investment (MAI) to test our model. The data covered the period of 2006 to 2008 and were taken from financial statements and annual reports provided by the Stock Exchange Commission (SEC) and the SET. Both exchanges require the listed firms to disclose the compensation of executives in the annual report. However, it is not compulsory to list all the details of compensation. In addition, it is not mandatory for firms to disclose labor compensation. We excluded firms that did not disclose the compensation data. Our data was composed of firms operating in a variety of different fields such as technology, industrials, food, services, and construction.

The data used in this paper came from three separate sources which are the annual reports, DATA STREAM database, and SET Market Analysis and Reporting Tool (SETSMART) on-line service. The compensation data of both executives and employees were obtained from company annual reports and notes to financial statement. The compensation data of executives for each individual firm collected from the annual reports included information such as number of executives, pay (with and without bonus payments), company car, stock options. However, due to the regulations of the Securities and Exchange Commission (SEC), it was not compulsory for firms to declare the details in each component of compensation paid to executives. Thus, we were unable to split the compensation variable into each component. Therefore, this study will report the total cash compensation which includes salary, annual bonuses and other benefits received by executives and employees each year.

The financial data such as return on assets, price per book ratio, and debt to equity ratio of listed companies in the SET and MAI were collected from DATA STREAM database and SETSMART on-line service.

Methodology

This study empirically examines whether compensation paid to key internal stakeholders has a positive effect on firm value. The results can be used to explain how the firm's objective which is to maximize shareholder wealth is affected by this compensation. Regarding the agency cost and pay-performance concept, we offer the model as:

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{ExCom}_{it} + \beta_2 \text{EmCom}_{it} + \beta_3 \text{Growth}_{it} + \beta_4 \text{Leverage}_{it} + \beta_5 \text{Risk}_{it} + \beta_6 \text{Size}_{it} + \epsilon_{it} \quad (1)$$

Regarding stakeholder theory, the relationship of managers and employees should be positive to the value of the firm.

To test the hypothesis, we specify the following model.

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{ExCom}_{it} + \beta_2 \text{ExCom}_{it} + \beta_3 \text{Growth}_{it} + \beta_4 \text{Leverage}_{it} + \beta_5 \text{Risk}_{it} + \beta_6 \text{Size}_{it} + \beta_7 \text{ExCom}_{it} * \text{EmCom}_{it} + \epsilon_{it} \quad (2)$$

Here i indexes firms, t indexes time by year, Tobin's Q_{it} measures firm value. ExCom_{it} is the executive compensation, EmCom_{it} is the employee compensation. $\text{ExCom}_{it} * \text{EmCom}_{it}$ is the error term, and $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6,$ and β_7 are regression coefficients.

Both cross-sectional regression models include dependent and independent variables which are explained as follows:

Dependent variables

Firm Value

From numerous research studies, Tobin's Q was chosen as a proxy for overall firm value (Faleye et al., 2006; Byun et al., 2007; Babenko, 2009). Thus, we undertake Tobin's Q to measure the firm value. Tobin's Q is measured as the sum of market value of common stock plus book value of assets minus book value of common stock divided by book value of total assets. The book value of debt is equal to book value of assets minus book value of common stock. Thus, Tobin's Q is measured in the following way:

$$\text{Tobin's Q} = (\text{Market Value of Equity} + \text{Book Value of Debt}) / (\text{Book Value of Total Assets})$$

Independent variables

ExCom is executive compensation, which we measure as total cash compensation (salary + bonus + other benefits) paid to executives divided by total assets.

EmCom is employee compensation, which we measure as total cash compensation paid to employees (wages + salary + bonus + other benefits) divided by total assets.

ExCom*EmCom is the interaction between executive compensation and employee compensation, which we measure by multiply the executive compensation with employee compensation.

Cash compensation paid to executives and employees are the wages, salaries, bonuses and other benefits from annual reports and the notes to financial statement. Compensation paid to all employees in the firm excludes the CEO and other executives reported in an executive compensation record.

In addition, firm value is possibly influenced by factors other than executive and employee compensation. Four factors that need to be included as control variables are growth, size, leverage and risk. Thus, in our regressions, we control for firm-level variables that matter to firm value according to prior studies (Core et al., 1999; Faleye et al., 2006; Byun et al., 2007; Brockman and Unlu, 2009).

The first variable is growth and the ratio of market value of equities to book value of equities is commonly used as a proxy for growth in previous studies (Varaiya et al., 1987; Becher et al., 2005; Naiker et al., 2008). Naiker et al., (2008) said that a "first to market" product strategy often leads the firm to greater growth experience. In addition growth is considered as a crucial indicator of venture success (Baum, 2001). Growth is positively correlated with returns (Gebhardt et al., 2001; Black et al., 2006).

Second, firm size is well documented in testing firm value. Previous literature reported the positive relation between firm size and firm value (Fama and French, 1992; Carter et al., 2003). A large firm has greater potential to obtain economies of scale, increasing firm value. Henderson and Cockburn (1996) found that size appears to positively affect productivity through economies of scope. They mentioned that there are some advantages that a large firm may have over a small firm. For example, a large firm is able to raise capital, to fund risky projects, and exploit economies of scale and scope and innovative research themselves. Firm size is specified as the natural logarithm of total sale (Byun et al., 2007; Miller et al., 2002; Junarsin, 2011).

Third, leverage also matters to firm value. Previous studies reported that leverage is positively correlated to firm value (Jensen, 1986; Black et al., 2006; Aggrawal et al., 2008). Jensen (1986) found that increased leverage can increase firm value and suggested that debt finance can alleviate agency problems. Another reason as to

how leverage can increase firm value is that instead of investing in a negative project, debt can force executives to pay out cash (Aggrawal et al., 2008). If the firm's reputation is not strong enough, it cannot get debt financing. Thus the firm can increase debt financing when its firm value increases (Black et al., 2006). In addition, we expect a positive effect of leverage on firm value, due to the associated tax shields of debt financing. Leverage (D/E) is measured as total liabilities divided by total equities (Gebhardt et al., 2001).

Forth, firm risk is one of our control variables because riskiness of firm's operation affects firm value. Previous studies found that compensation risk is related to firm risk (Mehran, 1995; Core et al., 1999). In addition, risk-averse executives like to take actions that reduce firm risk or to reject risky projects which give positive net present value (NPV). These actions in turn can adversely affect shareholders' wealth which reduces firm value (Core et al., 1999). Prior literature suggested that risk is negative to firm value (Amit and Wernerfelt, 1990; Mehran, 1995; Core et al., 1999). Firm risk is assessed by the variability of return on asset (profitable a company is relative to its total assets) and it is measured as the three years standard deviation of the returns on asset (Core et al., 1999).

RESULTS

Descriptive statistics such as the mean, the median, the standard deviation, and the number of observations of the sample are provided in the table below:

Table 1 Summary statistics

| Variables | Mean | Median | Minimum | Maximum | Std. Deviation |
|-----------------------------------|------------|-----------|---------|------------|----------------|
| Number of Executives | 8.951 | 8.000 | 2.00 | 33.00 | 3.975 |
| Executive Compensation (millions) | 30.283 | 20.663 | .52 | 197.92 | 28.655 |
| Number of Employees | 1,845.196 | 729.000 | 8.00 | 30,637 | 3,845.629 |
| Employee Compensation (millions) | 613.526 | 183.000 | .78 | 38,046 | 2,530.905 |
| Tobin's Q | 685.347 | 532.860 | 34.18 | 4,065.68 | 575.898 |
| Price per Book Value | 1.325 | .940 | .12 | 10.00 | 1.263 |
| Debt per Equity | 1.138 | .790 | .01 | 16.71 | 1.457 |
| Total Sales (millions) | 12,567.679 | 2,824.872 | 32.42 | 399,124.76 | 36,486.155 |

Table 1 presents the descriptive statistics for the variables. These variables will also be used in our regression model. The mean (median) value for executive compensation in our sample is 30.283 (20.663) million, while the corresponding value for the average employee is 613.526 (183) million. Tobin's Q is measured as the sum of market value of common stock plus book value of assets minus book value of common stock divided by book value of total assets. The mean (median) value for Tobin's Q is 685.347 (532.860). Thus, the result can be implied that the firms in the sample are overvalued on average compared with the book value of the total assets. The mean (median) value of ROA, the return on assets, is 8.203 (8.160). While the market value (as shown by the Tobin's

Q) shows that the average value of firms is relatively higher than the book value, the mean and median book value performance (as shown by the ROA) is moderate at about 8%. In addition, this table shows that total sales across the data are various. The mean (median) value of total sales is 12,567.679 (2,824.872). Prior studies use logarithm of total sales as a proxy for size (Byun et al., 2007; Miller et al., 2002; Junarsin, 2011). In the regression model, we specify the total sales using natural logarithm transformation to have a linear variable in our model.

Table 2 Pearson Correlation Matrix of Variables

Firm value is the Tobin's Q, which is defined as the sum of the firm's market capitalization and the book value of debt, divided by the book value of total assets. Compensation of key internal stakeholders (executives and employees) is measured. ExCom is the executive compensation and EmComi is the employee compensation. Other variables included in this study are growth, leverage, risk and size. Growth is measured as the ratio of market value of equities to book value of equities; leverage is total liabilities divided by total equities; risk is standard deviation of return on assets and size is specified as the natural logarithm of total sales.

| | Tobin's Q | ExCom | EmCom (P/BV) | Growth (D/E) | Leverage | Risk (Std ROA) | Size (ln Sale) |
|----------------|-----------|-----------|-----------------|-----------------|----------|-------------------|-------------------|
| Tobin's Q | 1 | | | | | | |
| ExCom | 0.080*** | 1 | | | | | |
| EmCom | 0.120*** | 0.514*** | 1 | | | | |
| Growth (P/BV) | 0.815*** | -.017 | 0.055* | 1 | | | |
| Leverage (D/E) | -0.207*** | -0.089*** | -.045 | 0.116*** | 1 | | |
| Risk (Std ROA) | -0.255*** | .023 | .029 | -0.259*** | .025 | 1 | |
| Size (ln Sale) | .096** | -.454*** | -.179*** | .193*** | .120*** | .018 | 1 |

***, **, and * indicate statistical significance at the 1 percent, 5 percent, and 10 percent levels respectively.

Table 2 presents correlation between variables. The correlation between executive and employee compensation variables documents the strong positive at 0.514. One possible reason for the positive correlation is that the similar compensation schemes such as bonuses and stock options are used to motivate both executives and employees to achieve the firm's goals. When they want to receive more compensation, they may make greater efforts to enhance their performance. The correlation between growth (price per book value) and Tobin's Q is 0.815 and it is significant at a 1percent level. In addition, the correlation between size and executive compensation is also high and it is -0.454. This correlation shows a significantly negative result at the 1 percent level or a larger size firm pays lower executive correlation. This negative correlation shows that the payment structure is not determined by size of firms as measured by the total sales.

Table 3 Cross-sectional regression of firm value on the executive compensation and employee compensation

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{ExCom}_{it} + \beta_2 \text{EmCom}_{it} + \beta_3 \text{Growth}_{it} + \beta_4 \text{Leverage}_{it} + \beta_5 \text{Risk}_{it} + \beta_6 \text{Size}_{it} + \epsilon_{it}$$

Tobin's Q is defined as the sum of the firm's market capitalization and the book value of debt, divided by the book value of total assets. ExCom is the executive compensation divided by total assets and EmCom is the employee compensation divided by total assets. Control variables are growth, leverage, risk and size. Growth is measured as the ratio of market value of equities to book value of equities; leverage is total liabilities divided by total equities; risk is standard deviation of return on assets and size is specified as the natural logarithm of total sales. ϵ is the error term. β_0 , β_1 , β_2 , β_3 , β_4 , β_5 , β_6 and β_7 are regression coefficients.

| Variable name | Coefficient | t-Statistic | VIF |
|----------------|-------------|-------------|-------|
| Intercept | 535.129*** | 2.777 | |
| ExCom | 3.158** | 2.098 | 1.673 |
| EmCom | .300* | 1.716 | 1.374 |
| Growth (P/BV) | 383.256*** | 43.321 | 1.149 |
| Leverage (D/E) | -117.610*** | -16.204 | 1.029 |
| Risk (Std ROA) | -26.528* | -1.697 | 1.088 |
| Size (ln Sale) | -.397 | -.050 | 1.338 |
| R2 | .763 | | |
| Adjust R2 | .762 | | |
| Durbin-Watson | 1.880 | | |
| N | 729 | | |

***, **, and * indicate statistical significance at the 1 percent, 5 percent, and 10 percent levels respectively.

Table 3 shows the results which are examination of the relationship between executive compensation and employee compensation and firm value. This table demonstrates the firm value is cross-sectional related to executive compensation, employee compensation, growth, leverage, risk and size.

From table 3, the regression results show that both executive compensation and employee compensation are positive significantly with Tobin's Q at the 5 percent and 10 percent level respectively. The coefficient of executive compensation and employee compensation are 3.158 and .300 respectively. These results therefore provide statistical support for Hypothesis 1 and 2. It seems reasonable that the coefficient of executive compensation is higher than employee compensation because executives are assumed to work on the best interest of shareholders. The executives are also sometime judged by the public. Thus they must provide their best performance. In addition, the results can be implied that both executive compensation and employee compensation can be used as a tool to induce both executives and employees to achieve the firm's goal which increases the firm's value.

The control variables in our regression model are growth, leverage, risk and size. Growth (P/BV) has a positive relationship with firm value and its coefficient is 383.256, significant at the 1 percent level. The coefficient of risk (Std

ROA) is -26.528 and it is significant to firm value at the 10 percent level. The results of growth and risk are as our expectation. However, leverage and size give negative results which are different from what we expected.

The coefficient of leverage (D/E) is -117.610 and it is significant at the 1 percent level. Although the empirical research has found that leverage is positively related to firm value, we found a negative relationship between leverage and firm value. One possible reason is that taking executives and employees who are risk averse into account when design capital structure, lower leverage is needed for their safety. Banerjee et al., (2008) mentioned that firms who enter into relationships between stakeholders are required to maintain low leverage.

The effect of size is ambiguous and this result is not the same as our expectation. It may be because large firms can be harder to monitor and have much free cash flow (Jensen, 1986). However, the coefficient of size, though negative, is statistically insignificant.

R square and Adjusted R square are .763, and .762 respectively; thus the model is good. The Durbin-Watson coefficient value closed to 2.0 run tests confirm that an autocorrelation problem doesn't exist. Durbin-Watson from our study is 1.88, so there is no autocorrelation of first-order. The Variance Inflation Factor (VIF) is used to confirm that a multicollinearity problem doesn't exist and its value should be less than 10. The results of VIF from table 3 show lower than 10; thus there is not a serious multicollinearity.

In Tables 4, we repeat the same regression analysis and add the interaction term to our regression model. This table shows the effect of the interaction between executive compensation and employee compensation on firm value. The coefficient of this interaction (ExCom*EmCom) is -.063 with a t-value of -3.604. Thus, it shows a significantly negative relationship with Tobin's Q at the 1 percent level. This result can be interpreted that although executives receive higher payment, compensation paid to employees is not efficiently direct or motivating them though work so as to maximize firm value. There are some reasons to explain the negative results of the interaction. Both executives and employees are risk averse people who are reluctant to take risky projects even though that projects may give a positive net present value. Thus, even though receiving high compensation, both executives and employees will deny taking risky projects and as a consequent, the firm value decreases. There is another reason to explain the negative sign of the interaction between executive compensation and employee compensation. When employee compensation is positive, the relationship between executive compensation and firm value is negative. It can be interpreted that although compensation given can motivate employees to work hard and give their best performance, the compensation given to executives cannot induce them to work efficiently. Finally, a reason to explain this is both internal stakeholders may pursue goals other than maximizing firm value at potentially enormous cost to the shareholders because they are selfish.

Table 4

Cross-sectional regression of firm value on the executive compensation, employee compensation and interaction between executive compensation and employee compensation

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{ExCom}_{it} + \beta_2 \text{EmCom}_{it} + \beta_3 \text{Growth}_{it} + \beta_4 \text{Leverage}_{it} + \beta_5 \text{Risk}_{it} + \beta_6 \text{Size}_{it} + \beta_7 \text{ExCom}_{it} * \text{EmCom}_{it} + \epsilon_{it}$$

Tobin's Q is defined as the sum of the firm's market capitalization and the book value of debt, divided by the book value of total assets. ExCom is the executive compensation divided by total assets and EmCom is the employee compensation divided by total assets. ExCom*EmCom is an interaction between ExCom and EmCom.

This variable is calculated by multiplying ExCom with EmCom. Control variables are growth, leverage, risk and size. Growth is measured as the ratio of market value of equities to book value of equities; leverage is total liabilities divided by total equities; risk is standard deviation of return on assets and size is specified as the natural logarithm of total sales.

| Variable name | Coefficient | t-Statistic | VIF |
|----------------|-------------|--------------|-------|
| Intercept | 400.073** | 2.054 | |
| ExCom | 11.241*** | 4.172 | 5.448 |
| EmCom | .947*** | 3.793 | 2.842 |
| Growth (P/BV) | 381.597*** | 43.431 | 1.153 |
| Leverage (D/E) | -116.004*** | -16.084 | 1.033 |
| Risk (Std ROA) | -27.076* | -1.746 | 1.088 |
| Size (ln Sale) | 5.170 | .644 | 1.390 |
| ExCom*EmCom | -.063*** | -3.604 8.188 | |
| R2 | = .768 | | |
| Adjust R2 | = .766 | | |
| Durbin-Watson | = 1.893 | | |
| N | = 729 | | |

***, **, and * indicate statistical significance at the 1 percent, 5 percent, and 10 percent levels respectively.

The control variables which are growth, leverage and risk in this table show similar results as in Table 3. Growth is significantly positive to firm value, but leverage and risk are significantly negative to firm value. Both growth and risk shows the sign as our expectation. Size is positive to firm value and it is also as we expected. When comparing between both regression models (1 and 2), the coefficient sign of size is not consistent and it shows opposite direction. However, size is not statistically significant in both models.

R square and Adjusted R square are 0.768, and 0.766 respectively, thus, the model is good. The Durbin-Watson coefficient value closed to 2.0 run tests confirms that an autocorrelation problem doesn't exist. Durbin-Watson from our study is 1.893, so there is no autocorrelation of first-order. A Variance Inflation Factor (VIF) is used to confirm that a multicollinearity problem doesn't exist and its value should be less than 10. The VIF results from table 4 are lower than 10; thus there is not a serious multicollinearity.

CONCLUSIONS AND RESEARCH IMPLICATIONS

Previous studies have found that companies attempt to link executive compensation to financial performance. A positive relationship between compensation and firm value was found from many studies (Jensen and Murphy, 1990; Mehran, 1995; Basu et al., 2007; Conyon and He, 2011; Junarsin, 2011). Jensen and Meckling (1976) pointed out that compensation given to managers can motivate them to reduce work inefficiency and increase their value maximizing decisions. To successfully motivate managers to act in the best interests of shareholders, the compensation paid to them should relate to the outcomes that can be observed such as performance (Murphy 1999). Thus, a compensation system has been widely used as an effective tool to motivate executives

to achieve the firm's ultimate goal, value maximization. Both executives and employees are considered as human assets and their experience and intelligence creates a competitive advantage, particularly when an effective compensation system is used.

The aim of this paper is to examine the relationship between compensation and firm value. Although many studies in the past document the relationship between the two variables (executive compensation and firm value), no one evidences the relationship between compensation of two internal stakeholders (executives and employees) and firm value. This research contributes to the area of compensation study by examining the partial relationship of executive and employee compensation and firm value.

The samples used are listed firms in the Stock Exchange of Thailand (SET) and Market for Alternative Investment (MAI). This study uses multiple regressions to examine the relationship between compensation of executives and employees and firm value. In this study, we propose that compensation paid to executives and employees can motivate them to increase firm value. In the first model, we tested the relationship between executive compensation and employee compensation and firm value. The results show that executive compensation and employee compensation each has a significantly positive relationship to firm value. Therefore, each individual compensation (executive compensation and employee compensation) can be used to increase firm value. In the second model, we added the interaction between executive compensation and employee compensation. Although executive compensation and employee compensation each still has a significantly positive relationship to firm value, the interaction shows a decline in firm value. The interaction term which jointly influences compensation of executives and employees is significantly negative to firm value at the 1 percent level. The result can be interpreted that the alliance between these two internal stakeholders reduces the firm value. Therefore, this result is not compatible to the stakeholder theory which suggests that the relationship among stakeholders should increase long-term firm value. In addition, the results can be interpreted that the partial effect of executive compensation is negative to firm value when given positive relationships between employee and the firm value. Thus, it confirms that the compensation given to executives may not solve the agency problem.

There are some reasons that can explain why these results reject the third hypothesis. First, the compensation also included money paid that is not directly connected to the performance such as salary, health insurance and car allowance. Thus, testing the relationship between compensation and firm value may have an error because some types of compensation are not directly responsive to firm value. Second, the executives are considered as risk averse (Beatty and Zajac, 1994). These executives are afraid of losing their jobs when taking risky projects even though these projects give long-term positive returns which increase firm value. These executives may reject the projects and keep cash for their compensation instead. Finally, as is so often typical of humans, executives and employees may consider their self-interests ahead of shareholders' interests. Although the compensation paid is based on performance, they are still likely to take part in activities that increase their own well-being.

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EFFECT OF THE COLLECTIVE THAILAND LOCAL TAX EFFICIENCY

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ABSTRACT

The objectives of this research were to determine tax satisfaction to comply for service quality of Sub-district Administrative Organizations (SAOs) in Thailand, and to identify the association among relevant factors, such as attitude towards local taxation, tax knowledge and understanding, tax fairness perception, and tax compliance behavior. The method of multi-stage random sampling and the systematic random sampling technique were used to choose. The research instruments were the semi-structured interview form and the questionnaire measures eleven levels. The actual collection was done in eight hundred and thirty units for confirmatory factor analysis by LISREL. Results of the study indicated that the determinants had affected tax compliance behavior. It also informed that an indicator for tax Compliance Behavior of the relative importance of Taxpayer Satisfaction is influenced specifically of Service Quality, Attitude towards Taxation, tax Knowledge and Understanding, and tax Fairness Perception

Keyword : taxpayer, satisfaction, compliance, rural, Thai behavior

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Effect of the Collective Thai Land Local Tax Efficiency

The dynamic of changes caused by globalization has brought about both opportunities and threats. The world economic superpowers, such as the U.S.A., Europe, and Japan still need more time for solving their internal economic crises. New batches of economic waves are coming from Africa, India, China and ASEAN. For the ASEAN, the development of AFTA with 600 million population, will be quite a large base of business economy. The emerging of a single market and the single production will push the AFTA to become an important opportunity for investment after the world economic crisis. Advancement in the public sectors and the unification of the ASEAN community will give to be the de-territorialization of the physical boundary. The new state strategy for the new world will be changed to be more oriented locality.

Thailand is a member of the ASEAN also needs to reconstruct the national strategy towards local community, in order to strengthen the local Thai to be more self-reliance, capable of withstanding the new waves of the economic crisis. Being able to rely on its own local revenues will protect itself from falling down, and no more dependence on money from abroad. Thus, all local governments are required to have the strategic plans for the more efficient performance, in order to be able to fortify the financial status of the local at the village levels in Sub-district Administrative Organization (SAO) area in conforming the Finance Ministry's policy of local well-being. From literature review, the conclusion of the word compliance in Thailand can be separated into two elements as figure 1.



Figure 1: Meaning of Thai compliance

But now Thai local people are still lack of participation in drawing the plan and in the process of forming the strategy (Puang-Ngam, 2009; Charoenmuang, 2010). The researcher wants to know the level of rural taxpayers' compliance in Thailand.

STATEMENT OF PROBLEM

All data and information that the researcher have investigated and collected a lot, can summarize five problems. It is name "ECOSOCIOREVENEWPOLITAX", consist of ECONomic, SOCial, REVENue of government, a NEW TAX, and POLItical problems. The last three world economic crises have affected Thai economy a lot since 1977 until now. Total revenue has been decreasing, incurring a lot of international debts of the country. While, the empowerment of grassroots rural people through upgrading well-being of them, need to attaining self-reliance, being inter-dependent in Thai rural community, for strengthening long term economic stability.

If the government can push a "Land and Structure Tax" new land local tax was expect that will help the Thai rural financial strength in the long run. The Decentralization Administration Law has stipulated that financial decentralization needs to be implemented in support of self-reliance of the local administrations. It has targeted

that in the fiscal year 2006 (A Thai fiscal year starts from the 1st of October of the current year to the 30th of September of the year after), local administration should attain 35% revenue, while at present it is only 25% including the subsidy from the central government. Without the subsidy, the local administrations still have the local levied tax less than 10% in the fiscal year 2008 as shown in table 1.1 and 1.2 (Commission for Decentralization to Local Administration, 2009: 1-6).

Table 1.1 : Compared Revenue of Local Administrative Organization in the Fiscal Year 1997 – 2000.

| Types of Revenue | Fiscal Year (million Baht) | | | |
|--|----------------------------|------------|------------|------------|
| | 1997 | 1998 | 1999 | 2000 |
| 1. Local Levied Tax* | 16,985.60 | 17,626.20 | 17,516.80 | 19,475.30 |
| Percentage | 18.09 | 18.02 | 17.92 | 19.51 |
| 2. Surcharge Taxes | 47,380.20 | 48,831.70 | 42,731.60 | 45,527.50 |
| Percentage | 50.48 | 49.91 | 43.72 | 45.62 |
| 3. Shared Taxes | | | | |
| Percentage | – | – | – | – |
| 4. Grants | 29,507.60 | 31,378.90 | 37,499.30 | 34,800.00 |
| Percentage | 31.43 | 32.07 | 38.36 | 34.87 |
| Total Local Revenue | 93,873.40 | 97,836.80 | 97,747.70 | 99,802.8 |
| Total Percentage | 100.00 | 100.00 | 100.00 | 100.00 |
| Revenue of Government | 843,542.30 | 733,136.90 | 708,826.00 | 749,945.00 |
| Proportion of Local Revenue to Revenue of Government | 11.13 | 13.34 | 13.79 | 13.31 |

*Local Levied Tax: Taxes collected by local authorities.

Table 1.2 : Compared Revenue of Local Administrative Organization in the Fiscal Year 2000 – 2008 (After the Act of Decentralization plan and procedure).

| Types of Revenue | Fiscal Year (million Baht) | | | |
|--|----------------------------|------------|------------|--------------|
| | 2001 | 2002 | 2003 | 2004 |
| 1. Local Levied Tax | 17,701.88 | 21,084.47 | 22,258.28 | 24,786.27 |
| Percentage | 11.08 | 11.99 | 12.09 | 10.24 |
| 2. Surcharge Taxes | 55,651.90 | 58,143.52 | 60,217.71 | 82,623.37 |
| Percentage | 34.84 | 33.06 | 32.72 | 34.15 |
| 3. Shared Taxes | 12,669.00 | 19,349.00 | 35,504.44 | 43,100.00 |
| Percentage | 7.93 | 11.00 | 19.29 | 17.81 |
| 4. Grants | 73,729.80 | 77,273.30 | 66,085.72 | 91,438.00 |
| Percentage | 46.15 | 43.94 | 35.90 | 37.79 |
| Total Local Revenue | 159,752.58 | 175,850.29 | 184,066.15 | 241,947.64 |
| Total Percentage | 100.00 | 100.00 | 100.00 | 100.00 |
| Revenue of Government | 772,574.00 | 803,651.00 | 829,495.56 | 1,063,600.00 |
| Proportion of Local Revenue to Revenue of Government | 20.68 | 21.88 | 22.19 | 22.75 |

Table 1.2 (continued)

| Types of Revenue | Fiscal Year (million Baht) | | | |
|--|----------------------------|--------------|--------------|--------------|
| | 2001 | 2002 | 2003 | 2004 |
| 1. Local Levied Tax | 27,018.00 | 29,110.41 | 32,021.45 | 35,223.60 |
| Percentage | 9.20 | 8.90 | 8.96 | 9.35 |
| 2. Surcharge Taxes | 102,520.34 | 100,189.59 | 120,728.70 | 128,676.40 |
| Percentage | 34.90 | 33.69 | 33.78 | 34.16 |
| 3. Shared Taxes | 49,000.00 | 61,800.00 | 65,300.00 | 65,000.00 |
| Percentage | 16.68 | 18.89 | 18.27 | 17.25 |
| 4. Grants | 115,210.70 | 126,013.00 | 139,374.00 | 147,840.00 |
| Percentage | 39.22 | 38.52 | 38.99 | 39.24 |
| Total Local Revenue | 293,750.00 | 327,113.00 | 357,424.15 | 376,740.00 |
| Total Percentage | 100.00 | 100.00 | 100.00 | 100.00 |
| Revenue of Government | 1,250,000.00 | 1,360,000.00 | 1,420,000.00 | 1,475,000.00 |
| Proportion of Local Revenue to Revenue of Government | 23.50 | 24.05 | 25.17 | 25.20 |

Source : Office of the Decentralization to Local Government Organization Committee (2009).
Democracy should be mentioned that people compliance to self-governing.

Independence of income is “pre-requisite” before the fiscal autonomy. Freedom of administration to SAOs successful administration is not simply (Louwthammathat, 2008; Ruechupanth, 2008). Researchers need to do this research because local governments should make more effort in tax collection to increase revenue in order to be more independent in deciding how to spend the money accordingly to local needs and necessities. We want to know cooperation among the public which is very crucial for tax base augmentation in an attempt to increase local revenue, will be cause of more taxpayers’ expenses. Therefore, it involves tax compliance of the public who have to change the taxpaying behavior.

RESEARCH QUESTIONS

- To what is the taxpayer satisfaction for service quality of SAOs?
- What is taxpayers’ attitude towards taxation of SAOs?
- What extent do taxpayers of SAOs have knowledge and understanding on the land local tax?
- What is taxpayers’ perception towards fairness in taxation of SAOs?

RESEARCH OBJECTIVES

- To examine taxpayer satisfaction for service quality of SAOs.
- To determine attitude towards the land local tax of taxpayers of SAOs.
- To investigate knowledge and understanding on the land local tax of the taxpayers of SAOs.
- To explore taxpayers’ perception towards fairness in taxation of the land local tax of SAOs.

REVENUES OF SAO

In Thailand, locality means rural area, but the local administration bears different meaning. According to the Local Administrative Organization, under the Department of Local Administration, Ministry of Interior, its functions cover both urban and rural areas. The diagram about this matter is shown in figure 2.

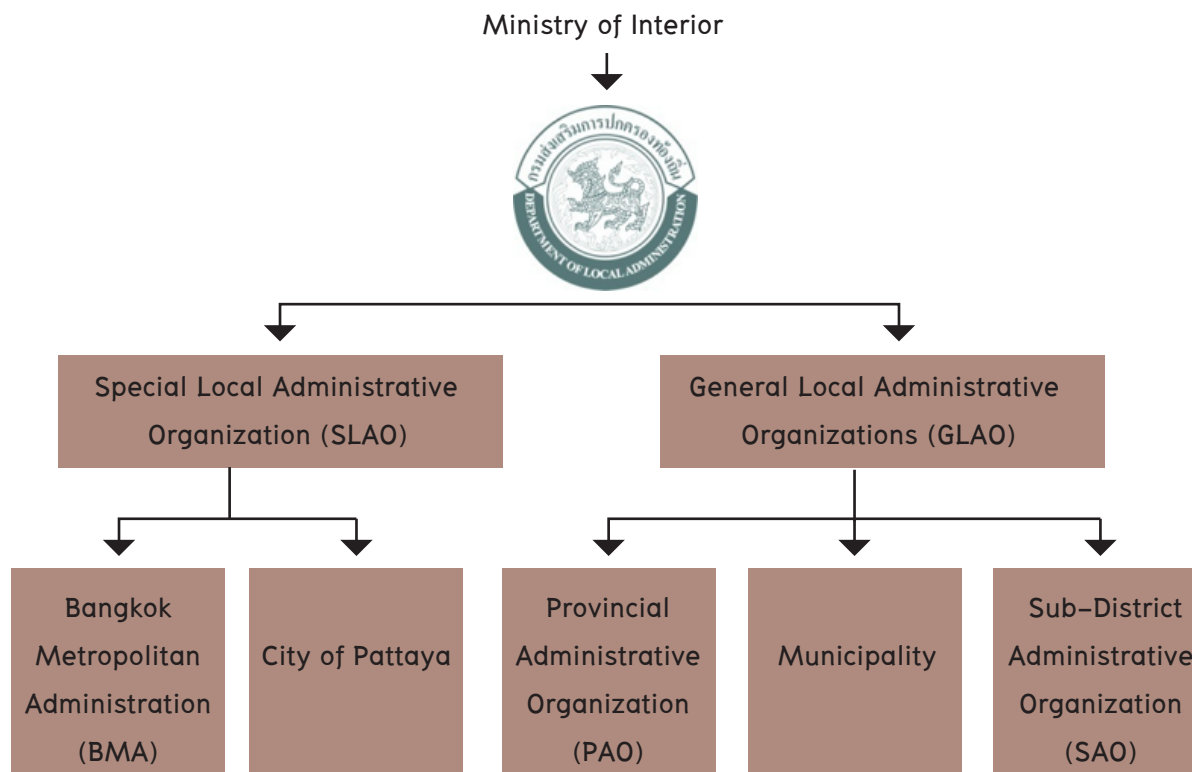


Figure 2: Organization structure of Thai Local Administration

Local Administration Organization (LAO) is comprised of five categories. They are Bangkok Metropolitan Administration (BMA), City of Pattaya, Provincial Administrative Organization (PAO), Municipality, and Sub-district Administration Organization (SAO). They are responsible for providing the services to be delegated according to the power decentralization plan regarding the following services: Infrastructure work; work concerning quality of life; social and community security; promotion planning in investment, trade, commerce and tourism; nature and environment protection work; culture, traditions, local wisdom work; etc.

