Bridging Perspectives on Customer Value Proposition and Customer Perceived Value of Intercity Non-Bus Transportation Services in Indonesia
Ihsan Hadiansah, Rendika Nugraha, Adhi Setyo Santoso, and Mustika Suharti Purwanegara

Effect of Managers’ Communication on Training Application with Motivation to Learn as an Intermediating Variable
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Innovative Strategic Positioning of Capital Flows Mobilization of The Original Five ASEAN Countries: Which Are Leading?
Eric J. Nasution and Nila Krisnawati
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Contact us

Management Research Center (MRC)
Department of Management
Faculty of Economics and Business,
Universitas Indonesia
Department of Management Building 2nd floor.
Kampus Baru UI Depok,
West Java, Indonesia 16424
Phone: 021-7272425 ext 503
Fax: 021-7863556
E-mail: mrc@ui.ac.id
http://journal.ui.ac.id/tseajm

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Bridging Perspectives on Customer Value Proposition and Customer Perceived Value of Intercity Non-Bus Transportation Services in Indonesia

Ihsan Hadiansah*, Rendika Nugraha, Adhi Setyo Santoso
Faculty of Business, President University, Bekasi, Indonesia

Mustika Sufiati Purwanegara
School of Business and Management, Institut Teknologi Bandung, Bandung, Indonesia

Abstract

Research Aims - The study aim is to explore value proposition creation from the perspectives of non-bus transportation services and to investigate the factors in customer perceived value, especially functional value (operations, facilities, professionalism, and price), that influence purchase intention from customers’ perspectives.

Design/methodology/approach - This mixed methods study used personal interviews, participant observation, and a survey to collect the data. Then, we conducted exploratory case study by using organisational level logic model as a qualitative analysis technique. Finally, we used regression for hypothesis testing of the quantitative section.

Research Findings - The results indicated that non-bus transportation services should give extra efforts to build great value propositions to meet customer needs. The interview and participant observation results on non-bus transportation service providers’ perspectives showed that that two providers studied have different strategies to create strong value propositions. The survey results on customers’ perspectives showed that all aspects of functional value (operations, facilities, professionalism, and price) significantly influence purchase intention. Thus, those two perspectives do not completely align.

Theoretical Contribution/Originality - The integrated framework of customer value proposition created by firms and customer perceived value, which was empirically tested in this study, showed that superior value proposition can be achieved where there is a feedback loop between these two perspectives.

Managerial Implications in the Southeast Asian context - Managers have to consider not only the individual aspects of price competitiveness and comfort of services as value propositions but also the integration of facilities and professionalism to build perceived value through value propositions in intercity non-bus transportation services in Southeast Asian contexts.

Research limitations and implications - This study had only two variables (functional value and purchase intentions). Functional value had four sub-variables (operations, facilities, professionalism, and price) as independent variables. Other variables could influence purchase intention for non-bus transportation service providers.

Keywords: Consumer Behaviour, Customer Perceived Value, Customer Value Proposition, Purchase Intention, Service

Introduction

A growing trend today is the shift in focus from products to customers. Many firms are changing their organizational structures to become more responsive in order to

*The corresponding author can be contacted at: hadiansah@president.ac.id
fulfil customer needs or expand into service businesses (Gebauer & Kowalkowsk, 2012). This transformation requires a new way of thinking and fresh energy to drive a great customer orientation. Service firms increasingly seek to build long-lasting relationship with customers (Arbore, Guenzi, & Ordanini, 2009). Satisfying customers can help increase firms’ long-term benefits, particularly customer loyalty and sustained profitability (Abadi, Kabiry, & Forghani, 2013). Satisfaction is achieved when firms deliver superior customer value (Martelo-Landroguez, Barroso Castro, & Cepeda-Carrión, 2013).

In this turbulent competitive environment, inventing and delivering value to customers at a favourable position has become increasingly important and difficult. This situation encourages changes in the foundational idea of value creation. The intense, rapid increase in business competition fuels rising interest in the creation and delivery of value for customers and the effective management of customer relationships. It is very important for organizations in service industries to design and add value that can drive customer satisfaction (Arbore et al., 2009).

Understanding customer value is recognized as crucial to firms’ business strategies (Martelo-Landroguez et al., 2013). Zeithaml (1988) noted that the core definitions of value and utility are not essentially different; satisfaction results from consumption, which is measured subjectively. Sometimes customers have their own definitions of value and use it in many different ways. The diversity of the value concepts among consumers is a major challenge to studying and understanding value. Price is also a main factor in determining the value perceived by customers. The ways of thinking about customer value depend on the points of view adopted by customers and firms. In other words, perceived value arises from customers’ perspectives, and value creation arises from firms’ perspectives. It, therefore, is important to integrate both perspectives to study customer value (Martelo-Landroguez et al., 2013). One critical issue marketers should consider in planning strategies is inventing and delivering value propositions to customers. No firm can to meet the expectations of all customers, but its strategies determine what value proposition it offers to meet customers’ expectation and win their loyalty. Customers of different ages, marital status, and residence perceive value differently (Hassan, 2012).

Given this backgrounds, the study objectives are to: 1) explore value proposition creation from the perspectives of non-bus transportation service providers in Bandung city, Indonesia; 2) investigate the factors in customer perceived value, especially functional value (operations, facilities, professionalism, and price), that influence purchase intention in the perspectives of customers who are the target market of non-bus transportation service providers in Bandung; and 3) examine the gap between non-bus transportation service providers’ perspectives on value propositions and customer perceived value in the target market of non-bus transportation service providers in Bandung. This intercity transportation case is the best example of Southeast Asian contexts because other countries also have high commuting traffic between their two largest cities. Thus, when the research objective is achieved, it can be generalized to countries with similar contexts.
**Value Proposition**

Kambil, Ginsberg, and Bloch (1996) stated that the value proposition defines how the elements of value (recommended product and service features and complementary services) are packaged and offered to meet customer needs. It is important to determine the essential quality of the value map and the value frontier to comprehend how companies can change their value proposition. A value map displays the interrelated positions of various companies within an industry along the axis of cost performance. The value frontier defines the best performance for any given cost for customers and represents the different segments offered to customers. A successful market leader can create a unique, distinctive position on the value frontier.

A value proposition statement is a clear, interesting, credible expression of the experience customers get from suppliers’ measurably value-creating offerings in which the value is equal to the benefits minus the cost. Value is focused on suppliers’ relationships to specific market segments, offerings used over specific time frames, sales opportunities, and targeted customers representing sales opportunities (Barnes, Blake, & Pinder, 2009). Barnes et. al (2009) stated that the value proposition builder model is important to achieve superior performance because most companies build their own value proposition strategies based on assumptions rather than thinking. The value proposition builder consists of six elements:

a) Market: When the value proposition deals with cost constraints, it is important to deeply understand the targeted customers and define the segment markets in order to perform the value proposition efficiently (Barnes et al., 2009).

b) Value experience: The company needs to understand the customer experience and what is valuable to customers. Comprehensive knowledge of customers can help maximize profits and is useful in companies’ daily decision making (Barnes et al., 2009).

c) Offerings: After choosing the targeted customers and understanding their experience, it is important that companies identify and categorize their offerings and capabilities (Barnes et al., 2009).

d) Benefits: Companies should have detailed information on the value experience from the perspectives of both customers and staff and make it a priority to create a great strategy of customer relationship management that enable the firms to reduce the customer perceived sacrifice, including monetary and non-monetary costs (Barnes et al., 2009).

e) Alternatives and differentiation: Companies should combine their offerings to achieve optimal value for both customers and company. It is important to overcome competitors, especially their value propositions (Barnes et al., 2009).

f) Proof: Companies should provide evidence of their ability to deliver customers’ desired value experience (Barnes et al., 2009).

**Perceived Value**

Perceived quality can have dynamic consequences, even in its formulation, and the substance of perceived quality can change over time. How consumers evalu-
ate quality, therefore, becomes the most important influence on perceived quality (Steenkamp, 1989). Consumers can perceive product quality based on one or more cues. In purchase situations, consumers can easily obtain information about the price, brand name, and location of purchase and so have more than one cue on which to build opinions on product quality. Steenkamp (1989) concluded that price, brand and names, country of origin, and the physical product influence quality perceptions. Based on the results of an exploratory study, Zeithaml (1988) described perceived value as consumers’ overall assessments of products’ utility based on perceptions of what is received and given. He also mentioned that there are four general definitions of consumer value which emerge as follow:

a) Value is a low price.
b) Value is whatever I want in a product.
c) Value is the quality I get for the price I pay.
d) Value is what I get for what I give.

Woodruff (1997) argued that the term value appears in many various contexts, especially at on broad level. Customer value is customers’ perceptions of things and is more than objective determinations by sellers and organizations. It includes what customers receive (e.g., quality, benefits, worth, and utility) and what customers give to get and use products and services (e.g., price and sacrifices). There is no specific definition about perceived value because it involves several concepts, which are difficult to compare (Woodruff, 1997).

Value itself can be built by several dimensions (Hassan, 2012). Sheth, Newman, and Gross (1991) assumed that consumers’ choice behaviour is influenced by five consumption values: (1) functional value; (2) social value; (3) emotional value; (4) epistemic value; (5) conditional value. Sweeney and Soutar (2001) explained that in some respects, multiple value dimensions are better than the single “value-for-money” item. The combination of multiple value dimensions can deliver more variation in output than a single item and clearly have different consequences for various outputs. Considering these perspectives, the following hypothesis is proposed:

H1: Customer perceived value, especially functional value (operations, facilities, professionalism, and price), significantly influences purchase intention for non-bus transportation services in Bandung city.

As mentioned by Sheth et al. (1991), four distinct dimensions of value dimensions appear (1) emotional value—“the utility derived from the feelings or affective states that a product generates;” (2) social value—“the utility derived from the product’s ability to enhance social self-concept;” (3) functional value (price/value for money)—“the utility derived from the product due to the reduction of its perceived short term and longer term costs;” (4) functional value (performance/quality)—“the utility derived from the perceived quality and expected performance of the product.”

Sheth et. al. (1991) stated that functional value has become the primary driver of customer choice. The possession of several functional, utilitarian, or physical at-
tributes is one means to acquiring functional value. The present study focused on several attributes to investigate functional value. The following hypothesis, therefore, is proposed:

**H2**: The functional value of operations as a factor in customer perceived value has a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

Physical factors, ranging from design (Baek & Ok, 2017) and third-party endorsements to food ingredients and recycled materials (Pomering, 2017), are discussed in the marketing and consumer behavior literature as drivers of customer purchase intention. In transportation services, the most tangible physical factors are facilities, such as car and bus features and terminal stations. We, therefore, test the following hypothesis:

**H3**: The functional value of facilities as a factor in customer perceived value has a partial, significant influence on purchase intention for the non-bus transportation service providers in Bandung.

Professionalism is closely related to the aspect of people in the marketing mix. In the service industry, professionalism, such as chefs’ competence, is seen as an estimate of the quality of a service, while quality cues from customer perceptions can drive purchase intention (Roest & Rindfleisch, 2010). In healthcare services, the professionalism of organizations can be recognized from certification endorsements, which create customer trust. Trust in both medical doctors and hospitals drives customer purchase intention (Zheng, Hui, & Yang, 2017). In transportation services, professionalism can be shown by off-board services and staff skills, which also drive loyalty intention (Carreira et al., 2014). We, therefore, develop the following hypothesis:

**H4**: The functional value of professionalism as a factor in customer perceived value has a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

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![Conceptual Framework](image_url)

Figure 1. Conceptual Framework
Price is widely discussed in the consumer behaviour literature as a driver of purchase intention. Generally, price drives higher purchase intention (Moon, Chadee, & Tikoo, 2008), but in other cases, there is willingness to pay premium prices for high-quality products (Zhang et al., 2018). The respondents in the present case came from low-cost intercity transportation services, so we propose the following hypothesis:

H5: The functional value of price as a factor in customer perceived value has a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

Purchase Intention

Customer buying decisions are highly complex and complicated. The triggers of what motivate customers to select certain products and services and the influential factors that make customers choose one product or service over another when both deliver the same benefits and meet the same needs are investigated. Researchers have developed various consumer decision models to explain the processes consumers go through before, during, and after making purchases. A model is simply a tool to explain a concept, its causes, and its effects. Models can provide valuable frameworks for analysing consumer behaviour (Lindquist & Sirgy, 2009). Purchase intention can be defined by several terms. A consumer purchase is a response to a problem. Consumer researchers typically apply a rational perspective to learn and comprehend the nature or meaning of decision making. In this perspective, customers carefully collect as much information as possible about products and services, consider the advantages and disadvantages of all alternatives, and finally make satisfactory decisions (Solomon, 2011).

Conceptual Framework

Figure 1 presents the conceptual framework of this study. This study started with the value proposition builder used to create and build value for customers. However, if customers do not perceive the value for them, it does not create value. Feedback on customer perceived value to improve the value created for customers, therefore, was also collected.

METHODOLOGY

Research Methods

In this mixed methods study, data were collected through personal interviews, participant observation, and a survey. This method can help researchers handle more complicated research questions and gather richer, more powerful evidence than any single method can achieve (Yin, 2009). It is important to use a mixed methods study to address the research problem, and it is better to conduct a quantitative study preceded by a suitable qualitative study (Malhotra, 2007).

Exploratory Case Study

Exploratory research generally collects information related to the topic. It provides
the researcher insights into the topic and informs the research design (Saunders & Lewis, 2012). In this exploratory study, data were collected from two sources: interviews and participant observations. Conducting exploratory research can serve several purposes, such as precisely formulating a problem, adding more insight to develop an approach to the problem, and gather information for similar research (Malhotra, 2007). A qualitative study can follow a quantitative study and give a general picture of the trends associated with the topic studied (Creswell, 2013).

**Interview**

To collect relevant information for this study, interviews were conducted with respondents who worked for companies providing non-bus transportation services in Bandung along the Bandung-Jakarta route. Personal interviews were conducted. This type of interview is a focused, brief interview that needs to operate on two levels simultaneously. First, the investigator must ensure the interview does not go too far from the line of inquiry. Second, the investigator keeps the interview friendly and avoids threatening questions. The interview may be open ended and conversational, but the investigator is also likely to follow a set of questions derived from the case study protocol (Yin, 2009). In this study, an interview protocol was used to guide the interview process, especially when collecting data. The interview protocol three general stages: before, during, and after the interview.

**Sampling and Respondents Criteria**

This case study used nonprobability sampling. Judgment (purposive) sampling selects the sample based on personal judgments of certain individual characteristics. The sample was selected from employees of companies providing non-bus transportation services in Bandung along the Bandung-Jakarta route (i.e., Baraya Travel and Umbara Trans Travel).

**Participant Observation**

To gather additional information related to the study topic, the researcher conducted participant observation of Jakarta-Bandung transportation service providers in Bandung. Participant observation is an unusual type of observation in which the researcher becomes an active observer and can participate in the events studied (Yin, 2009). In this study, the researcher participated in the events studied as a customer of Jakarta-Bandung transportation service providers in Bandung City and as a passenger on the Bandung-Jakarta route serviced by Baraya Travel and Umbara Trans Travel. The participant observations were conducted during the interviews with employees of Jakarta-Bandung transportation service providers in Bandung.

**Reliability and Validity**

Reliability and validity are important factors to which researchers should give full attention when designing a study, analysing the results, and judging the quality of the study (Patton, 2001, cited in Golafshani, 2003). In qualitative research, there are four important criteria for judging research quality, which all involve trustworthi-
ness: credibility, confirmability, dependability, and transferability (Lincoln & Guba, 1985, cited in Golafshani, 2003). It, therefore, is necessary to test and increase the reliability, validity, and trustworthiness of studies (Golafshani, 2003). The goal of reliability is to minimize the errors and biases in a study. To do so, case studies should follow a protocol to deal with documentation problems and develop a case study database (Yin, 2009). One critical issue in case studies can arise when the investigator cannot to construct a sufficient operational set of measures to prevent subjective judgments while collecting data (Yin, 2009).

The literature has four suggested approaches to ensure the quality of the finding of case studies (Yin, 2009): construct validity, internal validity, external validity, and reliability. In this study, the construct validity of the results was measured. The construct validity of a case study can be increased in three ways: using multiple sources of evidence, establishing a chain of evidence, and having a draft report on the case study reviewed by key informants.

**Data Analysis**

This study used the firm- or organizational-level logic model as an analysis technique. A logic model matches empirically observed events to theory predicting events. A logic model purposefully determines a chain of events within certain time period (Yin, 2009). The events are staged in repeated cause–effect–cause–effect patterns, in which a dependent variable (event) in an earlier stage becomes the independent variable (causal event) in the next stage (Peterson & Bickman, 1992; Rog & Huebner, 1992, cited in Yin, 2009).

**Descriptive Study**

A descriptive study describes the variables observed. The aim of hypothesis testing is to ascertain causality, the differences between two or more groups, and the independence of some variables (Sekaran, 1992). To describe market characteristics, a descriptive study is a suitable research method (Malhotra, 2007). In this research, the descriptive study consisted of a survey. Surveys provides a systematic method to collect information about groups of individuals with direct relationship with the objects, individuals, organizations, or communities studied (Suparmoko, 1999). Malhotra (2007) stated that the survey method is based on questioning respondents. Primary data are collected by giving questionnaires to respondents.

In this study, each survey item had 7-point Likert scale (1: strongly disagree, 7: strongly agree). The scores for each item were added to get the total score. The total value each respondent’s answers were calculated.

**Sampling**

This study used nonprobability sampling. Judgment (purposive) sampling selects the sample based on personal judgment about certain characteristics of individuals. This sample was selected from people with experience of the services offered by travel providers in Bandung. The target sample size was more than 300 respond-
ents. Of the 350 questionnaires distributed, 312 valid responses were returned.

**Data Collection**

In this descriptive study, data were collected from questionnaires disseminated by more than one person in Bandung City. A questionnaire is a list of statements used to obtain primary data from answers given, in this case, by a sample of by customers with experience traveling in Bandung City. These questionnaires were administered in Bandung. A total of 350 questionnaires were disseminated through two means: online questionnaires sent via email and paper questionnaires directly handed to people. The final sample consisted of 312 respondents, including 32 responses to the online questionnaire and 280 direct or face-to-face responses completed by the respondents.

**Reliability and Validity**

Reliability is a tool to measure the construct and variables in a questionnaire to determine the consistency of data. In this quantitative study, Cronbach’s alpha was used to test reliability. A construct is reliable if it has a Cronbach’s alpha of more than 0.60 (Nunnaly, 1967, cited in Ghozali, 2005).

Validity refers to the degree to which items measure what it is supposed to measure (Pallant, 2007). This quantitative study used confirmatory factor analysis to test validity. Confirmatory factor analysis evaluates whether a single dimension of a construct can confirm the construct or variable. The underlying assumption of the usefulness of factor analysis is supported by matrix data with sufficient correlations. Bartlett’s test of sphericity can determine the correlation between variables and the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO MSA), whose value must be more than 0.50 to continue factor analysis (Ghozali, 2005).

**Data Analysis**

Ghozali (2005) stated that the objective of data analysis is to identify the relevant information and use it to solve problems. Regression analysis was used for hypothesis testing in this descriptive study. In particular, two significance tests from regression analysis were conducted: regression analysis with simultaneous significance test (test of F statistic) and partial significance test (test of t statistic).

H₁ was tested with the simultaneous significance test (test of F statistic) to show the significance of the simultaneous effects of all the independent variables on the dependent variable. The criteria used were: if the F value was more than 4, H₀ was rejected at a 0.05 sig. level. The hypothesis alternative (H₁), therefore, was accepted and explained that all the independent variables simultaneously had significant effects on the dependent variable (Ghozali, 2005). H₂, H₃, H₄, and H₅ were tested using the individual parameter significance test (test of t statistic), which assessed the significance of the effects of one independent variable in individually explaining the variance in the dependent variable. The criteria used were: If the sig. value was more than 0.05, there was no significant effect, so H₀ was accepted. If the sig. value
RESULTS AND DISCUSSION

Exploratory Case Study

Baraya Travel, as an intercity non-bus transportation service provider, tries to build its value proposition through offerings benefits for customers in three areas. The first category is operations. The company provides many choices of departure hours with high frequencies of departure: more than 60 departures on weekdays and more than 70 departures on weekend days. The company has purchased 164 vehicles to meet customers’ needs. Thus, customers can choose among many options for departure hours. The company tries to communicate this operating system, especially the time table, through big posters on the walls of the ticketing outlets.

Facilities are the second category. The company has placed its ticketing outlets near highways to avoid traffic jams and help customers not lose precious time. Regarding facilities in the outlets, the company provides waiting rooms with comfortable restrooms. For vehicles, the company has professional mechanics provide maintenance periodically on certain weekdays (Tuesday, Wednesday, and Thursday) to ensure the vehicles operate in good condition.

Finally, regarding professionalism, Baraya Travel, as an intercity non-bus transportation service company, gives special training for all positions with direct contact with customers. Customer service officers (CSOs) and drivers receive on-the-job training, usually are tested and selected by managers, and meet the qualifications of graduating from senior high school. This treatment is intended to provide benefits for customers, such as a feeling of comfort from the kindness and politeness offered by the staff and drivers of the transportation service. Thus, the company can build strong, profitable customer relationships.

Umbara Trans Travel, as an intercity non-bus transportation service provider, offers benefits in three areas. First, in operations, the company allows customers to comfortably and easily connect with its call centers. For operational hours, the company tries to set regular departure hours but has only 20 vehicles, so its departure hours are limited. Regarding facilities, the company positions its outlets in strategic, accessible locations easy for customers to reach. Most of the company’s vehicles are new, and it performs maintenance every day, especially to maintain the air conditioners and electric parts, such as accumulators.

Finally, regarding professionalism, Umbara Trans Travel, as an intercity non-bus transportation service provider, gives its CSOs training to enhance their knowledge of polite customer service. The company provides drivers professional training through Astra, a reputable transportation company. It is important for drivers to conduct their jobs professionally to ensure safety on every trip and build strong relationships with.
In these three areas, intercity non-bus transportation service providers make extra efforts to build great value propositions that can meet customers’ needs. Both companies offer benefits for customers at reasonable prices. Baraya Travel offers a competitive price of IDR 85,000, lower than Umbara Trans Travel’s price of IDR 105,000. Thus, price competitiveness might become a strong value proposition for intercity non-bus transportation service companies. Moreover, some customers demand maximum comfort in their intercity journeys.

Descriptive Study

The descriptive study consisted of a survey, and the data were analysed with reliability, validity, and hypothesis testing. A survey systematically collects information about a group of individuals with a direct relationship with the objects, individuals, organizations, or communities studied (Suparmoko, 1999). Malhotra (2007) stated that survey method is based on questioning respondents.

Reliability and Validity

To measure the quality of data in the quantitative study, validity and reliability tests were performed. Data with low reliability and validity result in biased conclusions (Cooper & Emory, 1995). Reliability is a tool to measure the construct and variables in a questionnaire to determine the consistency of data. In this quantitative study, Cronbach’s alpha was used to test reliability. A construct is reliable if it has a Cronbach’s alpha of more than 0.60 (Nunnaly, 1967, cited in Ghozali, 2005). Table 1 gives the reliability information for variables in the final test survey in this study.

