Faculty Economics and Business Building UIN Syarif Hidayatullah Jakarta
Jl. Ibn. Sina IV, Ciputat 15412
Telp. (021) 22744610, Fax. (021) 7496006
Email: etikonomi@uinjkt.ac.id
Website: http://journal.uinjkt.ac.id/index.php/etikonomi

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Editorial Office
Faculty Economics and Business Building UIN Syarif Hidayatullah Jakarta
Jl. Ibn. Sina IV, Ciputat 15412
Telp. (021) 22744610, Fax. (021) 7496006
Email: etikonomi@uinjkt.ac.id
Website: http://journal.uinjkt.ac.id/index.php/etikonomi

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The Prospects and The Competitiveness of Textile Commodities and Indonesian Textile Product in the Global Market

Dwi Prasetyani[1*], Ali Zainal Abidin[2], Nanda Adhi Purusa[3], Fahrein All Sandra[4]
*Corresponding author

Abstract. *This study has two objectives: first, to test the competitiveness of Textile Commodities and Indonesian Textile Product (TPT) in the global market and identify the prospects of the new export markets. Second, identify the competitiveness of the textile industry using case studies in the Solo Raya region. The Revealed Comparative Advantage (RCA) and Export Product Dynamics (EPD) methods are using in this study. The results show that Indonesian TPT commodities have a lost opportunity category in the central export destinations countries, such as a decline in market share. Indonesian TPT commodities have prospects in Austria, Canada, Finland, Norway, Portugal, Qatar, and Sweden due to competitiveness and domination in the market. Besides, the condition of the Indonesian textile industry competitiveness shows low competitiveness in terms of factor conditions, demand conditions, supporting and related industries, strategy, structure, and competition that are components of Porter's diamond model.*

Keywords: *competitiveness, textile products, comparative advantage, export product dynamics, Porter's diamond model*

JEL Classification: L6, L67

Abstrak. *Penelitian ini memiliki dua tujuan: pertama, untuk menguji daya saing komoditas tekstil dan produk tekstil Indonesia (TPT) di pasar global dan mengidentifikasi prospek pasar ekspor baru. Kedua, mengidentifikasi daya saing industri tekstil menggunakan studi kasus di wilayah Solo Raya. Metode revealed comparative advantage (RCA) dan ekspor produk dinamika (EPD) digunakan dalam penelitian ini. Hasilnya menunjukkan bahwa komoditas TPT Indonesia memiliki kategori lost opportunity di negara tujuan ekspor utama, seperti penurunan pangsa pasar. Komoditas TPT Indonesia memiliki prospek di Austria, Kanada, Finlandia, Norwegia, Portugal, Qatar, dan Swedia karena daya saing dan dominasi yang kuat di pasar. Selain itu, kondisi daya saing industri tekstil Indonesia menunjukkan daya saing yang rendah dalam hal kondisi faktor; kondisi permintaan; industri pendukung dan terkait; strategi, struktur, dan kompetisi yang merupakan komponen dari model berlian Porter.*

Kata Kunci: *persaingan, produk tekstil, keunggulan komparatif, produk ekspor dinamika, model berlian Porter*

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[1,2,3,4] Sebelas Maret University, Jl. Ir. Sutami, No. 36A, Surakarta, Central Java, Indonesia
E-mail: [1]nd_prasetyani@yahoo.com, [2]alihabsy11@gmail.com, [3]nandapurusa@gmail.com, [4]fahrein.allsandra@gmail.com
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Introduction

The Textile Industry and Textile Products (TPT) has become one of the national flagship industries as contained in the 2015-2035 National Industrial Development Plan (RIPIN) Master Plan document. This flagship industry is a priority industry that plays a role as a prime mover of the future economy. The positive performance of this industry can see from the total production of textiles, which consistently grew from 2013 to 2017. This study used data from 2013-2017 due to data availability issues. Based on constant prices in 2010, total textile production continued to increase from Rp 116.56 trillion in 2012 to Rp 150, 43 Trillion in 2017 with an average annual growth of 1.25 percent (Indonesian Textile Association, 2018). The focus is on developing export areas. This study aims to find new export areas. Similar to the other research is Quality Function Deployment (QFD), which is a quality development methodology that demonstrates the precise customer needs into technical solutions. The purpose of the QFD methodology is to connect customer requirements and technical solutions. This method supports to define the customer and market-business expectations by a group of tools-house of quality and combined (Erdil, 2019).

Sabonien et al. (2014) analyzed the exogenous factors of low-tech industries' competitiveness in Lithuania. They found that the importance of these factors has been examined at the example of Lithuanian textile and wearing apparel sectors with the help of an expert survey. On the other hand, Shen & Li (2019) examine the impact of clean technology adoption on the textile supply chains with environmental taxes. The adoption of green technology can enhance product greenness and reduce unit production costs. This study finds that optimal greenness levels are increasing in environmental taxes, and when the coefficient of competition is higher, the greenness level is also higher.

In the latest study, Zhao & Lin (2020) demonstrate positive feedback between foreign trade and energy efficiency in the textile industry, with imports impacting energy efficiency more than doing exports. Another empirical study in China from Guan et al. (2018) revealed that the country has a large textile industry base and still significantly contribute to China's economic growth since the old-time up to these days. However, there are still some obstacles, such as increased domestic production costs, uncertainty in both domestic and international markets, and trade barriers. This study revealed that labor, demand conditions, strategies, the structure of the textile industry, policies, and opportunities have a positive impact on the export value and the ratio of the export of Chinese textile to world exports. In contrast, raw materials and capital have negative impacts.

Meanwhile, studies conducted by Parrish et al. (2008) show that the United States TPT industry can remain competitive in global competition. This research proves that US textile companies encourage innovation in the supply chain from suppliers and consumers. Also, successful strategies for creating excellence for United States products compared to products from other countries include research and development, marketing, and services. The TPT industry has always been the top three in contributing to the value of Indonesia's non-oil exports. Even from 2012 to 2016, the textile industry was the second rank in its contribution to the value of Indonesia's non-oil exports, while the first rank is the food industry whose export value is quite far from the value of other commodity exports. (See Figure 1).

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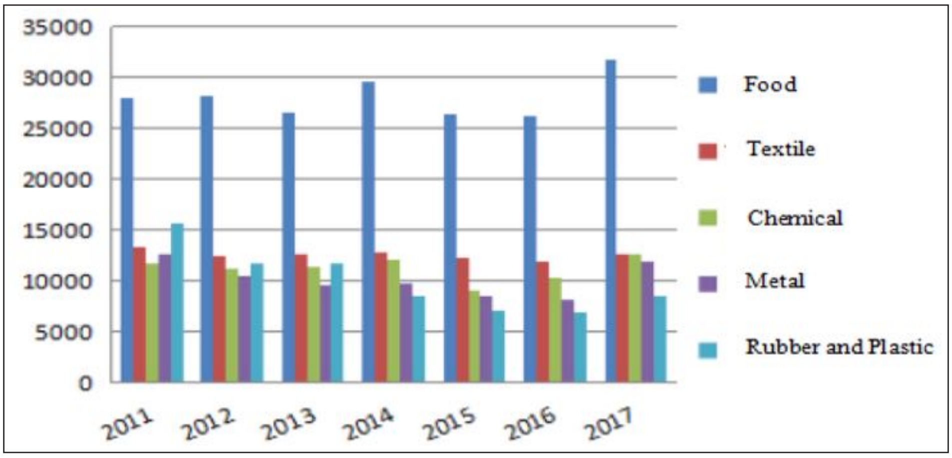
Figure 1. Five Greatest Indonesian Non-Oil and Gas Industries Exports Values between 2011-2017

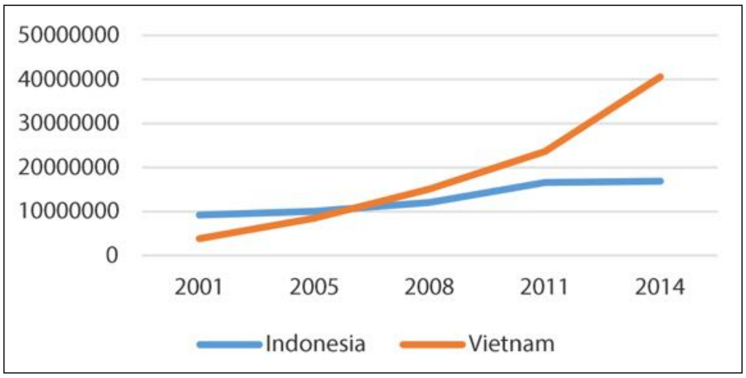


Source: Central Bureau of Statistics (2019)

Figure 1 shows that the export commodities of Indonesian textile Products have not gotten significant development, although the trade balance is still a surplus every year. Indonesia's TPT commodity share is only 1.27 percent of the total world textile exports, and Indonesia ranks 20th as an exporter of textile Products (World Integrated Trade Solution, 2019). The regions that are the main export destinations for Indonesian TPT commodities are the United States of America at 32.34 percent, followed by the European Union at 14.97 percent and Japan at 10.08 percent.

While in the ASEAN region, Indonesia became the most significant textile exporting country until 2007. A year later, Vietnam outperformed the export value of Indonesian textile and became more decreased in the following years, as can be seen in Figure 2. This situation is to be the impact of reaching an agreement between the Vietnamese state and the World Trade Organization (WTO) in 2007 that was able to open new export markets with low charge (Hamid & Aslam, 2017). The competitiveness of Indonesian workers in the TPT industry is also lower compared to Vietnam. Problems that trigger the low competitiveness of Indonesian workers include occupational health and safety, training, fewer working hours, timeliness of payment, and harassment of workers (Wahyuni & Boeditomo, 2015).

Figure 2. The Indonesian and Vietnamese textile Products Export Values (in Thousand US Dollars)



Source: World Integrated Trade Solution (2019)

The data is a reflection of the textile industry in Indonesia, where many factors trigger competitiveness itself. Based on these conditions, researchers are encouraged to make a more profound identification of the competitiveness of textile commodities and textile products, which are also one of Indonesia's leading non-oil and gas export commodities. This research will test two things, product competitiveness in the global market and industry competitiveness. The competitiveness of Indonesian TPT products or commodities in the global market will be analyzed using Revealed Comparative Advantage (RCA) and Export Product Dynamics (EPD) so that the research also reveals the prospects of countries becoming new export markets for Indonesian TPT commodities. Competitiveness can interpret as the ability of a commodity to be able to enter foreign markets and survive in the dynamics of the market.

In line with this, competitive products are certain products that are always in demand. A competitive advantage, which is a differentiator from the others, has been modified and classified into a natural advantage and acquired advantage (Susilo, 2013). The competitiveness can also show from the availability of cheap and abundant labor, abundant natural resource ownership, the influence of government policies, and differences in management practices (Porter, 1998). In the international trade perspective, when a country does not have an absolute advantage, they can still do production by considering the comparative advantage they have so it could create competitiveness. Heckscher-Ohlin's theory emphasizes that labor-intensive countries must focus on production that relies on labor-intensive while countries with higher capital intensity focus on the production of capital-intensive goods (Salvatore, 2014). Indirectly the mechanism is also related to the competitiveness of a country. The performance of the industry also influences competitiveness.

The analysis of the competitiveness of the TPT industry uses Porter's Diamond model with a case study of textile companies in the Solo Raya region. It is because the Solo Raya TPT industries are considered a barometer of the national TPT industry. Also, there is the largest TPT company in Southeast Asia in this region, such as PT Sri Rejeki Isman, which is consistent with integrated production from raw material processing to the garment, then it can be used as a benchmark. Besides, in 2015, the government also started to develop the textile industry in the region by diverting a large part of the TPT industry's investment, which previously was 40 percent spread in West Java Province. The textile products investment start in 2015, which is amounted to Rp 4.6 trillion with 188 projects and projected to absorb a workforce of 79,131 people. Based on all the previous studies above, it can show that most of the research discussed the factors; either endogenous or exogenous ones, behind market competitiveness for textile industries in some countries. The research gap between these studies will be the lack of exploration within the competitiveness scope itself. Especially since the previous studies only told us about the China and US textile markets, and not the South East Asian areas, including Indonesia as an emerging country for textile commodities exports.

Therefore, this study implies exploring the effectiveness of Indonesian textile products and its' prospects in the global market. The contribution within the study will be about identifying the new potential markets for Indonesian textile commodities in certain countries across the globe. Such contribution will boost the textile exports as well as the Indonesian economy in general. If such possibilities may happen shortly, then Indonesia may have

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the chance to become one of the biggest textile exporting country in the world. Thus, this research has the purpose of identifying both the prospects, competitiveness, and potential new markets for Indonesian textile commodities in the upcoming future.

Methods

Revealed Comparative Advantage (RCA)

This method is using to measure the competitiveness and superiority of Indonesian textile commodities and textile products in the global market. According to Tambunan (2008), every country that has a comparative advantage over the production and goods export is a country with a higher total export percentage than the share of the same goods in total world exports. To see the competitiveness of Indonesian TPT products (RCA and EPD) in the global market using secondary data from 2015-2017. There are 76 countries analyzed, and these countries have trade agreements and are in the stage of filing with Indonesia. The data obtained from the World Integrated Trade Solution.

The general formula used in the Revealed Comparative Advantage (RCA) method is as follows (Hadzhiev, 2014):

$$RCA = (X_{ij} / X_t)/(W_{ij} / W_t)$$

Where: RCA is the level of competitiveness of Indonesian Garment in the importing country; X_{ij} is the Indonesian Garment exports value in the importing country; X_t is the total export value of Indonesian products in the importing country; NW_{ij} is the world Garment exports value in the importing country; W_t is the total export value of world products in the importing country

The interpretation of the RCA index is based on the classification that has been described by Hinloopen & van Marrewijk (2008). First, Class a that has a values range from 0 - 1. Covers all products from countries where competitiveness is unknown. Second, Class b, the values range in the interval of 1 - 2. Having weak competitiveness. Third, Class c, the difference in RCA value in the interval of 2 - 4. Having medium competitiveness. Fourth, Class d, the RCA Value > 4, it means having strong competitiveness.

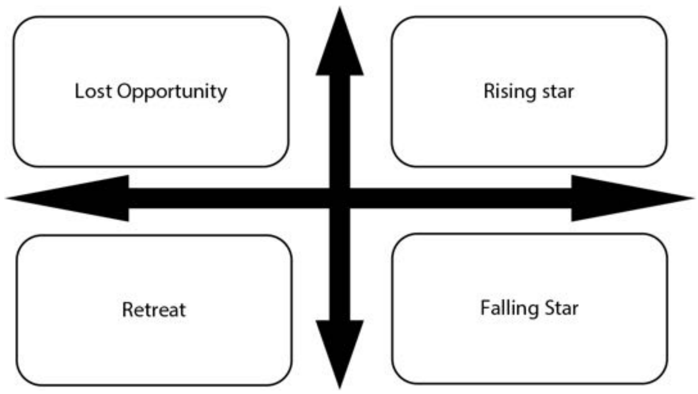
Export Product Dynamics (EPD)

EPD (Export Product Dynamics) analysis functions to identify the competitiveness of a product and to find out the product performance in dynamic or undynamic conditions (Zuhdi & Suharno, 2015). According to Esterhuizen (2006), if a product has an export growth value that exceeds the average export value continuously, then the product is likely to become the primary source of income for a country. These products can compete in the international market level.

Based on Figure 3, the Export Product Dynamics method consists of four categories that show the attractiveness and strength of the product. First, rising star. This category shows that a country is gaining an additional share of the fast-growing textile market. Second, lost opportunity. This category comes with the condition when a dynamically moving TPT has a decreased market share, where the TPT supply in the world is higher than the supply of

Indonesian TPT. Third, a falling star. This category is almost the same as the lost opportunity category. It means that this category shows the TPT market share, which continues to increase. Fourth, retreat. This category shows a setback from TPT. Generally, this category provides a positive trend if the movement away from a stagnant position towards a dynamic condition.

Figure 3. Market Attractiveness and Business Strength in EPD



Source: Esterhuizen (2006)

The formula used in the Export Product Dynamics method. First, to determine the growth of business strength (X-axis), we use the following equation:

$$X - axis = \frac{\left(\frac{X_{ij}}{W_{ij}}\right)t \ x \ 100\% - \sum_{t=1}^{t}\left(\frac{X_{ij}}{W_{ij}}\right)t-1 \ x \ 100\%}{T}$$

Second, to determine the growth of market attraction (Y-axis), we use the following equation:

$$Y - axis = \frac{\left(\frac{X_{t}}{W_{t}}\right)t \ x \ 100\% - \sum_{t=1}^{t}\left(\frac{X_{t}}{W_{t}}\right)t-1 \ x \ 100\%}{T}$$

Where: X_{ij} is garment export value to the importing country; W_{ij} is the world's garment exports value to the importing country; X_t is the total export value of Indonesian products in the importing country; W_t is the total of world export products to the importing country; T is Number of years of analysis.

Results and Discussion

The competitiveness of Indonesian TPT products is analyzed using the Revealed Comparative Advantage (RCA), which specifically looks at the competitiveness of Indonesian TPT products in each export destination country. The RCA was then re-developed with Symmetric Revealed Comparative Advantage (RSCA) to see whether competitiveness is an advantage or disadvantage. Also, the Export Product Dynamics (EPD) analysis tool is using to see the market position of Indonesian TPT Products in each of the Export destination countries.

The export destination countries analyzed in this study are limited to countries that have a trade agreement or are in the planning stage with Indonesia. Besides, the trade agreement here does not see whether the TPT product is a commodity in the agreement. Based on these groupings, there are 76 countries analyzed in this discussion. Besides, all of these countries

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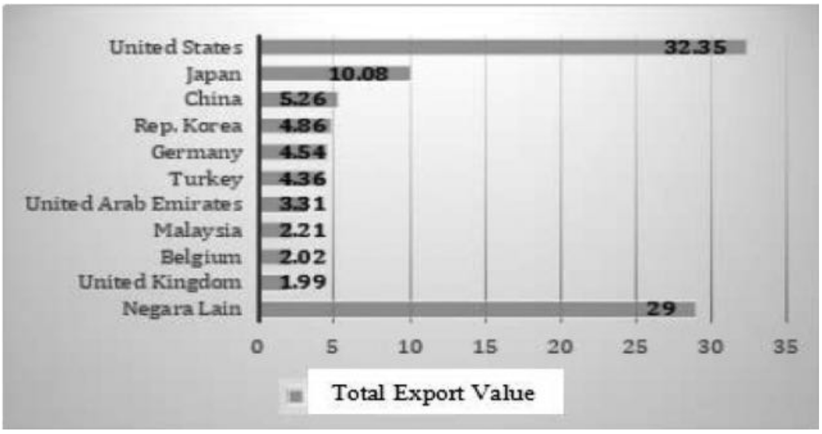
consist of 10 countries that constitute the majority of the Indonesian TPT product export market or the existing export market of Indonesian TPT products, and 66 other countries are analyzed to see the potential for developing new export markets.

The Commodities Competitiveness of Indonesian textile Product in the Existing Export Markets

The Existing Export Markets of Indonesian TPT Products in this study are ten countries with the most significant percentage of export value of Indonesian TPT Products. These countries are the USA, Japan, China, South Korea, Germany, Turkey, United Arab Emirates, Malaysia, Belgium, and the United Kingdom. The total exports of Indonesian textile products to these countries reached 70.98 percent of the total exports of Indonesian textile products.

Figure 4. Indonesian TPT Product Export Destinations



Source: Data Processed

Figure 4 shows the export destinations for Indonesian TPT products based on the highest percentages of export values. From the top 10 country destinations, the United States has the most significant export value percentages, with up to 32.35% from the whole Indonesian TPT products export. Japan becomes the second with 10.08%, and China becomes the third with 5.26% export values percentages for Indonesian TPT products. The rest of the destinations such as the Korean Republic, Germany, Turkey, United Arab Emirates, Malaysia, Belgium, and the United Kingdom have shared below 5% for these commodities export. The other 29% belong to other countries that are not the leading destinations for Indonesian TPT products.

Based on the results of the analysis of RCA, RCA, and EPD from the ten countries that became the destination of Indonesian exports. Table 1 shows that there is a dynamic movement in the potential competitiveness of Indonesian TPT commodities. In Belgium, Turkey, and the United Arab Emirates, Indonesian textile products have very high competitiveness compared to textile products from other exporting countries. Also, Indonesian textile products dominate the textile market in these three countries.

Table 1. The results of the RCA and EPD values of Indonesian TPT products in 10 main destination countries for the 2014-2016 period

No.	Country	RCA Classification (2016)	RSCA Classification	EPD
1	Belgium	Strong Comparative Advantage	Advantage	Rising Star
2	Turkey	Strong Comparative Advantage	Advantage	Rising Star
3	Uni Emirat Arab	Strong Comparative Advantage	Advantage	Rising Star
4	USA	Strong Comparative Advantage	Advantage	Lost Opportunity
5	Germany	Medium Comparative Advantage	Advantage	Lost Opportunity
6	South Korea	Medium Comparative Advantage	Advantage	Lost Opportunity
7	United Kingdom	Medium Comparative Advantage	Advantage	Lost Opportunity
8	Japan	Weak Comparative Advantage	Advantage	Rising Star
9	Tiongkok	Weak Comparative Advantage	Advantage	Rising Star
10	Malaysia	Weak Comparative Advantage	Advantage	Lost Opportunity

Source: Data Processed

In the USA, Indonesian textile products have very high competitiveness compared to textile products from other exporting countries. However, the relative level of production volume and the volume of Indonesian textile products entering the USA is lower than the growth in demand for textile products in the USA. In Germany, South Korea, and the United Kingdom, Indonesian textile products have not been able to excel in competitiveness. Besides, the growth in exports of Indonesian textile products is still lagging when compared to the growth in demand for textile products in the three countries.

For Japan and China, although Indonesian TPT products dominate the markets in both countries, the competitiveness of Indonesian TPT products is in the weak category. It needs to consider because the dominant position of the Indonesian TPT product market in both countries can shift when other exporting countries have TPT products with better competitiveness. The export condition of Indonesian textile products to Malaysia is in a vulnerable position. The competitiveness of Indonesian textile products in Malaysia is in a weak position. This fact was reinforced by the weaker growth rate of Indonesia's textile products exports compared to the growth in demand for textile products in the country.

The New Export Markets for Textile Commodities and Indonesian Textile Products

The analysis of new export markets for Indonesian TPT commodities in this study based on the Focus Group Discussion (FGD) result with some Indonesian Textile Companies. These are additional countries to the ten central export destination countries for Indonesian TPT products mentioned before. The development of new export destinations for Indonesian TPT products focuses on countries where Indonesian TPT products have strong competitiveness, as indicated by the results of RCA (Strong Comparative Advantage), RSCA (Advantage), and EPD in the Rising Star position. Other export destination countries do not mean that they do not have reasonable prospects going forward, but the focus of the study is to look at new

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export destination countries, which are a priority to be developed and can increase the value of Indonesia's TPT commodity exports. Based on the FGD results, the new export markets for Indonesia's TPT commodities are in Austria, Canada, Finland, Norway, Portugal, Qatar, and Sweden.

Data from the World Integrated Trade Solution (WITS) showed contributing indicators regarding these new export destination countries for Indonesian TPT products. Based on the GDP, almost all these countries showed an increasing amount of GDP from 2013-2017. Most of these countries also have high rates of inflation, especially around the year 2016-2017, which happened in Austria, Canada, Finland, Portugal, and Sweden. The rising GDP may trigger higher consumption within these countries, while the high inflation rates may become a benefit for import products such as Indonesian TPT products. These economic situations are blessings so that Indonesia may reach new export markets for textile commodities. Only Qatar and Norway have deflation until the year 2017 (WITS, 2019). There are other data such as the total export values for Indonesian textile products to these countries, both the RCA and EPD calculation, also data about population structures and product segmentations for each country. Based on the FGD with the Indonesian Textile Association (Asosiasi Pertekstilan Indonesia/ API), the additional data support the discussion that these countries can be the new export destinations for Indonesian textile products soon.

Total export values for Indonesian textile products showed excellent measurements for these countries. Canada has the most significant percentages for exporting these Indonesian commodities with 2.26% import values over the whole textile import values in Canada around 2016, while Qatar becomes the second with 2.02% import shares over their whole textile imports in the same year. The rest of the countries only have import shares for Indonesian textile products, around 1% or even below. Finland has 1.13% import shares, Austria and Portugal with 1.1% import shares, Norway with 1.04% and Sweden with the lowest import shares between these countries, with 0.72% import shares for Indonesian textile products over their whole textile import products in 2016 (API, 2018).

Age structures within these new export destination countries showed that most of the countries' population majority is within the age span around 0-64 years old, only in Canada and Portugal, where the number of the higher population is not in such category. Canada has a higher number of the population between 0-14 years old. Therefore the textile products will be segmented to baby clothing and fashion products. While for Portugal, the majority of the population are people who are >65 years old so that the textile products will segment for adults fashion. On the other hand, the rest of the countries with a significant population within the age of 0-64 years old will have product segmentation for both baby clothing and adults fashion products. Based on all these data, the RCA methods and EPD calculations made. The RCA method showed that all these new export destination countries for Indonesian textile products have definite comparative advantages. The EPD calculation also showed that these whole countries categorize as "rising star" for the new Indonesian textile export market. These methods show that Indonesian textile products can compete in all these countries' textile markets, due to high demand in each country and the export growth for these commodities in Indonesia.

The Analysis of the Competitiveness of the Textile Industry and Textile Products

Industry in a country will have competitiveness if the company can be competitive. A country's competitiveness is also determined by the ability of the industry to innovate, which can include technical improvement of the production process and increasing its capacity. Companies gain competitiveness because of pressures and challenges. The company receives benefits from competition in the domestic market, aggressive domestic suppliers, and local markets that have high demand. Differences in cultural values, economic structure, institutions, and history all contribute to success in competition.

Porter (1998) revealed the new ways that usually obtain from changes in the industrial structure. Several things can underlie innovation and shift the competitive advantage. First, the emergence of new technology. Second, shifting consumer needs. Third, the new industrial segments emergence that includes new ways to produce certain goods or new ways to reach groups certainly. Fourth, changes in production costs such as raw materials, transportation, communication, and labor. Fifth, changes in government regulations that can provide a stimulus for industries to innovate and expand marketing or instead provide obstacles for industries to develop.

The discussion in this section focuses on the competitiveness of the Indonesian TPT industry with case studies in the Solo Raya region and using the Porter's Diamond Model. Porter (1998) proposes the Diamond Model (DM), which consists of four main determinants that determine competitiveness, namely factor conditions; demand conditions; supporting industries and related industries; company strategy, structure, and competition. Besides, there are two additional determinants of opportunity or opportunity and government support.

The first factor based on the diamond's model is condition factors. The condition of production factors in the Indonesian textile industry described in this study consisted of raw materials, human resources, machinery, and logistics. The raw materials from this industry are: First, Cotton Fiber. Domestic cotton production is only able to meet the national cotton needs of 0.1-2.3%, so that the dependence of cotton imports on the national textile industry is high, which is more than 97%. According to data from the agriculture ministry, the volume of cotton import growth in 1980-2014 fluctuated but tended to rise with an average growth of 7.2% per year. Indonesia ranks fifth in the world as a cotton importer, whereas the textile industry in the upstream sector in Solo Raya uses 100% cotton imports. The golden period of national cotton production, in 2002-2011, ended along with the decline in the government's concern for cotton and the increasing existence of other plantations such as palm oil, sugar cane, and rubber. The success of cotton production at that time also consider artificial because cotton cultivation, as a central government program, did not have a comparative advantage (Hermawan, 2018).

The second raw material is synthetic fiber. There are two types of synthetic fiber, such as rayon fiber and polyester. Three companies in Indonesia produce rayon fiber, and two companies are types of foreign investment (PMA) such as Austria and India. The only national company that has produced this fiber is PT Sritex, which develops products from eucalyptus plants, and only leaves utilize. For the polyester, domestic supply is insufficient

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to meet their needs, so if there is an expensive price. This condition is also almost the same as polyester imports from abroad because of the additional import duty as a result of anti-dumping PSF (Polyester Staple Fiber) proposed by APSyFI (Indonesian Fiber and Filament Yarn Manufacturers Association) since 2010.

The third raw material is fabric. Garment companies or those in the downstream industries always have a shortage of domestic raw materials. On the other hand, the demand for garments is increasing, and this industry is dependent on imported fabrics. Domestic supply is insufficient for the needs of the national apparel industry. Also, many garment companies use the by order system, where the raw materials used to meet buyer requirements, mostly imported fabrics. The buyer's request cannot be fulfilled if it must use fabrics produced in Indonesia, so the import of fabrics becomes a way to fulfill them.

The second condition factor is human resources. In the TPT industry, more human resources need in the downstream sector, namely garment. Garment companies need more workers than companies in the upstream and intermediate sectors. Meanwhile, the condition of garment companies in Solo Raya is still challenging to get workers, especially those who have skills as sewing operators. The sewing operator owned by the company in Solo Raya also considers having low productivity and high turnover.

The third condition factor is a machine. The textile industry has capital-intensive characteristics, one of which is because of the extensive use of machines for production. Most of the machinery used in the textile industry is old, and 80 percent is over 20 years old. The cost of maintaining these machines is also high, so that the competitiveness of textile production machines is relatively low.

The final condition factor is logistics. Logistics relates to the costs incurred by producers to export products to export destination countries. One of the obligations owed by the producer is "port clearance" or obligation that must fulfill to the terminal operator at the port where the goods stop. These obligations are related to THC (Terminal Handling Charge) and moving risk costs. The National Textile Dialogue shows that the costs of Indonesia's ports are high compared to other Asian countries such as Thailand, Malaysia, Vietnam, and Bangladesh (See Table 2).

Table 2. THC costs on ports, 2018

Country	(USD/ *Container*) 20 Feet	40 Feet
Ho Chi Minh, Vietnam	46	135
Chittagong, Bangladesh	49	75
Bangkok, Thailand	60	95
North Port, Malaysia	64	97
Tanjung Priok, Indonesia	95	145

Source: Dialog Tekstil Nasional, 2018

The second factor from the diamond's model is the demand condition. The textile industry sector that has the highest export value is the garment industry. However, the realization of garment exports nationally has decreased from 2013 to 2016, with an average decline in exports of 1% annually. However, in 2017 there was an increase in the value of garment exports. It also happened to exports of Solo Raya garment companies that experienced a decline in export volumes from 2013-2017. Although the value is still volatile, in 2016 and 2017 shows a decline from the previous year (See Table 3).

Table 3. Value of Garment Exports in Solo Raya 2013-2017

Year	Realization	
	Volume (Ton)	Worth (Billion Rp)
2013	8,023,793	600.84
2014	7,687,960	609.40
2015	7,572,834	751.13
2016	6,488,897	656.63
2017	5,651,043	556.08

Source: Data Processed

The garment industry in Solo Raya receives more requests from abroad because it still has cheap labor so that product prices can still compete abroad. It can say that the product produced is also a textile product with minimal innovation. If viewed from Porter's Diamond approach, the company will gain a competitive advantage if the demand from buyers is the most sophisticated or cutting-edge product. Meanwhile, based on the FGD with textile product businesses, the products produced by Indonesia are classified as less innovative or only tend to meet the demand for textile products in general. While other companies globally have developed textile products for building materials and road-building materials, even in Canada, aircraft have developed with textile raw materials. The condition of textile companies in Indonesia is still helped by the presence of PT Sritex, which can develop its products such as military uniforms, waterproof, insect repellent, non-flammable, anti-stain, anti-wrinkle, anti-infra red, clothing from the lightest to the heaviest, and breathable materials.

The third determining factor in the analysis of industrial competitiveness is the presence of competitive suppliers or related industries in the country. Competitive suppliers on a national and international scale will provide advantages for downstream industries. These suppliers can provide low input prices and short delivery times so that efficiency in the downstream industry can create. This condition also relates to the proximity of the supplier's location to downstream industries.

The condition of the TPT industry in Solo Raya is not interrelating between upstream, between, and downstream, it is demonstrated by the by order system run by the majority of garment companies / downstream industries, wherein the buyer determines the raw material used and the majority uses the material from abroad. This condition has an impact on the upstream industry and among those who lack market guarantees. So the upstream and

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intermediate industries on the local scale find it challenging to increase their capacity and quality.

The fourth determining factor for the competitiveness of the national TPT industry is the variety of strategies, objectives, and corporate organizations in the context of domestic competition. National competitiveness can create by good competition among companies in an industry where it can produce a competitive source of power at the national level. Intense domestic competition not only creates national industrial excellence but also encourages companies to improvise and innovate.

In general, the condition of TPT companies in Solo Raya does not occur direct competition between companies, because the production specifications carried out by each company form their market share. Besides, the by-order system by the majority of garment companies in Solo Raya also creates its market share. In general, companies that serve orders from buyers only sell sewing services that require efficient production costs, especially labor. Competition in companies with such business models occurs in the supply of labor. Garment companies in Solo Raya have struggled to find workers in 2 years.

This condition is revealed by PT Dan Liris and Sritex that is a large-scale integrated textile company. The two companies are not competing with each other because they have different focus even though they both have the same line of business, namely spinning, weaving, finishing, printing, and garment. The garment division at PT Dan Liris consists of Ifrata Retail Indo that includes Bateeq (premium batik for the youth segment) and Ambassador Garmindo, to work on uniforms for companies such as Kalbe Farma, Kimia Farma, and Unilever. In contrast, the garment division of PT Sritex has specifications on products for waterproof, insect repellent, stain-resistant, anti-wrinkle, anti-infrared, and non-flammable clothing.

The fifth determining factor for competitiveness is chances or opportunity. The opportunity referred to in this discussion, is anything that is beyond the control of companies and governments. The opportunity can have a good or bad impact on the performance of the competitiveness of the textile industries and textile product. Current conditions, the United States government is evaluating about 124 imported products from Indonesia, including textiles, plywood, cotton, and some fishery products such as shrimp and crabs. The evaluation carried out to determine what products are still eligible to receive the Generalized System of Preference (GSP). GSP is a trade policy of a country that provides import duty cuts. This GSP is a unilateral trade policy (generally unilateral) developed countries to help the economy of developing countries but is not binding for both donor and recipient countries. The President of the United States will sign recommendations from November 2018 until early 2019. If it no longer gets the preference, Indonesian TPT products will have difficulty entering the United States market and can reduce exports to that country.

While Indonesia's most significant textile product export share is currently exporting, based on data from WITS, the destination of Indonesian textile product exports to the United States is 32.35 percent of Indonesia's total textile product exports (second place in Japan, with an export share of 10.08 percent). With current conditions, the generalized system of preferences in Indonesian products, including textiles and textile products, which are being considered by the United States government, can be the key to increasing or reducing the potential for Indonesian textile product exports.

The current United States Government that has an orientation to reduce the trade balance deficit has an impact on strengthening the value of the United States Dollar (US $). This condition was reinforced by the policy of the Central Bank of the United States (The Fed) to raise interest rates to maintain inflation in the country. This further strengthens the value of the United States currency. Of course, the increasing value of US $ poses a threat to Indonesia, especially in the Textile Industry and Textile Products, which still rely on imported raw materials, namely imports of cotton and finished fabrics. The increase in the value of the United States dollar can increase the price of these raw materials and will affect production costs and the competitiveness of Indonesian textiles and textile products.

The final factor is the government, in its efforts to support the development of the domestic textile products industry and increase exports, carried out through policy instruments and trade diplomacy with other countries. However, at this time, traders are also permitted to import through a bonded logistics center (PLB). In the previous regulation, Regulation of the Minister of Trade No. 85 of 2016 concerning Integrated Services for Trade, only producers were allowed to import. This condition has an impact on the flood of imported products, especially fabrics, which have continued to increase in the last five years, and put pressure on some fiber and yarn companies, and some have even closed down. However, for the needs of fiber and yarn other than cotton can still be met from within the country. Current conditions, although the supply of raw materials can supply domestically, imported products continue to enter, and this is pressing the industry. Indeed, in the end, it is easier for garments because they still need-imported fabrics for production.

The analysis of the competitiveness of Indonesian TPT products uses Revealed Comparative Advantage (RCA) and then developed with Symmetric Revealed Comparative Advantage (RSCA) to see whether competitiveness is an advantage or disadvantage. The clothing or garments industry has developed rapidly during the past few decades. The industry has contributed to the economic growth of many nations, both developed and developing countries. This industry has very much regulated by many bilateral agreements such as Multi-Fiber Arrangement (MFA), a quota arrangement made by the importing countries (Shihab & Jain, 2004).