For local taxes, in Thailand, there are many of them. They are Building and Land Tax, Local Development Tax, Signboard Tax, Slaughter Tax, etc. They are not summed up as a single local tax as in some countries. Under the close look, it was found that the Building and Land Tax gave more revenue in Thai urban area from the rent. In some countries, this tax was called "Housing Tax". The Land Development Tax gave more revenue in Thai rural area where there is larger area of Thailand. With a low tax rate, comparatively, this tax gave not much money. Besides, in some areas, there were no owners to be responsible for the tax. This tax basing on the ownership of the property or the area owned, in some countries, it is called "Land Tax".

LITERATURE REVIEW

Willingness brings about taxpayers' satisfaction in Thailand. Through the literature survey was found that satisfaction variables had been studied in almost every area of education and occupation. Therefore, satisfaction was chosen to be a mediator variable, served to link the determinants of compliance behaviors of the Thai rural taxpayers, linking the mediating variable was that there were differences in four aspects: service quality, attitude towards taxation, knowledge and understanding, and fairness perception as described next.

1. Service Quality

Service quality is a factor dictating satisfaction. From the literature survey for the selection of the key variables relating to service quality being appropriate to the local land tax of Thailand, they were empathy, reliability, and tangible.

1.1 Empathy: It is the sense of responsibility in giving services. It includes being enthusiastic to serve, calling back immediately after having the right information, being polite, being considerate, showing pleasant looks, being energetic in solving problems, trying to impress the taxpayers with the aim of having them to come back for paying tax again.

1.2 Reliability: Taxpayers always expect reliability form the tax collecting personnel. It involves finishing the service within the time limits, wasting no time, no long waiting time, giving the service equitably. Tax personnel have enough knowledge about the laws and regulations. They are able to answer the questions with right answers all the time. No mistaken about financial documents, as well as having neat and appropriate attired are also expected.

1.3 Tangible: It deals with providing facilities for paying tax. It includes modifying the environment in the office that can positively impress the taxpayers, inducing satisfaction in paying tax. It can be treated as a part of benefits to be given back to the taxpayers. These Facilities will include adequate instruments and materials, as well as technologies, office buildings, room and space decoration, both inside and outside, electric fan for ventilate air, drinking water, newspapers, magazines, various forms with appropriate arrangement.

2. Attitude towards Taxation

There were research works abroad that were relating to taxpayers and their tax compliance. The variables included were the population characteristic, attitude towards taxation, chances of no compliance, and tax structure (Jackson & Milliron, 1986 as cited in Tayib, 1998). Thus, the attitude towards paying tax is one of the variables having direct effect to the compliance behavior. Therefore, it was also included in this study. It deals with:

2.1 Tax Complexity: Some people have the attitude that tax must be paid without any evasion. Tax becomes the revenue of the country. Tax complexity is an important obstacle about taxation (World Bank, 2004: 53). The long time strong belief of the people that it is difficult in paying tax had caused reluctance (Hanefah, 1997). Difficulty to understand, being easily mistaken, having many steps; e.g. making the copies of the deeds, measuring the land area, filling the tax forms, doing tax calculation, etc., all of these activities had caused bad attitude towards taxation.

2.2 Tax Policy Setting: Participation of taxpayers in setting the policy about tax; e.g. tax rate, etc will bring about compliance. They will be very happy to pay tax according to the rates they have taken part in setting.

2.3 Tax Motivating Activities: Maslow's theory of needs stipulated that motivation will cause behaviors. Satisfaction, as a physical need, comes before the need for being praised. Activities for tax motivation had been organized by Thai government to stimulate the eagerness of the taxpayers to pay tax. This had helped the SAO in obtaining more tax revenue. These activities were "the taxation month festival", with the opening ceremony, distribution of gifts to those who come to pay tax on the first day, drawing the prizes among the tax payers within the tax period, giving prizes to the community that sends the tax money in time, etc.

3. Tax Knowledge and Understanding

Knowledge is about the selective memory, including the ability to use facts, ideas or insight by the phenomenon in conformity and psyche condition within that will ultimately cause the human behavior (Pilantaowat, 2009: 35–36). The efficiency of local tax collection in Malaysia, Tayib (1998) had added the variable of the knowledge and understanding in his study tax compliance behavior. He found that the satisfaction behavior of Malaysian taxpayers increased when the structural tax system was good enough for them to easily understand.

3.1 Tax Law: Tax laws and regulations are the stony aspect in tax administration (Kelly and Oldman as cited in Tayib, 1998). Adam Smith had said about the good tax system that to lay justice for a society in tax collection, tax rate should be a fixed one (Dhammano, 2005: 84). Tax structure is composed of tax rate, tax base, methods of taxpaying, tax dispute reconciliation and law enforcement. Tax base and tax rate are important elements of tax law. Tax base will be used as the base for tax evaluation; e.g. Local Development Tax is levied from the base of being the land owners and notified in tax filing. This tax base will be multiplied by the land tax rate of the SAO (Puang–Ngam, 2006: 136). Tax base and tax rate directly affected the taxpayer satisfaction. They determined an increase or decrease in the tax money being calculated will cause satisfaction or dissatisfaction to the people.

3.2 New Tax Public Relation: The new tax will be a land local tax. In this study the name "land local tax" was used without separating into land tax and local tax, in order to prevent misunderstanding according to the aim of the study.

There is the fact that in Thailand, a land tax, under the supervision of the Department of Land, has been levied from the sale value of land, as an unmovable property. This tax is collected when the ownership of the land being transferred, on the basis of sale value. The Land office refers to this tax as the land tax, following the name of the office.

Actually, in Thailand, a new tax has been in the process of drafting. It has been expected that after the promulgation, the Building and Land Tax as well as the Local Development Tax will be automatically replaced. These two kinds of taxes are quite the long-used taxes and obsolete. Many government regimes in the past had attempted to increase revenues for local government by proposing a new law on land local tax under the title "Land and Structure Tax Act". At the same time, the government had also tried to publicize in order to seek awareness and cooperation among public in introduction of the wider tax base. By this measure, it was expected that higher revenue will be realized due to more extensive land area coverage, more taxpayers and more progressive tax rate. It was also expected that the old land local tax is the only tax in Thailand that is comparable to property tax, widely adopted throughout the world. One the new law has been approved by the Thai National Assembly, local authority will have two years for preparation before the enforcement of the law. Then more revenue will be generated locally (Yarnmanowisit, 2008: 54; Nilbai, 2009; Pornchokchai, 2009).

During the last decade, the government had done publicity about the new Land and Structure Tax, in order to inform the people and to know their opinion. This new tax will affect their expenses, due to the higher tax rate and wider tax base. It also has the wider coverage, including the vacant land areas which were not brought into uses before. The publicity was done as a two-way communication. SAO with the government had met with the people in various parts of the country. They had met with the tax experts in the meetings organized in the cities of each region in some provinces. Thus, the publicity is still under taking with a quite limited budget.

3.3 Financial Information Disclosure: Transparency of the Thai government is being watched closely under the idea of good governance. It will support the compliance of the taxpayers. Whenever they realize that their tax money was used truthfully and equitably, they will comply with satisfaction.

4. Tax Fairness Perception

The perception tax fairness arises when people make the comparison between what they have got in return with the cost they pay. Adam Smith, the Father of Economics, who wrote about tax theory, had said that the best tax was the tax levied from land rent. The improvement of the land will cause the rise of the rent. This is coincident with the Accounting Principles in including the capital gains in calculating of the increasing cost. And in the calculation of the business finance in a long-term investment if a locality is made modern through the improvement of public utilities and social facilities causing the increases of land values in rural areas. Owners' land owners will be happy or satisfied to pay land local tax. Therefore, taxpayers always consider the tax satisfaction according to the Principle of Equity. From the literature survey, it was found that Thai taxpayers had perceived about tax fairness in three areas; they were:

4.1 Distributive Justice: It means the well-being of people in the locality, which can be seen by comparing people in various areas, either the surrounding ones, other areas in the country or in Asia, as well as in developing or developed countries of the same level of development. Happiness or satisfaction that Thai people had arose from the utilization of public utilities and facilities or Public Goods such as ports, ditches, canals, mosques, etc.

4.2 Procedural Justice: The process of Thai government's budget allocation, currently, is still quite complicated. It involves many units of authority, through many levels, as well as many departments and ministries (Chayabut, 1993: 215; Commission for Decentralization to Local Administration, 2009: 6-17). Beside of the Provincial office will allocate the budget received for every local authority in the province accordingly to per tax collected or per head of population (Prachuabmoa, 2001). If the people are informed and satisfied, no drastic problems will occur.

4.3 Retributive Justice: It deals with penalty imposed to those who evade tax. If the people know very

well about the actual penalty that brings about fairness, they will be happy to pay tax. From the in-depth interview and in qualitative method in this research, it was found that there were many tax evaders caused by filling the tax form with the lessen numbers of Building and Land Tax than the real numbers being rented. There were some evaders caused by omitting to notify the renting deals, or the ownership of the lands. This had caused a large area of vacant land in Thailand that the SAO did not know about the owners.

RESEARCH FRAMEWORK

The reason underlying the need for the linking mediator variable was that there were differences in four areas of the determinants: service quality, attitudes toward taxation, knowledge and understanding, and fairness perception can be shown as in figure 3.

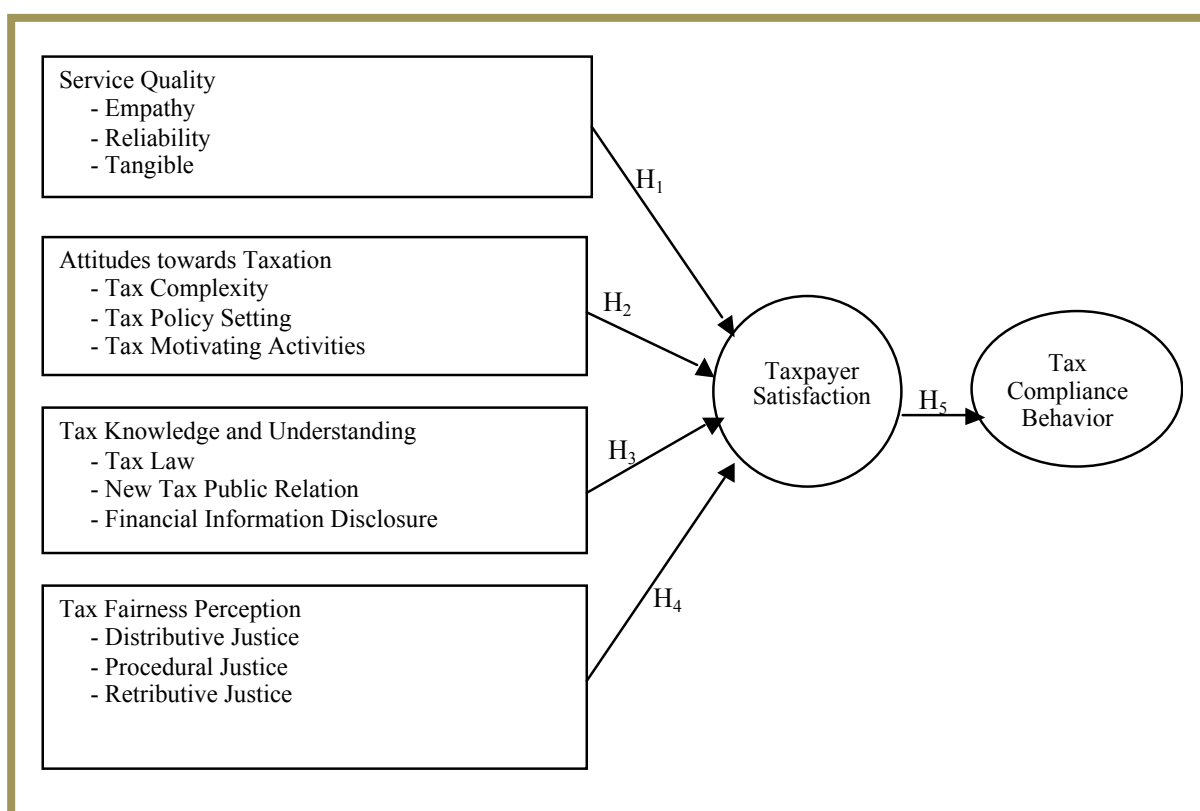


Figure 3: Theoretical & Conceptual Framework

The theoretical framework of the concept and its linkage with five hypotheses were shown as.

- H1: There is a relationship between Service Quality and Taxpayer Satisfaction (which leads to tax Compliance Behavior).
- H2: There is a relationship between Attitude towards Taxation, and Taxpayer Satisfaction.
- H3: There is a relationship between tax Knowledge and Understanding, and Taxpayer Satisfaction.
- H4: There is a relationship between Fairness Perception and Taxpayer Satisfaction.
- H5: There is an association between Taxpayer Satisfaction and tax Compliance Behavior.

METHODOLOGY

Being descriptive orientation, both qualitative and quantitative techniques were employed in order to meet the standard of a research work at a doctorate level. Data were collected from the multi-stages random sampling of the local revenue as collected in the budgeting year 2008, prepared by the Department of Local Administration. The sample of taxpayers was randomly chosen from the taxpayers lists of SAO.

A team of graduates, native to the area, from various universities, were selected and had been trained before by The Department of Labor, Ministry of Interior did the data collection. An hour was used for interviewing a person. There were three parts of a questionnaire: Questions for breaking the ice, Questions for asking their opinions about compliance behavior with the values ranging from 0 to 10, Open ended part about opinions. The reliability values before and after data collection were 0.9313 and 0.874 respectively. The pilot survey was done with 200 units of sample and the actual collection was done in 830 units. The area under the jurisdiction of SAO was chosen for the study. The value 0.7952 value was obtained from the IOC form, showing that the questionnaire had the content precision at a "good" level, suitable for being used in collecting the data in the rural area.

ANALYTICAL APPROACH AND CONCLUSION

In this study, the group variables were used to explain the general characteristics of the population, those who answered the questionnaires only. Descriptive statistics were used in the explanation and result interpretation. The respondents of 830 persons were 51.4% males, a balanced distribution among genders. The ages were ranging from 21–81 years old. The majority of them were between 50–59 years, 28.3%, the lesser group was 40–49 years, 19.4% and 60–69 years, 18.1% respectively. The distribution of data obtain were quite symmetrical. Taxpayers who owned the land in the rural area, most of them had finished primary education or 63.7% secondary education 15.3% and with the first degree only 9.9%. Most of them had monthly income at 5,000–10,000 Baht, or 51.6%. More than a half of them lived outside of the land they owned.

The study results showed that the Local Development taxpayers in the SAO areas had the compliance satisfaction behavior at the medium level. The derived structural equation can be used in the further research in the future. Though there will be changes in the economic, social, political conditions, as well as the government revenue and new tax, service quality, attitudes towards taxation, tax knowledge and understanding, and tax fairness perception, of people in local areas always affect their satisfaction which eventually will result in compliance or non-compliance behavior in paying land local tax in Thailand. The study results, had conformed very well analyzed the data collected, from the hypotheses. The model used was thoroughly fit with every variable that can be used to forecast the result variable with high reliability in the future.

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BAN MAE KAMPONG HOMESTAY COMMUNITY: ARE ATTRIBUTES ALIGNED WITH WELLNESS TOURISM?

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ABSTRACT

The research was undertaken to determine if Ban Mae Kampong Homestay's management and attributes are aligned to the global concept of wellness tourism as a method for destination competitiveness from the perspective of the destination itself. It has been noted in recent tourism literature that wellness tourism is a topic of interest to tourism companies worldwide because products and services connected to wellness tourism are not dependent on any particular tourism season which allows for round the year visitors without experiencing lulls due to weather such as rainy season in Chiang Mai when the amount of tourist arrivals decrease. The research is an exploratory study to determine if Ban Mae Kampong homestay in Chiang Mai province had the attributes to apply the global concept of wellness tourism to their service offering in order to increase round the year tourist arrivals. This paper reveals the links between homestay as eco-tourism and wellness tourism destination an area that Tourism Authority of Thailand is currently focused on for their marketing strategies to attract a greater number of niche-market visitors seeking holidays and experiences that are more aligned to their personal preferences and lifestyles. This study considers a model of sustainable wellness destination developed by Sheldon and Park (2009) along with the global trend of the concept of wellness tourism. The result of this research determined to what extent the sustainability of wellness tourism concept could be aligned to Ban Mae Kampong homestay community attributes. The findings show that many attributes exist but sustainability would need further development concerning human resource and private-public sector collaboration.

Keyword : Ban Mae Kampong homestay, wellness tourism, sustainable wellness destinations, wellness attributes

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INTRODUCTION

The research was undertaken as an exploratory study to determine if homestays in Chiang Mai province had the attributes to apply the concepts of wellness tourism to their service offering. Chiang Mai Province generates more income from tourism than any other province in the north of Thailand, with total revenues amounting to one third of the provincial economy. In fact, Chiang Mai is only behind Bangkok, Phuket and Chonburi nationwide for total revenue from tourism. In spite of all this, Chiang Mai suffers from a decrease in the numbers of tourist arrivals, even though national inbound numbers are climbing. One reason for the decline is the lack of activities offered during rainy season (Press Release: Miracle Tourism Forum, April 17, 2012).

It has been noted in recent tourism literature that wellness tourism is a topic of interest to tourism companies worldwide because products and services connected to wellness tourism are not dependent on any particular tourism season. Wellness tourism can help the tourism sector to increase demand and at the same time bring profits during the lull in low season (Konu, 2009). The research was undertaken to determine if Ban Mae Kampong Homestay's management and attributes are aligned to the global concept of wellness tourism as a method for destination competitiveness from the perspective of the destination itself. The paper reveals the links between homestay's as eco-tourism and wellness an area that the Tourism Authority of Thailand is currently focused on for their marketing strategies to attract a greater number of niche-market visitors seeking holidays and experiences "more in tune with their personal preferences and lifestyles" (TAT New, June 7, 2012).

Homestay is an activity whereby visitors stay with the home owner in a Thai village and use the house as a place to connect to local tourism attractions, cultures, and local lifestyle. The visitors and the home owners share common interests and willingness to exchange and learn about cultures and local life styles. The homestay service providers are responsible for providing accommodations, food, and to create activities to take tourist to visit attractions in their area in exchange for a proper amount of income. Homestay, in principle, should be one type of tourism that helps develop economics of the communities through involvement of community members. The main benefit of homestay should be the enhancement of the community strength and the monetary income should be the minor benefit (Tourism Authority of Thailand, 2010). Tourism has been utilized as a significant means to enhance the socio-economic, cultural and environment well-being for community development based upon both the variety and diversity of tourist attractions in terms of Thailand's natural and cultural resources, as well as the hospitality of Thai people. The Thai Ministry of Tourism and Sports has considered the significance of homestay tourism as a focal point in order to enhance the quality of local people's lives (Silparcha,Wanna and Hannam, Kevin, 2010). This report discusses the attributes which are aligned with the concept of wellness tourism at Ban Mae Kampong homestay community by implementing Sheldon and Park (2009) model of sustainable wellness destination. The report is organized by first defining the term wellness and the current trends in developing wellness tourism globally. It then places rural tourism as being a form of wellness tourism followed by implementing Sheldon and Park (2009)'s model of sustainable wellness destination. The results focus is on the wellness attributes presented at Ban Mae Kampong Homestay followed by the conclusion.

THEORETICAL FRAMEWORK/ AND HYPOTHESIS

Defining Wellness Tourism

The subject of this paper is set under the term wellness tourism, whereas the definition of wellness has undergone vast discussions of the origin and meaning. The majority of researchers have agreed that the term wellness was conceived in the 1950s by Herbert L. Dunn, a US physician working as a biostatistician, where he observed that as life expectancy increased; patients were more at risk from lifestyle factors than at risk for contagious disease. Researchers have acknowledged and stated that, “This observation was the impetus for coining the word wellness in opposition to the term illness.” Dunn’s idea of wellness included physical, social and spiritual well-being. Various scholars have added to the concept such as John Travis who emphasized the need for individuals to take responsibility over their own health. (“Wellness Tourism Worldwide, 4WR: Wellness, Who, Where, What?” 2010, pg 8). Prior studies have defined wellness as the balanced state of body, spirit and mind, including such holistic aspects and dimensions as self-responsibility, physical fitness/beauty care, balanced nutrition diet, relaxation, mental activity and environmental sensitivity as fundamental constitutional elements (Muller and Kaufmann, 2000 as cited by Rodrigues, Kastenholz, Rodrigues, 2010) and refer to Narrstedt (2001, 2004) who classified elements of high-level wellness into four dimensions: body, society, mind, and environment and all dimensions were broken into six elements including physical fitness, meditation soul, relaxation stress management, mental activity education, beauty body care, and balanced nutrition diet. All of the elements are focused on self-responsibility. The concept can be portrait as shown in the figure below:

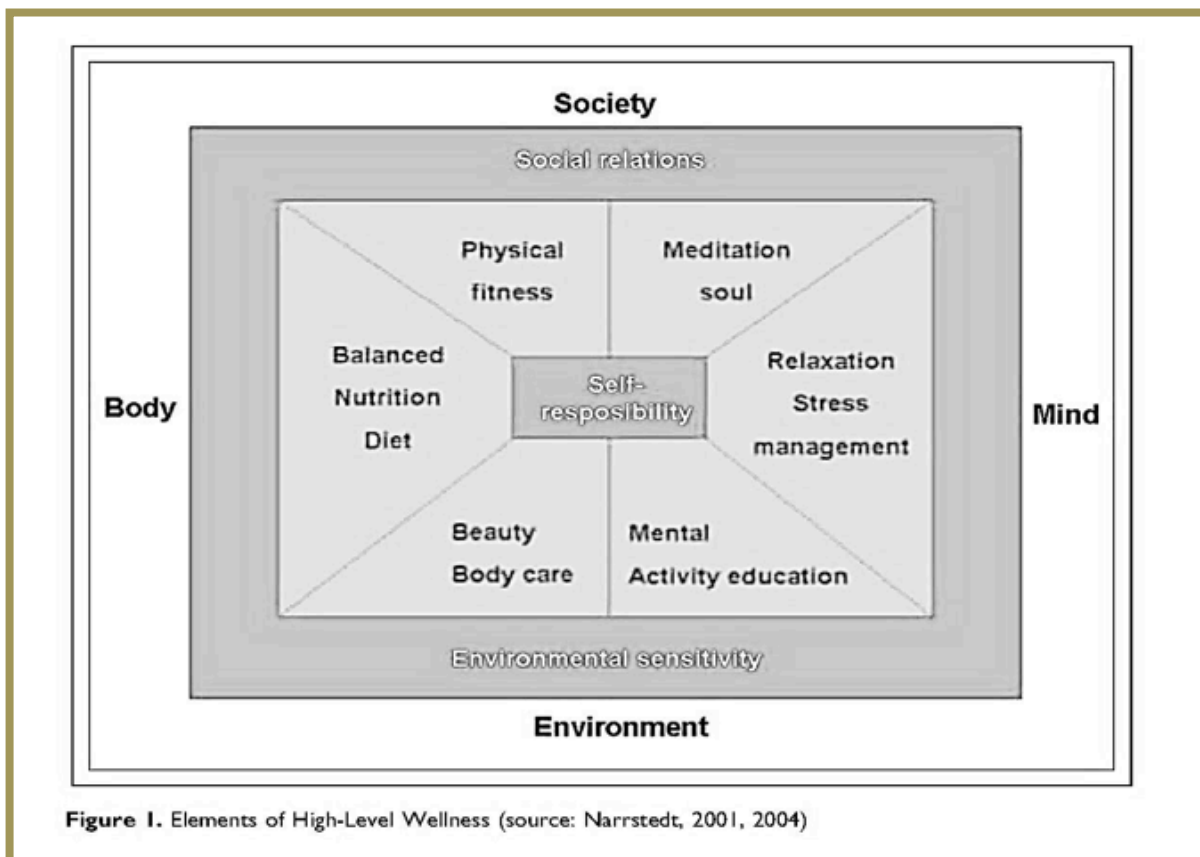


Figure 1. Elements of High-Level Wellness (source: Narrstedt, 2001, 2004)

Current literature has deemed the term wellness and medical tourism as subsets of health tourism. The difference between wellness and medical tourism is that in wellness tourism people consume wellness service in order to maintain one’s health or... “to create harmony in mental, physical, spiritual or biological health in general and has stronger ties with changing life–style or doing something healthy rather than with curing a specific disease. People consuming wellness services tend to show higher health awareness than others. They are eager to do something for a healthier lifestyle; they are conscious about their nutrition and often do physical exercise. Wellness addresses human health in a holistic or comprehensive sense and assumes that each person will actively participate in protecting their health, in preventing diseases and will not leave all this to medication.” (Myers et al (2000) as cited by Smith and Kelly, 2006).

The concept of health and wellness are increasingly being used inter–changeable, but it should still be emphasized that health tourism includes medical or cure aspects, and that wellness focuses more on preventative than curative (Smith and Pucsko, 2009). This study supports the view that there are major differences between ‘cure’ or ‘illness’ in the medical concepts and the ‘wellness’ concept (Nahrstedt, 2004; Voigt, 2008). As stated by Voigt, “whereas medical tourists are illness–oriented because they primarily travel in order to cure or treat a certain illness or medical condition, wellness tourists go on vacation in order to maintain or improve their health and well–being and thus try to reach higher levels of wellness” (Voigt, 2010). The difference is apparent when considering the types of services and facilities offered for the health motivated traveler. Smith and Puczko (2010) have developed a “Global Health Tourism Service Grid” where they have introduced the inter– and intra–relationships of the key services and approaches in the spectrum that extends between medical and wellness services (Figure2).

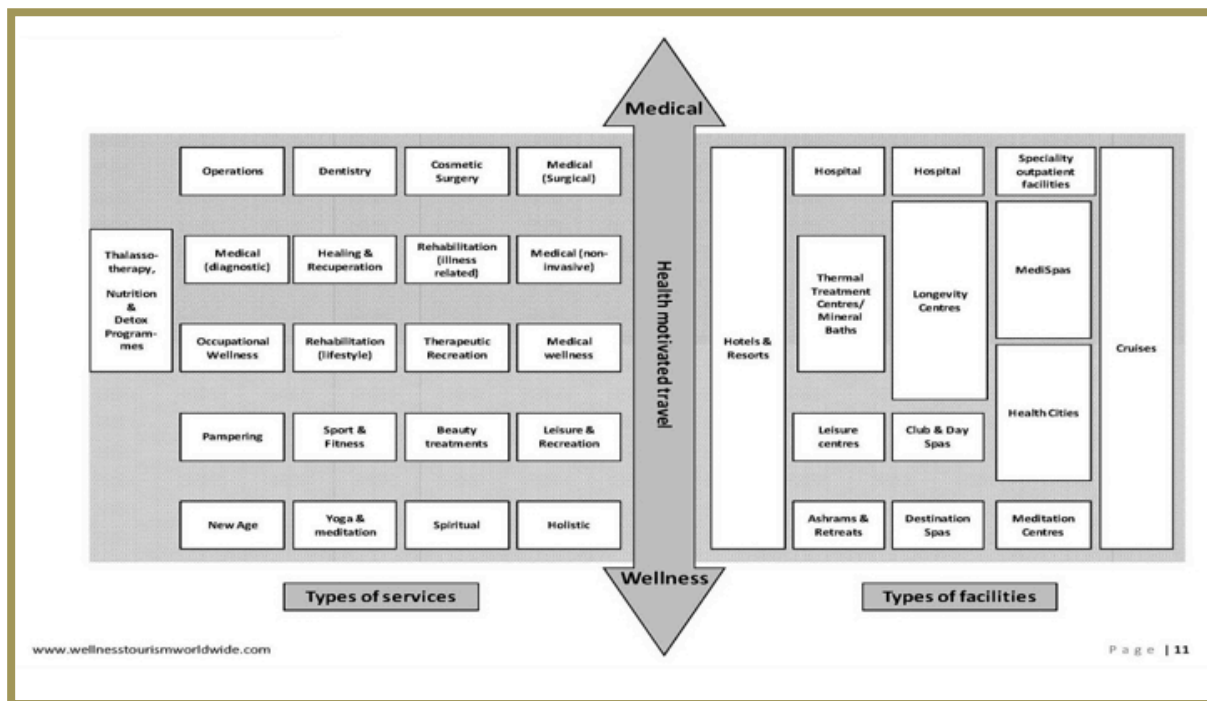


Figure 2: Global Health Tourism Service Grid, Smith and Puczko (2010)

The Current Trend in Developing Wellness Tourism Globally

The increase of interest in wellness tourism is driven by two inversely related factors: “Not only are many people increasingly concerned about their physical, social and psychological wellbeing in their everyday lives, but

they are also prepared to travel long distances to experience different forms of health and wellness” (Smith & Puczko, 2009, p. 8). Several demographic, economic and lifestyle factors drive this preparedness, e.g. an aging population (with a third of OECD populations predicted to be over 60 in 2020), lifestyle changes, tourism alternatives and particularities of health care systems. “Travel can contribute to all aspects of health if we consider the physical and mental benefits of rest and relaxation, the social aspects of mixing with other tourist and local people, and the intellectual stimulations that can come from learning about new places” (Smith & Puczko, 2009, p. 40, drawing on the World Health Organization (WHO), 1984).

The current landscape of countries actively seeking to develop wellness tourism as a mode to increase local economy as well as a method for sustainable tourism development includes Portugal, Australia, and the Nordic countries. Each country has conducted research based on their countries specific natural resources to determine the country’s ability to market wellness tourism products.

In Portugal the Ministry of the Economy and Innovation created the National Strategic Plan for Tourism with the aim to implement a series of initiatives to foster sustained growth of national tourism. The plan defined 10 strategic tourism products that were selected based on Portugal’s resources and distinctive factors as well as future growth potential with health and wellness among the product list. Further research of the Portuguese wellness tourism sector indicated that hydrotherapeutic facilities were well represented in the Portuguese health and wellness tourism sector but that meditative/spiritual/holistic retreats were still in the introductory stage of their life cycle (Joukes, V, 2011).

Whereas Australia has focused their wellness research on the current structure of Australian wellness tourism providers, which is based on a national scoping study investigating supply and demand of Australian health tourism. Voight’s 2010 research stands out by providing Australia with a new wellness tourism provider typology suggesting three core categories: (1) Beauty Spa Hotel/Resorts, (2) Lifestyle Resorts, and (3) Spiritual Retreats. The main focus of Beauty Spa Hotels/Resorts is on body and beauty treatments such as facials, massages and body wraps. Lifestyle resorts are focused on programs to promote behavior changes in areas such as nutrition, exercise and fitness, personal goals and counseling and stress management. The emphasis of Spiritual Retreats is on spiritual development or enlightenment. Spiritual retreats can be religious or non-religious but always include meditation in various forms. Many spiritual retreats are based on some specific teachings or philosophy and/or focus on the study of a specific activity such as yoga, T’ai Chi or Reiki or particular meditation techniques. Like lifestyle resorts, some spiritual retreats also focus on detoxing and fasting. On the point of detox and fasting Spiritual Retreats differ from Lifestyle Resorts since the focus has a distinct spiritual note in terms of ‘purification’ or ‘cleansing’ and not only in regard to weight loss or getting rid of unhealthy toxins (Voight, 2010).