The SPSS output presented in Table 1 shows that all the variables had Cronbach’s alpha values of more than 0.60, indicating that the results were reliable based on the criteria of Nunnaly (1967, cited in Ghozali, 2005).

In this quantitative study, confirmatory factor analysis was performed to test validity. Table 2 displays the validity information for the variables in the final test survey.

The SPSS output in Table 2 showed that the KMO for all variables was more than 0.50, so the factor analysis was valid and could be continued. In Bartlett’s test, all

<table>
<thead>
<tr>
<th>N</th>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Functional Value (Operations)</td>
<td>0.633</td>
<td>Reliable</td>
</tr>
<tr>
<td>2</td>
<td>Functional Value (Facilities)</td>
<td>0.772</td>
<td>Reliable</td>
</tr>
<tr>
<td>3</td>
<td>Functional Value (Professionalism)</td>
<td>0.785</td>
<td>Reliable</td>
</tr>
<tr>
<td>4</td>
<td>Functional Value (Price)</td>
<td>0.610</td>
<td>Reliable</td>
</tr>
<tr>
<td>5</td>
<td>Purchase Intention</td>
<td>0.883</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Table 1
Cronbach’s Alpha

<table>
<thead>
<tr>
<th>N</th>
<th>Variable</th>
<th>KMO</th>
<th>Bartlett’s Test of Sphericity</th>
<th>Explained Variance (%)</th>
<th>Validity Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Functional Value (Operations)</td>
<td>0.635</td>
<td>181.155</td>
<td>48.998</td>
<td>Valid</td>
</tr>
<tr>
<td>2</td>
<td>Functional Value (Facilities)</td>
<td>0.741</td>
<td>358.231</td>
<td>60.011</td>
<td>Valid</td>
</tr>
<tr>
<td>3</td>
<td>Functional Value (Professionalism)</td>
<td>0.766</td>
<td>366.667</td>
<td>61.543</td>
<td>Valid</td>
</tr>
<tr>
<td>4</td>
<td>Functional Value (Price)</td>
<td>0.601</td>
<td>143.739</td>
<td>59.248</td>
<td>Valid</td>
</tr>
<tr>
<td>5</td>
<td>Purchase Intention</td>
<td>0.765</td>
<td>732.113</td>
<td>73.961</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Table 2
Confirmatory Factor Analysis Results
the variables are significant and thus valid.

**Hypothesis Testing**

Ghozali (2005) stated that the objective of data analysis is to identify the relevant information and use it to solve problems. Regression analysis was used for hypothesis testing in this descriptive study. In particular, two significance tests from regression analysis were conducted: regression analysis with simultaneous significance test (test of F statistic) and partial significance test (test of t statistic).

**Regression Analysis with Simultaneous Significance Test (Test of F statistic) & Partial Significance Test (Test of t statistic)**

Table 3 presents the results of regression analysis with simultaneous significance test (test of F statistic) for H1 in this descriptive study.

The SPSS output shown in Table 3 shows that the F value was 16.636, more than 4, so H0 was rejected at a 0.05 sig. level. The alternative hypothesis (H1), therefore, was accepted and explained that all the independent variables (operations, facilities, professionalism, and price) simultaneously had significant effects on the dependent variable (the purchase intention for non-bus transportation service providers in Bandung).

H2, H3, H4, and H5 were tested using partial parameter significance test (test of t statistic), which assessed the significance of the effects of one independent variable in individually explaining the variance in the dependent variable. The criteria used were: If the sig. value was more than 0.05, there was no significant effect, so H0 was accepted. If the sig. value was 0.05 or less, there was a significant effect, so the alternative hypotheses (H2, H3, H4, and H5) were rejected (Ghozali, 2005).

Table 4 presents the results of regression analysis with individual parameter significance test (test of t statistic) for testing of H2, H3, H4, and H5 in this descriptive study and the results from the individual parameter significance test (test of t statistic).

---

**Table 3**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Hypothesis</th>
<th>F</th>
<th>Sig.</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Value (Operations, Facilities, Professionalism, and Price)</td>
<td>Purchase Intentions</td>
<td>H1</td>
<td>16.636</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Table 4**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Dependent</th>
<th>Beta</th>
<th>Sig.</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Value (Operations)</td>
<td>Purchase Intentions</td>
<td>0.124</td>
<td>0.062</td>
<td>H1 is Rejected</td>
</tr>
<tr>
<td>Functional Value (Facilities)</td>
<td>Purchase Intentions</td>
<td>0.177</td>
<td>0.007</td>
<td>H1 is Accepted</td>
</tr>
<tr>
<td>Functional Value (Professionalism)</td>
<td>Purchase Intentions</td>
<td>0.123</td>
<td>0.050</td>
<td>H1 is Accepted</td>
</tr>
<tr>
<td>Functional Value (Price)</td>
<td>Purchase Intentions</td>
<td>0.107</td>
<td>0.084</td>
<td>H1 is Rejected</td>
</tr>
</tbody>
</table>
In the SPSS output in Table 4, the sig. value of functional value (Operations) $H_2 = 0.062$ is more than $\alpha = 0.05$, so $H_0$ was accepted. This means that the functional values of operation as a factor in customer perceived value did not have a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

The sig. value of functional value (facilities) $H_3 = 0.007$ was less than $\alpha = 0.05$, so $H_0$ was rejected. This means that the functional value of facilities as a factor in customer perceived value had a partial significant influence between on purchase intention for non-bus transportation service providers in Bandung. Functional value of facilities was the most significant influential factor on customer perceived value on purchase intention for non-bus transportation service providers in Bandung.

The sig. value of functional value (Professionalism) $H_4 = 0.050$ was same as $\alpha = 0.05$, so $H_0$ was rejected. This means the functional value of professionalism as a factor in customer perceived value had a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

The sig. value of functional value (Price) $H_5 = 0.084$ was more than $\alpha = 0.05$, so $H_0$ was accepted. This means the functional value of price as a factor in customer perceived value had no a partial, significant influence on purchase intention for non-bus transportation service providers in Bandung.

**Bridging Two Perspectives**

To investigate the gap between values propositions from Jakarta-Bandung transportation service providers, this study explored the perceived value among customers in the target markets of the Jakarta-Bandung transportation service providers in Bandung. This study compared the results of the exploratory case study and the descriptive study. The exploratory case study examined the perspectives of non-bus transportation service providers in Bandung. Baraya and Umbara Trans Travel make extra efforts to deliver great services to customers in three areas. Baraya Travel’s value proposition is to deliver great competitive prices for customers, while Umbara Trans Travel emphasizes comfort in the spacious interiors of its vehicles as its value proposition. In operations, Baraya Travel tries to provide more choices of departure hours with high frequencies every day, while Umbara Trans Travel provides regular operational hours with departures every two hours.

Second, both companies put their outlets in strategic locations near customers and highways to allow customers to easily reach the outlets and minimize loss of time to traffic jams. Finally, regarding professionalism, both companies conduct formal training for staff members and drivers. Umbara Trans Travel gives formal training for drivers through cooperation with Astra to provide great service from professional driver. Baraya and Umbara Trans also try to attract new customers with offer attractive prices and promotions.

The results from descriptive study explored the perspectives of customers in the tar-
get markets of non-bus transportation service providers in Bandung. Customers do not perceive price as the main criterion in decisions to use travel services, and price does not significantly influence their purchase intention. Regarding operations, promptness, safety, comfort on every trip, and more choices of departure hours with high frequency influence their purchase intention to use non-bus transportation service providers in Bandung but not significantly. Turning to facilities, most customers believe it is highly important for staff members and employees to know their jobs well, be able to give clear, useful information, and act as professionals. Thus, professionally can significantly influence purchase and use intentions.

Regarding the price that customers need to pay, Baraya offers competitive prices in a very low price, which is its value proposition. Umbara Trans Travel cannot deliver as low, competitive prices as Baraya Travel does. However, from customers’ perspective, the price is not the main determinant of their travel decisions. In the results of descriptive study, customers do not perceive price as the main criterion in the decisions to use travel services. Thus, in the area of price, there is a gap in Baraya Travel’s perspective on its value proposition and customer’s perceived value.

**Theoretical Implications**

This bridging perspective on customer value proposition and customer perceived value contributes to knowledge on consumer behaviour, especially in the area of developing superior value propositions (Payne & Frow, 2014). The integrated framework of customer value proposition created by firms and customer perceived value created by customers, which was empirically tested in this study, shows that superior value propositions can be achieved where there is a feedback loop between these two perspectives. Furthermore, this study complements the study by Payne et al. (2017) on the antecedents and consequences of the value proposition framework, particularly the feedback loop between customer perceived value and customer value proposition. From the strategic marketing perspective, therefore, this cycle may result in sustainable competitive advantages. Future studies could empirically examine how the bridge of the feedback loop between customer value proposition and customer perceived value can result in sustainable competitive advantages.

**Managerial Implications in Southeast Asian Contexts**

For managers in Southeast Asian contexts, especially the intercity non-bus transportation service industry, this study provides insights that can support managerial decision making on building companies’ perceived value through the delivery of value propositions in Southeast Asian context. This study has found that price competitiveness and comfort in service are value propositions that can be relied on by the companies. However, the study also pointed out that price competitiveness cannot alone serve as the value proposition making intercity non-bus transportation service providers stand out from the competition. Based on this study, facilities and
professionalism are more important in driving customers’ purchase intention. Furthermore, price competitiveness can be a strong value proposition in this industry when the company can integrate facilities, particularly outlet availability for consumers’ specific destinations and drivers’ professionalism, which gives consumers a feeling of safety in their journey.

Comfort in service, though, cannot stand alone as a value proposition when intercity non-bus transportation service providers cannot provide easily accessible outlets for consumers and professional drivers who make consumers feel safe while using the services. Managers, therefore, have to consider not only solely price competitiveness or comfort of services as value propositions but also the integration of facilities and professionalism to build perceived value through value propositions in the intercity non-bus transportation service industry in Southeast Asian contexts.

CONCLUSIONS

Today, it is recognized that the value proposition has significant impacts on every part of the company’s operation. When the company wants to increase and maximize return on investment, it must make excellent choices about which opportunities to pursue and have a detailed understanding of its specific target market (Barnes et al., 2009). Every company has a value proposition and expected results from each market. To build value, the firm needs to develop unique skills to survive competition. However, when the company tries to offer a value, consumers do not see, that is the same as not offer a value (Martelo-Landroguez et al., 2013).

Based on the findings on the two companies studied, Baraya Travel’s value proposition is to offer competitive prices lower than other companies and to provide more choices of departure hours with high frequencies of departure (more than 60 departures daily). Meanwhile, Umbara Trans Travel’s value proposition is to provide great comfort for customers through its vehicles with spacious interiors.

Both companies attempt to increase sales by implementing effective marketing strategies, but unfortunately, they are not really focused and do not have detailed understandings of their target markets. They do not conduct research on their customers’ need and experiences but only have a little knowledge of their customers’ experiences from complaints. They do not know how their competitors deliver value to customers. Baraya and Umbara Trans Travel have not created formal mechanism to collect information on their value. Sometimes, customers have their own definitions of value and use it in many different ways. The diversity of the value concept among consumers has become a major challenge in studying and understanding value (Zeithaml, 1988).

The findings of this study show that facilities and professionalism are the most significant influential factors in customer perceived value on purchase intention for non-bus transportation service providers. Facilities include good air conditioners and proximity of non-bus transportation service providers’ ticket outlets to customers’ destinations. Regarding professionalism, most customers believe it is highly
important for staff members to know their jobs well, give clear, useful information, and act as professionals.

**Limitations and Recommendations**

The researchers gave their best efforts to conduct this study by performing several steps to produce reasonable, realistic result, but the study has several limitations.

a) Scope of the variables: This study used only two variables (functional value and purchase intentions) and four sub-variables of functional value (operations, facilities, professionalism, and price) as independent variables. Other variables could influence purchase intention for non-bus transportation service providers.

b) Numbers of respondents: Only two respondents were willing to be interviewed by the researcher for the case study. Those two respondents represented two companies in the same industry. Consequently, it was difficult to do a good case study.

c) Time constraints. This study was conducted over a limited time, so the focused, personal interviews covered only one time period for each company. Additionally, the companies did not allow the researchers access to their customer database or documents related to their customers or sales growth.

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Effect of Managers’ Communication on Training Application with Motivation to Learn as an Intervening Variable

Azman Ismail*, Rendika Nugraha, Adhi Setyo Santoso
Faculty of Economics and Management, Universiti Kebangsaan Malaysia

Nurul Afiqah Foboy
Faculty of Management and Defence, Universiti Pertahanan Nasional Malaysia

Azmawaty Mohamad Nor
Faculty of Education, University of Malaya, Kuala Lumpur, Malaysia

Abstract

Research Aims - According to the present research concerning organizational training, managers’ communication are often seen as a critical training management issue that may help to maintain and enhance organizational competitiveness and performance in a borderless world and era of globalization. In this study, the relationship between managers’ communication, motivation to learn and training application was evaluated at military hospitals in Peninsular Malaysia.

Design/methodology/approach - The SmartPLS path model analysis was utilized to examine the research hypotheses and evaluate the validity and reliability of instrument used.

Research Findings - The results demonstrate that the capability of managers to communicate the training courses information will strongly invoke employees’ motivation to learn.

Theoretical Contribution/Originality - As a result, this motivation may lead to an improved training application in a military health context.

Managerial Implication in the South East Asian context - Managers play a critical role in dissemination of the organisation’s aspiration to the rank and file.

Research limitation & Implications - The conclusion of this study should be taken carefully with some methodological and conceptual limitations.

Keywords - Managers’ communication, motivation to learn, training application, SmartPLS.

Introduction

Acceleration of global competition, changing marketplace and rapid development of digital technological innovation have altered the nature of working condition and demand a more flexible and competent workforce (Nikandrou, Brinia & Bereri, 2009; Al-Swidi & Al Yahya, 2017; Park, Kang & Kim, 2018). In order to meet the new demands of working environment, training and development have been identified as an effective approach for organizations to renew the skills and knowledge of their employees, increase employees’ performance, and prepare employees for new job requirements and career development (Chuang, Liao & Tai, 2005; Rowold, 2007). This exposure may form a strong human resource force to achieve organizational goals and gain competitive advantage in a borderless world and era of globalization (Nikandrou et al., 2009; Schwab, 2016, 2017).

*The corresponding author can be contacted at: azymn@um.edu.my
Brannick, Levine & Morgeson, (2007), Chow, Finney & Woodford (2010), Towler, Watson & Surface (2014), and Khan, Mufti & Nazir Ahmed (2015) state that organizations have invested multi-billion dollars to design work-oriented and employee-oriented methods to aid employees easily learn and master various core competencies such as necessary knowledge, latest skills, up to date cognitive and affective abilities, positive attitudes and new capabilities needed to overcome the current challenges. These competencies are very useful to help employees upgrade self-confidence, change negative attitudes, increase motivation levels, match skills and knowledge with the goals of the organization, groom employees to take on new challenges, incorporate advanced technologies, obtain high rewards, improve group performance, increase promotion opportunity, employ continuous improvements, maximize work quality and productivity, minimize staff turnover and improve service quality. Improvement in these aspects may lead to greater organizational competitiveness and productivity in an era of knowledge-based economy (Advantages of Training Programme, 2017; Azman & Nurul Inani, 2010; Ghosh, Satyawadi, Joshi, Ranjan, & Singh, 2012; Kucherov & Manokhina, 2017).

Present literature relating to human resource development emphasizes that although training programs are constructed well, it may not be capable to accomplish their goals if managers have insufficient competencies to execute effective communication in organizations (Azman, Hua, Ismail, Abu Samah, Abu Bakar & Ibrahim, 2015a; Al-Swidi & Al Yahya, 2017). According to many scholars such as Ellinger, Ellinger and Keller (2005), Keller & Ozment (2009) and Azman, Nurul Afiqah, Rizal, Norzanah & Herwina (2015b), managers are intermediate officers between top management and employees, and they are empowered by top management to execute, lead and monitor the performance of operational employees. Irrefutably, managers’ effective communication is important in successful organizations. Findings from the 21st century training management studies indicated that the capability of managers to incorporate effective communication when designing and administering training programs will strongly evoke their subordinates’ motivation to acquire new competencies in the training programs. As a result, this motivation may lead to greater training application in organizations (Azman et al., 2015b; Park et al., 2018). Although the nature of this relationship has been extensively investigated, the effect size and nature of managers’ communication as a vital intervening variable had been largely ignored among the vast organizational training studies (Ng, 2015; Park et al., 2018).

Many prominent scholars argue that this condition may be due to a few reasons: First, past studies have conceptually discussed the various concepts of organizational training, such as definitions, categories and general significance of training management in public, private and/or non-profit organizations (Dawley et al., 2008; Ng, 2015). Second, many past studies have largely utilized a direct effects model using simple correlation and comparison analytical methods, namely: a) respondent perceptions toward general training management (e.g., design, support, assignment and instructional strategy), b) evaluating the association between general training management and general training motivation (e.g., motivation to learn, motivation
to engage and motivation to transfer), and c) evaluating the association between training motivation and general training outcomes (e.g., satisfaction, engagement and innovative work behavior) (Azman et al., 2015b; Dawley et al., 2008; Park et al., 2018). The model analysis is important, but it is unable to assess the effect size and nature of motivation to learn as an important intervening variable between managers’ communication and training application in the organizational training research literature (Al-Swidi & Al Yahya, 2017; Lancaster, Milia & Cameron, 2013). As a result, findings from the above studies have produced general recommendations that does not offer much help in providing useful guidelines to practitioners in understanding the difficulty of motivation to learn construct, and formulating high commitment management initiatives to upgrade the effectiveness of training programs in a market winner organization (Al-Swidi & Al Yahya, 2017; Na-nan, Chaiprasit & Pukkeeree, 2017).

Within the context of Malaysian military health, numerous studies on managers’ communication through top-down protocols and devices, as well as their impact on training motivation have extensively been discussed in military training programs (Azman, Nurul Afiqah, Nur Atiqah, Norazila, Zafir Khan, 2014; Azman et al. 2015b), but the intervening effect of hospital employees’ motivation to learn new competencies (i.e., necessary knowledge, latest skills, current cognitive, emotional and positive attitudes, psychomotor and other present abilities) in the relationship between managers’ communication and training application is given less emphasized in Malaysian military hospitals (Azman, 2015).

Thus, the above discussion inspires the researchers to fill this gap by evaluating the intervening effect of motivation to learn in the relationship between managers’ communication and training application. Therefore, this study is conducted to evaluate three primary relationships:

1. To examine the relationship between managers’ communication and motivation to learn.
2. To examine the relationship between managers’ communication and training application.
3. To examine the relationship between managers’ communication, motivation to learn and training application.

Hence, this paper is structured to discuss the literature review, method, results, discussion and implications, and conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Manager’s communication

Managers’ communication is often viewed as an important element of training management where it consists of two key words: managers and communication. Managers are often related to intermediate officers that receive duties and responsibilities from their employers to plan, organize, lead and control operational staff in order to accomplish their organizations’ objectives and strategy (Li, Duverger &
In a training management context, managers’ communication is broadly defined as managers openly, adequately and honestly delivering information concerning the training program aims, advantages of the program, appropriate knowledge to be acquired (process, content and assignments), suitable skills to be gained, clear performance feedback, and interpersonal obstacle solutions on before, during and/or after attending the training program (Azman, Hasan Al Banna, Ahmad Zaidi & Suriaawi, 2010; Harris, Simon & Bone, 2000; Ng, 2015). Recent studies advocate that the ability of managers to effectively communicate the information relating to such training programs may act as an important antecedent of motivation to learn and training applications in competitive organizations (Alnowaiser, 2017; Lim, 2015).

**Motivation to learn**

Motivation to learn is a vital component of training motivation where it has two key words: learning and motivation. Motivation is frequently viewed as an individual’s path, perseverance and hard work to achieve his/her certain objectives. Meanwhile, learning is normally defined as a somewhat fixed change in behavior in response to a particular stimulus or set of stimuli (Azman et al., 2015a; Gegenfurtner & Vauras, 2012; Noe, 1986). The above discussion shows that motivation to learn is intense and persistent, and the path of learning new attitudes, knowledge or skills may be often influenced by individuals who have clear-cut goals, value results, have high self-efficacy and highly satisfied with the treatments of their managers (Azman et al., 2015a; Park et al., 2018). Extant studies in training motivation advocate that individuals with high level of motivation to learn will have high capabilities to overcome discouraging learning factors and willing to follow, involve and commit to learning activities. In a training management context, motivation to learn is interpreted as an important outcome of managers’ communication (Park et al., 2018) and a determinant of training application in manufacturing and service based organization (Abdulkarim, Musaed & Abdulla, 2009; Khan et al., 2015; Scaduto, Lindsay & Chiaburu, 2008).

**Training application**

Training application is an important component of training success where it consists of two major words: training and application. Training is broadly defined as individuals learning new competencies through many exercises in order to decrease daily job deficiencies and improve their job performance (Azman et al., 2010; Lim, 2015). Conversely, application is generally defined as individuals’ desire to use mastered competencies gained from training programs directly or indirectly to perform job in their organizations (Azman et al., 2015b; Nikandrou et al., 2009, Noe, 1986).
Pham, Segers, and Gijselaers (2013) and Khan et al., (2015) report that training program is still relevant with present situation, but rate of application of the learned competencies to job and organization is not convincing. To illustrate further, past literatures have indicated that only 10 percent of the training expenditure were transferred as learned behaviors (Holton, 2005; Velada, Cateano, Michael, Lyons, Kavanagh & Hutchins, 2007). It was also found that some studies indicated only 40% of employees’ skills acquired from the training programs were directly transferred to the workplace (Burke & Baldwin 1999; Facteau, Dobbins, Russell, Ladd, & Kudisch, 1995). According to Baldwin and Ford (1988) and Khan et al., (2015), the ability of trainees to apply new competencies is not easy because it is contingent upon training input factors, training outcomes, and conditions to transfer. The above discussion shows that application of new competencies gained from training programs is much lower as compared to the investment costs, and this issue should be further explored by practitioners and researchers to overcome such problems (Burke & Hutchins, 2007; Holton, Bates, & Ruona, 2000; Khan et al., 2015; Park et al., 2018).

In a training management literature, training application is usually interpreted as employees learning new competencies (i.e., knowledge, latest skills, up to date cognitive and emotional abilities, and positive attitudes received in a learning setting) in training environments and they have high desires and effort to use such competencies directly or indirectly to perform daily job in their organizations (Azman et al., 2015b).