Kuncoro (2013) explains the industrialization and sectoral changes in Indonesia since 1968. In terms of trade, TPT products always in the top ten of Indonesia's non-oil exports. Major clusters in the Indonesian TPT are concentrated geographically in 5 provinces in Java Island. In particular, this research evaluates challenges facing Indonesia's TPT industry in the face of new competitions from abroad. A particular emphasis puts on assessing Indonesia's competitiveness relative to its main competitor in the industry. In the future, it predicts that the consumption of TPT will be increasing each year, in line with the world

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population growth and the demand-driven by lifestyle. Indonesia's garment, textiles, and footwear sector continue to be a significant contributor to the country's manufacturing gross value added. However, despite buoyant investment and diversifying export partners, output has been slowing. The industry's declining economic performance has driven by the sub-industry of textiles and wearing apparel, with improvements in footwear and leather products.

Besides, the Export Product Dynamics (EPD) analysis tool used to see the market position of Indonesian TPT Products in each Export destination country. This paper explains the potential of Indonesia's textile trade relations and based on all countries that have trade relations with Indonesia. From these countries, we grouped and found 10 countries with the best potential for the textile trade. In 10 export destination countries such as Belgium, Turkey, United Arab Emirates, USA, Germany, South Korea, United Kingdom, Japan, China, and Malaysia, the RSCA classification value shows that the value of exports is profitable. With rising star ratings from the profit level are Belgium, Turkey, the United Arab Emirates, Japan, and China, whereas the lost opportunity rankings are USA, Germany, South Korea, United Kingdom, and Malaysia.

In this case, the government established a bonded logistics center to increase the export value of textile products and facilitate the procurement of imported raw materials and support the by-order system that is mostly used by garment companies. Also, the import duty suspension facility can obtain from the companies that not included in the bonded zone through the KITE facility (Ease of Import for Export Purpose). Besides, a proactive attitude from the government is needed to open new markets abroad. The Indonesian Trade Promotion Center (ITPC), that is a government-owned non-profit organization under the supervision of the Directorate General of Indonesian National Export Development, is expected to open new export markets for textiles and textile products.

Textile is a national mainstay industry, so the government needs a commitment to pay more attention to this sector. In this case, the government can do several actions such as: First, clarify the rules around regulation, facilitation, funding, and assistance. Second, providing incentives such as tax holidays to increase the rate of investment in the Textile sector. Third, more aggressive international trade diplomacy so that international trade agreement schemes, especially with potential countries, can be implemented immediately. Besides that, the textile industry needs an effective solution to support digital transformation (Ku et al., 2020), because the innovation will have a more significant influence on the process in the textile industry (Padilha & Gomes, 2016).

Conclusion

Indonesian TPT commodities in some of the central export destination countries have low competitiveness, and these commodities have a lost opportunity category that indicates that there is a decline in the market share of Indonesian products. This condition occurred in the United States, Germany, South Korea, United Kingdom, and Malaysia. Although the RCA classification still shows strong competitiveness for these commodities. Furthermore, based on the EPD analysis, there are several new destination countries aside from the ten central export destination countries for Indonesian textiles and textile products. Indonesian textile products have strong competitiveness and dominate the market in Austria, Canada, Finland, Norway, Portugal, Qatar, and Sweden. While the Industrial competitiveness analyzed using Porter's Diamond model shows that the Indonesian textile Products industry has low competitiveness. In terms of production factors, most of the raw materials use cotton fibers, and imported fabrics, difficulties in getting sewing operators in garment companies, machine conditions 80 percent are over 20 years, and logistics costs in Indonesia are still more expensive than Vietnam, Bangladesh, Thailand, and Malaysia.

The majority of Indonesian TPT product demand is products with minimal innovation, whereas according to Porter (1998), the competitiveness of the industry can be said to be high if the demand is sophisticated or cutting-edge products. Also, this condition compounded by the phenomenon of the fragmentation of the textile industry in which the majority of the garment industry uses a by order system whose raw materials are obtained from abroad to meet buyer requirements. So that upstream industries lack market guarantees, and it is challenging to develop their quality and capacity. The Strategy, Structure, and Competition aspects also show that there is no direct competition, thereby reducing the competitiveness of the industry itself. Each company has its market share and targets despite having the same line of business. Based on current conditions, there are still opportunities for Indonesia to increase its exports because there are several developed countries where Indonesian TPT commodities are classified as rising stars and have strong competitiveness. However, global economic conditions accompanied by high uncertainty tend to be unfavorable for Indonesia. Government support also still does not show a solution that leads to solving the fragmentation of the Indonesian textile industry.

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The Determinants of Indonesian Textile's and Clothing Export to the Five Countries of Export Destination

Faizal Irvansyah[1*], Hermanto Siregar[2], Tanti Novianti[3]
*Corresponding author

Abstract. *Indonesian textile and clothing products (TPT) is the second-largest export product after oil palm product. There are five biggest export destination countries, that is the United States, Japan, South Korea, and Turkey. This study aims to analyze the factors that affect TPT exports to the five biggest export destination countries. The factors that affect TPT exports examined by using time series and panel data analysis. Using panel data analysis finds that GDP per capita of the destination country, the exchange rate of the Rupiah, the price of textiles in the destination country, and import tariffs stipulate in the destination country affect TPT exports. Then, using time series analysis finds that GDP per capita and import tariffs affected TPT export to the United States, China, and Turkey. Meanwhile, the factors influencing Indonesian textile exports to Japan and South Korea are textile prices, rupiah exchange rates, and import tariffs.*

Keywords: *textile and clothing product, the competitiveness of textile and clothing, export*
JEL Classification: F14, F43

Abstrak. *Tekstil dan Produk Tekstil (TPT) merupakan produk ekspor terbesar kedua setelah produk kelapa sawit. Produk TPT Indonesia sebagian besar di ekspor ke lima negara tujuan ekspor, diantaranya adalah Amerika Serikat, Jepang, Korea Selatan, China, dan Turki. Penelitian ini akan menganilisis faktor yang mempengaruhi ekspor TPT Indonesia di lima negara tujuan ekspor tersebut. Penelitian ini menemukan bahwa GDP per kapita di negara tujuan, nilai tukar rupiah, harga produk TPT, dan tarif impor mempengaruhi ekspor TPT Indonesia. Kemudian faktor yang mempengaruhi ekspor TPT untuk ke negara Amerika Serikat, China, dan Turki adalah GDP per kapita dan tarif impor. Sedangkan, untuk negara Jepang dan Korea Selatan adalah harga TPT, nilai tukar rupiah, dan tarif impor.*

Kata Kunci: *tekstil dan produk tekstil, daya saing tekstil dan produk tekstil, ekspor*

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[1,2,3] School of Business IPB University. Jl. Raya Padjadjaran, Bogor, West Java, Indonesia
E-mail: [1]fay.faizal@gmail.com, [2]hermantojsiregar@gmail.com, [3]tantinovianti@yahoo.com
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Introduction

The era of liberalization and globalization of the world economy today has brought fundamental changes to cross-border trade and economic patterns. Trade partners between countries not just only bilateral and regional only, but also expand to be multilateral and international. Economic globalization illustrates there is a freedom for all economics agents to determine themselves what they will consume, what they will produce, how to produce it. Therefore, all industries are required to have competitiveness to survive in high competition. Until now, the Indonesian government continues to increase competitiveness in the sector that is important for the Indonesian economy. This manufacturing industry sector plays a role in increasing Indonesia's gross domestic product (GDP) and exports. Besides that, Indonesia's manufacturing sector is mostly a labor-intensive industry that will absorb many human resources.

One of the manufacturing industries prioritized by the Indonesian government is the textile and clothing (TPT) industry. The TPT industry is one of the priority industries developed in the long term. Based on Government Regulation No. 14 of 2015 explains that the TPT industry is a priority industry because it meets various criteria, including meeting domestic needs and import substitution, increasing the quantity and quality of employment, having an added value that is growing progressively domestically, have good competitiveness. Textile generally can be interpreted as goods or things that come from fibers (cotton, polyester, and rayon) that as spun into yarn or woven or knitted become clothes. The cloth can be processed into various products such as garments and so on. Textile industry consists of 3 sectors, namely the upstream industry sector, medium industry sector, and downstream industry sector (Chamroel, 2003). The upstream industry sector is an industrial sector that produces cloth (natural fibers, synthetic fibers, and rayon fibers).

In the upstream industry sector, usually capital-intensive and technology-intensive. Then in the medium industrial sector is an industry that makes the processed yarn into raw sheet cloth with weaving, knitting, and finishing. This sector has the characteristics of semi-capital intensive (more human resources than the upstream sector) and the use of medium and modern technology. Finally, the downstream industry sector is a garment manufacturing industry. This industrial sector is usually labor-intensive.

The textile exports mostly sent to five destination countries. The five destination countries are the United States, Japan, and the People's Republic of China, South Korea, and Turkey. Based on the data from the Indonesian Ministry of Trade that the value of the textile to the five countries in 2017 in the amount of 30.9% of Indonesia's total textile exports. Meanwhile, 69.1% of textile exports spread throughout the world. Among the five countries, the United States is the largest export destination country. The value of textile exports to the United States is in the amount of 58.8% of the total export value of the five largest export destination countries.

The TPT industry is the second largest contributor to exports after oil palm, the industry that has a role in non-oil exports in the amount of 8.2%, while oil palm has a role in non-oil exports in the amount of 12.32%. Although The TPT industry is the second-largest export

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commodity, the trend from 2012-2016 has decreased. The trend of export value in the textile from 2012-2016 is -1.35%. The decline in the TPT export trend illustrates the decline in the competitiveness of TPT. Similar research has also carried out in several countries. Baskol (2018) found that the level of competitiveness of the apparel sector in Turkey was better than the textile sector from 1985-2007. However, there is one product that has a decreased level of competitiveness, namely SITC 846 (clothing accessories from textile fabrics). Furthermore, since 2008-2015 the textile sector has a higher level of competitiveness compared to the apparel sector.

Every country is trying to increase TPT exports, and one of them is China. China's textile export growth is very rapid. The rapid growth of Chinese textile exports threatens Egyptian textiles for the United States and European Union markets. The study also found that Egyptian textile exports declined in both markets (Hatab, 2017). Zyl & Matswalela (2016) found that the level of competitiveness of the TPT industry in South Africa is the lowest compared to 18 other developing countries. Then using the analysis of the fixed effect panel data found that rising labor costs and declining export market share as the primary determinant of the level of competitiveness of the TPT industry in South Africa.

Latif & Javid (2016) analyzed the demand and supply factors of Pakistan's textile products to the seven export destination countries. This study found that income in export destination countries and the easing of policies greatly affected exports. Wahyuni & Boeditomo (2015) analyzed labor factors that could affect the competitiveness of the Indonesian textile industry compared to Vietnam. This research shows that several factors improve in terms of the labor force in Indonesia. These factors include occupational safety and health, training, working time, timely payment, and life satisfaction.

Although based on data released by BPS that the TPT export trend is declining, but based on research conducted by Kuncoro (2013) states that the level of TPT consumption will increase along with the increasing world population. Indonesia's TPT export level predicts to increase by 12.6% annually. Hendria (2017) found that the apparel industry has a competitive advantage compared to other countries for export destinations. Then, the factors that significantly affect the flow of trade are real GDP per capita of export destination countries, the exchange rate of Rupiah, and the export price of apparel products, FTA, and previous export. Kusuma & Firdaus (2015) found that the factors which influence export volume, namely economic distance, Gross Domestic Product (GDP), exchange rate, population, and price of the product. Then, Kathuria (2013) found that the factors which influence the textile industry in India, namely human resources wage, electric costs, transaction costs, and human resources productivity.

Based on the several factors found from several kinds of research, some factors often arise in influencing exports, which is the gross domestic product (GDP) per capita and exchange rates. Gross domestic product (GDP) per capita chose because it can describe the average standard of living and economic welfare in a country. Gross domestic product (GDP) per capita is the value of goods or services in a particular year divided by the population. Then, the exchange rate is the price rate of the domestic currency against foreign currencies.

The change in the exchange rates can change the relative price of a product to become more expensive or cheaper.

Furthermore, several factors also influence exports, namely the product prices and import tariffs. The price of a product is the value of an item. The measurement is using the value of the money that spent to get goods or services. The price of a product can influence the offer. Finally, the import tariffs are a charge that imposed on an imported good that enters into a country. Generally, this import tariffs is one of the obstacles in international trade.

Referring to Hendria (2017), the research only analyzes two types of textile products for several export destination countries. The most significant TPT product exports export to the United States, Japan, China, South Korea, and Turkey. According to Kuncoro (2013) that Indonesia's TPT exports predict to increase along with an increase in the world population. In general, the increase in exports was not only influenced by an increase in the world population. Several other factors can increase exports. Based on both studies, this research will analyze all TPT products listed in the two digits HS Code (HS Code 50 – HS Code 62) and will carry out for the five largest export destination countries. HS (Harmonized System) is a codification for goods coordinated by The World Customs Organization (WCO) (Harjanto & Purwanto, 2010).

The previous studies analyzed two types of Indonesia TPT Products, and the factors that can predict Indonesia TPT export is an increase in the world population. This study analyzes all of the TPT products listed in the two digits HS Code. Several factors can predict Indonesia's TPT export to increase Indonesia's TPT Export, such as GDP per capita in the export destination country, the exchange rate of Rupiah against the export destination country, the price of textile, and the import tariffs that imposed in the export destination countries.

Therefore, this study aims to know the determinants of TPT exports, especially to the five export destination countries. This condition is because; the Indonesian TPT industry is the most easily influenced by market dynamics (Asmara et al., 2016). The influencing factors will be analyzed based on TPT products that have competitiveness based on RCA analysis. This research will contribute to determining strategies to increase Indonesia's TPT export.

Methods

The data used in this research are the annual data from 2001 to 2017. The data used from five top destination countries of TPT (USA, Japan, China, South Korea, and Turkey). The data is only used until 2017 because at the time this study was compiled, the data in 2018 was still temporary. If using the 2018 data, the results of this study cannot clearly show the influencing factors. To achieve the objectives of this study, the data used were from 2001-2017. This research uses time series analysis and panel data analysis with variable rupiah exchange rates, textile product prices, import duties, and GDP per capita. The research model that used to estimate the main factors is as follows:

$$\text{Export}_{it} = \alpha_0 + \sum \beta_1 \text{ Exchange Rate}_{it} + \sum \beta_2 \text{ Price}_{it} + \sum \beta_3 \text{ dTarif}_{it} + \sum \beta_4 \text{ GDP}_{it} + \varepsilon_{it}$$

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$Export_{it}$ is the magnitude of the real value of Indonesia's textile exports to "i" countries and "t" times. The value of Indonesian textile exports to the export destination countries uses export values based on HS code two digits code. The textile product among other silk, Wool, Cotton, Other Vegetable Textile Fibers, Man-Made Filaments, Man-Made Staples Fibers, Wadding, Carpets, Special Woven Fabrics, Laminated Textile Fabrics, and Crocheted Fabrics, apparel and clothing accessories, knitted or geared crocheted, and apparel and clothing accessories, not knitted or crocheted. All products are registered with the codes HS 50 – HS 62. The real export value is generated from the calculation of the export value divided by the wholesale trade price index.

Exchange $Rate_{it}$ is the exchange rate of rupiah against the country "i" and "t" time. Rupiah exchange rate in this research will use the exchange rate between Indonesia and five export destination countries. Then, $Price_{it}$ is the real price of Indonesian textile products to the country "i" and "t" time. Exports price state in USD/Kg that obtained through the calculation of the export value of textile products with the export value of textile exports. The third variable is $dTariff_{it}$ that the amount of change in import duty of textile products in the country "i" and "t" time. Finally, GDP per capita $_{it}$ is the level of Gross domestic product (PDB) per capita in the country "i" and "t" time.

Panel data analysis has several techniques, namely, Pooled Least Square (PLS) or Common Effect Model, Fixed Effect Model, and Random Effect Model. PLS is the most straightforward panel data model approach. This model only combines time-series data and cross-section. This model does not calculate the dimension of time and individuals, or it can say that the available data is the same in various periods. A fixed-effect (FE) model is a regression method that estimates panel data by adding dummy variables. While the random-effect model estimates by calculating the error of regression with the generalized least square (GLS). The random effect model is a variation of the generalized least square estimate.

As an effort to determine the method used between PLS and fixed effect, then carry out a redundant fixed effect. After that, is to determine the method between PLS or random effect. As an effort to determine the method that used, then a Lagrange Multiplier (LM) test is carried out to see which method better to use. The final test is the Hausman test.

Result and Discussion

Each export destination country has different factors in influencing the export of Indonesian textile products. This research uses textile products that have competitiveness by using the RCA method (Revealed Comparative Advantage) that first introduced by Balasa in 1965. Balassa assumed that a country's comparative advantage reflects through exports. Revealed Comparative Advantage (RCA) is one indicator that can show the comparative advantage of a commodity or a country's industrial competitiveness in the global market (Balassa, 1965). If RCA calculation results show RCA value higher than one, it means that a country has a comparative advantage above the world average. Therefore, these commodities have weak competitiveness (Kusuma & Firdaus, 2015).

In general, all the factors that analyzed significantly affect TPT exports. The estimation results in this panel data analysis were obtained based on TPT that have competitiveness in the world. Five products have competitiveness in the world based on the RCA method, namely products with the code HS 52, HS 54, HS 55, HS 61, and HS 62. The estimation carries out five destination countries such as the United States, China, Japan, South Korea, and Turkey.

Table 1. Panel Data Equation Result

No	Variable	Coefficient	Prob.
1	Constanta	2.450	0.000
2	GDP per capita	0.379	0.000
3	Price	1.021	0.000
4	IDR Exchange Rate	0.101	0.000
5	Tariff	-1.801	0.001
R-squared		0.936	
Adjusted R-squared		0.933	
F-statistic		277.033	
Prob. (F-statistic)		0.000	
Durbin-Watson stat		0.435	

The model that is using in this research is the random effect model. The factors that influence the flow of TPT trade show an Adjusted R-square value of 0.933 (93.3%). The existence of the R-square value illustrates that 93.3 percent of the diversity that occurs in TPT exports to the five export destination countries can explain by factors or variables that exist inside the model. Then only 6.4 percent is explained by other factors outside the model. Table 1 shows that GDP per capita will have a positive impact on TPT exports. The larger GDP per capita in importing countries creates a higher demand for imports (Eve & Au, 2006). The positive effect of GDP per capita on the volume of bilateral trade also occurs in Pakistan (Khan et al., 2013). Guisan & Cancelo (2002) also found that the GDP level variable as a variable that represents the supply side has a positive effect on exports.

The price is the value of an item that can be measured by the value of the money spent by a buyer to get goods or services. Based on what has explained previously that the price of a product can affect the offer. An offer is the number of goods offered by producers where producers can provide goods and services to consumers (Mankiw, 2007). According to Stiglitz (1993), if the value of an item is high, then the producer has an incentive to increase its production. Based on the estimation results in Table 1 shows that the price of the TPT has a positive impact on the value of exports.

Changes in exchange rates can change the relative price of a product to be more expensive or cheaper. This condition makes the exchange rate one of the tools to increase exports. Using a floating exchange rate system (depreciation or appreciation), the value of a currency will affect exports. Based on the estimation results, it found that there was a positive

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impact between the exchange rate and exports. A positive effect on the rupiah exchange rate also occurred in rubber and areca commodity exports (Putra et al., 2017)

This influence occurs because when the value of the currency weakens, the price of foreign goods is relatively lower compared with domestic goods, which encourages exports. Other research also found the same thing that depreciation in the exchange rate will increase the competitiveness of export goods and will encourage increasing the value of exports (Ekananda, 2004). In general, the rupiah exchange rate against currencies in five export destination countries showed a weakening trend throughout 2001-2017. The downward trend in the exchange rate of the Rupiah against the five export destination countries is directly proportional to the increase in the export value of textile products. Import tariffs in export destination countries will hold up Indonesian TPT exports. Therefore, the estimation results show that the changes in import tariffs have a negative impact on textile exports. The decline in exports occurred because of an increase in costs that must be incurred to import textile products into the country. Based on this, if a country lowers its import tariffs, it will become an opportunity for Indonesia to increase exports of textile products.

This condition is the same as what happened in Brazil. The Brazilian government is considering to reduce import tariffs to cut the production costs—the tariff reduction targeted for imported raw materials (Trevisani, 2015). The reduction in import tariffs on rubber products in the amount of 50%-75% will have an impact on falling rubber export prices from several export countries to Australia. Based on this, exports of rubber products to Australia increased (Zainuddin et al., 2019). Mira & Saptanto (2017) found that a reduction in import tariffs will increase exports of marine and fishery products. The tariff reduction is following the agreement of the ASEAN Economic Community.

China is one of the countries that made trade agreements. China has signed a trade agreement with an ASEAN country. China does not provide import tariffs originating from ASEAN countries for textile products except with the code HS 62 (Indonesian Ministry of Trade, 2015). Free trade agreements also made between the United States and South Korea. The agreement is called KORUS. The existence of the free trade agreement makes the import value of US apparel products from South Korea almost three times the export value of the same products from the United States to South Korea. (Hwang & Norton, 2012)

Indonesia has made cooperation with several countries, including Japan and South Korea. Trade cooperation between Indonesia and Japan is called the Indonesia-Japan Economic Partnership Agreement (IJ-EPA). Then, the trade cooperation between Indonesia and South Korea called Indonesia - Korea Comprehensive Economic Partnership Agreement (IK-CEPA). However, build upon the Representative of United States Trade that the United States only has free trade agreements only with 20 countries. Among the 20 countries, Indonesia not registers. Similar to the United States, there is no free trade agreement between Indonesia and Turkey found.

Table 2. Estimated Result for Equation of Export to the United States

No	Variable	Coefficient	Prob.
1	Constanta	11.779	0.0003
2	GDP per capita	0.800	0.0281
3	Price	0.004	0.8326
4	IDR Exchange Rate	-0.230	0.4141
5	Tariff	-3.433	0.0084
R-squared		0.433	
Adjusted R-squared		0.227	
Durbin-Watson stat		1.560	

Basically each country has different factors to influence the export of Indonesian TPT products. The biggest export destination country is the United States of America. Based on the result of RCA analyst, the product with the code HS 62 (articles of apparel and clothing accessories, not knitted or not crocheted) is the highest level of competitiveness in the United States of America. Table 2 shows that the factors that had an impact are GDP per capita and import tariffs. If the GDP per capita of the United States of America increases by 1%, the TPT exports increase by 0.80%. Besides, the second factor that affecting TPT exports is import tariffs. If the United States import tariffs decrease by 1%, the TPT export will increase in the amount of 3.43%.

Table 3. Estimated Result for Equation of Export to Japan

No	Variable	Coefficient	Prob.
1	Constanta	6.570	0.099
2	GDP per capita	-0.377	0.335
3	Price	1.376	0.001
4	IDR Exchange Rate	0.614	0.014
5	Tariff	-0.290	0.001
R-squared		0.893	
Adjusted R-squared		0.850	
Durbin-Watson stat		1.676	

The second-largest export destination country is Japan. The estimation result for Japan is obtained based on the product with the highest level of competitiveness, namely the product with the codes HS 55. Table 3 shows that the significant factors affecting Indonesian textile exports are textile products prices, exchange rates, and Japan import tariffs. If the price of textile products in Japan increases by 1%, then Indonesian textile exports will increase by 1.37%. Then, if the Indonesian exchange rate against the Japanese currency weakens by 1%, Indonesia's exports will increase by 0.61%. Finally, if Japan decreases import tariffs by 1%, then Indonesia's textile exports will increase by 0.29%.

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Table 4. Estimated Result for Equation of Export to China

No	Variable	Coefficient	Prob.
1	Constanta	-10.425	0.020
2	GDP per capita	1.093	0.015
3	Price	0.147	0,649
4	IDR Exchange Rate	1.089	0.242
5	Tariff	-2.271	0.020
R-squared		0.949	
Adjusted R-squared		0.924	
Durbin-Watson stat		2.395	

The third-largest export destination country is China. This estimation result based on the highest level of competitiveness is the textile product with the code HS 52. The factors that significantly influence Indonesian textile exports are GDP per capita and import tariffs of China. Table 4 shows that if the GDP per capita in China increased by 1%, then Indonesia's textile exports will increase by 1.09%. If the import tariff stipulates by the Chinese government drops by 1%, then Indonesia's textile exports will increase by 2.27%.

Furthermore, South Korea also has the same factors as Japan. Although the factors that influence textile exports are the same as Japan, the influence of South Korean currency on Rupiah has a negative effect. This condition is different from other export destination countries. Based on research by Ekananda (2004), stated that there is an uncertain effect of the exchange rate on the nominal export of commodities. The uncertain influence can cause by several factors, including the grouping of data differing according to import content, different by destination countries, and different by industry group. Even for Pakistan, the exchange rate in Pakistan does not affect exports (Ahmad et al., 2017).

Table 5. Estimated Result for Equation of Export to South Korea

No	Variable	Coefficient	Prob.
1	Constanta	5.587	0.001
2	GDP per capita	0.162	0.268
3	Price	0.873	0.000
4	IDR Exchange Rate	-0.392	0.003
5	Tariff	-0.204	0.004
R-squared		0.967	
Adjusted R-squared		0.948	
Durbin-Watson stat		1.397	

Table 5 shows that the factors that significantly affect Indonesia's TPT exports to South Korea are textile prices, exchange rates, and import tariffs of South Korea. If the price of TPT products in South Korea increases by 1%, Indonesian TPT exports will increase by 0.87%. If the Indonesian exchange rate against the South Korean currency weakens by 1%, Indonesia's

TPT exports will decrease by 0.39%. Finally, if the countries of South Korea decrease import tariffs by 1%, then Indonesia's textile exports will increase by 0.20%. The estimation results are obtained based on products with the code HS 55.

The fifth-largest export destination country is Turkey. Indonesian's textile products that have the highest level of competitiveness based on RCA is HS code 55. The factors affecting Indonesia's TPT exports to Turkey are GDP per capita and import tariffs. If Turkey's GDP per capita increases by 1%, Indonesia's TPT exports will increase by 1.37%. If there is a reduction in import tariffs stipulate by the Turkish government by 1%, Indonesia's TPT exports will increase by 0.79.

Table 6. Estimated Result for Equation of Export to Turkey

No	Variable	Coefficient	Prob.
1	Constanta	7.610	0.067
2	GDP per capita	1.373	0.000
3	Price	0.443	0.176
4	IDR Exchange Rate	0.256	0.439
5	Tariff	-0.791	0.006
R-squared		0.950	
Adjusted R-squared		0.925	
Durbin-Watson stat		1.676	

The result of this study can help increase TPT export. This research suggests that the Indonesian government can maintain the movement of the Rupiah against foreign currencies and also expected to continue to establish trade cooperation with other countries. This condition is because among the five countries analyzed, Indonesia only has free trade agreements with China, Japan, and South Korea. Then, The Indonesian government suggests increasing the role of the ITPC (Indonesia Trade Promotion Center). Besides that, the government should also expand ITPC locations in promoting Indonesian textile products. The existence of ITPC can help connect the trade relations between Indonesia and Indonesian export destinations. The existence of ITPC will eliminate non-tariff barriers because the existence of ITPC institutions will provide information related to market conditions in the country. So that Indonesian TPT exports can continue to increase.

Conclusion

Using a random effect analysis panel data shows that GDP per capita, the exchange rate of the Rupiah against export destination countries, the price of Indonesian textile products, and changes in import tariffs imposed in export destination countries significantly affect the trade flow (exports) of Indonesian textile products. The results based on Indonesian textile products that have competitiveness in the world. The results also showed the R-square value of 0.9880 (98.8%) and adjusted R-square of 0.9866 (98.6%). Factors of GDP per capita, rupiah exchange rate, and the price of Indonesian textile products have a positive effect on

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exports. Meanwhile, the import tariffs imposed on destination countries have a negative effect on Indonesian exports.

Each country has different factors to influence the export of Indonesian TPT products.. The results show that each country has different factors. The time series analysis carries out using Indonesian TPT product data that has the highest level of competitiveness in each destination country. Factors that influence significantly for the United States, China, and Turkey are GDP per capita and import tariffs. Then for Japan and South Korea, including textile price, exchange rate, and tariff factors. In general, the rupiah exchange rate has a positive effect on Indonesian textile exports. However, there was a negative influence in South Korea.

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Pre-Departure Training and Personal Resources: How it Affects Acculturative Stress?

Widayanti[1*], Dina Sartika[2]
*Corresponding author

Abstract. *One of the efforts made by the government to reduce the unemployment rate in Indonesia is by conducting an overseas apprenticeship program. As an international assignment, this apprenticeship program leads to social problems such as stress. This research seeks to examine and analyze the influence of pre-departure training on acculturative stress with personal resources as a moderating variable. The respondents of this study were 215 migrant workers from West Java. This research used process analysis to analyze data. The result shows that there is a negative influence of pre-departure training on acculturative stress. Whereas, personal resources strengthen the influence of pre-departure training on acculturative stress. The higher a level of personal resources possessed, the more it will strengthen the influence of pre-departure training on acculturative stress. These findings support the statement that personal resources are one of the leading indicators that affect an individual's performance at work.*

Keywords: *pre-departure training, acculturative stress, personal resources, migrant workers*

JEL Classification: M53, J61

Abstrak. *Salah satu upaya pemerintah dalam menekan tingkat pengangguran yaitu dengan mengadakan program pemagangan di luar negeri. Sebagai penugasan internasional, program pemagangan ini tidak terlepas dari permasalahan sosial seperti stres yang dialami oleh pekerja migran. Penelitian ini bertujuan untuk mengkaji dan menganalisis pengaruh pelatihan sebelum pemberangkatan terhadap stres akulturatif dengan sumber daya pribadi sebagai variabel moderasi. Responden pada penelitian ini yaitu 215 pekerja migran asal Jawa Barat. Penelitian ini menggunakan analisis proses untuk menguji dan menganalisis data yang telah diperoleh. Hasil dari penelitian ini menunjukkan bahwa pelatihan sebelum pemberangkatan memiliki pengaruh negatif terhadap stres akulturatif. Kemudian, sumber daya pribadi memperkuat pengaruh pelatihan sebelum pemberangkatan terhadap stres akulturatif. Semakin tinggi tingkat sumber daya pribadi yang dimiliki, maka semakin memperkuat pengaruh pelatihan sebelum pemberangkatan terhadap stres akulturatif. Temuan dari penelitian ini mendukung pernyataan bahwa sumber daya pribadi merupakan salah satu indikator utama yang mempengaruhi kinerja individu di lingkungan kerja.*

Kata Kunci: *pelatihan sebelum pemberangkatan, sumber daya pribadi, stres akulturatif, pekerja migran*

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[1,2] Faculty of Economics & Business Universitas Padjadjaran. Jl. Dipati Ukur, Bandung, West Java, Indonesia
E-mail: [1]widayanti17001@mail.unpad.ac.id, [2]dina.sartika@unpad.ac.id
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Introduction

The problem of unemployment has been a significant problem for a long time. According to the Central Statistics Agency, until February 2018, the number of workforces in Indonesia had reached 133.94 million. It increased by 2.9 million compared to the previous year, while the open unemployment rate in Indonesia reached 5.13% or reduced by around 140 thousand people compared to last year. This unemployment rate has been the lowest unemployment rate since the 1998 crisis (Katadata.co.id, 2018). This trend is evidence that the labor market in Indonesia is growing.

Although the unemployment rate in Indonesia has decreased, the problem of unemployment remains a challenge for the government to reduce unemployment. One of the efforts made by the government to reduce the unemployment rate in Indonesia is by conducting an apprenticeship program abroad, namely Japan.

However, working in a foreign country will be considered a challenge by immigrant workers and will give more pressure to them. They have to be able to adjust to the new cultures. Migrant workers will also face socio-cultural problems such as social relations with coworkers, competition and the demands of professional work that occur in the work environment, salary issues, awards and feelings of confusion and homesickness felt by workers are often the case for migrant workers who work abroad (Kvist, 2012; Granskaya & Lizhenkova, 2015; Kirana, 2013).

The survey which is conducted by Nugraha et al. (2017) on migrant workers in Japan shows that migrant workers are facing challenges such as differences in culture, language, the background of each individual, job demands, and expensive living costs. This condition affects the psychological health that leads to the stress of migrant workers. Besides, the Japanese culture that is considered taboo by migrant workers, the role and responsibility gaps in the workplace between Japanese culture and Indonesia, as well as the difficulties in establishing relationships with colleagues are things that can cause stress for migrant workers (Hatanaka et al., 2016).

Setyowati et al. (2010) also suggested that migrant workers in Japan experience stress and difficulty in socializing, such as feeling isolated while living in Japan and having difficulty communicating with residents. Besides, Japanese culture that is considered a taboo by migrant workers, the gap in roles and responsibilities in the workplace, and the difficulties in establishing relationships with colleagues are things that can trigger the stress of migrant workers (Hatanaka et al., 2016). Those differences such as culture, language, and habits and the lack of networks that can trigger stress on migrant workers are called acculturative stress or culture shock (Rosida, 2018). Every individual has a different way of dealing with acculturative stress. Some individuals are critical of cultural differences, adaptable to cultural differences, and begin to adopt these cultures, and some are not able to adapt to the new environment (Selmer, 1999).

In order to minimize the acculturative stress, training needs to prepare migrant workers to deal with a new environment. Pre-departure training is one of the essential preparations before migrant workers depart and to reduce their culture shock and stress level (Xia, 2009). It allows migrant workers to have knowledge about culture and learn how to behave and

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communicate correctly both in the social and business environment. If the migrant workers are not provided with knowledge about culture and how to cope with stress, then they will secede from the community and have a negative life (Murali et al., 2017). Through pre-departure training, migrant workers will also be provided with how to develop their mindset for learning, giving the idea of how they have to behave, and what kind of discussion can be accepted when they are involved in a conversation.

The training also needs to be supported by soft skills, which are essential aspects that must be possessed when working. The stress experienced by the workforce depends on how the workers perceive the stress and how they deal with it. Therefore, the workers should need to have and develop potential and resilience when faced with situations where adaptability, ability to overcome problems, ability to regulate themselves, and social skills are essential. Personal resources are considered to be the most important thing and can minimize the adverse effects of stress. It also considered being able to improve adaptability in new environments (Ham et al., 2014).

Fomina et al. (2017) state that the character of each individual, such as in dealing with pressure is one of the personal resources in reducing perceived stress levels. The involvement of individuals in various activities, the ability to dealing with stress, and the ability to control complex situations also consider things that can reduce stress levels. When individuals cannot to deal with stress, such as the changes in culture, language, and also their job demands, then they tend to experience stress.

Some scholars have studied about training and stress using qualitative methods (Treven, 2003; Hurn, 2007; Xia, 2009; Setyowati et al., 2010; Ham et al., 2014; Shuttleworth, 2004). However, those studies focus on how to design a training program to minimize stress and explain how stress can affect people's psychology. Only a few studies discuss the training of migrant workers and how it affects stress at various levels of personal resources (Mayerl et al., 2017; Ayu et al., 2015). Moreover, those studies have not considered personal resources as a moderating variable that can reduce acculturative stress. Meanwhile, previous studies state that personal resources are one of the leading indicators that affect an individual's performance at work (Güler & Çetin, 2018; Kotze, 2018; Ayu et al., 2015; Xanthopoulou et al., 2007). Thus, this study fills in the gap by examining and analyzing the influence of pre-departure training on acculturative stress with personal resources as a moderating variable. This study also expects to be an input for the government in developing training for migrant workers by considering personal resources aspects.

Based on the research background, the research questions of this research are: First, how pre-departure training affects acculturative stress? Second, how personal resources moderate the effect of pre-departure training on acculturative stress of Indonesian migrant workers in Japan?

Methods

Respondents for this research were migrant workers who were participating in an internship program in Japan since 2017. The number of respondents studied was 215 and taken from four different training institutions. The total respondents consist of 139 people from the Indonesian Migrant Workers Training Center (BLKPMI), 48 people from Megumi Training Institution, 19 people from Mirai Nusantara Training Institution, and nine people from Putra Maju Training Institution.

Online questionnaires were distributed to the respondents asking their perception of pre-departure training, acculturative stress, and personal resources. Respondents give alternative answers based on a Likert scale (1 = "strongly disagree," and 5 = "strongly agree").

Pre-departure training was measured by using a list of statements purposed by Black & Mendenhall (1989) such as "I already understand how to communicate using the Japanese well" and "I feel that the work procedures applied during the training are by the work procedures in the company where I work." (Black & Mendenhall, 1989).

Moreover, respondents were asked a list of statements related to acculturative stress. The statements adopt from Ward et al. (2005), such as "I often feel anxious when I live in Japan.", "I always compare my native culture with culture in Japan.", and "I am always interested in learning Japanese culture." (Ward et al., 2005).