To understand the direction that Nordic countries are pursuing in developing wellness tourism it is important to gain an understanding of how the term wellness is used in Nordic countries. The terms well-being and wellness are both translated into the Finnish word “hyvinvointi.” This has been the reason the concepts well-being and wellness are used as synonyms, and has caused confusion and misuse of the words in current literature (Konu, Lake Wellness pg. 129, 2010).

The Finnish Tourist Board has defined wellness for their purposes. “Wellness, above all, includes high quality concerning place, atmosphere, settings, service, products and professional staff. It stimulates all senses in an aesthetic environment. A wellness product is a well-planned, segmented, marketed and implemented entity, which also includes a touch of luxury” (translated by Konu, 2010). Konu goes on to state the difference in the meaning of Wellness and Well-being in the Finnish Tourism context, “Wellness tourism is usually connected to luxury products and five-star hotels. Well-being tourism can contain products and services from a wider scale; it

can include pampering, activities and experiences of luxury, but does not necessarily come from high-class hotels.”

This paper incorporates some of the findings of a recent study funded by the Nordic Innovation Centre titled “Nordic Well-being—A health tourism approach to enhance competitiveness of Nordic tourism enterprises and destinations.” The project involves researchers from each of the 5 Nordic countries; Denmark, Finland, Iceland, Norway and Sweden who are assigned the task to detail the innovative and entrepreneurial aspects of selected wellbeing tourism destinations (www.nordicinnovation.org). For the Nordic study wellness and wellbeing are considered global umbrella terms and are used interchangeable. Nordic Well-being is a more specific segment, to be identified as an industry area with the objective of locating concrete products. The Nordic wellbeing products are to be marketed locally as well as in the EU, therefore there is a need to differentiate Nordic wellbeing from other wellbeing products (Huijben, 2011).

The Nordic Well-being studies are crucial to this paper due to the focus of their studies on rural areas and the link to wellness tourism. The images of Nordic Well-being are based on the general notion of quality of life in the Nordic countries and the related wellness tourism products are typically oriented towards nature and outdoor experience and enjoyment combined with achievement, healthy local gastronomy, local culture and cleanliness of air, nature and water (Huijben, 2011). The aforementioned products are similar to product offerings of a Thai Homestay yet differ widely based on location, culture and attitudes.

Rural Tourism and Wellness Tourism

Ban Mae Kampong was selected for this study due to its location being in a rural area and is being promoted by using the term eco-tourism hence the importance in acknowledging the connection between rural and wellness tourism. Tourists frequently seek locations and activities that are transcendent. Smith and Kelly, (2006), (citing De botton , 2002) describe how travelers are attracted to landscapes that benefit their soul by making them feel small, yet part of an infinite and universal cycle. It is no coincidence then that many wellness centers are located beside the ocean or on a mountain top. For example, Pechlaner and Fischer (2006), cited by Konu, 2009) noted the importance of location in the context of alpine wellness. Whereas Konu (2009) believes the positioning of Finnish wellness tourism should be based on the best natural resources in Eastern Finland, namely the lakes.

According to Kamppula (2010) several studies on rural tourism have found that rural tourists are motivated by the same factors as wellbeing tourists: they seek relaxation, escape from a busy job, peace and quiet, sports, and healthy gastronomy. A rural holiday as a product means peace and quiet, an easy-going and warm atmosphere, nature, scenery and activities related to nature. Kamppula also notes that a new Finnish website www.hyvointimatkailu.fi (wellbeingtourism) presents a wellbeing tourism network of one traditional spa and a fitness center, one college of physical education and five rural tourism enterprises. This is an example of the growing interest of rural tourism enterprises in developing their services toward wellbeing offering.

Kamppula (2010) compared rural tourism motivations to the existing research on motivations of wellbeing tourists. The purpose was to investigate if there were similarities in motivations of rural and wellbeing tourists and if rural tourism could be seen as a form of wellbeing tourism. His finding concluded that a rush free rural settings with nature and beautiful landscapes offer an ideal environment for a wellbeing holiday motivated by search for relaxation, comfort and escape, not including any material luxurious elements. Kamppula’s findings suggest that rural tourism is a form of wellbeing tourism.

Chiang Mai's Wellness Tourism Market

Chiang Mai has a positive reputation for its diverse offerings of wellness products as well as being a minority of tourism destinations that has been able to grow the wellness tourism market through organic means. Smith and Puczko, (Pg. 164–65, 2009) state that Chiang Mai in the past few decades has developed the wellness tourism market organically due to the spiritual quality that is apparent in Chiang Mai and the easygoing atmosphere. Many tourists visit Chiang Mai to enjoy Thai massage courses, Vipassana (silent meditation) retreat or Tai Chi program. They believe the development is spontaneous but sustainable due to the ever-changing mix of supply that makes the location interesting and appealing to visitors. They define organic development as where the public sector plays a minimal role and is driven by market demand; a non-controlled development, where various stages and elements of development have not been harmonized allowing investors to develop more or less whatever they want. In contrast Sheldon and Park (2009) created a model of sustainable wellness destination where in stage 3 there is a need for private-public sector collaborative planning, policy development, monitoring and design of evaluation measures. Stage 4 focuses on human resource, training, certification programs and building associations among and between the wellness industry and the public sector. This paper implements Sheldon and Park's Model of Sustainable Wellness destination due to the fact that Ban Mae Kampong homestay community developed through private-public collaborations and has not developed their tourism market organically.

Model of Sustainable Wellness Destination

As noted by Tuohino (2012) in her research of sustainable wellbeing destination of Savonlinna Town, Finland, destination can be viewed from two perspectives; destination attractiveness is evaluated from the tourist's perspective and destination competitiveness from the perspective of the destination itself. The model of sustainable wellness destination focuses on the latter (figure 3). Sheldon and Park (2009) developed the model as a tool to identify the supporting factors and resources for wellness tourism because it would not be possible to develop wellness products if the destination cannot provide basic infrastructure and guarantee access to the area. Furthermore they stressed that destinations could not be passive and allow themselves to grow organic; that they must strategically plan for this market and identify their competitive advantage. They believe that identification of wellness resources and products, and strategic positioning in the market are critical to success. From a resource point of view, the attractions are of vital importance. The built-up and natural physical environment of a destination, its local culture and community spirit are considered the core resources in tourism. The attractiveness of a destination can be considered from different angles, such as landscape, culture, history, facilities for engaging in various hobbies and accessibility. However, the resource itself is not a product. Rather, existing resources are the necessary precondition for the creation of a travel experience that can be turned into a saleable tourism product (Sheldon and Park, 2009, Tuohino, 2010). Sheldon and Park explained that wellness resources connected with culture and cultural elements of the host community are the crucial part of identity/brand of a destination.

SUSTAINABLE WELLNESS TOURISM DESTINATION

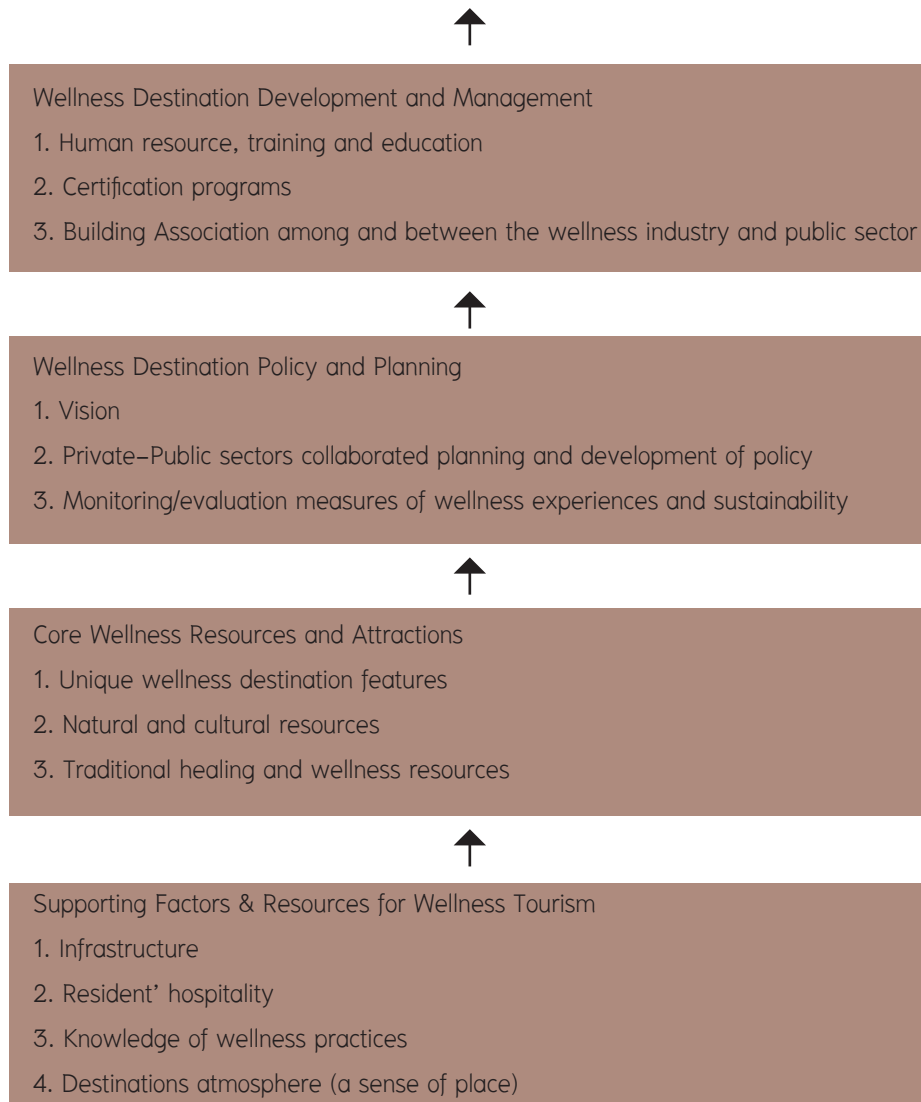


Figure 3 : Model of Sustainable Wellness Destination (Sheldon & Park, 2009)

HYPOTHESIS

1. Ban Mae Kampong homestay has the attributes aligned to the global concept of wellness tourism destination.
2. The management of wellness attributes at Ban Mae Kampong homestay is sustainable based on Sheldon & Park's model of sustainable wellness destination (2009).

RESEARCH FRAMEWORK:

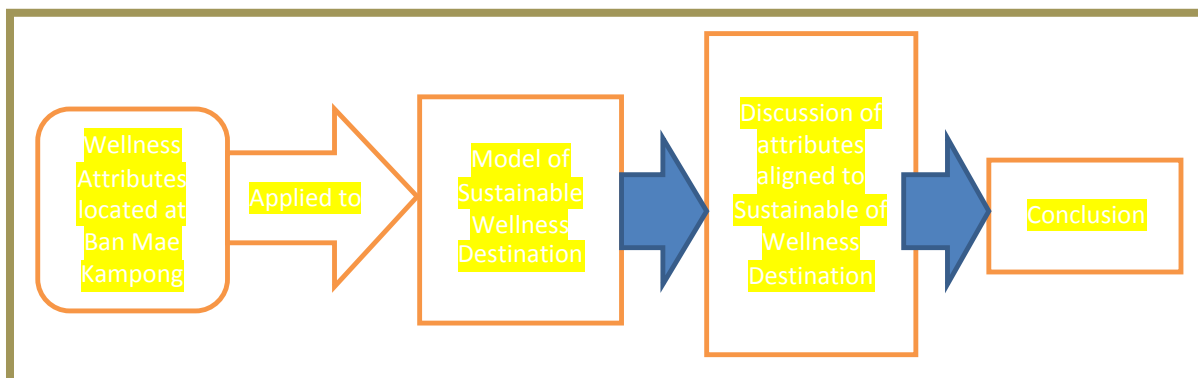


Figure 4 : Research framework

RESEARCH METHOD

The first stage of the research was informed by literature review of current trends in wellness tourism. The data for the study were collected during 2012 and by semi-structured interviews conducted at Ban Mae Kampong homestay in Chiang Mai during June 2012. The interviewees consisted of 5 people from the homestay who were directly involved with the management of the homestay product offering and then applied a snowball sampling technique in order to find additional informants. The focus of the questions was on the respondents' background of developing the homestay, along with motivation factors and organization/network of management. In addition they were asked about the main activities offered, customer feedback and management problems incurred. All interviews were taped and later transcribed. Supplementary documentary data was collected from the homestay's websites and relevant links. Other information from observations is recorded in the forms of photographs and researcher's diary.

Sample Group and Data Collection Methods

The research applies purposive sampling method to select the sample group by choosing to interview 5 key people who are directly involved in the management of the homestay tourism. The selected interviewees include: Chairman of the Tourism Committee, local guide, coordinator of community development activities, coordinator of women's activities, i.e., handicraft training and cooking, and coordinator of public health activities. In order to obtain more complete data in other dimensions, the researchers apply snowball sampling method by asking those five key informants to introduce the researchers to other people who are either directly or indirectly involved in the village's tourism. Further interviewees are people who are part of the homestay tourism committees, owner and staff of a local restaurant and gift shop, masseurs, Chiang Mai University associated professor of Department of Home and Community who is conducting food sanitation and health training, trainer of community based tourism network. The total numbers of interviews are approximately 15. Some interviews are of short duration while others are longer depending on the content being asked.

Researchers participated in a homestay tour by walking with the local tour guide for approximately 3 hours to tourist destinations around the village. During the walk, the researchers observed guest houses that were not part of the homestay, village temples, Flight of the Gibbon tour company's restaurant and gift shop, massage center, as well as the village museum and local gardens that contain coffee, tea and herbal plants. The researchers also participated in other activities such as attending the homestay committee meeting with a trainer from the

Community Based Tourism Network, dining at the local restaurants, and visiting waterfalls surrounding the village. The researchers took photos and recorded observations.

The results presented are based on both interviews and a survey of resources observed at the site. The focus of the discussion is tied to the attributes observed and recorded by tape and visual means (photographs). These points are then applied to attributes as discussed on Sheldon and Park's (2009) model of sustainable wellness destination.

RESULTS

Background Ban Mae Kampong

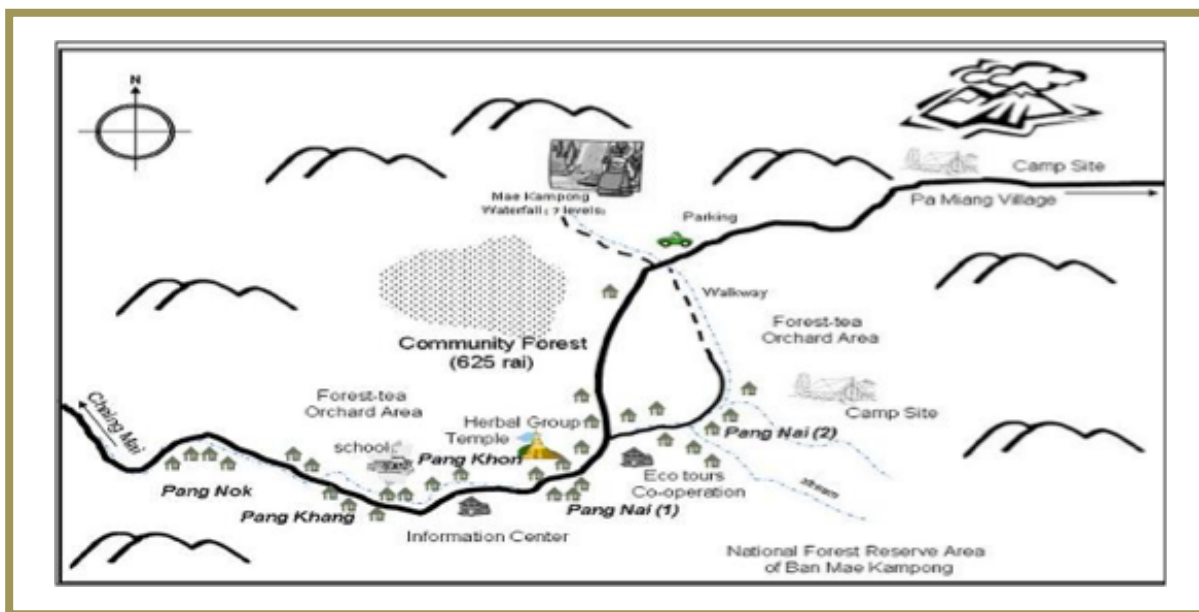


Figure 5 : Tourism Attraction in Ban Mae Kampong

Ban Mae Kampong is sub-district of Huay Kaew, Mae On district, Chiang Mai province. It is an upland village, located 50 km northeast of Chiang Mai city along the Mae On– Huay Kaew Road. The village was named due to the physical characteristic of having several streams passing through the village. The village is located at 1,300 meters above sea level, which is covered by dense evergreen forest containing indigenous tree species.

The homestay was initiated in 1999, by the village head in response to the decline in demand for fermented tea production and as an alternative source of income for villagers. Historically, the villagers depended on fermented tea production (locally called “Miang” in Thai) as their major source of income. Miang leaf or fermented tea leaf is a snack which local people chewed after dinner or if they felt tired. Knowledge in the production of Miang leaf from cultivation to harvesting and processing is part of the local wisdom of the Ban Mae Kampong village that has been accumulated and passed down for generations. Since the 1990s, the chewing and demand for Miang became less popular, resulting in the loss of income for villagers. With the loss of income from Miang, villagers began to illegally encroach on the forest resources causing natural resource depletion.

Ban Mae Kampong received assistance from external organizations such as government agencies, private sectors and NGOs to implement eco-tourism. The village began with five homestays and in 2000 it was incorporated into the government policy One Tambon One Product (OTOP) program. The OTOP funding and advertising helped to facilitate the development of community ecotourism activities. Training programs focused on the man-

agement of tourism activities, community readiness, human resource development, natural resources

management and profit management were organized in the village. That same year the Thailand Research Fund (TRF) conducted a research program to identify an appropriate model for community based tourism and was carried out by the Ban Mae Kampong village tourism committees. The TRF research familiarized the villagers with the concept of community based tourism, uncovered tourism potential in the village and created its own management.

| Attributes of Sustainable Wellness Tourism Destination | Ban Mae Kampong's Attributes |
|---|---|
| Supporting Factors: Infrastructure | <ul style="list-style-type: none"> - Located 50 km northeast of Chiang Mai city along the Mae On- Huai Kaew Road. - Easy accessibility by car or other local transportation i.e., red truck. |
| Resident's Hospitality | <ul style="list-style-type: none"> - Friendly and welcome visitors - Trained to host both Thai and foreigner visitors - No second language ability but welcome outside guides who translate. |
| Knowledge of Wellness Practices | <ul style="list-style-type: none"> - Knowledge of herbal remedies - Cooking with local herbs - Organic vegetable and coffee - Thai Massage - Buddhism and merit making |
| Destinations Atmosphere | <ul style="list-style-type: none"> - Wooden homes that blend into the landscape - Homestay is in the forest - Trekking trails with guided tours - Waterfalls and varies streams - Limestone cliffs - Wild orchids and animals - Fermented-tea traditional production - Local Buddhist temples with one located in the river for monks mediation - Private company offering zip line adventure activity - Interaction between human and nature |
| Core Wellness Resources and Attractions: Unique Wellness Feature | <ul style="list-style-type: none"> - Unique living environment that focuses on self sufficiency - Harmony of community - Local herbs, plants and trees - Ideal for nature based tourism |

| | |
|--|---|
| Natural and Cultural Resources | <ul style="list-style-type: none"> - Typical lifestyle of a Northern Thai village - Traditional musical instruments and performance - Meditation walking path - Local guides with knowledge of forest tree and herbal usage - Diversity of tree species - Bird watching - Northern Thai local cuisine - Local Buddhist Temple with traditional ceremonies |
| Traditional Healing and Wellness Resources | <ul style="list-style-type: none"> - Local hot springs - Thai massage - Herbal usage - Organic - Self sufficiency |
| Wellness Destination Policy and Planning: Vision | <ul style="list-style-type: none"> - Tourism was created as an alternative form of income to supplement the decline in demand for fermented tea production and to create harmony within the community |
| Private–Public Sectors Collaborated Planning Development of Policy | <ul style="list-style-type: none"> - Cooperation between government agencies, NGO’s, universities, private sector and community - Strong role of community in planning and policy - Strong Leader |
| Monitoring/Evaluation measures of wellness experience and sustainability | <ul style="list-style-type: none"> - Beginning stages focused on food hygiene and health |
| Wellness Destination Development and Management Human Resource, training and education | <ul style="list-style-type: none"> - Various training by health ministry focused on food and health |
| Certification programs | <ul style="list-style-type: none"> - Achieved standards for Homestay - Received awards for homestay management/standards - Site used as a model for homestay management - Certified Thai Massage |
| Building Association among and between wellness industry and public sector | <ul style="list-style-type: none"> - Health Ministry - Private adventure company “Flight of the Gibbons” - Private Guesthouse - Tour Companies |

Figure 6: Framing of Ban Mae Kampong wellness attributes towards Sheldon and Park’s 2009 model of sustainable wellness destination

The framing of Ban Mae Kampong homestay's wellness attributes towards Sheldon and Park's 2009 model of sustainable wellness destination reveals the wellness resources located at the homestay. A discussion of Ban Mae Kampong homestay focuses on attributes that are currently presented as well as address issues that would need to be developed in order to create a sustainable wellness destination followed by a brief summary of attributes that are lacking in developing this homestay as a wellness tourism destination.

Ban Mae Kampong Homestay Attributes

Ban Mae Kampong is a well-known tourist destination in Northern Thailand for its natural resources and as a model for community based tourism (CBT). The site is used as a model for other communities in Thailand in developing a homestay community. The homestay has received numerous awards for their accomplishments and is well-documented in CBT literature on their achievements in operations and management of resources. By providing background information it becomes apparent that this homestay has the capacity and sustainability to develop tourism products.

Supporting factors towards wellness tourism

Ban Mae Kampong consists of 132 households with 362 people as of 2011. Currently 32 families are involved with homestay tourism. In order to develop the village as an eco-tourism village they had to upgrade their infrastructure. Today roads to the village are in good condition, electricity is available 24 hours supplied by their own hydro-electricity system and supplemented through government electricity. Every home in the village has toilets and they have created a waste disposal system around the community as well as solar panels for hot water for the tourist. None of the above existed before 1999. The Chairman of the Tourism Committee, Prommin Puangmala, who created eco-tourism for the village stated his vision for his village and has described it as having two goals; "short and long term", in the short term he has created Ban Mae Kampong to be a model for community eco-tourism and in the long term he is still working towards the goal of becoming a self-sufficient community. He describes self-sufficiency as "following the sufficiency economy theory and by focusing on being a healthy village".

The village is easily accessible by any vehicle and is approximately a one hour drive from downtown Chiang Mai City. When you enter the village you are greeted by flowering plants along the road, which are tended to by the locals. The homes are constructed from wood and blend into the surroundings creating a traditional rural atmosphere. There are three types of accommodations available; camping site with toilet facilities, private room above the owner's home that includes a private bathroom, refrigerator and a large veranda overlooking the stream, or rooms within the homes of villagers.

The landscape does give the visitor a sense of feeling small, yet part of an infinite and universal cycle (De botton, 2002) being situated among rolling hills covered with ingenious tree species and wild animals as well as a cool yet pleasant climate. The forest contains terrestrial wild orchids that have been domesticated for sale to the tourist market. The forest area is a conservation zone covering 1 square kilometer which also includes the forest-tea orchards as well as campsites with toilet facilities. The waterfall with seven levels has access trails with sign boards that provide information on forest resources. Trekking trails meander through a limestone cliff with the unique feature of water from the stream running under the cliff and disappearing before appearing again on the opposite side of the cliff. Another unique feature that is popular among tourists is the rocking stone. The rocking stone received its name because when someone pushes the large stone it will rock but what is unique is that it will rock exactly the same no matter how hard the stone is pushed. Tourists can rent bicycles and ride along forest trails and roads. Local tour guides have vast knowledge they share with tourists regarding local herbs, plants and

trees and the typical lifestyle of a Northern Thai village.

Core Wellness Resources and Attractions

The core wellness resource of Ban Mae Kampong is the villages focus on self-sufficiency and living in harmony with nature and as a community. They have achieved harmony with nature by implementing various conservation schemes. One measure that has reaped various benefits is the construction of the forest fire barrier line. The villagers work together every year to construct the forest fire barrier. Before the barrier was constructed the village suffered from yearly fires which caused air pollution and degradation of forest resources. The villagers acknowledge the fire barrier has improved the biodiversity in the forest, increased wildlife population and increases the water volume, which in turn improved the weather and fertility of the land. Also the increase in water volume allows the hydro-electricity system to generate energy 24 hours, making Ban Mae Kampong a model community for sustainable energy.

Ban Mae Kampong is a typical Northern Thai village that possesses a unique way of life. Local villagers speak Northern Thai dialect and identify themselves with Khonmuang, a separate ethnic group from central Thai. The majority of the villagers are Buddhist and Wat Khantha is the main temple in the village that is constructed in traditional Northern Thai architecture and serves as a center of village life. Below the temple located in the center of the stream another temple resides which is unique to Thai Buddhism. The village has just constructed a walking path in order to conduct walking meditation around the temple. Tourists are welcomed to the village by Bai Sri Su Khwan ceremony, a traditional ceremony practiced by Northern Thai people. The ceremony is performed based on the belief that the Khwan or soul of person should always stay within the body. Chants are performed so that the person's Khwan will remain united, to be strong to face any new situation. The ceremony ends with the tying of a white string to the wrist symbolizing "wishing you good luck".

The village has diversified their tea production with coffee cultivation. Tea trees grow alongside Arabic coffee and herbal medicines as well as various fruit trees. Tourist can learn traditional methods of planting, harvesting and fermenting tea as well as benefits of herbal medicines. At the village souvenir shops silk tea pillows and local coffee are on sell produced by the villagers. The silk tea pillows are placed in a home or automobile as air fresheners and to decrease the moisture in air causing a stale smell. Restaurants serve local cuisine and tourist staying in the homestay can learn how to cook the food with the family. At night traditional dance performance with local musical instruments Salaw, Saw and Sueng are on offer. Many of the women have been trained and certified in Thai massage and tourist can arrange for a massage in the homestay or at the village massage center. The village is approximately a ½ hour drive from Samkam Phaeng Hot springs where visitors can relax in private rooms with natural hot spring pools.

Wellness Destination Policy and Planning

The long-term vision for Ban Mae Kampong village is to become self-sufficient as well as a healthy village. To achieve this goal many policies have been implemented. For example The Chairman of the Tourism Committee, Prommin Puangmala is trained as a Village Health Volunteer (VHV) from the Ministry of Public Health to provide healthcare and advice for local people. Mr. Puangmala has received numerous awards for his services such as The Best VHV of Chiang Mai Province, Excellency in Community Based Tourism Management (2007) and PATA (Pacific Asia Travel Association) Award 2010. The village has a long history of working with various government agencies, academic institutions and NGO organizations in strengthening the operations and management in Eco-tourism. They are currently receiving training from the Department of Skill Development, Ministry of Labor and Social Welfare to produce healthy food. The training is being coordinated with Chiang Mai University Department

of Home and Community. The training focus is on decreasing the use of harmful additives such as MSG in locally prepared foods. The second tier of the training is to produce menus with pictures of local cuisine that highlight the local ingredients/herbs used in preparation along with the health benefits of the local ingredients/herbs.

Private–Public sectors collaboration is well established at Ban Mae Kampong. The Office of Tourism Development (OTD), Ministry of Tourism and Sports of Thailand have supported Ban Mae Kampong in aiding in the development of standards towards Homestay. Ban Mae Kampong has achieved the OTD standards every year for their facilities and safety for tourists. The village has produced brochures, both in Thai and English, which are distributed to the Tourism Association of Thailand (TAT) regional offices and other tourist destinations.

The Ban Mae Kampong tourism committee has strong connections with private tour operators located around Chiang Mai, who arrange various tour programs based on customer preferences. The popular tours requested are trekking with local guides to learn about indigenous tree species and herbal plant usage, nature photography, environmental camping and other seminars regarding eco–tourism.

A few private resorts have operated in the area with a minimum of success, yet one new adventure tour company “The Flight of the Gibbons”, operated by Treetop Adventure Co., Ltd. has been quite successful. The Flight of the Gibbons offers zip lines through the forest canopy. The homestay village and Flight of the Gibbons have created a strong partnership. The company supports the village in various methods, hiring of local villagers, attracting more tourists, donating a large sum to the temple restoration, building a center for massage where the trained/certified villagers offer visitors Thai massage. The company has been a welcome addition to the villager’s tourism product offering. The company abides by the communities rules and shows a high level of respect towards the villager’s traditional life style. Viewing their website, <http://www.treetopasia.com>, you will notice promotions for the homestay. Mr. Puangmala stated that “it was easier to negotiate with this company compared to other businesses that have tried to operate here.” He explained that when a person wants to operate a business in this area they must follow the rules of the village. One guesthouse that is currently for sale did not follow the rules, for example everyone has allotment of water they can use, yet the guesthouse always overused their allotment, when the villagers tried to negotiate with the owner, the owner became angry and said he would not follow the rules. The result was the community stopped supplying water to this guesthouse.

The village has a participation evaluation process in place regarding tourism. Meetings are held approximately once or twice a month for overall evaluation and are conducted in an informal manner. Local guides are usually the first to know when problems arise and call a meeting where they discuss solutions. Tourists are asked to write their experience in guest books that are provided at homestay’s before departure.

Wellness Destination Development and Management

There are competent human resource and educational training available for achieving product development for wellness tourism and Ban Mae Kampong villagers are open to the outside knowledge offered to their community as proven by the amount of training they have received since beginning operating the homestay. Currently the focus of the training is on the community’s health and well–being, which could be considered the correct method to growing a wellness tourism market. If the community is able to achieve the long–term goal of becoming a healthy village they will be able to share their knowledge with tourists and begin to develop product offering aligned to the wellness tourism concept. At present Ban Mae Kampong attributes are aligned with many of the wellness tourism concept yet there is no development or management towards offering products that would integrate the attributes of wellness.



CONCLUSIONS/ AND RESEARCH IMPLICATIONS

Ban Mae Kampong homestay community has the resources to create a wellness tourism market but they currently lack the product development and management know-how to sustain this type of tourism. This would require more substance on how and why the tourist might feel better. This finding is relevant to the research hypothesis Ban Mae Kampong homestay has the attributes aligned to the global concept of wellness tourism destination and the management of wellness attributes at Ban Mae Kampong homestay is sustainable based on Sheldon & Park's model of sustainable wellness destination 2009.

This research finding is similar to the conclusion reached in the Nordic studies, for example, Huijbens (2011) findings state that Iceland's wellness concept was vague and oriented towards nature and outdoor experience and enjoyment combined with achievement, healthy local cuisine, local culture and cleanliness of air, nature and water. He claims that a destination referring simply to the fact that it is possible to feel better is not a fruitful avenue for marketing, more substance is needed as to how and why one might feel better and this requires engagement with destination specific resources that are well planned and contain the necessary practices and information for the visitor to mentor their own well-being. While Smith and Puczko's (2009, pg. 58) state that know-how and desire is lacking from tourism destinations in delivering holistic product incorporating mind, body and spirit. The integration of the mind, body and spirit into a product offering is possible at Ban Mae Kampong Homestay based on the wellness attributes that are currently present. It would take further research, private-public collaboration towards wellness product development and a strong vision to develop and market this type of wellness product offering.



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ADDING VALUE TO A THAI RURAL TOURISM PRODUCT OFFERING THROUGH “WELLNESS” ATTRIBUTES: CASE OF MAE KLANG LUANG VILLAGE

Pichayalak Pichayakul* and Traci Morachnick**

ABSTRACT

The purpose of this research is to discover capabilities to add value to Thai rural tourism with wellness attributes. The selected site for this research is Mae Klang Luang Village. Mae Klang Luang Village is a renowned rural tourism destination situated in the northern part of Thailand. Even though it attracts a large sum of tourists each year, it is considered a by-pass destination to other nearby attractions due to its limited tourism product and service offerings. It has been a vague perception that rural tourism contribute to people's wellness. In turn, no rural tourism destination in Thailand is focused on this issue. According to National Wellness Institute, "Wellness is an active process through which people become aware of, and make choices toward, a more successful existence." The researchers set a hypothesis that the villagers undermined its own charms and have not fully utilize its resources in term of tourism. The researchers conducted this study in order to depict the underutilized and hidden wellness attributes that Mae Klang Luang Village can provide. The result of this research will give suggestions for Mae Klang Luang as well as the other Thai rural tourism destinations to reexamine their resources in term of wellness and to effusively utilize their resources.