Many training studies advocate that managers’ communication is a vital determinant of motivation to learn. For example, several surveys were conducted at various organizational samples, such as views of 110 training participants at a state public work agency located in East Malaysia (Azman et al., 2010), 306 training participants at a large Malaysian government agency (Ng, 2015), and 216 participants in professional training workshops of education organizations in Midwest and Southern parts of the United States (Park et al., 2018). Results from these surveys showed that managers practised an effective communication to upgrade employees’ appreciation about the training goals and benefits, usefulness of training content, and ease of using training methods in the training sessions. Messages are openly, adequately, honestly and accurately transmitted over using traditional and information technology media to trainees. Consequently, this communication initiative could result in an improved employees’ training application in different organizations (Azman et al., 2010; Ng, 2015; Park et al., 2018). Thus, the following hypothesis is formulated:

\[ H_1: \text{Managers’ communication are positively related to motivation to learn} \]

Numerous studies about training management support that managers’ communication have been an important antecedent of training application. For example, several surveys were done at different organizational settings, such as perceptions of 346 employees at a manufacturing facility in US (Dawley et al., 2008), 306 employees at a large government agency (Ng, 2015), 706 employees at three city halls in Sarawak, Malaysia (Azman et al., 2015b), 85 supervisors and 91 supervisees
from Boomers, Generations X and Y generations among Emiratis and UAE expatriates (Lim, 2015), 126 participants of the computer software operation and design introduction in Taiwan (Tai, 2016), and 500 officers of Public Security Organisation in Saudi Arabia (Alnowaiser, 2017). Outcomes from such empirical studies found that managers had used effective communication to assist employees in recognizing the training goals and benefits, usefulness of training frames, and practicality of training procedures in the training sessions. These information are openly, adequately, honestly and accurately conveying via traditional and information technology media to trainees. Consequently, this communication style would result in higher employees’ training application in the different organizations (Alnowaiser, 2017; Azman et al., 2015a; Dawley et al., 2008; Lim, 2015). Thus, the following hypothesis is established:

\[ H_2: \text{Managers’ communication are positively related to training application} \]

**Relationship between motivation to learn and training application**

Effect of motivation to learn on training application is consistent with the notion of training motivation model. Tombs (2011) has reviewed two training motivation models: first, Noe’s (1986) Model of Motivational Influences on Training Effectiveness explaining the features of motivation to learn and its impact on general trainee outcomes (e.g., learning, behavior change and results) through individual and contextual variables. Second, Colquitt, LePine & Noe’s (2000) Integrative Model of Motivation to Lean describing the characteristics of motivation to learn and its role as an important contributing factor of general learning outcomes, such as declarative knowledge, skill acquisition, post-training self-efficacy, and reactions. In these motivation models, the characteristics of motivation to learn are well discussed, but its direct relationship with training application has not received well support from the training management research literature (Tombs, 2011). In order to overcome the deficiency of the above theories, Beier and Kanfer’s (2010) Stage Model of Motivation in Training and Learning Activities discloses that trainees’ motivation during learning and training sessions may strongly upgrade employees’ motivation to apply the learned knowledge and skills to the work environment. The concepts proposed by this theory have received strong backing from various training management studies (Locht, Dam & Chiaburu, 2013; Ng & Rusli, 2018).

Various studies related to training motivation advocate that motivation is an essential predictor of training application. For example, surveys done at different organizational backgrounds, such as perceptions of 287 public employees in Saudi Arabia (Abdulkarim et al., 2009), 595 managers who joined in a management training program in Netherlands (Locht et al., 2013), 216 respondents from educational companies in the United States (Park et al., 2018), and 31 trainees attending management training programs organized by a public sector training provider in Malaysia (Ng & Rusli, 2018). Findings from these surveys reported that managers had practiced effective communication to assist employees in understanding the training goals and benefits, usefulness of training frames and applicability training procedures in the training sessions. These messages have been openly, adequately, honesty and ac-
curately disseminated via traditional and information technology media to trainees. As a result, implementation of an effective communication system could lead to greater employees’ training application in the different organizations (Abdulkarim et al., 2009; Locht et al., 2013; Ng & Rusli, 2018; Park et al., 2018). Thus, the following hypothesis is formulated:

H3: Motivation to learn is positively correlated to training application.

**Relationship between managers’ communication, motivation to learn and training application**

Role of motivation to learn as an important intervening variable between managers’ communication and training application is in line with the essence of Naquin and Holton’s (2002) Motivation to Improve Work through Learning Model. This model suggests that trainees with high motivation to learn have stronger desires and efforts to join, engage and acquire new competencies in training development programs. This learning process may bring about an enhanced positive behavior in organizations (Machin & Treloar, 2004; Holton, 2005; Ng & Rusli, 2018). Recent studies have evaluated the essence of the theory and revealed that motivation to learn is an essential outcome of training management issues, such as managers’ communication (Azman et al., 2010; Park et al., 2018), and motivation to learn also can act as an important intervening variable between managers’ communication and training application (Ng, 2015; Park et al., 2018).

Limited recent training management studies have provided strong evidences supporting the intervening role of motivation to learn between managers’ communication and training application. For instance, some surveys were done at different organizational samples, such as perceptions of 123 employees at a Malaysian military based health centre (Azman et al., 2015b), 306 employees at a large government agency (Ng, 2015), and 216 participants in professional development workshops of education organizations in the United States (Park et al., 2018). Results from these studies revealed that the capability of managers to openly, sufficiently, honestly and accurately deliver the information about training programs via traditional and/or technology communication media would strongly invoke employees’ motivation to learn new competencies (i.e., necessary knowledge, latest skills, up to date cognitive and affective capabilities, positive attitudes and other present abilities) in the training sessions. Therefore, this learning information could lead to greater training application in the examined organizations (Azman et al., 2015b; Ng, 2015; Park et al., 2018). Thus, the following hypothesis is established:

H4: Effect of motivation to learn on training application is indirectly affected by managers’ communication.

**RESEARCH METHOD**

A cross-sectional research design is used as it provides flexibility to the researchers in incorporating the training management and the actual survey as data collection procedure for the present research. The utilization of this process may assist in
gaining precise data, reduce bias data and boost the quality of the data collected (Cresswell, 1998; Sekaran & Bougie, 2010). The present research is done at military hospitals located at three military bases in Peninsular Malaysia, namely Kuala Lumpur, Melaka and Negeri Sembilan. The names of hospitals are kept confidential for reasons of privacy. These hospitals have been supplied with up-to-date therapeutic and diagnostic facilities to deliver curative and preventive medical care to military employees, their dependents and other authorized users (Malaysia Military Hospital Directory Hospital.com.my, 2018; The Star Online, 2018).

These hospitals play a major role in providing medical services to the military employees during peace and wartime (Zin, 2003). In order to enhance the quality of healthcare services, The Ministry of Defense, Malaysia has established the Institute of Health Training with the responsibilities to implement various types of training for doctors and medical assistants in the Armed Forces. For example, they deliver programs for nurses, medical and health assistants, dental hygienists, dental assistants, operation theatre technicians, x-ray technicians, lab assistants and also deliver the Medical and Dental Officers Orientation Course (Worldwide Military Medicine.Com, 2018).

Although such training methods and content are well planned, their effectiveness is contingent upon the capability of managers to implement effective communication in the training courses. In order to enhance the effectiveness of training programs, managers have taken proactive actions to extensively use non-verbal (e.g., body language and postures) and verbal (e.g., written and oral communication) to deliver the information about training programs, such as training objectives, course outline, and training policy and procedures to employees. This information is very useful to upgrade employees’ motivation to learn new competencies which related to health care services, and this learning process may result in higher training application in the training programs. With the paucity of empirical evidence, there is an urgent need to further discover the effectiveness of employees’ motivation to learn as an intervening variable in the training model of military hospitals.

At the beginning, the questionnaires were prepared in English based on the training management. Then after, a back-to-back translation method was used to translate the questionnaires into Malay and English languages in order to increase the reliability and validity of research outcomes (Cresswell, 1998; Sekaran & Bougie, 2010).

**Instruments**

The questionnaires consist of three major parts: firstly, managers’ communication has 4 items adapted from workplace training literature (Machin & Fogarty, 2004; Lancaster et al., 2013; Na-nan et al., 2017). Secondly, motivation to learn has 4 items adapted from trainees’ motivation literature (Weinstein & Meyer, 1994; Yi & Davis, 2003). Finally, training application has 4 items adapted from training application literature (Al-Swidi & Al Yahya, 2017; Azman & Nurul, 2010; Noe & Schmitt, 1986; Holton et al., 2000). All the items are evaluated using a 7-ratings
scale ranging from “strongly disagree/dissatisfied” (1) to “strongly agree/satisfied” (7). The characteristics of the participants have been treated as controlling variables as this research centered on attitudes of employees.

**Sample**

This study used a purposive sampling plan to distribute 1000 survey questionnaires to employees in the hospitals. In this sampling plan, the survey questionnaires were distributed to employee with diverse background and experience attending healthcare training programs working in different departments or divisions in the hospitals. This is to ensure that the researchers gather relevant and adequate information from participants who have good knowledge about the healthcare training programs. From the number of survey questionnaires distributed, only 395 (39.5%) usable questionnaires have been received by the researchers. Participation in this study is voluntary, confidential and anonymous.

The adequacy of this sample has been assessed based on the thumb rule, “the sample size should be equal to or larger than 10 times the largest number of structural paths directed at a particular construct in the structural model” (Hair, Hult, Ringle, & Sarstedt, 2017), and “the measurement models have an acceptable quality of terms of outer loading (i.e., loadings should be above the common threshold of 0.70)” (Hair et al., 2017). In this study, managers' communication has 4 items and this was the largest number of formative indicators in the survey questionnaires. Based on this rule, the sample size should be at least 40 participants. With reference to the 10 times rule, the number of samples used in this study is adequate. Thus, the sample can be used for further analysis.

**Data Analysis**

Hair et al. (2017), and Henseler, Ringle and Sinkovics (2009) recommend to use SmartPLS 3.0 to analyze data obtained. This statistical package is capable of delivering latent variable scores, handle small sample size issues, and measure complex models. Relying on the above researchers’ guidelines, the procedure of data analysis consists of confirmatory factor analysis which is used to measure the reliability and validity of the instrument. Then, SmartPLS path model analysis is utilized to test the hypothesized model. The outcomes of testing direct effects model will reveal the significant relationship between the independent variable and the dependent variable if the value of t statistic is more than 1.65 (Henseler et al., 2009). While, the outcomes of testing indirect effects model will reveal the significant relationship between the independent variable, intervening variable and the dependent variable if the value of t statistic is more than 1.96 (Henseler et al., 2009). After which, the $R^2$ value is used as a guide of the overall predictive strength of the model based on the standards: 0.19 (weak), 0.33 (moderate) and 0.67 (substantial) (Hair et al., 2017; Henseler et al., 2009). Next, the $f^2$ value is utilized as a measure to decide the effect size of predicting variable in the model based on the criteria: 0.02 as weak, 0.15 as medium and 0.35 as large (Hair et al. 2017). Lastly, if the Q2 value for dependent variable is more than 0, the model has predictive relevance (Hair et al., 2017).
RESULTS

Respondents’ characteristics

Table 1 reveals that most of the participants were females (58.0%), aged between 26 and 30 years of age (32.7%), are married (70.4%), SPM/MCE graduates (65.1%), allied health science staff (78.2%), and employees who have 6 to 10 years of service (29.6%).

Measurement model

Table 2 shows that the results of convergent validity analysis. The factor loadings for each construct are more than 0.70 in their own constructs within the model, while the correlation between items and factors have loadings more than other items in the distinctive constructs. Overall, the findings reveal that the items demonstrating each construct satisfy the standard for convergent validity analysis (Henseler et al., 2009). Each of the constructs possess average variance extracted (AVE) values greater than 0.50, showing that the constructs have satisfied the criterion of convergent validity (Barclay, Thompson & Higgins, 1995; Fornell & Larcker, 1981; Henseler et al., 2009).

Tables 3 displays the discriminant validity and construct reliability results. Each construct has a value of $\sqrt{\text{AVE}}$ in diagonal that is higher than the squared correlation with other constructs in off diagonal, revealing that all constructs have satisfied the criterion of discriminant validity analysis (Henseler et al., 2009). In addition, the composite reliability value for each construct is higher than 0.80, showing that the constructs have high internal consistency (Henseler & Chin., 2010; Nunally & Bernstein, 1994).

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Sub Profile</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>42.0</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>58.0</td>
</tr>
<tr>
<td>Age</td>
<td>&lt;25</td>
<td>31.4</td>
</tr>
<tr>
<td></td>
<td>26 – 30</td>
<td>32.7</td>
</tr>
<tr>
<td></td>
<td>31 – 35</td>
<td>19.7</td>
</tr>
<tr>
<td></td>
<td>&gt;36</td>
<td>16.2</td>
</tr>
<tr>
<td>Marital status</td>
<td>Single</td>
<td>31.1</td>
</tr>
<tr>
<td></td>
<td>Married</td>
<td>70.4</td>
</tr>
<tr>
<td>Education</td>
<td>Degree and above</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>STPM/HSC</td>
<td>9.6</td>
</tr>
<tr>
<td></td>
<td>SPM/MCE</td>
<td>65.1</td>
</tr>
<tr>
<td></td>
<td>PMR/SRP/LCE</td>
<td>2.5</td>
</tr>
<tr>
<td>Work Group</td>
<td>Medical officers</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>Administration staff</td>
<td>19.7</td>
</tr>
<tr>
<td></td>
<td>Allied health science staff</td>
<td>78.5</td>
</tr>
<tr>
<td>Length of Service</td>
<td>&lt; 5 years</td>
<td>22.0</td>
</tr>
<tr>
<td></td>
<td>6 to 10 years</td>
<td>29.6</td>
</tr>
<tr>
<td></td>
<td>11 to 15 years</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>16 to 21 years</td>
<td>20.3</td>
</tr>
<tr>
<td></td>
<td>&gt; 22 years</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Note: SPM/MCE : Sijil Pelajaran Malaysia/ Malaysia Certificate of Education
STPM/HSC : Sijil Tinggi Pelajaran Malaysia/ Higher School Certificate
PMR/SRP/LCE : Penilaian Menengah Rendah/Sijil Rendah Pelajaran/Lower School Certificate
Analysis of the constructs

Table 4 displays the variance inflation factor and descriptive statistics results. The Mean values for the constructs range from 5.8038 to 6.0051, showing that most of the participants view that the levels of managers’ communication, motivation to learn, and training application range from high (4) to highest level (7). Whereas, the variance inflation factors’ values for the relationship between the independent variable (i.e., managers’ communication) and the intervening variable (i.e., motivation to learn), and between the mediating variable (i.e., motivation to learn) and the dependent variable (i.e., training application) are lower than 5.0, revealing that the data have no critical collinearity issues (Hair et al., 2017).

Outcomes of Testing Hypotheses 1 and 2

Table 5 shows that the inclusion of managers’ communication in the analysis has contributed 37 percent in the variance of motivation to learn, and 41 percent in the variance of training application. Both results provide moderate support for the model (Hair et al., 2017; Henseler et al., 2009). Moreover, the findings of testing the research hypotheses display two essential results: first, managers’ communication is significantly correlated with motivation to learn (B=0.605; t=13.933; p=0.000),
therefore \( H_1 \) is supported. Second, managers’ communication is significantly correlated with training application (\( B=0.641; t=18.524; p=0.000 \)); thus \( H_2 \) is supported. The results confirm that managers’ communication and motivation to learn are important antecedents of motivation to learn and training application.

As an extra test, effect size (\( f^2 \)), and predictive relevance (\( Q^2 \)) have been further tested using the Bootstrapping and Blindfolding procedure, respectively. The results of Bootstrapping show two important outcomes: first, the \( f^2 \) value for the relationship between managers’ communication and motivation to learn (0.577) is higher than 0.35 (Hair et al., 2017), revealing that it has large effect. Second, the value of \( f^2 \) for the relationship between managers’ communication and training application (0.696) is higher than 0.35 (Hair et al., 2017), revealing that it has large effect. Further, the findings of Blindfolding illustrate two important outcomes: first, the \( Q^2 \) value for motivation to learn (0.258.) is greater than zero (Hair et al., 2017), revealing that it has predictive relevance. Second, the \( Q^2 \) value for training application (0.283) is greater than zero (Hair et al., 2017), showing that it has predictive relevance.

**Results of Examining Hypothesis 3**

Table 6 shows that the inclusion of motivation to learn in the analysis has contributed 48% to the variance of training application which provides moderate support for the model (Hair et al., 2017; Henseler et al., 2009). As a result, motivation to learn is significantly correlated with training application (\( B=0.762; t=16.751; p=0.000 \)); thus, \( H_3 \) is supported. This confirms that motivation to learn is an essential antecedent of training application.

As an extra test, effect size (\( f^2 \)), and predictive relevance (\( Q^2 \)) are further tested using the Bootstrapping and Blindfolding procedure, respectively. The results of Bootstrapping show that the \( f^2 \) value for the relationship between motivation to learn and training application (0.911) is more than 0.35 (Hair et al., 2017), revealing a large effect. Further, the findings of Blindfolding show that the value of \( Q^2 \) for training application (0.330) is higher than zero (Hair et al., 2017), revealing that it has predictive relevance.

**Results of Examining Hypothesis 4**

Table 7 displays that the inclusion of managers’ communication and motivation to learn has shown a 48% in the variance of training application which indicates moderate effect.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta</th>
<th>T Value</th>
<th>P Value</th>
<th>Decision</th>
<th>( R^2 )</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>( H_1 ): Relationship between managers’ communication and motivation to learn</td>
<td>0.605</td>
<td>13.933</td>
<td>0.000</td>
<td>Supported</td>
<td>0.366</td>
<td>Moderate effect</td>
</tr>
<tr>
<td>( H_2 ): Relationship between managers’ communication and training application</td>
<td>0.641</td>
<td>18.524</td>
<td>0.000</td>
<td>Supported</td>
<td>0.410</td>
<td>Moderate effect</td>
</tr>
</tbody>
</table>

**Note:** Significant at * \( t > 1.65 \) (One Tail Testing)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta</th>
<th>T Value</th>
<th>P Value</th>
<th>Decision</th>
<th>( R^2 )</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>( H_3 ): Relationship between motivation to learn and training application</td>
<td>0.762</td>
<td>16.751</td>
<td>0.000</td>
<td>Supported</td>
<td>0.477</td>
<td>Moderate effect</td>
</tr>
</tbody>
</table>

**Note:** Significant at * \( t > 1.65 \) (One Tail Testing)
erate support for the model (Hair et al., 2017; Henseler et al., 2009). Further, the results of testing the research hypotheses show that relationship between managers’ communication and motivation to learn is significantly correlated with training application (B=0.762; t=16.751; p=0.000), therefore, H4 is supported. This result confirms that motivation to learn is an essential intervening variable in the relationship between managers’ communication and training application.

As an extra test, effect size ($f^2$), predictive relevance ($Q^2$) and type of mediating effect are further tested using the Bootstrapping and Blindfolding procedure, respectively. The results of Bootstrapping show two essential outcomes: the value of $f^2$ for the relationship between managers’ communication and motivation to learn (0.573) is higher than 0.35 revealing that it has a large effect (Hair et al., 2017). Next, the value of $f^2$ for the relationship between motivation to learn and training application (0.914) is higher than 0.35 revealing that it has a large effect (Hair et al., 2017). Third, the findings of testing the hypotheses show that a direct path from managers’ communication to motivation to learn and training application is significantly correlated, and an indirect path from managers’ communication to training application through motivation to learn is also significantly correlated. These results indicate that the type of mediation effect is competitive mediation type. Further, the results of Blindfolding show two important findings: first, the value of $Q^2$ for motivation to learn (0.258) is higher than zero revealing that it has predictive relevance (Hair et al., 2017). Second, the $Q^2$ value for training application (0.330) is higher than zero (Hair et al., 2017), showing that it has predictive relevance.

**DISCUSSIONS AND IMPLICATIONS**

Findings from this research show that motivation to learn is an essential intervening variable in the relationship between managers’ communication and training application. Within the setting of this research, managers took proactive actions to properly design and execute training courses founded upon the wide policies put forth by their stakeholders. The majority of the participants view that the levels of managers’ communication, motivation to learn and training application are high. This illustrates that the ability of managers to appropriately communicate the information about training courses will encourage employees’ motivation to learn, which in turn, it may result in more training application in organizations.

This research offers three key contributions: theoretical implication, strength of research method, and practical input. In terms of theoretical input, this research proves that relationship between managers’ communication and motivation to learn has enhanced training application. This findings is in par with the concept of Naquin and Holton’s (2002) Motivation to Improve Work through Learning Model, which shows that the capability of managers to appropriately deliver information

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Beta</th>
<th>T Value</th>
<th>P Value</th>
<th>Decision</th>
<th>R²</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>$H_4$: Relationship between managers’ communication, motivation to learn and training application</td>
<td>0.762</td>
<td>16.751</td>
<td>0.000</td>
<td>Supported</td>
<td>0.478</td>
<td>Moderate support</td>
</tr>
</tbody>
</table>

Table 7
Results of Testing Hypothesis 4

Note: Significant at * $t > 1.96$ (Two Tail Testing)
about training courses through appropriate verbal communication (e.g., through telephone calls, face to face communication, video conferencing and voice chat), and non-verbal communication (e.g., body language, facial expression, tone of voice, eye contact and touch) will strongly invoke employees’ motivation to learn new competencies (i.e., new knowledge, latest skills, up to date cognitive and affective capabilities, positive attitudes and other abilities) in the training courses. As such, this learning activity may result in greater training application in organizations. Results of this research support and broaden studies that have been carried out by Azman et al. (2015b), Ng (2015) and Park et al. (2018).

Conversely, several past studies reveal that effect of managers’ communication is dependent upon the types of training assignment, namely mandatory assignment and voluntary assignment (Chaloner, 2006; Machin & Treloar, 2004; Noor Azmi, Ahmad Bashawir, Azman, Safar, Muhammad & Mohd Hasanur, 2016). For example, results from studies by Machin and Treloar (2004), Chaloner (2006), and Noor Azmi et al., 2016) advocate that the ability of managers to openly and clearly explain the purpose, types of training and consequences of mandatory training assignment will help employees to better understand the benefits and advantages of attending the training programs, as well as negative consequences of not attending the training programs. This information may strongly invoke employees’ motivation to attend, learn, involve and commit with training programs. On the other hand, the readiness of managers to openly and clearly explain about the purposes, types of training and positive or negative consequences of voluntarily training assignment will help employees to understand the benefits and advantages of attending the training programs. Hence, the training information is crucial to assist employees in understanding the usefulness of training programs in their careers.

With respect to the strength of research method, the questionnaires utilized in this research have met the criteria of reliability and validity standards, thereby producing precise and accurate findings. With regards to practical input, the results of this research may be of use to practitioners as guides to enhance the management of training courses in various organizations. Nonetheless, managers need to emphasize on the following aspects in order to meet this goal. First, training methods and content should be updated as per the nature of technology-based jobs and its expectations. This will help employees with differing age and status to learn and practice new competencies (i.e., required knowledge, latest skills, newest cognitive and affective capabilities, positive attitudes and other present abilities), thereby supporting their organizational strategies and goals. Secondly, recruitment and selection policy need to be oriented to hiring employees having good academic qualifications, good previous service records and proactive behavior to fulfil critical and important positions. Such employees may play important roles as mentors, coaches and/or counselors for new employees in overcoming daily job problems, improving current performance, fulfilling customer demands and expectations and upgrading organizational images in a global economy. Third, performance-based reward should be introduced to encourage employees confidently using new competencies gained from training programs to enhance their job performance, invent
new products or services, reduce operational costs and save organizational expenditures. Finally, the nature of leadership styles in military organizations has a vast difference when compared to private and other public organizations. As an organization that is hierarchical in structure and communications are based on ranks and positions, directive and transactional leadership styles are widely practiced in daily job operations. Although this leadership approach may bring positive impacts, it is not adequate to motivate diverse employees’ ranks and positions to achieve their organizations’ strategic vision and missions. In order to complement with the existing leadership approach, top management of the military organizations should promote employee-oriented leadership. This leadership paradigm may inspire managers and employees to use more consultative and participative styles in daily job operations. In practice, a consultative and participative management style promotes good oral and verbal speeches, positive emotion, empathy, responsive, interaction and negotiates with different people. This relationship practice may motivate employees, hence reducing job failures, enhancing job performances and achieving job targets. These suggestions, if prioritized can encourage employees to support their organizations’ training goals.