Personal resources were measured by adopting a list of the statement from Ayu et al. (2015). The statements were "I am confident in my ability to take the necessary actions.", "I have an essential role in my job.", and "I have confidence that my work can develop the potential that is within me." (Ayu et al., 2015).

This research used a quantitative research method. The statistical test conduct using Hierarchical Regression Analysis using Process Analysis purposed by Hayes (2013). The regression equation for this research is:

$$AS = b_0 + b_1 PDT + b_2 PR + b_3 XM + e$$

Where: AS is acculturative stress; PDT is pre-departure training; PR is a personal resource; XM is the interaction between pre-departure training and personal resources.

Results and Discussion

Based on the results of the reliability test conducted on each variable in the questionnaire of this study, the Cronbach Alpha value obtained was greater than 0.60. The results show pre-departure training ($r = 0.906$), acculturative stress ($r = 0.726$), and personal resources ($r = 0.897$). Furthermore, in order to test the hypothesis, the statistical test is carried out to figure out the relationship of the independent variable toward the independent variable with a moderating variable.

The result in Table 1 shows that the p-values for each variable are lower than 0.05, which means that both the independent variable and moderating variable influence the independent variables. Furthermore, the R^2 shows that the value is 0.6044. It means that the influence on pre-departure training on acculturative stress with personal resources as a moderating variable is 60.44%.

The formula of the regression equation obtained on this research is:

$$AS = 2.5903 – 0.3265 PDT – 0.2615 PR + 0.0891 XM + e$$

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Table 1. Result of Process Analysis

Model	Coeff	se	*p*	BC 95% CI	
				Lower	Upper
Constant	2.5903	0.0206	0.0000	2.5498	2.6308
Personal resources	-0.2615	0.0435	0.0000	-0.3471	-0.1758
Pre-departure training	-0.3265	0.0385	0.0000	-0.4024	-0.2506
Personal resources x pre-departure training	0.0891	0.0356	0.0130	0.0190	0.1592
$R^2 = 0.6044$					

It can concluded that the constant value obtained from the results of the analysis is equal to 2.5903. It means that if the pre-departure training and personal resources variables do not influence the acculturative stress variable, the amount of acculturative stress is worth 2.5903. Furthermore, the pre-departure training regression coefficient obtained is negative, which is equal to -0.3265. This negative value indicates that there is a unidirectional relationship between the pre-departure training and acculturative stress. It shows that every increase in pre-departure training applied by job training institutions is equal to one unit, and then it will reduce the acculturative stress level by 0.3265. It is in line with Treven (2003) and Black & Mendenhall (1989), who argue that one of the ways to minimize stress levels when working in a new environment is by giving training. The training should focus on cross-cultural training; hence the migrant workers will be provided with skills, knowledge that is needed by the organization, and the level of stress will reduce.

Next, the regression coefficient of the moderating variable obtained is negative, which is equal to -0.2615. This negative value indicates that there is a unidirectional relationship between personal resources to acculturative stress. It shows that every increase in personal resources by one unit it will reduce the level of acculturative stress by 0.2615. It is in line with Ward et al. (2005), who argue that the sources of stress felt by an individual are the same. However, the levels of stress, and negative or positive that stress depends on the characteristic of the individuals. It is determined by how each views stress, how to cope with stress, individuals' flexibility towards different cultures, stress reaction, interpersonal abilities, and social abilities. The higher personal resources possessed by an individual, the lower the level of acculturative stress feels.

Last, the regression coefficient of the interaction variable between pre-departure training and personal resources obtained is positive, which is equal to 0.0891. This positive value indicates that this interaction variable is in the same direction or can be said to strengthen the pre-departure training relationship with acculturative stress. It shows that each increase in personal resources by one unit will increase or strengthen the level of influence of the pre-departure training on acculturative stress of 0.0891. It is in line with Ham et al. (2014), who argue that stress level can be minimized by providing training in advance. It aims to give the migrant workers a picture and understanding, and do not feel confused when they work in a new environment with a different culture. It is also supported by personal resources, which can help individuals in controlling their emotion and their work environment (Güler & Çetin, 2018; Kotze, 2018).

Furthermore, to find out how the influence of pre-departure training on acculturative stress at different levels of personal resources can be concluded through the results of the process analysis, which shows in Table 2.

Table 2. Conditional Effect of Pre-Departure Training on Acculturative Stress

Personal Resources	Effect	se	*p*	BC 95% CI	
				Lower	Upper
-0.5731	-0.3775	0.0411	0.0000	-0.4585	-0.2966
0.0000	-0.3265	0.0385	0.0000	-0.4024	-0.2506
0.5731	-0.2754	0.0460	0.0000	-0.3660	-0.1848
R^2-chg = 0.0118					

Notes: *R^2-chg = R^2 increase due to interaction; se = standard error, BC = Bias Corrected; CI = Confidence Interval*

Table 2 illustrates the influence of pre-departure training on acculturative stress at each level of personal resources. The p-value of less than 0.01 indicates that there is a significant influence between pre-departure training and acculturative stress at different levels of personal resources. In other words, the influence of pre-departure training on acculturative stress can occur when the level of personal resources of the individual is at a low, normal, and even high level. It proves that even though the level of personal resources is high, individuals will still feel the stress. However, the impact of stress is not as severe as it is on the lower level of personal resources.

The level of perceived acculturative stress can be seen from the value of personal resources in Table 2. The value of -0.5731 shows a lower level of personal resources. Then in the second row shows a value of 0.0000, which indicates that the level of personal resources is considered normal, and the value of 0.5731 on the third line shows a higher level of personal resources.

It can be concluded that when personal resources are at a lower level (-0,5731), it will strengthen the influence of the pre-departure training on acculturative stress of -0.3775. When personal resources are at the normal level (0.0000), it will strengthen the influence of the pre-departure training on acculturative stress of -0.3265. Lastly, when personal resources are at a higher level (0.5731), it will strengthen the influence of the pre-departure training on acculturative stress by -0.2754.

For the interpretation of the moderating variable, if the higher the value of the moderating variable and its influence is more negative, then the moderating variable shows the effect that is not unidirectional or has the effect of weakening the effect of the dependent variable on the independent variable. Conversely, if the higher the value of the moderating variable and its influence is more positive, then the moderating variable shows unidirectional influence or gives an effect that strengthens the influence of the dependent variable on the independent variable.

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The result shows that when the pre-departure training level is low, the level of acculturative stress is high, and vice versa. It indicates that pre-departure training is one of the main factors that can affect the acculturative stress level of migrant workers in Japan. When the pre-departure training carried out is not adequate (low), it will have an impact on employees' acculturative stress. This finding supports the statement that pre-departure training is an essential requirement for migrant workers before participating in an international assignment. As a result, the employees' level of acculturative stress can be minimized. Therefore, the pre-departure training carried out must be following matters relating to the type of work that charges later and the selection of training methods that are suitable for the objectives of the apprenticeship program (Kinkawa et al., 2012; Zheng et al., 2007).

Furthermore, this study is in line with previous studies which shows that there is a comparison between individuals who have high, medium, and low levels of personal resources. The high or low levels and positive or negative stress depends on the characteristics of the individual. It is determined by how the individual views stress, copes with stress, the flexibility towards different cultures, stress reactions, interpersonal abilities, and social abilities (Ward et al., 2005; Luthans, 2010; Wong & Song, 2008).

Moreover, these findings are in line with the previous study that the higher the level of personal resources they have, the more negative is the influence of pre-departure training on acculturative stress. Individuals who have a high level of personal resources will have an impact on reducing stress levels. Otherwise, low personal resources tend to be more prone to stress (Güler & Çetin, 2018; Mastenbroek, 2017; Ham et al., 2014; Hayes & Weathington, 2007; Amatea & Fong, 1991). It can be concluded that if the pre-departure training is effective and then supported by a good or high level of personal resources, the level of acculturative stress will be lower. The better the personal resources of an individual, the better the individual is in managing himself towards acculturative stress (Mielniczuk & Laguna, 2017).

Conclusion

Based on the analysis, the result shows that there is a negative influence between pre-departure training on acculturative stress. It shows that the more effective the pre-departure training carries out, the lower the level of the acculturative stress that feels. Furthermore, the result also shows that there is a positive influence between the pre-departure training on acculturative stress moderated by personal resources. It shows that personal resources strengthen the influence of pre-departure training on acculturative stress. The higher the personal resources owned by migrant workers, the stronger the influence of the pre-departure training on acculturative stress. These findings support the statement that personal resources are one of the leading indicators that affect an individual's performance at work.

However, this study has not discovered other variables that can be related to these variables, for instance, work engagement and job demand. The researchers also suggest conducting research related to the comparison of the acculturative stress level that is felt by female and male migrant workers since the level of acculturative stress between men and women are different. Therefore, future researches suggest expanding the subject of research.

The research subjects were not only migrant workers from West Java but also migrant workers from other regions of Indonesia to be able to generalize the results of the study more. Furthermore, the researchers also suggest researching with respondents from other government apprenticeship programs, such as migrant workers who work in Korea. Research on Indonesian migrant workers in Korea can be done since the interest of Indonesian migrant workers to work in Korea in 2018 has increased.

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Financial Development and Economic Sustainability in ECOWAS Countries: the Role of Institutional Quality

Fanglin Li[1*], Michael Appiah[2*], Benjamin Korankye[3]
*Corresponding author

Abstract. *The literature explored the relationship between financial development and economic sustainability, taking into consideration the roles played by institutional quality in the ECOWAS region. Most literature still debates on the roles of institutional quality on economic growth. The study used data from 1996-2017 for 15 emerging economies within the ECOWAS by applying two-step SYS GMM (SGMM) estimators. The study discovered that financial development has no significant and positive alliance on economic sustainability in the ECOWAS region. Besides that, regulatory quality and control of corruption, considered institutional quality variables have conflicting results with control of corruption reducing growth as well as regulatory quality increasing growth. Again, the results came out that capital formation has a positive association with growth and labor force influencing negatively on growth. Finally, due to a lack of proper corruption control systems in the region and poor financial sector development, growth cannot improve.*

Keywords: *financial development, economic sustainability, institutional quality, emerging countries*
JEL Classification: O11, O43, C23

Abstrak. *Literatur mengeksplorasi hubungan antara pengembangan keuangan dan keberlanjutan ekonomi dengan mempertimbangkan peran yang dimainkan oleh kualitas kelembagaan di wilayah ECOWAS. Sebagian besar literatur masih memperdebatkan peran kualitas kelembagaan pada pertumbuhan ekonomi. Studi ini menggunakan data dari tahun 1996-2017 untuk 15 negara berkembang dalam ECOWAS dengan menerapkan penduga dua langkah SYS GMM (SGMM). Penelitian ini menemukan bahwa pengembangan keuangan tidak memiliki aliansi yang signifikan dan positif pada keberlanjutan ekonomi di wilayah ECOWAS. Selain itu, kualitas pengaturan dan pengendalian korupsi, yang dianggap sebagai variabel kualitas kelembagaan, memiliki hasil yang berlawanan dengan pengendalian korupsi yang mengurangi pertumbuhan serta kualitas peningkatan regulasi. Sekali lagi, hasilnya keluar bahwa pembentukan modal memiliki hubungan positif dengan pertumbuhan dan tenaga kerja yang berpengaruh negatif terhadap pertumbuhan. Akhirnya, karena kurangnya sistem kontrol korupsi yang tepat di wilayah ini dan perkembangan sektor keuangan yang buruk, pertumbuhan tidak dapat meningkat.*

Kata Kunci: *pengembangan keuangan, keberlanjutan ekonomi, kualitas kelembagaan, negara berkembang*

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[1,2,3] School of Finance & Economics, Jiangsu University, 301 Xuefu Road, Jiangsu, P. R. China.
E-mail: [1]5103181209@stmail.ujs.edu.cn, [2]appiahjunior@yahoo.com, [3]kbapisco2@gmail.com
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Introduction

The finance-growth connection in recent years has attracted many concerns from around the globe (Adusei, 2013; Chaudhry et al., 2019; Durusu-Ciftci et al., 2017; Ibrahim & Alagidede, 2018). Most of this literature is concentrated on the developed nations leaving the emerging economies unattended. Ayadi et al. (2015) investigated the relationship between financial sector development and economic growth, employing a sample of northern and southern Mediterranean countries for the period 1985-2009. Dawson (2003) hypothesized that many empirical studies support the positive effects of financial development on economic growth. This hypothesis is on 13 Central and East European Countries (CEECs) amid transition utilizing panel data. The results appeared that financial development, as measured by liquid liabilities as a proportion of gross domestic product, has an insignificant effect on economic growth in CEECs.

Caporale et al. (2015) reviewed the main highlights of the banking and financial sector in ten new EU members and, after that, looked at the relationship between financial development and economic growth in these countries by evaluating a dynamic panel model over the period 1994-2007. The study recommended that the stock and credit markets are still underdeveloped in these economies and that their contribution to economic growth is constrained owing to a lack of financial depth. Halkos & Trigoni (2010), utilizing the VECM, recorded that the financial system does not explicitly appear to affect growth within the European Union countries. The study on the finance-growth nexus in developed countries has extensively conducted by authors including (Ductor & Grechyna, 2015; Omri et al., 2015; Simionescu et al., 2017).

The few investigations conducted on emerging countries also focus on country-specific without considering the countries as a whole. Odhiambo (2010) conducting research involving South Africa by applying the ARDL-bounds testing procedure. Adu et al. (2013) focusing their study on Ghana, with Adeniyi et al. (2015) investigating in the Nigerian context. A bulk of literature on the finance-growth nexus has confirmed the strong positive relationship and impact of financial development on growth. (Akinlo & Egbetunde, 2010; Batuo et al., 2018; Polat et al., 2015) all attested that indeed financial development increases growth. (Ahmed, 2016; Ayadi et al., 2015; Valickova et al., 2015) on the other hand, are also of the view that financial development decreases growth both when employed as an independent variable or as a control variable.

Despite the entire above, there are few of the literature that considers the role of institutional quality. (Effiong, 2015; Omoteso & Ishola Mobolaji, 2014) studies consider institution quality as control variables when dealing with the finance-growth nexus. Their studies employed the GMM method and fixed and random effects method respectively and realized that institutional quality, when coupled with financial development, increases growth.

This current study contributes to the existing body of literature in three distinct ways. First, it adds up to the existing evidence and literature on the finance-growth nexus in Africa as a whole by employing the system GMM method of estimation that has not been considered by most literature on the subject matter in the African context, thus introducing

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a methodological novelty. Secondly, most of the studies on finance-growth nexus in Africa, as stated earlier, have been concentrating on country specifics. Although there is a fresh idea that country-specific studies should prefer to cross-sectional panel studies (Arestis & Demetriades, 1997), yet state that the story of Africa on finance-growth nexus is best told if more panel studies undertake to boost the few case studies that produce conflicting results (Adusei, 2013). Lastly, the addition of institutional quality to finance-growth nexus determination in the African context gives another perspective and view. This study, therefore, attempts to examine the effect of financial development and economic sustainability in ECOWAS countries considering the roles played by institutional quality by apply system GMM method of estimation to make policy recommendations.

Methods

In this study, a panel data from a sample of 15 ECOWAS countries from the Sub-Saharan African region for the period 1996-2017 is using. This period coincides with the time of both economic and institutional reforms within the region. Since 1986, more significant parts of SSA countries have executed a series of economic development programs on deepening the financial sector, additionally moving towards democratization, legal and political-institutional frameworks for greater access and, checks and balances.

The dependent variable, Economic Sustainability, is proxied by the Gross Domestic Product (current USD). Capital Formation proxies as capital. The financial development proxy with the ratio of domestic credit to the private sector that scaled by GDP. It is the most consistently utilized variable of financial development. A few authors have utilized liquid liabilities (M2 or M3, percentage of GDP) as a proxy for financial development. In any case, these variables speak with a volume in the financial sector, not financial development. Besides that, this study not utilize this variable to proxy financial development. The institutional quality is proxied by control of corruption and regulatory quality, with its estimation extending from around - 2.5 to 2.5. Data for the entire examination is from the World Bank (WDI) and World Governance Indicators.

The study at the earliest stage modeled the immediate impact of finance, including institutional quality on economic growth, which is modified to compress time fixed effects (Barro & Sala-i-Martin, 1995; Romer, 1986). The study formulates the following by determining a standard growth dynamic panel regression as beneath:

$$\Delta Y_{it} = + Y_{i,t-1} + \beta_1 X_{it} + \gamma t + \varepsilon_t \qquad (1)$$

for i=1,...N and t=1,...T

Where ΔY_{it}, is the growth of GDP termed as economic sustainability, i as countries with t indicating time point t. $(t-_1)$ is the level of GDP in the previous period. X_{it} as an explanatory variable in a country i at a time point t. In this circumstance, this variable captures financial development, and institutional quality assessed by different proxies. γ_t are the time fixed effects distributed across countries. ε_t is the error term. Coefficient measures the relational condition upon the explanatory variable. From the above equation, the following equation is developed as follows:

$$\Delta GDP = + \beta_0 GDP_{i,\ t-1} + \beta_{1CAPit} + \beta_{2FINit} + \beta_{3LABit} + \beta_{4COCit} + \beta_{5RQEit} + \varepsilon_t \qquad (2)$$

With GDP *denoting the level of economic sustainability*, CAP as Capital Formation, FIN as Financial development, LAB as Labor Force, COC and RQE as institutional quality variables denoting control of corruption and regulatory quality. ε is an individual error term.

Since the main hypothesis is to examine the effects of financial development on economic sustainability considering the roles of institutional quality, thus control of corruption and regulatory quality, the estimated coefficient proves the significance of the above model.

In estimating Equation (2), an ordinary least square (OLS) approach is not appropriate. The application of the OLS method can considerably produce biased results, it does not eliminate the unobservable country-specific effects, nor does it manage the possible endogeneity problem in the regressors. For growth models with dynamic panel determination, the generalized-method for moments (GMM) estimators of (Arellano & Bond, 1991; Arellano & Bover, 1995) is far better than other panel data estimators. The GMM panel estimators' controls for both time and country-specific effects, while utilizing proper lags of the regressors as instruments to address the endogeneity issue.

The study applied SYS-GMM estimator because it is more proficient in controlling the difficulties of the weak instrument (Arellano & Bover, 1995; Blundell & Bond, 1998). Once more, it combines both the equations in levels and first-difference as a system, whereas utilizing larger sets of instruments. In addition to the above reasons, the instruments for the level equations are the lagged differences of the regressors. Also, the validity of the additional instruments requires additional moment conditions. The first differences of the regressors in the equation are uncorrelated with the country-specific effects. The lagged values of independent variables as instruments in the model, according to (Reed, 2015) are appropriate instruments if both criteria hold – independent variables are weakly exogenous and no autocorrelation of the error term exists.

The application of the GMM model utilization comes with two diagnostic tests. In the first place, the study conducts the validity of instruments, to ascertain whether it has any connection with the residual. This estimation is possible by utilizing the Hansen J-statistic test. Secondly, the Arellano-Bond test to estimate second-order autocorrelation connections.

Results and Discussion

Table 1 gives descriptive measurements of the variables. The Gross domestic product has mean estimates of 2.41 and has a min and max of 2.06 and 5.68, respectively. Capital Formation has a sample of 321; however, it has a standard deviation of 1.36. The range of Financial Development remains from 0.40 to 41.40. Labor likewise has high variability as appeared high estimation of standard deviation (6481954). Its range lies somewhere in the range of 337216 and 5.90e+07. A comparable translation holds for all different variables.

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Table 1. Descriptive statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
GDP	326	2.41e+10	7.70e+10	2.06e+08	5.68e+11
CAP	321	4.93e+09	1.36e+10	-2.06e+07	8.98e+10
FIN	312	12.74338	7.632597	.4025806	41.39817
LAB	326	6481954	1.09e+07	337216	5.90e+07
COC	285	-.6921427	.3940503	-1.701552	.176479
RQE	285	-.6257557	.4824712	-2.023813	1.053121

Source: Author Computation

Table 2 gives a fundamental summation of the relationship between the variables utilized in running the regression model. From the results, there are positive correlations among a large portion of the variables estimated at a 5% level are positive except for the institutional quality variables, subsequently Control of Corruption and Regulatory Quality. In any case, GDP and CAP exceedingly propose conceivable multicollinearity. The study examines two separate regressors that consider the institutional quality for all nations in the study as per World Governance indicators.

Table 2. Correlation Matrix

	GDP	CAP	FIN	LAB	COC	RQE
GDP	**1.0000**	0.9755	0.0520	0.9098	-0.2229	-0.0522
CAP	0.9755	**1.0000**	0.0475	0.9523	-0.2285	-0.0571
FIN	0.0520	0.0475	**1.0000**	0.0456	0.3544	0.3427
LAB	0.9098	0.9523	0.0456	**1.0000**	-0.2220	-0.0471
COC	-0.2229	-0.2285	0.3544	-0.2220	**1.0000**	0.6696
RQE	-0.0522	-0.0571	0.3427	-0.0471	0.6696	**1.0000**

Source: Author Computation

The results show there is a direct relationship between Capital Formation (CAP) and economic growth, with the coefficient of the model significantly higher in magnitude, as shown in Table 3. Nevertheless, this growth is statistically at a significant level of 1%. In line with standard macroeconomics principles, capital formation significantly and positively increases growth. For example, a 1% increase in capital raises output growth by over 100 percent on average. This result is consistent with that of Appiah et al. (2019a), and Uneze (2013) who recorded that there is bi-directional causality between capital formation and growth, proposing that higher economic growth leads to the higher capital formation, and increases in capital formation result in higher economic growth. These results hold irrespective of whether the capital formation is a measure of the private fixed capital formation or by gross capital formation. Again, a study by Wolde-Rufael (2009) employing capital formation as a control variable discovered that capital is one of the essential factors in output growth in 15 out of the 17 countries and that it increases growth. However, he continued to stress that the results are to be understood with care, as it may not be adequately robust enough.

Surprisingly on financial development, the results show that there is a negative association with economic growth while the effect on economic growth is negative and insignificant. It is interesting to see that the marginal effect of financial development on economic growth is more apparent (a negative sign). Effiong (2015) confirmed the results contradicting the outcomes recorded by Ibrahim & Alagidede (2018) whom one way or the other stated that financial development has a positive relationship with economic growth, beneath a certain projected threshold, finance is mostly unresponsive to growth while significantly inducing economic activity for countries above the thresholds. This current study suggested that, financial development has not significantly contributed to SSA economic growth, opposite to the significant positive effect of institutional quality.

Table 3. Two-Step SYS GMM Estimation

Variables	Coef.	Corrected Std. Err.	t	P>|t|	[95% Conf. Interval]	
GDP. L1	.6520909	.0307636	21.20	0.000***	.5861095	.7180722
CAP	2.786429	.5383246	5.18	0.000***	1.631837	3.94102
FIN	-4.30e+07	5.33e+07	-0.81	0.433	-1.57e+08	7.14e+07
LAB	-852.8465	485.4549	-1.76	0.101	-1894.044	188.3506
COC	-1.30e+09	2.26e+09	-0.57	0.575	-6.16e+09	3.56e+09
RQE	1.87e+09	2.04e+09	0.92	0.376	-2.51e+09	6.25e+09
Cons	1.82e+09	2.04e+09	0.89	0.386	-2.55e+09	6.19e+09

Source: Author Computation NB: *, **, & *** explains 10%, 5% and 1% significance level.

Control of corruption and regulatory quality did produce an opposing outcome; the study was expecting the institutional quality content to increase growth among ECOWAS countries. Control of corruption produced a negative relationship with growth, stating that an increase in corruption control measures substantially decreases growth. d'Agostino et al. (2016), in their examination on corruption and growth in Africa, applied the GMM method, and confirmed the results that corruption reduces growth. A contrasting view from Appiah et al. (2019b) recorded that the level of corruption control in Africa will increase growth when the correct measures undertake.

On the other side, the outcome of Regulatory Quality posits that an increase in regulatory quality increases growth. The study explained further that there exists a direct connection between regulatory quality and growth. Statistically, the magnitude of the coefficient indicates that when the adhering to rules and regulations of institutions increases growth. In a study involving developing countries, Jalilian et al. (2007) asserted the results of this study, stating that the results based on two different methods of estimation suggest a robust causal link between regulatory quality and economic performance. At the same vein, Omoteso & Ishola Mobolaji (2014) indicated that the implementation of positive regulatory

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quality indicators has more positive effects on economic growth in the African region. They are continuously expressing that all indicators should implement simultaneously.

From the outcome of the estimation, it can realize that there is also a negative connection between labor and growth. Explaining this, an increase in labor reduces growth by a wider margin. This condition can be a result of the lack of equipment, duplication of functions by employees, and other factors. The outcome of this study is consistent with an examination conducted by Appiah et al. (2019c); they posit that labor reduces growth in some African countries. Their study was conducted on developing African countries and applied the Panel ARDL method of estimation, and it records that both the long run and short-run results indicate that an increase in labor reduces growth. (Kapsos, 2005) gives the opposite results recording that there is a connecting increasing effect between labor and economic performance.

Overall, the control effect of corruption control and regulatory quality did produce an opposing view as well as financial development producing a negative and insignificant effect. This evidence suggests the existing institutions have not enhanced the finance-growth relationship in the region. Therefore, improving institutions' quality is relevant to the financial sector is desired.

Table 4. Diagnostic Estimations

Arellano-Bond test for AR (1) in first differences: z = -0.99 Pr > z = 0.325						
Arellano-Bond test for AR (2) in first differences: z = -1.05 Pr > z = 0.294						
Sargan test of overid. restrictions: chi2 (13) = 237.50 Prob > chi2 = 0.000						
Hansen test of overid. restrictions: chi2 (13) = 7.72 Prob > chi2 = 0.996						
Number of obs = 252	Number of Instruments = 28	Prob > F = 0.000	Number of groups = 15	Obs per group: min = 13	Obs per group: avg = 16.80	Obs per group max = 18

Source: Author Computation

This examination continues to test some diagnostic statistics to research the validity of the two-stage framework of the GMM method. True to form, in all details, the AR (1) test discards the null hypothesis of the non-appearance of 1st Order Serial Autocorrelation. Additionally, the AR (2) test does not recognize any proof of the 2nd Order Serial relationship. Nonetheless, as supported by Roodman (2009), the multiplication of instruments prompts finite test bias and may break the validity of the Hansen J-test. Along these lines, the paper limit the number of lags to one and utilize the "collapsed option" strategy actualized in Stata by (Roodman, 2009). The Hansen trial of over-identifying restriction dismissed the null hypothesis that the instruments are substantial (for example, not related to the error term). Finally, the study rejects the invalid speculation of the distinction in-Hansen test of heterogeneity. Curiously, the outcomes in regards to the role of institutional quality on economic sustainability just as the role of financial development are steady with different authors. For instance, Nawaz (2015) likewise utilizing framework GMM to find that in Asia, political solidness and brutality evasion are generally irrelevant for clarifying long-run growth.

Conclusion

Financial development is one of the significant factors of economic growth in both the developed and undeveloped world. With this current study, there was an emphasis placed on the significance of financial development on economic sustainability, taking into consideration the role of institutional quality in the ECOWAS region throughout 1996-2017. According to most literature, 'institutional quality determinants like political instability, democratic accountability, and other factors are determinants of economic growth. Hence, the level of political risk can help increase or decrease investor confidence and improvement of growth.

Most of this contribution emphasized the institutional factors having a positive effect on growth. The two-step system GMM with IV techniques and the collapse option estimation recorded that the variables of concerns have opposing results with control of corruption reducing growth as well as regulatory quality increasing growth within the ECOWAS. The study found that due to the lack of proper corruption control systems in the region, growth could not improve. Financial development, besides, decreases growth. Again, the study discovered that capital formation increases growth with the labor force, reducing growth irrespective of these situations.

Overall, the outcome sends strong signals to governments and administration of countries in the ECOWAS regarding the importance of institutional quality on the economy as well as improving financial development. Therefore, ECOWAS countries should do everything possible to improve the institutional quality framework and structures because good institutions reduce the level of political turmoil, which is an excellent determinant of growth and investment.

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Is Bankruptcy Risk a Systematic Risk? Evidence from Pakistan Stock Exchange

Imran Umer Chhapra[1*], Iffat Zehra[2], Muhammad Kashif[3], Raja Rehan[4]
*Corresponding author

Abstract. *This study empirically investigates the relationship between default risk and cross-section of stock returns in the Pakistan Stock Exchange (PSX). Stock price data from all listed and delisted companies use to calculate monthly returns from 2001-2016. Ohlson's O-score is employed to measure exposure of firm to systematic deviation within bankruptcy risk. Besides, asset-pricing models like the Capital Asset Pricing Model (CAPM) and Fama French (FF) models are employed. Portfolios are sorted in deciles by default probability. This result finds that stocks of firms significantly exposed to not diversified Default Risk yield higher returns. Besides that, the FF models explain cross-sectional stock returns since factors incorporate information on financial distress and default. After that, the book-to-market equity factor is not significant in elucidating returns of distressed firms because of market inefficiency. Results have practical implications for portfolio managers and investors of an emerging economy in developing diversified portfolios during periods of uncertainty and market volatility.*

Keywords: *distress risk, systematic risk, bankruptcy, asset pricing, Pakistan stock exchange*
JEL Classifications: G12, G15, G33

Abstrak. *Studi ini menyelidiki secara empiris hubungan antara risiko default dan cross-section pengembalian saham di pasar modal Pakistan (PSX). Data harga saham dari semua perusahaan yang terdaftar dan yang delisting digunakan untuk menghitung pengembalian bulanan dari 2001-2016. O-score Ohlson digunakan untuk mengukur paparan perusahaan terhadap penyimpangan sistematis dalam risiko kebangkrutan. Selain itu, model penetapan harga aset seperti model CAPM dan model Fama-French (FF) digunakan. Portofolio diurutkan dalam desil berdasarkan probabilitas default. Hasil ini menemukan bahwa saham perusahaan yang terpapar secara signifikan terhadap risiko gagal bayar yang tidak terdiversifikasi menghasilkan pengembalian yang lebih tinggi. Selain itu, model FF menjelaskan pengembalian saham cross-sectional karena faktor memasukkan informasi tentang kesulitan keuangan dan default. Setelah itu, faktor ekuitas nilai buku terhadap pasar tidak signifikan dalam menjelaskan pengembalian perusahaan tertekan karena ketidakefisienan pasar. Hasil memiliki implikasi praktis untuk manajer portofolio dan investor dari ekonomi baru dalam mengembangkan portofolio yang terdiversifikasi selama periode ketidakpastian dan volatilitas pasar.*

Kata Kunci: *risiko distress, risiko sistimatik, kebangkrutan, penilaian aset, pasar modal Pakistan*

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[1,2,3]Shaheed Zulfikar Ali Bhutto Institute of Science & Technology. Karachi City, Sindh, Pakistan.
[4]Universiti Kuala Lumpur. Jl. Sultan Ismail, Kuala Lumpur, Malaysia
E-mail: [1]imran_js@yahoo.com, [2]iffat.zehra@yahoo.com, [3]yaarbailee@gmail.com, [4]raja.rehan@s.unikl.edu.my
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Introduction

Risks can categorize into two types; systematic, which is not diverse and unsystematic, which can be diversified. An outsized return compensated as premium for systematic component (high betas) is anticipated under rational asset pricing models. Among such risks is the risk of default that can result in enormous losses for an equity investor? Conversely, when tested empirically using the company's financial variables, investments in distressed securities exhibit divergence of realized returns from expected returns, yielding low returns, which gives rise to the distress risk effect (Anginer & Yıldızhan, 2018).

Distress risk puzzle characterizes by poor stock performance of financially distressed firms concerning negative excess returns. The concept has pronounced in asset pricing literature by Chan & Chen (1991), and Fama & French (1992, 1993, 1996). Specifically, in times of higher market volatility, distressed stocks yield low, which implies their vulnerability to increases in market risk (Campbell et al., 2008).

The argument on the anomalous return pattern of distressed equities is unsettled. While, others state that it is a bias and present prima facie indication against risk models stating beta's ability to undervalue distress risk (Campbell et al., 2008; Griffin & Lemmon, 2002; Dichev, 1998; Ferguson & Shockley, 2003). Others refute it as a puzzle and establish a positive association of distress risk with expected returns (Boualam et al., 2017; Chava & Purnanandam, 2010; Vassalou & Xing, 2004). Then again, there are empirical considerations that acknowledge the negative association of stock returns with credit risk but do not consider this as an anomaly (Garlappi & Yan, 2011; Harvey & Siddique, 2000) advocating that bankruptcy process itself results in low asset betas for distressed firms.

Studies are questioning the presence of distress anomaly quote reasons behind it. It occurs due to unforeseen events during the sample period of review (Campbell et al., 2008). Besides that, it is a historic US market specific phenomena only (Chava & Purnanandam, 2010). Also, the prices of distressed stocks miscalculate because investors are unable to estimate failure risk (Eisdorfer et al., 2015). This phenomenon is due to the empirical limitation of the simple linear model in capturing excess returns that lead to partialities in estimated factor loadings of distressed stocks portfolio (Boualam et al., 2017). A study conducted by Ferguson & Shockley (2003) validates that stock of distressed companies gives lower returns as compared to non-distressed firms, quoting market under-reaction hypothesis as a plausible reason for such behavior.

Li et al. (2017) had tests shareholder advantage assumptions to delve into reasons for the existence of distress anomaly. Findings confirm that future expected stock returns are negatively associated with a firm's position of financial distress. Moreover, during the period of observations, violation of shareholder advantage hypothesis observe, as equity risk remains insensitive to company cash flow. Researchers explain that when paralleled with companies having less risk of default, companies with a higher risk of default are likely able in overinvesting, generating low profits, hence using up all cash flows. Within subsamples, it observes that distress risk influence over equity returns was more substantial and more

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visible in companies with the lower opportunity of growth, firms having no credit rating, and companies whereby CEOs have equity holdings.

On the other hand, Garlappi et al. (2006) uses Moody-KMV's as a measure of default probability and emphasizes on shareholder's advantage and control within distressed firms. If shareholders have less or no bargaining power in a firm, equity returns will tend to increase with increasing default probability, and vice versa. Moreover, specific evidence supporting irrational return behavior on distressed stocks attributes it to mispricing that is market's failure in pricing distress risk accordingly (Dichev, 1998; Campbell et al., 2008). A negative risk premium sees if the market underreacts to bankruptcy risk that will cause the mispricing of stock prices. In case of underreaction, previous year returns (momentum) for stock prices will be low, and this pattern of low returns expects to continue in the future, which leads to negative risk premium (Agarwal & Taffler, 2008). On the other hand, a positive premium would mean that investors have overreacted to news of failure of such firms and distress risk is associated with factors like size and book-to-market. However, it is not only the default risk which built into default spread but also a systematic risk, hence making default spread a poor predictor of returns for stocks carrying default risk (Vassalou & Xing, 2004).

Several studies on capital structure, with the earliest one proposed by Modigliani and Miller (1958, 1963) explain variability in stock returns through leverage. The theoretical model in George & Hwang's (2010) research connects default risk with leverage and elucidates that companies that tend to take excessive leverage while making capital structure decisions increase their probability of default. Low leveraged companies are more exposed to not diversify risk due to which expected future return on stocks of such companies should be greater than those of high leverage companies (George & Hwang, 2010). For medium to high-levered deciles, the leverage risk factor was empirically observed, having a strong relationship with equity returns (Artikis & Nifora, 2011). Schneider et al. (2016) define the distress puzzle as a negative association of distress risk with a cross-section of equity returns. Leverage is using in the model as the primary indicator of bankruptcy that compares returns on leveraged portfolios, and contrasting results show that buying stocks of companies with high leverage and selling stocks of companies with low leverage produces negative returns, so much so that when accounted for return distribution, betas approach towards a value of zero. Market mispricing often quotes the reason behind such anomalous behavior.

Leary & Roberts (2005) also attempts to associate distress risk with leverage. Their research based on the assumption that in order to evade the high cost of distress, firms opt for less leverage. During times of financial distress, such firms exhibit lower ROA (Return on Assets) when compared to high leverage companies. Findings indicate a more significant equity return premium in case of less leveraged companies when in distress. Hence, both earning performance, in terms of return on average assets as well as continuous exposure to not diversify risk, for low leverage firms appears to be impaired. Consistent with these results were findings from a study by Kayhan & Titman (2007). During financial distress, companies having a high level of leverage suffer less as compared to firms with a low level of leverage who bear more. Besides, equity returns are also different for low and high leveraged firms as the difference in capital structure indicates variances in exposures to the financial distress cost. Capital structure decisions are hence made by mangers to evade such costs.