Keywords : wellness, rural tourism, Mae Klang Luang village

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INTRODUCTION

Tourism is one of the world's fastest growing industries. It has been identified as a means of generating national income to many countries including Thailand. Thailand has

made great effort on promoting tourism as a major source of national income. The growing popularity form of tourism in Thailand is ecotourism due to the nation's prosperous natural resources and authentic cultures. One of the most interesting ecotourism themes in Thailand is rural tourism, which has lately become very popular among tourists (Phuket Gazette, 2012). However, most of the Thai rural tourism service providers are farmers whose main occupation is agriculture with supplementing income from tourism offerings. They operate their rural tourism business by watching other tourist sites and imitating what other tourist destinations offer then they develop the same type of tourism activities. The emerging problems are that rural tourism sites do not truly understand the needs of the tourists and they tend to produce similar tourist activities and products. For example, when it comes to rural tourism, the villagers will automatically develop a package, which consists of homestay, traditional performance show, and local food. At its early stage of rural tourism, such packages seem to be appealing to the tourists. However, when time passes, the package has been duplicated around the country causing a decline in tourists' arrivals to these sites due to the lack of uniqueness on offer. In turn, tourists loss their interests in visiting rural tourist sites and opt for visiting a site that will add more value to their experience.

Considering this problem, the researchers set a hypothesis that rural tourism destinations around Thailand do contain unique features that add value to the tourists' experience; however, these features may be hidden or underutilized by the villages in which rural tourism packages are being offered. The researchers did an elementary survey and found that Thai rural tourism destinations have potential to add value to the tourists with the term "wellness." According to Smith & Puczko, 2008, increasing numbers of people are more concerned about their physical, social, and psychological wellness in everyday life. In addition "wellness" is a consumptive practice, meaning it is something that can be obtained through purchase (Boyle & Rice, 2003).

This research selected Mae Klang Luang Village as a study site because it can be used as a good representative of other Thai rural tourism destinations around Thailand due to its resources and the way it presents itself to the tourists. Mae Klang Luang is a well-known destination and has been in the tourism business for more than ten years. The villagers' main occupation is farming and they run their rural tourism business along with their main occupation. This village provides the particular aforementioned "duplicated package" to the tourists namely: homestay, traditional performance show, and local food. Even though there are unique resources for tourism purpose which could add more value for the tourists, the villagers unfortunately disregard the village's own charms and have not fully utilize its resources.

This paper reviews the attribute of wellness and report on resources in the village that can be offered in tourism packages to add value to rural tourism sites. The researchers conducted this research to depict the underutilized and hidden wellness attributes that Mae Klang Luang Village can provide. The result of this research will offer suggestions to Mae Klang Luang as well as other Thai rural tourism destinations to reexamine their resources in term of wellness and to effectively utilize their resources in developing tourism package offerings.

THEORETICAL FRAMEWORK

This research is based on two major concepts: rural tourism and wellness. In order to understand the meaning of the research framework, the researchers provide the two concepts as follows:

Rural Tourism

According to Latvian Country Tourism Association, an expert organization in rural tourism in Latvia, rural tourism is “a form of tourism taking place in rural areas or settlements, providing employment and income to local population, and offering individualized holiday products to consumers. Rural tourism is based on accommodation service which is complemented by additional services/facilities relying on the local social, cultural and natural resources, which are exploited according to the principles of sustainable development” (Latvian Country Tourism Association, 2012).

Product offerings for tourists in rural tourism sites range from home stays with local villagers, farm visits, learn or observe crafts production, bird and animal watching, purchase local products for sale, and opportunities for tourists to meet and discuss local culture and lifestyle. Rural tourism establishments are owned by local entrepreneurs who provide income and jobs for the local population (Latvian Country Tourism Association, 2012). Rural tourism resources are things that attract tourists to visit the place which can be divided into two types: cultural resources and natural resources. Cultural resources are traditions and customs reflecting cultural identity and values such as traditional festivities, food recipes, music, traditional crafts (e.g., pottery, wood carvers, etc.), traditional architecture, private collections, etc. Natural resources consist of waters, forests, meadows, bogs, rural landscape, flora and fauna. It is notable that for the sense of rural tourism, the environment should not be industrialized or urbanized. In addition, biological diversity should be well maintained in surrounding areas.

Wellness

According to National Wellness Institute, 2012, “wellness is an active process of becoming aware of and making choices toward a more successful existence.” The organization further provides an in-depth description of each key word as follows:

- Process means that improvement is always possible.
- Aware means that we are continuously seeking more information about how we can improve.
- Choices mean that we consider a variety of options and select those in our best interest.
- Success is determined by each individual to be their collection of life accomplishments.

Wellness is a multidimensional stage. The 10 dimension of wellness are presented below (DefinitionOfWellness.com, 2012):



Figure 1: Wellness 10 dimensions

Source: DefinitionOfWellness.com, 2012

Social Wellness

The social dimension of wellness encourages contributing to one's human and physical environment to the common welfare of one's community. Social Wellness emphasizes the interdependence with others and nature. In other words, social wellness means people become more aware of their importance in society as well as the impact they have on nature and their community. Social wellness is having positive interactions with and enjoying being with others. It involves developing and building close friendships and intimacy, practicing empathy and effective listening, caring for others and for the common good, and allowing others to care for them. It is recognizing the need for leisure and recreation and budgeting time for those activities.

Occupational Wellness

The occupational dimension of wellness is involved in preparing for work in which one will gain personal satisfaction and find enrichment in one's life through work. Occupational development is related to one's attitude about one's work. People may develop unique gifts, skills and talents to work that are personally meaningful and rewarding. People may convey their values through their involvement in both paid and unpaid volunteer activities that are gratifying for them. To achieve occupational wellness, they may value the importance of not only their own personal gratification, but their contribution to the well-being of the community at large. The choice of profession, job satisfaction, career ambitions, and personal performance are all important components of occupational wellness.

Spiritual Wellness

The spiritual dimension of wellness involves seeking meaning and purpose in human existence. It includes the development of a deep appreciation for the depth and expanse of life and natural forces that exist in the universe. To realize spiritual wellness, people may start asking the question, "who am I?" and "what is meaningful in my life?" They may see the world around themselves with appreciation and wonderment. People will try to find peaceful harmony of their internal personal feelings and emotions in their life. To gain spiritual wellness, people may experience feelings of doubt, despair, fear, disappointment and dislocation as well as feelings of pleasure, joy, and happiness. It is said that people will become spiritually well when their actions become more consistent with their beliefs and values.

Physical Wellness

The physical dimension of wellness encourages cardiovascular flexibility and strength and also encourages regular, physical activity. Physical development encourages knowledge about food and nutrition and discourages the use of tobacco, drugs and excessive alcohol consumption. Physical Wellness encourages consumption and activities which contribute to high level wellness, including medical self-care and appropriate use of the medical system. To gain physical wellness, people may spend time to build body endurance, flexibility and physical strength. The physical dimension of wellness entails taking responsibility and care for minor illnesses and also knowing when professional medical attention is needed. For physical wellness, people should understand and appreciate the relationship between sound nutrition and how their bodies perform. The physical dimension of wellness provides almost immediate beneficial results—both physical and psychological. The physical benefits of looking and feeling good most often lead to the psychological benefits of enhanced self-esteem and self-control determination.

Intellectual Wellness

The intellectual dimension of wellness encourages creative and stimulating mental activities. An intellectually well person uses the resources available to expand their knowledge in improving skills along with expanding potential for sharing with others. An intellectually well person uses the intellectual and cultural activities in the classroom and beyond the classroom combined with the human resources and learning resources available within the community. For intellectual wellness, people may explore issues related to problem solving, creativity, and learning. They may spend more time appreciating and thinking about the place in various ways such as reading books, magazines, and newspapers. People will discover a natural interest in keeping abreast of current issues and ideas.

Emotional Wellness

The emotional dimension of wellness emphasizes an awareness and acceptance of one's feelings. Emotional wellness includes the degree to which people feels positive and enthusiastic about themselves and life. The emotionally well person maintains satisfying relationships with others. Emotional wellness allows people to be aware of and accept a wide range of feelings in themselves and others. People will be able to express their feelings freely and manage feelings effectively. On the wellness path, people live and work independently while realizing the importance of seeking and appreciating the support and assistance of others. People are able to form interdependent relationships with others based upon a foundation of mutual commitment, trust and respect.

Environmental Wellness

Environmental wellness includes respecting nature and those species living in it. Also, respect for others living in the same environment is just as necessary as respect for the physical environment itself. To achieve environmental wellness, people do not have to be a member of an organization to help; an individual can help by simply leading an environmentally conscious life. People may take actions such as spreading the word about environmental wellness; discuss with friends the importance of leading a lifestyle that ensures the purity of our water, air and living conditions, or get involved with community's recycling programs.

Financial Wellness

Financial wellness is an intricate balance of the mental, spiritual and physical aspects of money. This unique combination is an ideal to strive towards in how people deal with money. Financial wellness is having an understanding of one's financial situation and taking care of it in such a way that people are prepared for financial changes. Maintaining that balance consists of being comfortable with where their money comes from and where it is going.

Mental Wellness

Mental wellness is simply happiness. In other words, mental wellness is an opposite of depressive. Depressive symptoms affect the quality and enjoyment of life. Depressed people tend to exercise less, smoke more and eat less healthily. Mental wellness can be influenced by biological factors and social environment.

Medical Wellness

Medical Wellness, as defined by the Medical Wellness Association, is the practice of health and medical care relating to wellness outcomes. The more specific definition of medical wellness is: an approach to delivering health care that considers multiple influences on a person's health and consequently multiple modalities for treating and preventing disease as well as promoting optimal well-being.

HYPOTHESIS

“Mae Klang Luang Village’s tourism contains unique features that add value to the tourists’ experience; however, these features are hidden or underutilized by the villages.

RESEARCH METHOD

Research Framework

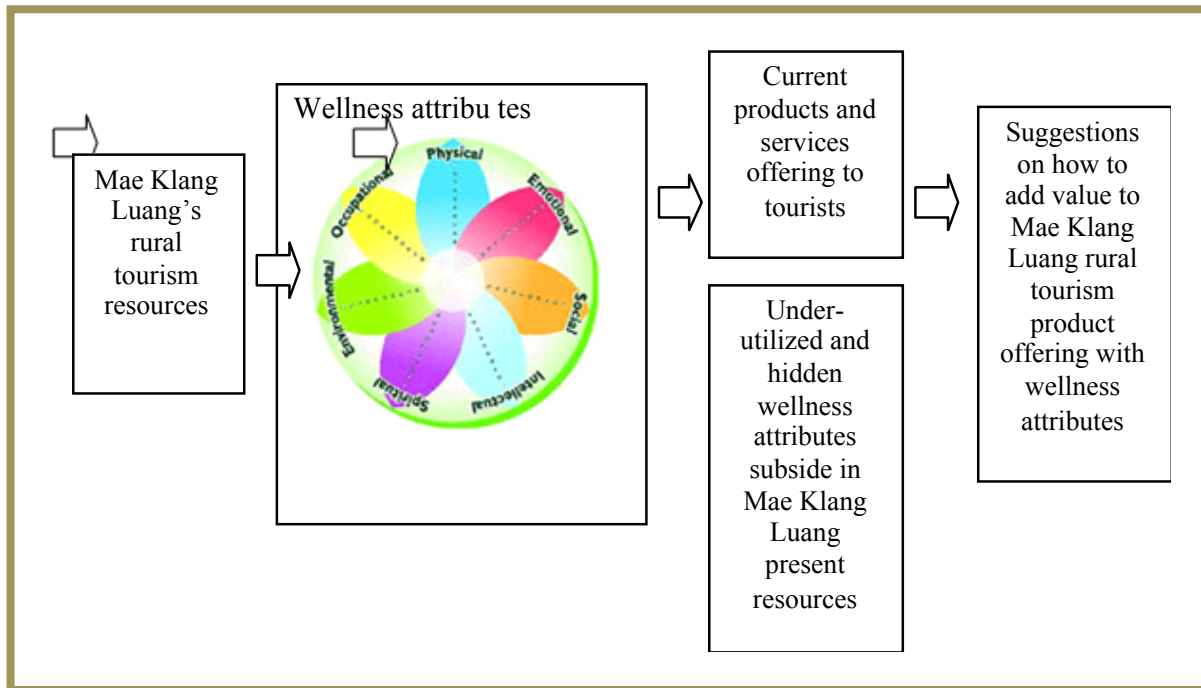


Figure 2 : Research framework

Research Process

1. Conduct secondary research
2. Design interview questions and participant observation plan
3. Assess interview questions
4. Conduct field surveys
5. Summarize data
6. Analyze data
7. Write up final report

Population, Sample Group, and Data Collection Methods

The researchers used two main research methodologies to acquire answers to 1) What are Mae Klang Luang main product offering for tourist and 2) What are the hidden or underutilized resources that can add value for tourism: 1) in-depth interview with the villagers and 2) participant observation. The research applies purposive

sampling method to select the sample group by choosing to interview 5 key people who are directly involved in the management of the rural tourism site. The selected samples includes: an owner of a home stay, a trekking tour guide, an organic coffee farm owner, an owner of a local restaurant, and an owner of a local grocery store. In order to obtain more complete data in other dimensions, the researchers also apply snowball sampling method by asking those five key informants to introduce the researchers to other villagers who are either directly or indirectly involved in the village's tourism. Further interviewees are people who work in a strawberry farm, owner and staff of a local coffee shop, workers in a homestay, random farmers in the village, tourists, and staff of the Royal Project. The Royal Project plays a key role in the village's rural tourism since it is an outside organization that has closely supported the agriculture management of the village for years. The total numbers of interviews are more than twenty. Some interviews are long and some are short depending on the content being asked. Numbers of interview per one informant also varies due to the amount of data required from him/her. For example, the researcher interviewed one informant on the first field trip and summarized the data collected after the trip; then discovered that further details were needed to answer the research question sufficiently. Therefore, the researcher contacted the same informant to ask for the second interview on the next field trip to gather the needed data.

Regarding participant observation method, the researchers went to Mae Klang Luang Village several times in order to interview the informants and to participate in the village's tourism activities and to observe the resources that the villages currently possess so that they could generate reflections from their own perspective. For instance, the researchers stayed at the village's homestay twice in order to gain a true reflection from tourists' points of view. In addition, the researcher chose to stay each time at a different home stay in order to gain hands on experiences on different products and services. The researcher and her team also participate in a trekking tour by walking with the local tour guide for approximately 2 hours from the village to the waterfalls situated deep inside the village and then walk back to the village. During the walk, the researcher observed the flora and fauna in the forest along the way and asked questions about them to the tour guide. The researcher also participated in other several activities such as picking strawberries from the farm where the owner allowed tourists to pick and pay for the fruits at the farm; dining at the local restaurants, watching children play in the field, and so on. The researcher took photos, video clips, and recorded what she observed and learn from each field trip and used them when she analyzed the data for this research.

Research Questions

This research answers 2 main questions:

What does Mae Klang Luang currently provide to the tourists in terms of tourism?

Note: This research question will be answered in the research results **part**.

How can Mae Klang Luang add value to its rural tourism with "wellness" attributes through its current resources?

Note: This research question will be answered in the discussion **part**.

RESULTS

Research results are divided into three parts as follows.

Part 1: General information of Mae Klang Luang Village

Mae Klang Luang Village is located at 68 Mu 17, Thanon Chom Thong–Doi Intanon, Tambon Ban Luang, Amphoe Chom Thong, Chiang Mai 50160. It is approximately 76 kilometers from Chiang Mai city or around one and a half hour to commute by car. The village is located close to Doi Intanon which is the highest peak as well as one of the top tourism attractions of Northern Thailand. The village is one of many attractions along the way to Doi Intanon as shown in the map below. It is noted that the route to Doi Intanon is a nature tourism as well as cultural tourism route which means there are natural attractions such as caves, waterfalls, nature trails, as well as agricultural farms along the way. The route also has cultural attractions such as temples and pagodas as well.



Figure 3 : Map of Mae Klang Luang on a route to Doi Intanon

Source: Sadoodta.com, 2009

There are around 76 households in this village with a population around 300. The ancestors of Mae Klang Luang villagers migrated from Myanmar (Burma, as called in that period of time) around 2330 B.C. The population is a mixture of Karen hill tribes and local northern Thai. The villagers are living in a mixture of contemporary and traditional lifestyle which means they still preserve their traditional cultures such as celebrating traditional festivals, growing their own type of hill tribe rice and consume their own grown rice. The contemporary life style means they



have what people in the city use, for instance, they have electricity in their houses and have electrical appliances such as refrigerators and televisions. Most of the household own motorcycles and some own pickup trucks. Many of them buy food from the market and they are exposed to industrialized packaged food such as instant noodles and branded soft-drinks. Some of the villagers dress in their traditional attires in their daily life while some dress in t-shirt and jeans.

The offering of tourism products at Mae Klang Luang started more than twenty years ago when a group of random tourists came into the village and asked for a place to stay overnight. The visitors stayed with the villagers at their homes and had a chance to wander around the village and saw its bountiful resources such as rice terraces, fish pond, waterfalls and also the charming traditional culture of the village people, they suggested to the villagers to start a rural tourism business as a means to gain supplement income. The villagers found the idea interesting and started their home stays business and nature trekking tour. The activities were well accepted by the tourist and the village's rural tourism business grew gradually since then.

The rural tourism of the village is being supported by outside organizations such as the Royal Project. The major objective of the Royal Project is to promote natural conservations namely forests and water resources and to help enhance the economic status and standard of living of people who live in the rural area in the northern part of Thailand by assisting them to grow economic crops (Royal Project Foundation, 2012). The Royal Project plays a role in the village's rural tourism by providing training about sustainable tourism management to the villagers as well as by supplying the farmers with high quality high commercial-value seeds and sprouts. The agricultural fields of the Royal Project's crops are different from other general fields because of the special types of plants and the way they are planted.

Part 2: Mae Klang Luang's current products and services provided to tourists

From in-depth interviews with informants who are directly and indirectly involved with Mae Klang Luang's rural tourism activities, who are the villagers, tourists, people who work in related organizations, products and services that Mae Klang Luang currently provides to tourists can be categorized and summarized as follows.

• Information center

The village has an information center at the entrance of the village. This center is used as a front office for tourists to make contact about home stays and walking tours. It also provides sitting areas for visitors to sit down and chat with villagers. In addition, there are display boards of attractions in the village as well as other related information such as news about crops in the village. There are also picture albums that contain photographs of places and activities in the village to create interest for the tourists.

• Home stays

There are around 40 home stays available to tourists. 10 of them are owned and managed by a group of villagers while individuals own the rest. All of them belong to the villagers. Most of the home stays are built in a country style which means they used natural and local materials to build and decorate the house; while a small number of them build the house in a modern style with bricks and cements with factory-made furniture inside. All of the home stays are located in beautiful scenic areas such as by the brooks or by the rice terrace.

• Food

There are two main restaurants in Mae Klang Luang Village. One is located at the entrance of the village. This one is an ordinary food shop that serves general Thai food such as fried rice and noodles. The other restaurant is in the back of the village nearby a cluster of home stay houses. This restaurant also serves general Thai food but



its specialty is preparing village-grown Karen organic rice. Both places sell industrial food such as packaged snacks, soft drinks, and beers. Besides the two restaurants, there are two grocery stores located near the entrance of the village that sells packaged food and drinks.

There is a coffee shop located far inside the village, which sells the village-grown coffee. There is also a “coffee-circle” which was started by one of the coffee growers in order to provide a place for visitors to sit and drink free coffee. The purpose of this coffee-circle is to promote the individual coffee growers products as well as to be an outlet to sell coffee products to tourists. The atmosphere is very rural with coffee trees scattered around the village.

The highlight of Mae Klang Luang Village tourism is its rice terrace where farmers grow their traditional Karen rice on the steep hills with their customary technique. The villagers informed the researchers that they consume most of the rice they grow and spare some to sell. They claim that their rice is organic and contains high levels of nutrients. The villagers package this rice into small packages and offer them for sale to tourists at the village shops or farms.

- **Cultural activities**

There is a museum located in the middle of the village which displays traditional agricultural tools and clothes. However, this museum is in a deteriorating condition and has not been open for tourists for a long time. Another cultural activity is the traditional performance show in which the villagers offer to the tourist along with its homestay package. The show includes Karen traditional dance as well as traditional music performance.

- **Nature-based activities**

There are several nature-based activities provided to the tourists including nature trekking, visit to a shrimp farm located in the rice field, Royal Project supported agricultural fields, transplanting rice in the rice fields, and visiting waterfalls.

Part 3: Other Mae Klang Luang’s potential rural tourism resources discovered in this research

Besides the current product offering Mae Klang Luang is currently providing to the tourists, there are a significant numbers of potential rural tourism resources discovered in this research through conducting fieldworks as follows.

- **Information center**

It is found that the village’s information center is underutilized. The researchers suggest that the villagers should design information-sharing activities to keep this information center active year round. For example, they can arrange monthly intellectual exhibition about the history of the village, local folktales, flora and fauna grown in the village, herbs, organic farming, sustainable tourism, English for communication, local language, to name just a few. Other activities can be done in this information sharing which includes training and workshops for around 50 people at one time. There are local experts in the village in diverse fields to share knowledge, for example, Mr. Somsak Keereepoomthong is an expert in growing and processing organic coffee. There are outsiders that the village can invite to share their knowledge such as the Royal Project which can provide training about sustainable tourism and agricultural technique. This action would add intellectual, social, financial, and environmental well-being value to the tourism offering. In addition, there is a website of the village to share information; however, the website is somewhat static. Therefore, the website should be updated more often and if possible, it should be interactive, which means the visitors should be able to correspond with the web master (in this case, should be the villager) effectively.

- **Home stays**

Home stays are one of the highlights of Mae Klang Luang rural tourism. Most of the home stay houses are located in walking distance to one another. There are common spaces provided to the tourists, for example, fire pits. Such common places are somewhat underutilized since some tourists are social averse and not associated with any others, and they just stay in their own accommodation. This can be viewed as an opportunity to encourage the tourists to use the common areas so that they can chat with people of the same interests and they can also chat with the villagers as well. This action would add value to social, emotional, mental, and even spiritual wellness. Furthermore, all of the homestays offers price per night for accommodation, and there is no home appliances such as stove, refrigerator provided in the house. Therefore, most of the tourists stays only one night while a few tourist stay for more than one night. With the beautiful nature scenery and its sufficient fundamental utilities such as electricity, tap water, up to standard bathroom, local restaurants, good road, and nearby hospitals, this village has a capacity to provide its accommodation for long stay accommodations to the elderlies or people who are interested in living in the rural village atmosphere. This research suggests that the villagers should consider offering its current accommodations as long stay homes. To do this, the villagers may have to re-furnish their accommodations by adding necessary home appliances such as television and refrigerator so that the guests will be inclined to stay for a longer time. This action may add value to the physical, emotional, mental, medical, financial, and wellness. The pricing for long stays should not be too low or too high, in fact, it should make people feel a balance among the money they spent and their mental and spiritual wellness they gain in return. Such pricing will add value to people's financial wellness.

- **Food**

It is found that most of the food served to the tourists as well as that the villagers consume comes from outside markets. The research informants reported that there are various kinds of wild plants that grow in the village that can be eaten and good for health, however, the villagers simply ignore them and purchase their food from the market. They stated that the younger generation of villagers does not know about the value of these plants while the older generation does not care to convey their knowledge to the younger ones. To add physical wellness value to the tourism product offering, there should be a campaign to persuade the villagers to eat what they grow and to document the use and health benefits of the local herbs and plants located in their village. Moreover, they should offer a traditional/ Karen cooking class to the tourists. From direct observation and by roaming from one house to another, it was found repetitively that the villagers have a tradition to invite people walking by into their house to join them in eating whatever they have cooked. This tradition is unique and can add value to people's emotional, mental, and financial wellness.

- **Cultural activities**

There are various cultural activities taken place in the village but those activities have not been viewed as rural tourism resources. For example, the village's traditional festivals such as New Year festival and wedding ceremony are celebrated simply among the villagers but not open to outsiders. Even though those festivals are not a secret, villagers do not think that the tourists will be interested in participating. Here is another opportunity to share with tourists the villagers' traditional lifestyle by inviting the tourist participation in such festivals or ceremonies so that tourists can learn about authentic cultures, and in turn, this may increase the villagers appreciate the value of their own culture. This action will surely add intellectual, social, emotional, mental, and financial wellness value to the tourists. Moreover, there is a temple and meditation center in the village; villagers go to those places for religious purpose such as to pray, to give food to monks, and to meditate. This can be included in the village tourism activity as well. This action will add spiritual wellness value to the visitors.

• **Nature-based activities**

The villagers already provide a number of nature-based activities to the tourists. Nevertheless, there are other activities that have not yet been offered to the tourists but have high potential to add wellness value. Those mentioned activities are, for instance, picking strawberries in the farm; hands on learning about herbs in the village’s herb garden; planting plants such as rice, flowers, and vegetables in the real farm; learn about ecology in the village; star watching; bird watching; and more. This action will directly add environmental wellness value to the tourists and they also add social, physical, intellectual, emotional, mental, and may be medical wellness to the tourists. In addition, as Mae Klang Luang is an agricultural village, it is a great prospect for instructors, researchers, and students to use this place as their study site. They can do hands on learning in the fields. This would add occupational wellness value to the visitors.

Discussion and Suggestions

Taking the 10 dimensions of wellness into consideration and carefully reflection on what resources Mae Klang Luang possess, it can be extracted that there are a significant number of underutilized and hidden wellness attributes that do subside in Mae Klang Luang. This finding is relevant to the research hypothesis that Mae Klang Luang Village contains unique features that add value to the tourists’ experience; however, these features are hidden or underutilized by the village. This research suggests that those resources should be brought into consideration and constructively utilized to offer to the tourists as additional value to the current rural tourism product offering. The table below presents the correlation between the wellness attributes of current activities and the suggesting activities. The results show that if the village fully utilized what it currently possesses to the tourists, it would add significantly more wellness value to the tourists. In turn, this would attract more quality tourists to Mae Klang Luang.

Table 1 : Correlation between the wellness attributes of current activities and the suggesting activities

E represents correlation of “Existing” tourism actions and wellness attribute

S represents correlation of “Suggested” tourism action and wellness attribute

| Wellness attributes | Information center | Home stays | Food | Cultural activities | Nature based activities |
|------------------------|--------------------|------------|------|---------------------|-------------------------|
| Social Wellness | S | S | | E, S | S |
| Occupational Wellness | | | | | S |
| Spiritual Wellness | | S | | S | |
| Physical Wellness | | E, S | S | | E, S |
| Intellectual Wellness | E, S | | | E, S | S |
| Emotional Wellness | | S | S | S | S |
| Environmental Wellness | S | | S | S | E, S |
| Financial Wellness | | S | S | | S |
| Mental Wellness | | E, S | S | E, S | S |
| Medical Wellness | | S | S | | S |



From the table above, it can be seen that the existing tourism actions do not cover all of the 10 wellness dimensions. The unfulfilled dimensions are occupational, spiritual, emotional, financial, and medical wellness. With the suggested tourism activities and add value to resource found; all of the 10 attributes are fulfilled. It is also notable that one action may add value to more than one wellness dimensions. It is also an interesting sign that with different wellness values added, the financial wellness value will be added creating a perception that tourist receive great value for the amount of money paid.

CONCLUSIONS/ AND RESEARCH IMPLICATIONS

The result of this research revealed that there are a significant number of practical ways to add value to Thai rural tourism with wellness attributes. Using Mae Klang Luang Village's rural tourism as a study site, it gives suggestions of what rural tourism destination in Thailand has to offer and what are the resources it has not fully utilized or appreciated. The result shows that the village has natural resources, facilities, knowledge, and human resources that can effectively contribute to the village's rural tourism product offering. The ten dimensions of wellness can be effectively used as a framework to reflect what resources can be used for tourism purpose. The result of this research offers suggestion for Mae Klang Luang as well as other Thai rural tourism destinations to reexamine their resources in term of wellness and to effusively utilize their resources.



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MESSAGE FRAMING AND SOURCE CREDIBILITY IN FUNCTIONAL FOOD ADVERTISEMENTS

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ABSTRACT

This study sought to investigate the influence of message framing and source credibility on consumer risk perception on functional food products. See the inconsistencies in previous studies, the problems in this study were a) Which is more effective positive or negative message framing in a functional food product advertising; b) Which is more effective high or low source credibility in the functional food product advertising? The general objective of this study was to analyze the use of message framing and source credibility of the right to use in functional food product advertising. Research strategy used by researchers is the experimental method. In this study selected participants were adults. Participants were chosen voluntary. In the selection of group experiments was with randomized assignment. Testing hypotheses 1 and 2 with one way ANOVA, while the third hypothesis testing with two ways ANOVA. So the overall testing of the hypothesis can be concluded that in the functional food products, a more effective used is a negative message framing. Consumers feel less risk perception in functional food advertisements with a negative message framing. Source credibility is more effectively used in functional food products is high source credibility. Consumers feel less risk perception in functional food advertisements delivered by endorser with high source credibility.

Keywords : functional food, message framing, source credibility, consumer risk perception

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INTRODUCTION

Promotion is important in marketing. A wide range of promotional activities conducted marketers. One such tool is the advertising campaign. Advertising intended to inform, persuade, or remind. In order to achieve these objectives, advertising must be packaged properly so that consumers respond as expected.

Marketers need to pay attention to the importance of endorser is used in advertising. Endorser will convey information, persuade, or warned consumers about a product or service. In terms of advertising, as the source who gave information to support a very important role, so that marketers should be able to choose the proper endorser in the advertisement.

In general, few empirical studies that support a strong communicator, interesting, and more effective than experts who do not have these attributes, as seen in the study Giffin (1967), McGuire (1985), Pornpitakpan (2004) in Pratkanis and Gilner (2004–2005). Soliha and Zulfa (2009) showed differences in consumer risk perception in advertisements using celebrity endorser and expert endorser. Consumers can experience a lower risk perception with the support of expert endorser than celebrity endorser. It is relevant to the research Biswas, Biswas, and Das (2006). Related to that, the price effect on the perception that the greater the performance risk as low credibility source (Grewal, Gotlieb, and Marmorstein, 1994).

Meanwhile, research Walster, Aronson, and Abraham (1966) in Pratkanis and Gilner (2004–2005) showed that the low source credibility is more effective than high source credibility. Aronson and Golden (1962) showed that members outside the group is more effective than the members of the group. Likewise, research, White and Harkins (1994) also showed that participants with low involvement would encourage higher to process the message delivered by the source of the black race.

In marketing and advertising, marketers often have difficulty expressing the message. Messages can be expressed in positive or negative framing. Research also indicates that the message is not the same effect on all conditions and can be moderated by other factors. When people expect a negative message framing, the message will be received positively framed more carefully as positively framed messages would cause a conflict with the expectations of individuals. Some research on the message framing is still shown to the contrary. Price effect on the perception that the greater the performance risk when negative message framing and affect prices on the perception that the greater financial risk when the positive message framing (Grewal et al., 1994). Research Buda and Zhang (2000) showed a significant difference in the message framing. Subjects who receive a positive message framing has the attitude toward the product is significantly greater than subjects who receive a negative message framing. Levin and Gaeth (1988) showed that positive framing is more superior than negative framing, as Smith (1996) concluded the same opinion.

In contrast, some studies suggest that the negative message framing is more effective than positive message framing such as research Ganzah and Karsahi (1995) as well as research Meyerowitz and Chaiken (1987). Rothman and Salovey (1997) showed that the negative message framing are more effective in influencing cognition and behavior to the behavior of the detection of disease, whereas more positive message framing influence the behavior of disease prevention. Maheswaran and Levy (1990) showed that negative framing is more effective in influencing attitudes towards cholesterol testing in subjects with high involvement, while the positive framing is more effective for subjects with low involvement.

For functional food marketers, advertising is also an important thing. Functional food manufacturers to inform consumers and potential consumers of its products. The Institute of Food Technologists (IFT) (2005) have found that consumers get information about the functional food of the media (like television, internet) are often complementary opposition claims the particulars of the various components of the health benefits of functional foods (Naylor, Droms, and haws, 2009).

This functional food phenomenon has given rise to a new paradigm for the development of food science and technology, which does a variety of modifications of processed food products that are functional. This was immediately arrested by the manufacturers started to produce functional food. Put simply, functional foods can be defined as food that has health benefits for people who eat them. Until now there is no agreed definition of functional food is universal. The International Food Information Council (IFIC) defines functional foods as foods that provide health benefits beyond basic substances. According to the consensus of The First International Conference on East-West Perspectives on Functional Foods in 1996, functional foods as food that is because the content of active components may provide health benefits, beyond the benefits provided by the nutrients contained therein. Definition of functional food according to Badan Pengawas Obat dan Makanan (BPOM) is a food naturally or have been through the process, contain one or more compounds based on scientific studies are considered to have specific physiological functions that are beneficial to health as well as the withdrawal of food consumed or beverages, sensory characteristics of appearance, color, texture and flavor that is acceptable to consumers (Astawan 2005). This functional food do not give a contraindication is not side effects on the amount of the recommended use of the metabolism of other nutrients.