CONCLUSION

The outcomes of this study illustrate that the ability of managers to appropriately communicate the training courses information will encourage employees’ motivation to learn new competencies (i.e., new knowledge, latest skills, up to date cognitive and affective capabilities, positive attitudes and other new abilities) in the training courses. Subsequently, the learning motivation may strongly encourage employees to apply such competencies when they return to their organizations. The results from this study have also support and extend the various training management research literatures published in Asian and Western countries. Therefore, present research and practice within organizational training need to incorporate managers’ communication as a crucial element of the training management domain. This study further recommends that the ability of managers to openly, adequately, honestly and accurately communicate the information about training programs via traditional and information technology media will intensely bring about succeeding positive individual attitudes and behavior (e.g., satisfaction, performance, commitment and quality). Consequently, these positive findings may result in maintaining and enhancing the organizational competitiveness and performance in the 21st century.

The conclusion of this study should be taken carefully with some methodological and conceptual limitations: first, this study used a cross-sectional research design to collect survey questionnaire data at one time during the period of the present research, and information gathered may only describe general respondent perceptions about the relationship between the variables of interest in one organizational sector. Second, this study has not evaluated the relationship between specific characteristics for the independent variable, intervening variable, and dependent variable. Finally, purposive sampling technique was used to select the sample which may result in response biases. These limitations may prevent the researches in generalizing the
outcomes of this study to other types of organizations.

This research provides few recommendations for future research: firstly, researchers may further explore several other respondent characteristics in which may show significant outlooks for appreciating how the diversity of respondents’ characteristics affects the organizational training. Second, data collection via longitudinal research design should be considered because it is capable of clarifying the patterns of change and the path and degree of causal relationships among the variables of interest. Thirdly, effect size and nature of managers’ communication as an intervening variable can be clearly understood if future studies make comparisons involving more than one organizational type. Fourth, other dimension of managers’ communication, such as interpersonal communication, information justice, feedback, information sharing, and information technology media have been widely appreciated as an important determinant for various types of employee outcomes, such as satisfaction, performance and prosocial behavior. These variables should be used in future study (Anand, Vidyarthi & Rolnicki, 2018; Hassan & McCann, 2015; Raley, Meenakshi, Dent, Willis & Duzinski, 2017). Fifth, other specific theoretical constructs of motivation to learn such as learner’s sense of self, interest, locus of control, individual effort, orientation of goals, self-regulation, self-efficacy and self-esteem have been broadly identified as an essential link between managers’ communication and various types of employee outcomes. These variables should be considered in future research (Harlen & Deakin Crick, 2002; Kong, Liu & Wang, 2018; Muho & Kurani, 2013; García-Carbonell, Fernando Martín-Alcázar & Sánchez-Gardey, 2016). Sixth, in order to enhance the representativeness of studied population, a larger sample size must be gathered to accurately reflect the member of the entire population. Finally, other features of training application such as near transfer, far transfer, generalization and maintenance should be focused more because their roles are regularly deliberated in many training management researches (Iqbal & Dastgeer, 2017; Muduli & Raval, 2018). The significance of these variables needs to be further explored in future research.

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Knowledge Inertia in the Innovation of Coffee Production

Hafiz Rahman* and Hanjaya Putra Siswowiyanto
Department of Management, Faculty of Economics, Universitas Andalas
Padang, Indonesia

Abstract
Research Aims - This paper aims at discussing the existence of knowledge inertia and its influence to the product innovation, with particular analysis given to the coffee production during the pre-harvest and post-harvest periods.

Design/methodology/approach - The study uses quantitative methodology, and operates multiple and partial regression analysis between variables of the study to measure the impact of knowledge inertia to the innovation of coffee production. To put the findings in detail, the study separates the innovation of coffee product in two sequences, named [a] pre-harvest period and, [b] post-harvest period. Data and information were collected based on cross-sectional cohort data. Samples were 125 members of one coffee cooperative in West Sumatra, Indonesia.

Research Findings - It is found in the study that during the pre-harvest period, learning inertia and procedural inertia brought no significant influence to the innovation of coffee production whilst experience inertia significantly influences the innovation of coffee production during this period. In the post-harvest period, learning inertia significantly influences the innovation of coffee production. Meanwhile, procedural inertia and experience inertia have no significant influence to the innovation of coffee product during the post-harvest period of coffee production.

Theoretical Contribution/Originality - The originality and value of this study lie to its design and findings which focuses on the dimension of knowledge inertia in detail, in which a specific product with the sequence of its production was used as the focus.

Managerial Implication in the South East Asian context - Findings and discussion of this study contribute to the direction of how the management can be structured to respond to the challenge that is related to the willingness to acquire knowledge for innovation in a bigger degree depends on the willingness of people to acquire new knowledges. Therefore, the management field should be able to deliver a new method and a new insight about how to increase the willingness of people to learn and to get new experience and knowledge as the major basis for innovation.

Research limitation & implications - This study only discussed one particular context (a cooperative in West Sumatra, Indonesia), so it would be worth to expand the topics into a more broaden context which involves more samples, broader spatial coverage and more commodities. This will give us more understanding and generalization regarding the topic of this study.

Keywords - Knowledge inertia, innovation, pre- and post-harvest periods, cooperative.

Introduction

West Sumatra Province currently promotes and encourages coffee cultivation and production as one of its major commodities. This can be seen by the massive efforts to cultivate coffee plantation and the fact that the export volume of coffee is always increasing year by year. A blend of traditional and modern coffee production can be found in many places in West Sumatra, which are famous as the center of coffee production such as in the regions of Solok, Solok Selatan, Pasaman, Agam, Lima Puluh Kota, and Tanah Datar. According to the West Sumatran Office of Statistics, *The corresponding author can be contacted at: hafiz.rahman@fekon.unand.ac.id*
West Sumatra has 42,023 Hectares of coffee plantation in 2015 – and it is averagely producing more than 15,000 tons of coffee beans per year. During 2012-2016, West Sumatra contributed around 9.27% from the total of Indonesian national coffee production. (Secretariat General of Indonesian Ministry of Agriculture, 2016). The fact that coffee production as one of main commodities for West Sumatra demands continuous improvement in its production processes in order to produce high quality coffee as the major source of the competitive advantage. Producing high quality coffee product requires specific production processes, starting from the cultivation to the ready to consume product, in which each production phase should consider certain rules and procedures. Coffee, with its specific nature and demands from customers, requires continuous developments during its production phases. This can be done by undertaking innovation in order to generate the most effective and efficient ways during each of the production phase. It is why farmers and coffee producers need to possess specific knowledge in coffee production.

Dynamic business environment has created a shorter product and business life cycle. A company is pushed to keep innovate and to be more creative in order to maintain their business. As Prajogo and Ahmed (2006), explained, innovation is the main key in the competitive advantage of a company. A collaboration between innovation and the ability to think and to manage is a main key to that can distinguish a company with another and a factor that can improve performance of a company (Ndubisi, 2014).

It is admitted and agreed that knowledge is a strong and fundamental basis that is required by companies to undertake innovation (see studies of Nawab et al., 2015; Kalotra, 2014; Krstić & Petrović, 2012). Similarly, Akram et al. (2011) mentioned that the part of innovation process is related to how knowledge is acquired, adopted, and shared with the aim to create other various new knowledge which can improve products/services of companies. In other occasion and in a more recent study, Urbancova (2013) mentioned that knowledge together with innovation will create competitive advantage that can be used by companies to win the competition and to win new/potential customers.

Based on the study by Valdez-Juárez et al., (2016), small and medium scale companies use knowledge as the basis to create the organizational learning, which can, at the end, improve and enable innovation process done in the companies. Studies and research from Edvardsson and Durst, (2013); López-Nicolás and Meroño-Cerdán, (2011); as well as Madrid-Guijarro, et al., (2009) have clearly demonstrated that the existence of knowledge in SMEs can assist them to develop their employees professionally, to improve innovation processes, to increase the number of sales and to achieve customers’ satisfaction – and those will further help them to achieve organizational success. Many evidences have proven that in every type of product, status of the company and in every region, knowledge has become the main condition that leads to the success of innovation and production process and can be used as the source of competitive advantage (see the studies of Nawab et al., 2015; Morgan & Berthon, 2008). In the context of developing countries, specifically, the
existence and absorption of knowledge by employees that leads to the improvement of productivity by the companies has brought an impact in terms of the creation of country competitiveness (Krstić & Stanišić, 2013). However, there is also facts that due to their nature, SMEs are not sufficiently widespread knowledge in their operation. This is mainly due to the lack of strategic planning, lack of financial resources, an objection to change culture of the company, longer term uncertainty regarding benefits, and immature technology – in which those are the typical circumstances that should be faced by SMEs (Edvardsson & Durst, 2013). SMEs are aware that they need knowledge in innovation, but unfortunately most of them cannot afford to do it due to their own circumstances. Therefore, the interface and causal relationship between knowledge and innovation would be an interesting topic to be discussed and further, to be developed.

An interesting question is then related to how the level and perception of knowledge acquired by members of cooperative can affect innovation in production processes? Using contextual framework of a cooperative in coffee production in Indonesia, the specific topic of knowledge inertia and its impact to innovation in production processes, this study aims to elaborate the above-mentioned question and reveal it in the findings and results of this paper.

LITERATURE REVIEW

We use the definition and our understanding regarding knowledge inertia as mentioned by Liao et al., (2008) and further, Wang and Yang (2013) who defined knowledge inertia as a routine problem solving mechanism by an individual who prefers to use intuition, continuous perception regarding problems and previous experiences as the basis to solve problems, without any efforts to add sources of knowledge as an additional source to solve particular problems. This means that an individual continuously gets used to solve problems or to deal with something that occurred many times with the same methods. As a result, he/she can summarize the similar thing, explain and share it with the logical reason to others, in order to reduce times to think and to avoid the risk of changes.

In the context of this study, this situation can clearly be seen starting from the initial coffee production phase or preparation of coffee cultivation until the final production phase. Since the majority of farmers can be categorized as traditional farmers, they tend to rely on their belief and perception regarding the traditional ways of production. Using traditional ways during coffee production decrease their intention to learn and to know new things, and as a result there is an increasing tendency among the farmers to refuse the application and absorption of new knowledges in coffee production.

Consequently, the farmers cannot control the quality and quantity of coffee they have produced. Many speculations arise from this situation, but unfortunately the farmers still cannot find the solution. Apart from this situation, the farmers also have to face a circumstance in which they cannot sell their coffee in a standardized price.
According to Cavut et al., (2014), every individual and organization will experience the high level of problem solution as a result of knowledge got from the past and its adjustment to the new situation. People will use their memories that are related to their past experience and past knowledge as a guidance to produce new plans to solve problems. Thus, people view that using the past knowledge to solve new problems will principally produce the same results and outcomes as the previous one. Liao et al., (2008) use the term “implementing a constant method to solve new problems” to simplify the explanation about this. It is believed that human cognition will keep their view and principles about something until they find other circumstances that can influence their understanding. The tendency of human being for using their past knowledge and experience in problem solving which were based on the reasons of time efficiency, limited resources and to avoid risks is further understood the main reason of the existence of knowledge inertia.

Therefore, there is a danger if knowledge inertia exists in a competitive environment because every business policy and act can be predicted by competitors (Liao et al, 2008). Further, it can also hinder the implementation of knowledge in management and can resist organisation to learn and to solve problems. It is viewed by Aqeela and Victor (2017) that the stagnant knowledge which is sourced from the previous/past experience will create the same solution for all problems and this is a dangerous circumstance for organisation to get developed. Besides, inertia will decrease the ability to learn and can reduce the creative thinking of individuals which will at the end, hinders the abilities to innovate and to solve problems (Shalikar, Lahoutpour & Abdul Rahman, 2011; Liao, et al., 2008). Thus, companies should find ways to strengthen the development of knowledge inside them and should put more attention into the development of organisation and innovation within individuals in the organisation.

According to Liao et al., (2008) knowledge inertia has three dimensions, which is [a] learning inertia, [b] experience inertia, and [c] procedural inertia. Learning inertia can be defined as an unwillingness of individuals to learn new ideas and approaches to solve problems which should be faced in the new situation, Liao et al., (2008). In learning inertia, individuals tend to learn and to captivate knowledge only from the same sources – which are their past knowledge, which is then used to solve the current problems. This implies that individual tend to think that they have had sufficient knowledge and experience to solve every problem that they face so that in their opinion, they do not need to add more knowledge and to learn something new (Shalikar, et al., 2011).

In relation with innovation, Xie et al., (2015) argued that learning inertia positively and significantly influences product innovation. This becomes our basis and foundation to formulate the first hypotheses of this study, which is:

\[ H1: \] Learning inertia significantly influences innovation during the pre- and post-harvest production phases in the coffee production at the context of study.

The second dimension of knowledge inertia is experience inertia. It can be defined
as efforts to switch to the new structures of knowledge, experience and new sources of knowledge to handle situations which never exist. In experience inertia, it is viewed that experiences are one of the main learning resources (around 70%) and they come from reactions to the different situations and circumstances that should be faced daily (Liao et al., 2008). Experience inertia arises when individuals tend to use knowledge and experience that they owned to solve problems (Liao et al., 2008; Xie et al., 2015). According to Casillas et al., (2015), employees who have more knowledge getting from experience inertia will continuously search for new source of knowledge, try new technology and find a new innovative way which will improve innovation in the companies. Therefore, as Liao et al., (2008) and Xie et al., (2015), experience inertia will positively influence product innovation in a company. This overview is used as the basis to formulate the second hypotheses in this study, which is:

**H2**: Experience inertia significantly influences innovation during the pre- and post-harvest production phases in the coffee production at the context of study.

The third dimension in knowledge inertia is procedural inertia. Procedural inertia is meant as normal and standard procedures stated by organisations or individuals in the hope that every activity can run smoothly and can reach its objective. However, not all procedures can fit with all situations and circumstances arose within an organisation or individual. As a consequence, difficulties often occurred when a procedure cannot handle a current and a new problem (Xie et al., 2015). The use of a standard daily procedure to face new problems can be simply defined as procedural inertia. It was found by Xie et al., (2015) that the stronger the procedural inertia is, then the more likely for members of a company to look at the past to face the current problems. Shortly, knowledge inertia is viewed as having negative influence to product innovation. This finding of the study is further used to state the third hypotheses in this study, which is:

**H3**: Procedural inertia significantly influences innovation during the pre- and post-harvest production phases in the coffee production at the context of study

Based on the partial exposition regarding the relationship of learning inertia, experience inertia and procedural inertia to product innovation, we further state and formulate the simultaneous hypotheses for all variables of the study which is:

**H4**: Knowledge inertia significantly influences innovation of coffee production during pre- and post-harvest periods in the context of study

**RESEARCH METHOD**

The study uses quantitative methodology with explanatory approach and operates regression analysis to measure the impact of knowledge inertia to the innovation of coffee production. To put findings of the study in detail, we separated the analysis of the sequence of coffee production in two phases, named [a] pre-harvest period and, [b] post-harvest period. Table 1 shows how we put sequences of the coffee production as the consideration in our research design.
Instead of one phase only, the study separates the sequence of coffee production into two phases (pre- and post-harvest periods) in order to specify the analysis and discussion. If we look at the sequence of activities during coffee production, it consists of many activities which are related one to each other. However, we should not consider all of activities in the same category because every activity has its own particular nature of work. Considering this, we put our attention to separate the activities of coffee production into two phases, which are based on the flow of work during the production.

Types of variable in this study are independent (learning inertia, experience inertia and procedural inertia) and dependent variable which is product innovation. We further specify each variable into its dimension and indicators in order to develop guidance for our questionnaire. This is undertaken by arranging one particular table to show the operational definition of variables, which is shown in the table 2.

Based on our hypotheses and identification of independent and dependent variables in this study, we further arrange the research framework of this study, as shown in Figure 1.

Data and information were collected in each of the pre- and post-harvest period of coffee production to the unit analysis of the research which is coffee farmers and entrepreneurs of a coffee cooperative in West Sumatra-Indonesia. The study uses

---

### Table 1. Summary of the Research Design

<table>
<thead>
<tr>
<th>No</th>
<th>Design of the research</th>
<th>Sequences/Periods</th>
<th>Post-Harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Method &amp; Approach</td>
<td>Pre-Harvest</td>
<td>Post-Harvest</td>
</tr>
<tr>
<td>2</td>
<td>Type of Investigation</td>
<td>Explanatory, between the following</td>
<td>Explanatory, between the following</td>
</tr>
<tr>
<td></td>
<td></td>
<td>variables:</td>
<td>variables:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>pre-harvest = Product Innovation</td>
<td>post-harvest = Product Innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>pre-harvest = Product Innovation</td>
<td>post-harvest = Product Innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>pre-harvest = Product Innovation</td>
<td>post-harvest = Product Innovation</td>
</tr>
<tr>
<td>3</td>
<td>Data collection</td>
<td>Cross Sectional Cohort Data</td>
<td>Cross Sectional Cohort Data</td>
</tr>
<tr>
<td>4</td>
<td>Activities in the</td>
<td>1. The selection of seeds</td>
<td>1. Coffee sorting</td>
</tr>
<tr>
<td></td>
<td>sequences</td>
<td>2. Seeds planting</td>
<td>2. Pulping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Seeds and plants maintaining</td>
<td>3. Fermenting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a. Fertilizing</td>
<td>4. Washing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b. Pruning/trimming</td>
<td>5. Drying</td>
</tr>
<tr>
<td></td>
<td></td>
<td>c. Handling of pests &amp; diseases</td>
<td>6. Hulling the coffee beans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Harvesting</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ own conception

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**Figure 1.** Research Framework
questionnaire as the research instrument. Samples are 125 members of the cooperative – out of total 300 members. Non-probability sampling method with purposive sampling technique is used to determine samples of the study.

Research instrument was tested by using: [a] validity test, and [b] reliability test (using Cronbach’s Alpha). Classical assumption is tested by using [a] normality test by using Kolmogorov-Smirnov [K-S] test, [b] multicolinearity test by considering the Tolerance Value and Value Inflation Factor (VIF), and [c] heterocedasticity test by using Spearman’s Rho coefficient and Scatterplot graphics. Meanwhile, hypotheses testing was undertaken by using [a] partial regression analysis (T-test) and, [b] multiple regression analysis (F-test).

RESULT AND DISCUSSION

Our first task for this study is to show and prove that our samples have filled up the sample criteria that has been previously set up. The sample is 125 respondents and their profiles are described in the cross-tabulation as in Tables 3 to 5.

Based on table 3, our sample is dominated by male respondents (68 people). Number of female respondents who are in the age of 36-45 years old (19 people) is found to dominate our sample based on gender and age. Considering of our samples’ gender and their last education, we have found that our sample is dominated by male respondents who previously had senior high school education background as their last education.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Concept of Variable</th>
<th>Dimension</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge Inertia (X)</td>
<td>Knowledge inertia a routine problem solving mechanism by an individual who prefers to use intuition, continuous perception regarding problems and previous experiences as the basis to solve problems, without any efforts to add sources of knowledge as an additional source to solve particular problems.(Liao, 2002)</td>
<td>1. Learning inertia (X1)</td>
<td>• Similar knowledge resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Experience inertia (X2)</td>
<td>• Learning to the new concept and processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Procedural inertia (X3)</td>
<td>• Afraid of the new concept and ideas</td>
</tr>
<tr>
<td>Product Innovation (Y)</td>
<td>Product innovation can be seen by the ability and acapability of a company to develop new product with the best quality which can soon penetrate the market (Zhang and Li, 2010)</td>
<td>1. Product Development</td>
<td>• Knowledge and experience in solving new problems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Market Penetration</td>
<td>• Experience in tasks and duties</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Learning from experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Improving work efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Strategy of problem solving</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Operational procedures.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Company rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Problem solving</td>
</tr>
</tbody>
</table>

Table 2. Operational Definition of Research Variables

<table>
<thead>
<tr>
<th>Crosstabulation of Gender and Ages</th>
<th>Age Range</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤25</td>
<td>26 - 35</td>
</tr>
<tr>
<td>Gender Male</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Female</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>31</td>
</tr>
</tbody>
</table>

Table 3. Sample Profiles based on Gender and Age

Source: Primary data processing
If we relate this finding to the context of study, we view it as a reasonable thing. Since the majority of coffee production phases are more related to physical activities, then the involvement of male in each activity will be more recognized. Although it is debatable, but we view that the male respondents are more reliable to do the physical activities. In terms of culture, male in West Sumatra is also always responsible for every physical related activity. Therefore, in this context of the study we can understand why the composition of our sample is dominated by male respondents.

Our sample profiles based on gender and their last education is shown in Table 4.

Meanwhile, based on the age and last education – our samples are dominated by people who are in the age of 36 – 45 years old and are having senior high school background as their last education (46 people). As we know, activities that were undertaken in the coffee production is relatively complex rather than other business activities, for example, trading. Even though the production processes are considerably simple, but knowledge in the production is still required during the process. Considering this, we can also understand the involvement and domination of male with a mid-level of education as our sample.

In detail, our sample profiles based on the age and their last education background is shown in Table 5.

If we break down table 5, we can see that numbers of our respondent have proven our analysis regarding the involvement of young male (age 36-45 years) with mid-level of education (senior high school) as the majority of the sample.

4.1. Research Instrument Test

Our next task to analyse the data was testing our research instrument. For this pur-
pose, we undertook two tests, which is: [a] validity test, and [b] reliability test. Each of the test is described as follow.

4.1.1. Validity Test

We use validity test to measure the validity of our questionnaire. This was done by finding the value of corrected item-total correlation. As a rule, if the value of corrected item-total correlation is bigger than 0.3 then it means the question is valid. Results of validity analysis to all questions in the questionnaire shows the coefficients ranging from 0.487 to 0.772 (in pre-harvest period) and 0.473 to 0.783 (in post-harvest period). Following the interpretation of validity test to our research instrument we conclude that all questions in the questionnaire, either for pre-harvest or for post-harvest periods, all questions in the questionnaire that are related to the variables of learning inertia, experience inertia, procedural inertia and product innovation are valid.

We believe that there is the contribution of the sample profile to the validity of our questionnaire. As we exposed in Table 5, the majority of our sample is male with a mid-education level. We believe that people in mid-education level can at least understand what they should do when answering questions from the questionnaire, especially if the questions are directly related to activities that they have done. This is enough for us to summarize that our samples can understand every question that needs to be answered during the survey.