The famed Fama & French (1992) asset pricing study on the three-factor model initially attributed value premium on stocks to financial distress risk, which then led to a series of studies on the behavior of distressed stocks. Their study included beta, size (small minus big-SMB), and value premium (high minus low-HML) as three factors. Financially distressed firms characterize with high betas and high factor loadings for value premium (HML) and size (SMB) (Fama & French, 1992, 1996). The initial structural model on default by Merton (1974) suggests that not only return on financial securities (such as equities and bonds) but also the probability of default is driven by aggregate risk factors. Hence, when we control for risk factors as proposed by Fama & French (1993), there should not be any different for returns of portfolios for companies having a higher risk of default and return on portfolios comprising lower risk of default. Concerning the factor model postulated by Fama & French (1996), researchers Vassalou & Xing (2004) argue that SMB and HML as proxies of default risk contain information on default, but these factors are unable to explain equity returns. Their study uses Merton's option pricing model to evaluate the impact of default risk on stock returns and concludes that small-sized companies with high BM and high default risk generate higher returns when compared with low default risk firms. In the absence of these firm characteristics, the study concludes that high default risk firms do not earn a higher return.

On a different tangent, Chen et al. (2010) claim to explain many market anomalies through their study that the Fama-French model could not. Amongst such is the distress puzzle characterized by negative relation of average returns with financial distress. The researchers propose a different three-factor model that includes market factor, a low-minus-high investment factor, and a high-minus-low ROA factor. They employ ROA to expected return relation to account for anomaly whereby findings indicate that financially distressed firms have a lower expected return on assets (ROA), which makes them less profitable, and hence they generate lower returns. Kapadia (2011) renews the idea through research findings that distress risk is explained best in terms of size and value premiums. Findings indicate that value and size factors under Fama & French model can use to predict future failure rates. The study makes use of business failure data for both private and public limited companies, which use to predict future failure. Lower returns are witnessed for small stocks, whereas during times of market expectation of high firm failure, value stocks yield lesser returns as compared to growth stocks.

Different studies have employed different proxies to estimate the probability of bankruptcy. Campbell et al. (2008) suggest that financial distress risk capture by momentum as previous year returns can use to predict future bankruptcy. They present a self-developed measure for financial distress by using bankruptcy filing details and financially driven default ratings provided by credit rating agencies on companies. Equity market variables included data on monthly excess stock return, volatility in daily stock returns, and market capitalization. Accounting data used were the ratio of net income to the market value of assets, total leverage to the market value of total assets, cash holdings, and market to book ratio. Declining sales

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and earnings, coupled with high leverage, are some characteristics linked with distress risk (Griffin & Lemmon, 2002). Stock volatility, operating assets volatility, and cash flow position are factors used to measure distress risk (Gormley & Matsa, 2016). More popular and widely used measures for predicting financial distress are Altman Z-score (Altman, 1968) and Ohlson 0-score (Ohlson, 1980) that make use of accounting variables. Many studies have used accounting ratios based z-score model as a measure for default risk (Dichev, 1998; Griffin & Lemmon, 2002; Agarwal & Taffler, 2008). Anginer & Yıldızhan (2018) examine default risk pricing within the cross-section of equity returns. They use corporate bond credit spread as a new proxy first to calculate the risk premium of distressed firms, as it believes that it does not diversify the portion of default risk that should adjust in prices. Findings indicate that stocks of companies having greater systematic risk of default earn higher expected returns.

Gao et al. (2018) used a cross-section of equity returns for 44,000 distressed firms, from 38 countries to examine distress anomaly. They employ Moody-KMV's EDF (Expected Default Frequency) estimates as a proxy for default risk. Findings indicate that robust and negative relation of equity returns with credit risk that anomaly characterizes due to mispricing and financially distressed stocks close to bankruptcy are momentarily overpriced. On the other hand, research conducted by Schneider, et.al (2016) confirmed on the presence of distress anomaly as they observed negative returns in buying high leveraged stocks and selling stocks of low leverage firms within their value weighted portfolios. Furthermore, it notes that when compared to low leverage stocks, the performance of stocks for companies with high leverage deteriorates when standard factors were employed to correct for risk, and alphas for the four-factor model were significantly negative. Comparatively, the results were similar for equal-weighted portfolios.

While studying potential return drivers, Eisdorfer et al. (2015) used cross-country data to report that distress risk effect is more discernible in developed markets as compared to emerging ones. The study cites robust takeover legislation of distressed companies, weak arbitrage barriers, and greater information transparency as some reasons behind a more robust anomaly. It is challenging to take arbitrage positions in stocks of distressed companies (Eisdorfer et al., 2015), making them riskier. Within the US market, distress anomaly observes to be higher in small-cap companies (Campbell et al. 2008). Within developed markets other than the US, similar results observe. Moreover, Lai et al. (2017) observe that financial distress price within returns, and it is not an anomaly. They suggest Cahart's four-factor financial distress model explains equity returns within Asian markets.

Although prior research on evaluating distress risk in equity returns of PSX stocks is available, our study is distinct in the following ways. Firstly, we propose O-score along with three different factor models to estimate the distress risk premium. Also, the study makes use of stock return data from both listed and delisted companies to assess the historical return pattern of distressed stocks and substantiate if they underperform. This approach is the main novelty since previous studies have used only data from listed companies to verify the same. We create portfolios using a large sample of 901 companies from 2001 to 2016 to analyze their properties, avoiding survivorship bias, which to the best of authors' knowledge, has not done before. Another difference from previous research on Pakistan is that rather than choosing selective stocks from specific sectors, all sectors consider making it first of its kind research paper for an emerging country like Pakistan.

Methods

Distress risk anomaly has tested using Ohlson (1980) O-Score, which is estimated through nine factors linear combination of coefficient weighted accounting ratios. O-score is calculating for each firm in our sample for period t-1. O-Score equation is:

$$T = -1.32 - 0.407SIZE + 6.03TLTA - 1.43WCTA + 0.076CLCA - 1.72OENEG - 2.37NITA - 1.83FUTL + 0.285INTWO - 0.521CHIN$$

Where *SIZE* is the log of total assets divided by log of GNP price level index; *TLTA* is total liabilities divided by total assets; *WCTA* is working capital (current assets minus current liabilities) divided by total assets; CLCA is current liabilities divided current assets; *OENEG* is a dummy variable. Assign 1, if total liability > total assets otherwise assign 0, *NITA* is net income divided by total assets; *FUTL* is the funds from operations (pretax income) divided by total liabilities; *INTWO* is a dummy variable. Assign 1, if a net loss for the last two years, otherwise assign 0; and CHIN is changes in net income which is calculating as ($NI_t - NI_{t-1}$) divided by ($|NI_t| + |NI_{t-1}|$). Data type total assets (wc02999), GNP price level index, total liabilities (wc03351), total current liabilities (wc03101), earnings after interest and taxes and earnings before taxes (wc18191) from Thomson DataStream are using for estimation of O-Score. After calculating O-scores, decile portfolios are constructed at the end of June of every year *(t)* using PSX breakpoints. Then, returns of monthly value weighted decile portfolios are estimating from July of year *(t)* to June of year *(t + 1)* and portfolios are rebalanced in June of year *(t + 1).*

Single sorting or post ranking method has been employed for portfolio construction. Monthly stock returns (r_t) have sorted in an ascending series, on the basis of O-scores of each individual stock (O-Score$_{t-1}$). To calculate portfolio-sorted returns at time t, Market Value is sorted monthly at lags (time $_{t-1}$). Sorted data is arrayed in symmetric and increasing order into deciles, ranging from P1-P10, starting from low to high distressed firms. To ensure distressed based portfolio's robustness, equally weighted (EW) and value weighted (VW) returns are generated in excess of the risk-free rate (6 months T-bills). Furthermore, Jensen's alpha and Fama French's alphas are estimated and reported to measure the risk-adjusted performance of equally weighted and value weighted portfolios (P1 to P10) based on distress risk. The following formula is using to estimate Jensen's alpha:

$$K_{i,t} - K_{rf,t} = \alpha_i + \beta_{i,m}(K_{m,t} - K_{rf,t}) + \varepsilon_{i,t}$$

Where, $K_{i,t}$ is the return of portfolio *(i)* in month *(t)*, $K_{rf,t}$ is the risk free rate at month *(t)*, and $(K_{m,t} - K_{rf,t})$ is the excess return of market portfolio in month *(t)*. For Fama French alpha, the Fama French (1993) three factor model and Fama French (2015) five factor model are used respectively:

$$K_{i,t} - K_{rf,t} = \alpha_i + \beta_{i,m}(K_{m,t} - K_{rf,t}) + \beta_{i,SMB}(SMB)_t + \beta_{HML}(HML)_t + \varepsilon_{i,t}$$

$$K_{i,t} - K_{rf,t} = \alpha_i + \beta_{i,m}(K_{m,t} - K_{rf,t}) + \beta_{i,SMB}(SMB)_t + \beta_{HML}(HML)_t + \beta_{RMW}(RMW)_t + \beta_{CMA}(\mathrm{CMA})_t + \varepsilon i,$$

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Where, SMB_t is the size risk factor in month *(t)*, HML_t is the value risk factor in month *(t)*, RMW_t is the operating profitability risk factor in month *(t)* and CMA_t is the investment risk factor in month *(t)*. The joint significance of the decile portfolio alphas is tested by using systems of equations explain the importance of using system of equation that helps to overcome the issue of measurement error in variables and the problems of heteroscedasticity and serial correlation can also be corrected if alphas are estimated by using generalized methods of moments (GMM). Moreover, the Wald test is applied to verify whether the null hypothesis (H_o: αi = 0 [$for\ i$ = 1, 2,3.....10]) of zero alpha estimates is correct, which explains the significance of return differential among the decile portfolios.

Result and Discussion

First, preliminary descriptive statistics of decile portfolios of distressed companies present in Table 1, followed by a discussion on risk-adjusted Equally Weighted (EW) and Value Weighted (VW) returns generated from the time-series asset pricing tests. We developed annualized portfolios for both EW and VW monthly returns, on an annualized basis. Decile portfolios ranging from P1 to P10 are forming, representing the lowest and highest distressed companies, respectively. The level of spread is the difference between P10-P1.

Table 1. Characteristics of Decile Portfolios based on Distress Risk

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P10-P1	t-test
EW Excess Returns (% p.a)	17.9	25.45	21.14	29.1	31.1	26.4	34.1	34.3	33.2	43.5	25.61	2.80
VW Excess Returns (% p.a)	14.6	23.80	20.19	23.3	22.3	21.9	27.2	30.9	24.2	33.2	18.6	1.74
MV (Rs. tn)	1.2	0.38	0.20	0.15	0.09	0.07	0.04	0.02	0.01	0.01	-1.21	-20.6
CAPM β	1.07	0.90	0.79	0.89	0.57	0.83	0.83	0.86	0.51	0.80	-0.27	-1.99

Table 1 shows the descriptive statistics of decile portfolios based on distress risk from January 2001 to December 2016. The results of the excess return of value-weighted and equally weighted portfolio show that lowest size portfolio (P1) is having lowest distress risk and generating lower returns (EW returns = 17.90% p.a. and VW returns = 14.57% p.a.) in comparison to other equally weighted and value-weighted (P2 to P10) portfolios. On the side P10 is the highest distress risk portfolio generating higher returns (EW returns = 25.61% p.a. and VW returns = 18.59% p.a.) in comparison to other portfolios. The return spread and t-test values (in parenthesis) between two extreme portfolios (P10-P1) for equally weighted and value-weighted portfolios are 25.61% (2.80) and 18.59% (1.74) indicating that both portfolios returns are statistically significant and there is a difference in means between the characteristics of P10 and P1. Hence, our results are in line with the value theory discussed in the previous section.

The risk-adjusted performance of returns is using to confirm on the distress risk anomaly. For estimation, GMM is employing whereas CAPM's Jensen Alpha and 3 and 5 factor Fama-French model is using for analysis. For value-weighted (VW) distressed portfolios, Jensen alpha for P1 (low distress firms) was highly significant. Alpha for P5 (t=1.51) and P9 (t=1.52) was significant at 10%. Likewise, the alpha results, except for P1 and P10, under the three-factor Fama French model failed to explain the significance. P1 and P10 were significant at 5% (t=-2.14) and 10% (t=1.51), respectively. Under both, the models, beta values for low distress companies were less than the beta estimate of high distress firms. Comparatively, higher returns are expecting with firms having a greater probability of default, indicating the absence of distress anomaly. The results are aligning with the findings of Mselmi et al. (2019) that states that distress risk factor does not yield abnormal returns.

Table 2 presents the risk-adjusted performance of the decile value-weighted distress risk portfolios. Data includes all shares listed on PSX from January 2001 till December 2016. Data sort in ascending order at month (t) to estimate distress risk values by using 36 months rolling window of observations and all portfolios rebalance monthly. The decile portfolio P1 represents stocks with the lowest estimated distress risk, and the decile portfolio P10 contains stocks with the highest estimated distress risk, and P10-P1 is the spread between highest distress risk portfolio (P10) and lowest distress risk portfolio (P1). CAPM alpha, FF3 alpha, and FF5 alpha present the annualized estimation of alphas derived from CAPM, Fama-French three-factor, and Fama-French five-factor, respectively. Finally, the Wald test reports chi-square statistics referring to the null hypothesis that all ten alphas of decile portfolios are jointly equal to zero, and their p-values are in parenthesis below the statistic.

Table 3 presents the risk-adjusted performance of the decile value-weighted distress risk portfolios. Data includes all shares listed on PSX from January 2001 till December 2016. Data sort in ascending order at month (t) to estimate distress risk values by using 36 months rolling window of observations and all portfolios rebalance monthly. The decile portfolio P1 represents stocks with the lowest estimated distress risk, and the decile portfolio P10 contains stocks with the highest estimated distress risk, and P10-P1 is the spread between highest distress risk portfolio (P10) and lowest distress risk portfolio (P1). CAPM alpha, FF3 alpha, and FF5 alpha present the annualized estimation of alphas derived from CAPM, Fama-French three-factor, and Fama-French five-factor, respectively. Finally, the Wald test reports chi-square statistics referring to the null hypothesis that all ten alphas of decile portfolios are jointly equal to zero, and their p-values are in parenthesis below the statistic.

Table 3 presents CAPM and FF three-factor model results with equal weight given to each variable. The result of the EW portfolio for P1-P10 deciles is significant under both CAPM and three-factor Fama-French model. CAPM Jensen Alpha value is low (negative) 9.35 for low distress companies, P1, and high (positive) 26.29 for P10, high distress firms. Besides, the partial difference is positive and statistically significant (t =3.65). Similar results see for the Fama-French three-factor model where annualized returns calculated monthly is negative 7.73 for P1 and positive 31.25 for P10. The level of spread is statistically significant (t=3.26) at positive 38.98. Cross-sectional variation in returns is observed through Wald test values, as we move through deciles towards more financially distressed firms. This result supports the non-existence of distress anomaly in the Pakistan Stock Exchange (PSX), also observed through descriptive statistics mentioned above.

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Additionally, results are consistent with the findings of Idrees & Qayyum (2018) for PSX selected stocks, and Griffin & Lemmon (2002) and Campbel et al., (2008). The beta coefficient under both CAPM and FF three factors was reported low at negative 0.01 for P1 (low distress firms) parallel to P10 companies. It is evident from the results that loadings for P1 (low distress company) under CAPM and Fama- French Three-Factor Model for both equally and value-weighted portfolios is the lowest when compared to P10 (high distress company).

Conclusion

Appropriate pricing of financial distress risk in stock returns is a crucial issue within financial economics literature. This study aims to verify if financial distress plays a significant role in the pricing of Pakistani distressed and non-distressed portfolios throughout January 2001-December 2016. Our work is the first of its kind within Pakistan's context, as we consider not only listed but also delisted stock data to explain excess returns of financially distressed portfolios, by employing augmented models. The anomalies of the abnormal risk-return tradeoff in high and low distress companies investigate by using Ohlson's O-score as a proxy for financial distress. We calculate returns and risks on decile portfolios sorted by probability of default. Consistent with rational asset pricing models, our results indicate that financially distressed stocks earn high returns and size, and B/M influences distress risk in stocks listed on Pakistan Stock Exchange. Ceteris paribus, adjusted returns are influenced by distress risk as a negative beta for low distressed firms was observed.

Conversely, firms with a higher risk of default will exhibit a higher beta, high B/M, and hence greater average returns. Small companies having a high risk of default tend to give higher stock returns as compared to large firms. Likewise, results from GMM substantiate specification of CAPM and Fama-French, three-factor models, in the case of PSX as they can explain cross-sectional variation in return of portfolios based on distress risk. Hence the asset pricing models confirm that default risk is systematic as size and B/M encompasses pertinent price information, which is extraneous to default risk. Study findings bear practical implications for an investor, enabling him to comprehend the behavior of distressed stocks upon which he can make effective portfolio strategies and capitalize on different premiums, keeping his risk profile under consideration. Economic and psychological forces can be incorporated as part of future research to see if distress anomaly persists in the case of macroeconomic variable shocks.

Table 2. Alphas of Value-Weighted Portfolios

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P10-P1	Wald-Test
CAPM Alpha	-11.67	1.84	0.81	1.72	8.38	1.53	7.12	9.82	11.72	13.61	25.28	18.88
	(-3.25)***	(0.41)	(0.18)	(0.37)	(1.51)	(0.23)	(1.08)	(0.83)	(1.52)	(1.21)	(2.08)**	0.04
FF3 Alpha	-9.40	2.80	-1.18	3.16	6.78	0.99	6.82	14.53	10.24	20.47	29.87	11.42
	(-2.14)**	(0.50)	(-0.21)	(0.54)	(0.98)	(0.12)	(0.82)	(1.08)	(1.08)	(1.51)	(2.02)**	0.33
FF5 Alpha	-12.58	5.94	-2.10	-5.44	-6.93	2.16	4.50	7.33	4.97	18.08	30.66	13.77
	(-2.17)**	(0.89)	(-0.27)	(-0.14)	(-1.78)*	(0.14)	(1.62)	(0.93)	(1.01)	(1.90)*	(2.86)**	0.03

Table 3. Alphas of Equally-Weighted Portfolios

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P10-P1	Wald-Test
CAPM Alpha	-9.35	1.38	-1.35	6.25	16.17	5.95	13.41	12.48	17.36	26.29	35.65	34.54
	(-2.43)**	(0.33)	(-0.31)	(1.41)	(2.38)**	(1.07)	(2.21)**	(1.20)	(2.29)**	(2.84)**	(3.65)***	0.00
FF3 Alpha	-7.73	1.92	-2.17	7.69	15.09	4.92	13.99	17.41	19.59	31.25	38.98	26.50
	(-1.65)*	(0.38)	(-0.40)	(1.37)	(1.81)*	(0.71)	(1.86)*	(1.47)	(2.12)**	(2.77)**	(3.26)***	0.00
FF5 Alpha	-5.97	1.91	-3.22	8.85	15.42	5.46	14.89	13.90	21.10	27.26	33.23	20.00
	(1.70)*	(1.79)*	(-0.39)	(1.21)	(1.60)*	(1.45)	(1.63)*	(1.51)	(2.21)**	(2.77)**	(3.86)***	0.09

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Transformational Leadership Style and Talent Retention in Pakistani Banks: A Serial Multiple Mediation Model

Muhammad Masood Mir[1*], Abdullah Khan[2], Qamar Abbas[3]
*Corresponding author

Abstract. *The objective of this research was to determine factors that mediate between transformational leadership style and retention of employees, as talent retention is an emerging issue for organizations due to workplace diversity. This study provides a guideline to the supervisors and leaders in managing their workforce. By using structural equation modeling (SEM), the result exhibited a positive impact between transformational leadership and talent retention, transformational leadership and job satisfaction, transformational leadership, and psychological ownership. The study also revealed a positive impact on job satisfaction and talent retention, psychological ownership, and talent retention. This model is an attempt to find out the further factors and measures that affect employee retention in the banking sector of Pakistan.*

Keywords: *transformational leadership, talent retention, psychological ownership, job satisfaction*
JEL Classification: J28, J54, G21

Abstrak. *Tujuan dari penelitian ini adalah untuk menentukan faktor-faktor yang memediasi antara gaya kepemimpinan transformasional dan retensi karyawan, karena retensi bakat adalah masalah yang muncul untuk organisasi karena keragaman tempat kerja. Kajian ini memberikan pedoman kepada pengawas dan pemimpin dalam mengelola tenaga kerja mereka. Dengan menggunakan pemodelan persamaan struktural (SEM), hasilnya menunjukkan dampak positif antara kepemimpinan transformasional dan retensi bakat, kepemimpinan transformasional dan kepuasan kerja, kepemimpinan transformasional, dan kepemilikan psikologis. Studi ini juga mengungkapkan dampak positif pada kepuasan kerja dan retensi bakat, kepemilikan psikologis, dan retensi bakat. Model ini merupakan upaya untuk mengetahui faktor dan langkah lebih lanjut yang mempengaruhi retensi karyawan di sektor perbankan Pakistan.*

Kata Kunci: *kepemimpinan transformasional, retensi bakat, kepemilikan psikologis, kepuasan kerja*

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[1,3]Muhammad Ali Jinnah University. Karachi, Sindh, Pakistan.
[1,2]KASB Institute of Technology. Karachi City, Sindh, Pakistan.
E-mail: [1]masood_mir@live.com, [2]abdullah@kasbit.edu.pk, [3]drqamar@jinnah.edu
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Introduction

Many people get introduced in the organizations and work for it for a long passage of time, even for the whole span of their work life. However, now employers began to face a problem called employee turnover and developed a tool to cope up with known as employee retention. Employee retention is a process of developing such an atmosphere and circumstances that keep an employee engagement with the organizations for an extended period (Wakabi, 2016). To retain employees is a severe problem in several organizations, and it affects firms disregarding because the workforce is the most valued asset for any organization, it is crucial that firms intrigue and retain their talent (Sow et al., 2016). It is essential to retain the quality workforce to maintain a loyal client and to avoid the extra cost of supplanting the employees. The leaders have to drive their firms competitively in this competing atmosphere (Wakabi, 2016). Leadership is one of the significant elements that affect employees regarding their stay and withdrawal in the organization; hence it acquires strict attention (Mwita et al., 2018). Leadership plays a vital role in promoting overall well-being at the workplace of employees, and the transformational leadership style improves the attitude and behavior of employees (Ohunakin et al., 2019).

One of such stimulants is transformational leadership. Transformational leaders direct and assist their followers to perform extraordinarily in comparison with what they thought they could perform (Bass & Bass, 2008). These leaders positively persuade their employees and guide them to achieve their professional and individual goals (Sow et al., 2016). Besides, transformational leadership consists of idealized influence, individual consideration, inspirational motivation, and intellectual stimulation that change and transforms talent that encourages them to participate and work not for self-interest but the interest of the group as a whole.

Many service organizations are going through the dilemma of retaining talent to stay loyal to the organization. It has proved that employees do not leave organizations but leaders. (Khalid et al., 2016). In the banking sector of Pakistan, there should be more consideration given to the factors that affect talent retention, more importantly, leadership style in order to stabilize performance. Most of the organizations face high stress to retain their key talent who are most valued and tough to replace. Several types of research have done on the strategies that adequately shown results regarding talent retention (Muli et al., 2017). Organizations and leaders should focus on building positive relations with their employees to reduce the rate of employee turnover and to retain them for long (Sow et al., 2016).

Further, it stated that a transformational leadership style affects staff retention. Bushra et al. (2011) state that transformational leadership engages employees, and if this style implements, it will improve employee's commitment towards the organization. This research proposes the framework having integration of transformational leadership, psychological ownership, job satisfaction, and talent retention.

In past years banking sectors have suffered from a high rate of turnovers (Muli et al., 2017). Therefore this paper design to explore the integrated relationship between stated elements with talent retention in the banking sector. A transformational leader knows clearly

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about the organizational goals and commitments, and he effectively communicates the objectives and the ways to achieve them to employees (Izidor & Iheriohanma, 2015). The role of transformational leaders is to boost the morale and confidence of their employees towards the organization (Bass, 1999). Transformational leadership comprised of idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation (Sow et al., 2016). Bass (1999) uses the term charisma for idealized influence. Inspiration comes from leaders, but it cannot state that it is single-dimensional. Transformational leaders inspire through their skills of communication and the way they direct their team towards achieving organizational goals. Followers are encouraged to work above their self-interests, and they perform more than expectations due to the leader's inspirational and motivational support that follows examples. These leaders do not encourage competitiveness but promote team spirit, self-confidence and a positive, friendly environment (Assaf et al., 2016)

Intellectual stimulation defines as an act of a leader that promotes creativity and innovation along with problem-solving and critical thinking. Transformational leaders encourage followers to come up with innovations and different ideas to do a task. Intellectual stimulation works as a process in which individuals identify problems, rectify situations according to that, do critical analysis through innovative ideas, and set goals. According to Assaf et al. (2016), individualized consideration focuses on each employee separately. The leader concerns about the follower's matters and issues related to work and personal problems too. Leaders figure out and prove solutions, support, and assistance to the individual employee that boosts their confidence and belief in their leader. Transformational leaders care about their followers and know their needs and expectations and try to fulfill them.

Transformational leadership is linked with psychological ownership positively as employee's work commitment is influenced and boost up through transforming leader. When the transformational leadership style exercise, it will increase the level of ownership and employee engagement. Furthermore, practices of transformational leadership also remove negative relationship factors and influence employees to indulge in work with full dedication (Ghafoor et al., 2011).

Talent retention focuses on the identification of reasons due to which skilled employees leave the organization along with seeking measures that improve employee sustainability (Wakabi, 2016). Organizations have to ensure that their employees remain with them for the longest possible passage of time. Talent retention is a process that involves strategies and methods that play an important role in keeping employees attached to the organization for a more extended period, even though retaining talent is a tough task for organizations nowadays (Mwita et al., 2018). Job satisfaction is an essential factor and is prominently affected by the job environment and leader behavior. Usually, job satisfaction is a condition that appears when employees get a feeling of comfort and gratification regarding their job and environment (Belias & Koustelios, 2014).

People who feel ownership of the object are more likely to perform for that; this sense of ownership defines the level of the individual's motivation towards the organization. Psychological ownership builds a relationship between the employees, and the employer's sense of ownership builds agreement between the organization and the individual. After owning the organization, an employee shows more passion for the organization and the organization's common goal (Ghafoor et al., 2011). Many employees have stated that their decision to stay and leaving organizations depends upon the level of their satisfaction. Many factors affect the job satisfaction of employees, and cannot be specified generally.

Furthermore, more the employees are satisfied more they would be their chances to retain (Motlou et al., 2016). Job satisfaction and talent retention are some of the most critical issues for organizations. Talent retention is considered as one of the primary measures while evaluating a firm's effectiveness because employees are the primary source of productivity (Flores et al., 2011). The decision of retention base on the work conditions provided in the workplace and support that satisfies an employee and retains him/her for a more extended period (Valentine et al., 2015).

The part of transformational leadership is always crucial at the workplace, not only because organizations want to satisfy the employees but also to retain them, so this should examine with organizational factors (Ohunakin et al., 2019). Psychological ownership is a new concept that needs to be further investigated with other human resource variables in different sectors (Imam et al., 2018). The research model of the study is tested for the first time with serial multiple mediation effect in the banking sectors of Pakistan by using several factors such as transformational leadership style on talent retention with the mediation effect of psychological ownership and job satisfaction. This fact is noteworthy to mention that the concept of transformational leadership is not very new. However, the application of this concept in Pakistan is gradually taking height, so the endeavor of this research will be very significant for all the stakeholders to see this relationship with a unique mediation effect.

The purpose of the research is to provide the guidelines to human resource specialists in managing personnel in banking sectors, as talent retention is an emerging issue. Employees tend to leave the organization due to multiple opportunities and job diversity. On the other hand, the workplace environment and the behavior of supervisors also impact the turnover intentions. The research will contribute to determining such phenomena and factors that influence talent retention and will improvement of employee performance in banking sectors. The main objectives of the research are to find out the impact of transformational leadership through its characteristics on talent retention, the direct impact of idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation, on talent retention. Furthermore, this research is also going to examine the indirect impact of the variables such as idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation to talent retention through psychological ownership and job satisfaction.

Methods

The sampling population of the research was the employees of the banking sector of Pakistan. After data cleaning, the sample became 155 and was ready to test. Somehow the similar sample size and the respondent used in the studies of (Anwar & Miftahuddin 2016;

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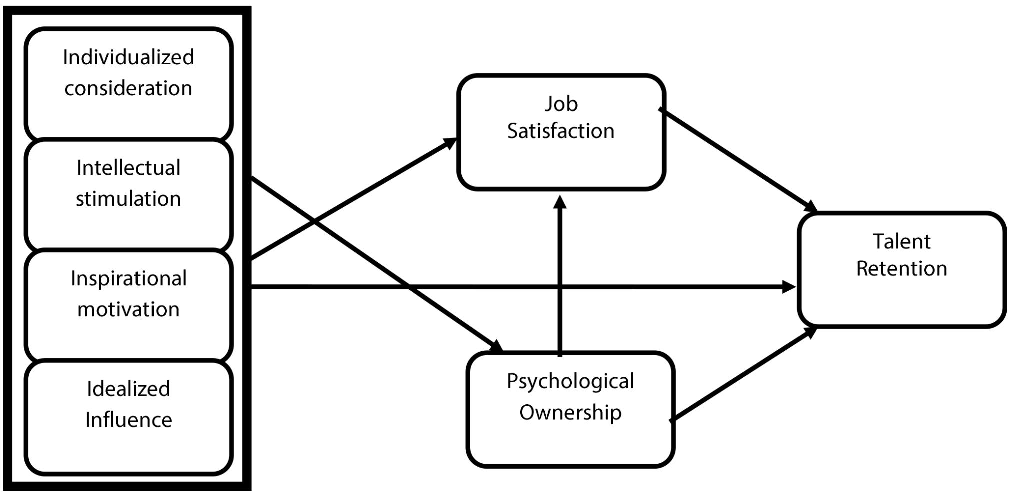
Assaf et al., 2016; Mwita et al., 2018). The survey was based on constructed questionnaires for observation to collect the responses of sample respondents. The data has been collected randomly by using a questionnaire that included two sections in which. The first section included the demographics of the respondents, and the other section includes the closed-ended questions related to the constructs as the attributes of transformational leadership styles were used, such as idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation.

To test and interpret the data, this research using structural equation modeling (SEM). SEM technique is the finest to achieve the appropriate results. Additionally, some of the indicators delete due to the lack of factor loadings and the validity issues like PO4, TR1, TR2, TR4, IS2, and IS4 after that the validity and reliability were fit to test. The indicators should delete those who are not making the benchmark values of factor loadings of 0.70 can harm the validity and the reliability of the data. In the case, the indicators showing the fewer factor loadings should delete, as they are not fit to load the latent variable of that particular constructs (Haier et al., 2014).

Figure 1 shows the theoretical framework of the study showing the relation of the leadership styles with two mediators one are job satisfaction, and the other is psychological ownership. Moreover, job satisfaction is showing serial mediation as the psychological ownership also impacts it, and then both are going towards talent retention, as talent retention is dependent variable here.

Figure 1. The Framework of the study



Result and Discussion

Table 1 shows the demographics of the respondents of this research. The result shows that 116 respondents were males, and 39 were females selected randomly, which make 74.8% of males and 25.2 % females. Furthermore, the percentage of education column exhibited that higher percentage includes 53.5% for bachelor's level employees and 34.2% for Master's level from, there were also some Ph.D., and a high level of employees include. Table 1 also elaborating respondents' age brackets. 50.3% of respondents were between 20-30 ages, 38.1% were in 30-40, and 18% were above 40. Whereas, the experience shows that most of the employees, 29.7% having experience of 2 to 4years, and 24.5%, were showing the experience of the 4 to 6 years.

Table 1. Demographics

Gender	Frequency	Percentage	Age	Frequency	Percentage
Male	116	74.8	20-30	78	50.3
Female	39	25.2	30-40	59	38.1
Total	**155**	**100.0**	40-50	16	10.3
			50-above	2	1.3
Education			**Total**	155	**100.0**
Matriculation	4	2.6	**Experience**		
Intermediate	9	5.8	0-2yrs	36	23.2
Bachelors	83	53.5	2-4yrs	46	29.7
Masters	53	34.2	4-6yrs	38	24.5
PHD & above	6	3.9	6-8yrs	16	10.3
Total	**155**	**100.0**	8-above	19	12.3
			Total	**155**	**100.0**

Table 2 presents the values of idealized influence, individualized consideration, inspirational motivation, job satisfaction within the range of 0.70, and 0.99 and is acceptable with the reference. Furthermore, the AVE shows convergent validity that evaluates the gradation to which two measures of the same concept are correlated (Haier et al., 2014). Hence it can be said that the data that use for the testing purpose possess the internal consistency and the accuracy for further testing.

Table 2. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Idealized Influence_	0.757	0.760	0.846	0.578
Individualized Consideration	0.745	0.750	0.839	0.567
Inspirational Motivation	0.767	0.769	0.852	0.590
Intellectual Stimulation	0.704	0.705	0.871	0.771
Job Satisfaction	0.813	0.815	0.878	0.643
Psychological Ownership	0.726	0.766	0.828	0.552
Talent Retention	0.734	0.733	0.881	0.787

Discriminant validity test is of utmost importance in research. It involves latent variables with the use of numerous indicators for construct demonstrating. Discriminant validity evaluates and explains the extent to which variables and indicators differ from each other (Haier et al., 2014). Fornell- Larcker criterion is another test for validity; it compares the

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average variance extracted (AVE's) square root with the latent construct's correlation (Haier et al., 2014). Furthermore, the variance must be better explained by its latent construct. Thus, each construct AVE's square root value should be higher than other correlated latent constructs values (Fornell & Larcker, 1981). All the diagonal values in Table 3 should be higher than the off-diagonal values. It shows that all the diagonal values are not less than any off-diagonal values that consequently show discriminant validity.

Table 3. Fornell- Larcker Criterion

	Idealized Influence	Individualized Consideration	Inspirational Motivation	Intellectual Stimulation	Job Satisfaction	Psychological Ownership	Talent Retention
Idealized Influence_	**0.76**						
Individualized Consideration	0.599	**0.753**					
Inspirational Motivation	0.739	0.642	**0.768**				
Intellectual Stimulation	0.527	0.47	0.502	**0.878**			
Job Satisfaction	0.669	0.629	0.587	0.486	**0.802**		
Psychological Ownership	0.559	0.607	0.546	0.452	0.6	**0.743**	
Talent Retention	0.538	0.527	0.505	0.304	0.622	0.503	**0.887**

Table 4. Cross-loadings

	Idealized Influence	Individualized Consideration	Inspirational Motivation	Intellectual Stimulation	Job Satisfaction	Psychological Ownership	Talent Retention
II 1	**0.725**	0.402	0.461	0.393	0.423	0.416	0.405
II 2	**0.778**	0.469	0.581	0.438	0.583	0.481	0.393
II 3	**0.776**	0.441	0.615	0.369	0.509	0.384	0.428
II 4	**0.762**	0.504	0.584	0.4	0.508	0.416	0.413
IC 1	0.551	**0.81**	0.568	0.327	0.53	0.464	0.476
IC 2	0.42	**0.753**	0.43	0.353	0.497	0.394	0.379
IC 3	0.366	**0.717**	0.404	0.434	0.415	0.447	0.288
IC 5	0.447	**0.728**	0.514	0.319	0.443	0.519	0.424
IM 2	0.556	0.484	**0.796**	0.36	0.427	0.419	0.475
IM 3	0.602	0.544	**0.797**	0.422	0.469	0.447	0.351
IM 4	0.581	0.472	**0.754**	0.504	0.431	0.463	0.324
IM1	0.53	0.472	**0.723**	0.257	0.477	0.349	0.396
IS 1	0.502	0.417	0.452	**0.885**	0.434	0.419	0.262
IS 3	0.422	0.408	0.43	**0.871**	0.419	0.374	0.271
JS 1	0.576	0.472	0.441	0.34	**0.828**	0.451	0.509
JS 2	0.521	0.538	0.493	0.402	**0.785**	0.494	0.485
JS 3	0.548	0.534	0.449	0.429	**0.872**	0.553	0.519
JS 4	0.499	0.471	0.502	0.388	**0.715**	0.42	0.479
PO 1	0.429	0.506	0.478	0.393	0.474	**0.813**	0.403
PO 2	0.493	0.545	0.478	0.379	0.512	**0.837**	0.469
PO 3	0.407	0.423	0.39	0.327	0.428	**0.729**	0.336
PO 5	0.314	0.282	0.225	0.214	0.356	**0.562**	0.249
TR3	0.491	0.529	0.444	0.296	0.578	0.44	**0.897**
TR5	0.462	0.401	0.453	0.241	0.524	0.454	**0.877**

Table 5. Heterotrait-Monotrait Ratio (HTMT)

	Idealized Influence	Individualized Consideration	Inspirational Motivation	Intellectual Stimulation	Job Satisfaction	Psychological Ownership	Talent Retention
Idealized Influence							
Individualized Consideration	0.788						
Inspirational Motivation	0.967	0.842					
Intellectual Stimulation	0.719	0.657	0.684				
Job Satisfaction	0.849	0.806	0.747	0.643			
Psychological Ownership	0.745	0.804	0.71	0.618	0.777		
Talent Retention	0.724	0.702	0.674	0.422	0.807	0.676	

Another measure to assess the discriminant validity is cross-loading, which states that the factor loadings of indicators of assigned constructs must have values higher than loadings of other constructs and should be not less than 0.70 (Fornell & Larcker, 1981; Haier et al., 2014). Table 4 shows the indicator's factor loadings with assigned constructs are higher than other loadings and are also > 0.70; therefore, all lie on acceptable discriminant validity according to the given reference.