Consumer's decision to choose a functional food requires high involvement. According Bornkessel, Broring, and Omta (2011) health status of individual consumers to determine the involvement of consumers in the search for functional food information. Factors affecting consumer acceptance of functional foods among consumer characteristics associated with health status to be associated with one's level of involvement. Consumers will consider various matters relating to the purchase decision of functional food. This is consistent with a functional food is a credence quality product. Typically a customer will find information about the functional food to be chosen. Decision in choosing a functional food consumers will deal with various risks, including risks of social and psychological risk. The higher product prices and products with higher consumer involvement, the higher the risk perception of consumers.

Studies carried out experiments to be important and interesting because this study sought to investigate the influence of message framing and source credibility on consumer risk perception on functional food products. See the inconsistencies in previous studies, the problems in this study were a) Which is more effective positive or negative message framing in a functional food product advertising; b) Which is more effective high or low source credibility in the functional food product advertising? The general objective of this study was to analyze the use of message framing and source credibility of the right to use in functional food product advertising.

THEORETICAL FRAMEWORK AND HYPOTHESIS

The Elaboration Likelihood Model (ELM)

In the ELM, there are two routes to convince or persuade, the central and peripheral. The central route to convincing arguments consists of a variety of messages like the idea and content of the message. When recipients process centrally, a person will become an active participant in the process of convincing. A central processing has two prerequisites, namely that this only happens when the recipient has the motivation and ability to think about the message and the topic. If the recipient does not care about the persuasive message, then he lacks the motivation to perform central processing. On the other hand, if the recipient is interrupted or has difficulty understanding the message, then he lacks the ability to perform central processing. The peripheral processing occurs when the receiver decides to accept the message based on cues other than the force of argument or idea in the message. For example, to decide the recipient received the message as an expert source or interesting. Peripheral route occurs when the receiver is affected because he noticed that the message has several arguments, but lack the ability or motivation to think about it individually.

Attribution theory

This theory emphasizes how individuals regardless of background communicators who convey messages of persuasion. When the communicator is deemed not to have personal interests to the message, then people will see the message based on a sincere intention. This will be a consideration in decisions on the part of the message listener. In this case, the individual emphasis on the reasons why a communicator takes a particular position in relation to the message it conveys (Ramdhani, 2007–2008).

Consumer Risk Perceptions

Jacoby and Kaplan (1972) in Friedman and Friedman (1979) identify five types of perceived risk, the financial risk, performance risk, physical risk, psychological risk and social risk. Performance risk is the risk associated with uncertainty about product performance is not as expected. Financial risk is the risk associated with all costs and expenses to acquire the product and the face of uncertainty about the product. The risks were assessed with a sum of money (Grewal et al., 1994).

Social risk is the possible use of the product will affect the way people think about her. Psychological risk is the possibility of a product does not comply with consumer self-image. Physical risk is the possibility of product would be dangerous to users (Jacoby and Kaplan, 1972 as quoted by Friedman and Friedman, 1979).

The Relationship between Message Framing and Consumer Risk Perceptions

When people expect a negative message framing, the message will be received positively framed more carefully as positively framed messages would cause a conflict with the expectations of individuals. Hopes of the message framing in advertising is generally positive, but negative in a case known, for example healthcare advertising. In healthcare advertising, consumers typically want to know what the danger or the result if a person does not eat certain foods or not do certain things.

The positive message framing is defined as a message that emphasizes the benefits of the brand communication or potential benefits of consumer in a given situation. While the negative framing is defined as message that indicate communication brand disadvantage or potentially harm consumers in a situation (Grewal et al., 1994).

When marketers deliver the message, the message framing needs to be a concern. The message framing is likely to affect consumer perceptions of an advertisement. Based on the description on the face of unity hypothesis can be formulated as follows

H1: There are differences in perceived psychological risk and perceived social risk in the advertising with positive and negative message framing.

The Relationship between Source Credibility and Consumer Risk Perceptions

The source credibility consists of three dimensions, namely the skills, confidence, and physical attractiveness (Ohanian, 1990). Soliha and Zulfa (2009) showed differences in consumer risk perception in advertisements using celebrity endorsers and expert endorser. These results are also consumer risk perception is lower in the ad with a celebrity endorser than the expert endorser.

When source credibility is low, attribution theory suggests that consumers will ignore the arguments in the message (Eagly and Chaiken, 1975, in Grewal et al., 1994). By contrast, consumers tend to accept the argument in a message when a high source credibility (Mizerski, Golden, and Kernan, 1979, in Grewal et al., 1994).

Endorser to the attention of marketers in the message. Marketers may consider whether to use a credible endorser of high or low. The existence of this possible source credibility can influence consumer perceptions on the

ad. Based on the description on the face of the second hypothesis can be formulated as follows

H2: There are differences in perceived psychological risk and perceived social risk in the advertising with high and low credibility sources.

The Relationship between Message Framing and Source Credibility on Consumer Risk Perceptions

Research Grewal et al., (1994) showed that the price effect on the perception that the greater the performance risk when negative message framing and affect prices on the perception that the greater financial risk when the positive message framing. Research Buda and Zhang (2000) showed significant differences in message framing, subjects who receive a positive message framing have an attitude towards a product that is greater than subjects who receive a negative message framing.

Soliha and Dharmmesta (2012) developed a model of research that shows consumer perceptions of risk as the dependent variable, the manipulated source credibility in the high and low as the independent variables, message framing is manipulated in a positive and negative message framing as an independent variable, as well as variable levels of consumer knowledge moderation.

Use of the endorser and the framing of this message will affect the consumer perception on the ad. Marketers can choose whether to use the message with high or low credibility and whether to use positive or negative message framing. Based on the description on the face of these three hypotheses can be formulated as follows
 H3: There are differences in perceived psychological risk and perceived social risk in the advertising with positive and negative message framing and high and low source credibility.

Research Model

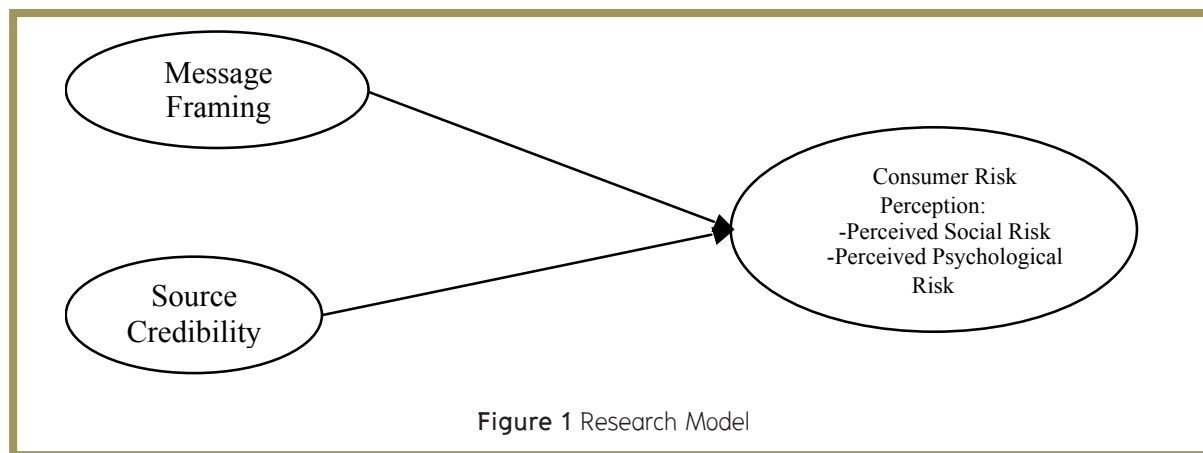


Figure 1 Research Model

Sources: Compiled by the research Grewal et al. (1994), Zhang and Buda (1999), Buda and Zhang (2000), Biswas et al. (2006), Soliha and Zulfa (2009), Soliha and Purwanto (2011), as well as Soliha and Dharmmesta (2012).

RESEARCH METHOD

Research strategy

Research strategy used by researchers is the experimental method. Researchers used an experimental method for experimental research approach is a research approach that aims to identify causal relationships between variables.

The study participants

In this study selected participants were adults. Participants were chosen voluntarily. In the selection of group experiments was with randomized assignment.

Preliminary Study Result

Based on the results of in-depth interviews were functional food products that have been known and consumed by the participants is at most high calcium milk that are beneficial to prevent osteoporosis. Researchers therefore decided to choose high calcium dairy products as functional food products used in experimental studies. Aspects to consider in the message which is then used in the framing of the message are the benefits and nutritional aspects. Based on focus group discussions conducted by researchers with the seven people who participated with respect to brand high calcium milk that is then used in the ad, it was decided that the brand name "Hi-Cal" to be used as treatments in the experiment.

Manipulation Checks

The results of the source credibility manipulation check showed that there were significant differences in the ads appeal to expert and non expert endorser. Message framing manipulation check results showed that there are significant differences in perceived psychological risk in the advertising with positive and negative message framing. The results also indicate that there are significant differences in perceived social risks in the advertising with positive and negative message framing. From these test results can be concluded that the ads with positive and negative message framing can be distinguished.

RESULTS

Testing hypotheses 1 and 2 with one way ANOVA, while the third hypothesis testing with two ways ANOVA. Results of testing hypothesis 1, 2, and 3 can be seen in table 1, 2, and 3 below.

**Table 1 The results of Anova Differences Consumer Risk Perceptions
Based on Positive and Negative Message Framing**

| Dependent Variable | Positive Message Framing | Number of Participants | Negative Message Framing | Number of Participants | F Statistic | Value of P |
|--------------------|--------------------------|------------------------|--------------------------|------------------------|-------------|------------|
| Psychological Risk | 3,5586 | 37 | 2,6111 | 36 | 16,637 | 0,000 |
| Social Risk | 3,4054 | 37 | 2,5093 | 36 | 17,110 | 0,000 |

Table 2 The results of Anova Differences Consumer Risk Perceptions Based on High and Low Source Credibility

| Dependent Variable | Hight Source Credibility | Number of Participants | Low Source Credibility | Number of Participants | F Statistic | Value of P |
|--------------------|--------------------------|------------------------|------------------------|------------------------|-------------|------------|
| Psychological Risk | 2,8018 | 37 | 3,9570 | 31 | 23,859 | 0,000 |
| Social Risk | 2,5856 | 37 | 3,4839 | 31 | 24,763 | 0,000 |

Table 3 The results of Anova Differences Consumer Risk Perceptions Based on Positive and Negative Message Framing and High and Low Source Credibility

| Dependent Variable | Positive Message Framing | Number of Participants | Negative Message Framing | Number of Participants | F Statistic | Value of P |
|--------------------|--------------------------------|------------------------|--------------------------------|------------------------|-------------|------------|
| Psychological Risk | High Source Credibility 2,8762 | 35 | High Source Credibility 2,7037 | 36 | 3,240 | 0,76 |
| | Low Source Credibility 3,6476 | 35 | Low Source Credibility 2,8387 | 31 | | |
| Social Risk | High Source Credibility 2,6657 | 35 | High Source Credibility 2,4259 | 36 | 2,457 | 0,119 |
| | Low Source Credibility 3,1333 | 35 | Low Source Credibility 2,4086 | 31 | | |

The results of a test of the hypothesis with the dependent variable perceived psychological risk and perceived social risk showed significant results. This suggests that there are differences in perceived psychological risk and perceived social risk on advertising with positive than negative message framing. Consumers feel the psychological risk is lower in the ad with a negative message framing, as well as the perception of lower social risk perceived in the ad with a negative message framing. In the negative framing of ads consumers will know what will happen if the consumer does not consume functional foods, high calcium milk so that consumers will feel the perception of lower risk. The results are consistent with Rothman and Salovey (1997) which indicates that the framing of the negative messages are more effective in influencing cognition and behavior to the behavior of detection, while the more positive message framing influence in preventive behavior. Ganzah and Karsahi (1995) which suggests that the negative message framing is more effective than positive framing of messages in the use of credit cards. Mahesrawan and Levy (1990) which showed that negative framing is more effective in influencing attitudes towards cholesterol testing in subjects with high involvement, while the positive framing is more effective for subjects with low involvement. Similarly, research Meyerowitz and Chaiken (1987) who showed that the pam-

phlets that highlight the negative consequences of breast self-examination is more persuasive than the pamphlets that emphasize the positive consequences. All these studies indicate that the negative message framing is more effective than positive. The results of this study is different from research Soliha and Purwanto (2011) who studied at universities ad which shows that the negative message framing in advertising are likely to generate perceptions of performance risk, financial risk, social risk and psychological risk perception of risk is higher than that generated by positive message framing. Consumers feel the perception of performance risk, financial risk, social risk, and psychological risk is lower in the framing of the ad with a positive rather than a negative message framing. Buda and Zhang (2000) who examined the electronic product advertising, Grewal, et al. (1994) who examined the electronic product advertising, as well as Levin and Gaeth (1988) which examined the meat ads. All these studies indicate that the positive message framing is more effective than a negative message framing. Thus, it can be concluded that the functional food ads more effective use of negative message framing.

The results of testing of the hypothesis 2 showed significant results. This suggests that consumers feel the psychological risk of lower on advertising by using high source credibility, as well as the perception of lower social risk is felt in advertising by using high source credibility. On advertising by using high source credibility, consumers have a higher confidence to the benefits gained when consumers eating high calcium milk or to the effect if consumers do not eat them. This will reduce the perceived risks. The results are consistent with the Soliha and Zulfa (2009) which suggests that there are differences in risk perception of consumers on college advertising using celebrity endorser and expert endorser. Consumers feel the perception of lower risk with expert endorser than celebrity endorser. This suggests that the use of expert endorser are more effective than celebrity endorsers in advertising. Ads college with expert endorser provide assurance to consumers on the quality of the college, thereby reducing the perception of risks. Biswas et al. (2006) showed that there are different perceptions of risk are lower in the ad with a celebrity endorser than the expert endorser. Pornpitakpan, McGuire, and Giffin (Pratkainis and Gilner, 2004–2005) showed that a strong communicator, interesting, and more effective than experts who do not have these attributes. Thus, it can be concluded that the advertisement of functional foods, consumers feel less risk perception in the ad with high source credibility.

The results of testing of the hypothesis 3 showed no significant results. This suggests that there are no significant differences in psychological risk and social risk in the advertising with positive and negative message framing and high and low source credibility. Consumers do not feel the difference in psychological risk and social risk in the ad with a positive and negative message framing as well as high and low source credibility. Based on the ELM theory and the results of focus group discussions it can be concluded that the ads that combine the credibility of the source and the message framing, consumers were more affected in the framing of which is the central message in the message. It can also occur due to the participants that the researchers use in these experiments were adults with education level S-1 so that the characteristics of participants as this is generally to be rational.

CONCLUSION AND RESEARCH IMPLICATIONS

Conclusion

There are significant differences in consumer risk perception on the advertising with positive and negative message framing. Consumers feel a lower risk perception on advertising with a negative message framing. Meticulous researcher perceptions of risk can be divided into two, namely the perception of psychological risk and social risk. Both the perception of risk is different. Psychological risk perception is likely the product not in accordance with the consumer's self-image, while the perception of social risk is the possible use of the product will affect the way people

think about her. So in the functional food advertising would be more effective by using a negative message framing.

There are significant differences in risk perception on advertising with high and low source credibility. Consumers feel a lower risk perception on advertising with high source credibility. So the ad functional food would be more effective using high source credibility.

There were no significant differences in consumer risk perception on the advertising with positive and negative message framing and high and low source credibility. This suggests that differences in perceptions of psychological risk and social risk perception of consumers is felt only in the framing of advertising messages by using it as well as differences in perceptions of psychological risk and social risk perception of consumers is felt only on an ad by using the credibility of the source alone. In the ad that combines message framing and source credibility were no differences in risk perception of the psychological and social risk perception. So the overall testing of the hypothesis can be concluded that the functional food products, a more effective used is a negative message framing. Consumers feel less risk perception in functional food advertisements with a negative message framing. Source credibility is more effectively used in functional food products is high source credibility. Consumers feel less risk perception in functional food advertisements delivered by endorser with high source credibility.

Research Implications

In the practical results of this study can be applied to improve the effectiveness of an ad. Especially for marketers of functional food products, these results can be used as a reference in making decisions about the use of message framing and source credibility are effective. In the functional food advertising could use high source credibility in advertising as evidenced by the use of high source credibility, perceptions of the perceived risk of consumers getting smaller. In the functional food advertising could use a negative message framing in advertising because it is proven by using a negative message framing, risk perception of consumers who felt less.

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THE MODERATION EFFECT OF ABUSIVE SUPERVISION ON THE RELATIONSHIP BETWEEN LEADER-MEMBER EXCHANGE AND WORKPLACE DEVIANCE

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ABSTRACT

This study examined the relationships between Leader-Member Exchange/LMX and workplace deviance behaviors (supervisor-directed deviance and organizational deviance), and investigated the role of abusive supervision as a moderating variable on those relationships. Respondent of this study is 199 non managerial and full-time employees working on various industries in Indonesia. The results showed that the higher LMX quality, the lower supervisor – directed deviance. In addition, this study found that LMX was more strongly associated with supervisor-directed deviance when abusive supervision was higher, than lower. However, this study suggested that no significant interaction effect on organizational deviance.

Keywords : Leader-Member Exchange, workplace, relationship

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INTRODUCTION

Leader–Member Exchange (LMX) has been received many attentions from researchers. According to Bolino and Turnley (2009), most of this study has investigated on its outcomes. Those studies showed that LMX was associated with positive outcomes, such as organizational commitment, job satisfaction, and Job performance (Gerstner & Day, 1997). On the other side, according to Dalal (2005), there are three broad performance domains: task performance, OCB, and counterproductive behavior. Unfortunately, to our knowledge, there were very little studies that investigated the effect of LMX on counterproductive behavior, whereas this behavior could impact on organizational performance (Mulki, Jaramillo, & Locander, 2006). One of counterproductive behavior' form that has more interest in researches is workplace deviance (Lee & Allen, 2002).

Nevertheless, on the working relationship of supervisor–employee could not free from the dark–side leadership phenomena like abusive supervision. Colbert, Mount, Harter, Witt, and Barick (2004) suggest that employees who perceive their job situation as an unfavorable will more violates the organization norms. The interesting issue that, would employees in high quality exchange engage in deviant behavior when they experience abusive supervision? Would abusive supervision drive employees who hold low quality exchange to more engage in deviant behavior?

In this study we investigated the relationship between LMX and workplace deviance behaviors (supervisor–directed deviance and organizational deviance). Further, we considered the moderating effect of abusive supervision. We suggested that abusive supervision experience would impact on the relationship between LMX and workplace deviance behaviors.

THEORETICAL FRAMEWORK/ AND HYPOTHESIS

LMX theory suggests that leader usually develops different exchange relationship with his/her subordinates – some employees have high quality relationship, but other group of employees have low quality relationship (Yukl, 1989); Bolino & Turnley, 2009). Employees in low quality relationship, than high, less liked, receive less supervisory support and fewer advancement opportunities from their supervisor (Bolino & Turnley, 2009). As a result, in low quality group, employees could perceive unfairness and worse relationship with their supervisor (Kim, O'Neill, & Hyun, 2009).

Unfortunately, employees' feeling about unfairness could have important effect on their behavior (Bolino & Turnley, 2009). Bolino and Turnley (2009) suggested that employees in lower quality LMX tend to related on negative behaviors. While Colbert et al.(2004) suggest that employees who have unfavorable perception of their work situation will more likely to engaged in deviant behavior. Workplace deviance is defined as “voluntary behavior that violates significant organizational norms and in so doing threatens the well–being of an organization, its members, or both” (Robinson & Bennett, 1995, p. 556). This behavior is often as a result of specific event such as social pressure, unfair treatment, and poor working condition (Colbert et al., 2004).

According to negative reciprocity principles, employees may attempt to resolve exchange imbalance by harming the other parties who harm them (Thau & Mitchell, 2010) and withholding their behavior (Colbert et al., 2004). Therefore, employees in the lower quality exchange relationship will more engaged in deviance behavior – with the targets are their supervisor and their organization. These are because they perceive that their supervisor is unfairness agent and they will decrease their input and violate organization norms to restore justice. While according to social exchange theory, employees who receive benefit from other party (for example, their supervisor), will repay with favorable behavior to their supervisor. Therefore, employees who experience high quality exchange with their supervisor will less violate organization norms.

Hypothesis 1a: LMX quality is negatively related to supervisor-directed deviance

Hypothesis 1b: LMX quality is negatively related to organizational deviance

According to Glaso and Einarsen (2006), supervisor-employees relationship could involve emotion. As consequently, it is possible that employees, whether in low or high quality relationship, could experience negative behavior from their supervisor (Lian, Ferris, & Brown, 2012). Previous studies found that group of high quality relationship also has negative interpersonal treatment (Braiker & Kelly, 1979; Fincham & Linfield, 1997; on Lian et al., 2012a). One of supervisor's negative treatment which has a powerful impact on employee counterproductive behavior is abusive supervision (Tepper, Duffy, Hoobler, & Ensley, 2004).

Tepper (2000, p. 178) defined abusive supervision as "the sustained display of hostile verbal and non-verbal behaviors, excluding physical contact." The forms of abusive supervision such as supervisor gives the silent treatment, invades employees' privacy, and blames employees to save supervisor' embarrassment (Tepper, 2000). Abusive supervision is a source of stress and has impact on organization effectiveness (Tepper et al., 2004). In that case, we could say that abusive supervision is unfavorable experience for employees.

Therefore, we argued that employees who hold lower quality exchange, when experience high negative behavior such as abusive supervision, will more engaged in deviance behavior. It is because for employees who have lower quality exchange, experience high abusive supervision will strengthen the perception of worse condition of their job. However, for employees who have higher quality exchange, their relationship with their supervisor is important. It is also possible that they don't want to lose their good position. As a result, employees who hold higher quality exchange, while experience high abusive supervision, will less likely to engaged in deviance behavior.

Hypothesis 2a: Abusive supervision moderates the negative relationship between LMX quality and supervisor-directed deviance. The negative relationship between LMX and supervisor-directed deviance will be stronger when abusive supervision is high, than low.

Hypothesis 2b: Abusive supervision moderates the negative relationship between LMX quality and organizational deviance. The negative relationship between LMX and organizational deviance will be stronger when abusive supervision is high, than low.

RESEARCH METHOD

1. Scope of the study

The limits of this study were in the area of LMX, workplace deviance, and abusive supervision. This research was done in Indonesia.

2. Sample

Respondents of this study were 199 non managerial and full-time employees working on various industries in Surabaya, east java, Indonesia. Surabaya is the second biggest city (after Jakarta) in Indonesia, and has been known as a centre of business city in the eastern Indonesia.

3. Methods of data collection

Twenty six people in researcher' friendship networking agree to assistance for distributing questionnaires. Each of them were distributed around 5-10 questionnaires to 251 individuals. The response rate was 86.1% (n = 216), and the final sample for hypothesis tests was 199.

4. Measures

LMX was assessed with 7 items ($\alpha = .793$) from Scandura and Graen (1984) LMX7 scale. We used a five-

point scale that ranged from 'never' (1) to 'always' (5). Sample items are: 'My manager recognizes my potential,' and 'My manager understands my problems and needs.'

Abusive supervision was assessed with 15 items ($\alpha = .926$) from Tepper (2000). Respondents used a five-point scale that range from 'I cannot remember him/her ever using this behavior with me' (1) to 'He/she uses this behavior with me very often' (5). Sample items are: 'Puts me down in front of others,' and 'Tells me my thoughts or feelings are stupid.'

We assessed organizational deviance with 12 items ($\alpha = .843$) from Bennett and Robinson (2000). Respondents used a seven-point scale that range from 'never' (1) to 'everyday' (7). Sample items are: 'Spent too much time fantasizing or daydreaming instead of working,' and 'Intentionally worked slower than you could have worked.'

Supervisor-directed deviance was assessed with 10 items ($\alpha = .838$) from Mitchell and Ambrose (2007). Respondents used a seven-point scale that range from 'never' (1) to 'everyday' (7). 'Swore at my supervisor,' and 'Made an obscene comment or gesture toward my supervisor.'

We also controlled for variables that could correlate with deviant behavior: gender and age. According to Aquino and Douglas (2003), employees demographic such as gender and age could be a predictor for counterproductive behavior

RESULTS

A hierarchical regression analysis was conducted to test our hypothesis. We controlled for gender and age. Table 1 shows the results of the effect LMX quality on workplace deviance behaviors and the moderating effect of abusive supervision on those relationships. Prior the analysis, we entered all control variables at the first step. The result was supported to hypothesis 1a that LMX quality had negative relationship with supervisor-directed deviance ($b = -.142, p < .05$). Contrary to hypothesis 1b, there was no significant relationship between LMX quality and organizational deviance ($b = .009, ns.$). Moderating analysis also supported to hypothesis 2a that abusive supervision had significant effect on the relationship between LMX quality and supervisor-directed deviance ($b = -.146, p < .05, \Delta R^2 = .020, p < .01$). However, there was no significant effect of abusive supervision on the relationship between LMX quality and organizational deviance.

Table 1. also shown that in all step, employees' age and gender had significant effect on organizational deviance, but not on supervisor-directed deviance. These analyses revealed that man, than woman, was more engaged in organizational deviance. Besides that, the younger employees, than older, were more engaged in organizational deviance.

To provide full support for hypothesis 2a, we also analyzed the interaction by testing the relationship between LMX quality and workplace deviance at high (one SD above the mean) and low (one SD below the mean) values of abusive supervision. This analysis shown that the negative relationship between LMX quality and supervisor-directed deviance was stronger when abusive supervision was high ($b = -.276, p < .01$). But when abusive supervision was low, there was no significant relationship between LMX quality and supervisor-directed deviance ($b = -.003, ns.$).

Table 1 : Hierarchical regression results

| Variable | Supervisor-directed deviance | | | Organizational deviance | | |
|---------------------------|------------------------------|--------|--------|-------------------------|--------|--------|
| | Step 1 | Step 2 | Step 3 | Step 1 | Step 2 | Step 3 |
| Age | -.134 | -.088 | -.068 | -.195** | -.168* | -.151* |
| Gender | -.061 | -.031 | -.028 | -.191** | -.175* | -.172* |
| LMX | | -.142* | -.14* | | -.099 | .096 |
| Abusive supervision | | .226** | .2** | | .113 | .09 |
| LMX x Abusive supervision | | | -.146 | | | -.125 |
| ΔR^2 | -.021 | .083** | .020* | .073** | .026 | .015 |

CONCLUSIONS/ AND RESEARCH IMPLICATIONS

Consistent with negative reciprocity and social exchange theory, employees who receive negative treatment from other party (for example: their supervisor), will repay with unfavorable behavior to their supervisor. Our analysis shown that employees in lower quality exchange were more reciprocate with deviant behavior to their supervisor, but employees in higher quality exchange were less reciprocate with deviant behavior to their supervisor.

The moderating analysis also was support the hypothesis that abusive supervision had effect on the relationship between LMX quality and supervisor-directed deviance. When abusive supervision was high, the relationship would be stronger. However, when abusive supervision was low, there was no relationship between LMX quality and supervisor-directed deviance. The possible explanation was, not all employees in lower exchange quality would engage in deviant behavior to their supervisor. It was because they still wish to hold high exchange quality with their supervisor (Bolino & Turnley, 2009). Consequently, they will less reciprocate with negative behavior to their supervisor.

Contrary with hypothesis 1b and 2b, there was no significant relationship between LMX quality and organizational deviance, and abusive supervision had no effect on that relationship. Organizational deviance includes action such as withholding effort. According to Engle and Lord (1997), supervisor liking, than subordinates performance, will be more determine the relationship quality between superior and their subordinates. Hence, it is possible that not all employees on higher quality exchange will less engage in organizational deviance. It is because they aware that high performance not important enough to be a high quality exchange group. On the other hand, we argued that not all employees on lower quality exchange will withhold their input. It is because, although some employees may perceive that similarity on personality with their supervisor is more important than performance, other employees perceive that to be a member of high quality exchange, do a high performance is still important. It was consistent with Xu, Wright, Chiu, and Chao (2008) that leader could develop high exchange quality with

employees who have performance level as supervisor expected.

This study suggested that when experience high abusive behavior, individuals in low quality LMX will response with deviance behavior to their supervisor (as a harmdoer), but not to their organization. This result consistent with Bies and Tripp (1996; on Mitchell & Ambrose, 2007)'s study. Their study found that individuals will retaliate who those harm them. It was also possible that some individuals do not reduce their input because they aware it is too costly if they do not fulfill the standard of performance. Especially if they realize the limited availability of employment opportunities in elsewhere.

According to those results, it is still important to investigate the effect on LMX quality on workplace deviance, especially to uncover some moderator variables that possible have effects to weaken or strengthen this relationship. For example, investigate on employees' perception about the criteria which is used by supervisor to selection employees in high or low quality exchange relationship.

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RECOGNITION, TRAINING, AND RETENTION OF JAPANESE OVERSEAS SUBSIDIARIES : A CASE STUDY IN THAILAND AND VIETNAM

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ABSTRACT

The purpose of this study is to explore how Japanese overseas subsidiaries regard as, retain, and train their workers. The object of this study is overseas six subsidiaries of Japanese manufacturers in Thailand and Vietnam. The reason why we focus on activities in Japanese overseas subsidiaries is that their problem and solution is likely to be useful to solve skill shortage problem in Japan. For them, we conducted interviews and document retrieval on their retention and training. In addition, to understand what they think, we use results of survey by JBIC (Japan Bank for International Cooperation).

Our findings are in the following. First, Japanese manufacturers regards Thailand and Vietnam as a production base with cheap labor in promising markets. Their intention, however, is not achieved because of increase of wage and tough competition in the market. Second, in Japanese overseas subsidiaries, they implement health inspection before workers' entry. After the entry, they train their newcomers working safety and working rules by human resource management staffs spending from a half day to a few days. Next, after newcomers are positioned to each of the shop, they are trained on basic skills required for the shops. Training content is based on both work standard and skilled workers' experience. Training period is decided while considering mainly skilled workers' opinion and human resource management staffs' opinion. Third, they retain their workers while they combine some solutions such as higher wage, allowance, and benefit packages. Concerning wage, its structure is important as well as amount of wage itself.

We should conclude that it is important to preserve skilled worker in each of the shop because they play an important role to implement training in a company. To retain them, companies should combine various solutions. Finally, they should consider how and where to distribute their workers' skills. They cannot escape from should implement training even if they would operate in so-called labor-intensive country.

Keywords : recognition, training, retention, Thailand, Vietnam

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INTRODUCTION

The purpose of this study is to explore how overseas subsidiaries of Japanese manufacturers consider countries where they expand workforce and implement training and retention.

Increase of wage and skill shortage stimulates difficulties of Japanese manufacturers. Some manufacturers have expanded to overseas to save personnel cost and acquire workers with required amount and credibility. It is reported that some companies succeeded in transferring their production base to Thailand. There, they produce products with labor-intensive production technology (Chongvilaivan, 2011) and they do not train so well to save the cost (Shibata, 2008). We also find such cost-saving cases in Taiwan (Chi, 2008). They, however, could not escape from skill shortage. Skill shortage means that companies cannot succeed workers' skills from skilled workers toward workers in new generations due to high turnover rate, relatively low newcomers' credibility, and lack of training system (Utsunomiya, 2011; Utsunomiya, 2011; DeLong, 2004; Foley, 1994; Gann, 1998; McGuinness, 2006).

Nonetheless, even in so-called emerging countries, situations do not allow labor-intensive production with low-trained workers any more. Some large local companies located in Thailand, come to train their employees as careful as Japanese companies (Wailerdasak, 2004). Because the companies tried to transform their production policy from labor-intensive production to one which produces value-added products, they switched their human resource practice (Siengthai, 2009). It is also reported that cost for training in Thailand come to be increased.

They, both local and alien companies have been suffered from strong turnover in overseas (Bjorkman, 2007). It is likely that we do not know about HRM policies and practices in Southeast Asian countries. We should organize temporal situation and human resource management practice.

OBJECT

The object of this study is overseas subsidiaries of Japanese manufacturers in Thailand and Vietnam. Four of the companies are located in Thailand and two of them are located in Vietnam. Table 1 shows an overview of the companies. Particularly, we focus on initial training because it is regarded as important (Kitching, 2007; Luecke, 2002; Mesmer-Magnus, 2010; Wanous, 2000; Wanous, 1980) and useful to apply the implication for initial training in Japanese manufacturers.