4.1.2. Reliability Test

Reliability test is used to measure whether the research instrument used in the research is reliable or not. A reliable question means that the question could be used to measure the same object in several times and it predictably would extract the same output. Reliability test to all items in the research instrument usually uses the value of Cronbach’s alpha as the coefficient. A construct is reliable if its value is more than 0.60 (>0.60). From our analysis and finding, we can conclude that all questions in our research instrument are valid – as the smallest value is 0.616.

4.2. Classical Assumption Test

In classical assumption test, we undertook three types of measurement, which are [a] normality test, [b] multicolinearity test and [c] heterocedasticity test. We undertook those tests before testing our hypotheses in order to get the correct summary/conclusion regarding the analysis. Each of the classical assumption test in this study is described as the following.

4.2.1. Normality Test

Normality test is used to measure whether residual regression model has normal distribution or not. To search this, we first use the P-P Plot table – where the results are shown in figure 1.
Our normality test using the P-P Plot table to both of the research sequences as in figure 1 shows that the data is spreaded around the diagonal line and spreads along its histogram graphics. This means that our data in both sequences has a normal distribution pattern. We then use Kolmogorov-Smirnov (K-S) test to prove this – and the results for both sequences show the following.

From Table 6 we can see and conclude that our data in both sequences has distributed normally because the values (for pre and post-harvest periods) for Asymp. Sig (2-tailed) are bigger that 0.05. In detail, the values are: [a] 0.946 for pre-harvest period and [b] 0.981 for post-harvest period.

4.2.2. Multicolinearity Test
Multicolinearity test is aimed to measure whether there is a correlation between independent variables in the regression model. A regression model should not have any correlation between its independent variables – and the model is free from multicolinearity if the value of its Variance Inflation Factor / VIF is less than 10 with the tolerance of more than 0.1 (Ghozali, 2009). According to the result of multicolinearity test of our study, the independent variables (learning inertia, experience inertia and procedural inertia) in both pre- and post-harvest periods have no correlation one to each other. A complete and detail result of this multicolinearity test is shown in table 7.

![Figure 2. Results of Normality Test during Pre and Post-Harvest Periods using the P-P Plot](image)

![Table 6.](table)

<table>
<thead>
<tr>
<th>Pre-Harvest Period</th>
<th>Post-Harvest Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstandardized Residual</td>
<td>Unstandardized Residual</td>
</tr>
<tr>
<td>N</td>
<td>125</td>
</tr>
<tr>
<td>Mean</td>
<td>0.000000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>2.55709584</td>
</tr>
<tr>
<td>Absolute</td>
<td>0.047</td>
</tr>
<tr>
<td>Positive</td>
<td>0.026</td>
</tr>
<tr>
<td>Negative</td>
<td>-0.047</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>0.525</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.946</td>
</tr>
</tbody>
</table>

Source: Primary data processing
4.2.3. Heteroscedasticity Test

Heteroscedasticity test is used to detect whether there is a bias in the assumption of heteroscedasticity or not. Bias here means the inequality of variant and residual to all observation of the regression model. A regression model should have no sign of heteroscedasticity. To prove that our regression model has no sign of heteroscedasticity, we used [a] scatterplots and [b] Glejser test. Scatterplots and Glejser tests of our regression model for both pre- and post-harvest periods are shown in Figure 2 and Table 9.

Figure 2 shows that the dots in scatterplots for both sequences spread with an inconsistent pattern and they are mainly located below zero in Y-axis. We can summarize that there is no heteroscedasticity in the regression model for both sequences and they can be used to predict product innovation based on the independent variables (learning inertia, experience inertia, and procedural inertia). The next step to test the heteroscedasticity of our regression model is by using the Glejser test, in which the results can be seen in Table 8.

Table 8 suggests that based on the Glejser test, there is no heteroscedasticity found in both sequences of the study – as the values of Sig. for all independent variables for both sequences are bigger than 0.05.
HYPOTHESES TESTING

Hypotheses testing is our last task during the data analysis. To do this, we undertook three tests, which are [a] partial regression analysis/T-Test, and [b] multiple regression analysis/F-Test. Both tests are described below.

4.3.1. T-Test

T-Test is a test to measure the influence of one independent variable to the dependent variable. If the significant value is more than ≥0.05, then it means that there is no influence of independent variable to dependent variable. (Ugoni and Walker, 1995; Sugiyono, 2010). Meanwhile, if the significant value is ≤ 0.05 then it means there is an influence of independent variable to dependent variable. Results of T-test in our study are shown in the Table 9 and Table 10.

Table 9 shows us that in the variable of learning inertia, the value of T (-0.803) is smaller than the value of t-table (1.980) whilst the significant value (0.423) is bigger than 0.05. This means the learning inertia has no influence to the innovation of coffee production during the pre-harvest period. Finding related to the learning inertia in this study is reasonable because we view that coffee cultivation phase in the context of our study is a hereditary type of activities and business. It is why people who undertake coffee cultivation tend to rely on their hereditary knowledge rather than try to learn a new thing. They believe that their contextual, geographical and spatial knowledge which are related to coffee cultivation are the best knowledge that they have. Consequently, their awareness of learning a new thing for coffee production decreases and this has positively and significantly resulted to the creation of their learning inertia.

The variable of experience inertia has the T value of 7.337 which is bigger than the value of t-table (1.980) with the significant value (0.000) is smaller than 0.05. This further means that the experience inertia influences the innovation of coffee production during the pre-harvest period in the context of our study. As we previously

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>14.447</td>
<td>3.223</td>
<td>4.482</td>
<td>0.000</td>
</tr>
<tr>
<td>Learning Inertia</td>
<td>-0.068</td>
<td>0.085</td>
<td>-0.062</td>
<td>-0.803</td>
</tr>
<tr>
<td>Experience Inertia</td>
<td>0.550</td>
<td>0.075</td>
<td>-0.062</td>
<td>7.337</td>
</tr>
<tr>
<td>Procedural Inertia</td>
<td>-0.006</td>
<td>0.114</td>
<td>-0.062</td>
<td>-0.048</td>
</tr>
</tbody>
</table>

Table 9. T-Test for the Hypotheses in the Pre-Harvest Period

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>18.338</td>
<td>2.926</td>
<td>6.267</td>
<td>0.000</td>
</tr>
<tr>
<td>Learning Inertia</td>
<td>0.530</td>
<td>0.077</td>
<td>0.528</td>
<td>6.899</td>
</tr>
<tr>
<td>Experience Inertia</td>
<td>-0.130</td>
<td>0.074</td>
<td>-0.152</td>
<td>-1.764</td>
</tr>
<tr>
<td>Procedural Inertia</td>
<td>0.047</td>
<td>0.130</td>
<td>0.031</td>
<td>0.362</td>
</tr>
</tbody>
</table>

Table 10. T-Test for the Hypotheses in the Post-Harvest Period

Source: Primary data processing
mentioned, the majority of coffee cultivation phases in the context of our study are based on the experience – since the activities and the business are the hereditary processes. In this regard, we can understand why the willingness of our sample to rely on their experience in coffee production is one of the most influential things in the innovation of coffee production during this phase.

In the variable of procedural inertia, the T value (-0.048) is smaller rather than the value of t-table (1.980) whilst the significant value (0.962) is bigger than 0.05. We conclude that the procedural inertia has no influence to the innovation of coffee production during the pre-harvest period in the context of our study. In this case, we view that the willingness of our sample to follow some new procedures during the coffee cultivation will not influence innovation in coffee production processes. Our samples view that whether they follow new procedures in coffee cultivation or not, it will not bring significant impact to their efforts in cultivation. This is why the majority of our sample tend to follow old procedures in coffee cultivation rather than following new ones. They believe that the old procedures have been successfully proven and brought positive results in their efforts during cultivation process. Therefore, why should they have to consider, choose and follow a new procedure?

Meanwhile, the T-test for Post-Harvest period shows the values as shown in Table 10. This table summarizes that in the variable of learning inertia, the value of T (6.899) is bigger than the value of t-table (1.980) whilst the significant value (0.000) is smaller than 0.05. This means the learning inertia influences the innovation of coffee production during the post-harvest period. The variable of experience inertia has the T value of -1.764 which is smaller than the value of t-table (1.980) with the significant value (0.080) is bigger than 0.05. This further shows that the experience inertia has no influence to the innovation of coffee production during the post-harvest period in the context of our study. In the variable of procedural inertia, the T value (0.362) is smaller rather than the value of t-table (1.980) whilst the significance value (0.718) is bigger than 0.05. We conclude that the procedural inertia has no influence to the innovation of coffee production during the post-harvest period in the context of our study.

### 4.3.2. F-Test

F-test is usually recognized as the multiple regression test – and it is aimed to measure the simultaneous relationship between independent variables of the research to

**Table 11.** F-Test of the Regression Model for Pre-Harvest Period

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum. of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3</td>
<td>127.263</td>
<td>18.992</td>
<td>0.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>121</td>
<td>6.701</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>124</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 12.** F-Test of the Regression Model for Post-Harvest Period

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum. of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>3</td>
<td>102.165</td>
<td>16.999</td>
<td>0.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>121</td>
<td>6.010</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>124</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Product Innovation Post-Harvest  
b. Predictors: (Constant), Procedural, Experience, Learning Inertia Post-Harvest
the dependent variable. For this test, we used the ANOVA (Analysis of Variance) table by considering the significant value of < 0.05 or < 5% (Hair et al., 2001; Sawyer, 2009). F-test of our regression model for both sequences are shown in Tables 11 and 12.

The ANOVA Test for pre-harvest period as shown in table 11 shows that the value of F (18.992) is bigger that the value of F table (2.68) whilst its significant value (0.000) is smaller than 0.05. The study found that knowledge inertia has significantly influenced the innovation of coffee production during the pre-harvest period in the context of our study.

Meanwhile, the ANOVA test for the regression model in the post-harvest period is shown in Table 12. The table shows that the value of F (16.999) is bigger that the value of F table (2.68) whilst its significant value (0.000) is smaller than 0.05. The study found that knowledge inertia significantly influences the innovation of coffee production during the post-harvest period in the context of our study.

DISCUSSION

The major findings of our study show that knowledge inertia is closely associated with the willingness of people to accept new ideas, implement them, and to face the consequences from the implementation of that new ideas. This willingness is further articulated in their willingness to learn, to get benefits from a new experience, and to follow procedural related matters in the business operation. This willingness in a bigger to a lesser degree is also influenced by the profiles of people. Even though we did not test this in our study study, but we view gender, age and education level will significantly contribute to the willingness of individuals to learn something new.

Learning Inertia and Product Innovation in Pre-Harvest Period

One main finding of the study implies that learning inertia has brought no significant influence to product innovation during the pre-harvest period of coffee production. We summarized that our respondents have lack of initiatives and are unwilling to learn something new related to the activities during the pre-harvest period: [a] the selection of seeds, [b] seeds planting, [c] maintaining seeds and plants, [d] fertilizing, [e] pruning/trimming, [f] handling of pests & diseases and [g] harvesting. There is another possibility of why our finding shows that learning inertia has brought no significant influence to product innovation during the pre-harvest period of coffee production. We consider that our respondents are doubt, confuse, and even unsure from whom they can effectively learn about the standardized process of coffee cultivation during the pre-harvest period. Our respondents seem to believe that whatever the ways they planted and cultivated the coffee – it will result the same. This belief has brought perception in our respondent mind that they do not have to learn a new thing in planting and cultivating the coffee. As the result, the innovation process during this period cannot be maximized and there are many speculations and distractions arose from others. Our finding is relevant with the study from Sha-
likar et al., (2011) who argued that once individuals think and feel they can solve problems with their current knowledge, then there is a little tendency and need that they are willing to try, to find and to learn something new.

We also view that the profile of our samples/respondents more or less contributes to this situation. The most of our samples is only having senior high school education background and in the age of 36-45 years. This background is considered as having influence and contribute to the limited ability to learn new things by our samples – and the age profile which ranges from 36-45 can be said as an uncomfortable/unpleasant age range to learn new things. People whose age are 36-45 tend to prefer on stable situation – rather than a challenging one. This has made their willingness to learn tend to be lower than people whose age are, for example, below 30. As the result of this profile, the innovativeness of our sample is arguably lower and that has brought impact to their willingness to learn.

**Experience Inertia and Product Innovation in Pre-Harvest Period**

Related to experience inertia, finding of our study implies that it will significantly influence innovation in the production process of coffee production during the pre-harvest period. Respondents of the study believe that experience is one of the influential factors when they cultivated the coffee plantation. In this situation, respondents will consider external parties who can supply new experiences to cultivate the coffee plantation during the pre-harvest period. Every new experience will be considered as having significant contribution to their ability to innovate during this period. This finding is similar with the opinion from Liao et al., (2008) who previously argued that experience inertia will bring significant influence to the product innovation.

Again, if we relate this finding to the sample profile of this study – we further considered the education level of our respondents. We viewed that the lower the level of education of individuals, then the higher the reliance that they have to their previous experience in undertaking one activity. We can understand why this situation happens in our study, since the majority of our sample are considered as having low education background (senior high school education).

**Procedural Inertia and Product Innovation in Pre-Harvest Period**

Procedural inertia is mainly related to mind-set of individuals when they need to solve problems in the future. The finding of our study shows that procedural inertia within members of the cooperative has insignificantly influenced the innovation of coffee production during the pre-harvest period. This implies that samples of our study have a strong and firm mind-set that they will refer to their past experience when they need to face current and future problems. The strong and firm mind-set which are based from the past experience have made individuals tend to persist and stick with their past even though there are alternatives to solve problems that are sourced from new knowledge. Strong and firm mind-set will also impact to individuals. They will maintain every procedural thing from their past – and this will
hinder innovation.

Our study is relevant with the study from Xie et al., (2015) who mentioned that the stronger procedural inertia of individuals, then there is a tendency that they will look to the past in order to face the current and possible future problems. In the context of our study, this situation was confirmed by a member of the cooperative who said that one major problem that they need to face is related to the unwillingness of other members to implement new knowledge and education to cultivate the coffee. They rely on an old procedural thing when they cultivated the coffee since they belief (and it is in their mind-set) that it is the best one. When we observe how members of the cooperative undertake cultivation activities, there was a proof that they did that carelessly – without paying any attention to a newer and better cultivating procedure.

Learning Inertia and Product Innovation in Post-Harvest Period

During the post-harvest period, our study shows that learning inertia positively and significantly influences innovation in the production of coffee product. This means that the willingness and ability to learn from various resources during the post-harvest period of coffee production will influence the innovation process undertaken by our samples. This finding is relevant with the nature of works and tasks of our samples and the cooperative. The respondents believe that their main interest is only in the coffee cultivation – and the responsibility during the post-harvest period should be in the cooperative. They also believe that the high complexity during the post-harvest coffee processing cannot attract their interest to do so. This is the reason why our samples are unwilling to learn further and just rely on the cooperative to undertake the process.

Experience Inertia and Product Innovation in Post-Harvest Period

Looking at the experience inertia during the post-harvest period, we found that it does not influence the innovation of coffee production during this sequence. Our further analysis brings result that respondents of the study actually do not have any experiences in the coffee processing during the post-harvest period. We found that our respondents have minimum experience to process their coffee plantation after the harvesting time. Further information from the management of the cooperative says that the most of their members are just aware of how to cultivate the coffee and once the harvesting time comes, they just simply sale the coffee without any intention to process it further. Members of the cooperative prefer and intend to get money sooner after the harvesting time – rather than to keep the coffee first and to process it further. We believe that these situation and circumstance are typical for farmers in Indonesia. As there is is a limited chance to generate more money and to get other incomes, they prefer to get money from their commodity soon and unaware that some added processing stages would increase the value of their commodity. In the case of our respondents, processing of the coffee plantation was voluntarily given to the cooperative.
The F-test Results during Pre- and Post-Harvest Period

As it has been previously mentioned, F-test is used to measure the simultaneous influence of the dimensions of knowledge inertia to the product innovation. Our findings showed that knowledge inertia with all of its dimensions (learning, experience and procedural) significantly influences innovation of coffee production in both sequences of our study (pre and post-harvest periods). This further means that the increased knowledge inertia of individuals will determine the level of innovation during each period of coffee production. As the nature of knowledge inertia, we view that the higher tendency of knowledge inertia that individuals have, then there is a tendency that they will have lower possibility to innovate or to become innovative.

MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT

We always believe that knowledge–learning–innovation is a set of activities and capacities that would be needed by a company (and a cooperative as well) to maintain and to increase its competitive advantage. Therefore, a special focus in this area would be highly required by the cooperative and its members for the sake of its sustainable competitive advantage.

The study implies that the management of cooperatives in the South-East Asian region should take careful attention in regards of the innovation process from their members. Management of the cooperatives always need to be aware and encourage their members to acquire appropriate knowledge in production by improving the willingness of members to get newer knowledge, store it and share it to other members/colleagues. Management of cooperatives should also put their attention to the learning scheme and pattern that can be conducted and applied to its members. The advantages that are sourced from a similar cultural background of the South-East Asian people also needs to be considered by the management of the cooperative and should be used as one of the strengths for the application of innovation processes which is based on the knowledge and collective learning.

THEORETICAL IMPLICATIONS

It is clear from the study that we view and argue that knowledge – learning – innovation is a set of activities and capacities that would be required by members of cooperatives. We view that knowledge-learning-innovation processes as factors that have an interdependency relationship and may influence one to another. The willingness and ability to acquire, to store and to maintain, as well as to share knowledge will determine the level of learning and the learning process that will be experienced by a member of an organization. These level of learning and learning process will further determine the flow of innovation processes in the organization which can in turn determine the ability of that organization to maintain and increase their competitive advantage. This is the main theoretical implication from this study that can be used as a further research agenda, related to this topic and context. Specifically, future research related to this topic can be directed and addressed to the
investigation on the mediating effect of level of learning and learning processes in the relationship between knowledge acquisition and innovation processes.

This study, however, has its own limitation. Since it was undertaken as a single study context, then it would be difficult to generalize the result to more broader contextual phenomenon. Therefore, more advanced studies which incorporate more broaden contexts in terms of more samples, broader spatial coverage and more commodities would be a significant contribution to enrich our understanding related to this topic.

**CONCLUSION**

The study highlighted that during the pre-harvest period, learning inertia and procedural inertia have brought insignificant influence to the innovation of coffee production, whilst experience inertia significantly influences the innovation of coffee production during this period. In the post-harvest period, it is only learning inertia which significantly influences the innovation of coffee production. In the post-harvest period, it is only learning inertia which significantly influences the innovation of coffee production.

In regards of management as the field of study, findings and discussion of this study can contribute to the direction of how this field of study can be structured to respond to the challenge that is related to the willingness to acquire knowledge. Innovation in a bigger degree depends on the willingness of people to acquire new knowledges. This willingness will ease people to learn new things, implement them and follow procedures during the implementation process so that they can experience that new things. This means and implies that the management field should be able to deliver a new method and a new insight about how to increase the willingness of people to learn and to get new experience and knowledge as the major basis for innovation. Providing an easy to understand learning modules with the exposition of experiential approach could be the way that can be chosen by the management field to face this challenge. Meanwhile, the on-the-field based learning classes with flexible-experienced tutors can also be chosen and developed as the way to deliver the learning modules.

On the other hand, the study also implies that local coffee farmers-entrepreneurs should improve their capacity to absorb and necessary knowledge during the periods of coffee production in order to improve competitive advantage, maintaining themselves in the business, improving their business scale and to formulate immediate decision to solve problems during the production phases. Improving capacity to absorb knowledges will be the main basis for innovation that is required to create the competitive advantage.

**REFERENCES**


Mapping The Terrain: An Indonesian Business Perspective of The Asean Economic Community

Marko S. Hermawan* and Lena Choong
International Business Program, Management Department, BINUS Business School International Undergraduate Program, Bina Nusantara University, Jakarta, Indonesia

Abstract

Research Aims - This paper focuses on the institutions that the ASEAN Economic Community (AEC) project will affect. By employing institutional logics theory, this study scrutinizes academics and business practitioners as institutions and the cultural context embedded within them.

Methodology - A mixed method of newspaper data analysis and semi-structured interviews was used to obtain comprehensive data from both sources.

Research findings - The findings suggest a definite orientation gap between business practitioners, associations, and academics—the three groups have less information and contributions compared with the government and association influences. This study concludes that more participation is needed from these institutions, which are currently feeling “victimized” and excluded by the project.

Originality - The originality of this paper lies in its application of institutional logics to business perspectives within an Indonesian context. The framework offers a holistic approach to how people are institutionalized based on their macro-, meso-, and micro-environments.

Managerial implications in the Southeast Asian context - There has been a lack of communication and coordination amongst these institutions. Therefore, this study guides the related institutions and helps them to map their roles in enhancing the AEC project.

Research limitations and recommendations - This research has two limitations: 1) the lack of literature in this field, and 2) and the difficulty in accessing information from the government institutions. The paper offers avenues for further research: additional variables regarding Indonesian norms and values as well as a method for extending the research to other ASEAN members.

Keywords - ASEAN economic community, institutional logic, business practitioners, academics, associations.

Introduction

December 31, 2015 marked the implementation of the ASEAN economic community (AEC); all 10 nations bound together in the ASEAN region were expected to harmonize their economic and trading regimes. As stipulated in the Bali Concord II blueprint, the economic integration constituted “a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economics disparities” (ASEAN, 2007). The AEC is essentially a process of singularizing the market and production within the region into a larger marketplace (Soesastro, 2008). Its intention was to fulfill regional consumption needs while offering wider opportunities to market easily within ASEAN countries. One strategy for doing so was the removal of trade barriers such as customs and taxes for goods, services, and investment. Approximately 591 million

*The corresponding author can be contacted at: marko@binus.edu
people in the region have been affected because of removing trade barriers and strengthening cooperation amongst the ASEAN member countries.

The economic integration that had been planned since the establishment of the agreement in 2003 was considered an “ambitious and sophisticated initiative of its kind” (Jones, 2015; Petri, Plummer, & Zhai, 2012). The initiative began after the ASEAN foreign trade agreement in 1993 was considered to be progressing too slowly in terms of implementation and commitment from its members (Ravenhill, 2008). Moreover, the nature of ASEAN integration had been voluntary (Soesastro, 2008); thus, regional cooperation between these nations was an open-ended process lacking momentum. However, the AEC blueprint established in November 2007 was expected to advance the implementation process.

Another obstacle the AEC faced was the clarity of the blueprint. Ravenhill (2008) argued that the blueprint document contained well-meaning phraseology but lacked specificity regarding the realization of its objectives. He suggested that based on McKinsey’s report (McKinsey & Company, 2003), the ASEAN members should provide standardization and harmonization via barrier removals, taxation systems, competition principles, and product standards. This involved harmonizing domestic goods, investors, and labor standards.

The AEC as an initiative requires its members to open their markets and allow free-barrier intra-transactions. However, harmonizing the free-trade area is no easy task. At least two obstacles faced the integration. First, the liberalization of intra-ASEAN trade was not of “sufficient significance to warrant expending substantial resources to lobby for deeper integration” (Ravenhill, 2008, p. 482). Moreover, the diversity of tariff dispersion rates was high (Plummer, 2006). Here, harmonization was a matter of how the executives and leaders of each nation committed to the campaign for integration. The issue of “political will” was an oft-used excuse for which commitments and executions were addressed to levels of authority. Second, trade between ASEAN members was relatively low. Ravenhill (2008) pointed out that although the trade inflow to ASEAN had been stable for 40 years, the proportion of intra-regional trade amongst the members was only one quarter of all of ASEAN’s trade. Hence, there was a strong disincentive to change as far as business and political interests were concerned.