According to Sidek et al. (2017), the Hetero trait –mono trait ratio of correlation if it shows values near to 1 indicated low discriminant validity and the values must not exceed the threshold value such as 0.85; otherwise, it will also indicate the low discriminant validity. In Table 5, all the latent variables are showing (0.788, 0.842, 0.684, 0.643, 0.777, and 0.676) values that are below 0.85 hence they all have acceptable discriminant validity.

Table 6. R Square Matrix

	R Square	R Square Adjusted
Job Satisfaction	0.563	0.548
Psychological Ownership	0.445	0.43
Talent Retention	0.449	0.426

Table 6 presents the value of r-square 0.563 is showing that transformational leadership and it is four attributes that are idealized influence, intellectual stimulation, individualized consideration, and inspirational motivation are explaining 56.3% variance in job satisfaction. Furthermore, the value of a 0.445 is indicating that a transformational leadership style is explaining a 44.5% variance in psychological ownership. Moreover, transformational leadership with psychological ownership and job satisfaction is explaining a 44.9% variance in talent retention.

Table 7 is showing the values of relationships such as direct and indirect relationships of constructs. It influences is showing full mediation with psychological ownership and job satisfaction with the values of idealized influence and psychological ownership, and idealized influence with job satisfaction. On the other hand, idealized influence is showing insignificant relation with talent retention directly as its t value 1.074 and p-value 0.283 are t

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< 2 and p > 0.05 standardized values. Hence it is suggested that idealized influence leadership style, if provided, it will increase the psychological ownership of the employees as well as job satisfaction, and they both will enhance the talent retention in the organization.

Similarly, individualized consideration is showing full mediation with psychological ownership, and job satisfaction with the values of individualized consideration and psychological ownership, and that of individualized consideration and job satisfaction. Therefore, the researcher is rejecting the null hypothesis, and in the case of individualized consideration and talent retention, their direct relationship is not significant.

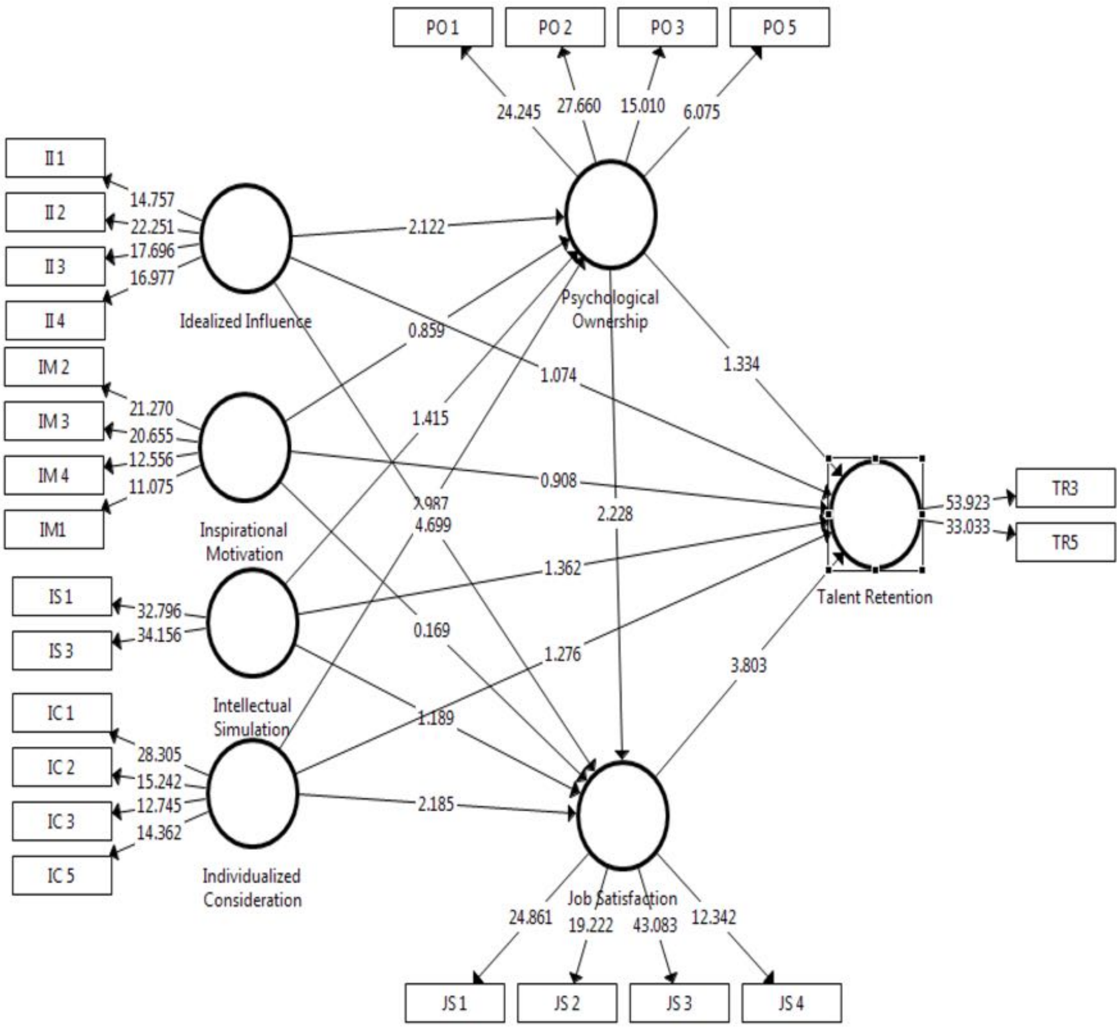
Table 7. Bootstrapping

	Original Sample	Sample Mean	Standard Deviation	T-Stat	P Values
Idealized Influence -> Job Satisfaction	0.351	0.356	0.075	4.699	0.000
Idealized Influence -> Psychological Ownership	0.205	0.207	0.096	2.122	0.034
Idealized Influence -> Talent Retention	0.125	0.121	0.117	1.074	0.283
Individualized Consideration -> Job Satisfaction	0.241	0.237	0.110	2.185	0.029
Individualized Consideration -> Psychological Ownership	0.362	0.352	0.121	2.987	0.003
Individualized Consideration -> Talent Retention	0.129	0.129	0.101	1.276	0.203
Inspirational Motivation -> Job Satisfaction	0.014	0.017	0.080	0.169	0.866
Inspirational Motivation -> Psychological Ownership	0.099	0.106	0.115	0.859	0.390
Inspirational Motivation -> Talent Retention	0.095	0.093	0.104	0.908	0.364
Intellectual Simulation -> Job Satisfaction	0.085	0.085	0.072	1.189	0.235
Intellectual Simulation -> Psychological Ownership	0.123	0.128	0.087	1.415	0.158
Intellectual Simulation -> Talent Retention	-0.112	-0.115	0.082	1.362	0.174
Job Satisfaction -> Talent Retention	0.381	0.390	0.100	3.803	0.000
Psychological Ownership -> Job Satisfaction	0.212	0.211	0.095	2.228	0.026
Psychological Ownership -> Talent Retention	0.124	0.123	0.093	1.334	0.183

On the other hand, the relationships of inspirational motivations with mediation job satisfaction and psychological ownership is showing no significant relation. Likewise, the relationship between intellectual stimulation and mediation psychological ownership and job satisfaction shows no mediations towards talent retention and is also not significant. Furthermore, job satisfaction and talent retention are showing a significant relation. Also, psychological ownership and talent retention are showing no significant relationship. Moreover, Psychological ownership and job satisfaction is showing a significant relationship. Hence it is proved when the idealized influence, individualized consideration styles provide in the banking sectors, and then it enhances the psychological ownership as well as job satisfaction, then it increases the retention of the talent in the organization. Moreover, job satisfaction mediates the relation between idealized influences, individualized consideration, and psychological ownership and then enhances the talent retention in the organization.

Figure 2 shows the SEM model and the result of the Bootstrapping. The values written on the arrows going from one latent variable to others are showing the t-values and clearly showing the acceptance, and the rejection of the variables discussed before. Figure 2 shows that idealized influence and the individualized consideration are showing full mediation towards talent retention. Besides, the other two are insignificant within the banking sectors of Pakistan. Whereas, the psychological ownership mediating between job satisfaction and talent retention.

Figure 2. Bootstrapping



The overall analysis of the study is showing that the attribute of the transformational leadership style has an impact on talent retention through the mediation of psychological ownership and job satisfaction. As it is showing that idealized influence and individualized consideration are showing a significant relationship with psychological ownership and job

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satisfaction, hence it suggests that providing the idealized influence and individualized consideration leadership style to the employees will enhance their emotional attachment towards the organization. Then the employee feels satisfaction towards the job. The influence of boss matters if the case is for retaining the talent and treatment in an individualized manner is according to their temperament they feel very attached and associated with the organization and feel satisfied that eventually leads to retaining the best talent as the economic downturns affected the entire talent management process of many industries in Pakistan.

However, the other two styles of transformational leadership, like intellectual stimulation and inspirational motivation, are not making any impact with psychological ownership and job satisfaction on talent retention. This study focuses on understanding which of the transformational leadership style influences the most and by direct or indirect mediation, and the previous studies showed the relationship with only transformational leadership style as the primary variable. Furthermore, the results are consistent with the study conducted by Anwar & Miftahuddin (2016) suggested that the transformational leadership style is a factor that increases the job satisfaction of the employees, and they feel motivated towards their job. In another study conducted by Joo & Lim (2013), they found the transformational leadership style plays a vital role in enhancing the career satisfaction of the employees.

The empirical results are also consistent with the study of Cho et al. (2015) highlighted that a good leadership style with the employees, makes a positive relationship with the sense of ownership. After getting a leadership style focused on idealizing them, considered them the part of the team and helping them to increase their capabilities, leads to enhance the sense of ownership of the employees. Like the current study, the transformational leadership style is not making any direct relation with the talent retention falsifies the previous study conducted by Muli et al. (2017), highlighted that the competent leadership styles enhance the retention. However, in this study, it is falsified and proved that leadership style not directly associated with retention but with the mediation of psychological ownership and job satisfaction.

Moreover, the results suggest that there is a relationship between psychological ownership and job satisfaction. Hence it suggests that if the psychological ownership of the employees enhanced, it would increase the satisfaction level of the employees. If an employee creates a sense of ownership, they feel satisfied with the job. The results are consistent with Joo & Lim (2013) emphasized that a transformational leadership style enhances job satisfaction. Additionally, it is also that the transformation leadership style enhances the job satisfaction of the employees, which is fully mediated by psychological ownership. Psychological ownership is insignificant with talent retention, but it is making the relation with the mediation of job satisfaction. Hence if the psychological ownership enhances then, it will enhance job satisfaction, and then the talent will be retained in the organization. The results are falsifying the study of Olckers & Plessis (2012); Olzer et al. (2008) both have highlighted that psychological ownership has a positive relationship with the retention of the talent.

The current study has proved that by providing psychological ownership, employee feels satisfaction, and then it enhances the retention in the organization. This study also found out that the job satisfaction after getting the psychological ownership that is enhanced by the leadership style would ultimately enhance the retention of the talent in the organization. The results are consistent with Jugurnath et al. (2016) that also find a positive relationship between employee job satisfaction and retention. Khalid et al. (2016) highlighted that job satisfaction mediates the relationship between the leadership style and the retention of the employees.

Conclusion

According to the findings of this research leader's idealized influence through instilling pride in his/her followers. It is going beyond self-interest, portraying a sense of power and boosting the confidence of follower's impacts clearly on follower's intention to stay in the bank for a more extended period. Similarly, it also found when a leader spends time coaching teaching employees, promoting their self-development and strength, listening to their concerns, and treating team members individually, it will impact their behavior to retain with the bank longer. The mediation hypothesis indicated that when employee's morale gets high, and they get access to promotions and opportunities with an honest and trustworthy workplace environment, the intent to remain in the workplace for a longer time.

Moreover, inspirational motivation by the leader through helping in finding meaning in work and providing an image about what can do does not impact the bank's talent to remain with the bank for long. Further, it also found that leader's encouragement to non-traditional thinking and the suggestions for new ways of re-examining critical assumptions does not make them stay with the bank and work for it for the long passage of time. The research also indicated that talent's only emotional attachment and psychological ownership in decisions, actions, and carrying out work does not encourage talent retention. Hence, it can conclude as transformational leadership with its two traits, idealized influence and individualized consideration, impacts talent retention through the two mediations of psychological ownership and job satisfaction.

This study recommends that retaining talented employee's organizations should work for their well-being and satisfaction. Manager can enhance the sense of psychological ownership by using a transformational leadership style that will ultimately increase the loyalty level among employees. It has suggested that future researchers can go to other cities, and for multiple cities at a time, another direction for future researches is the moderating effect of gender of the leader can also test. Furthermore, service sectors other than the banking sector can also choose to analyze the impacts of transformational leadership on talent retention through mediation in other sectors.

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Branding Yields Better Harvest: Explaining The Mediating Role of Employee Engagement in Employer Branding and Organizational Outcomes

Asif Hussain Samo[1*], Suman Talreja[2], Azeem Akhtar Bhatti[3], Syeda Aisha Asad[4], Laiba Hussain[5]
*Corresponding author

Abstract. *Employer branding is an intriguing junction of marketing and human resource management, where the positive intangible perception of the employer makes the organization a valuable. It is antecedents and outcomes have been tried and tested. However, there is a need to empirically test how employer branding lures the employees to perform well and to remain loyal to the employer. This study aimed to find the mediating impact of employee engagement between the relationships of employer branding and performance of the employees and their intention to stay in the companies. By using the structural equation model (SEM), the results revealed the full mediation role of employee engagement in between employer branding and employee performance and their intention to stay. This study implies that the bank needs to induce employees to remain engaged, as, with this, the performance and talent retention will yield.*

Keywords: *employer branding, employee engagement, individual performance, intention to stay*
JEL Classification: D23, M31

Abstrak. *Citra pemberi kerja adalah persimpangan yang menarik dari pemasaran dan manajemen sumber daya manusia, dimana persepsi berwujud positif dari pemberi kerja membuat organisasi menjadi berharga. Ini adalah anteseden dan hasilnya telah dicoba dan diuji. Namun, ada kebutuhan untuk menguji secara empiris bagaimana citra pemberi kerja akan memikat karyawan untuk berkinerja baik dan tetap loyal kepada perusahaan. Penelitian ini bertujuan untuk menemukan dampak mediasi dari keterlibatan karyawan antara hubungan citra pemberi kerja dan kinerja karyawan, serta niat mereka untuk tetap tinggal di perusahaan. Dengan menggunakan model persamaan struktural (SEM), hasilnya mengungkapkan peran mediasi penuh keterlibatan karyawan di antara citra pemberi kerja dan kinerja karyawan, serta niat mereka untuk tinggal. Studi ini menyiratkan bahwa bank perlu mendorong karyawan untuk tetap terlibat, karena, dengan ini, kinerja dan retensi bakat akan menghasilkan.*

Kata Kunci: *citra pemberi kerja, keterlibatan karyawan, kinerja individu, intensi untuk bertahan*

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[1,3,4,5]Sindh Madressatul Islam University. Aiwan-e-Tijarat Rd, Seari Quarters, Karachi, Pakistan
[2]Shaheed Zulfikar Ali Bhutto Institute of Science & Technology. Karachi City, Sindh, Pakistan.
E-mail: [1]asif.samo@smiu.edu.pk, [2]sumantalreja09@gmail.com, [3]azeem.bhatti@usindh.edu.pk, [4]aishaasad855@gmail.com, [5]laibahussain28@gmail.com
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Introduction

Brand concerns identity, image, and reputation. In the consumer's mind, a brand is a collection of perceptions (Aldousari et al., 2017; Kapoor, 2010). There are various natures of brands, for example, the product and the corporate brand, and the latest one, the employer brand. The job of the brand is not to persuade buyers to purchase a specific item; it additionally impacts customers' concept of themselves (Pratt & Foreman, 2000). In the market, the competition among employers has increased because of the shortage of skilled and quality human resource, to resolve the issues, the idea of employer branding has forward as an employment methodology in the 1990s (Verma & Ahmad, 2016). Moreover, being informed of it or not, all organizations have employees, and at the same time, they have an employer brand. Nevertheless, the idea of "employer branding" was instituted in 1996. From that point forward, organizations working in all industry parts have left on the improvement and critical performance of their image to make it all the more engaging existing and future employees (Carrington, 2007). Employer branding concerns an organization's reputation for being an employer and its worth to its employees. (Barrow & Mosley, 2011; Dabirian et al., 2011). The term recommends that a firm benefits from employer branding when it observes as an excellent work workplace in the perceptions of current employees and critical shareholders outside the market. The excellent working environment for the organization can define as "one where employees trust the individuals they work for, have pride in work they do and appreciate the organization of individuals they work with" (Kashyap & Verma, 2018). "Employer Brand" as a thought rose out of two distinct roots. The first as the intensity of a 'corporate brand' whose development connects to the 'recruitment communication' and the second as word related brain science that provides growth to the possibility of 'psychological contract.' The two roots are presently clubbed together as 'Employer Brand' into the focal point of consideration (Rosethorn, 2009).

The function of the employer brand has turned out to be most crucial to managing the changing desires for the 21st-century workforce entering the workplace. The Word "Employer Branding" is characterized as "the bundle of practical, financial, and psychological advantages given by the employment and is related to the employing organizations (Ambler & Barrow, 1996). The organizations are adopting a few systems in such a manner. One such system is turning into the 'employer-of-choice' and focusing on the advancement of employer branding policies. The term employer branding is for best employers, employer of choice, and a great place to work for (Ahmad & Daud, 2016; Joo & Mclean, 2006). The incident does not develop great workplaces instead of result from intentional and necessary activities intended for attracting, connecting, and retaining employers. Therefore, employer branding is the outcome of the ''entirety of an organization's tries to convey to existing and planned staff that it is a demandable place to work" (Lloyd, 2002). Employer brand cannot constrain by the firm alone; its excellence lies and depends on each person's preferences. In such a manner, how much a firm's expected employer brand coordinates its employers' previous actions with the organization's culture and qualities decides the employer brand's effect in the market (Dabirian et al., 2017). Employer branding is quickly developing as an essential human resource approach that adjusts both inner practices and outer images to

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achieve positive employee engagement and employee satisfaction (Mosley, 2007; Tanwar & Prasad, 2016).

Employer branding helps an organization in recognizing the significant characteristics that are covered by potential and existing workers. These characteristics name as a 'bundle of advantages.' These bundles are promoting either inside and remotely to gain the mark of the most appealing employee. In this way, employer branding offers one of the different employment experiences to existing and potential employees (Edwards, 2009). Human resource development experts are progressively being called upon to encourage the advancement of a system that encourages employee engagement in the working environment (Macey & Schneider, 2008; Shuck et al., 2011). Employee engagement has been defined as 'an individual worker's intellectual, enthusiastic, and social state coordinated toward required organizational consequences' (Shuck & Wollard, 2010). The condition of employee engagement is believed to be comprehensive of long-lived emotional engagement and is a forerunner to progressively impermanent sweeping statements of employee supposition, for example, works fulfillment and responsibility (Kahn, 1990).

Employee engagement has characterized in human resource development writing as the subjective, passionate, and behavioral strength an employee coordinates toward positive outcomes (Alagaraja & Shuck, 2015). Operationalized as a positive, psychological condition of inspiration (Parker & Griffin, 2011), engagement is accepted to work inside the three interconnected psychological aspects inborn (Alagaraja & Shuck, 2015; Shuck & Wollard, 2010), intellectual energies, passionate energies, and conduct energies and encouraged by the more extensive field of the management (Rich et al., 2010). Engaged employers go exceeding the call of duty to play out their job in brilliance. Khan (1990) define engagement as the "outfitting of hierarchical individuals' selves to their work jobs." He included that in engagement, "individuals utilize and convey what needs be physically, subjectively, and emotionally throughout job performances.". Most distal to a comprehension of engagement is the experience of the individual employee, hence situating engagement as an individual-level variable that impacts (Alagaraja & Shuck, 2015). Individuals are likely to hold positive perspectives on their execution (Fox & Dinur, 1988; Rego & Cunha, 2008). The more an individual recognizes oneself with the gathering, the more the individual acts according to the gathering's standards and qualities (Ashforth & Mael, 1989; Van Dick et al., 2004). One of the central objectives and standards in associations and one of the principal human resources management responsibilities is staff retention (Davies, 2001; Van Dick et al., 2004). Individual Work Performances (IWP) was characterized by "practices or activities that are significant to the objectives of the organization" (Campbell, 1990; Koopmans et al., 2013). Thus, IWP focuses on practices or activities of employees, as opposed to the consequences of these activities.

Moreover, the behavior should under the control of the individual; in this manner eliminating behaviors that are forced by the environment (Rotundo & Sackett, 2002). It is necessary to decide its fundamental structure to estimate IWP. Customarily, the fundamental focal point of the IWP build has been on errand execution, which can characterize as the capability with individuals to perform the center substantive or specialized undertakings integral to his or her activity (Campbell, 1990). Inside this circumstance, individual performance can be characterized as "practices that are perceived by formal reward frameworks and are a piece of the prerequisites specified in JD"(Camps et al., 2016; Williams & Anderson, 1991).

It broadly recognized that there is high employee turnover in the cordiality sector and that it is critical for accommodation organizations to make proactive moves to decidedly influence employee retention (Hughes & Rog, 2008; Milliman et al., 2018). Intention to stay is conceptualized as a person's goal to stay with his or her present manager on a long time premise and is viewed as the inverse of intention to leave (Johari et al., 2012; Milliman et al., 2018). Intention to stay view as a primary determinant of real turnover conduct (Tett & Meyer, 1993) also, is influence by various employee work orientations, including organization responsibility and employee satisfaction, which have been connected to employee engagement and work environment spirituality (Saks, 2011).

Through social trades, employees gain information from companions, thereby expanding their learning capacities. Likewise, when employees see that their organization's center of attention is on information sharing, they feel persuaded to adopt, at last building up their capabilities. They feel connected and engaged with the organization creating intention to stay ahead. At the end of the day, when employees predict their career development and employability aptitude improvement, they build up a feeling of affective commitment with the organization, which thus, interprets intention to stay (Naim & Lenkla, 2016). In a similar vein, (Ashforth & Mael, 1989; Van Dick et al., 2004) have contended that organizational recognition ought to relate with more grounded help for the organization and in-aggregate individuals. Once more, this should result in a more grounded intention to stay with the organization. Despite the increasing trend of the concept of employer branding and its importance for the organization, there is a need to explore it further (Backhaus & Tikoo, 2004). This study aims to find out the impact of employer branding on individual performance and intention to stay with the mediating role of employee engagement.

In organizations, individuals are business bloodstream—individual performance regard as what an individual is doing and what he is not doing. Individual performance includes the quantity and quality of output, work presence, accommodating, valuable nature, and reliability of the output. Employer branding activities are essential for individual performance development (Al Salman & Hassan, 2016). The company's achievement or disaster depends on the performance of its employees. In an international market, developed competencies, skills, and knowledge of talented employees have proven to be the primary source of modest benefits. A strong employer branding is required to build the ideal information, abilities, and skills of the individuals to perform better and achieve success. At the point when individuals perceive their company's interest for them through training and motivational programs, in return, the individuals work hard to accomplish organizational goals and demonstrate high performance at work (Elnaga & Imran, 2013). The interest in individuals yields high returns. Individuals are committed to the most significant employers; therefore, the result of the organization is incredible due to the performance.

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The theory of organizational commitment proposes that if employees accept brand values, they are bound to be genuinely committed to a company(Backhaus & Tikoo, 2004; Cook & Wall, 1980). Employer branding brings the advantage of increasing the number and value of candidates to an organization(Collins & Han, 2004) and individual performance (Fulmer et al., 2003). “In the best case, both organizations and individuals will play a vital role in career management and share significant knowledge on opportunities and acquaintances to be followed for the assistance of both” (Baruch & Peiperl, 2000). A positive attitude to an organization can lead to increased individuals’ creativity and innovation, and they participate more in the workshops and conferences, decreased leave of absence, and increased loyalty (Huang & Liu, 2010). Employer branding aims to enhance the link between employee performance and employer brand loyalty. A range of connections has studied between organizational outcomes and individuals, and these give authority to employer branding. First, the performance of satisfied individuals tends to be higher (Iaffaldano & Muchinsky, 1985) and deliver higher individual satisfaction levels (Ryan et al., 2006).

Mostly, positive individual behavior towards work also has a positive impact on consumer satisfaction (Morrison, 1996). The phenomenon is calls the service income chain, suggesting that individual ability, commitment, and job satisfaction are connected to consumers’ perception of price and later to revenues (Hart et al., 1990). The experience of sears indicates that the establishment of an employer brand leads to enriched employee performance, which in return, consumer satisfaction and, ultimately, profits. Sears was capable of measuring the struggle of effective employer branding, representing the importance of this exercise (Rucci et al., 1998). Employer branding intends to offer individuals with the knowledge they require to self-survey within the organization, where the existence of brand image offers information and knowledge to executives about work standards, norm, desired behavior, and additional aspects compulsory for an individual’s success. In this regard, to promote the significance of individual career development and performance within the organization, the implementation of employer branding is essential (Rosenbaum, 1989).

The employee will have the intention to stay with their present organization (Currivan, 1999; Naim & Lenkla, 2016). It shows the willingness of an individual to continue working with their organization (Lyons, 1971). It can be measured by categorizing positive aspects as an individual factor in the workplace and the work environment (Lee et al., 2001). Employer branding can hold the most excellent individuals by making a domain that empowers workers to experience the brand through various viewpoints, such as employee progression (Gilani & Cunningham, 2017). This condition escalates their gratification and probability of continuing employed with the company (Cable & Graham, 2000; Gilani & Cunningham, 2017; Jain & Bhatt, 2015). Employees tend to analyze the business work environment marking on a passionate dimension because the qualities communicated are those that the individual right now has or wishes to get. The better the match, the more the organization’s individual is attracted (Lawler, 2005).

Primarily populace, globalization, and wastefulness in the enlightening foundation of the workforce cause employment scarcities. Besides, enlisting unsuitable labor force and the high turnover rate also cause organizations to lose out. The additional costs due to employee turnover are equal to 50-60% of the employee's yearly salary (Lee et al., 2001). In this alarming situation, it is possible to retain talented workers in an extremely competitive job market by creating a keen perception of the employer brand (Kashyap & Rangnekar, 2016). Strong employer branding also facilitates a reduction in the cost of acquiring employees and augments employees' intention to stay (Bodderas et al., 2011). Internal branding idea refers to employee activities perceived as an internal consumer affecting the intention of employees to stay (Matanda & Ndubisi, 2013).

Employee engagement is the harnessing of business partners' identities to their role in work, individual employment in engagement, and expressing them emotionally, physically, and cognitively in-role performance (Kahn, 1990; Peng et al., 2014). It is a psychosomatic existence of the two perilous mechanisms: attention (intellectual availability and time spent considering a role) and concentration (to be involved in a role and raises to the strength of one's emphasis on a role) (Peng et al., 2014; Rothbard, 2001). As an outcome, employee engagement looks like another trend, or it may call as "old wine in a new bottle" (Sun & Bunchapattanasakda, 2019).

Employee engagement and employer branding diligently link with each other. Branding the employer support to entice the best applicants that are suitable for organizations, such individuals love and enjoy working with the organization, and this creates engagement of employees (Tanwar & Prasad, 2016). If the values, customs, and norms of an individual are fit for the standard of an organization, then individuals will engage more in their organization and work that could ultimately raise their intention to remain within the organization. When employees understand meaningful and positive surroundings in return, they tend to show positive attention and concentration (Memon et al., 2018). If individuals find their organizations and work fit well, they would be encouraged to engage with their organization and job. The theory of social exchange explains that in a mutual bond, if an employee finds well with that of their organization between their standard, values, and norms, the individuals become more involved with their organization and employment.

This condition proposes that employees who achieve their duty and perform well in an organization are more engaged and their intention to stay inclined in an organization. It observes that the individuals who highly engage at workplaces are less probably to participate in intended turnover (Juhdi et al., 2013; Peng et al., 2014; Saks, 2006). The employees who are engaged can bring higher performance by focusing their struggle on work-related aims, they are intellectually vigilant, and they are socially and emotionally attached to their job (Kahn, 1990; Truss et al., 2013). Since engaged employees are more enthusiastic than the other, they can perform their job with fewer efforts (Robert & Hockey, 1997; Truss et al., 2013), and engaged employees invest their time and resources to find new ways to carry out their task or to improve and change the environment (Ramamoorthy et al., 2005; Truss et al., 2013). Also, it claims that the differences of individuals play a dynamic role in shaping an individual's possible level of commitment and engagement (Sahin & Robinson, 2002; Sun & Bunchapattanasakda, 2019). The perception process is an essential factor in individual performances. In order to get high participation of individuals at the workplace to be efficient, and its employees must be empowered to have a positive impact

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on employee engagement. This condition will result in the ability of employees to make decisions that are significant to their task and performance and the worth of their job life, involving them in their jobs. In general, the employee's intention to leave their job sees as an essential measure of how individuals feel about their organizations. The individuals who are engaged are likely to be more attached to their jobs and organizations (Schaufeli & Bakker, 2004).

Method

This study takes a quantitative approach to have underpinnings in positivism. The data collected through a survey method with a structured questionnaire and adopted instruments. Participants were the employees of Banks. We distributed 350 questionnaires and received 330 maintained responses that we used as a sample for our analysis. To get robust data, we made seven teams of researchers students visit the targeted employees personally in they are given time and get their responses. As the hypothesized model involved multiple regression analysis simultaneously, therefore, we used partial least squares structural equation modeling (PLS-SEM). Moreover, for exact hypotheses testing, we performed bootstrapping with 5000 subsamples to get robust results.

We measured employee branding as a corporate reputation with eleven items (Sivertzen et al., 2013). Intention to stay measured with seven items (Mayfield & Mayfield, 2007). The mediating path of employee engagement measured with twelve items (Vale, 2011). We measured employee performance on the instrument of three items (Bishop, 1987; Shahzadi et al., 2014). All these instruments measured the data on a five-point Likert scale.

Results and Discussion

We diagnosed the data concerning its reliability and validity. Internal consistency tested through Cronbach alpha and composite reliability and values of both the measures of all constructs. Table 1 shows that the value above the standard value, which is 0.7. We tested convergent validity of each construct with Average Variance Extracted (AVE), the values of AVE for every construct is above 0.45, presented in table 1, which suggests good convergent validity of all constructs.

Table 1. Construct Reliability and Validity

Constructs	Cronbach-Alpha	Composite Reliability	Average Variance Extracted
Employer Branding	0.878	0.900	0.462
Employee Engagement	0.901	0.917	0.485
Employee Performance	0.878	0.925	0.803
Intention to Stay	0.903	0.923	0.633

We have made sure by testing the variance inflation factors (VIF). Table 2 shows that no indicator is redundant, and there is no issue of multicollinearity. That is to say, all the indicators are substantial on their own, and no indicator is redundant as there is no issue of multicollinearity.

Table 2. The Collinearity VIF Values

Indicator	Employer Branding	Employee Engagement	Employee Performance	Intention to Stay
1	1.805	1.839	3.238	1.483
2	1.699	1.834	2.527	2.086
3	1.865	2.023	2.141	2.376
4	1.951	1.6		1.983
5	1.572	2.071		3.724
6	2.102	1.763		3.024
7	2.1	2.27		2.241
8	1.918	1.916		
9	1.853	1.703		
10	2.05	1.376		
11	1.626	1.801		
12		2.335		
13				
14				

Discriminant validity has two fronts. First, whether each indicator has higher loading on its respective construct than on other constructs or not, for this, we tested cross-loading and values all the cross-loadings. Table 3 shows that every indicator of each construct is discriminately valid.

Table 3. Hetrotrail-Monotrait Ratio of Correlations (HTMT)

Construct	Employer Branding	Employee Engagement	Employee Performance	Intention to Stay
Employee Branding				
Employee Engagement	0.709			
Employee Performance	0.55	0.754		
Intention to Stay	0.405	0.549	0.298	

Second, whether the construct values it is more than any other construct in the model, we tested this dimension of Discriminant validity with the Hetrotrial-Monotrial Ratio (HTMT) test, the values of HTMT of all constructs. Table 4 presents the value below 0.9, which convincingly supports Discriminant validity

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Table 4. Cross Loading

	EB	EE	EP	ITS
EB1	**0.653**	0.401	0.292	0.510
EB2	**0.714**	0.542	0.436	0.214
EB3	**0.712**	0.504	0.391	0.295
EB4	**0.666**	0.389	0.324	0.316
EB5	**0.59**	0.364	0.188	0.303
EB6	**0.729**	0.446	0.313	0.222
EB7	**0.712**	0.412	0.347	0.183
EB8	**0.726**	0.453	0.365	0.243
EB9	**0.617**	0.358	0.308	0.105
EB10	**0.653**	0.427	0.323	0.119
EB11	**0.606**	0.413	0.277	0.218
EE1	0.383	**0.704**	0.617	0.417
EE2	0.332	**0.699**	0.538	0.512
EE3	0.387	**0.739**	0.562	0.411
EE4	0.368	**0.643**	0.426	0.318
EE5	0.560	**0.748**	0.484	0.351
EE6	0.524	**0.68**	0.425	0.319
EE7	0.478	**0.777**	0.553	0.33
EE8	0.578	**0.726**	0.476	0.367
EE9	0.336	**0.651**	0.360	0.283
EE10	0.277	**0.450**	0.195	0.226
EE11	0.475	**0.675**	0.421	0.342
EE12	0.588	**0.799**	0.578	0.395
EP1	0.452	0.621	**0.929**	0.262
EP2	0.437	0.696	**0.906**	0.282
EP3	0.426	0.525	**0.852**	0.199
ITS1	0.362	0.546	0.306	**0.699**
ITS2	0.286	0.401	0.267	**0.792**
ITS3	0.215	0.308	0.156	**0.777**
ITS4	0.289	0.333	0.17	**0.746**
ITS5	0.287	0.415	0.215	**0.885**
ITS6	0.297	0.393	0.168	**0.847**
ITS7	0.307	0.388	0.214	**0.811**

Table 5 displays the total effects of the hypothesized relationships. The results revealed that there is a positive impact of employer branding on employee performance with a beta value of 0.488 and with a significant t-value of 9.043. The results also revealed that there is a positive impact of employer branding on employees' intention to stay with a beta value of 0.387 and a significant t-value of 6.639.

Table 5. Results of Structural Model in the Absence of Mediator

Path	Path Coefficient	t-Value	Inference
H1: EB→EP	0.488	9.043	Supported
H2: EB→ITS	0.387	6.639	Supported

Table 6 presents the results of direct relationships. It revealed that there is no direct impact on employer branding on employees' performance and employees' intention to stay. Almost all the impact is because of the mediating variable, employee engagement.

Table 6. Results of Structural Model in the Presence of Mediator

Path	Path Coefficient	t-Value	Inference
H3: EB→EP	0.075	1.202	Full Mediation
H4: EB→ITS	0.074	0.965	Full Mediation

After the data diagnosis, we performed structural equation modeling and bootstrap test at 5000 subsamples, to test the hypotheses. We found that there is a positive impact on employer branding on employee performance (See Table 6). Moreover, Table 6 also shows that there is a positive impact on employer branding on employee intention to stay.

Table 7. Results of Specific Mediating Effects

Path	Path Coefficient	t-Value	Inference
H3: EB→EE→EP	0.414	10.29	Supported
H4: EB→EE→ITS	0.302	6.94	Supported

We tested the model in the presence of mediator employee engagement, and we found that that direct impact becomes insignificant in the presence of a mediator, presented in Table 7. Employee engagement plays a fully mediating role in between the relationship of employee branding and employee performance, and in between the relationship of employee branding and intention to stay, presented in Table 7. In general, all the relationship is showing in Figure 1.