5 case companies are genuine subsidiaries of Japanese manufacturers. Shareholder composition of company T4 is different from other companies. In Co. T4, there is a production manager who was sent from a Japanese shipbuilder. He has been working for the company for more than twenty years since the establishment of the factory. When the company was founded, Japanese shipbuilder decided to assist Co. T4 as a crucial base of their world-wide ship repair network and it still remains.

Table 1 Overview of Target Companies

| Name | T1 | T2 | T3 | T4 | V1 | V2 |
|-------------|-----------|-----------|-----------|----------|-----------|-----------|
| country | Thailand | Thailand | Thailand | Thailand | Vietnam | Vietnam |
| Established | 1988 | 1994 | 1989 | 1676 | 2002 | 2001 |
| shareholder | Japanese: | Japanese: | Japanese: | Unknown | Japanese: | Japanese: |
| composition | 100% | 100% | 100% | n | 100% | 100% |
| N of | 3,500 | 175 | 730 | 964 | 2,000 | 4,000 |
| Employees | electric | machiner | electric | ship | sanitary | electric |
| Products | device | y parts | device | repair | ware | device |

METHODOLOGY

In this study, to collect data from the company, case study method is applied. In 2010, we conducted a pilot survey in Co. T1. In the company, there are some characteristics which are different from prior researches. For example, their turnover rate was extraordinarily low (0.3 per cent per year!). Most of management staffs were localized, which is regarded as one of key factor of expansion (Dickman, 2003). We may not know about real situation on manufacturing in the countries. At first, using case study method, we should confirm current situation around there before establishing general theory (Yin, 1994; Eisenhardt, 1989; Meloy, 1994).

Therefore, we conducted interviews to managing director, production manager, human resource manager, and other related staff in each of the companies from 2010 to 2011. The length of the interviews in each of the company is from 2 to 4 ours. At the same time, we collected document which are related to human resource practices in the companies. On contents of interviews, see appendix.

To confirm what the overseas subsidiaries consider, we use results of "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies" by JBIC (Japan Bank for International Cooperation). This survey has conducted since 1989. From 12nd. survey (2000), we are able to check its content via internet (<http://www.jbic.go.jp/en/research/>). The surveys include many contents to be studied. This time, we focus on the reasons why companies decided to expand into the countries and the problem what they faced after their expansion. In detail on the reason and the problem, see Table 2.

To clarify which factor affect Japanese companies' selection of country, we use 2-way ANOVA (Analysis of Variance). We set the reasons mentioned above and country as factor which affect the companies' selection. Statistically significant level for ANOVA analysis is 1%. To summarize and classify the country which Japanese overseas subsidiaries expand, we use cluster analysis (Anderberg, 1973). Using R (Ver. 2.12.1), we conducted the statistical analyses.

Table 2 Reason to Expand and Problems facing after Expansion

| Reasons | Problems |
|--|--|
| Established Infrastructure | Exchange Restriction |
| Cheap Material | Toughened Taxation |
| Cheap Labor | Restriction on Foreign Investment |
| Stable Foreign-fund Promotion | Difficulty in Recruiting Manner |
| Base of Product Development | Difficulty in Funding |
| Current Market Size | Poor Security |
| Growth Potential of Market | Opaque Taxation Operation |
| Industry Accumulation | Tough Competition |
| Diversification of Country Risk | Difficulty in Correction |
| Base of Export for Japan | Insufficient Intellectual Asset Protection |
| Base of Export for the Third Countries | Undeveloped Local Supporting Industry |
| Preferential for Investment | Complicated Permitting Process of Investment |
| Competent Human Resources | Lack of Information on Investment |
| | Undeveloped Legal System |
| | Opaque Operation of Law |
| | Import Regulations |
| | Increase of Labor Cost |
| | Labor Difficulties |

RESULTS

Japanese Manufacturers’ Ideal and Reality

According to the survey by JBIC, Japanese manufacturers have expanded to many countries. However, from a viewpoint of the number of country where they expand their expansion, there are only eight countries (China, India, Indonesia, Korea, Russia, Thailand, United States, and Vietnam) which have ranked in the top ten continuously.

Using the data, we obtain some findings. First, Thailand and Vietnam are similar countries from a viewpoint of the reasons and the problems. Figure 1 shows that the result of cluster analysis using the data. Using Ward method, we estimated distances between each of the cluster. We can find that Thailand, Vietnam, and India are in the same cluster and this result means that we can regard them as similar countries.

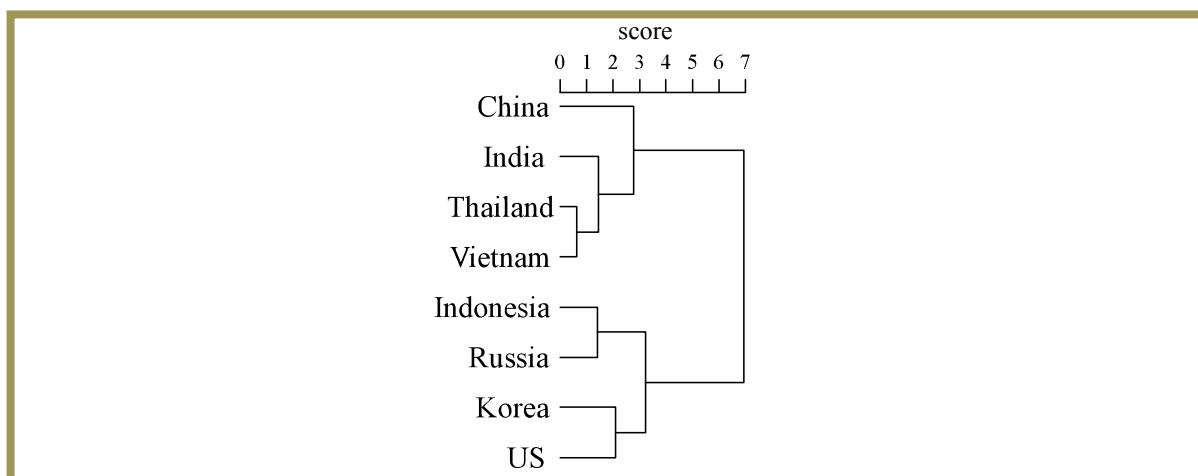


Figure 1 : Result of Cluster Analysis

Second, we find significantly statistical difference among the reasons, and the countries at 1% level. Concerning reasons and Problems, There are also interactions by the reason and the country at 1% level. We find significantly statistical difference among the problems and the countries at 1% level. There are interaction by the problem and countries at 1% level. These interactions mean that Japanese manufacturers choose countries in according to their purpose of expansion and face specific problem in each of the country. These results are shown in Table 3.

Third, companies in Thailand and Vietnam are suffered from work-oriented issues. Certainly, the reasons and the problems affect companies' behaviors. Then, which reason and problem affect them, especially in Thailand and Vietnam? Figure 2 and Figure 3 show the distribution of the number of companies' answer to each of the reason. For Thailand, it is likely that companies wish "Cheap Labor", "Growth Potential of Market", and "Base of Export for the Third Countries". For Vietnam, it is likely that they wish "Cheap Labor", "Growth Potential of Market", and "Competent Human Resources".

Companies' preferences toward Thailand and Vietnam are almost similar.

Their wish, however, usually be failed. Figure 4 and Figure 5 show that distribution of each of the problem which Japanese manufacturers have faced for the period. Evidently, in both of the countries, "tough competition" and "Increase of Labor Cost" have waited for them. Their intentions, "Turning profit in promising market with cheap labor", do not always accomplished. In other words, Japanese manufacturers have faced issue about market amount and workers' wage in these countries.

Table 3 ANOVA Results

| Reason | dF | SS | MS | F | P |
|-----------------|------|--------|-------|-------|---------|
| Reason | 14 | 490.6 | 35 | 147.3 | 2.2e-16 |
| Country | 7 | 677.4 | 98.8 | 406.6 | 2.2e-16 |
| Reason*Country | 98 | 406.1 | 4.1 | 17.4 | 2.2e-16 |
| Residuals | 825 | 196.3 | 0.2 | | |
| Problem | dF | SS | MS | F | P |
| Problem | 20 | 268.8 | 13.4 | 60.2 | 2.2e-16 |
| Country | 7 | 1517.2 | 216.7 | 970.5 | 2.2e-16 |
| Problem*Country | 140 | 457.7 | 3.27 | 14.6 | 2.2e-16 |
| Residuals | 1176 | 262.6 | 0.22 | | |

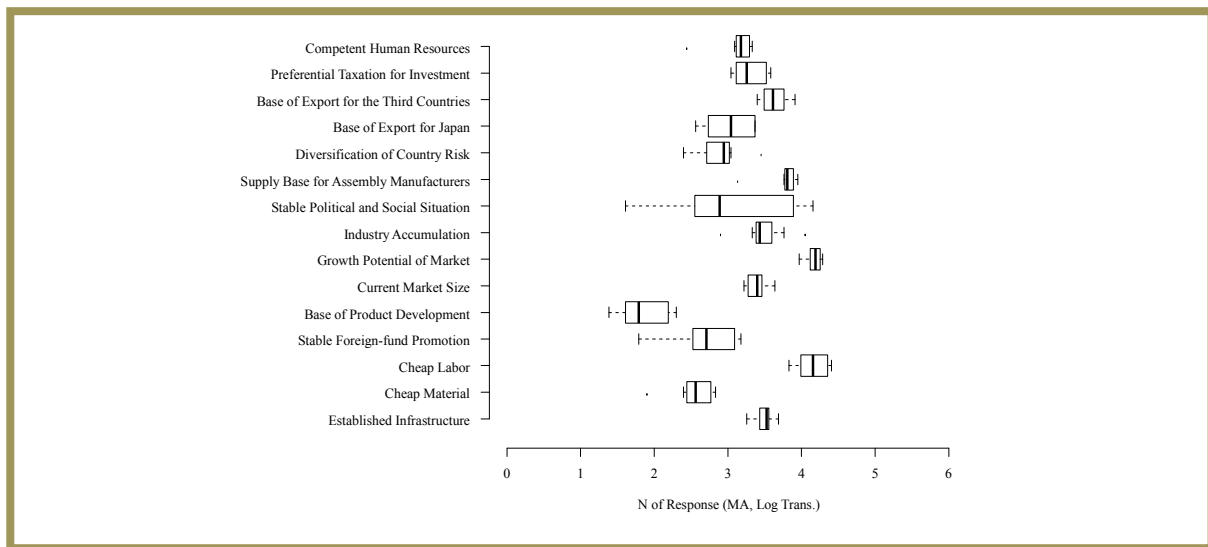


Figure 2 Reasons to Expand into Thailand (Unit: Firms, Multiple Answers, Log. Trans.)

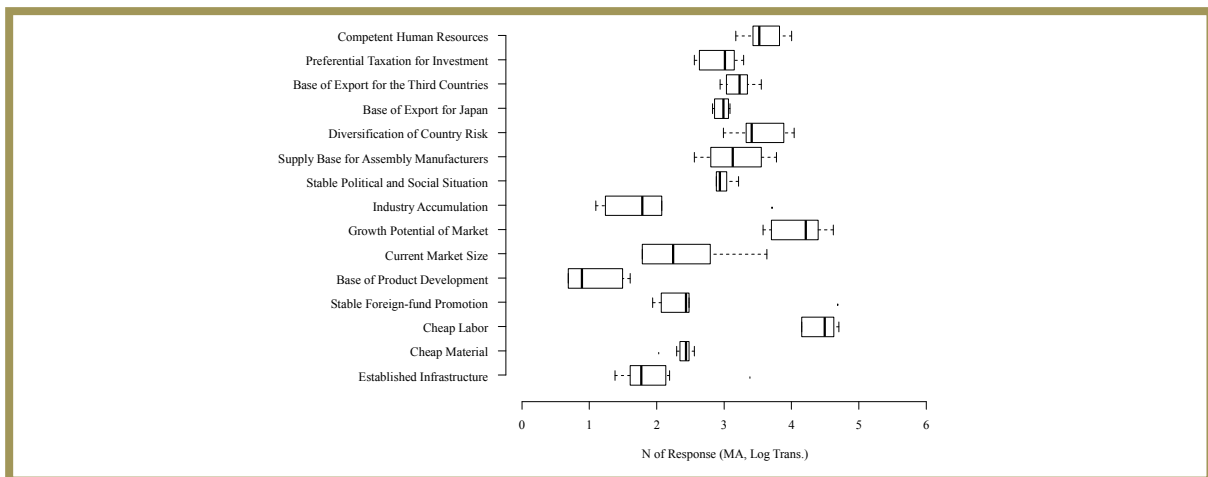


Figure 3 Reasons to Expand into Vietnam (Unit: Firms, Multiple Answers, Log. Trans.)

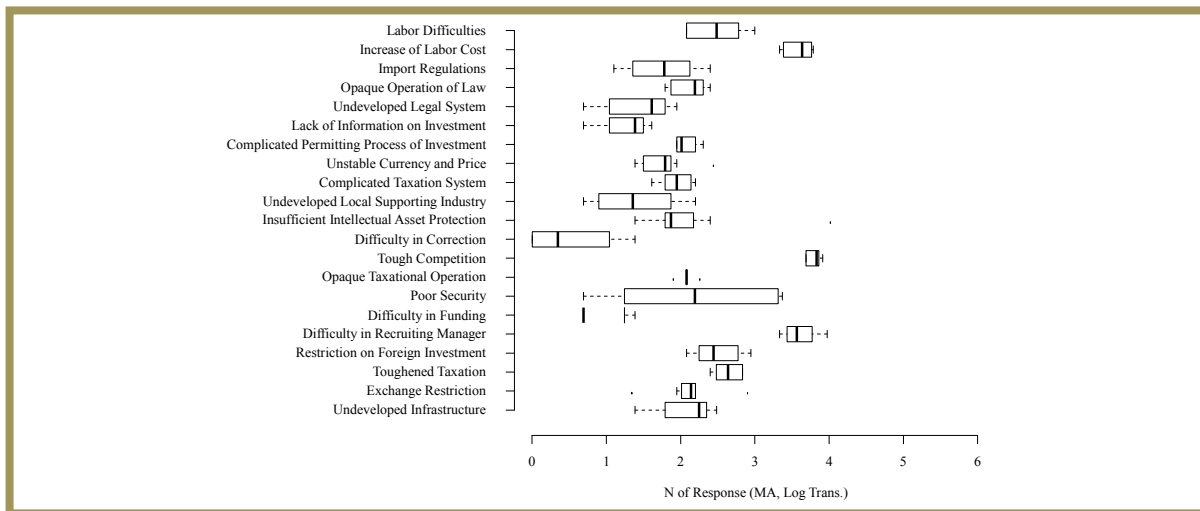


Figure 4 Problems Facing in Thailand (Unit: Firms, Multiple Answers, Log. Trans.)

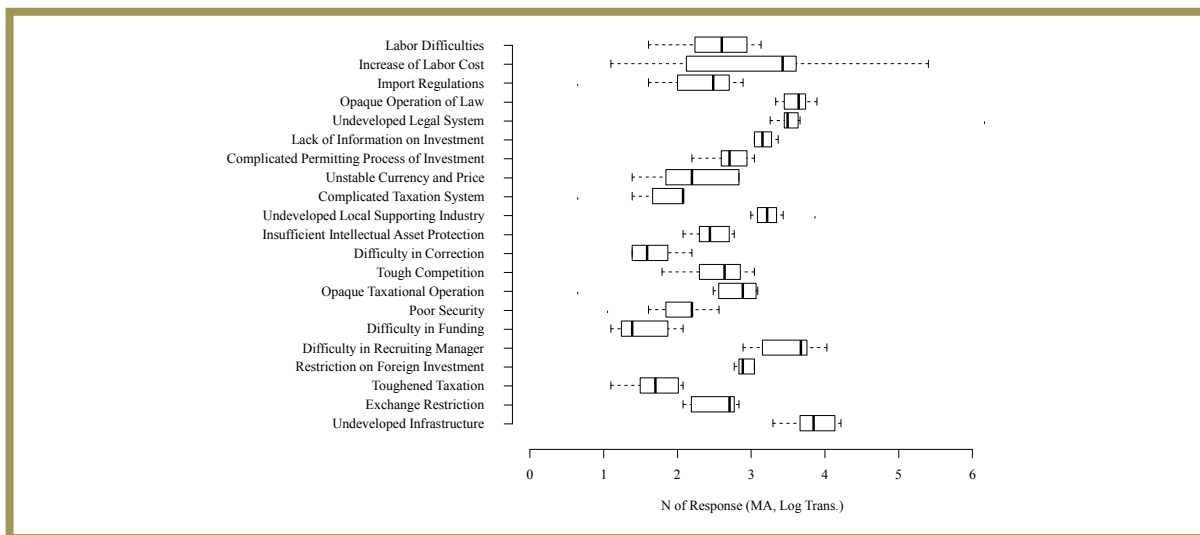


Figure 5 Problems Facing in Thailand (Unit: Firms, Multiple Answers, Log. Trans.)

Initial Training

Content, period, and method of initial training are different among the companies. It is common that working rules and workplace safety are taught by the company at first. And in each of the shop in the companies, supervisors play a leading role.

Regardless whether companies are large or small, before entry, companies inspect their health condition. For example, Co. V2, inspects whether they are infected by hepatitis A. The company is afraid that hepatitis A would be infected from the careers. Four tenth of the candidates are infected. In Co. T2, before the entry, candidates are inspected whether they use drug or not. According to the labor law in Thailand, it is said that it is difficult for a company to fire workers even if they are drug addicted employees. To eliminate infected or addicted workers, companies should inspect candidates' health condition in advance.

After entry, companies implement initial training. At first, all of the companies implement lectures about working rule and workplace safety. Working rule indicates expected behaviors as well as working condition. For example, as shown in

Table 7, all employees trained about code of conduct in Co. T3. It contains not only ethical issue such as compliance, but also basic behavior such as “Hou Ren Sou (the same sound as “Spinach” in Japanese)”, which means “Reporting, Contacting, and Consultation”.

Period of the training is at least half of a day, at most a few days. Contents of the training are decided by staffs in HRM division and they become lecturers of the training. Then, workers are positioned into each of the shop and they are trained in the shops. With regard to content and period of the training, we can find some differences in accordance with size of the company. In relatively larger companies, workers are trained to acquire basic skills and business manner spending from a few days to 10 days. In relatively small company, from afternoon of entry day, workers are trained. In each of the shop, newcomers work together and accumulate required skill from work experience. About after three month, the newcomers begin to produce products.

“Our company does not implement training expressly because we have no allowance. Newcomers would work with skilled workers and after up to three months later, they come to be able to produce products.”

(by Manager in Co. T2)

Among all the shops in each of the company, training period is decided mainly by skilled workers and based on their experiences.

Retention

It is difficult for the companies to retain their workers in the companies. Some company achieve low turnover rate. In most cases, however, mainly young workers try to retire in an early date from a day of entry. It is not so harmful for a company because it does not spend personnel cost for the newcomers. They, however, are candidates of skilled workers. Considering Japanese experience, company should retain them. Sometimes skilled workers who have spent for more than a few years in a company would retire due to head hunting, seconding, or other reasons. It is harmful because a company spends certain personnel cost for the workers. Companies would like to retain the skilled workers as well.

According to our survey, for example, young workers think that they can afford to choose their workplace as they like and do job hopping. Some of them hesitate to carry out their job in a hard work environment. In Vietnam, due to poor housing supply, female workers should retire and live with their partners’ family home after they get married. Some of the reasons such as slack of houses are not responsible for companies. Others, however, could be solved by companies themselves.

To retain workers, they combine various practices in the following.

First, additional works. Small group activity sometimes plays an important role. Of course, the activity is regarded as effective for improving labor productivity (Kalleberg, 2009) and vital activities(Cordery, 1991). In addition, it can provide increase of morale in a shop. Through the activity, workers acquire spirit that they work for global companies and proud of their work. All workplace, however, cannot implement smaller activity. If workers retire so often and early, workers cannot implement their own small group activity because they cannot train and succeed techniques or methods such as statistical analyses and editing briefing papers to newcomers. In Vietnam, we sometimes find that workers’ mindsets do not seek problem solving with cooperative works.

“It is likely that it is difficult for employees to implement small group activity for quality control. They are not ready to do it. Instead, we let supervisors of every shops participate and implement the activity. We hope that the activity and mindset would be penetrated into line workers.”

(by Manager in Co. V1)

In such a situation, companies try to implement whatever they can do. In Co. V1, they begin the activity from supervisors. In Co. V2, company shortens term of the activity within a few months. Both of the companies try to have them penetrate their mindsets required for the small group activity toward line workers.

Second, wage amount and structure. High amount of wage itself certainly encourages retention. When a company does not regulate overtime work, workers can earn wage more in proportion as their effort. As a result, in Co. T2, workers can earn relatively higher wage than one paid in large companies. Total wage amount including bonus, however, is less than one in large companies. It is more important that workers' status should be taken care of. The amount should be decided while considering condition in periphery firms as well. In Thailand and Vietnam, workers try to share information about their wages each other. They could know about other workers' wage amount and structure easily. If a worker's wage in a company is lower than that in another companies, soon the worker tries to move into another company to earn wage more.

“We try to improve year by year by talking the data from our neighbor in order to compare. I would say the monthly rate or their income and their welfare either to keep the balance between the same group.”

(by Manager in Co. T3)

“Every worker knows other workers' wage amount and one in periphery companies. In addition, they mind their relative estimation seriously. We should seriously take care of their relation...”

As soon as workers' wages amount in periphery companies get higher, they try to move into the companies....”

(by Manager in Co. V1)

Allowance should be paid while encouraging workers who companies would not like to retire. For example, in Co. V1, child allowance for workers with small children. It is often that workers with wife and children have spent more than a few years and they have skills and mindsets which are useful for the company. V1 would like to retain workers in such a generation.

Third, benefit packages. Both workers and companies regard benefit package as important. Various activities are implemented among the companies. They effect as one of key factors for retention especially for workers whose wages are relatively lower.

“Those who are paid more than 15,000 Baht prefer holiday rather than events. If we ask worker what to do in their holiday, workers reply that they would work in the day to earn money. Such workers will be excited when they drink and eat as they like on the company”

(by Manager in Co. T2)

“Workers, especially operators, loves events such as company retreat because their wage is not enough to go for a trip by themselves. University-grad workers follow the trip at the beginning. After three years have passed, however, they are not willing to follow the trip.”

(by HRM manager in Co. V2)

Through these activities, companies expect to have workers to feel like in a village, where they originally lived in. However, those who earn relatively higher wage do not always prefer the benefit package. Rather, they prefer holiday. For them, it is important to offer clear career plan and results of performance.

CONCLUSION AND DISCUSSION

The purpose of this study is to explore how Japanese overseas subsidiaries regard as, retain, and train their workers. The object of this study is Japanese six overseas subsidiaries in Thailand and Vietnam. For them, we conducted interviews and document retrievals on their retention and training. In addition, to understand what they think, we use results of survey by JBIC.

We can find some facts concerning training and retention (Table 4).

First, training content and period are mostly clear among the companies. Among most of the companies, training content depends on work standard and is regarded as clear except for Co. T2. In Co. T2, there is little room to spend for editing detailed work standard procedure. From the viewpoint of production technology, it is difficult to edit it because quality of their products depends on workers' machine operation. However, it is common that the content includes working rule and workplace safety. In every company, first, they implement training on work safety and working rule. Then they begin to train original content required.

Training periods among the companies are clear, at least easy to know. The period is different in accordance with companies' allowance for training and HRM policy. At most, it is up to three months. In comparison with workers' length of service, it is not so long. To decide the training period, HRM staffs consider skilled workers' opinion in each of the shop. More or less, the period heavily depends on workers' experience even if there are many established work standard and related document. In reality, still now, there are many rooms to use skill-dependent technology (Alcorta, 1999) because content of skill depends on characteristics of work (Bolino, 2000).

Concerning training method, both practice in their shop and in-house lectures are mixed. Even in Co. T2, which applies apprenticeship, there is a half-day in-house lecture which is required by law. More important, every company implements practical training. Practical training is useful to acquire skills although work standard procedures are established.

Second, to retain workers, companies combine various benefit packages. It contains many events such as company retreat, party, and other events. It is favorable especially for relatively low wage workers because the workers can experience amazing situation which cannot afford by them.

In addition, the companies shape their wage structure in accordance with situation workers faced. For example, in Co. T2, workers can overwork without any regulations and earn money. As a result, workers can achieve relatively higher wage than one paid in peripheral and large companies. Total wage amount including bonus, however, is less than one in large companies. In Co. T4, workers can earn higher wage than other companies in the same industrial area.

Wage structure is also important. In Co. T3 and Co. V1, wages are decided while every peripheral companies consult about the amount each other. Wage structure shown in Co. V2 is based on seniority. Under the

seniority payroll, workers can be paid more as their length of service will be longer. The payroll is effective to retain workers inside of companies. We regard the payroll system as suitable to solve problems among the case companies. The reasons are following. First, for the case companies, to increase productivity is crucial matter. To do it, training will play one of the most important roles. Training needs a certain period. Companies should retain the workers inside of the companies so that they train their workers. The fact, however, shows that many workers evidently retire frequently before completing to developing work skills. Second, seniority payroll includes tough selection system. When workers would like to obtain higher wage, they should acquire a higher position through competing with their peers. The numbers of positions offering higher position are limited even though they can be paid seniority-based wage. In other words, they can promote credible workers without career track system. Third, from a viewpoint of personnel cost, turnover itself becomes serious problem. As the numbers of retired workers get increased, the cost increases dramatically. They should decline the number to save the cost.

Finally, Japanese manufacturers have expected promising market and cheap labor when they try to expand to Thailand and Vietnam. Their expectation, however, have been failed.

We would conclude that companies should preserve senior and skilled workers in each of the shop. It is skilled workers who plan and implement initial training in a company around Southeast Asian countries as well as Japan. In Japan, skilled workers are expected to be core to develop workers' skill. Without them, they would not be able to implement their training and keep required level of skills.

Companies should consider skill distribution as well. In every country, company should train workers. Company cannot escape from training, retention, and higher wage due to competition in labor market. They should consider skill distribution around the world. No matter where they would expand, they would face the same problem as Japan, Thailand, and Vietnam. Rather, wage would be higher and market competition would be harder in every country.

The future challenges are following.

First, we should consider differences between Thailand and Vietnam shown in Figure 4 and Figure 5. Based on the result of cluster analysis shown in Figure 3, the countries can be regarded as similar countries. Medians shown in Figure 4 and Figure 5 show that it is not likely to be different between the countries. We, however, find differences in variance. This fact may mean that there are qualitative differences between the case companies. We should consider why the differences occur.

Second, some additional survey should be required to discuss on a relation between retention and HRM practices. Company T1 implements the same HRM practices as others do. For example, all of the case companies implement company retreat and party. Turnover rate of them, however, differs from one in company T1. We would have included a data on a relation between relation and HRM practices if one had been available.

Table 4 : Overview of Target Companies

| Name | T1 | T2 | T3 | T4 | V1 | V2 |
|-------------|----------|-----------|----------|----------|----------|----------|
| country | Thailand | Thailand | Thailand | Thailand | Vietnam | Vietnam |
| Established | 1988 | 1994 | 1989 | 1676 | 2002 | 2001 |
| shareholder | Japanese | Japanese | Japanese | Unknown | Japanese | Japanese |
| composition | 100% | 100% | 100% | n | 100% | 100% |
| N of | 3,500 | 175 | 730 | 964 | 2,000 | 4,000 |
| Employees | electric | machinery | electric | ship | sanitary | electric |
| Products | device | parts | device | repair | ware | device |

Table 5 : Reason to Expand and Problems facing after Expansion

| Reasons | Problems |
|--|--|
| Established Infrastructure | Exchange Restriction |
| Cheap Material | Toughened Taxation |
| Cheap Labor | Restriction on Foreign Investment |
| Stable Foreign-fund Promotion | Difficulty in Recruiting Manner |
| Base of Product Development | Difficulty in Funding |
| Current Market Size | Poor Security |
| Growth Potential of Market Opaque | Taxation Operation |
| Industry Accumulation | Tough Competition |
| Diversification of Country Risk | Difficulty in Correction |
| Base of Export for Japan | Insufficient Intellectual Asset Protection |
| Base of Export for the Third Countries | Undeveloped Local Supporting Industry |
| Preferential for Investment | Complicated Permitting Process of Investment |
| Competent Human Resources | Lack of Information on Investment |
| | Undeveloped Legal System |
| | Opaque Operation of Law |
| | Import Regulations |
| | Increase of Labor Cost |
| | Labor Difficulties |

Table 6 ANOVA Results

| Reason | dF | SS | MS | F | p |
|-----------------|------|--------|-------|-------|---------|
| Reason | 14 | 490.6 | 35 | 147.3 | 2.2e-16 |
| Country | 7 | 677.4 | 98.8 | 406.6 | 2.2e-16 |
| Reason*Country | 98 | 406.1 | 4.1 | 17.4 | 2.2e-16 |
| Residuals | 825 | 196.3 | 0.2 | | |
| Problem | dF | SS | MS | F | P |
| Problem | 20 | 268.8 | 13.4 | 60.2 | 2.2e-16 |
| Country | 7 | 1517.2 | 216.7 | 970.5 | 2.2e-16 |
| Problem*Country | 140 | 457.7 | 3.27 | 14.6 | 2.2e-16 |
| Residuals | 1176 | 262.6 | 0.22 | | |

Table 7 Content of Code of Conduct in Co. T3

| Content | Description |
|--|---|
| Message from Group Managing Director | It declares company seeks continuing change and innovations. |
| Objectives | Business should be conducted according to the highest ethical standards as well as economic efficiency. |
| General Guidelines | All employees should understand and comply the guidelines and ask if they are in unsure situation. |
| Commitment to the Company | All employees should promote interest of company and associated corporation. |
| Employee Behavior and Conduct | Professional and acceptable behavior is required for all employees. |
| Confidentiality | All employees should keep whatever it is regarded as confidential secret. |
| Entertainment and Gifts | All employees should take care of not seek any entertainment and gifts. |
| Bribes | No treatment shall be made directly or indirectly to anyone for the purpose of obtaining any favorable action. |
| Business Integrity | Respect diverse political, economic, social, and environmental concerns. |
| Intellectual Property | Any contribution, idea, and other inventions belong to company. |
| Use of Company Assets | Any assets should be used only for business use. |
| Reporting Possible Issues and /or Violations | Whenever employees find any issues and violations, report them to supervisors. |
| Compliance to the Code | All employees are responsible for fully understanding and complying this code. |
| Philosophy of Sustainability | Care/Respect, Teamwork, Integrity, Customer focus, Results oriented, Commitment, Continuous improvement and Development |

Table 8 : Summary of Findings

| Company | T1 | T2 | T3 | T4 | V1 | V2 |
|-----------|---|---|---|---|--|---|
| Content | clear and based on work standard | Based on workers' experience except for working rule and safety | clear and based on work standard | clear and based on work standard | clear and based on work standard | clear and based on work standard |
| Period | clear and decided by both HRM and workers' experience | visible and not precise | clear and decided by both HRM and workers' experience | clear and decided under initiative of HRM | clear and decided by both HRM and workers' experience | clear and decided by both HRM and workers' experience |
| Method | mixture of OJT and OffJT | mainly apprenticeship | mixture of OJT and OffJT | mixture of OJT and OffJT | mixture of OJT and OffJT | mixture of OJT and OffJT |
| Retention | *company retreat and other events | *unlimited overwork *company retreat | *company retreat and other events | *relatively high base wage | *company retreat and other events *targeted allowance | *company retreat and other events *seniority based payroll |

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WHAT'S YOUR PROBLEM?!
IMPLICATIONS OF TEAM LEARNING IN DEALING WITH A NATURAL CRISIS

Ravee Phoewhawm*

ABSTRACT

The purpose of this work is to offer insights for keeping the team together in the midst of a crisis by having a strong incremental focus in solving problems; such as a natural crisis.

With a theoretical framework derived from Hay's Team Learning Pyramid based on dialogue, reasoning, and mindfulness, the study applies the case-analysis method. In the findings of the study, A team should challenge theories that are espoused. It should convert past errors and mistakes to become a learning curriculum for practical operation. Also, the team should be aware that their thoughts and actions can affect other fellow team members indirectly. The limits of this study were on having to fully rely upon secondary data for drawing up the study. For practical implications, knowing what fosters and prevents the team from learning to reach its objectives and goals. The originality/value is on the understanding of how Teams work together as a team in an emergency.

Keywords : alignment, dialogue, flooding, reflection, mindfulness, team learning.