A number of economic, social, and cultural issues hindered the process of fundamental change. The issue of infrastructure and business readiness in Indonesian businesses supports this argument, as it eventually impacts the free flow of goods and services as well as the freedom to operate across the region (Benny, Yean, & Ramli, 2015). Specifically, Indonesian businesses fear the implementation of AEC, where most of the obstacles that micro-, small-, and medium-sized enterprises face are infrastructure bottlenecks, credit shortages, limited skilled workers, and bureaucratic corruption (Rüland, 2016). In contrast, some countries such as Singapore and Malaysia are making visible preparations to harmonize their economic policies in accordance with the Bali Concord of 2003.
A number of studies acknowledge the implications of the AEC in the region and provide an overview of these at a macro-economic level (Hew & Soesastro, 2003; Soesastro, 2003, 2008), but few studies analyze the micro-levels within a particular nation. Moreover, much research on ASEAN integration and regionalization has been conducted by employing political–economic approaches (Jones, 2015; Sukma, 2014), but few studies have adapted institutional theory as an alternate insight. To some extent, there has been weak exposure and preparation in each of the ASEAN nations, at least from the business point-of-view. There has been a paucity of information and socialization throughout the campaign, and there has been limited action produced by governments as regulators to enhance the merging of a one-market economy in the region (Perwita, 2015). It is imperative to determine the level of readiness to implement such new policy, and to what extent the ASEAN nations provide such formulations and strategic planning towards the AEC. Such studies point out that the rational study of economics must also be understood from a non-rational perspective from the sociological point of view. As Granovetter (1985) suggested, the importance of understanding the embedded nature of social behavior is imperative, in conjunction with a rational economic perspective. Hence, this study attempts to investigate current obstacles through scrutinizing the three levels of institutional analysis faced by one ASEAN country that hinders readiness to adopt AEC.

An institutional understanding of a society is, thus, imperative to undergo this study. Institutional logics, as proposed by Thornton, Ocasio, and Lounsbury (2012) is a comprehensive framework to elaborate the micro-, meso-, and macro-levels of a society in which institutions are comprehended in a structural manner. By allowing a reconstruction of identities of institutions based on the logic and practices in Indonesia, this study will scrutinize fundamental setbacks, both internally and externally. With a population of over 250 million and more than 17,000 islands spread across the archipelago, Indonesia has great potential in a successful AEC. In addition, following Rüland (2016) argument that the majority of Indonesian businesses have less participation in regional decision-making in the AEC implementation, this study starts with the question, ‘What is the role of each institution in the context of the AEC?’ The following sections are an institutional logics framework, followed by research method, findings, and conclusion.

**Institutional Logics as a Tool To Understand The Socio-Cultural Environment**

Institutional logics offers multiple levels of analysis that enables researchers to observe individual behaviors and consciousness based on the level at which the individual is ‘nested’ (Friedland & Alford, 1991). These levels can be organizations, markets, industries, inter-organizational networks, geographic communities, and organizational fields (Thornton & Ocasio, 2008). In general, the multiple levels can be classified as three types: macro-, meso-, and micro-levels. The macro-societal level consists of the community logic that contributes to the inter-institutional system; the meso- represents the organizational level; and the micro level emphasizes individual logic. As mentioned earlier the three levels do not stand on their own, but rather as an inter-institutional system that correlates closely and generates differing
logics within the same organization. Based on Thornton (2004) inter-institutional system ideal types, this study attempts to construct the institutional orders and the categorical manifestation of individuals and organizations in the Indonesian business context. Provided as a Western-type of institutional, the logics posit a socio-structural composition that consist of family, community, religion, state, market, profession, and corporation.

In a country with multiple ethnicities, religions, and islands, analyzing Indonesian society may require thorough investigation from multiple perspectives. Studies on contemporary institutions confirm that in order to understand a particular society, one must acknowledge the importance of social construction; the relationship of an actor and his/her surroundings (Jepperson, 1991). Multiple societies can be conceptualized as ‘inter-institutional systems’ that cater to cultural subsystems and cohere across institutional orders (Thornton, 2015). Individuals, as the smallest institution, are enabled to perform self-activation in the social environment, and produce a social pattern in accordance with the values, norms, and cultural symbols embedded in that society (Thornton et al., 2012). By definition, institutional logic is “a socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Lok, 2010; Thornton & Ocasio, 1999).

This study attempts to overarch holistic understanding of inter-institutional orders that are impacted by the formation of the AEC. By employing the institutional logics perspective, one must consider the importance of the cultural sub-systems under each institution. Nonetheless, this framework does not intend to overlook the power struggles and material inequality amongst institutions (Thornton, 2015). Unlike previous attempts to define isomorphism of institutional theory by DiMaggio and Powell (1983), this framework maps the interpolation to elaborate socio-cultural interaction in a specific environment. Hence, this paper seeks to understand the relationship between institutional orders of academics, business practitioners, associations, and government. Table 1 defines the complete institutions of an ideal society, which represents categories on how individuals and organizations are likely to understand their sense of self and identity: who they are, their logics of action, how

<table>
<thead>
<tr>
<th>Categories</th>
<th>Academics</th>
<th>Business Practitioners/Corporation</th>
<th>Association</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Root Metaphor</td>
<td>Teacher as nurturer</td>
<td>Hierarchy</td>
<td>Communicator</td>
<td>Redistribution &amp; Mechanism</td>
</tr>
<tr>
<td>Sources of Legitimacy</td>
<td>Academic Qualification</td>
<td>Market position of Firm</td>
<td>Community</td>
<td>Democratic participation</td>
</tr>
<tr>
<td>Sources of Authority</td>
<td>University stakeholders</td>
<td>Top Management</td>
<td>Commitment to Association Values</td>
<td>Bureaucratic domination</td>
</tr>
<tr>
<td>Sources of Identity</td>
<td>Educator to be educated</td>
<td>Bureaucratic roles</td>
<td>Reputation of Association</td>
<td>Social &amp; Economic class</td>
</tr>
<tr>
<td>Basis of Norms</td>
<td>Developing People</td>
<td>Self-Driven and financial return motivation</td>
<td>Group Membership</td>
<td>Citizenship Membership</td>
</tr>
</tbody>
</table>

Table 1. Inter-institutional orders on AEC
they act, their vocabularies of motive, and what language is salient (Thorton et al., 2012). The category on the Y-axis consists of root metaphors, sources of legitimacy, identity, norms, and authority.

Table 1 starts with Academics as a salient institution. There have been various studies discussing the differing logics of academics and practitioners. Fini and Lacetera (2010) described academia as a community that possesses a set of missions, rules, and incentive systems, with openness, peer recognition and evaluation, freedom of inquiry, and incentives based on a ‘winner-takes-all’ journal publication system. It is imperative to distinguish such characters embedded within academia that provide unique cultural subsystems in the inter-institutional order. Merton (1973) argued that an institution of science must have a fundamental basis of knowledge, freedom towards research, peer recognition and acknowledgement, and open disclosure of research results. Moreover, Sauermann and Stephan (2013) study of a multi-dimensional view of industrialists and academics confirms that there are subtle conflicting logics between them. They investigate the nature of work, characteristics of the workplace, and attributes of workers that constitute its organizational behavior.

A similar study confirmed by Lounsbury (2007) and Thornton and Ocasio (2008) contrast between the trustee versus performance logic in the mutual funds industry, aesthetic logic versus efficiency logic in architecture, and editorial logic versus market logic in higher-education publishing.

On the other hand, a business practitioner, embedded within a commercial logic, has a different perspective compared to an academic. Employing Friedland and Alford (1991) symbolic concept of capitalism, the nature of commercial logic attempts to convert all actions into the buying and selling of commodities that have a monetary price. Moreover, commercial logic possesses practices and norms that appreciate bureaucratic control, restrictions on disclosure, and the private appropriation of financial returns (Sauermann & Stephan, 2013). Yen, Chen, Lee, and Koh (2003) found a gap between the perceptions of academics and practitioners in the information systems industry in Taiwan. Practitioners had interests in areas such as organizational behavior, strategic management, oral and written communication, team and leadership, and personal traits, compared with academics’ perspectives of technical skills. In this study, the business practitioner’s institution represents a pool of entrepreneurs who are closely related to the ‘commercial logic’ perspective. The construction logic is developed based on the findings and literature on corporate and commercial behaviors. Such practices relate to bureaucratic control, restrictions on disclosure, private appropriation of financial returns, and orientation towards managerial capitalism (Sauermann & Stephan, 2013; Thornton et al., 2012). As an entrepreneur, the fundamental concept of business relates closely to the metaphor of ‘core survival’, which is inherent in almost all profit-oriented business practitioners.

‘Association’ refers to a non-profit organization (NPO), which has a separate function when explicating institutional logics in the AEC. DiMaggio and Anheier (1990) stated that an association, as an NPO, tends to evoke ideology, even as an
instrument of capital. Nonetheless, an NPO possesses salient values of voluntarism, pluralism, altruism, and participation. Anheier (2006) stated that the non-profit sector has been a major economic and social force from the local and national to international levels. The spirit of this institution is to accommodate issues of human service, welfare and policies, issues on democracy, and advances in information and communication technology. Nowadays, NPOs have greater roles in major policy initiatives within nations. The form of its organization has also expanded into more professional models and styles, which touch on governance, accountability, and impact. The ‘association’ is included in this research due to the fact the institution contributes closely to successful ASEAN integration. It may seem that the association is a medium of institution for direct access to the government, in terms of communicating a set of group propositions towards the AEC. In this case, an association is converted from the function of ‘community’ in the ideal institutional orders. Moreover, this paper offers a set of institutions that are highly involved in the discussion of the AEC.

Lastly, the government (or state) is one institution that offers political stability while maintaining bureaucratic domination (Thornton et al., 2012). Positioned as the regulator to govern policies, the government as an institution plays an important role within the social and economic milieu, supporting people’s welfare and ensuring good governance and equal distribution. Friedland and Alford (1991) argued that the mechanism of distribution lies on the fact that the government allows us to “transform diverse individual situations into the basis for routine official decisions”. The root metaphor for such a mechanism is interpreted as fair and rational decisions amongst the people, so that the reputation becomes favorable and popular.

There is a strong indication that regional integration results in institutional changes; studies have been scrutinizing the development by constructivism (Risse, 2004) and of political and economic approaches (Duina, 2006). Other studies in institutional regionalism (Rattanasevee, 2014) and institutional changes in ASEAN (Sukma, 2014) suggest an institutional constructivism in order to strengthen the role of ASEAN to its members. Scholars have been employing the logics in various disciplines on institutional behaviors, such as sociology, psychology, and management sciences (Thornton et al., 2012), which eventually enriches the holistic view of the Indonesian institution subsequent to the AEC. Hence, this study offers factors influencing business practitioners as ‘actors’ in meso- and macro institutions (Thornton & Ocasio, 1999), but also other perspectives offered by associations, academics and government officials.

In defining institutional legitimacy, Rüland (2016) conducted a study that observed the regional interest representation of the ASEAN regional decision-making, namely non-participatory regional organization, state-corporatist arrangements, liberal-corporatist institutions, and liberal pluralism. These categories are based on a degree of participatory settings that either state-controlled or functional cooperation. This study, on the other hand, offers an exploration of context, where the Indonesian behaviors, cultural symbols, and organizational field practices, fall under the level
of institutional logics. Although one suggests that institutions such as government agencies, sectorial bodies, business associations and civil society will emerge in the related ‘institutional orders’ in AEC (Soesastro, 2008), the study allows institutional contradiction and contestation in logics (Thornton, 2015) and transitions reconstructed from the data findings. This ensures the current logics experienced by the Indonesian business practitioners, as well as regulators and academics.

METHODOLOGY

This study complements the use of content analysis and interview analysis in order to construct meanings and sense-making from two different methods. The construction of meaning involves interpreting and understanding a set of document and interview transcription, until establishing a concept of thoughts, ideas, and phenomena (Weick, 1995). Following Meyer and Höllerer (2010) the analyses are constructed to explore a ‘topographic map’ of meaning and assisted in making sense of the structured configurations observed.

In a qualitative approach, with an interpretivistic methodology, the first step is to perform document analysis, where the researchers analyzed documents originating from online newspapers, magazines, and articles related to AEC and its preparation in Indonesia. There is a growing trend in this method, which enables researchers to capture information generated from people’s behavior and interests through newspaper text mining (Cheney, 2013). Hence, this method is considered appropriate, given the fact that text mining enables us to reveal sense through meaning that is contested and negotiated amongst sources, which consequently constructs a ‘social space with specific logics and characteristics’ (Lok, 2010; Meyer & Höllerer, 2010). In order to present a holistic view of the current issues, the observed documents were taken from three different articles that originated from different languages and domiciles. They are ‘liputan6.com’ (an Indonesian-based news website in Bahasa Indonesia), ‘The Jakarta Globe’ (an Indonesia-based news website in English), and ‘Channel News Asia’ (an international news website) from 2013 – 2016. This method is considered important to the study, in order to elicit meaning, gain understanding, and develop empirical knowledge of a particular environment (Corbin & Strauss, 2008). There are reasons for employing document analysis in this study. Firstly, the extent to which the AEC phenomenon in Indonesia is relatively new and hence, there is a need to explore further the new changes of economic integrity. This approach is used by Vaismoradi, Turunen, and Bondas (2013) to identify sensitive phenomena, and to explore unknown phenomenon in a specific setting. Secondly, document analysis is also used to describe missing context, and “possibly finding theme based on frequency of occurrence, division of manifest and latent contents, and non-linear analysis process” (Vaismoradi et al., 2013, p. 399). There is a necessity to explore an in-depth understanding of changes in business processes, which will be affected after the implementation of AEC in Indonesia. Thus, document analysis is suitable for this study.

The analysis was based on two framings of interpretation: positive and a negative orientation. Consequently, the documents were analyzed sentence by sentence to
discover a phenomenon. A similar method of article analysis was performed by Lok (2010) and Meyer and Höllerer (2010) in order to reveal such connotations from the newspaper coverage.

The second step was to conduct interview sessions, which involved people who were expected to be impacted upon by the AEC. Based on the document analysis from the newspaper coverage, there were four main institutions that actively commented on the readiness of the AEC, namely business practitioners, government officials, associations, and academics. A semi-structured interview was conducted in order to retrieve a flexible, but related theme to each of the interviewers. The two steps of data collection were then analyzed in order to produce coding and to identify the pattern of understanding. It was imperative that these understandings enabled the researchers to construct prevalent meaning in a particular social field, as well as to capture the socio-political environment within the system (Meyer & Höllerer, 2010). An iterative process was needed to gain more understanding. This involved data collection, data reduction, display, and conclusion drawing, which are considered cyclical processes (Miles & Huberman, 1994). The findings were expected to produce coding and appropriate themes from the transcription and document analysis.

RESULT AND FINDINGS

The first step of document analysis was conducted from January until May 2016, which involved 174 online news website articles. This consisted of 103 Indonesian articles in Bahasa Indonesia, 64 from an Indonesia-based news website in English, and 7 from a non-Indonesia-based news website in English. The reason to have three different types of news websites was in order to obtain fair and balanced information from national and international perspectives, while gaining fruitful information regarding the AEC and its preparation within the nation. The articles were analyzed based on the type sources interviewed by the reporter, and the content orientation towards AEC. The first reflects four institutions (shown on table 2), whereas the latter indicates the positive or negative comments from the sources (Table 3). The type of sources were counted based on the persons who were interviewed by the news.

Based on table 2, the findings showed that the majority of coverage involved government officials, with 106 comments, followed by 49 comments from the association, and 40 comments from the practitioners. Only 6 comments were produced by academics. This analysis shows that the government is imposing the AEC program intensively to the public, while the associations support such promotion. The analysis also showed business practitioners, with 40 sentences derived from the business perspective. The regulators and academics seemed to make fewer contributions to the AEC perspective.

<table>
<thead>
<tr>
<th>Government/regulator</th>
<th>Association</th>
<th>Practitioner</th>
<th>Academic</th>
</tr>
</thead>
<tbody>
<tr>
<td>106</td>
<td>49</td>
<td>40</td>
<td>6</td>
</tr>
</tbody>
</table>

Table 2. Source of Newspaper coverage
Table 3 shows the orientation towards AEC program, which divided into three categories of positive and negative comments: comment towards advised/planned activities, implemented action & strategic program, and casual comment or review. These categories represented all five sources in Table 2. The first category; comment towards advised/planned, means phrases or sentences that supported advisory and suggested content of AEC. The second category reflects phrases of ‘real’ implementation, executions, and strategic decisions for AEC program, while casual comment was for those sentences that did carry any profound connotation towards the AEC.

The findings suggest that the majority of comments favor positive orientation toward the AEC program, which consisted of 136 sentences of planned activities, 109 casual comments, and 53 on strategic program and actions. On the other hand, only 82 casual comments reflected a negative connotation towards the AEC, and none from either planned nor action activities. This also suggested that more than 35% of the content were subject to planned activities, while only 13.95% represented program implementation. Hence, the descriptive statistics, as a preliminary finding, showed that the implementation of the AEC in Indonesia had not shown a significant implementation towards execution and strategic decision-making. Interestingly, only 82 sentences or 21.58% of the overall findings showed negative phrases, such as apathetic, pessimistic, or skepticism regarding the AEC’s impact on Indonesia. In addition, Table 4 provides the six most frequent expressions or understandings, both on positive and negative orientations toward the AEC.

The second step involved in-depth interviews to executives from business practitioners and academics. Each group discussion was given an introductory short animation film about the AEC in order to provide the atmosphere of the content. The next session was to give the above orientation statements to the group, in which they have to comment based on their understanding of each of the statements. Expressions of feelings and thoughts in each group were important for this study, in order to grasp the area of interests and ambiance that underpinned the groups. The ideal types of institutions varied across settings and thus it reflected different mate-

<table>
<thead>
<tr>
<th>Comment towards Advised/Planned activities</th>
<th>Implemented Action &amp; Strategic Program</th>
<th>Casual Comment or Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive orientation 136</td>
<td>53</td>
<td>109</td>
</tr>
<tr>
<td>Negative orientation</td>
<td>82</td>
<td>21.58%</td>
</tr>
</tbody>
</table>

Table 4. Summary of Orientation Statements

<table>
<thead>
<tr>
<th>Positive orientation</th>
<th>Negative orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEC is an integrated economy in Southeast Asia</td>
<td>Indonesian economic is not ready</td>
</tr>
<tr>
<td>The Indonesian market has the greatest potential in Southeast Asia</td>
<td>The stability of economy and socio-politics is questionable</td>
</tr>
<tr>
<td>There is an optimistic spirit towards the AEC</td>
<td>Local production will undergo competition</td>
</tr>
<tr>
<td>10% of SMEs would fully harness and utilize digital methods in the next 5 years</td>
<td>Incompetent human and natural resource management</td>
</tr>
<tr>
<td>Indonesia would likely serve as a ‘market’ in the AEC</td>
<td>Certification is only a discourse</td>
</tr>
<tr>
<td>The AEC should serve as an opportunity for Indonesia to improve firms’ performance and expand beyond Indonesia</td>
<td>Import exceeds exports</td>
</tr>
</tbody>
</table>
Academics as an institution

The findings of the academics started with a general knowledge of Indonesia, where they expressed the demographic advantage of the country. In the AEC, generally Indonesia is one of the largest developing countries that is still growing, as it has a population of about 250 million people in a country with rich oil and natural resources. One academic shows his perspective.

“So, we are considered as the biggest market… not the biggest probably, one of the biggest market in the world, and knowing that our market is also very consumptive, therefore it forces other countries to have good partnerships with Indonesia” (Academic, male)

The academic expressed that Indonesia was one of the largest consumption communities and it was attractive to other neighboring countries like Singapore and Malaysia wanting to be Indonesian business partners in providing products and services. Thus, many SMEs are leveraging the population “consumers” as their main business opportunity through online businesses.

“SMEs really harness and utilize digital methods, and this will become the main economic driver. However, one other priority is actually integration from the economy to the global economy. Now the only platform business that can easily connect to globally is basically online business”. (Academic, male)

Despite the convenience of global connectivity, Indonesian business growth seems to be flourishing with opportunities, unfortunately, it is yet to be equipped with the know-how to be a self-sustaining economic community as they are still dependent on some imports such as rice from Thailand.

“Yes, we do have more imports from other countries than exports but that’s the consequence of developing countries like Indonesia, we are still developing, and we have hundred or millions of people who also need lot of products and services, meanwhile we don’t have yet the capability to be self-sufficient. We have to import, that is the consequence. But we are going in the direction that our president mentioned that in the next 10 years, we are going to be self-sufficient in terms of commodities, [such as] rice, sugar and eve-

<table>
<thead>
<tr>
<th>Categories</th>
<th>Academics</th>
<th>Business Practitioners/ Corporation</th>
<th>Association</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Root Metaphor</td>
<td>Teacher as nurturer</td>
<td>Hierarchy</td>
<td>Communicator</td>
<td>Redistribution Mechanism</td>
</tr>
<tr>
<td>Sources of Legitimacy</td>
<td>Academic Qualification</td>
<td>Market position of Firm</td>
<td>Community Trustworthy</td>
<td>Democratic participation</td>
</tr>
<tr>
<td></td>
<td>Research freedom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sources of Authority</td>
<td>University stakeholders</td>
<td>Top Management</td>
<td>Commitment to Association Values</td>
<td>Bureaucratic domination</td>
</tr>
<tr>
<td>Sources of Identity</td>
<td>Educator to be educated</td>
<td>Bureaucratic roles</td>
<td>Reputation of Association</td>
<td>Social &amp; Economic class</td>
</tr>
<tr>
<td>Basis of Norms</td>
<td>Developing People</td>
<td>Self-Driven and financial return motivation</td>
<td>Group Membership</td>
<td>Citizenship membership</td>
</tr>
</tbody>
</table>

Table 5. Interinstitutional orders on AEC
In summary, most academics expressed the general AEC implication/perspective in Indonesia rather than its implementation itself as there is no clear academic perspective and positioning. Many of the comment were mainly focusing on economy and its sustainability. The academics seemed to enjoy discussing the general issues of AEC at a more general macro-level.

The second issue discussed was the implementation of the AEC. According to this institution, this was not easily demonstrated in a heated discussion amongst fellow academics since the big question was ‘who is taking charge of AEC implementation?’

“Don’t talk about the vision, we kenyang lah [an expression of ‘fed up’], focus on implementation. What is the gap and how are we going to solve that? [I mean the] real gap. There is a gap, and the gap will always be the rule game: procedures, detailed procedures. Who is taking charge of that?” (Academic, male)

The academics realized that Indonesia was losing out due to the ‘unknown’ rule and the know-how of this project. There was a level of frustration to witness that other neighboring countries such as Malaysia were harvesting market share by acquiring Indonesian’s plantation companies.