We aimed to explain the concept of employer branding and its impact on individual performance and intention to stay with the mediating effect of employee engagement. We found resilient support for our hypotheses that employer branding feeds into employee engagement, which in turn enlightens individual performance and intention to stay. The result of the study revealed that positive employer branding increases the individual performance of employees. Employer branding is positively related to the performance of the employee and negatively related to intentions to leave the organization (Riordan et al., 1997). Employer branding helps to increase the performance of the organization; the most significant entity is that employer branding helps accomplish the engagement of employees and achievement for the organization

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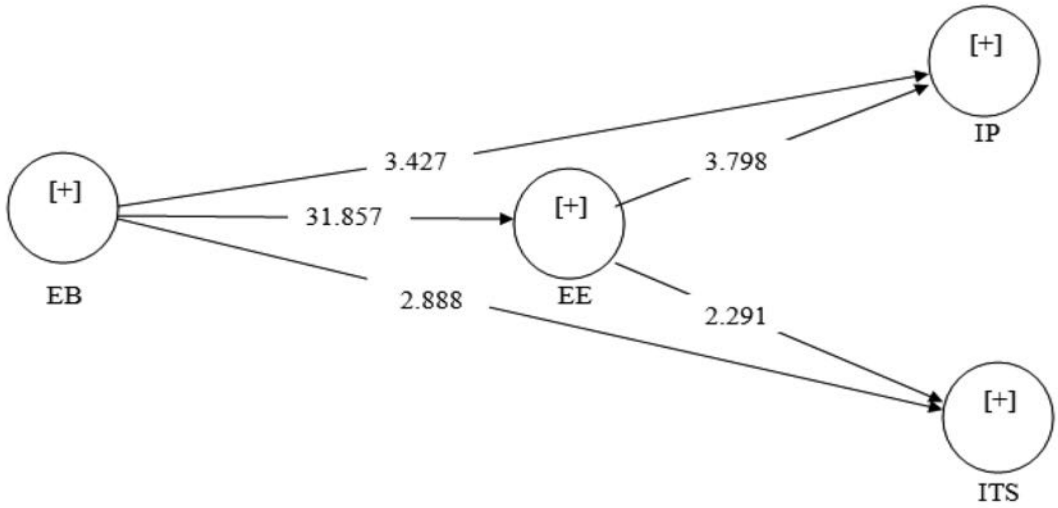
(Ambler & Barrow, 1996; Truss et al., 2013). Research indicates that focusing on promoting employer branding is a significant way to improve employee performance. (Sokro, 2012) also proposes that the existence of high levels of employee engagement improves organizational commitment, job performance, and task performance.

Figure 1. The Empirical Result



Moreover, the result reveals that positive employer branding increases the employee's intention to stay and work with a particular organization. Individuals view their workplace and play a significant role in their engagement in the workplace (Holbeche & Springett, 2009). The work atmosphere is likely to build a collective sense of intention with others and to inspire employees to passionately unite with each other to accomplish high levels of engagement. Consequently, employees' perception of their working situation figures and leads how engaged an employee is. In order to have a favorable perception, a supportive working atmosphere, and an excellent location to work are essential (Memon et al., 2018). Besides, the intention of employees to leave noted to decrease the developmental importance owing to the presence and vice versa. The existence of a significant job contributes to the choice of the employee to remain on (Tatar & Ergun, 2018).

However, enlightening why employees stay with a particular organization established that there are definite personal factors and work-related factors that explain the process of employee turnover. Work-related factors like development opportunities are a vague feature that effects in decreasing employees' turnover intentions. This result is reliable with Saks (2006) that recommends the positive behavior, attitude, and intention form the employees that had a good relationship with their employer leader. Highly engaged employees, in other words, have a higher feeling of emotional, cognitive, and physical engagement to their organization and employment. Therefore, the employees who are highly engaged show high dedication, energy, and intention to stay in their organization. When employees sense an excellent employer branding of the organization, discover that their organization meets their desires well, and has the same characteristics of other workers in a similar organization; it will require central employees to engage with an organization profoundly. Such a high degree of engagement and emotional affection is one of the main factors for keeping individuals linked to the organization they work in (Memon et al., 2018).

This research point out that our quantitative study carried out here is an illustration of a positivistic study. Since positivism is just one of many science philosophies, we would like to highlight that it not condemn. Here potential social practical methods can be especially useful in future research as employer brands as prospective employees perceive. Predilections for employer brands develop during a practice of why approaches that are capable of capturing the methods essential decision making, such as protocols, may be useful gears in employer branding for future research.

Furthermore, the limitation of our investigation is that for now, it restricts to only one country. In the future, the related investigation should encompass the analysis to include other countries as well. Despite these limitations, our research delivers valued visions to improve the understanding of employer branding. We found that a strong employer branding is a useful tool for fostering employee consequences linked to performance and intention to stay. As an outcome, organizations may achieve a competitive benefit by firming the employer branding, which enables them to manage their employees' skills, performance, and favorable attitude and their intention to work in a particular organization. Generally, strong employer branding allows organizations to impact present and potential employees. The relation between the employer branding and individual performance and intention to stay is defined empirically.

Conclusion

The research on employer branding is a relatively new phenomenon; however, there is an enhanced need to test this concept with different paths and for different outcomes and in different industries. This study tested the mediating path of employee engagement in between employer branding and performance of the employees and their intention to stay. This fact was limited to the data of the banking sector only, and therefore it is recommended to test the same path and other possible mediating paths in other industries.

Theoretically, we discuss that the employee performance, in turn, aggravates advantageous employer consequences that lead to the formation of the employer branding. Hence, we suggest the employer branding as a provision for organizational outcomes. An organization can efficiently impact the formation of advantageous employee engagement that is diligently related to an organization with a strong employer brand. Our paper investigates the concept of the employer brand by considering employee engagement as a mediator with employee performance and intention to stay.

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A Missing Link Between Job Autonomy and Unethical Behavior

Ambreen Ahmed[1*], Aamir Firoz Shamsi[2], Mudassar Aziz[3]
*Corresponding author

Abstract. *The purpose of this paper is to theoretically address a surprising omission in literature by proposing a cognitive mechanism that sanctions individual-level unethical behaviors. This secondary literature-based qualitative study fills a theoretical gap by employing an extensive review of substantive empirical and theoretical literature of the last 15 years. However, those who consider their moral identity necessary for their self-concept are less likely to behave unethically. This proposed process, along with the path suggested by previous studies, in which individuals are having job autonomy feel unconstrained by rules before engaging in unethical behaviors. So, it proposes an underlying cognitive mechanism between job autonomy and unethical behavior. This study implies that it clarifies job autonomy's role in promoting the negative outcome of employees' unethical behaviors and informs organizational policymakers about the importance of satisfying the need for job autonomy.*

Keywords: *unethical behavior, job autonomy, moral disengagement, moral identity*
JEL Classification: D23, M12, M51, O15

Abstrak. *Tujuan dari penelitian ini adalah secara teoritis untuk mengatasi kelalaian dalam literatur dengan mengusulkan mekanisme kognitif yang memberikan sanksi pada perilaku individu yang tidak etis tingkat individu. Studi kualitatif berbasis literatur sekunder ini mengisi kesenjangan teoretis dengan menggunakan tinjauan luas literatur empiris substantif dan teoritis dari 15 tahun terakhir. Namun, mereka yang menganggap identitas moral mereka diperlukan untuk konsep-diri mereka cenderung berperilaku tidak etis. Proses yang diusulkan ini, bersama dengan jalur yang disarankan oleh studi sebelumnya, di mana individu memiliki otonomi kerja merasa tidak dibatasi oleh aturan sebelum terlibat dalam perilaku yang tidak etis. Jadi, ia mengusulkan mekanisme kognitif yang mendasari antara otonomi kerja dan perilaku tidak etis. Studi ini menyiratkan bahwa ini menjelaskan peran otonomi kerja dalam mempromosikan hasil negatif dari perilaku tidak etis karyawan dan menginformasikan pembuat kebijakan organisasi tentang pentingnya memuaskan kebutuhan akan otonomi kerja.*

Kata Kunci: *perilaku tidak etis, otonomi pekerjaan, moral disengagement, identitas moral*

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[1,2,3]Shaheed Zulfikar Ali Bhutto Institute of Science & Technology. Karachi City, Sindh, Pakistan.
E-mail: [1]ambreen_6@yahoo.com, [2]aamirfs.personal@gmail.com, [3]mudassar.aziz@szabist.edu.pk
DOI: http://doi.org/10.15408/etk.v19i1.12391

Introduction

The primary motive for commercial business organizations is profit maximization. This, at times, also becomes the primary motive for engaging in unethical behaviors and practices (Tabish, 2009). If given a chance, most people are likely to commit unethical behaviors (De Cremer et al., 2010). Unethical behavior in this paper is defined as the action of any member of an organization that goes against generally accepted moral norms of society (Kaptein, 2008; Treviño et al., 2006) and the organization, thereby harming the interest of the organization and its members (Bennett & Robinson, 2000). This definition includes employee behaviors such as misreporting in financial documents, lying to customers, sabotage, theft, slacking off, and using organizational resources for personal benefit, all of which can cause harm to the organization and its members.

For organizational leaders as well as business ethics scholars and practitioners, the widespread and pervasive unethical practices warrant the questions: What makes ordinary people, in the normal course of their work lives, engage in acts that violate the dominant norms, values, and beliefs of the society whose membership they value? Many explanations and models have been formulated to understand ethical decision making within the context of business organizations, yet a lot needs to be investigated (Schwartz, 2016). Given the prevalence of unethical and illegal activities and their associated costs to society and other direct stakeholders, there is no doubt about the importance of understanding and curbing causes and triggers of unethical behaviors. Although several causes of ethical behavior have been investigated and identified, academicians and organizational practitioners still need to fully understand why ordinary individuals who may be concerned about being moral engage in unethical behavior (Gino & Wiltermuth, 2014).

In addition to expanding our understanding of why and where unethical behaviors can take root within organizations, such as in the presence of entitled unethical leaders (Joosten et al. 2014), we must now focus on the relatively less investigated areas of identifying and testing the psychological or cognitive processes due to which even those individuals who want to value morality end up transgressing moral boundaries. There is still considerable ambiguity and inconsistency in business ethics literature about the cognitive mechanisms that lead to lapses in moral judgment and subsequent unethical behaviors (Johnson & Buckley, 2015). Also, the relationship between satisfaction of any of the three psychological needs or the core job characteristic, autonomy, with unethical behaviors has not been examined, to the researcher's knowledge, in the country and organizational context where the current study was undertaken. Numerous quantitative and qualitative empirical studies have been undertaken to test exactly which variable or factor actually has a bearing on individuals' ethical decision making (Craft, 2013; Lehnert et al, 2015; cited in Schwartz, 2016). However, there is little work done on job-related characteristics, or dimensions of the work itself, that may lead to unethical behavior. In fact, there is little empirical evidence explaining the relationships between job characteristics and their motivational and behavioral outcomes, and also the underlying processes through which job characteristics influence outcomes (De Cooman et al., 2013). The theoretical and empirical research on unethical behavior has at best demonstrated inconsistent findings (Craft, 2013; O'Fallon & Butterfield, 2005). This inconsistency can

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be due to the research methods employed (for instance, self-report surveys, student samples, scenarios/vignettes) and due to the quality and diversity of measurement instruments (Casali, 2011; Mudrack & Mason, 2013). The current study will attempt to establish a cognitive mechanism through which the core job characteristic of job autonomy leads to unethical behavior, based on an extensive review of unethical decision making literature.

If satisfaction of the need for job autonomy is linked to unethical behavior in Pakistani organizations, which the current study will attempt to establish, the findings will be very useful in determining within organizational contexts when and how much autonomy should be given to particular individuals. The right extent of job autonomy will ensure that they are intrinsically motivated (as claimed by self-determination theory), feel a sense of responsibility (as claimed by Job Characteristics Model), and yet not feel unconstrained by rules (as suggested by Lu et al. 2017) or develop exonerative moral justifications (as suggested by Moore et al. 2012) to engage in unethical behaviors. The findings will be relevant for human resources managers at the top and middle organizational levels, and for HR specialists, especially job analysts, recruitment specialists, and compensation specialists/managers, head hunters/ executive recruiters, and recruitment firms.

Unethical acts by organizations have been linked to small-scale individual-level unethical behaviors in the workplace (Welsh, Ordonez, Snyder, & Christian, 2014). Major unethical transgressions by corporations start out as small infractions that, left unchecked, escalate over time until they can no longer be kept secret. The phenomenon known as the slippery slope of unethical behavior (Welsh et al., 2014) suggests that when individuals engage in small-scale unethical behaviors, and get away with small infractions, they start committing increasingly larger unethical acts, which even they may not have contemplated at the start of their descent on the slippery slope. The regression from smaller unethical behaviors by individuals that snowball into larger unethical practices by entire groups of people within organizations point to the need to investigate the cognitive processes that sanction unethical behaviors on individual levels. Once the underlying cognitive mechanism which sanctions unethical behavior is understood within the workplace, organizations can take measures to subvert the processes by targeting mediating and/or moderating constructs through human resource management interventions and organizational policies. Welsh et al. (2014) have suggested some individual and contextual factors that can reduce or increase the slippery slope effect. When it comes to individual differences, those with a strong moral identity are less likely to slide down the slippery slope of unethical behavior, whereas those who are utilitarian, Machiavellian, or low in moral development are more vulnerable to the slippery slope effect (Welsh et al., 2014). Code of conduct, ethical priming, and monitoring, and ethical climate are contextual factors that can reduce or prevent the slippery slope effect.

A central principle of social psychology asserts that individuals try to retain a positive self-image privately and publicly. It follows that people engage in unethical behavior to a certain degree to be able to benefit from the transgression, and yet still continue to uphold their moral self-image. Mazar et al. (2008) suggest that when individuals have the opportunity to behave immorally, they attempt to strike a balance between the desire to obtain a valued reward and the inclination to appear moral to the self and to others. This makes their ethical decisions and actions inconsistent over time and across situations.

Modern organizations provide numerous possibilities for pursuing self-interest through unethical means. A struggle theory for business ethics (Kaptein, 2015) posits that to become ethical and sustainably behave in ethical ways requires tremendous struggle by organizations. When existing embedded ethical norms slowly start to fade away making way for new ones that are not yet entrenched, an ethics gap arises between what should be done what is actually being done (Kaptein, 2015). The factors responsible for the ethics gaps have been identified in the burgeoning body of business ethics literature as moral disengagement (Bandura, 1999a; Moore et al., 2012), deinstitutionalization (Westphal & Zajac, 2001), rationalization and socialization (Ashforth & Anand, 2003), deterioration of ethical culture (Sims & Brinkmann, 2003), reduced quality of business ethics programs (Kaptein, 2008), and decoupling (Mac Lean & Benham, 2010; Stevens et al., 2005). The struggle theory of ethics has also presented an array of factors behind the reasons for the ethics gap. An ethics struggle requires tremendous effort to obtain something of value in the presence of opposing forces that are hard to resist of conquer. Two such forces that drive people towards unethical behavior are pressures (forces that push towards unethical behavior) and temptations (forces that pull towards unethical behavior). Organizations by their very nature present various kinds of pressures and temptations to engage in unethical behavior (Kaptein, 2015).

Method

This literature-based review paper presents the results of a secondary database qualitative study (not meta-analysis). Accessing the databases Emerald, JSTOR, and Elsevier to chronologically identify the enablers and drivers of unethical behavior and subsequently establish the empirical and theoretical connections between any unexplored enabler and unethical behavior, carried out an extensive review of the last 15 years' substantive empirical and theoretical literature. The keywords used for searching relevant empirical and theoretical papers were "ethics," "cognitive mechanism," "moral disengagement," "moral identity," "business," "moral," "cognitive models," "autonomy," "job characteristics," "rules," "slippery slope," "management," "psychological path," "feeling unconstrained by rules," and "ethical decision making."

Results and Discussion

Substantive Review of Recent Literatures

A substantive review of recent empirical studies on unethical behavior unearthed a number of factors leading to unethical behavior such as individual factors or moral capacity. Individual factors that influence unethical behavior have been established in numerous empirical and meta-analytic studies. A review by Kish-Gephart et al. (2010) has identified cognitive moral development (CMD), external locus of control, Machiavellianism, and relativist moral philosophy. A later review by Treviño, et al. (2014) identified moral attentiveness (chronically perceiving and considering moral aspects in one's experience)

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stemming from social cognitive theory (SCT) (Bandura, 1986), moral conation (ability to become responsible and motivated to act morally in adverse and challenging situations), and moral identity (self-conception surrounding certain moral characteristics) stemming from social identity theory (Ashforth & Mael, 1989). Others factors are ego strength, field dependence (Treviño, 1986), values, and personal experience (Schwartz, 2016).

Besides that, the other factor is situational context. Situational factors have been organized into three components by the Integrated-Ethical Decision Making model (I-EDM; Schwartz, 2016), namely the issue, organizational infrastructure, and personal factors (Schwartz, 2016). Taking Jones (1991) 'issue-contingent model' forward, Schwartz (2016) has specified three components for the ethical issue variable, which affects all stages of EDM. Ethical issue refers to any circumstance that needs a volitional choice to be made having positive or negative ramifications for others. The issue factor consists of the dimensions of issue intensity (Butterfield et al., 2000), issue importance (Robin et al., 1996), and issue complexity (Street et al., 2001; Warren & Smith-Crowe, 2008).

The second component of the situational context in I-EDM (Schwartz, 2016) is the organizational infrastructure, an umbrella concept, which refers to all organizational factors that influence its ethical effectiveness (Treviño et al., 2006; Tenbrunsel et al., 2003). Valentine et al. (2013) refer to it as ethical context, incorporating both ethical climate (Victor & Cullen, 1988) and ethical culture (Treviño et al., 1998; Treviño, 1990). Rules are ethical codes that guide ethical (or other) decisions in organizations and institutions in society (Mulder et al., 2015). As unethical behavior by definition refers to violating generally acceptable norms or rules (Kaptein, 2008; Trevino et al. 2006), it follows that when people don't pay heed to rules, they may commit an unethical action.

The third component of the situational context variable of I–EDM is the personal situation, usually involving personal gain (cited in Schwartz, 2016). An individual who is ethically vulnerable either because of poor finances, or financial obligations, and having no job alternatives (Brown, 2013) will be more tempted to behave unethically even at the risk of personal costs (job, bonus, promotion) according to (Treviño, 1990).

Additionally, interpersonal influence of peers, leaders and managers also influences unethical behaviour (Treviño et al., 2014). Peers set ethical standards for behaviour by action or inaction (Moore & Gino, 2013). For instance, cheating by in-group members makes other in-group members also cheat (Gino & Pierce, 2009). People' unethical behaviour varies according to current organizational norms. Pierce & Synder (2008) concluded that inspectors immediately regulated their own unethical behaviour to conform the different norms of organizations they visited. Talking to colleagues about ethical matters was found to reduce unethical behaviour, whereas discussing self-interest increased it (Gunia et al., 2012).

Leaders are important influencers of unethical behaviour. Leaders at different organizational levels are responsible for developing the ethical infrastructure and organizational climate (Arnaud & Schminke, 2012). Moreover, leaders themselves are more likely to behave unethically because a sense of entitlement based on the label of being a leader helps them justify their unethical actions. Several experimental studies by De Cremer et al. (2009) Van

Dijke, et al. (2014), Van Dijk & De Cremer (2006) that shows that being labelled a leader makes individuals more self-serving, which in turn makes them take more tangible resources for themselves.

Moral Identity refers to a self-conception surrounding certain moral characteristics (Aquino & Reed, 2002). Self-concept refers to what we think we are. It is based on what traits we usually think we possess or don't possess. For instance, an individual's self-concept consists of traits like being honest, diligent, responsible, and social. An individual can possess any number of traits of different kinds. Traits can be broadly classified as being moral and non-moral in nature. For instance, being compassionate, honest, kind, and generous fall in the category of moral traits. Conversely, being clever, bold, inquisitive, charming, or funny fall in the category of non-moral or pragmatic traits, as they are not unequivocally connected to moral values and principles. For any aspect identity to influence behavior, it has to be active in the working self-concept (Perugini et al., 2011). An identity that is more important will be more active in the self-concept, but other identities may also become more or less salient due to the influence of contextual cues. If the moral aspect of the self-concept is activated, there is evidence that the individual will act morally (Aquino et al., 2009). Yet, if another identity, says a banker, is salient, individuals acted dishonestly for personal gain (Cohn et al., 2014). Thus, identity is important for behaving morally, as it reduces conscious deliberation (Moore & Gino, 2015).

Moreover, cognitive processes are influencing unethical behavior. When the eliciting situation exists, there will be moral awareness or lack of moral awareness in the individual. Moral awareness involves recognizing that one must decide or act to resolve a situation, which could affect the welfare, expectations, or interests of oneself or other people in a way that will violate one's moral standards (Butterfield et al., 2000). An individual becomes morally aware due to moral capacity and/or an innate capacity to identity ethics problems (Hannah et al., 2011) and/or organizational infrastructure (ethics codes, ethics training, policy communications (Tenbrunsel et al., 2003). Moral awareness results from moral attentiveness, mindfulness, and moral imagination (Schwartz, 2016).

Lack of moral awareness means the individual does not realize or overlooks the ethical aspects of the situation (Schwartz, 2016). It is also known as unintended amoral awareness (Tenbrunnsel & Smith-Crowe, 2008). Reasons for lack of moral awareness include moral fading, moral blindness, non-moral decision frames, moral myopia, and moral disengagement (Schwartz, 2016).

According to moral disengagement theory (Bandura, 1999b), an extension of the social-cognitive theory (SCT) (Bandura, 1986), moral disengagement is a dissonance-reducing cognitive process through which people convince themselves that ethical standards are not relevant in a particular situation. It involves the de-activation of the moral self-regulatory processes that usually discourage unethical behavior. People want to perceive themselves positively consistent with their moral values (Mazar et al., 2008). They attempt to reduce the tension or ethical dissonance they experience when they act to pursue self-interest in ways that violates their own moral standards. This is do by rationalizing beneficial unethical behavior

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by cognitively misconstruing its nature and consequences to avoid negatively revising one's self-concept (Mazar et al., 2008; Shalvi et al., 2011), and freeing oneself from self-sanctions and guilt (Detert et al., 2008). Since it is easier to justify minor misdemeanors as compared to major ethical transgressions (Mazar et al., 2008), moral disengagement occurs when people slide down the slippery slope of unethical behavior over a period of time (Welsh et al., 2014). As past behavior is a good indication of future choices, those who have committed small indiscretions may morally disengage in the future to justify unethical actions. Gradually worsening ethical choices, instead of abrupt unethical transgressions, routinize unethical behavior and make it seem acceptable without much consideration (Welsh et al., 2014).

When a situation has ethical dimensions, one's moral standards become active. Moral self-sanctioning mechanisms, which are self-regulatory processes, (guilt, self-sanctions) stop the individual from acting unethically. But, one or more of the eight cognitive distortion mechanisms of moral disengagement de-couple the link between self-regulatory mechanisms and unethical behavior (Moore et al. 2012). Moral disengagement is also referred to as moral justification (Ashforth & Anand, 2003). Morally disengaged reasoning results from many individual-level antecedents. They have been identified as traits of empathy and cynicism (Detert et al., 2008), moral identity (McFerran et al., 2010), social dominance orientation (Rosenblatt, 2012), and task self-efficacy (Shepherd et al., 2013). The other factor is affective processes and emotions influencing unethical behavior. A number of emotions such as, envy (Tai et al., 2012), anger, shame, fear (Kish-Gephart, et al., 2009; Motro et al., 2018; Polman & Ruttan, 2012; Umphress & Bingham, 2011) empathy, and guilt influence unethical behavior, sometimes in unexpected ways (Schwartz, 2016).

Next is self-regulation and ego-ego depletion. Processes of cognitive self-regulation stop individuals from behaving unethically, but when self-control depletes, these processes become ineffective (Schwartz, 2016). Self-control involves overcoming the dominant inclination to respond, and involves regulating thoughts, feelings, and actions (De Ridder, et al., 2012). Self-control helps resist tempting unethical behaviors, like pinching office supplies. It is finite resource and gets used up over time, especially when practiced in the past, unless moral identity was strong (Baumeister, & Heatherton, 1996).

Recently, Belle & Cantarelli (2017) found that the slippery-slope effect, being around increasingly dishonest people, time pressures, challenging performance-related goals, greed, aversion to loss, egocentrism, depletion of self-control, self-justification, and social influences (when in-group members behave unethically, or individuals are aware of others who benefit from unethical behavior) are causes of unethical behavior. However, this recent review was did not identify any job-related characteristics, such as autonomy.

The current investigation builds on the findings of Lu et al. (2017) that a relatively newly identified psychological state, feeling unconstrained by rules, (Gino & Wiltermuth, 2014), which arises from the experience of job autonomy, leads to unethical behavior. The study further proposes that individuals experiencing job autonomy, in addition to feeling unconstrained by rules, are also able to morally disengage i.e. exonerate their ethical transgression through moral reasoning, and convince themselves that moral standards do not apply in the situation (Bandura, 2002) to justify committing the unethical act while still maintaining their moral self-image. However, this is more likely for people having a low self-importance of moral identity, and less likely for those having a high self-importance of moral identify.

Hackman & Oldham (1976) have conceptualized job autonomy as the degree to which people freely decide how to do their work. It also refers to as job control or decision latitude (Karasek, 1979). Fodchuk (2007) refers to it as the degree of freedom and control that employees have in their jobs. Overall, the concept of job autonomy now involves employee discretion over where, when, in what sequence, and using what means they can perform their job tasks (Kubicek et al., 2017). Historically, job autonomy has been linked it to positive work outcomes such as performance, job satisfaction, well being (Kubicek et al., 2017), fewer accidents, errors, injuries, and unsafe behaviors (Nahrgang et al., 2011), and reducing conflicts stemming from contradictory role demands and work-family balance (Michel et al., 2011; Ng & Feldman, 2015). While theoretical and empirical research since the 1970's has focused on job autonomy's positive consequences for employee well-being and motivation, a small body of recent empirical research has argued that job autonomy also has a dark side, that too much of it is damaging for employees (Warr, 2013). Kubicek et al. (2017) present empirical evidence from several studies suggesting that job autonomy may not be entirely a valuable resource and may at times adversely impact well being.

The Vitamin model (Warr, 1990, 1994) was an early challenger of the notion that job autonomy was always beneficial, suggesting that once a certain tipping point is reached, even beneficial job characteristics cease to benefit employees (called constant effect), and may in fact be harmful (called additional decrement). An intrinsic mechanism causes job autonomy to constrain rather than encourage action by making autonomy a necessity, rather than a nicety, thereby reducing employee well being. Empirical evidence has also linked job autonomy to negative outcomes, such as increased task insecurity and burnout (Kubicek et al., 2017).

The nature of the work setting also has a bearing on the effects of job autonomy. If the work setting is externally controlled and well regulated (as in the 1980's), a higher level of autonomy is beneficial. However, in indirectly controlled and very flexible work settings job autonomy brings along uncertainty and ambiguity (Johlke & Iyer, 2013). In such environments, employees are not just given the opportunity to make decisions, but are in fact compelled to do so. They don't find autonomy to be helpful, but rather something that makes them expends more effort, and which obstructs the completion of tasks (Warr, 2013). The autonomy paradox (Mazmanian et al., 2013) contends that more autonomy makes employees work harder, and the more time they spend at work; the more their organizations control them. The more autonomy employees have in deciding when and where they can work, the more effort they put in their work (Kelliher & Anderson, 2010). Having work time and workplace autonomy disguises the fact that workplace norms, socialization practices, and values increase organizational control over employees (Putnam et al., 2014).

Another factor influencing whether job autonomy will be beneficial of harmful for

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work outcomes is individual differences (Van Yperen et al., 2014). Whether an employee's reaction to job autonomy will be positive or negative depends on their need for autonomy (Kubicek et al., 2017). It is the strongest predictor of intrinsic or autonomous motivation, and there is much empirical evidence to support its predictive power. In several studies involving managers, autonomy supportive behaviors lead to enhanced satisfaction of the three basic psychological needs, subsequently leading to more trust and positive employee attitudes (Deci et al., 1989); higher job satisfaction, better performance ratings, enhanced persistence, more receptiveness to organizational change, and improved psychological acceptance (Baard et al., 2004; Deci et al. 2001; Gagné et al., 2000; Kubicek et al., 2017). In addition, for people with a high versus low need for autonomy, job autonomy's influence on its outcomes will be different. Work time and workplace autonomy was more beneficial for employees with a higher need for autonomy (Van Yperen et al., 2014). When there is a high need for autonomy, just having a perception that there is an opportunity to choose where and when a task will be performed, without actually availing the opportunity, becomes an effective resource to deal with job demands; however, this is not the case for employees with a low need for autonomy (Van Yperen et al., 2016). Later, Lu et al. (2017) found that employees who felt unconstrained by rules due to job autonomy were less prone to behaving unethically if they gave more importance to having job autonomy, as compared to those who placed less value on having job autonomy. Based on this empirical evidence, it is evident that having job autonomy may bring about mixed or unexpected results, as the presence of high autonomy may bring about the too-much- of-a-good-thing effect (Pierce & Aguinis, 2013), and may in fact turn out to be counterproductive.

It has been asserted that organizational members are tempted to behave unethically when they have authority to carry out their duties, along with an opportunity to misuse that authority (Pitesa, & Thau, 2013). Job autonomy is a job characteristic that pertains to the degree to which the job performer can decide how, when, and where to do the job (Hackman & Oldham, 1976, 1980). Experiencing job autonomy makes individuals feel in charge of what they are doing. De Cremer et al. (2009) suggested that within contemporary organizations those in charge tend to behave unethically because of a sense of entitlement. For instance, De Cremer et al. (2009) attributed the tendency among leaders of taking more for themselves while giving less to others to social cognitive processes, which allow them to perceive their actions less unethical and continue to view themselves as a moral individuals. De Cremer et al. (2009) likened the social cognitive process to moral rationalization (Bandura, 1999a). Moral rationalization is a cognitive process that helps people in believing that their actions are not breaching their own moral standards (Tsang, 2002).

The likelihood of the experience of job autonomy leading to moral rationalization or disengagement is high. An empirical survey of that compared the standards of business ethics of Pakistan with USA, China, and Jamaica found that businessmen in Pakistan rationalized their unethical behaviors by giving various justifications that are reminiscent of moral disengagement mechanisms (Tabish, 2009). For instance, Pakistani business professionals considered paying bribes to be the cost of doing business, a neutral phase to make unethical behavior seem less harmful or morally acceptable. This was termed euphemistic labeling by moral disengagement theory (Bandura, 1990). In the same study, American businessmen justified bribery for themselves by responding that it is an acceptable practice in other countries. This is called diffusion of responsibility in moral disengagement theory (Bandura, 1990). Pakistani respondents did not consider it unethical for a company to continue selling a hazardous product in spite of knowing the potential harm it could cause, as long as there was a demand for it. They believed that the company was not to blame as the demand was consumer-driver and was the consumers' choice. This is akin to blaming the victim in moral disengagement theory (Bandura, 1990). Similarly, the buyer beware mentality was also depicted most strongly among Pakistani businessmen out of all the four surveyed countries when they responded that a company may not disclose that one of its auto parts supplier was supplying a defective part that could potentially be fatal, if the disclosure was likely to hurt sales. This paper suggests that when the tendency to morally disengage already exists in the wider culture and thus works settings, the experience of job autonomy is likely to further enable moral disengagement.

Moral disengagement has been selected as a mediator between job autonomy and unethical behavior because Bandura (1986, 2002) describes it has an inhibitory cognitive process that deactivates the link between self-regulation and one's immoral actions. Also, Moore et al. (2012) assert that moral disengagement is the most powerful predictor of unethical behavior as compared to other competing morally relevant constructs in the same conceptual domain, such as Machiavellianism, trait empathy, and moral identity.

Secondly, it is particularly suitable for predicting unethical behaviour in organizational settings because organizations provide many opportunities to get morally disengaged (Moore et al. 2012). Their hierarchical structure enables displacement of responsibility. Teamwork allows diffusion of responsibility. Being an organizational member creates the perception of being part of an in-group, thus giving a reason to justify unethical behaviour, and mentally downplaying the harm being caused to non-members outside the organization. Organizations are also known to allow people to develop amoral judgment frames and shut off moral schemas (Moore et al. 2012). Johnson & Buckley (2015) further endorse that time; place or population does not bind moral disengagement.

Moral disengagement increases unethical behavior, regardless of other individual differences (Aquino et al., 2007; Detert et al., 2008). Propensity to morally disengage is linked to traits such as external locus of control, moral personality, cynicism, and moral identity (Detert et al., 2008; Duffy et al., 2005). Certain situations promote moral disengagement and unethical behavior, such as those that provide opportunity for legitimate justifications or rationalizations for acting unethically while still appearing to be moral (Shalvi et al., 2012). Moral disengagement influences corruption in organizations by initiating and expediting unethical decision making, and reducing the decision makers' awareness about the ethical dimensions of the decision (Moore, 2008). Kish-Gephart et al. (2014) concluded that when a situation offers opportunities for personal gain or involves self-interest, the individual reasons in a morally disengaged manner to benefit the self. Other studies suggest that when employees are primed to think creatively or feel positive emotions, they find novel justifications for their self-serving actions (Gino & Ariely, 2012; Vincent et al., 2013). In entrepreneurs, the

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association between unethical behavior and motivation for financial gains is mediated by moral disengagement, whereas motivation for self-realization is negatively linked to moral disengagement (Baron et al., 2015).

Welsh et al. (2014) concluded that when changes in financial incentives increase gradually instead of abruptly, moral disengagement mediates the relationship between gradual versus abrupt changes and unethical behavior, moderated by prevention focus. This showed that moral disengagement mediates the relationship between the slippery slope effect and unethical behavior. Furthermore, moral disengagement predicted and mediated the relationship between authenticity and unethical behavior in weak situations more as compared to strong situations (Knoll et al., 2016).

The social-cognitive model of moral identity (Aquino & Freeman, 2012) connects moral identity with the business context by conceptualizing it as an individual difference as well a psychological construct that can be triggered by situational stimuli such as subtle primes and business–oriented contextual signals. Moral identity may serve as a cognitive line of defense against pressure exerted by organizational demands for engaging in immoral acts (Weaver, 2006). Those with a strong moral identity are less likely to slide down the slippery slope of unethical behavior, whereas those who are utilitarian, Machiavellian, or low in moral development are more vulnerable to the slippery slope effect (Welsh et al. 2014). Moral identity has a significant negative relationship with moral disengagement (Detert et al., 2008). It also has an indirect negative effect, through moral disengagement, on unethical decision-making (Detert et al., 2008). Aquino et al. (2007) concluded that if an individual has a high self-importance of moral identity, it would reduce the potency of any moral disengagement mechanisms that would rationalize their harmful actions directed at others. When moral identity is strong, individuals can resist the temptation of self-interested behavior even when they are psychologically feeling powerful. Moral identity was found to self-regulate and reduce unethical behavior when its salience was high among high-status employees (Galperin et al., 2011). In a quantitative survey of 600 Australians, empathy and moral identity positively influenced consumers' ethical beliefs and promoted ethical behavior, whereas cynicism reduced ethical behavior (Chowdhury & Fernando, 2014). In an empirical study, data from separate field and lab experiments showed that due to ego depletion (personal resources were exhausted due to constant self-control), leaders behaved unethically, if their moral identity was weak, whereas those with a strong moral identity did not behave unethically due to self-regulatory ego depletion (Joosten et al. 2014). In another study it was concluded that ethical leaders who consider their moral identity important have a different impact on productively deviant workplace behavior from those whose moral identity is not important (Skubinn & Herzog, 2016). A meta-analysis of 111 studies from diverse academic disciplines such as business, education, sociology, marketing, and developmental psychology showed that an individual's willingness to engage in prosaically and ethical behaviors, and unwillingness to behave antisocially, is strengthened by moral identity (Hertz & Krettenauer, 2016). Lu et al. (2017) strongly suggested that the moderating role of moral identity should also be investigated in the relationship between the experience of job autonomy and unethical behavior.

Critical Review and Synthesis of Literature

Within the stream of business ethics research on intentional unethical behaviors, Shalv et al. (2015) have presented a framework that integrates and expands the growing body of research evidence on unethical behaviors' antecedents and consequences. This framework is a good starting point to understand how ordinary people commit moral transgressions without thinking any less of them. Temptation may lead an individual to violate socially accepted principles or rules or commit a moral transgression (Shaly et al, 2015). As committing a moral violation threatens one's moral self, formulating self-serving justifications to excuse for or compensate for the violation determines the enormity of the unethical action. Ambiguous situations, with unclear rules, are very conducive for developing self-serving justification (Schweitzer & Hsee, 2002). Shalvi et al. (2015) framework implies that the likelihood to morally disengage is a good indication of the possibility of formulating justifications, rendering moral disengagement an important, yet not explicitly depicted, part of the process that leads to unethical behavior.