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INTRODUCTION

Background and Significance

For the last several years during the monsoon season, the kingdom of Thailand had experienced some severe flooding in the region. However, the fourth quarter of the 2011 period will go down as one of the worst in 50 years (bangkokpost.com, 2011) as water management has decided to release waters from their dams due to reaching full capacity. While some experts have cited that the flood problems were stemming from human activities such as deforestation, overbuilding in catchment areas, the damming and diversion of natural waterways, urban sprawl, and the filling-in of canals, combined with bad planning (Mydans, 2011), others are laying the blame on the officials who are responsible for water management. When it comes to problems, the process of water management is not being handled in the long term. This tends to bring about an attitude of seeing water as an unnecessary excess that needs to be discarded away during the rainy season rather than an asset that could assist agricultural production during the dry season (Corben, 2011).

Failure in planning

Despite a master plan from the government to have all ministries dealing with water management, namely the Meteorological Department, the Irrigation Department, and the Electricity Generating Authority of Thailand, to coordinate their plans with a focus on issues rather than allowing different ministries to manage their own water systems (Corben, 2011) cooperation from all involved parties failed to be gained through government management while dealing with the flood crisis in late September and in the full month of October 2011. Even with a budget of 1 billion Thai Bhat spent to study and discover ways of handling the flood crisis, as well as acquiring the intelligence about the situation, there was a lack of determination to rectify the situation (Sarnsamak, 2011).

A new turning point for learning as a team

In order to work together as a team, it has been suggested that these agencies abandon the conventional methods of being reactive to the problems and gather intelligence based on existing studies to implement an effective planning policy for water management (nationmultimedia.com, 2011). The responsible group of agencies' mismanagement of water control has brought about a burdening period for the Thai government to quickly react. The study reviews the decisions and actions of the government's flood management team that was temporarily created to take on the challenges of saving the nation's capital, Bangkok, from being devastated by the phenomenal impact of the deluge. In this work, the author analyzes the shortcoming of this temporary team with the attempt of providing the lessons learned for working and learning together as a collective unit in making a concerted effort to minimize the outcome of damages and losses while undergoing a natural catastrophe.

Research Question(s)/Problem

From the team learning pyramid concept, the work attempts to address the following questions:

“How can dialogues be established among team members for the purpose of seeking to uncover truths or facts that remain hidden or untested?”

“How can reflection be established among team members for the purpose of developing the capacity to become effective in dealing with complex problems?”

“How can mindfulness be established among team members for the purpose of acting with reason and understanding the consequences of their behavior?”

Research Objective

The purpose of this work is to offer insights for keeping the team together in the midst of a crisis by having a strong incremental focus in solving problems; such as a natural crisis. The aim of the study is to seek for the lessons learned that will induce improvement without instigating any sense of shame or recrimination from catastrophic errors that have been made.

LITERATURE REVIEW

Defining Team Learning

Team learning is one of the core disciplines in the blueprint for developing a learning organization. It is a process that involves asking questions, seeking feedback, discussing mistakes, evaluating results and using this information to explore and experiment with new ways of organizing and working on an ongoing basis. Team learning aligns and develops the capacity of a team to achieve the desired objective. As a discipline, it involves individual skills and areas of understanding to be done as a collective unit. (Senge, 2006, p. 236–43). According to Hays (2006), team learning is a collective endeavor that is dependent on collaborative interaction. With such a process requiring a degree of interaction to determine the kind of learning to promulgate, Hays proposed the idea of utilizing ‘dialogue, reflection, and mindfulness’ as a synergetic engagement for team members to accomplish their objectives as a unified group.

Conditional Elements for Team Learning

In his study of building the learning organization, Marquardt (2011, p. 38) states that team learning meets the need to think insightfully about complex issues. He sees that through innovative, coordinated action, teams learn how to tap the potential of many minds. For such a learning to occur among team members, his work identifies the need to address complex issues through collective insight, as well as for innovative, coordinated action.

Thinking and Doing as One

Teams normally succeed when their thoughts and actions are driven by a common purpose that compels individuals to believe that putting their effort towards helping the team to succeed will also make them successful as well (MacMillan, 2001, p. 44–45). When individual members of the team become fully aligned they recognize their work as being productive and trusting that others will provide a dialogue for discussing about ways in creating continuous improvement (Levin, 2011, p. 14), (Zenger, Musselwhite, Hurson, and Perrin, 1994, p. 165)

Taking on the Challenges

Calling a selected group of individuals to work as a team does not constitute teamwork. The challenge is to identify the areas for gaining an advantage while removing obstacles that act as a dysfunctional barrier towards working as a collective unit (Hackman, 2011, p. 5). Along the mission, shortcomings are unavoidable and should be expected to occur. Teams not only learn to tolerate errors and mistakes but to also make others aware that sometimes the right action can lead to an unfortunate outcome (Roberto, 2011, p. 123). Members within the team have to reflect on their reason and behavior to determine whether it is helping the team to reach its objectives or preventing it from doing so (Roberto, Bohmer, and Edmondson, 2006).

Acknowledging that the Problem Exists

Not every team member will perceive the impact of the problem as others. This can sometimes lead to an approach that can be deemed as irrational from others but rational to the one implementing the decision taken (Edmondson and Nembhard, 2010). Team members must communicate with each other to point out why some decisive actions have become an absolute blunder in the process and help them learn from the mistakes made (Tjosvold, Yu, and Hui, 2004). The team has to overcome the tenacity to derive towards a short-term solution and become open-minded in looking for other alternatives that can provide outstanding benefit for others who are affected by the team's decision and action (Tucker, Edmondson, and Spear, 2002).

THEORETICAL FRAMEWORK/CONCEPTUAL FRAMEWORK

The theoretical framework is applied with Hays' 'Team Learning Pyramid' which is a model that integrates three concepts for learning and change – Dialogue, Reflection, and Mindfulness (Hays, 2006, p. 1). According to Hays, the idea of the model is to produce synergy among team members: so that the team learns much more effectively because there is morale setting the conditional process for learning and change. The definitions of the three concepts within the 'Team Learning Pyramid' are as followed:

Dialogue – is a discussion between and among people to explore issues and solve problems.

Reflection – is concerned with serious thought or consideration of behavior, or one's own or a team's, and its consequences and implications.

Mindfulness – is a state of full awareness and presence.

RESEARCH METHODOLOGY

The study implements a case analysis method. This research tool describes events in a narrative form. The text reflects on insights into dilemmas or problems faced by the actors in the event. The case analysis normally includes key learning points (Britton, 2002). For this work, the events will be narrated in a chronological format that had been assessed from the secondary reports of media news documents. The target for analysis is on the situation where the flooding incident has already breached into the central region of Thailand and where the government has arranged for a temporary team, known as the Flood Relief Operations Command, on 7 October to combat the situation as well as restore normalcy around the capital city. At the end of the narration, the analysis will be presented as the learning points which attempt to address the research questions that were provided at the beginning of the work.

The Presence of the Flood

Date 16/Oct/2011

Analytical Report

The attempt to address the public about the flood situation management in a concise manner by the government has raised more confusion than clarity. Editors who are trying to keep the mass informed are having a difficult time in collecting accurate information for reporting. The problem is the confusion and mixed messages given by the authorities. It seems that the basis of information provided by the prime minister, science and technology minister, spokesperson, justice minister, and Bangkok governor does not correlate with each other. In the midst of this chaos, sources entail that it's better to admit that there is a lack of competence in dealing with this natural event.

Date 21/Oct/2011

Analytical Report

Reports from the “Flood Relief Operations Command” (FROC) said that the entity found it unacceptable on the part of City Hall reacting with a lukewarm response from the Bangkok governor towards a request in opening the sluice gates which would release ‘northern run-off water’ into the Bangkok canals. This prompted the prime minister to order the opening of Khlong 1–6 sluice gates in Rangsit to help ease the overflow of Khlong Raphipat. The Bangkok governor turned down the request by reasoning that the drainage canals must be used for collecting rainwater.¹

With a sense that things were not operating in a cordial fashion, the prime minister had to implement the “Disaster Prevention and Mitigation Act” to restore order because some officials had disobeyed her instructions; thus hampering the flood control. Her decision propagated from the officials’ lack of cooperation in opening the water gates. With officials remaining vague on how much water they expected to overflow the canals and where they expected that to happen, their predicament raised anxiety in the capital and added to analysts’ growing fears that Thailand’s performance — and a lack of adequate infrastructure to handle flooding — would lead to a long-term loss of foreign investment.²

Date 24 – 27/Oct/2011

Analytical Report

Analysts believed that a better dialogue and reduced self-esteem could be a better mechanism in reducing the fault lines of law enforcement and find common approaches – a win-win situation. The government was a bit overconfident in approaching the situation. It failed to realize the full extent of the floodtide that followed and swamped all industrial estates in their wakes. Most importantly, this catastrophe should be a learning experience to make the public understand the nature of disasters and administration of relief efforts.¹

It is believed that if the prime minister improves the approach in managing the people around her then she would be able to overcome the policy missteps, contradictory information, and chaos.²

Sources reveal that the problem of water management in the country’s 25 river basins lacked a unified direction and lacked analysis to seek for improvement. Despite billions of Thai Baht money allocated into 171 water management projects in 35 provinces, 96 projects have been deemed as a failure in solving water management problems; among the 96 projects, 30 of them solved problems for select groups of people only, while 47 projects had not correlated with other projects.³

Date 30–31/Oct/2011

Analytical Report

The urged for Bangkok residents to be patient and refrain from destroying water barriers as the worst flood crisis in more than five decades was expected to pass soon. She pleaded for the people to hang on for a few more days so that the water will gradually be drained away from all the areas. She understands that it might not be the best choice to make in this situation but believes that it will lead to the restoration of normalcy in a short time.¹

Tempers flared along the flood barrier protecting Thailand’s capital from a record deluge surging into the city. An-

gry residents scuffled with security forces in an attempt to force the floodgate open that left their homes swamped. The residents grew increasingly agitated as the water levels climbed, and asked authorities to increase the amount of water being let through the gate. They used hammers and pickaxes to break through an earthen dike around the floodgate to release the water, and shoved security forces who tried to stop them.²

Date 1/Nov/2011

Analytical Report

After living in the flooded water for nearly three months many have decided they've had enough and have demanded that the sluice gate be opened to let out the stagnant water which has been hazardous to the health condition of these unfortunate residents. They were told by some MPs that their place of residency is to be a sacrificial area for retaining the flood. An MP stated that if there was empathy and a mechanism that builds understanding then people would not have to take drastic measures to battle the circumstances. The MP sees this phenomenon as a failure to communicate with others thus leading to people taking a vigilant stance that may be viewed as quite offensive by other people who are not in their situation. If there is no solution then problems will only be amplified to an unfavorable state.¹

The residents complained that floodwaters are growing increasingly unhealthy, with rotten smells. But officials have said there's a limit to how much water they can release because of the need to protect key economic assets in the area, including a market and the Bang Chan industrial estate nearby.²

The trouble escalated when the residents returned to the gate and formed a blockade on a road near the 'Hathainimit-Wat Sukjai' intersection and demanded the gate be further opened so that more water can be quickly released.³

Date 6/Nov/2011

Analytical Report

The issue on the lack of coordination between the water management officials at the city and national level has put more areas prone to danger. The irrigation source, who also worked for the government's Flood Relief Operation Command, said there has been discord among officials on both sides. The official said the Royal Irrigation Department and the Bangkok Management Administration needed to work more closely together and come up with ways to deal with social discord. "It's not about water, but about how we work together, and also dealing with residents who are affected by flooding," said the official.¹

Humanitarian aid experts say that poor coordination between the government and international organisations, including the United Nations, is hurting flood relief efforts. Diplomatic sources said that while Bangkok had not made a formal request for UN assistance in the country's flood relief efforts, some technicians from nearby countries with expertise in disaster relief were flown in. After not being given any work to do for two weeks, the technicians returned home. Jackie Pollock, director of the MAP (Migrant Assistance Programme) Foundation, a Chiang Mai-based non-governmental organisation, said a similar lack of coordination is evident with other agencies. "It's sad that we don't see much coordination from agencies with expertise such as the Thai Red Cross and other international players," she said.²

Date 15–18/Nov/2011

Analytical Report

According to reports, the issue of saving Bangkok needs to be advocated due to its strategic importance: this premise outweighs the public perception of seeing it as a shortsighted measure just to save the economy while others have to bear the brunt of the catastrophe. But for such an operation to be sound, it was suggested that the government should have clearly communicated the need to protect inner Bangkok to the affected residents at the edge of the capital and reach some form of agreement even before the flood barriers were installed.¹

The justice minister said that FROC and BMA would work closely together to overcome the capital's flood crisis. He states that FROC and the BMA will stand together to fight this issue unreservedly. FROC's spokesman said that the prime minister and the police chief do not want to exacerbate the problem for flood affected residents, but people needed to understand that any actions taken against the barriers must have a valid reason under the law.²

Improper management of water control would only lead to greater flood damage. The main problems on water resource management now include a lack of cooperation and the duplication of projects among related agencies, improper land utilization, and the construction of infrastructures which have become barriers to floodways.³

About 200 residents of housing estates along the main road removed some of the bags on top of the barrier near the air force base yesterday afternoon, unleashing torrents of water through a 3.5 metre gap. They demanded that an opening of at least 10m be made in the barrier. However, the FROC committee rejected their demand.⁴ Both the FROC and the BMA have been criticized for politicizing the flood situation and offering inaccurate information to the public. If there was closer cooperation between the various agencies and roles had been clearly defined, the floods would have been better managed. ⁵

The lesson of the big bag conflict is that Thai society is fragmented and not democratic or just meagerly seeking for quick solutions. The authorities will have to adapt and come up with a more convincing solution that takes the interests of not just the central business district of Bangkok into consideration if they're to avoid more resistance.⁶

Date 23–25/Nov/2011

Analytical Report

Analysts proclaim that the point is not if Bangkok has been saved, nor is it the special protection the capital was given. Instead, the real tragedy was a man-made natural disaster, a series of mismanagement, the political fights – all that at the costs of lives, business, whole existences lost by the water. The point is that there has been a sense of Bangkok versus the rest that was apparent in the political struggles of past years and now in the measures to protect the heart of Bangkok, while sacrificing those who happen to live on the 'wrong' side.¹

Protesters became infuriated by a senior government official's televised comments when he said that the drainage of floodwater in their areas had been slow due to having weak local leaders and not banding together to help themselves. One of the protestor believed that it is the duty of the government to provide the means for absolving the condition.²



The situation has reached the boiling point as residents of western Pathum Thani province slammed the government for its failure in water management. They insisted that the flood water be drained out of their homes and demanded remedial measures for their losses.³

With conflict incrementing, the prime minister had strongly urged the Bangkok Governor to help drain the northern runoff out of the capital and the surrounding provinces as soon as possible. Although there seems to be a schism between FROC and BMA in working together, the prime minister has instructed members of FROC to come up with a win-win solution to get rid of the flood. She also asked that the BMA showed cooperation and compassion by considering which sluice gates could be opened wider so that the hardships of the people affected by the flooding become manageable.⁴

When asked why Bangkokians remained dry at the expense of Nonthaburi, the prime minister said she wanted people in Bangkok to cooperate and let the flood be directed through their areas. She said she had told FROC to discuss this issue with both sides and find solutions. She also urged the BMA to look at the overall picture and find ways to drain the water, adding that the government had no information about the BMA's drainage system and capacity.⁵

The prime minister pleaded with Bangkok residents to let some floodwaters flow into the area to ease the hardship of others. She had asked FROC and City Hall to work together in draining the water and make a joint negotiation with people in the process. She states that if people look at the big picture and try to understand the nature of water, then that is the best solution.⁶

Flood-hit Nonthaburi residents petitioned the Administrative Court yesterday to revoke the Bangkok Metropolitan Administration's power in managing flood in areas connected to other provinces. The petition was lodged with the court by Todsiri Poolnual, of Bang Rak Pattana sub-district on behalf of the flood-hit residents after they staged a raucous protest at Nonthaburi provincial hall over prolonged flooding in their communities. She said the embankments set up by the government along Highway 340 and the BMA's refusal to open the sluice gates along Maha Sawat canal had badly affected flooded residents. Since the Bangkok Governor was not eager to respond to the Nonthaburi residents' request to open the sluice gates to one metre, they were forced to seek the help from the court, she said.⁷

Columnists feel that the bags were not the real issue of the problem. Instead, it was the inability to produce enough information that would lead to a variety of solutions.⁸

Analysts viewed the big bags providing protection for Bangkok to remain dry while people living in Pathum Thani and Nonthaburi close by, have had to live in worsening conditions in an unending flood. Many have endured the inundation for more than a month, without any significant relief from government agencies or charitable organizations. They also destroyed sandbags, big and small, forced open sluice gates even though the authorities reserve the right to control the water flow so as not to further damage other communities. Why should Bangkokians have the privilege over those in outer and rural areas?⁹

About 100 residents from Bangkok's Thawi Watthana, Taling Chan and Bang Kae districts yesterday closed a section of Kanchanapisek road at Khlong Bang Chuek Nang to demand City Hall clarify its management plan. They wanted to know what the Bangkok Metropolitan Administration planned to do after it raised sluice gates at Khlong



Khun Sri Burirak, Khlong Kwai and Khlong Soi to drain the flood and ease Nonthaburi residents' hardship. "We are willing to ease the hardship of people in Nonthaburi," said Rueng Muangchum, a resident. "We just want to know what the BMA's drainage plan is, how they will drain the water and how long will the flood stay?"¹⁰

Date 27–30/Nov/11

Analytical Report

According to reports, residents of Nonthaburi and Pathum Thani provinces, as well as those in the greater Bangkok districts of Don Muang, Sai Mai, Bang Khae and Bang Khen have been inundated for weeks. The water level is anywhere between one and three meters high. It has become polluted, bacteria-filled, trash and debris are everywhere and the stench is suffocating. Many residents in those areas have had enough.¹

A protest leader, said the residents were mulling criminal complaints of dereliction of duty against FROC and the BMA, as well as a lawsuit demanding compensation from both agencies, possibly along with a petition against them to be lodged with the Central Administrative Court.²

City Hall said it could not lift the gate because it would increase water in the canal and lead to more flooding in Sai Mai and Bang Khen districts. To help drain water out of areas in northern Bangkok, the Bangkok Governor ordered the lifting of Khlong 2 and Min Buri sluice gates. The raising of the sluice gate at Khlong Phraya Suren happened after a group of 30 people cited an order by the prime minister and the Flood Relief Operations Command director to lift the gate to 1.5m. But it was, in fact, not an order, said the City Hall spokesman. It was only a FROC "request letter" dated on Nov 25, to ask for the gate to be raised. The Bangkok Metropolitan Administration had already turned down the request, reasoning that complying with it would affect many areas of the capital.³

An official at the PM's Secretary General Office, dismissed the Bangkok Metropolitan Administration claim that he used his political official position to open the gate and said that he did it as an affected citizen wishing to help the affected residents. He said his position had no authority or even a desk.⁴

Date Dec/11

Analytical Report

With the 2011 flood entered as one of the worst events in Thai history, it provides the lessons learned for developing a new mindset to be prepared for any unexpected. First, there is a need to move from a deeply silo system of urban management to one in which integration and interdependencies are central to decision-making and coordination. Second, there must be a shift from a culture of planning based on the need for certainty to one in which there is a dynamic capacity to absorb new and changing information on a continuous basis. And third, there needs to be an investment in understanding that building truly resilient cities in the 21st century requires the resolve to resist the search for the silver bullet solution to the most current or visible problem. Instead, entities have to recognize that it will take a series of small steps and solutions – generated through dialogue across and between sectors and actors – to address a broad range of challenges.

RESULTS & ANALYSIS – Learning Points

(Dialogues) “Seeking to uncover truths or facts that remain hidden or untested.”

There must be ways for enabling others with a wealth of experience or specialized knowledge to assume the role as the devil-advocates that will be allowed to challenge the theories espoused within the organization. Where behaviors can sometimes be seen as irrational or unruly cooperative, there must be an effort to find the reason and bring that rational for others to examine so that interests or priorities are not discarded for the sake of the goal. Sources of information provided cannot be automatically held up as the absolute fact: it still needs to be reviewed and discuss to obtain accuracy for others to be confident of the next action to take.

(Reflection) “Developing the capacity to become effective in dealing with complex problems.”

Look upon past mistakes, errors, and ignorance from the actions of others as a learning curriculum for developing a firm strategy in tackling challenges that are presented along the path. Study the judicious behaviors of fellow colleagues and specific groups for the purpose of devising a stratagem that will adapt to any form of counteraction or for amplifying the support towards achieving the objectives. Practical mechanisms should be installed where there is a deliberate attempt in maximizing a collective effort for accomplishing the mission while being absent of fear and doubt in performance. All schemes that are plotted for handling problems must be designed for team members to not only question the procedures but come up with other innovative solutions.

(Mindfulness) “Acting with reason and understanding the consequences of their behavior.”

Understand that your thoughts and behavior as well as others are part of the system. Think and act with an awareness that any performance taken could either benefit or create a setback for others as well as yourself. Intentions should be carried out with balance and harmony; know that sometimes what is considered right can be perceived as wrong by others. Have the compassion to carry the interests and ideas of others to be incorporated into the decision process, thus when actions are taken they will not be thrown into a state of confusion.

DISCUSSION & CONCLUSION

With the 2011 flood in the capital city recorded as a lesson for keeping the team intact in managing a natural crisis, team members have to keep the communication channel open by constantly raising inquiries, searching for feedback, conferring about mistakes, assessing the outcome and utilize the information provided to explore and experiment with methods for reaching towards the goal. While concepts and ideas can sometimes lead to some undesired objectives they should serve as reflecting points for shirting the paradigm of team members to look for other options available that are effective in the long term rather than coming up with a quick fix solution for the short term. Obstacles that prevent the team from learning about the mistakes and errors made should be promptly removed while inserting a collective insight mentality to address complex issues. Overall, implications of this study advise that any future of working as a team in tackling natural crisis must be guided with the thoughts and actions that are driven by a shared purpose; thus making fellow team members believe that their applied effort in helping the team to achieve its goal will also allow them to reach their objectives. When individuals are truly aligned they would become a force that rapidly learns as an entity to mitigate the disasters from the events of the nature's force.

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THE INFLUENCE OF QUALITY IN CONSUMERS' GREEN PRODUCT PREFERENCES

Chamaiporn Fung-Fuang*

ABSTRACT

This conceptual paper proposes relevant factors that impact consumers' preference towards green versus non-green products. It first points out that, assuming equal price, perceived quality difference between green and non-green products could impact consumers' degree of green product preference. Secondly, the paper proposes the underlying factors that enhance the consumer's intention to purchase green products although they perceive an inferior quality. Specifically, this paper suggests that the impact of quality difference on product preference can vary, depending on other underlying factors which are green brand image, country-of-origin, and emotional and social factors. The relationship between relevant factors will be reviewed and proposed for future examination, and contributions of this framework on both academic and practitioner aspects will be discussed.

Keywords : green marketing, green consumption, sustainable marketing

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INTRODUCTION

Green marketing issues have been considered an important academic topic for the last three decades (Kassarjian, 1971; Kinnear et al., 1974; Peattie, 1995; Polonsky & Mintu-Wimsatt, 1995; Schlegelmilch et al., 1996; Hartmann et al., 2005; 2006; Vlasas et al., 2010). 'Green' competition is also becoming increasingly evident as firms try to move forward in order to gain a larger share of the market. Moreover, a growth of customers focused on ecological issues has increased significantly (Sima, 2010). At present, consumers are more willing to buy a product which is not harmful to the environment because of the trend towards environmentalism since 1990 (Chen, 2010).

Currently, the influence of product quality also represents a major factor for the increase in the organizational competitiveness. Due to an increasing level of technical progress improving the quality provides the ability to be highly adapted to the shifting of market conditions (Sima, 2010). Customers in major international markets have been demanding that companies produce higher quality products that are consistent with social and environmental values if they wish to remain competitive in global markets (Chang & Fong, 2010)

Therefore, quality has remained the main attribute for consumers' buying intention (Teas & Agarwal, 2000; Canniere & Pelsmacker, 2010; Ramayah et al., 2010) including the purchase of green products (Chang & Fong, 2010; Verekar & Wadhwa, 2011; Bryant, 2012).

When including quality as one of the potential criteria of green product evaluation, literature in the past revealed diverse perspectives. On one hand, consumers are reluctant to purchase green products due to inferior quality. Vlasas et al., (2010) claimed that people are obviously unwilling to change familiar patterns of behavior and to make a switch to green behavior because they have to sacrifice for something; for example, paying more for a less effective product. Furthermore, there was a study from the Roper Organization (1990) that mentioned most marketers and consumers are not aware of environmentally friendly as their priority job behavior. Moreover, in 2002, Roper's survey found that 41% of consumers said they did not buy green products because they worried about the diminished quality of the eco-friendly versions (Roper ASW, "Green Gauge Report", (2002). Gindsberg & Bloom (2004) also revealed that green products were found to have low quality performance in regard to environment.

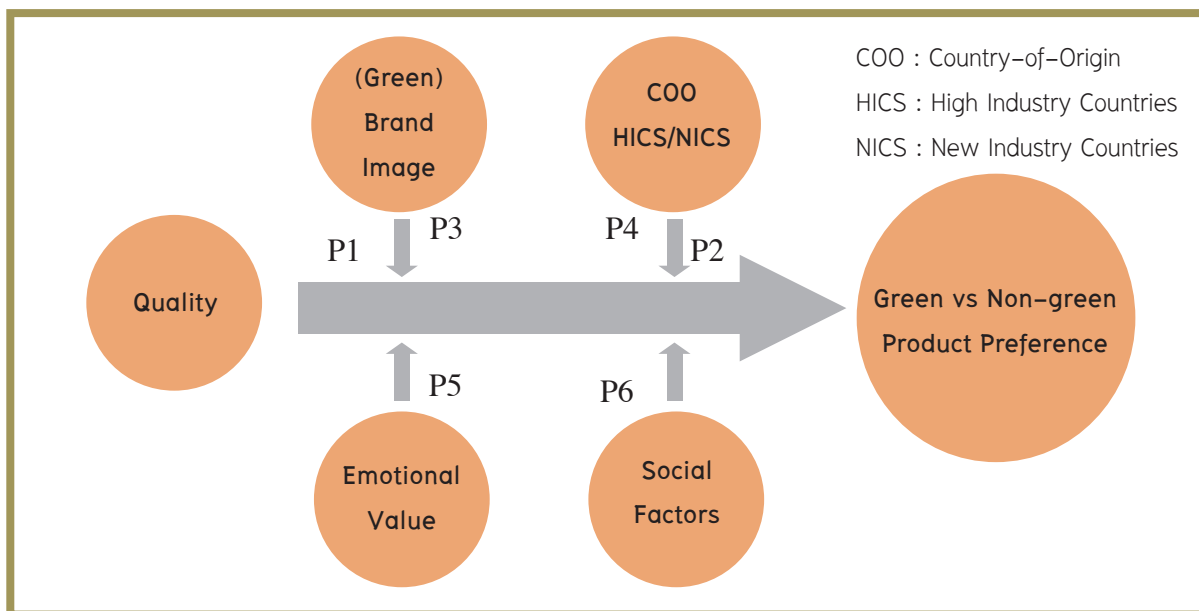
On the other hand, consumers are willing to buy green products although they have perceived that green products have an inferior quality compared to conventional product (Chang & Fong, 2010). Moreover, Kotler and Zaltman (1971) stated that the consumers tend to compare price between green and non-green products, and if there is not any substantial difference, then the consumers will prefer the green one. In addition, consumers were found to be very willing to go green, if the product had compromised to their lifestyle and family, and the green product could also offer a high quality at a reasonable price; then this consumer would purchase it (Verekar & Wadhwa, 2011).

Previous studies stated that the quality of green products is not the only factor that influences the consumers' decision to purchase. In past studies, consumers tend to be allocated into the situation where only the focal green product is presented while in the real purchasing situation; consumers have to compare different levels of quality of green products with other alternatives.

This leads to research questions about whether or not perceived degree of quality difference between green product and non-green product has an effect on the degree of green versus non-green product preference. In addition, what are the underlying factors that compensate for inferior quality and can enhance consumer intention towards purchasing green products?

Therefore, the objectives of this paper are two-fold; first, it proposes that the degree of quality difference impacts both green and non-green product preference. Second, it proposes the underlying factors that enhance consumer intention towards purchasing green product although the consumer perceives an inferior quality.

Proposed Model I



Literature Review and Propositions

Quality and Intention to buy

Reeves & Bednar (1994) described the word “quality” as the items or things that respond to the specific expectations of the buyers; for example, the expectation of lower price products with commodity products. On the other hand, the higher price products were also supposed to come with some specific expectations. Several studies have found that product quality had a direct impact on repurchase intentions (Mittal and Walfried, 1998; Eskildsen et al., 2004). Dodds et al.(1991) also noted that price delivered a positive value to the customers on perceived quality, but it delivered negative effect in perceived quality and the willingness to purchase. He concluded He concluded that price play a significant role in perceived quality which has the influences on consumers’ value and willingness to buy as an extrinsic cues of brand and store names on perceptions of quality, value, and willingness to buy. It had been asserted that perceived price and perceived quality have direct effects on purchase intention (Chang & Wilt, 1994). Most of the studies from Leavitt (1954) and Shapiro (1968) revealed that there are evidences shown that price and perceived quality have positive relationship. This is also have evidences supported by Dodds & Monroe (1985); Zeithaml (1988) and D’ Souza (2007). However, Progressive Grocer (1990) reported that consumers are not willing to pay for a higher-price green product if it is of less quality to a regular commodity brand. Therefore ‘Product quality’ in this study refers to the combined qualities and traits of product.

What is green product quality?

This study referred to the definitions of Abdul-Muhmin (2002) and Lin & Chen (2006) and defined green product quality as the dimensions of product features, product design, and product package that are involved in energy-saving, pollution-prevention, waste recycling, and being environmental friendly. The positive effects of organic labeling are also supportive for consumers’ purchase intentions and their willingness to pay a premium price (Brant, 2012). A study by Verekar & Wadhwa (2011) found that in Indian metropolitan areas there was a strong awareness regarding green products and people opted to pay an increased price for these products. Thus, when the consumer considers purchasing a product with the equal price and quality of green and non-green

products, the consumer will tend to choose the green product because of cultural variants (Buenstorf & Cordes, 2008); perceived environmental and health benefits (Welsch & Kuhling, 2009); tangible benefits of green products (Verekar & Wadhwa, 2011); not harmful to the user (Ramayah et al., 2010); social attributes (Pat et al., 2010); and emotional benefits (Ramo & Mercedes, 2007).

We therefore propose the following first proposition:

P1: Assuming equal price and quality, purchase intention towards a green product will be higher than purchase intention towards a non-green product.

When consumers perceived that a green product has an inferior quality, their intention to purchase the green product is diminished whereas their intention to purchase a non-green product is increased. If an equal amount of money is spent for both the green and non-green products, and higher quality received from the non-green product compared to a green product, the consumer will prefer the former. We then postulate the second proposition as:

P2: Assuming equal price, purchase intention towards green product will be diminished, and purchase intention towards non-green product will be enhanced, as quality of green product decreases relative to quality of non-green product.

Moderating role of (green) brand image to green product preference

The study from Mudambi et al.(1997) revealed that brand image played an essential role because the products/ services consist of tangible and intangible features. Patterson (1999) added that brand image is as also a subjective perception. Besides this, it creates a particular image in the memory of the consumer and is defined by the perceptions and associations in the consumer's memory (Keller, 1993). Furthermore, brand image includes symbolic meanings that are associated with specific attributes of the brand, and these can be defined as the consumer's mental picture of a brand in the consumer's mind that is linked to an offering (Cretu and Brodie, 2007; Padgett and Allen, 1997) , and Park et al.(1986) also added functional, symbolic, and experiential benefits. Moreover, Erdem & Swait (1998) noted that brands can decrease consumer's confusion by portraying signals of value. Consequently, they promised that brand can reduce consumer perceived risk and in formation costs due to the consumers' expectations. According to the cue utilization theory, consumers use an array of cues to make product-related inferences in an attempt to assess a product's quality (Olson, 1972) and the extrinsic cues constitute attributes that are product related, but external to the physical product such as the brand name.

Grant(2008, p.25) defined a green brand as, "one that offers a significant eco- advantage over the incumbents and which hence appeals to those who are willing to making green a high priority". Chen (2010, p.309) also defines "green brand image as, "a set of perceptions of a brand in a consumer's mind that is linked to environmental commitments and concerns." In addition, a green brand identity is defined by a specific set of brand attributes and benefits related to the reduced environmental impact of the brand and its perception as being environmentally sound (Hartmann et al., 2005).