“Exactly. So okay, there is a pizza, go grab yourself. And people would be like okay, they never tasted the pizza before, AEC has never been here before. Those smart people from other countries like Malaysia for example they incorporate you see. If you do this, then you can go here. That’s why for example like the last ten years, they have been buying Indonesia’s plantation company. Why are they expecting this? So they already move strategically.” (Academic, male)

The academic expressed their opinion of the AEC as having no leadership and priorities, a simple metaphor to compare where Indonesia stands comparatively with developed neighboring countries such as Malaysia.

“This presidency or this leader of the country, they have limited time, like four years or five years turn. So they will focus only for four years or five on the administration and the ASEAN Economic Community. They never become the first priority of this activity, always like number four or number five, not that prioritized. If those leaders don’t prioritize that also, how can we believe that this will become reality?” (Academic, male)

It does not help that the presidential tenure within this region is only for four years. The presidential focus is usually within his/her administrative role and little energy is given to developing any AEC projects. Academics felt that implementation steps were taken lightly. In terms of the micro-perspective, the academics highlighted that the Indonesia government was protecting its businesses, yet they were unclear with their regulations and that created reluctance from foreign investors.

“Why bother discussing product competitiveness, when Indonesia [only] invites foreign investors with the tight entry requirement. That will deter away the possibilities of investment and development of the country itself.” (Academic, male)

Hence, the academic questions the politicians’ priorities in the growth of AEC. This
will not create confidence in the nation to follow through.

“Confidence needs to be emphasized if Indonesia wants to develop its human resources. And then yes, it is also needs the human resources and needs to have support from the government in terms of the certification. So, the competencies need to be standardized. In what area you are good in, it has to be certified. And the certification has to comply with global or international standards by acknowledgement means that we are there, we are equal, we have equal standard of competencies, we have equal standard of ability with other human resources from other countries” (Academic, female)

In summary to these quotations, academics briefly mentioned that there are some micro-details that the Indonesia government needs to consider such as product qualification/certification standards certification in order to stimulate ‘trust’ in exporting. However, in hindsight, Indonesia has not been open to foreign business trade easily either as there are many barriers to entry. Thus, very few SMEs play a role in contributing to the AEC. Much of the content discussed the macro-level perspective and few discussions on the educational part, as well as the implementation towards people’s development. Although some academics addressed the pillars of AEC and certification importance, the other fellow academics had little interest in developing such discussion into these areas.

**Business Practitioners as Institution**

The other institution findings were within the business practitioner group. The findings suggested two major themes found in the discussion: culture and adaptation. The former represented the notion that the Indonesian business practitioners were aware of the resistance to change within the society, whereas the latter constituted the nature of adaptation towards change due to the AEC.

In terms of cultural context, the business practitioners argued that cultural mind-set is a fundamental perspective towards change, as many of the entrepreneurs had difficulties in changing their mind. One comment expressed this matter:

“I think … the culture is not ready yet, basically, [and] it is not about the economy or the quality or the productivity or production. My point of view is the culture because we are so used to being lazy and we are more collective people. That’s why one small restaurant can have ten staff, if we see at a Chinese restaurant in Indonesia, they can have people standing around near the tables and basically it is actually not comfortable.” (Entrepreneur, male)

The notion of being ‘lazy’ may also be interpreted as the way in which the Indonesians often have many staff working on the same task in a company. They prefer to have many people working around him/her, which may also be inefficient from the company’s point of view. On the other hand, the ability to reduce the number of staff was considered ‘unnecessary’ or taboo. Moreover, the tendency to not to change the situation is also supported by another entrepreneur:

“I feel that we won’t be able to be ready because we are afraid to change; maybe all of us are scared to change. But overall, we must make our move first, or let’s say, we just try.” (Entrepreneur, male)
There is a strong tendency that the entrepreneurs had difficulties understanding the situation of change, which results in a behavior of trial and error to meet the new demands of the AEC opportunities. His expression of ‘we just try’ is perceived as a ‘passive’ movement of how he has to run the business. Unclear guidance from the authorities may make a contribution to such behavior. Another similar expression supports this notion of uncertainty.

“We are all taking about the same thing: mind-set. The second is the mentality [of readiness]. The Indonesian middle-class group is growing in terms of numbers and capital. Many young entrepreneurs are establishing; they were sent overseas to study and have come back with different mind-sets. Overall, there no way except to jump in, otherwise we will be left behind. People will adapt.” (Entrepreneur, male)

The word ‘adapt’ appeared as soon as the entrepreneur had no option except to change. Adaptation to change required a great deal of effort, not only for his ability to run the business, but also throughout the entire company and staff.

Overall, the discussion from the business practitioner’s perspective, in this case the entrepreneurs, showed a common ground of discussion, in which the micro-level perspective is dominant. Nevertheless, the notion of ‘unclear’ and ‘unsure’ connotations remained strong within the topic, which also provided an idea of what business practitioners expect might happen post-AEC implementation.

‘Associations’ as institutions

In general, an association can be inferred as a group of society which has similar thoughts, goals, and interests. An association is considered to be socially constructed based on people’s interaction that underlie the formation of social institutions. In this case, the ‘association’ is similar to a community, as one institution, to scrutinize the interrelation between institutions which also represent as an interest representation. Moreover, Thornton et al. (2012) argued that the role of community sets out an understanding of local norms and rules that serve as a legitimate model of an organizational-field. There is a high degree of association involvement in terms of communicating messages regarding the AEC project.

Within the association there are few perspectives simultaneously. In view of the economic perspective, there should be a ministry or ministries that can replicate how the European Union was established and founded in Netherlands in 1993, working on incorporating laws in trades and migration from seven different countries.

“So they would probably give you a better economic perspective. So we are going to be talking with lots of businesses. Actually as we speak, I think Alex and Vina are finishing their meeting with our donors on this project. So, they will be talking to businesses; they will be talking to different ministries as well as different permanent representatives that are in here Jakarta to talk about, you know how Europeans would be able to navigate this because this is something that we also try to navigate for our purpose as well, for our knowledge.” (Association, female)

Apart from depending on ministries in providing the AEC information, the NGOs
are feeling some ‘push’ efforts campaigning for the AEC from the government, and even more when the ASEAN Secretariat is located in the central of Jakarta itself.

“But from our standpoint as a non-government organization, as well as think tank, we saw that there are so many pushes by the government but it was a bit, too little too late, meaning, in terms of preparedness and people hyping it up as jargon saying ‘oh, AEC, AEC!’ but then not really putting it out there as to what it entails.” (Association, female)

In trying to gather information from the relevant government/ministries, the researcher found that stakeholders in society were left feeling ‘lost’ as they were not provided with any information on the AEC. How would the AEC assist the future economy in these 10 ASEAN countries? Has the government prepared our future students with the readiness to enable them to work in a different environment, society/community? Is our future generation ready to take up the challenge?

“So, there is very little information as to how AEC affects them. Questions came to us as a center, whereby we distribute information on ASEAN as basically as a messenger. We were often asked by small medium enterprises by even businesses, how this will affect us. That continues to be the question and even until now, how would this affect us?” (Association, male)

During the researcher interview with the business practitioners, many SMEs/entrepreneurs expressed similar concerns in trying to grasp the understanding of the how the AEC can and should work collaboratively with 10 different Asian countries. However, there is no right or wrong answer to this discussion as there was no information and confirmation from any regulated association entailing details of ‘the how’.

“To be honest, we also don’t know how this is affecting any businesses - whether there is anything positive, whether there is negative. But, we know that a lot of people are still asking that question. There is no clear guideline for example as you know it is still businesses as usual.” (Business practitioner, male)

With this study the researchers concluded that as a society and economically we are ready for the challenge, yet there were no direction, information and collaborative efforts from the government working at the macro-level to link us with businesses from other Asian countries. Many SMEs are working with businesses from other Asian or non-Asian countries which covers the micro-level of trade and business. As it is there are many foreigners coming into Indonesia just for business purposes and hence that has demonstrated that we are aware of the resources and expertise that Asian countries are already providing.

**DISCUSSION**

The purpose of this study was to extend further understanding of the ideal type of institution derived from academics, business practitioners, and associations regarding AEC changes. The framework designed by Thornton et al. (2012) described the Western ideal types of institutional logics, whereas the notion of transforming into a specific locus in the Indonesian content was imperative to be discovered. The
The findings suggest there is a definite gap of orientation between business practitioners and the academics. On one hand, the academics, who are assigned to cater to knowledge of the AEC, have less involvement to the notion as to what is the ideal type of institution. Their contributions to the macro-discussion on politics and the economic situation post-AEC often suggests a holistic view of the Indonesian perspective. The expectation to incline toward a micro-level conversation and implication are somewhat underdetermined. Specifically, business academics play an important role in designing a framework that bridges the gap between business practitioner and the expected outcome of the AEC. However, due to unclear vision from the officials in each of the ASEAN members (Ravenhill, 2008), and uncommitted engagement between government agency members (Jones, 2015), the implementation on the micro-level is far from reality. This is in-line with Indonesian business practitioners facing fear of the implications of the AEC (Rüland, 2016) due to unrepresentative and asymmetric interest representation. There is a strong indication that the level of participation of the four institutions may have difficulties in taking on board the ramifications of the AEC project. The ‘passive’ participation from the business practitioners also suggests that this institution fails to comprehend what is essential for them as a ‘core survival’ mode, and rather to become the ‘victims’ of such a project in this situation (Rüland, 2016). This argument is in line with Ravenhill (2008), in that the business sector has little participation in the AEC project and that institutional process is highly involved with government-to-government agreement. Nonetheless, the implementation at the micro-level seems to have been ‘neglected’ in a way that both institutions require a great deal of assistance in this matter. Moreover, as seen in the newspaper coverage analysis in table 2, the participation of practitioner and academics on this project were far less than those who commented from the government and associations. Compared with the EU development described by Perkmann (2002), there is little contribution given from both parties, which consequently explains the narrow vision of this project within the institutional fields. Only associations conducted their role in communicating messages derived from the government. This promotes the idea that the two institutions are being ‘excluded’ from the grand purview of the AEC project. As such, the expression of an ‘ambitious’ project is also confirmed by Petri et al. (2012), in that further cooperation and role-strengthening between these institutions is heavily needed.

THEORETICAL IMPLICATION

The study also provides two theoretical implications. First, institutional logics perspective serves as a comprehensive lens to scrutinize social and cultural construction that not only discovers a societal culture of individuals and organizations, but
also identifies and integrates multiple levels of analysis. Second, by un-entangling each of the institutions and their institutional nature, this study aids to align the function of each role in the successful implementation of AEC. Institutional logics help to determine the cause of misalignment roles of relevant institutions and their capacity to promote the success of the project. This study also portrays the four designated institutions in which some categories within inter-institutional order cannot be implemented as it should be. The asymmetric system representation initiated by Rüland (2016) and the importance of having solid, sufficient and efficient forms of institutions (Rattanasevee, 2014) may well be suited within the typology of institutional logics offered in this study.

MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT

This study offers managerial implication to institutions involved in the AEC promotion. The four institutions represent a subset of salient role, which enable to construct partnerships within the AEC context. All must maintain good ‘working colleague’ that can boost the awareness, as well as to actively participate in the AEC promotional activities. The government of ASEAN members are obliged to provide clear guidelines on AEC implications to businesses, academics, associations and communities affected by this program. The government should work closely to cooperate, not only for the above-mentioned institutions, but also unifying perceptions and linearity of objectives with other ASEAN governments. This allow a coordination across institutions and members. On the other hand, businesses, as well as academics and association, must actively participate in this project and ensure smooth transition towards one economic community. Much higher roles, in particular, the academics and business practitioners, is needed to ensure clear information of AEC programs. Institutional logics enable all institutions to map their function and order, in which

CONCLUSION

In conclusion, the construction of ideal types of institutional logics provides a comprehensive analysis of building an understanding of existing institutional change, and an attempt to construct a topographic map of Indonesian business society. The framework shows a detailed category that represents symbolic materials and practices that can identify each of the institutions represented by academics, business practitioners, associations, and the government. Communication is another reason why the AEC project is less implemented in each institution. The inter-institutional ideal systems mentioned in Table 5 are not fully manifested within these institutional orders. Thus, further calibration of roles and responsibility are required. Overall, the cultural context in Indonesia can also be accommodated with this framework, in that specific norms and behaviors represents the characteristics embedded within the institutions, which are often omitted from Western perspectives. Hence, institutional logics enable studies from the Eastern view to emerge and contribute positively to the literature.

There are limitations of this study that need to be described. Firstly, most studies
concerning ASEAN integration and regionalization are within the area of international relations, economics, and policy studies, thus making this study a challenging approach from the sociological perspective. However, this study provides an introduction to the use of the qualitative approach for future studies of institutional mapping in Indonesia.

Secondly, due to limitations and difficulty of access to other institutions such as government officials, this study has been cross-sectional in the nature of collecting data. Thirdly, only one researcher was involved in this project and some interviews were conducted and transcribed in Indonesian. As such, there may be a lost-in-translation process that may lose the essence of logics. However, back translation was provided to counter such problems. Lastly, a generalization issue, as part of further qualitative studies this study cannot be compared between academics and/or business practitioners in other settings.

This study suggests an avenue of research. First, the application of institutional logics in Indonesia can be extended to the use of ethnic norms and values, which also provide a more Eastern ‘flavor’ towards understanding in a cultural manner. Indonesia has been acknowledged as one of the most diverse nations of ethnicity, religion, and race, which holds more than three hundred dialects and languages. The utilization of this framework can enrich the formation and category of ideal types, dedicated to understanding more comprehensive materials and practices. Second, the additional institutions from the government and association perspectives may enrich the holistic overview of the AEC program within the Indonesia business context. Also, scrutinizing other members in ASEAN will acknowledge the variety of issues concerning the changes within each nation.

REFERENCES


Innovative Strategic Positioning of Capital Flows Mobilization of The Original Five ASEAN Countries: Which are Leading?

Eric J. Nasution
Adventist International Institute of Advanced Studies (AIIAS), Philippines

Nila Krisnawati
Swiss German University (SGU), Indonesia

Abstract

Research Aims - The study was conducted to employ the capital flows mobilization (CFM) indicators as the leading economic indicators to determine the leadership role among the five original ASEAN countries. It sought to simplify and answer three research questions on the differences of CFM indicators among the ASEAN countries, their ranks, and how they were positioned in terms of CFM performance and Granger causality risk level.

Methodology - Nonparametric statistics and the economic game theory using a four-quadrant matrix were used to answer the three research questions.

Research findings - The first hypothesis was accepted, which indicates that the CFM performance among the five original ASEAN countries differed significantly during the period after the Asian financial crisis in 1998 to 2017. The second research question indicated that Malaysia and Singapore were ranked the first in the ISP of CFM, while Thailand, Indonesia, and Philippines came next to these two leading ASEAN countries. The third research question indicated that Malaysia and Singapore were strategically positioned in the first quadrant, which must deploy the maintenance of high-growth CFM. Thailand seemed to occupy the innovative CFM refocus strategy, while Indonesia, the expected leading figure in the region, was only positioned fourth. It was expected to fully liberalize and begin with risk diversification in its CFM. The Philippines remained concentrating in its CFM liberalization.

Originality - Few studies are considered in the CFM framework, which is integrated with the ISP and using a four-quadrant matrix as an effective measurement. This study is also measuring the ISP effectiveness of CFM in Southeast Asian countries.

Managerial implications in the South East Asian Context - The result of the study will be valuable for determining the strategic position of the capital flow mobilization or CFM leading in South East Asian countries. It will enhance the fundamental role of a country in protecting countries from financial turbulences and also on the effectiveness of monetary policy.

Research limitations and recommendations - The study focused only on the exploration of how the longitudinal unbalanced panel data of the original ASEAN countries’ economic indicators from the year 2000 to 2016 by utilizing a four-quadrant positioning matrix tool. It is also concentrated only on the former mentioned or money, which flowed in and out of a country’s economic system in accordance with the realm of innovative strategic positioning.

Keywords - Capital flow mobilization, innovative strategic positioning, Granger causality.

Introduction

The Association of South East Asian Nations (ASEAN), originally organized by virtue of the Bangkok Declaration in Bangkok, Thailand, on August 8, 1967, sought to develop the three-pillar sectors of the member countries’ politics, economics, and
This study sought to explore the economic progress of the five original ASEAN countries, namely, Indonesia, Malaysia, Thailand, Singapore and the Philippines, and determine the strategic position of their capital flow mobilization or CFM leading indicators. Even though by virtue of the Indonesian much larger GDP (in purchasing power parity or ppp), in comparison with the other four original ASEAN countries, many generally look at the country as a de facto economic leader in ASEAN, as noted by Putra (2015). Indonesia GDP in ppp indicated an amount of US$3,243 billion compared with Thailand’s as the second highest in the amount of US$1,229 billion as of December 31, 2017. Rattanasevee (2014) commented that Indonesia plays an important role in the ASEAN’s success and survival. On the contrary, Rüland (2016) revealed that Indoneisan businesses are apprehensively fearful of the regional corporatism among the member countries in the ASEAN Economic Community. He further commented that most Indonesian businesses are not yet ready to initiate intra ASEAN joint ventures in Indonesia due to a strong culture of protectionism. Yet, another economist, Heiduk (2016), argued that there seemed to be a hyperbolic tendency that Indonesia, under the present administration, may stay away from ASEAN. Generally, Indonesia has been involved to a certain extent in the political advocacy of peace talks as well as supporting the international humanitarian projects within the ASEAN and other regions. Nevertheless, this involvement does not always determine the leadership role of Indonesia. Thus, it is with the other original members of ASEAN as well.

The above are all the triggering points for the study of strategic positioning of CFM to be conducted to determine which ASEAN countries are indeed leading in the CFM. Considering the given unconvinced evidence that Indonesia has performed as a leader for the ASEAN, in spite of its largest GDP of US$3,243 billion as of

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Indonesia 2017 %</th>
<th>Malaysia 2017 %</th>
<th>Thailand 2017 %</th>
<th>Singapore 2017 %</th>
<th>Philippines 2017 %</th>
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<tbody>
<tr>
<td>DP (in ppp**)</td>
<td>3,243 9.9</td>
<td>926 8.7</td>
<td>1,229 6.6</td>
<td>514 9.5</td>
<td>875 6.3</td>
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<td>688 6.0</td>
<td>619 2.1</td>
<td>149 -23.2</td>
<td>967 5.2</td>
<td>154 13.1</td>
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<td>383 5.6</td>
<td>349 10.7</td>
<td>655 6.2</td>
<td>290 12.2</td>
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<td>Investments:</td>
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<td></td>
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<tr>
<td>FDI (at home)</td>
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<td>155 6.7</td>
<td>206 9.8</td>
<td>1,158 18.4</td>
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<tr>
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<td>20 7.3</td>
<td>156 15.5</td>
<td>112 32.0</td>
<td>726 16.9</td>
<td>48 23.9</td>
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<td>TOP – BOT</td>
<td>16 -2.6</td>
<td>25 2.9</td>
<td>38 11.1</td>
<td>87 13.5</td>
<td>-37 n/a</td>
</tr>
</tbody>
</table>

Source: Bank of International Settlement (BIS)
*Compounded growth rate from the year 2000 to 2017 (using HP financial calculator 12C)
**Purchasing power parity or national product equivalent price in USD
2017, economic leadership in the region is still a matter of ambiguity. The study therefore explored which ASEAN countries indeed have the leading CFM indicators that we could say that a certain country did lead in its CFM performance. In particular, the study sought to answer the following research questions:

1. Did CFM indicators nonparametrically differ among the five original ASEAN countries’ during the period after the Asian financial crisis in 1998 to 2017?
2. In terms of their ranks, which ASEAN countries have led in the CFM performance?
3. How was CFM strategically positioned in terms of its size and Granger causality risk level?

Based on the above, the main and only tested hypothesis at null form (H0) was based on the research question 1), the H0 of which was “CFM indicators didn’t nonparametrically differ among the five original ASEAN countries during the period after the Asian financial crisis in 1998 to 2017.”

Review of Related Literature

Capital Flow Mobilization Concept

The globalization wave allowed production factors such as capital and skilled or unskilled workers to gradually move internationally. In practice, nearly all the countries became active, particularly in mobilization of investments from abroad and strategic globalization of international companies. The role of capital flow is a powerful factor in economic development (Shengelia, 2014). It also influences foreign trade dynamics and structures, spreading of modern technologies and shifts of financial resources. The framework of capital flow provides a basis for a wide scope of economic problem analysis and policies (Green & Murinde, 2003). Capital flows signify to the movement of money for the purpose of investment, trade or business production, including the flow of capital within corporations in the form of investment capital and also for operations and research and development activity.

Ghosh (2010) in Claessens & Ghosh (2013) argued that clarifying on the large capital flow can lead to strong upward pressure on the exchange rate appreciation and widen current account deficits. Also, contributing macroeconomic overheating in terms of inflationary pressures, asset booms, and higher debt ratios.

They also facilitate integration of a country into the international economic space, use of latest management, growth of export potential and currency incomes of a country, improvement of trade and taxation balance, installation of new technologies, formation of new work places, and increase of employment

There is now a wide consensus that international capital flows can result in good and bad impacts (Guichard, 2017). On the one hand, international capital flows support long-term growth through a better international allocation of saving and investment; they can enhance transparency and corporate governance by exposing
recipients to international investors. On the other hand, they also can make complicate macroeconomic management of recipient countries, increase financial vulnerabilities, and lead to financial crises and sudden stops with negative implications for economic growth.

Lane (2015) also stated that capital inflows may also intensify domestic distortions, especially where poor corporate governance and financial regulation allow corporates and banks to take excessive risks and expand through international leverage.

However, Shengelia (2014) stated that the movement of capital could bring great use for recipient country and the country of capital sources. The benefit will depend on the policy conducted by both countries and also on the established rules and structures of institutions acting on capital flow mobilization.

The interest in driving capital flows is not new and dates from the early 1990s when capital flows returned to Latin American countries after the debt crisis of the early 1980s. The abundant literature since then has produced mixed results, which partly reflect the variety of country samples and subperiods under study. The key findings are summarized in the literature reviewed by Koepke (2015), as explained in Table 2, which analyzes 40 studies devoted to push and pull factors from 1996 to 2014 (Guichard, 2017).

As explained in the above table, the drivers of capital flows have been found to vary over time and across countries as well as across the different types of capital flows. Specifically, the evidence is quite strong, describing that push factors are the leading drivers of portfolio flows. On the other hand, we can conclude that pull factors are the leading drivers of banking flows and even more FDI flows.

**Defined Concept of Innovative Strategic Positioning (ISP) of CFM**

The review of related literature presented the defined concept of strategic positioning of CFM, and the four-quadrant strategic positioning matrix of the ASEAN leadership in CFM.