Shalvi et al. (2015) framework is in line with the struggle theory for business ethics by Kaptein (2015), in that it supports the notion of temptation as a force that pulls people towards unethical behavior. The struggle theory may seem to be augmenting Shalvi et al. (2015) by identifying authority within an organization to perform requisite tasks and the opportunity to abuse it as a temptation to violate ethical norms. Shalvi et al. (2015) did not elaborate on the nature of temptations. Besides authority, another temptation within organizations postulated by Kaptein (2015) in the struggle theory of business ethics is conformity. Conformity refers to following orders because it is simply the way things are done in the organization, regardless of their being ethical or not. This idea has striking similarity to the moral disengagement mechanism, diffusion of responsibility (Bandura, 2002), although the struggle theory does not explicitly refer to it. However, the struggle theory of business ethics (Kaptein, 2015) is silent about the role of job characteristics in pulling or pushing towards unethical behavior. The struggle theory posits that authority and the corresponding opportunity to misuse it is a temptation to behave unethically (De Cremer et al., 2009; Pitesa & Thau, 2013), but does not refer to job autonomy as a temptation or pressure.

So far, there is little empirical evidence linking job characteristics to moral disengagement, which is a perplexing omission, because many high-profile corporate scandals exposed the abuse of autonomy by top executives to pursue self-interested goals through unethical means. For instance, the global financial crisis of 2008 perpetuated by sub-prime mortgage lending has been partially attributed to the free reign individual financiers who had over mortgaged lending. In a study of organizational and job characteristics influencing sexual harassment through moral disengagement, while Claybourn (2011) used the Job Characteristics Inventory (JCI) to measure job characteristics dimensions such as task identity, variety, feedback, autonomy, friendship opportunities, and dealing with others, only the sub-scales related to interpersonal workplace interactions were used, which were friendship opportunities and dealing with others. The author did not give a reason for omitting the other dimensions of job characteristics, while clearly recognizing the dearth of empirical experimental evidence about the causal relationship between job characteristics and moral disengagement. The current

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study partially addresses this gap by theoretically establishing the relationship between one of the core job characteristics, job autonomy and moral disengagement.

However, in a study of Pakistan's contemporary administrative culture based on secondary data from scholarly literature, official documents magazines, and newspapers. Islam (2004) has argued that the reason behind corrupt practices, nepotism, and excessive obedience to the hierarchical chain of command by administrative personnel is the high uncertainty avoidant, collectivist, high power distance, masculine culture of the country. This conclusion is supported by a social-cognitive model of unethical behavior within organizations developed by Galperin et al. (2011).

This socio-cognitive model of unethical behavior by Galperin et al. (2011), grounded in the social-cognitive theory of Bandura (2001), contends that organizational members having a higher status engage in unethical behaviors, as they are distant and isolated from the rank and file (out-group). The underlying mechanism is that having a high status group identity becomes more salient and suppresses the high-status individual's moral identity. This identity displacement makes the high status employees more isolated from the rest, which also makes them less concerned about the needs and interests of others (out-group) as compared to their own needs and interests. The suppression of the moral identity also reduces awareness of moral issues, lessening the need to self-regulate unethical behavior, resulting in ethical transgressions. Moderators of the relationships at the individual level are also presented.

While this model explains in considerable depth the underlying mechanism by which high status differentiation results in unethical behavior, it downplays some important factors. The presence of moral disengagement (dehumanizing of the out-group by the high-status in-group members) and also use the concept of moral disengagement as one of the many ways through which high-status employees overcome the cognitive dissonance they experience when the high-status identity becomes more salient than their moral identity, their socio-cognitive model does not make explicit the importance of moral displacement as one of the strongest predecessor of unethical behavior, which it certainly is (Moore et al., 2012).

Also, Galperin et al. (2011) are vague about whether high-status employees whose behavior their model is explaining possess power or not. Power refers to the ability to exercise control over one's and others' resources without the interference of other social factors (Galinsky et al., 2003), and has the potential to bring about negative behaviors in the presence of a weak moral identity (DeCelles et al., 2012). Since power distance is high in the local context of the current study (Islam, 2004), it is necessary to understand the processes that connect power and unethical behavior.

Pitesa & Thau (2013) present a model in which power plays a role in when and why employees make (un)ethical decisions by following their own preferences instead of social influences. Their model is grounded in the situated focus theory of power (Guinote, 2007), which posits that more powerful individuals' attention is more focused on themselves, and less on others because they are less dependent on others. Drawing on this premise, Pitesa

& Thau (2013) found experimental evidence that across the three main paradigms of social influence (informational, normative, and compliance), power makes individual's more self-focused, increasing the likelihood of their behaving according to their own preferences and paying less attention to social influences. While this is a credible explanation grounded in empirical evidence, this model does not take into account any individual differences that may interact with power. This gap was somewhat well addressed by DeCelles et al. (2013) argue that the experience of power has a weak influence on self-interested behavior if the individual's moral identity is strong. In a lab experiment, Pitesa & Thau (2013) found evidence that a weak moral identity decreases the likelihood of acting in self-interest even when a person is feeling powerful. They predicted the underlying mechanism through a mediated-moderated model, which demonstrated that whereas experiencing power enhanced the moral awareness of individuals with a strong moral identity, it reduced the moral awareness of those with a weak moral identity. Thus, moral identify is an important moderator in the pursuit of self-interest even when there is power over the control of resources.

While power and autonomy are two different concepts, both involve the common factor of control over something–resources people need or one's job, respectively. Since autonomy is a core job characteristic (Hackman & Oldham, 1980), it's presence and absence can be expected to be a factor influencing most individuals' (un)ethical decisions as shown by Lu et al. (2017), and must therefore be given more attention. Within the current study's local context, most empirical research has focused on types of unethical practices within different industrial sectors (Ahmad et al., 2011; Ahmed & Saeed, 2012; Mehmood, 2016; Islam, 2004; Nawaz & Ikram, 2013; Ram et al., 2011). Cognitive and psychological processes underlying ethical infractions have received little attention by local researchers. It is vital to investigate these mechanisms by employing established measures of known factors as well as developing new measures suitable for the local population. Initially, correlational studies need to be conducted as a starting point for predicting cognitive and psychological mechanisms behind unethical behaviors, followed by experimental designs to establish causal relationships.

Broader Literature Gap

Many explanations and models have been formulated to understand ethical decision making within the context of business organizations, yet a lot needs to be investigated (Schwartz, 2016). Although several causes of ethical behavior have been investigated and identified, academicians and organizational practitioners still need to fully understand why ordinary individuals who may be concerned about being moral engage in unethical behavior (Gino & Wiltermuth, 2014). We must now focus on the relatively less investigated areas of identifying and testing the psychological or cognitive processes due to which even those individuals who want to value morality end up transgressing moral boundaries. There is still considerable ambiguity and inconsistency in business ethics literature about the cognitive mechanisms that lead to lapses in moral judgment and subsequent unethical behaviors (Johnson & Buckley, 2015).

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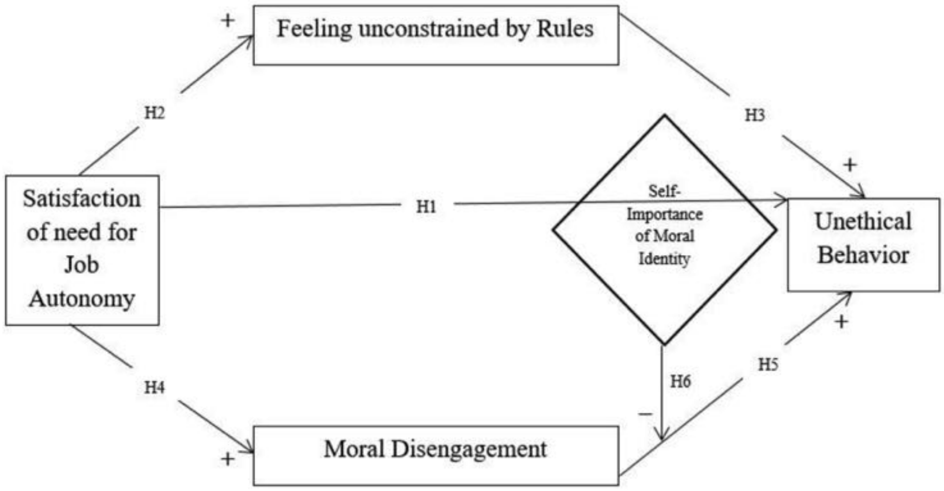
Also, the relationship between the core job characteristic, autonomy, and unethical behaviors has not been examined, to the researcher's knowledge. Numerous quantitative and qualitative empirical studies have been undertaken to test exactly which variables or factors actually have a bearing on individuals' ethical decision making (Craft, 2013; Lehnert et al., 2015; Schwartz, 2016). However, there is little work done on job-related characteristics, or dimensions of the work itself, that may lead to unethical behavior. In fact, there is little empirical evidence explaining the relationships between job characteristics and their motivational and behavioral outcomes, and also the underlying processes through which job characteristics influence outcomes (De Cooman et al., 2013). This paper corroborates the contention of Lu et al. (2017) that the presence of core job characteristics, job autonomy, usually related with positive outcomes of job satisfaction (Hackman & Oldham, 1980), and creativity, performance, and motivation (Lu et al., 2017), also leads to the negative outcome of unethical behavior, through the path of moral disengagement.

Discussion

After the critical review of the literature, including the underlying theories and bodies of empirical evidences, this paper proposes a cognitive mechanism that depicts the possible causal connections between job autonomy and unethical behavior. It builds on a causal path found between the experience of job autonomy and unethical behavior by Lu et al. (2017) utilizing the Job Characteristic Model by Hackman & Oldham (1980) framework. Lu et al. (2017) expanded the construct of job autonomy demonstrating through multi-stage experimental studies that job autonomy is a double-edge sword. Besides generating the psychological state of feeling a sense of responsibility, Lu et al. (2017) argued that the experience of job autonomy also makes the individual experience the psychological state of feeling unconstrained by rules. This particular psychological state leads to unethical behavior.

Building on this path proposed by Lu et al. (2017), this paper also proposes that feeling unconstrained by rules is not a sufficient condition for making ethical transgressions, because people want to appear moral to themselves and to others, even when pursuing self-interest. To uphold their moral self, they attempt to justify their unethical actions by morally disengaging from their actions. There is greater likelihood that the dehumanization (Vaes et al., 2012), displacement of responsibility, and diffusion of responsibility mechanisms of moral disengagement may be activated. However, those who give more importance to their moral identity are less likely to engage in unethical behaviors. Aquino et al. (2007) concluded that if an individual has a high self-importance of moral identity, it would reduce the potency of any moral disengagement mechanisms that would rationalize their harmful actions directed at others. When moral identity is strong, individuals can resist the temptation of self-interested behavior even when they are psychologically feeling powerful (Galperin et al., 2011). Figure 1 shows the proposed cognitive mechanism and sanction for the unethical behavior.

Figure 1. Proposed Cognitive Mechanism and Sanctions for Unethical Behavior



Conclusion

This literature-based review paper set out to theoretically propose a cognitive mechanism which allows ordinary individuals to self-sanction unethical behavior in their workplace, although they want to appear moral in their own eyes. An extensive qualitative review of the last 15 years' empirical and theoretical research suggests that individuals descend down the slippery slope of unethical behavior if their minor ethical transgressions go unchecked over time. When individuals descend down the slippery slope of unethical behavior, they also morally disengage from their unethical behaviors. However, those who have a high self-importance of moral identity are less likely to be morally disengaged. Also, when employees' psychological need for job autonomy is satisfied, they feel unconstrained by rules, which in turn leads to unethical actions. Based on these findings, this paper suggests that feeling unconstrained by rules is not a sufficient condition for behaving unethically. The psychological or cognitive mechanism which self-sanctions unethical behavior, along with making one feel unconstrained by rules, also involves moral disengagement from one's unethical actions, when the need for job autonomy is satisfied. However, the descent down the slippery slope of unethical behavior is curtailed by the individual difference, self-importance of moral identity.

In the light of this study's findings, there are serious HR policy implications for organizational decision makers. Line and HR managers should be careful about selecting employees with stronger moral identities, develop HR interventions that make the moral identity salient, give appropriate importance to rules and ethical dimensions of issues to prevent moral disengagement, and by creating proper organizational structures and systems provide less opportunities for rationalizing unethical decisions and actions. These measures will help in avoiding inadvertent encouragement of unethical behavior by managers and leaders. Future studies should empirically test the suggested cognitive mechanism in private and public sector organizations.

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Competitive Strategy Analysis to Increase Consumer Purchasing Decisions on Minimarket Business

Agus Supandi Soegoto[1*], Herman Karamoy[2]
*Corresponding author

Abstract. *The growth of the minimarket business in Indonesia is high-speed and exciting. As a result, the competition is very tight. This study aims to analyze the effect of product quality, price discounts, and servicescape on a consumer purchasing decision. This research uses associative descriptive methods and multiple linear regression analysis techniques. The research sample is to minimarket consumers in the cities of Manado, Tomohon, and Bitung. These results indicate that for consumers, the three variables are the main elements considered when shopping at the minimarket. The right management strategy will improve consumers' decision to buy products, thereby increasing profits and maintaining business sustainability. Management should always have attention to product quality by combining the right price discounts and servicescape to increase purchases, high profits, and superiority in competition.*

Keywords: *product quality, price discounts, servicescape, purchase decision, minimarket*
JEL Classification: M21, M31

Abstrak. *Pertumbuhan bisnis minimarket di Indonesia sangat cepat dan menarik. Akibatnya persaingan menjadi sangat ketat. Penelitian ini bertujuan untuk menganalisis pengaruh kualitas produk, diskon harga dan servicescape terhadap keputusan pembelian konsumen. Metode penelitian deskriptif asosiatif, dan tehnik analisis regresi linier berganda. Sample penelitian konsumen minimarket di kota Manado, Tomohon, dan Bitung. Hasil ini menunjukkan bahwa bagi konsumen ketiga variabel merupakan unsur utama yang dipertimbangkan saat berbelanja di minimarket. Strategi manajemen yang tepat akan meningkatkan keputusan konsumen membeli produk, sehingga meningkatkan laba, dan dapat mempertahankan keberlanjutan usaha. Management sebaiknya selalu memperhatikan kualitas produk dengan mengkombinasikan diskon harga dan servicescape yang tepat, untuk meningkatkan pembelian, laba yang tinggi dan keunggulan dalam persaingan*

Kata Kunci: *kualitas produk, diskon harga, servicescape, keputusan pembelian, minimarket*

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[1,2]Sam Ratulangi University Manado, Indonesia. Jl. Kampus Bahu, FEB Unsrat Manado, Indonesia (95115)
E-mail: [1]supandi@unsrat.ac.id, [2]hermankaramoy@unsrat.ac.id
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Introduction

This research aims to determine the use of competition strategies for minimarket managers in Indonesia, through competition in product quality, price discounts, and servicescape against consumer purchasing decisions, with a sample of three major cities in North Sulawesi, Indonesia. Previous research has focused more on distribution strategies, location, consumer attitudes, and service quality in retail businesses.

In Indonesia, retail business growth is speedy and has a positive impact on economic growth. Anggraini (2013) stated that the development of a minimarket in almost all major cities in Indonesia has an impact on economic development. Towards the last decade of the Millenium, however, the battleground has expanded to developing countries, where deregulations in the retail sector aimed at increasing foreign direct investment (FDI) have resulted in the proliferation of supermarket chains (Reardon & Hopkins, 2006). Many investors are interested in investing in the hope that they will benefit through this fast-paced business. As a result, competition occurs, not only in the business between supermarkets, the competition also occurs between modern retailers and traditional shops that have the same customers (Suryadarma et al., 2007).

Modern minimarkets and retails (such as hypermarkets & supermarkets) are currently attractive for consumers to shop, especially to meet their daily needs, the reason being the availability of products and locations that are very easy to reach, in addition to the atmosphere and the servicescape support for shopping. Amin & Mahasan (2019) stated that consumers visit the modern retail store for several reasons such as variety, easy availability, and cleanliness with an additional facility of entertainment. The retail business, including the Minimarket business in North Sulawesi, is currently growing rapidly. The rapid growth of the retail business has caused the challenges of competition in the field of product marketing among business people to increase very sharply. Minimarket business in business expansion requires only relatively small capital, in contrast to the supermarket and hypermarkets businesses that require significant capital. As a result, the growth of the Minimarket business in North Sulawesi is speedy, and almost always exists in strategic places or new locations.

The consumptive nature of the people of North Sulawesi is high, causing interest in buying products offered by Minimarkets, Supermarkets, and Hypermarkets. This condition encourages entrepreneurs engaged in the retail business to be interested in expanding their businesses to become leaders in occupied markets such as the minimarket. The presence of Minimarkets such as Alfa Mart and Indo Maret increasingly crowded found in almost all villages in the Manado city. For example, Indomaret for 2015 is targeting to establish 50 Minimarket outlets in the Manado city. Emor & Soegoto (2015) states Indomaret, in its business competition, must compete closely with similar shops/ outlets that have already operated in Manado cities such as Gelael, Freshmart Express, Daily-Mart, and 24-Mart.

The initial observation of the writer of Indomaret has several advantages offered to buyers, such as daily offerings of products that are relatively cheaper, diverse, and impose price discounts, which are not carried out by their closest competitors such as Daily Mart, 24-Mart, K-Mart. According to the author, the competitive strategy adopted though to be a

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source of competitive advantage from Indomaret to its closest competitors, which received a positive response from buyers at Indomaret. Table 1 shows the data on the development of Supermarket and Minimarket outlets in North Sulawesi in 2019.

Table 1. Supermarket and Mini-market in North Sulawesi

No.	Supermarket		Minimarket	
	Outlets	Amount	Outlets	Amount
1.	Hypermart	3	Indomaret	182
2.	Multimart	5	Alfamart	147
3.	Freshmart	1	Freshmart Express	5
4.	Transmart	2	Dailymart	5
5.	Jumbo	5	24-Mart	2
6.	Golden	1	Golden	1
7.	Gelael	1	Gelael	1
8.	Fiesta	2	Sahabat Swalayan	1

Source: Data processing

Table 1 can be seen in the distribution of minimarkets and supermarkets in North Sulawesi in 2019 from the data collected from 8 minimarkets that use as samples to observe. When viewed in the minimarket business in North Sulawesi, based on the number of minimarket outlets that have been established, the number of outlets from Indomaret is the highest, 182 outlets compared to Alfamart with 147 outlets. The phenomenon of competition in the retail business at this time is the level of competition from world business people who are getting higher, and the markets that serve are increasingly narrow. The brand can use as an aggressive marketing tool to retain existing customers as well as to attract new customers (Ahmed, et.al. 2018). This means that Minimarket business entrepreneurs must always try to get a market share that is growing every day and increasingly narrowed due to intense competition from business people.

Competition between retailers is very tight to fight over buyers. The rapid growth of the minimarket franchise system also has an impact on high competition and new problems for stores with traditional retail. The managers try to excel in competition; the retail store's managers need to secure their competitive advantages to be successful. So, retailers offer different promotional activities such as product quality, price discount, and aftersales services to attract the customer (Leszczyc et al., 2000). In the context of competition like this, consumer purchases are unique because each person's preference for a product is different. In the retail field, the application of marketing strategies is critical to creating excellence in business competition. Marketing is an organizational function and a series of processes to create, communicate, and deliver value to customers and to manage customer relationships in ways that benefit the organization and its stakeholders. Kotler & Keller (2009) defined marketing management as the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.

Retail business is a set of business activities carried on to accomplish the exchange of goods and services for personal, family, or household use, whether performed in-store or by some form of non-store selling. Others define retailing as a combination of those activities that increase the product and services' value for the end-user. Retailing has both spectra of sales of products and the sale of services (Dhotre, 2010; Levy & Weitz, 2009). Retailing includes all the activities in selling goods or services directly to final consumers for personal, nonbusiness use (Amit & Kameshvari, 2012). Retail store is any business enterprise whose sales volume comes primarily from retailing. The previous definition emphasizes exchanges with end-users by increasing the value of goods and services by benefiting retail users.

Product quality is the totality of features and characteristics of a product or service that depends on its ability to satisfy the stated or implied needs of users (Kotler & Armstrong, 2012). Product quality is a characteristic of a product or service that depends on its ability to meet and satisfy customer needs for the product used. McDonnel & Hall (2008) stated that consumer perceptions of product quality would shape preferences and attitudes that will influence the decision to buy or not.

The consumers who are price sensitive for particular products and services are known as price takers' consumers (Wakefield & Inman, 2003; Pi et al., 2011). Many economists assume that consumers are "price takers" and accept prices at "face value" or as given (Kotler & Keller, 2009). This factor is relating the consumer's choices about shopping outlets to product prices in terms of price fairness and affordability, whether they purchase fresh food products or any other kind of product (Newholm et al. 2011). A discount is a discounted price given by the seller to the buyer of a product or service. Consumers are interested in getting a fair price, in the form of perceived value at the time of sale. Discount shops are retailers who intend to sell to the consumer branded goods at low prices continuously and working with the self-service system. Consumers assume that a product with a high price means that it has good quality, whereas if a low price has poor quality (Assauri, 2009). The price discount is a discount to the price of the product or service as a cost reduction in a buy-sell transaction conducted by consumers.

Servicescape for business people is one strategy to attract consumers' interest in shopping for products offered. Appropriate servicescape arrangement structured is expected to determine the success of a marketing program designed by retailers. Servicescape is a unity of the physical environment of a service that affects the consumer experience (McDonnel & Hall, 2008). Architectural design and related design elements are essential components of a servicescape. Servicescape is a physical environment in which a service meeting occurs that will affect consumers' perceptions of product offerings and subsequently on subjective responses and external responses, namely customer behavior to repurchase (Rosenbaum & Massiah, 2011).

Consumers in shopping always confront with purchasing decisions. Consumer decision making is a process to integrate that combines knowledge to evaluate two or more alternative

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product choices, to choose one of them (Peter & Olson, 2005). Consumer purchasing decisions are unique because each person's preference for a product is different. Purchasing decisions are consumer decisions that are influenced by several factors of financial conditions, product offerings, prices, location, promotions, and other factors, which form an attitude to conclude products offered for purchase (Schiffman & Kanuk, 2008).

The novelty of this research is looking at the competition made by minimarket managers to excel through offering quality products, price discounts, and servicescape to maintain and improve consumer-purchasing decisions in the minimarket business. This topic is very little research that has been done before, especially in the retail business in Indonesia. Preliminary survey results show that some consumers are interested in shopping because of the low price strategy, some consumers are interested and deliberately looking for products that give a discounted price, or a comfortable shopping environment. The shopping interests of these consumers are the subjects in this study, mainly related to consumer decision making for purchasing products in the minimarket.

Methods

This research was conducted in the North Sulawesi, especially in the cities of Manado, Tomohon, and Bitung (three major cities in North Sulawesi), from February to October 2019. The associative descriptive research method aims to uncover the model of the relationship between the research variables. Predictable variables include Product quality, Price discounts, and servicescape as the independent variable (X) and Customer Purchase Decisions as the dependent variable (Y). The analysis technique uses multiple linear regressions.

The research data take randomly using the proportional sampling method so that respondents could represent the population. The population of this study is consumers who shop for minimarket. The sample used was 100 respondents, according to the specified criteria, were selected to test consumers' perceptions of purchasing decisions in the minimarket. The sample used proportionally on retail business in minimarkets such as Indomaret 20 respondents, Alfa-Mart 20 respondents, Fresh-Mart Express 20 respondents, Golden 20 respondents, Gelael 10 respondents, and Sahabat Swalayan 10 respondents. The purposive technique uses when the researchers select a sample based on several criteria (Cooper & Schindler, 2006). Statistical analysis includes standard assumption tests, and hypothesis testing is performed F and t-test (significance level of 5%) using SPSS 20. The estimation does predict changes/ responses from dependent variables to some independent variables. The mathematical equation of this research as follows:

$$CPD_i = \alpha + \beta_1 Pq_i + \beta_2 Pd_i + \beta_3 Sc_i + \varepsilon_i$$

Where: CPD is a consumer purchase decision; Pq is product quality; Pd is price discount, and Sc is servicescape.

After reviewing the literature, this study proposes the following set of hypotheses regarding the consumer's minimarket preference for a purchase decision:

H1: Product quality, price discounts, servicescape allegedly influence customer purchase decisions.

H2: Product quality partially affects the customer purchase decision.

H3: Price discount partially affects customer purchase decisions.

H4: Servicescape partially affects the customer purchase decision.

Result and Discussion

The results of data collection based on questionnaires distributed and returned by the research respondents are as follows: The questionnaire spread by 102 (100%) and Questionnaires who did not return 2 (2.00%), so the response rate of the questionnaire is 98.00%, then the qualified questionnaires are from 100 respondents, which use as the sample in the study. The respondents of the current study are 46 men (46%) and 54 women (54%), as provided in Table 2. It indicates that consumers, who shop for the minimarket in North Sulawesi, are still dominated by women. The descriptive analysis of 100 respondents in Table 2 shows that the most significant number of respondents are 26-65 years old, which is 65%; besides, 28 (28%) respondents are 15-25 years old, and 7 (7%) respondents are 66-75 years old, so young people and productive age is the dominant shoppers (93%).

Table 2. Distribution of Sample

Variable	Variables Categorie	Number	Percentage (%)
Sex group	Male	46	46
	Female	54	54
Age Group	15-25	28	28
	26-65	65	65
	66-75	7	7
Education	Bachelor's degree	47	47
	Diploma degree	30	30
	High school	23	23
Occupation	Civil Servants	29	29
	Entrepreneurs	38	38
	Students	22	22
	Other (Labor, farmers)	11	11
Income (month)	IDR 200,000 - IDR. 999,000	14	14
	IDR 1,000,000 - IDR 4,999,000	55	55
	IDR 5,000,000 – IDR 9,999,000	23	23
	> IDR 10,000,000	8	8

In the education level, 47 % of respondents are a bachelor, and 30% of them are the diplomas. The education level of respondents is good (77%), and can understand well the questionnaires that fill out. In Employment, 29 % of respondents are Civil Servants, and 38% of them are Entrepreneurs. Respondents who shop (67%) have a fixed income, so they have purchasing power. The fixed income of respondents 55% respondents IDR 1,000,000 – IDR

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4,999,000, and 23% of them have income IDR 5,000,000 – IDR 9,999,000. Minimarket respondents have a potential purchasing power of 78%, so this is an opportunity for minimarket management to increase their sales turnover using the right marketing strategy.

The growth of the minimarket business in North Sulawesi and other cities in Indonesia very fast drive by the increasing needs and attitudes of people who want to be practical in shopping coupled with the location of a minimarket that is increasingly approaching residential areas. In addition to the general minimarket established in residential areas, the supply of materials directly comes from distributors who are distributed directly to the warehouse or shop center (Fahirah, 2008). A minimarket is a shop-like place of business that has a maximum floor area of 200 m2, which sells direct goods for daily needs.

The test results of the research instruments are all valid and reliable. All items are valid questions having a value above the value of r-stat > r-table, and also, the value of r is higher than the critical value that is above 0.30 (>0.30). While the reliability test shows, all variables are reliable because it has Cronbach alpha values above the value of 0.60 or > 0.60 (Malhotra, 2007). The value of Reliability (Alpha Cronbach) of each variable is product quality (0.775), price discounts (0.734), and Servicescape decision (0.80). Because of the value of each statement on the variable of Product quality, Price discounts, and Servicescape Cronbach Alpha value >0.6 so it is declared Reliable.

Table 3. The Regression Result

Variable	Coefficient	t-stat	Prob
Constant	4.165	2.087	0.022
Product quality	0.257	2.051	0.032
Price discount	0.503	3.085	0.004
Servicescape	0.406	3.290	0.003
R-square	0.7016	F-stat	13.227

The formulation of the hypothesis test with the level of significance used in this study for 5 percent or $\alpha = 0.05$. The empirical result shows that from the t-test in Table 3 shows that all variables such as product quality, price discount, and servicescape have a positive impact on the customer purchase decision. The multiple linear regression equation as follows:

$$CPD_i = 4.165 + 0.257Pq_i + 0.503\ Pd_i + 0.406\ Sc_i + \varepsilon_i$$

The F-test in Table 3 shows that F-stat = 13,227 > F-table 3,12, hence it can conclude that product quality, price discounts, and servicescape have a positive impact on customer Purchase decision in minimarket. The coefficient of determination is the square of the correlation coefficient (R) or also known as R^2. The coefficient of determination serves to determine how much influence Product quality, Price discounts, and servicescape on customer purchasing decisions. From the empirical result in Table 2, it knows that the coefficient of determination or R^2 is 0.7016 or 70.16%. This result shows that Product quality, Price discounts, and servicescape simultaneously imply the variable of customer purchasing decisions by 70.16%.

So, product quality, price discounts, and servicescape have major implications for improving customer purchasing decisions because the quality of products that manage well, applied price discounts, and Servicescape enhancements expect to improve customer purchasing decisions. While the remaining 29.84% is the influence of other variables not examined outside the quality of Products and Servicescape.

The results of this study show that Product quality, Price discounts, and servicescape have a effect on the Purchase decision of minimarket customers in North Sulawesi. The results of this study fit according to the opinion of Grewal & Levy (2010) that green marketing as strategic efforts that can be done by the company's management to provide eco-goods and services to the target consumers. Another opinion is that green product development has various benefits to firms in terms of increasing sustainable environmental benefits and the awareness of the brand image of the firm (Yan & Yazdanifard, 2014). According to Ankit & Mayur (2013), most marketers use green advertising with pollution-free messages to attract consumers' attention; it can enhance their knowledge of the quality of the product.

The results of the analysis of the implementation of the strategy of product quality, price discounts, and servicescape on consumer purchasing decisions in the minimarket business that there is a positive and significant effect. Thus the application of the right strategy used by minimarket managers will be able to improve consumer-purchasing decisions. The retail business in North Sulawesi is currently overgrowing, so competition for buyers has become tighter. Some retailers are unable to compete that eventually had to be closed down because they were unable to attract consumer buying interest, for example, Coco supermarket, Borobudur supermarket, GIANT, and Circle K. They forced to close their businesses due to losses as a consequence of being unable to compete to get buyers due to very tight competition due to the fast-growing supermarket and minimarket businesses.

Product quality is one of the strategies implemented by retail businesses to attract consumers to buy and stay in business competition. Products as an essential part of the marketing mix contribute to improving business performance. Previous research on the practice of marketing mix shows a good impact on the implementation of the marketing mix with firm performance (Goi, 2009; Iskandar et al., 2015). Study shows that the adoption of marketing mix by the entrepreneur will enable them to have a competitive advantage to their competitors (Mukaila & Adefemi, 2011). Product quality can increase consumer confidence in the company and encourage interest in buying products for consumers. In terms of product, the company shall be more active in updating product information (Sari, 2017).

Servicescape from the results of this study has a positive and significant influence on consumer purchasing decisions. Servicescape refers to the style and appearance of the physical environment and also includes other elements of the service environment that shape the experience of a consumer (McDonnel & Hall, 2008). Servicescape is the differentiator and characteristic of a unified physical environment of the services offered and affects the perception of a consumer. An essential component of a servicescape, namely architectural design and related supporting elements.

In the current competitive environment, consumer preferences become very relied

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upon by companies to win the competition. The ultimate goal is the decision to buy products offered by retailers. Consumer purchasing decisions become something unique and essential because everyone's preferences for products offered by retailers differ. The results of this study indicate that consumer-purchasing decisions influence by Product Quality, Discounted Prices, and Servicescape (physical environment), and there are also other considerations according to the level of consumer interest. Purchasing decisions are the result of consumer selection of two or more choices of bids received by consumers (Schiffman & Kanuk, 2008). However, this result is different from the study by Amanah & Harahap (2018) shows that the price discount does not an impact on the purchase decision.

The competition in the minimarket and supermarket businesses is greatly influenced by the high level of consumer interest (Chen & Chang, 2012). Although the price is the key factor that consumers concerned the most (Nasution et al., 2019), however, other factors way consumers purchasing intentions such as attitudes, reference groups, and others (Chang et al., 2010). Other competition challenges are increased competition in the field of product marketing (product diversity) and lower prices (price discounts) among retail businesses due to advances in technology and information. Consequently, consumers are more interested in the best offers offered by retail businesses. For example, Indo Maret, Golden Supermarket, and Fresh Mart have their customer segments and market share that are loyal in making purchases (transactions) to meet the daily needs of customers. The consumers who are of a low-price sensitive are willing to pay more on the product than the variation of the price (Eze & Ndubizi, 2013).

The tight business competition for managers of minimarkets and supermarkets today causes the store or outlet managers are always required to be able to innovate to attract consumers, and their businesses have their advantages, meaning that the desire to shop for consumers remains high when they are in their shopping areas. At this stage, consumer purchases become something unique that is supposed to get special attention, because each consumer's buying preferences and interests for a product are always different and drive by the best offer, offered by managers. Performance seen from the speed, quality, service, and value the meaning of speed in the process of working that have reliable quality and excellent service and value see from the achievement of performance or not (Soegoto & Kadisi (2017). High-performance businesses differentiate on all that looks attractive to have, along with other independent activities that focuses effort on functional groups on essential and meaningful matters in the marketplace (Day, 1999).

Conclusion

This research conducts a study mainly on how the application of marketing strategies especially in the minimarket business in the face of very competitive competition with other parties, conducted in North Sulawesi, Indonesia. Several studies have conducted on supermarkets, but studies that specifically examine minimarkets are still lacking in number, especially for competition between minimarkets in Indonesia. The result of this research is that there is simultaneously and partially a positive impact of product quality, price discounts, and servicescape on customer purchasing decisions. Definite preferences on product quality, price discounts, and servicescape have a significant effect on consumer purchasing decisions. Consumers who visit feel happy because they feel minimarket service providers can meet their needs, this will affect consumers' impressions that will drive purchasing decisions. The right management strategy will improve consumers' decision to buy products, thereby increasing profits and maintaining business sustainability. Management should always have attention to product quality by combining the right price discounts and servicescape to increase purchases, high profits, and superior in competition.

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Effectiveness of Corporate Governance and Audit Quality: The Role of Ownership Concentration as Moderation

Natasya Adela Widani[1*], Yustrida Bernawati[2]
*Corresponding author

Abstract. *The case of corporate financial statement fraud committed by company management is a phenomenon that often occurs and occurs repeatedly. This condition is exacerbated by the involvement of external auditors to support the fraud. This study aims to determine the effect of corporate governance and audit quality and find out the ownership concentration moderating corporate governance and audit quality. This study uses moderated regression analysis and research samples on manufacturing companies listed on the Indonesia Stock Exchange in 2017-2018. The results of the study stated that corporate governance did not affect audit quality, and the presence of ownership concentration strengthened the effect of the effectiveness of corporate governance on audit quality. The implication of this research is to minimize earnings management practices. The effectiveness of corporate governance expects to run well and regulate the composition of ownership into something fundamental to implement.*

Keywords: *corporate governance, audit quality, ownership concentration*

JEL Classification: G32, G34

Abstrak. *Kasus kecurangan laporan keuangan perusahaan yang dilakukan oleh manajemen perusahaan merupakan satu fenomena yang sering terjadi dan terjadi berulang-ulang. Kondisi ini diperburuk dengan adanya keterlibatan dari auditor eksternal untuk mendukung kecurangan tersebut. Penelitian ini bertujuan untuk mengetahui pengaruh corporate governance dan kualitas audit serta mengetahui adanya konsentrasi kepemilikan memoderasi corporate governance dan kualitas audit. Penelitian ini menggunakan moderated regression analysis dan sampel penelitian pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2017-2018. Hasil penelitian menyatakan bahwa corporate governance tidak berpengaruh terhadap kualitas audit dan adanya konsentrasi kepemilikan memperkuat pengaruh efektivitas corporate governance terhadap kualitas audit. Implikasi dalam penelitian ini adalah guna meminimalisir praktik manajemen laba maka efektivitas corporate governance diharapkan dapat berjalan dengan baik serta mengatur terkait komposisi kepemilikan menjadi sesuatu hal yang sangat penting untuk dilaksanakan.*

Kata Kunci: *corporate governance, kualitas audit, konsentrasi kepemilikan*

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[1,2]Faculty of Economics & Business, Universitas Airlangga
E-mail: [1]natasya.adela30@gmail.com, [2]yustrida.bernawati@gmail.com
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Introduction

The case of corporate financial statement fraud committed by company management is a phenomenon that often occurs and occurs repeatedly. This condition is exacerbated by the involvement of external auditors to support the fraud. There are many cases of financial statement fraud involving the role of external auditors, the latest case in Indonesia which shocked the economic community, especially capital market investors in Indonesia, is the case of PT. Garuda Indonesia Tbk. Management of PT. Garuda Indonesia Tbk with KAP Tanubrata Sutanto Fahmi Bambang & Partners (Member of BDO International) recorded a net profit of USD 809.85 thousand. After an evaluation, it learns that there was collaboration between PT Garuda Indonesia Tbk and PT Mahata Aero Teknologi, wherein this case PT Garuda Indonesia Tbk recorded revenues in the form of receivables of USD 239,940,000. Of this amount, USD 28 million of which is the profit sharing that should pay by PT Mahata Aero Teknologi.