The measurement of the green brand image referred to in the study of Padgett & Allen (1997) and Cretu & Brodie (2007) includes five items which are brand is recognized as the best benchmark of environmental commitments and environmental concerns. Then, brand is performed as professional about environmental reputation. Next, it reflects successful about environmental performance. Moreover, the brand is well set up about environmental agreement. Finally, it is a trustworthy about environmental commitment.

However, so far very few literatures have attempted to study the effects of green brand image on the relationship between product quality and product preference. For customer purchase decision, the green brand

image is an essential factor for consumers to perceive product quality. We then propose the third proposition as:

P3: Assuming equal price of green versus non-green products, perceived high brand image of green product will diminish the impact of quality inferiority on the degree of green product preference.

Moderating role of COO (Country-of-Origin) in buying green product

The country-of-origin (COO) of a product has been defined as, “the country of manufacture or assembly” (Bilkey & Nes, 1982) and identified by “made in” or “manufactured in” labels (Nagashima, 1970). Saeed (1994) pointed out that country-of-origin is defined as the ‘home country’ in which the product was manufactured. Moreover, scholars stated that a product’s COO acts as a signal of product quality, influences consumers’ perceptions of risk and value, and directly affects the likelihood of purchase (Jaffe and Nebenzahl 2006; Phau and Chao 2008; Wilcox 2005). Hong and Wyer (1989) also reported in their research that the country-of-origin information does influence the consumer’s evaluation of the country’s product quality.

It had been noted that consumers’ quality evaluations depend on the country of origin (Peterson and Jolibert 1998; Verlegh and Steenkamp 1999). In addition, COO also positively affects consumer purchase decision (Lin & Chen, 2006, and Shirin & Kambiz, 2011) and willingness to pay (Coviello & Richard, 2012). Consumers pervasively use COO information as an indicator of quality (Kotler & Gertner, 2002). However, as Elliot and Cameron (1994) noted, the country-of-origin was considered significantly less important than product quality and price by the respondents. Furthermore, the study of country of origin image measurement by Lin and Chen(2006). The eight dimensions were derived from Lin and Chen(2006) comprising of (1) economics development level (2) political and democratic level (3) industrialization level (4) living standard (5) technology developing level (6) product quality, (7) self-confident level for owning product and (8) product reliability.

The study from Chinen & Sun (2011) also revealed that, ‘Made in a developing nation’ might decrease attitude about product image and unfamiliarity to the US consumers vice versa products from developed nations tend to obtain better image (Chinen & Sun, 2011).

However, few studies have attempted to study the country-of-origin effect on the relationship between quality and product preference for green and non-green product. Therefore, we propose the fourth proposition as the following:

P4: Assuming equal price of green versus non-green products, perceived green product from HIC will diminish the impact of quality inferiority on degree of green product preference.

Moderating role of emotional value to green product preference

Emotional value is the perceived utility derived from an alternative capacity to arouse feeling or affective states (Sheth et al., 1991). The theory of Consumption Values (Sheth et al., 1991) had underpinned the proposition that emotional value had influenced consumer choice behavior. Some scholars had found that emotional attributes played an important role in the purchasing of green products by consumers (Chaudhuri, 1997; 2001; Hartmann & Vanessa, 2006; 2008; Ramo & Mercededes, 2007). Ramo & Mercededes (2007) also stated that the emotional response of consumers with respect to a product can be a key point in a purchase decision. Moreover, Lin & Huang (2012) stated that the psychological benefit plays an important role in influencing consumer’s choice in green product transactions. In addition, the scale from Sweeney and Geoffrey (2001) had illustrated that consumers assess products not only in terms of functional attribute but also emotional value as well. Besides, Bei and Simpson (1995) claimed that the qualities inherent in green products such as recycling or anti-pollution might create feeling of concern and care for the environment in the consumer’s mind. And finally, people who aware of green can behave as environmental safeguard and

they will have a positive attitude in doing good things for themselves and in the world in general (Lin & Huang, 2012).

Therefore, this paper viewed that emotional value is a considerable attribute to moderate the relationship between quality and degree of green product preference. We then propose the proposition as following:

P5: Assuming equal price of green versus non-green products, perceived high emotional value of green product will diminish the impact of quality difference on degree of green product preference.

Moderating role of social value to green product preference

Sheth et al. (1991) noted that "social value is perceived from different associations of within variety of specific groups." The theory of Consumption Values (Sheth et al., 1991) had underpinned the proposition that social value had influenced consumer choice behavior. The social factor is also another substantial force driving consumers in their degree of product preference (Chang & Fong, 2010). Furthermore, the scale from Sweeney and Geoffrey (2001) illustrated that consumers assess products not only in terms of functional attribute, but also the social consequences of what the product communicates to others (social value). In this paper, reference groups become a considerable factor in consumer decision making when comparing products. These reference groups often determine the positive and negative association that buyers have with a product which can influence or enhance the sales of environmental-friendly products (Welsch & Kuhling, 2009).

Therefore, this conceptual paper viewed that social value is a considerable attribute to moderate the relationship between quality and degree of green product preference. We then propose the proposition as following:

P6: Assuming equal price of green product and non-green product, perceived high socialization values will diminish the impact of price difference on degree of green product preference.

CONCLUSIONS

This conceptual paper proposed the framework of perceived product quality and degree of product preference, and also pointed out the relevant factors that impact consumers' green versus non-green products preference. In addition, this conceptual paper provided a value framework based on careful and rigorous reviews of relevant literature for both the academic and marketing practitioner.

The model proposed in this conceptual paper has potential contributions. For theoretical contribution, the proposed conceptual paper will enhance our knowledge of the relationship of perceived difference product quality and degree of product preference among green and non-green consumers. If the proposed propositions are true, these will advance our understanding on green product purchase decision, and address the moderating factors that encourage consumers' attention to buy green product over the conventional product. For managerial contribution, marketing practitioners will be able to apply the knowledge to segment their target groups and position the products offered by considering the factors that may encourage or diminish consumers' buying attention. This is because in the real situation a consumer will judge products not only based on their quality but also consider other values among both green and non-green products.

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THE ROLE OF RELATIONSHIP INVESTMENT IN RELATIONSHIP MARKETING IN NONPROFIT ORGANIZATIONS

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ABSTRACT

This study aims to analyze the role of relationship marketing investments for the organization in establishing relations with the donors, through the mediating variables of trust, relationship commitment and donor's gratitude. Relationship investment as an activity and efforts made by organizations to establish relationship with partners, was instrumental in realizing the long-term relationship. The research was conducted on philanthropy organizations in Indonesia, with the donor number of respondents 507 people. By using analytical techniques Structural Equation Modeling (SEM), the result of analysis shows that relationship marketing investment had a significant effect to commitment and gratitude, but not significant effect to trust. Relationship Marketing Investment effect on trust indirectly through gratitude variable. The effect of gratitude is not significant to intention of donors to redonate in philanthropy organizations. Gratitude variable seem effect to intention to redonate indirectly, through a mediating variable, that is trust. So donor's gratitude have the direct effect on trust, and trust have direct effect to relationship commitment. Trust and commitment have a significant effect to intention of donors to redonate. In conclusion of this paper that relationship marketing investment plays an important role on the relation of between philanthropy organizations and donors, through the strategic role of trust and relationship commitment variables. Thus, setting of the reserach in nonprofit organization supports the concept of trust and relationship commitment as KMV (Key Mediating Variable) promoted by Morgan and Hunt (1994) whose research conducted in profit-organizations.

Keywords : relationship marketing, relationship marketing investment, donor gratitude, trust, relationship commitment, intention to redonate.

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INTRODUCTION

Relationship marketing is all marketing activities conducted through the determination, development and management of long-term relationship (Lee et al., 2010). By implementing relationship marketing, both non-profit organization and profit-organization hope to established relationships with partners can take place continuously. In order to realize this relationship, the organization undertakes various activities and efforts. The activities and efforts are referred to as relationship marketing investment or relationship investment. The research findings of previous research that many form of investment activities and the efforts made by organizations to build relationships with customers, are expected to impact on customer trust and commitment to the organization (Moorman et. al. 1993, Morgan and Hunt 1994; Sirdeshmukh et al. 2002; Sargeant and Lee, 2004; and Wulft et al. 2001), and also affects the customers gratitude (Palmatier et al., 2009).

In a relational, trust to the partner is a factor that is required of its existence. Venable et al. (2005) revealed that trust and social exchange plays an important role in the donor's decision whether to donate money, time, goods or services to the organization. Similarly expressed by Sargeant and Lee (2002) that confidence in the charitable sector, donors have recognized the central role in developing the relationship between donors, philanthropy organizations, and recipient of donations. Also added by Sargeant and Lee (2002) that trust is the foundation for philanthropy organizations in building their organization. In addition to trust, commitment is also a variable related to the determinant in a relation. Gundlach et al. (1995) revealed that the commitment is an essential element for the success of long-term relationship. While Dwyer et al. (1987) described that relationship commitment appears in the marketing literature as an important element for maintaining long term relationships.

Trust and commitment is a key concept in social exchange theory and relationship marketing literature (Lou and Donthu 2007). Blau (1964: 4) explains that the concept of exchange of directing his attention directly on the nature of the emergence of interpersonal relationships and social interaction. Several studies using social exchange theory as a foundation for commitment and trust in relationship marketing (Anderson and Narus 1990; Dwyer et al., 1987; Morgan and Hunt 1994, Smith and Barclay 1997, Garbarino and Johnson 1999; MacMillan et al. 2005). Meanwhile, according to Palmatier et al. (2009) that customer gratitude have effect on trust and intentions to buy.

Based on previous research (Morgan and Hunt 1994, Smith 1998; Garbarion and Johnson 1999; Sargeant and Lee, 2004; MacMillan et al., 2005; and Palmatier et al., 2009), this research positions gratitude, trust and relationship commitment variables as a mediator variable in relationship marketing, with relationship marketing investment variable as an antecedent, while the consequences of the intention of donor to redonate. This paper analyzes the role of relationship marketing investment variables in relationship marketing in nonprofit organizations, in the context of B2C relationships. This will provide benefits in the development of relationship marketing concept, considering that until now studies the topic of relationship marketing is largely on profit-organizations as well as in area of B2B (Arnett et al., 2003).

THEORETICAL FRAMEWORK AND HYPOTHESIS

Relationship Marketing. According Gronross (1994), relationship marketing aims to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. Kotler and Keller (2012: 42) describes the four key elements to relationship marketing, including customers, employees, marketing partners (channels, suppliers, distributors, dealers, agents), and members of the financial community (shareholders, investors, analysts). Gruen et al. (2000) writes that over the past several years, the management approach that views customer relationships as key assets of the organization has gained increased

prominence in the priorities and practices of many for-profit and not-for-profit organizations. Arnett et al. (2003) believe that relationship marketing is a strategy that can be run in a context that involves a high degree of social exchanges, B2C marketing and nonprofit marketing. Meanwhile, McCort (1994) says that the relationship marketing at the nonprofit organization devoted to seeking a long term relationship, thereby increasing the loyalty of the donors.

Relationship Marketing Investment. Relationship investment is defined as consumer perception of the resources, efforts, attention has been paid by the retailer in order to manage and maintain relational with regular customers (Smith 1998). Fruchter and Sique (2004) defines relationship investment as marketing efforts or investment performed by the exchange partners to create and maintain relational commitment with their partners. Meanwhile, Rusbult (1980) categorize investments into two, namely extrinsic investment and intrinsic one. Extrinsic investment occurs when a previous interest from outside was associated with current behavior, while intrinsic investment linked to the investment of resources spent, such as time, money, and so forth. The investment of time, effort, and other resources performed by organization in a relational is in order to create a psychological bond that encourages customers to stay in relation and determine reciprocal expectations (Smith and Barclay 1997).

Gratitude. Gratitude is a fundamental component of social interactions that provide the foundation for reciprocal altruism emotional (Palmatier et al., 2009). Gratitude also been conceptualized as a force that helps people to keep reciprocal obligations (Gouldner 1960). Gratitude and reciprocity are essential to motivate the customer to build trust with the organization (Cialdini and Goldstein 2004). Manifestation of customer gratitude to the organization is in the form of deep gratitude to the organization, respect for the organization, and pleasure in the organization. Palmatier et al. (2009) link the customers' gratitude variable with customer trust, and the effect of customer gratitude to sales performance outcomes. Schwartz (1967) argues that gratitude is a part of the bond that links the relational between them. Gratitude are important to the theory of various disciplines on how social relationships will be built and prepared (Bartlett and DeSteno 2006).

Trust. Trust has long been studied in various disciplines, including sociology, economics, and social psychology (Sargeant and Lee 2004). In the literature, social exchange theory focuses on the role of trust in relational exchanges. Trust is a dominant variable which relates between the relationship theory dan social exchange theory (Wagner et al., 2011). A relationship of trust will increase its chances of long-term orientation in exchange (Kumar 1996 in Luo and Donthu 2007). Trust is a success factor in a relationship and is a key variable in social exchange theory (Morgan and Hunt 1994). Social exchange theory postulates reciprocal actions and behavior in formal relationships to enhance trust partners exchange (Blau 1964: 94). According to Morgan and Hunt (1994) trust is central to all relational exchanges, trust exists when one party of the exchange partners have the reliability and integrity.

Relationship Commitment. One basic tenet of social exchange theory is the relationship that evolves over time leads to a sense of trust, loyalty, and commitment (Cropanzano and Mitchell 2005). Has long been a core commitment in the literature of social exchange (Blau 1964: 98). Meanwhile, Morgan and Hunt (1994) also stated that the commitment to touch the core of relationship marketing. Dwyer et al. (1987) defines commitment as a willingness to keep something that has been agreed, based on the willingness and readiness to explicitly or implicitly between transaction partners (beneficiaries and providers) to continue the functional relationship that has existed. Meanwhile, Moorman et al. (1993) defines commitment as a passion that goes on in the long run to maintain a valued relationship.

The Relationship between Research Variables

The Effect of Relationship Marketing Investment to Donor Gratitude. Relationship marketing investment is seen as an activity undertaken by the organization in building and maintaining strong relationships with customers (Moorman et al., 1993; Morgan and Hunt 1994). Palmatier et al. (2009) concluded that the relationship marketing

investment has a positive effect to customer appreciation. When recipients get an item of value, then his/her gratitude will rise (Tsang 2006). In building a relationship, and often start with an investment (eg time, effort), and in a context non-contractual, the person/organization that started the investment spend costs/expenses. With ongoing costs, people at risk in the form of subjective possibility when the investment does not lead to reciprocal behavior (Chiles and McMackin 1996). H1: Relationship marketing investment has a positive effect to gratitude donor.

The Effect of Relationship Marketing Investment to Trust. The relational forms of investment which conducted by the organization, is a form of hard effort/work of organizations to strengthen relationships with customers, significant efforts of the organization in building relationships with customers, as well as the organization's efforts to devote time and effort to build relationships with customers (Smith 1998). Meanwhile, Wulf et al. (2001) asserts that trust is the result of the investment relationship. From the research findings conducted by Smith (1998), that effect relationship marketing investment to trust and commitment. Donors will be more likely to believe in philanthropy organizations, if the organization has clearly demonstrated the seriousness in building and maintaining a relationship. H2: Relationship marketing investment has a positive effect to trust.

The Effect of Relationship Marketing Investment to Relationship Commitment. Relationship marketing investment has a positive effect on commitment (Smith, 1998; Sargeant and Lee, 2004). Most of the B2B and B2C research both empirically concludes that relationship marketing investments influence customer trust and commitment (Moorman et al., 1993; Sirdeshmukh et al. 2002). From the research findings, Bugel et al. (2010) also get a finding that the relationship investment has a positive effect on relationship commitment. Relationship marketing concept postulates a positive relationship between relationship marketing investment and commitment (Fruchter and Sigue 2004). H3: Relationship marketing investment has a positive effect to relationship commitment.

The Effect of Gratitude to Trust. Gouldner (1960) and Houston and Gassenheimer (1987) stated the importance of the principle of reciprocity in a relationship. Komter (2004) in Palmatier et al. (2009) argued that the form of gratitude is an imperative force, a force that encourages us to get back the benefits we have received and are part of a chain of reciprocity. Palmatier et al. (2009) also correlate customers' gratitude with customer trust and customers' gratitude on seller performance outcomes. Young (2006) argues that gratitude is an emotional form of ongoing relationship, with the importance effect on maintaining trust in a relationship. H4: Gratitude has a positive effect to trust.

The effect of Trust to Relationship Commitment. The researches have been conducted by Morgan and Hunt (1994), Smith (1998), Garbarino and Johnson (1999), and Sargeant and Lee (2004) have an finding that the trust effect to commitment. Achrol (1991) explained that the trust as a major determinant of the relationship commitment. The importance of trust in the relationship between donors and organizations is because donors do not directly feel the result of a nonprofit organization. In the absence of direct consumption, the donor must have confidence in nonprofit organizations in each organization's activities, so that will give clients an interest in nonprofit organizations (MacMillan et al., 2005). Geyskens et al. (1999) in Fruchter and Sigue (2004) found a positive relationship between trust and commitment. H5: Trust has a positive effect to relationship commitment.

The Effect of Gratitude to Intention to Redonate. In the concept of gratitude, shows the importance of the element of theory of social relations and reciprocal altruism, which has been adopted in various disciplines (Nartlett and DeSteno 2006). Blau (1964: 16) describes the importance of gratitude, that the social associations, someone who failed in a reciprocal relationship caused by the lack of gratitude. Meanwhile, Morales (2005) argued that directing gratitude to the customers would increase their intention to pay back to the seller. In the context of the exchange, the customer will be aware of several advantages of relationship marketing (eg, effort, respect, reward), then they will feel grateful and will buy more (Palmatier et al., 2009). H6: Gratitude has a positive effect to donors intention to redonate.

The effect of Trust to Intention to Redonate. Camarero and Garrido (2011) generated findings that the donor

with a high level of confidence will redonate in the future. Waters (2008) a finding that correlates with the willingness of donors confidence to contribute. Garbarino and Johnson (1999) in his research found no effect of trust on the intention in the future intentions of donors to donate in the future. Naskrent and Siebelt (2011) stated that the trust as a variable central role in influencing donors intention to redonate. H7: Trust has a positive effect to donors intention to redonate.

The Effect of Relationship Commitment to Intention to Redonate. Blau (1964: 160) argues that people are expected to have a commitment to their social relations, group, and organization. The research findings Garbarino and Johnson (1999) study showed that the customers who have a high relationship orientation, trust and commitment are the main intermediary constructs in success of relationship compared with satisfaction. Lacey and Morgan (2007) findings that a significant relationship commitment to customers in increasing their intention to become repeat customers. Waters (2008) obtain a finding that correlates with the willingness of donor commitment to donate. Naskrent and Siebelt (2011) argued that commitment is as a core variable in influencing donors to redonate, as well as in leading donor to have a stronger desire to continue the exchange relationship. H8: Relationship commitment has a positive influence on intention to redonate.

RESEARCH METHOD

Identification, Conceptual Definition, Operations Definition, and Measurement Variables. Variables used in this study consisted of an exogenous variable that is relationship marketing investment, and endogenous variables, consisting of donor's gratitude variable, trust variable, relationship commitment variable, and variable of intention to redonate.

Conceptual definition of Research Variables. Relationship marketing investment is a perception on the investment activities undertaken by the organization in building and maintaining strong relationships with customers (Moorman et al., 1992). Trust is confidence in the integrity and reliability of the exchange partner (Moorman et al., 1993). Relationship commitment is an enduring desire to maintain a valued relationship (Moorman et al., 1992). Gratitude is a type of affective response when a person receives "kindness" of others (McCullough et al., 2001 in Palmatier et al., 2009). Intention to redonate is donors the intention to behave in the future, to assess their potential whether they are to redonate or not (Garbarino and Johnson 1999).

Research and measurement instruments. Instruments used in this study is a questionnaire. Measurements on each construct using a Likert scale, which is a scale that contains a 5-level response to the proposed statement.

Sampling Design. Sample units in this study is in the form of individuals, namely individual being a donor to philanthropy organizations. Data were collected with cross-sectional approach, which surveying way by distributing questionnaires to a number of respondents directly. In this study the analytical techniques used Structural Equation Modeling (SEM).

RESULTS

Testing for validity and reliability of research instruments. Data collected and processed and worth are as much as 507. From the results of normality testing, the data appear in the study were normal, according to the criteria described by Morgan et al. (2004: 57), that the data are stated to satisfy the normality test if skewness value is less than plus or minus one ($<+ / -1.0$). Validity of test results for the five constructs used in this study is valid, because the lowest factor loading of 0.066 (first indicator for relationship commitment variable). This is in accordance with the criteria suggested by Hair et al. (2010: 118) that an indicator is stated valid if it has a factor loading greater than +0.50. Reliability test results for all five variables were > 0.70 . Similarly, the reliability test results also showed that reliable results, as the provisions expressed by Hair et al. (2010), Cronbach's alpha

technique is used. The generally agreed upon lower limit for Cronbach's alpha is 0.70 (Hair et al., 2010: 125).

Feasibility Research Model

Measurement model. This model uses the validity and reliability testing. Validity test is conducted on the discriminant validity, convergent validity and nomological validity. Discriminant validity assesses the extent to which a construct is not correlated with other constructs, so a construct is completely different from other constructs (Malhotra 2010; Hair et al. 2010). Hair et al. (2010: 710), explains that discriminant validity is achieved when Average Variance Extracted (AVE) > the square correlation estimate. The largest estimate of the square correlation is trust–gratitude (0.494), the second order is relationship commitment–trust correlation (0.419). From discriminant validity of the test results, it appears that the results satisfy the discriminant validity. The AVE is calculated using the formula: $(\sum \text{Standardized factor loading}^2) / n$ (Hair et al., 2010: 710), where n is the number of indicators of constructs concerned. The results of calculation of AVE for each construct can be seen in Table 1.

Table 1 : The Calculation of Average Variance Extracted

| Construct | \sum Stand. factor loading ² | n | AVE |
|---|---|---|-------|
| Relationship marketing investment (RMI) | 1.772 | 3 | 0.591 |
| Relationship commitment (RC) | 1.693 | 4 | 0.423 |
| Trust | 2.173 | 4 | 0.543 |
| Donor gratitude (Gratitude) | 2.082 | 3 | 0.692 |
| Intention to redonate (Intention) | 1.805 | 3 | 0.602 |

Nomological validity testing tested by examining whether the correlations among the constructs in a measurement theory make sense. The matrix of construct correlations can be useful in this assessment (Hair et al., 2010: 710). From the analysis of the correlation between the constructs in this research is positive. This is consistent with the theory that is brought in this study, thus the nomological validity can be met. Convergent validity is construct validity which measures the extent to which a construct was positively correlated with other constructs (Malhotra 2010; Hair et al. 2010). Hair et al. (2010: 709) explains that convergent validity is achieved when standardized loading estimate should be 0.5 or higher. From the test results, it appears that all the relationships between constructs with the indicators > 0.5. This indicates the fulfillment of convergent validity, as shown in Table 2.

Table 2 : Testing for Convergent Validity

| Relation between Construct and Indicators | Estimate | Remark | Relation between Construct and Indicators | Estimate | Remark |
|---|----------|--------|---|----------|--------|
| r1 ← RMI | 0.830 | Valid | rc3 ← RC | 0.677 | Valid |
| r2 ← RMI | 0.910 | Valid | rc4 ← RC | 0.631 | Valid |
| r3 ← RM | 0.505 | Valid | g1 ← Gratitude | 0.810 | Valid |
| t1 ← Trust | 0.672 | Valid | g2 ← Gratitude | 0.868 | Valid |
| t2 ← Trust | 0.737 | Valid | g3 ← Gratitude | 0.820 | Valid |
| t3 ← Trust | 0.794 | Valid | i1 ← Intention | 0.706 | Valid |
| t4 ← Trust | 0.740 | Valid | i2 ← Intention | 0.851 | Valid |
| rc1 ← RC | 0.589 | Valid | i3 ← Intention | 0.763 | Valid |
| rc2 ← RC | 0.700 | Valid | | | |

Reliability Test. Hair et al. (2010: 710) describes the achievement of reliability requirements of a construct, namely when the Construct Reliability (CR) is 0.7 or higher. The formula to calculate the CR is $(\sum \text{Standardized Factor Loading})^2 / (\sum \text{Standardized Factor Loading})^2 + (\sum e_i)$. Where e_i is the error. The analysis show all constructs have a CR > 0.7, as shown in Table 3.

Table 3 The Calculation of Construct Reliability

| Construct | $\sum \text{Stand. Factor Loading}^2$ | $\sum e_i$ | $(\sum \text{Stand. Factor Loading})^2 + (\sum e_i)$ | CR | Remark |
|-----------|---------------------------------------|------------|--|-------|----------|
| RMI | 5.040 | 0.755 | 5.795 | 0.870 | Reliable |
| RC | 6.744 | 1.403 | 8.147 | 0.828 | Reliable |
| Trust | 8.661 | 1.057 | 9.718 | 0.891 | Reliable |
| Gratitude | 6.240 | 0.502 | 6.742 | 0.926 | Reliable |
| Intention | 5.382 | 0.680 | 6.062 | 0.888 | Reliable |

Overall Model. From the absolute fit, it is seen that the value of GFI, RMSEA, RMR, and Cmin/DF is good. For incremental fit measures, it seen that value of NFI, CFI, and TLI is good. Meanwhile, from the the parsimony fit measures, it appears that the value of AGFI and PNFI is good, as shown in Table 4.

Table 4 Goodness of Fit

| GOF Criterion | Result | GOF Criterion | Result |
|--------------------------------|---------|---------------------------------|--------|
| Absolut Fit Measures | | Incremental Fit Measures | |
| Chi-square (X^2) | 293.931 | NFI | 0.922 |
| Degree of freedom | 111 | CFI | 0.949 |
| Probability | 0.000 | TLI | 0.938 |
| GFI | 0.935 | | |
| RMSEA | 0.057 | Parsimony Fit Measures | |
| RMR | 0.019 | AGFI | 0.911 |
| Normed Chi-Square (CMIN/DF) | 2.648 | PNFI | 0.752 |

Structural Model. In SEM, the result is a structural model specification that is used to test the hypothesized theoretical model (Hair et al., 2010: 729). In this study there are eight structural relationship between the constructs as described in the research hypothesis. By using a significance level α 95% or 5%, then the influence of a construct to other constructs is stated significant if the value of t-statistics show the number > 1.96, as shown in Table 5.

Table 5 : The Calculation for Structural Model

| Hypothesis | Causal Relationship | Unstandardized Regression Coeficien | Standardized Regression Coeficien | t Value | Remark |
|------------|----------------------|-------------------------------------|-----------------------------------|---------|-----------------|
| H1 | RMI → Gratitude | 0.096 | 0.138 | 2.714 | Significant |
| H2 | RMI → Trust | 0.009 | 0.012 | 0.286 | Not Significant |
| H3 | RMI → RC | 0.058 | 0.097 | 2.021 | Significant |
| H4 | Gratitude → Trust | 0.730 | 0.720 | 11.871 | Significant |
| H5 | Trust → RC | 0.527 | 0.696 | 8.897 | Significant |
| H6 | Gratitue → Intention | 0.086 | 0.103 | 1.331 | Not Significant |
| H7 | Truat → Intention | 0.168 | 0.208 | 2.084 | Significant |
| H8 | RC → Intention | 0.187 | 0.192 | 2.434 | Significant |

CONCLUSIONS AND RESEARCH IMPLICATIONS

From Table 5, it seems that eight hypothesis being tested, six hypotheses are supported, and two hypotheses are not supported. The supported hypotheses namely H1, H3, H4, H5, H7, and H8. Thus the research model is supported by empirically, because the criterion variables (ie intention to redonate variable) can be explained by its antecedends. H1 is supported, it means that the various efforts made by the philanthropy organization

is perceived by donors as an organization effort which is determined to maintain relationships with customers, this leads to a feeling gratitude of customer to organization for what has been done by the organization. The finding of this research is in line with the findings of research carried out by Palmatier et al. (2009) in profit-oriented organizations. Thus, the findings are consistent with the principles embodied in the theory of exchange, that the social exchange tends to cause people to feel a sense of duty, gratitude, and trust (Blau 1964: 94).

From testing H2, relationship marketing investment influence not significantly on trust. Donors perception of the organization's efforts to strengthen relationships with customers does not lead to donors trust to philanthropy organizations directly. From the finding of this study, it shows that the effect of relationship marketing investment to trust is indirect, that is mediated by donors gratitude variable, meaning that with the various efforts made by organization cause donors gratitude to the philanthropy organization. Thus, the findings of this study support the findings of Palmatier et al. (2009). However, in contrast to the finding of previous researches (Ganesan 1994; Wulf et al., 2001) that the relationship marketing investment significant effect on trust. This is probably due to research was not entered gratitude variable in the model of research.

The H3 test results show that the relationship marketing investment have a significant effect on relationship commitment. That the formation of donor commitment to philanthropy organizations, is due to customer perception of the various efforts made by the organization in order to build relationships (Fruchter and Sique 2004). Palmatier et al. (2009), reveals that the relationship marketing investment is an activity to build and maintain strong customer relationship. With supported this hypothesis, the findings reinforce the positive effect of relationship marketing investment on relationship commitment, such as findings from previous studies (Hocutt 1998; Smith 1998; Sprecher 2001; Fruchter and Sique, 2004; Sargeant and Lee 2004).

Hypothesis 4 is supported, meaning that a deep gratitude to the organization, respect for the organization, and pleasure in organizations resulting that the donors trust to the organization. These findings support the findings of previous researches, that gratitude influences trust (Palmatier et al., 2009). As suggested by Cialdini and Goldstein (2004) that gratitude and reciprocity are essential to motivate the customer to build trust with the organization. It is also similar to that described by Dunn and Schweizer (2005) that positive emotions like gratitude have a significant influence on increasing trust.

The result of H5 testing is significant, meaning that the presence of donor trust in philanthropy organizations led them to commit to the organization. The importance of trust in the relationship between donors and organizations is because donors do not directly feel the result of a nonprofit organization (MacMillan et al., 2005). In a relationship, when trust exists, most likely the level of commitment will also be high (Geyskens et al. Fruchter and Sique 1999 in 2004). This suggests that trust and commitment in nonprofit organizations is also a central issue in establishing relationships with donors. Morgan and Hunt (1984) describe that trust and commitment are the core of relationship marketing. The findings of this research is no different from previous researches in both the profit-oriented organizations (Morgan and Hunt 1984; Achrol 1991; Moorman et al., 1992, Smith 1998) and nonprofit organizations (Garbarino and Johnson 1999; Sargeant and Lee 2004).

Test results for H6 is not supported. The effect of gratitude on the intention to redonate is indirect, that is through the mediator trust variable. It means that the donor who was grateful to the organization will cause donors to redonate when donors have trust in the organization. This further confirms the important role of the variables of trust in relationship marketing in nonprofit organizations as expressed by Garbarino and Johnson (1999), MacMillan et al. (2005) and Waters (2008). This finding is in contrast to the findings of research conducted by Palmatier et al. (2009) in profit-oriented organizations, to get the findings that gratitude significant effect to customer purchase intention.

Tests on the H7 is supported, meaning that a sense of trust that has been embedded in the minds of the

donors lead their intention to redonate to philanthropy organizations. This supports previous research findings that the donors to the high level of trust will make intention to redonate at the future time (Garbarino and Johnson 1999; Waters, 2008; Camarero and Garrido 2011; Naskrent and Siebelt 2011). Finally the finding of testing on H8 show that relationship commitment have a significant influence on intention to redonate. The findings in this study are in accordance to the argument Naskrent and Siebelt (2011) that commitment as a core variable in influencing donors to redonate, as well as lead donor to have a stronger desire to continue the exchange relationship. This finding also supports previous researches conducted by Dwyer et al., (1987) and Waters (2008). Thus, the finding of this study can be concluded that the role of relationship investment in nonprofit organizations in the context of relationship marketing is very important, not forgetting to put the trust and relationship commitment variable as mediating variables, such as the results of research conducted by Morgan and Hunt (1994) about the Key Mediating Variables (KMV).

From these findings, it is recommended to the managers of philanthropy organizations should enhance and continue to take various investments/activities to build relationships with donors, because of the results of the analysis it appears that trust and commitment to the organization is caused by relationship marketing Investment that conducted by the organization. Meanwhile, this research is conducted to the donors who gave their donation to philanthropy organizations engaged in various sectors, including health, education, poverty, and so forth. Therefore, the recommendations made for further research are to be able to do research on philanthropy organizations that have more specific targets, such as just education, just the arts sector, or maybe just the health sector. In addition, further research could also examine other consequences of trust and relationship commitment, such as cooperation variable.

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