<table>
<thead>
<tr>
<th>Type</th>
<th>Driver</th>
<th>Portfolio Equity</th>
<th>Portfolio Debt</th>
<th>Banking Flows</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Global risk aversion</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>186</td>
</tr>
<tr>
<td>Push</td>
<td>Mature economy interest rates</td>
<td>—</td>
<td>—</td>
<td>186</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>Mature economy output growth</td>
<td>+</td>
<td>+</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Domestic output growth</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Pull</td>
<td>Asset return indicators</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td></td>
<td>Country risk indicators</td>
<td>-</td>
<td>—</td>
<td>—</td>
<td>-</td>
</tr>
</tbody>
</table>

\[\text{Source: Koepke (2015)}\]
Oftentimes, the term “capital” doesn’t have the same connotation as that of stock of money like capital stock owned by a company shareholder, which social science seemed to have developed the term to broadly mean “intellectual capital” as well. However, this study only concentrated on the former mentioned or money, which flowed in and out of a country’s economic system in accordance with the realm of innovative strategic positioning.

Then, what is an innovative strategic positioning of a CFM? Innovative strategic positioning of a CFM is hereby defined as a strategy tool in the form of a four-quadrant matrix, which identifies the strategic positioning of a certain country pertaining to the performance of its capital flows mobilization. It innovatively seeks to meet the formulated requirements of how mobilization of capital flows must be managed. Thus, ISP of CFM is fundamentally a function of the innovative strategic positioning.

\[
\text{ISP of CFM} = f(x, y), \text{ or } \\
\text{ISP of CFM} = f(\text{CFM strategies, GC level of risk}), \text{ where} \\
\begin{align*}
  x & = \text{CFM strategies}, \\
  y & = \text{Granger-causality (GC) level of risk (} p = 0.05) 
\end{align*}
\]

Quadrant 1 = Regional CFM growth for economic development, incl. poverty eradication, adequate employment opportunity, improving quality of life, and environmental changes;
Quadrant 2 = CFM in selected priority-based and strategic nonimport industries;
Quadrant 3 = CFM liberalization policies (formulation and implementation); and
Quadrant 4 = CFM liberalization policies and CFM risk diversification.

Lucareli (2012), quoted a well-known economist, Joseph Schumpeter, who had introduced the concept of innovation economics, which included the connotation of mobilization of capital flows in an economic system. Stemming from Schumpeter’s theory on innovation, the UNCTAD secretariat (2015) developed capital flow strategies to help developing countries to deliver economic growth, which, in

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Legend: Reg. CFM g = Regional CFM growth. SNII = Strategic nonimport industries. LP = Liberalization policies. LP&RD = Liberalization policies & risk diversification.
its conception, covered those of the banking system capital flows, capital market funds, inward foreign direct investment or FDI, and the openness of these capitals to support regional economic system. Guarnaschelli et al. (2017) representing the Dalberg Global Development Advisors, conceptualized a definition of innovative financing as that which focuses on eradicating poverty, raising living standards, protecting the environment, and collaboration between the private and public sectors for the best interest of the country. Refer to Figure 1 for the conceptual framework and Table 2 for the CFM components.

The private sector participation is indeed imperative to develop this ISP of CFM, a mobilization that fundamentally seeks to achieve economic growth and the improvement of a country’s living quality. Hoek (2018), representing UNCTAD, reported that some US$2.18 trillion had been contributed by the world’s private sectors toward the development of the ICT industries (US$0.24 trillion), transport (US$0.47 trillion), energy (US$0.69 trillion), and overcoming climate change (US$0.78 trillion). Unfortunately, out of this amount the developing countries only enjoyed a smaller pie of 27.1% compared with that of 44.0% for the developed countries. An ISP of CFM must be ideally implemented for the consumption of the developing countries’ sustainable development. Nowadays, the mobilization of these capital flows seemed to be most of the developed as well as developing countries’ priority. Koenig and Jackson (2016) also shared experiences with their German clients that participated in the US$2.5 trillion projects in reducing poverty, eliminating hunger, and mitigating climate change. Even though these authors were disappointed with this innovative CFM core philosophy of “risk, return, and exit” – the fact was that these private sectors did contribute using their CFM for the betterment of their clients in the developing countries.

It is therefore the purpose of this study to explore how this ISP of CFM among the five original ASEAN countries interacted during the period after the 1998 Asian financial crisis to the year 2017.

The fundamental theories underlying the economic leadership for driving CFM for the benefits of the ASEAN’s people stem from the requirements of how CFM is successfully managed. The Schumpeterian concept of CFM is mainly capitalized on the credit creation as the monetary complement of innovation and economic development, as argued by Lucarelli (2012). He seemed to cite part of Schumpeter’s theory on economic growth and development using endogenous capital machiner-

<table>
<thead>
<tr>
<th>Subscript</th>
<th>RATIOS (Formula)</th>
<th>INTERPRETATION OF THE RATIOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>Δ C and Δ C/Δ S</td>
<td>The higher the growth and Δ L/Δ S, the better</td>
</tr>
<tr>
<td>S</td>
<td>Δ S, Δ S/Δ DI, AS/Δ FDI</td>
<td>The higher the growth and Δ S/Δ DI, the better</td>
</tr>
<tr>
<td>Cap</td>
<td>Δ Cap</td>
<td>The higher the market cap., the better</td>
</tr>
<tr>
<td>I</td>
<td>Δ (DI + FDI)/Δ GDP</td>
<td>The higher, the better</td>
</tr>
<tr>
<td>TOP</td>
<td>- (Export + Import)/GDP</td>
<td>The higher, the better</td>
</tr>
<tr>
<td></td>
<td>- Outward FDI/GDP</td>
<td>The higher, the better</td>
</tr>
<tr>
<td></td>
<td>- Inward FDI/GDP</td>
<td>The higher, the better</td>
</tr>
</tbody>
</table>

Legend: C = Loans to private sectors. S = Savings and deposits. Cap = Capital market financing (capitalization). I = Domestic investment (DI) + Foreign direct investments (FDI), and TOP = Trade openness (comprising of trade volumes, inward and outward FDI’s of ASEAN countries).
ies. While Shende (2018) from the United Nations organization argued that the central challenge to an increased volume and effectiveness of development financing is to create a stable foundation to mobilize, attract, and use all CFM sources, he also cited the experience of the developing countries’ 70% use of foreign aids in the 1970s compared with only 20% nowadays. The focus of most CFM of financing resources nowadays is on trade financing, inward and outward FDIs, an international capital/money market funds. Edwards (2000) then synthesized this Schumpeterian concept into a correlation among volatile CFM, currency instability, and the threat of regional contagion on the emergent economies of Latin America, Southeast Asia, and Eastern Europe.

Bush, Farrant, & Wright (2011) clearly link capital flows to capital mobility based on the famous neoclassical economist John Maynard Keynes’ comment from his observation that capital flight preceding World War II was due to the economic turmoil. The above stand was even strengthened by Gagnon (2007) who highlighted Veblen’s economic theory pertaining to how control of main productive economic assets leads to the core of capital’s earning capacity, in which he elaborated on what this famous neoclassical economist said about the power of CFM in developing business. In spite of this empirical result of CFM, on the same theory of power and capital of Veblen, Mayhew (1996) contended that one CFM components, which is the foreign direct investment (FDI), does function as the motor of economic growth. This runs counter to the many empirical studies that have proven components of CFM do cause economic growth.

**Four-Quadrant Leadership Strategic Positioning Matrix**

In the positioning of the ASEAN countries’ leadership in CFM, the study adopted the game theory’s four-quadrant matrix positioning that measured the CFM indicators (on the x axis) and their Granger causality level of significance (on the y axis). The Encyclopaedia Britannica reported on John Hadley, who first invented the matrix analysis in 1730, when he first measured the altitude of the sun and star above the horizon to find the geographic position of the sea (retrieved from https://www.britannica.com/biography/John-Hadley#ref235300). Gourinchas (2012), who patronized the concepts of the neoclassical economists, studied the function of productivity (as the horizontal axis) to capital flow mobilization (as the vertical axis). He concluded that countries with higher productivity would have the propensity to make more outward FDIs or receive more inward FDIs.

In a systematic order, the theories involved on the ISP of CFM are presented here-with. First, on maintenance of high growth CFM, Bush et al. (2011) in addressing the post-Keynesian view clearly indicated the importance of maintaining CFM high growth at any point of time, as it has the effect of creating financial turmoil as evidenced by the 2008 US financial crisis. Milne (2014) in support to the post-Keynesian economic strongly advised for risk diversification to be implemented in the capital flows controls for a high level of CFM stability. Second, on CFM refocus by risk, Devereux and Saito (2006) advised on the application of the Markowitz modern portfolio model in the selection of international capital market flows due to
the different characteristics of hedging consumption risk in each country. A portfolio of capital market flows, e.g., Eurobond investment and FDI, is worth exploring. Third, on CFM liberalization, Sedik and Sun (2012) presented an empirical finding on the emerging economy, as in China, achieving higher CFM, higher GDP, lower inflation rate, and higher equity return. On the same count, Klein and Olivei (2008) concluded that countries with a liberalized capital policy had a significantly greater financial depth, most probably for the next 20-year period, in addition to greater economic growth.

In support of the earlier mentioned economists’ comments, Raffer (2015) confirmed that the importance of CFM through the development of the neoliberalism in controlling capital flows and specialization must be encouraged in the implementation of any strategic positioning like that discussed in this study (Refer to Table 4).

Research Gap, Contribution and Implication

What made the study apparently necessary for dissemination was the lack of literature on innovative strategic positioning or ISP, even though the individual components that constituted CFM growth, strategic nonimport industries, liberalization policies, and risk diversification were widely published and included in the related literature. Another reason for the gap is the importance of presenting the above components as a strategic positioning to solve CFM issues. The study clearly seeks to contribute to the body of knowledge in the field of strategic management and financial economic development, which are needed by policymakers in the economic development authority agency, investment coordinating board, and the related government and private sectors.

METHODOLOGY

The study descriptively and inferentially focused on the exploration of how the longitudinal unbalanced panel data of the original ASEAN countries’ economic indicators from the year 2000 to 2016 were analyzed in a four-quadrant positioning matrix after confirming the level of Granger causality to their ∆ GDPs in terms of their 0.05 significance ($p$). The matrix plotted and identified these analyzed economic indicators to determine the strategic positioning of the five original ASEAN countries’ CFM (For the economic indicators, refer to Table 3). The study had used a nonparametric statistical method to explore the rank differences among the original ASEAN countries. Specifically, the first question was nonparametrically answered using the Kruskal Wallis test of differences formula as that given by Broto (2008).

<table>
<thead>
<tr>
<th>Coordinate</th>
<th>QUADRANT</th>
<th>STRATEGY</th>
<th>RATIONALE (Underlying Theory)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2 ½-5, 2 ½-5)</td>
<td>1</td>
<td>Maintain CFM high growth</td>
<td>Continuous development = f (CFM) (Post-Keynesian Investment Theory)</td>
</tr>
<tr>
<td>(2 ½-5, 1-2 ½)</td>
<td>2</td>
<td>Refocus CFM by risk</td>
<td>Risk diversification to refocus CFM (Modern Portfolio Theory or MPT)</td>
</tr>
<tr>
<td>(1-2 ½, 1-3 ½)</td>
<td>3</td>
<td>Total CFM liberalization</td>
<td>Liberalization to motivate CFM (Liberalism Theory)</td>
</tr>
<tr>
<td>(1-2 ½, 2 ½-5)</td>
<td>4</td>
<td>CFM liberalization &amp; risk</td>
<td>Next to liberalization is diversified risk</td>
</tr>
</tbody>
</table>

Table 4. Strategy and Rationale for the CFM Positioning Matrix
The main \( H_0 \) for the first question was delimited to the unbalanced panel data of the economic indicators of innovative CFM of the five original ASEAN countries. The second question simply ranked the analyzed economic indicators of the five ASEAN countries’ CFM, including that of their GDPs (in purchasing power parity) and growth. Details of the economic leading indicators are presented in Table 4. The third question was answered using a four-quadrant matrix analysis of the countries’ CFM. The two main axes were the CFM economic indicators on the horizontal axis and the Granger causality 0.05 level of significance from the two-tailed distribution in order to determine the level of risk of \( \text{CFM} = f(\text{GDP}) \) on the vertical axis. The stochastic data on Granger causality level of significance for measuring the risk were obtained from Gulzar (2018).

RESULTS AND DISCUSSION

The study, which sought to observe the leading indicators of CFM as a function of how the five original ASEAN countries were positioned as economic leaders in the mobilization of capital flows, resulted in rejecting the \( H_0 \) that the ASEAN countries’ ranks of the CFM indicators did not nonparametrically differ. At the df (60), the computed \( H (198.0) \) seemed to be far above the critical value \( H (43.2) \) at the 0.05 level of significance and \( H (37.5) \) at the 0.01 level of significance. It indicated that the CFM performance among the five original ASEAN countries differed significantly (Refer to Table 6).

<table>
<thead>
<tr>
<th>ISP Indicators</th>
<th>Country</th>
<th>( p ) (sig.) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving deposit</td>
<td>Singapore</td>
<td>0.006</td>
</tr>
<tr>
<td>Private loan flows</td>
<td>Thailand</td>
<td>0.049</td>
</tr>
<tr>
<td>Profitability</td>
<td>Thailand</td>
<td>0.042</td>
</tr>
<tr>
<td>Capital market mobilization</td>
<td>Singapore</td>
<td>0.023</td>
</tr>
<tr>
<td>Direct investments</td>
<td>Indonesia</td>
<td>0.031</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>0.002</td>
</tr>
<tr>
<td>FDI</td>
<td>Indonesia</td>
<td>0.012</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>0.038</td>
</tr>
<tr>
<td>Trade openness</td>
<td>Malaysia</td>
<td>0.047</td>
</tr>
<tr>
<td></td>
<td>Singapore</td>
<td>0.014</td>
</tr>
</tbody>
</table>

*Average \( p \): Indonesia (0.022), Malaysia (0.025), Thailand (0.043), Singapore (0.011), and >0.05 for Philippines.

<table>
<thead>
<tr>
<th>Country</th>
<th>( n )</th>
<th>( \text{Average } R )</th>
<th>Result</th>
<th>Interpreted CFM Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>13</td>
<td>3.31</td>
<td>Fourth</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>13</td>
<td>2.15</td>
<td>First</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>13</td>
<td>3.08</td>
<td>Third</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>13</td>
<td>3.28</td>
<td>Second</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>13</td>
<td>3.92</td>
<td>Fifth</td>
<td></td>
</tr>
</tbody>
</table>

\( H \) critical value * 198.0

Significance at df (60):
Level 0.05: 43.2  Significantly differed
Level 0.01: 37.5  Significantly differed

\( *H = \frac{12}{n(n+1)} \sum \frac{R_i^2}{n_i} - \frac{3(n+1)}{2} \), where \( H \) = Kruskal Wallis test, \( R_i \) = rank order, \( n \) = Observation and constant

Table 5. Granger Causality (GC) Level in Terms of \( p (<0.05) \) CFM = \( f(\text{GDP}) \) by ASEAN Countries

Table 6. \( H \) (df = 60) of CFM Ranks of the Original Five ASEAN Countries
These differences were reflected in the result of the analysis. First, Indonesia, which many expected to be the economic leader in ASEAN, didn’t seem to demonstrate this, as it was only ranked fourth. Indonesia’s relatively large GDP of US$3.2 trillion as of 2017, in contrast with US$0.5 trillion achieved by Singapore, didn’t necessarily authorize the nation to be called an economic leader in ASEAN. Second, in terms of trade openness, Singapore undoubtedly demonstrated an outstanding position with a composition of 213% in percentage of GDP (ppp) in its international trades volume (Ex. and Im.). Its outward FDIs and FDIs at home contributed some 52% and 78%, respectively. Malaysia then came in as the second contributor in TOP. Third, investment growth multipliers showed a striking difference between the lowest 5% experienced by the Philippines to the highest 665% by Thailand. Fourth, the growth of primary capital market funds accumulation also showed a large difference, as that shown by a low 4% in Singapore compared with a high 50% in Malaysia. Fifth, in terms of banking credit accumulation multipliers, Singapore demonstrated the lowest multiple of 3.8 times compared with that of Malaysia at 11.6 times. This evidence pointed to the fact that there were significant differences in the ranks of the ASEAN CFMs (Table 7).

The answer to the second research question was evidently demonstrated by the same as that shown in Table 7 With an average Rn of 2.15, Malaysia occupied the first rank followed by Singapore (Rn = 2.38) in the second position. Thailand, Indonesia, and Philippines were positioned as the third, fourth, and fifth rank, respectively. This is another indication that Indonesia is not yet generally imputed as an economic leader in ASEAN.

In response to research question three, the average ranks of the original ASEAN countries’ CFM and the GC level of risk of $\text{CFM} = f(GDP)$ were depicted as an intersection of the $x$ and $y$ axes.

<table>
<thead>
<tr>
<th>LEADING INDICATORS</th>
<th>Ind</th>
<th>Mlsy</th>
<th>Thai</th>
<th>Sing</th>
<th>Phil</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (in ppp) growth – 2017*</td>
<td>9.8</td>
<td>8.7</td>
<td>6.6</td>
<td>9.5</td>
<td>6.3</td>
</tr>
<tr>
<td>GDP/capita (in USD ppp) - 2017</td>
<td>12,400</td>
<td>28,900</td>
<td>17,800</td>
<td>90,500</td>
<td>8,200</td>
</tr>
<tr>
<td>GDP growth %*</td>
<td>10</td>
<td>0</td>
<td>-3</td>
<td>2</td>
<td>-3</td>
</tr>
<tr>
<td>S growth %*</td>
<td>34</td>
<td>97</td>
<td>90</td>
<td>97</td>
<td>45</td>
</tr>
<tr>
<td>(DI+FDI) growth %*</td>
<td>-1</td>
<td>7</td>
<td>-4</td>
<td>79</td>
<td>-11</td>
</tr>
<tr>
<td>S growth %/(DI) growth %*</td>
<td>995</td>
<td>1162</td>
<td>483</td>
<td>382</td>
<td>551</td>
</tr>
<tr>
<td>C growth %</td>
<td>44</td>
<td>114</td>
<td>118</td>
<td>76</td>
<td>46</td>
</tr>
<tr>
<td>C growth %/SD growth %</td>
<td>127</td>
<td>128</td>
<td>131</td>
<td>77</td>
<td>103</td>
</tr>
<tr>
<td>Market cap. growth %*</td>
<td>-15</td>
<td>-50</td>
<td>-26</td>
<td>4</td>
<td>-19</td>
</tr>
<tr>
<td>(DI+FDI) growth %GDP growth</td>
<td>-38</td>
<td>193</td>
<td>-665</td>
<td>-172</td>
<td>-5</td>
</tr>
</tbody>
</table>

| Trade & investment openness:                |     |      |      |      |      |
| Inward FDI/GDP (%)*                        | 5   | 13   | 11   | 78   | 4    |
| Outward FDI/GDP (%)*                       | 1   | 12   | 3    | 52   | 2    |
| (Ex. + Im.)/GDP(%)*                        | 16  | 71   | 42   | 213  | 22   |
| Average rank (Rn)                          | 3.31| 2.15 | 3.08 | 2.38 | 3.92 |

Both Malaysia and Singapore seemed to be positioned on the first quadrant, which must adopt the high-growth maintenance strategy. Indonesia and Thailand were positioned in the fourth quadrant, leaving the Philippines in the third quadrant. Based on the analysis results, Table 8 shows the following final ranks intersection: Indonesia (2, 3), Malaysia (5, 4), Thailand (3, 2), Singapore (4, 5), and Philippines (1, 1). And the above-mentioned coordinates ($x, y = \text{CFM, level of risk}$) of each ASEAN country was depicted on the four-quadrant matrix to identify its positioning in the contribution of CFM performance in the region. The analysis revealed that Malaysia and Singapore, even though they were much smaller economies than Indonesia, were supposed to be countries with characteristics of economic leadership in CFM contribution in the region. (Refer to Figure 2.)

**THEORETICAL IMPLICATION**

CFM indicators served as appropriate indicators to determine the leadership role among the five original ASEAN countries. Further research can consider using CFM in the future to compare the economic performance of different countries. It is also recommended to perform a similar study in the future to explore whether the ranking of the five original ASEAN countries in this paper changes over time.

**MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT**

The results of this study are valuable for determining the strategic position of the capital flow mobilization or CFM leading in South East Asian countries. It will also enhance the fundamental role of a country in protecting countries from financial turbulences and also on the effectiveness of monetary policy. Based on the results:

<table>
<thead>
<tr>
<th>CFM Rank</th>
<th>Scale</th>
<th>Country</th>
<th>GC Rank</th>
<th>Scale</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.15</td>
<td>5</td>
<td>Malaysia</td>
<td>&gt;0.05</td>
<td>1</td>
<td>Philippines</td>
</tr>
<tr>
<td>2.38</td>
<td>4</td>
<td>Singapore</td>
<td>0.018</td>
<td>5</td>
<td>Singapore</td>
</tr>
<tr>
<td>3.08</td>
<td>3</td>
<td>Thailand</td>
<td>0.028</td>
<td>2</td>
<td>Thailand</td>
</tr>
<tr>
<td>3.31</td>
<td>2</td>
<td>Indonesia</td>
<td>0.020</td>
<td>4</td>
<td>Malaysia</td>
</tr>
<tr>
<td>3.92</td>
<td>1</td>
<td>Philippines</td>
<td>0.022</td>
<td>3</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

**Figure 2.** Positioning Matrix of ASEAN Leadership in CFM Indicators

<table>
<thead>
<tr>
<th>4th QUADRANT: LOW CFM, LOW RISK</th>
<th>1st QUADRANT: HIGH CFM, LOW RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>x Indonesia (2,3)</td>
<td>x Singapore (4,5) x Malaysia (5,4)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3rd QUADRANT: LOW CFM, HIGH RISK</th>
<th>2nd QUADRANT: HIGH CFM, HIGH RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>x Philippines (1,1)</td>
<td>x Thailand (3,2)</td>
</tr>
</tbody>
</table>

Legend: *Horizontal axis – capital flow mobilization (CFM). Vertical axis – Granger causality (GC) 0.05 level of significance. Quadrant 1 (fast jet aeroplane transport=high CFM, low risk); Quadrant 2 (fast propeller aeroplane transport=high CFM, higher risk); Quadrant 3 (slow motorcycle transport=low CFM, high risk); Quadrant 4 (slow cruiser transport=low CFM, low risk).*

**Table 8.** Summary Positioning of CFM and GC Level of Significance
of their positioning, each country can then determine relevant strategies for future development. Countries which fall behind on several indicators can then assess and determine how to boost their economic performance.

CONCLUSION

Based on the discussion of the results, the findings are summarized as giving rise to the significant differences in the ranks of the five original ASEAN countries in their innovative CFM performance with Malaysia and Singapore occupying the leading positions, even though they are much smaller economies than that of Indonesia. The trade and investment openness of these two ASEAN countries demonstrated a strikingly larger level of involvement from the rest. The study therefore concluded that the leading economic indicators in CFM positioned Malaysia and Singapore in the high ISP of CFM growth strategy, followed by Thailand with the refocus CFM by risk strategy. Indonesia was positioned in the fourth quadrant, which required a CFM liberalization and risk diversification in its CFM. Last, the Philippines occupied the third quadrant, which required CFM liberalization without any direction to further diversify in CFM risks yet. Nevertheless, the patterns of economic growth and regional integration in ASEAN Granger caused the CFM to be recognized as important for further study.

REFERENCES