The involvement of auditors to support the practice of fraudulent financial statements by company management reduces the quality of the results of audits conducted by the auditor. Audit quality is a possibility (joint probability) where an auditor will find and report violations that exist in his client's accounting system (DeAngelo, 1981).

A good corporate governance organ is needed to limit the possibility of poor audit quality (AlQadasi & Abidin, 2018). Cadbury (2000) states that corporate governance is a set of regulations governing relations between shareholders, company managers, creditors, the government, and other internal and external stakeholders relating to their rights and obligations, or in other words, a system that directs and controls company. Good corporate governance experts to ensure that there is no misuse of company resources for personal or group interests can provide proper incentives for shareholders and management to achieve goals that are in the interests of the company and shareholders and must facilitate effective monitoring, thereby encouraging companies to use resources more efficiently (Adams et al., 2010).

Corporate governance expects it can minimize agency problems that occur between interested parties in the company (CGPI, 2001). Good corporate governance can minimize information gaps that occur from all stakeholders. Corporate governance emphasizes the principles of transparency, accountability, independence, accountability, and fairness encourages information disclosure for all parties, thereby minimizing the loopholes for company management to commit fraud to increase their prosperity (Ejeagbasi et al., 2015),

However, the implementation of corporate governance conducted by companies is more limited to the fulfillment of government regulations (Bédard et al., 2004). Therefore, effectiveness needed in implementing corporate governance. The effectiveness of corporate governance is a measure of success in meeting or achieving a set of goals related to company success. There are several components to realize the effectiveness of corporate governance, namely board size. Larger board size will be more valuable because of the breadth of member knowledge and its ability to provide more services and resources (Adeyemi & Fagbemi, 2010). Board independence, plays a significant role in increasing the effectiveness of corporate governance (Carcello et al., 2002). Board meetings reflects the effectiveness of the board (Johl et al., 2012). Financial expertise, the presence of board members with financial

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expertise, reflects their ability to fulfill their supervisory roles effectively (Wu, 2012), has strong governance (DeFond et al., 2005), and provides adequate financial reports (Aggarwal & Samwick, 2006). Besides, the effectiveness of corporate governance can form from the size of the audit committee; there is a positive relationship between the size of the audit committee and its effectiveness. Size, independence, financial expertise, and frequency impact the audit committee meetings (Kikhia, 2014).

Companies with effective corporate governance motivate management to implement corporate governance principles for the better. The high level of control and supervision arising from the effective management of corporate governance narrows the management of companies to commit fraud on the financial statements they compile. The existence of excellent supervision from directors and commissioners allows individuals in the board not to dare to take individual actions to commit fraud (Al-Thuneibat et al., 2011). Also, large audit committees with a financial capability make it difficult for company management to manipulate financial statements (Abbott & Parker, 2000). This condition is due to effective internal control of the many audit committees that exist and accompany by right financial expertise. Frauds of financial statements are easy to find and control when the audit committee has excellent financial expertise. Besides, high independence in the audit committee makes it possible for the audit committee to work professionally, making it difficult for company management to influence the audit committee to smooth the financial statements they make (Abbott et al., 2003).

The effectiveness of corporate governance that occurs within the company has an impact on improving the quality of financial statements produced by company management (Iqbal et al., 2019). The resulting financial statements are prepared through a series of strict control and supervision processes so that these processes can minimize the irregularities that occur, and the financial statements can be following the real conditions that occur. The lack of irregularities in the financial statements makes it easier for external auditors to conduct audits so that the quality of audits produced by external auditors is of good quality due to the minimal possibility of irregularities committed by the company (Hassan et al., 2014).

Research conducted by AlQadasi & Abidin (2018), and Awadallah (2018) provides empirical evidence that the effectiveness of corporate governance has a positive effect on audit quality. AlQadasi & Abidin (2018) and Awadallah (2018) state that companies with strong governance mechanisms are more likely to demand extensive external audit and pay higher audit fees as a representation of high audit quality. These results indicate that the effectiveness of corporate governance requires external auditors to be able to produce good audit quality in order to provide justice for all stakeholders.

Efforts by company management to implement effective corporate governance to produce good audit quality require support from shareholders. Shareholders, as the owner of the company, are expected to be able to carry out a good supervision process, so that the implementation of effective corporate governance can run well (Demsetz & Villalonga, 2001). Therefore, the form of concentration of corporate ownership contributes to the effective implementation of corporate governance. The concentration of ownership states the distribution of company share ownership (Shleifer & Vishny, 1986). Share ownership concentrate if most shares own by a small number of individuals or groups so that these shareholders have a relatively dominant number of shares compared to others. Share ownership needs to spread, and if share ownership spreads relatively evenly to the public, no one owns a vast number of shares compared to others (Dallas, 2004).

The distribution of company stock ownership also influences the company's management decisions. The owner, because there are rights, owns this in every company activity. The existence of these rights affects the process of policy decisions in the company. Ownership that concentrates on one individual or group makes it possible for owners to impose their will on the management of the company to improve their welfare so that the resulting policies tend to harm other shareholders. This has an impact on increasing agency conflict between owners from the high ownership gap in companies with concentrated ownership (Henry, 2010).

To realize effective corporate governance accompanied by strict supervision and control mechanisms, this can realize well if ownership concentration can distribute evenly (Gama & Rodrigues, 2013). Evenly distributed ownership allows each owner to have an equal opportunity to determine the policies that apply in the company. Equitable distribution of ownership encourages equal supervision by the owner of the company's management so that the possibility of a coalition of individual owners and shareholders to commit fraud on the financial statements can minimize. Besides, evenly distributed ownership creates strong supervision among fellow owners so that agency conflicts between owners can be resolved (Gama & Rodrigues, 2013).

Research conducted by AlQadasi & Abidin (2018) provides empirical evidence that ownership concentration moderates the effect of corporate governance effectiveness on audit quality. AlQadasi & Abidin (2018) shows that companies with a high concentration of ownership tend to demand lower audit quality than companies with a low concentration of ownership. Then companies with strong governance mechanisms are more likely to demand extensive external audits and higher audit quality. Companies with a low concentration of ownership show that the impact of the effectiveness of corporate governance on audit quality has a more substantial influence than the effect of the effectiveness of corporate governance for companies with a high concentration of ownership. The equation in this study is to look at the influence of internal corporate governance on audit quality, and the role of ownership concentration in increasing the influence of internal corporate governance on audit quality that will produce.

The rise of phenomena related to fraud in the company's financial statements motivates researchers to further study the importance of improving audit quality of each report produced by the company. The absence of a quantitative approach that is certain to measure audit quality encourages researchers to study it in terms of the management of accrual earnings contained in the company's financial statements. Companies with high accrual earnings management in their financial statements indicate as a form of poor audit quality produced by auditors due to earnings deviations from their proper conditions (Becker, DeFond, Jiambalvo, & Subramanyam, 1998). In addition, the dualism of perspective related to the ideal ownership structure in the company in order to improve company performance motivates researchers to study the form of ownership concentration to encourage the creation of the effectiveness of corporate governance. Agency conflict between owners due to the dominance of majority

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shareholders over minority shareholders creates a gap in the coercion of the interests of the majority shareholders on company management so that the coalition between them can reduce the quality of financial statements.

Besides, the dualism of perspective related to the ideal ownership structure in the company in order to improve company performance motivates researchers to study the form of ownership concentration to encourage the creation of the effectiveness of corporate governance. Agency conflict between owners due to the dominance of majority shareholders over minority shareholders creates a gap in the coercion of the interests of the majority shareholders on company management so that the coalition between them can reduce the quality of financial statements. Therefore, the researcher seeks to examine how evenly distributed ownership can increase the effectiveness of corporate governance in order to minimize all potential agency conflicts that occur so that the quality of financial statements increases and ends in increasing company performance.

Methods

This research classifies as descriptive quantitative research using a research approach, namely associative research. The population of this research is Indonesian manufacturing companies listed on the Indonesia Stock Exchange (IDX). Furthermore, this study uses a purposive sampling method. Of the 330 companies, there are only 129 companies that meet all the criteria. Data has collected from the company's 2017-2018 annual report.

The effectiveness of corporate governance explains by using eight components namely the size of the board of directors, the independence of the board of directors, board meetings, financial expertise of the board of directors, the size of the audit committee, audit committee independence, audit committee meetings, financial expertise of the audit committee. When the value of each component exceeds the median value, it will indicate that the company's efforts to comply with corporate governance are getting better. This condition will have an impact on management's efforts to carry out corporate governance to be more effective. Furthermore, the effectiveness component of corporate governance will be measured using principal component analysis (PCA) to produce a variable.

Audit quality uses a proxy for earnings management, which using discretionary accruals with the Jones modification approach. Modified Jones's model is a model widely used in various studies related to accounting.

The concentration of ownership illustrates the possibility that each owner has an equal opportunity to determine the policies that apply in the company. This study uses equity, which is a blockholder to measure the capacity of large shareholders and monitor controlling shareholders. Gama & Rodrigues (2013) explained the existence of evenly distributed ownership in a company could see through the difference between ownership that the high difference as measured by the sum of the squares of the difference between the first and second-largest shareholders, and the second and third largest shareholders.

In addition, this study uses the firm size control variable (ln of total assets) and leverage (total debts to total assets). The analysis technique used in this study is moderated regression analysis with the following equation:

Model 1 : Model along with independent variable

$$AQit = \alpha + \beta_1 GCG_{it} + \beta_2 size_{it} + \beta_3 lev_{it} + \varepsilon_{it} \quad (1)$$

Model 2 : Model along with moderation variable

$$AQit = \alpha + \beta_1 GCG_{it} + \beta_2 OC_{it} + \beta_3 size_{it} + \beta_4 lev_{it} + \varepsilon_{it} \quad (2)$$

Model 3 : Moderated Regression

$$AQit = \alpha + \beta_1 GCG_{it} + \beta_2 OC_{it} + \beta_3 GCG^*OC_{it} + \beta_4 Size_{it} + \beta_5 lev_{it} + \varepsilon_{it} \quad (3)$$

Result and Discussion

This research uses secondary data, which is data obtained or collected through certain sources. The data in this study obtained through manufacturing companies listed and published on the Indonesia Stock Exchange from 2017-2018. The descriptive statistical results in this study show in Table 1.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DA	129	0.001241	0.117720	0.041928	0.030874
GCG	129	0.000000	1.000000	0.418487	0.208745
OC	129	-0.855625	-0.000078	-0.298254	0.270979
SIZE	129	25.798610	33.473728	29.088704	1.599521
LEV	129	0.000055	0.648789	0.118804	0.109074
Valid N (listwise)	129				

Source: Data Processing

Based on the results of descriptive statistics in Table 1, it shows that the discretionary accrual (DA) has a minimum value of 0.001241 owned by PT Astra International Tbk in 2018 and a maximum value of 0.117720 owned by PT Indofarma (Persero) Tbk in 2018. The average value of companies owned by all sample companies is 0.041928, with a standard deviation of 0.030874. Corporate Governance (GCG) has a minimum value of 0.00000 owned by PT Charoen Pokphand Indonesia Tbk in 2018 and a maximum value of 1,0000 owned by PT Astra International Tbk in 2018. The average value of companies owned by all sample companies is 0.41848, with a standard deviation of 0.208745. The ownership concentration (OC) has a minimum value of -0.855625 owned by PT HM Sampoerna Tbk in 2018 and a maximum value of 0.000078 owned by PT Kalbe Farma Tbk in 2018. The average value of companies owned by all sample companies is 0.41848, with a standard deviation of 0.208745.

The size of the company has a minimum value of 25.79861 owned by PT Lionmesh Prima Tbk in 2018 and a maximum value of 33.447372 owned by PT Astra International Tbk in 2017. The average value of companies owned by all sample companies is 29.0887, with a standard deviation of 1.59952. Leverage (Lev) has a minimum value of 0.000055 owned by PT Merck Tbk in 2017 and a maximum value of 0.64878 owned by PT Panasia Indo Resources Tbk in 2017. The average value of companies owned by all companies until it is equal to 0.11880 with a standard deviation of 0.109074.

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Table 2. Normality Test Results

Note	N	Kolmogorov – Smirnov Z	Asymp. Sig. (2-tailed)	Conclusion
Model 1	105	1.140	0.149	Normal
Model 2	105	1.252	0.087	Normal
Model 3	105	1.089	0.186	Normal

Source: Data Processing

Information:

Model 1: Effect of the effectiveness of corporate governance on audit quality

Model 2: Moderation of ownership concentration on the effect of the effectiveness of corporate governance on audit quality

The Kolmogorov-Smirnov test results in Table 2 show that the Kolmogorov-Smirnov value in model 1 is 1,140 and significant at 0.149. The Kolmogorov-Smirnov value in model 2 is 1,252 and significant at 0.087. While the Kolmogorov-Smirnov value in model 3 is 1,089 and significant at 0.186. The results of the three models show that the linear regression model constructed in this study has normally distributed data.

Table 3. Multicollinearity Test Results

Variable	Model 1		Model 2		Model 3	
	TOL	VIF	TOL	VIF	TOL	VIF
GCG	0.989	1.012	0.988	1.013	0.418	2.392
OC	-	-	0.878	1.139	0.143	6.997
OC*GCG	-	-	-	-	0.124	8.053
SIZE	0.864	1.157	0.837	1.194	0.837	1.194
LEV	0.872	1.146	0.768	1.303	0.762	1.313

Source: Data Processing

Table 3 shows that the independent variables used in models 1, 2, and 3 have no symptoms of multicollinearity between the independent variables. This result shows from the VIF value <10 and tolerance value> 0.1, which means there are no symptoms of multicollinearity.

Table 4. Heteroscedasticity Test Results

Variable	Model 1	Model 2	Model 3
GCG	0.326	0.192	0.099
OC	-	0.089	0.572
OC*GCG	-	-	0.219
SIZE	0.419	0.439	0.551
LEV	0.366	0.765	0.604

Source: Data Processing

Table 4 shows that the significant value for all model variables is> 0.05. Then it can be concluded that all model variables are free from heteroscedasticity or do not experience symptoms of heteroscedasticity.

Table 5. Multiple Linear Regression Test Results

Variabel	Model 1		Model 2		Model 3	
	B	Sig	B	Sig	B	Sig
(Constant)	0.028	0.000	0.239	0.000	0.254	0.000
GCG	0.005	0.741	0.006	0.696	-0.026	0.266
OC	-	-	-0.023	0.076	0.029	0.357
OC*GCG	-	-	-	-	-0.127	0.073
SIZE	-0.007	0.003	-0.007	0.001	-0.007	0.001
LEV	0.050	0.122	0.071	0.038	0.065	0.053

Source: Data Processing

Table 5 shows that corporate governance and leverage has a positive effect on audit quality, and concentrated ownership and size has a negative effect on audit quality. While hypothesis 2 states that the concentration of ownership strengthens the effect of the effectiveness of corporate governance on audit quality. So the second hypothesis is accepted.

Based on the results of the hypothesis testing, the first hypothesis is that corporate governance has a positive effect on audit quality. These results are in line with research conducted by Awadallah (2018). The effectiveness of corporate governance that occurs within the company has an impact on improving the quality of financial statements produced by company management. The resulting financial statements are prepared through a series of strict control and supervision processes so that these processes can minimize the irregularities that occur, and the financial statements can be following the real conditions that occur. The lack of irregularities in the financial statements makes it easier for external auditors to conduct audits so that the quality of audits produced by external auditors is of good quality due to the minimal possibility of irregularities committed by the company.

Based on the results carried out in hypothesis testing, stated that the second hypothesis is the concentration of ownership to strengthen the effect of the effectiveness of corporate governance on audit quality. This result is in line with what was revealed by AlQadasi &Abidin (2018). Efforts to improve the effectiveness of corporate governance require support from shareholders so that the concentration of ownership can contribute to the implementation of effective corporate governance. To realize effective corporate governance accompanied by strict supervision and control mechanisms, this can realize well if ownership concentration can be distributed evenly (Gama & Rodrigues, 2013). Support from distributed ownership evenly for the implementation of sufficient corporate governance forces management to demonstrate its ability to improve the quality of its financial statements so that the financial statements can be accounted well to the owner. This condition has an impact on the strength of support from ownership that is evenly distributed to management to improve the quality of audits produced by external auditors

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through the low practice of manipulation by management (Gama & Rodrigues, 2013). The low practice of manipulation by management makes it easy for external auditors to audit evidence due to the absence of data that is hidden by company management.

Conclusion

The results of this study explain that the effectiveness of corporate governance has a positive effect on audit quality. Companies with effective corporate governance will produce financial reports following the conditions that occur and are free from fraud so that it will make it easier for external auditors to conduct audits and produce better audit quality. Besides, the concentration of ownership strengthens the effect of the effectiveness of corporate governance on audit quality. The concentration of ownership evenly distributed can increase the effectiveness of corporate governance. Evenly distributed ownership will encourage companies to improve the quality of their financial statements. This condition can have an impact on improving audit quality because of the low manipulation practices undertaken by management. With the low manipulation, it will make it easy for external auditors to conduct audits of financial statements. This research implies that in order to minimize earnings management practices, the effectiveness of corporate governance expects to run well and regulate the composition of ownership into something fundamental.

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Sustainable and Responsible Investment: Concept and the Commonalities with Islamic Financial Institutions

Muhammad Zarunnaim Haji Wahab[1*], Asmadi Mohamed Naim[2]
*Corresponding author

Abstract. *This paper aims to highlight the Sustainable and Responsible Investment (SRI) concept, similarities, and opportunities with Islamic financial institutions (IFIs), especially in Malaysia's perspectives. This paper is conceptual., thus the methodology used in this paper is qualitative, focusing on document analysis method by analyzing previous literature, books, reports, official website, and articles. Based on the analysis, SRI and IFIs share the same fundamental aim, which is to utilize the funds with high morals and ethics. Besides, the analysis also indicates that SRI and IFIs have shown significant growth over the last two decades and became the most rapidly growing sectors. In the context of the opportunities, both concepts can become a new value proposition and product innovation in order to capture the future preferences of investors and customers. The IFIs and SRI are capable of bridging the gap both entities considering their fundamental mutual aim, which is to utilize the funds through high morals and ethics.*

Keywords: *sustainable and responsible investment, Islamic financial institutions, product innovation*

JEL Classification: E22, G20

Abstrak. *Penelitian ini bertujuan untuk menyoroti konsep Investasi Berkelanjutan dan Bertanggung Jawab (SRI), persamaan, dan peluang dengan lembaga keuangan Islam (IFI), terutama dalam perspektif Malaysia. Studi ini merupakan artikel konseptual, sehingga metodologi yang digunakan dalam makalah ini adalah kualitatif, dengan fokus pada metode analisis dokumen dengan menganalisis literatur sebelumnya, buku, laporan, situs web resmi, dan artikel. Berdasarkan analisis, SRI dan IFI memiliki tujuan dasar yang sama, yaitu memanfaatkan dana dengan moral dan etika yang tinggi. Selain itu, analisis juga menunjukkan bahwa SRI dan IFI telah menunjukkan pertumbuhan yang signifikan selama dua dekade terakhir dan menjadi sektor yang paling cepat berkembang. Dalam konteks peluang, kedua konsep dapat menjadi proposisi nilai baru dan inovasi produk untuk menangkap preferensi masa depan investor dan pelanggan. IFI dan SRI mampu menjembatani kesenjangan kedua entitas dengan mempertimbangkan tujuan bersama yang mendasar, yaitu untuk memanfaatkan dana melalui moral dan etika yang tinggi.*

Kata Kunci: *investasi berkelanjutan dan bertanggungjawab, lembaga keuangan syariah, inovasi produk*

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[1, 2]Islamic Business School, Universiti Utara Malaysia, Sintok, Kedah, Malaysia.
E-mail: [1]zarunnaim@yahoo.com, [2]asmadi@uum.edu.my
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Introduction

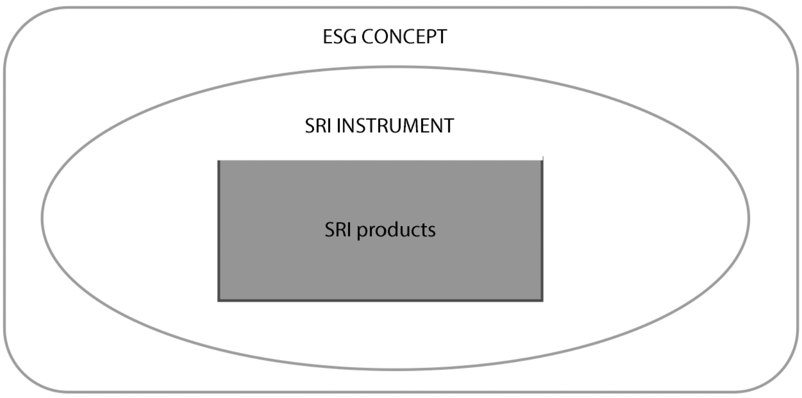
The Sustainable and Responsible Investment (SRI) concept has been gaining interest in the past few years, especially in developed countries. The United States of America (USA), Canada, Australia/New Zealand, and Japan are among the countries that show the significant growth of SRI assets in the world. For example, SRI represent USD 6.57 trillion, which is about one-sixth of funds in the USA until mid-2014, the assets including hedge funds, private equity, and over 300 mutual funds (Joan & Thomas, 2015), increasing 76% since 2012 (William et al., 2016). On the global performance, UN-PRI recorded over 1400 signatories under their management that amounted to USD59 trillion of the asset until April 2015 (PRI, 2015).

However, the excellent performance of SRI asset in developed-countries is not synchronizing with developing and under-developed countries where the practices and impacts of SRI have not been sufficiently explored yet from emerging economies countries (Ruhaya et al., 2018). Although the performance of the SRI asset is increasing, the number of growth relatively still small and inconsistent. In Malaysia, for example, until the end of 2018, the green SRI issuers under SRI Sukuk frameworks amounted to RM 2.4 million or around USD 0.59 million compared to 2017 amounted to RM 1.9 million, which increase around 44%.

Generally, the SRI concept promotes any investment portfolio that preserves the issues of environment, social, and governance (ESG) in the investment decision process without side-lining investors' financial objectives. This integration takes place via various approaches such as investment decision-making, transparency, collaboration, active ownership, and broader support for these practices from the entire financial services industry (Organisation for Economic Co-operation and Development (OECD), 2007).

There are several acronyms for "SRI," such as Social Responsible Investment, Sustainable, Responsible, and Impactful Investments; Socially Responsible Investments; and others. However, regardless of the term used, it reflects the same fundamental aims and goals. SRI is a generic terminology that includes any type of investment process that combines the concerns toward issues of ESG and the investors' financial objectives (Moghul & Safar-Aly, 2014).

Figure 1. Relationship between ESG concept and SRI instrument



Source: self-constructed

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Therefore, in driving the ESG concept, SRI are the main instrument or approach that has used to fulfill the ESG objectives. Besides, there are many investment products have been launched to support the SRI approach. Figure 1 shows a clear diagram about the structure between the ESG and SRI instrument.

On the other hand, with regards to the Islamic Financial Institutions (IFIs), Maqasid Shariah and Maslahah stands as the main objective to achieve while the operation and services of Islamic banks is the manifestation of the objective. The impacts of ignoring Maqasid Shariah and Maslahah will bring Islamic financial products to lose their intrinsic values and will become unacceptable in the global market. The application of the SRI concept has been practiced directly and indirectly by IFIs through several names and products offering since their establishment. It is because the main objective of IFIs services is to provide justice and social-welfare to society and human life (Dangulbi, 2012). Profit maximization not only to the main goals of IFIs, but it should attempts together with responsible, justice, and fair play at all levels of human interaction (Khan, 2002).

Islam is a divine revelation that embraces the whole aspect of human life, including economic and financial aspects. Islam also promotes a comprehensive and balanced development of the economy and emphasizes social welfare (Abbas & Askari, 2010; Mohamad et al., 2016). Moreover, this concept is in line with Maqasid Shariah (objective of Shariah) in Islam, which is to preserve the public good (maslahah) and promote the well-being of all humankind. At the same time, it is equally essential to omit evils or mischief (mafsadah) either from an individual or society because the maqasid will not consider valid unless it brings good and eliminates evils.

Since the SRI instruments are based on western philosophical perspectives while IFIs based on Islamic teaching, it is of considerable significance to investigate both concepts (SRI and IFIs) in terms of their commonalities and opportunities, therefore, this research is essential to bridge the two concepts, and in aspects alone they can work together to strengthen each other. Besides, the analyses in those matters are essential to ensure the future growth of SRI and IFIs are precise and guaranteed.

Moreover, this paper able to provide a clear understanding of another critical issue that should consider by IFIs, which refers to whether the practices of the concepts will fulfill the Shariah requirement or otherwise. Besides, this concern is in line with the views of Mohamad et al. (2016) and Marwan & Rabiah (2016), which mentioned that the IFIs requires careful identification and investigation regarding the desired social outcome. Overall, further work is needed to answer the issues considering that the SRI instrument cannot be simply adopted because it may raise the Shariah issue that will affect product offerings.

Based on the analysis in previous studies, there is a limited paper that links both concepts to analyze further. Most of the studies are based on one-dimension of views whether on SRI perspective or IFIs point of views such as studies by Wilson (2000); Shaikh (2014); Hebb et al. (2014); Joan & Thomas (2015); Ng (2019); Talan & Sharma (2019); and Ivanisevic (2019). Up to now, far too little attention has paid to the integration of more than one concept. Hence, this indicates that only a few published studies, which include the study of Michael & Iqbal (2013) and Saeed and Kabir (2013) that conducted an analysis based on the views of SRI and Islamic finance perspectives. However, no research has found that explored the commonalities and opportunities of SRI and IFIs practices. Thus, this paper will analyze the integrations of SRI and IFIs, especially in terms of their commonalities and opportunities for those concepts.

Besides, SRI are a relatively new concept in the Islamic finance industry. Hence there are scarce sources of information regarding the concept with limited knowledge detailing its exact characteristics and practices. Besides, most of the people, including the industry players and academicians, are still not familiar with the SRI concept (Marwan & Rabiah, 2016). Hence, further research is needed to strengthen the current literature by providing empirical findings to support the past literature on SRI from the global and Malaysia's perspective. Proper findings on the current practices of SRI will provide a significant influence on the industry towards better management of these products. Thus, this paper also enlightens some aspects of the SRI concept from the global and Malaysian perspective.

The contribution of this research, such as, first, on behalf of the regulatory bodies (policymakers), this paper can offer the current data and information in the SRI and IFIs industry. Thus, policymakers can utilize the outcome of this research to make a better decision-making process. Moreover, the present study perhaps will help the regulatory bodies and policymakers to formulate strategies to develop and improve the current growth rate of SRI and IFIs industry by offering several initiatives such as through tax deduction, budget allocation, comprehensive guidelines, and others. Second, on behalf of the investors, the findings of this paper will provide valuable inputs in guiding them to make investment decisions. For example, information such as opportunities for both concepts will give valuable knowledge in choosing the right investment portfolios. Third, on behalf of the academicians, this paper will help to add the current academic literature specifically on the SRI concept that is still limited today.

Therefore, the paper organized as follows: after the introduction section, the next section discusses the methodology used in the present paper. While, next section is the finding and discussion part including definition of SRI concept and it's performance around the world, SRI development as well as the current performance of SRI in Malaysia. Besides, this section also discuss related to the commonalities and opportunities between SRI and IFIs. The final section presents the conclusion and implication of the study.

Methods

The research methodology is a systematic way to solve a problem. In other words, it is a science of studying how research should carry out. Essentially, the procedures whereby researchers carry out their work of describing, explaining, and predicting phenomena are called research methods. Subsequently, the qualitative employed in the present study. According to Creswell (2013), qualitative research explains everyday, problematic moments, and meaning in individual lives through empirical materials such as case study, personal experience, interview, observational, visual text, and others. Meanwhile, it is essential to note

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that all sources of data can be in the form of manuscript, newspaper, diary, picture, official and personal letter, and artifact. Moreover, it can also describe people using the method of the interview, which is then analyzed using ethnography (Bruce, 2001). Therefore, this paper applied the qualitative research method through document content analysis approach in order to answer the objectives of the current paper progressively.

More importantly, this approach allows the present study to collect data in the form of appropriate books, journals, reports, and other publications. Besides, data collected from recognized websites that discuss several issues related to the research objectives: inter alia, ESG, and SRI concepts which are associated with the Islamic teaching, links between the objectives and principles of ESG, SRI and Islamic financial institutions, the similarities between SRI and IFIs practices, and the opportunities for product innovations in Islamic financial products and services. The researchers were also engaged in seminars, forums, and various industry talks in order to understand the subjects of the present study further.

Result and Discussion

This section discusses six sub-topics, which are the definition of SRI and it is a performance around the world, the development of SRI in Malaysia, the current performance of SRI in Malaysia as well as similarities and the prospects between SRI and IFIs that can identify in this paper.

Definition of SRI Concept

No fixed term of SRI has achieved, despite the various acronyms that have been proposed by previous studies. The term of SRI has adopted several acronyms such as socially responsible investments (Syed, 2017; Michael & Iqbal, 2013; Endl, 2012; Renneboog et al., 2008; Statman, 2008; Abramson & Chung, 2000), sustainable, responsible and impactful investments (Centre for Islamic Wealth Management, 2015), and sustainable and responsible investment (Securities Commission Malaysia, 2014; Marwan & Rabiah, 2015). However, whichever term is using reflects the same fundamental aims and goals involving any type of investment processes underlined by investors' financial objectives and concerns toward the issues of ESG (Moghul & Safar-Aly, 2014).

This paper concluded to use sustainable and responsible investment (SRI) as the sole term due to several reasons. Firstly, most of the global institutions, authority' bodies such as Bank Negara Malaysia (BNM), referred to SRI as a sustainable and responsible investment. The term deems as suitable to accept for the international readers, and any changing a well-known acronym will inflict conflict on the reader. In detail, a standard definition of SRI is: "Integrating personal values and societal concerns with investment decisions" (Joan & Thomas, 2015; Statman, 2006; Shank et al., 2005; Schueth, 2003). SRI also has defined as an investment strategy that emphasizes the combination of financial return with other social and environmental benefits (Kassim & Abdullah, 2017; Brzeszczynski & McIntosh, 2014; Fung & Yau, 2010).

On the other hand, sustainable investing is an investment approach that combined financial objectives with the concerns on environmental, social, and governance (ESG) factors in portfolio selection and management (Saeed & Hassan, 2013). SRI refer to investing based on social criteria, such as avoiding controversial industries involving tobacco, alcohol, or gambling. Generally, SRI has developed to enhance the investment decision-making by considering social well-being as well as profit factors. Endl (2012) and Ruhaya et al. (2018) stated that SRI had encouraged corporate practices that promote issues such as environmental stewardship, sustainable use of natural resources, customer protection, quality of labor, and jobs.

Therefore, SRI can conclude as an investment instrument with specific unique purposes. Generally, the main aim of SRI is to rollout the projects related to the ESG and provide more concerns towards the issues. Besides, the objectives of the investors remain as one of the goals for the project involved.

Snapshot of World Performance on SRI

Currently, SRI shows significant growth, especially in developed countries. According to the Global Sustainable Investment Alliance (2016), the total asset managed by SRI globally reach USD 22.9 trillion in 2016, increased by 25.2% compared to USD18.3 trillion in 2014. From the total global assets, Europe still leads at USD12, 040 billion in 2016. This condition follows by United States (USD8, 723 billion), Canada at USD1, 086 billion, and Australia/ New Zealand amounted to USD247.5 billion, respectively. The SRI global asset estimates could reach around USD 34 to USD53 trillion by 2025 (Barclays Report, 2014) with the popular areas in the environment and its preservations (World's Islamic Finance Marketplace Report, 2016).

In terms of growth, which recorded SRI assets from USD7 billion in 2014 to USD474 billion in 2016 and the compounded annual growth rate of 724%, Japan is the world's fastest-growing country in SRI. One of the exciting trends in Japan is that the participation of individual (retail) investors' higher than the participation of institutional investors. In 2016, the SRI asset of Japanese institutional investors was ¥56.25 trillion, while the individual investors were ¥57.05 trillion (Japan Sustainable Investment Forum, 2015). Besides, Australia/New Zealand also shown a clear shift towards SRI instruments is where the total managed asset increased substantially from only 16.6% in 2014 to 50.6% in 2016.

In terms of the type of investors, Michael & Iqbal (2013) stated that the highest demand of the SRI industry comes from institutional investors that driver of market growth. However, this trend has slowly switch when the growth of retail investors' assets has increased from 13.1% in 2014 to 25.7% in 2016. While, the institutional investor owning reduced from 86.9% in 2014 to 74.3% in 2016 (Global Sustainable Investment Alliance, 2016). Based on the data, it can conclude that the performance of the SRI asset is increasing significantly all over the world. Besides, this growth also indicates that the future of SRI a bright, and the investors and stakeholders nowadays became more aware of the ethical investing, especially to overcome the issues of environment, social, and governance to ensure future sustainability.

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The Development of SRI in Malaysia

In Malaysia, the SRI was concept that officially announced by the former sixth prime minister of Malaysia in 2014's Budget Speech on 25 October 2013. In his speech, the prime minister affirmed Malaysia's aspiration to become a home for SRI through Sukuk products. He also called for enhancement efforts to promote the country as a home for SRI in order to maintain Malaysia's position as a leader in the Islamic capital market and improve the country's competitiveness in the global ranking. The efforts included RM1 billions fund allocated for companies with high ESG Index (Wahab & Naim, 2019).

Thus, the Securities Commission (SC) revised its Sukuk guideline in August 2014 by incorporating new requirements for the issuance of SRI Sukuk. Part E, Chapter 20 of the Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors clearly explains the objective of SRI Sukuk for projects that aim to preserve and protect the environment and natural resources, conserve the energy use, promote renewable energy, reduce greenhouse gas emission, and improve the quality of life for the society. The guideline also highlighted the details of the project for each component, as well as the assessment and disclosure requirements for the issuer (Securities Commission, 2015).

Among the objectives of the launched SRI Sukuk guideline are to meet the demand of retail and investors' needs, which is to access a broader range of investment products and facilitate greater participation in the Sukuk market. Besides, the guideline also plays a role as an indication of growing concerns over the environmental and social impact of business; and higher demand for more robust governance and ethics from businesses. Besides that, this SRI Sukuk also to facilitate the creation of a conducive ecosystem for the SRI investors and issuers (Securities Commission Malaysia, 2014).

On 22 December 2014, the SRI Index launched by Bursa Malaysia that known as the FTSE4Good Bursa Malaysia (F4GBM) index alliance with the Financial Times Stock Exchange as part of the worldwide FTSE4Good Index Series. The index also aligned with other leading global SRI frameworks such as the GRI and the Carbon Disclosure Project. Through this initiative, the player in the industry, such as the investors, shareholders, and clients expect the companies will provide a greater responsibility and transparency in their investments. Furthermore, government Malaysia through Valuecap Sdn. Bhd. Which is one of the government-linked investment holding company allocate RM one billion to create an SRI fund used to buy shares from the Bursa Malaysia SRI index (Ruhaya et al., 2018).

The development of SRI in Malaysia continues when the Malaysian Government through their agencies such as SC, Bank Negara Malaysia (BNM), Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) and GreenTech Malaysia actively launched several initiatives to promote SRI as a new hub of investment instrument to the local and international investors. Among the initiatives were introduced as the guidelines and frameworks, tax deduction, tax incentives, and financing incentives scheme.

Current Performance of SRI in Malaysia

The SRI industry has grown immensely, as illustrated by the increase in the number of investors and the number of assets under its management (Marwan & Rabiah, 2015). Besides, financial products based on the SRI concept have strong demand and good growth potential. This argument support by Marwan & Rabiah (2015) and the World's Islamic Finance Marketplace Report (2016), which stated that the global SRI has a massive potential due to the rapidly growing demand despite still being a nascent industry.

In Malaysia, SRI through Sukuk products has shown rapid growth. On 18 June 2015, Khazanah National Berhad (Khazanah) issued Malaysia's first SRI Sukuk with a value of RM100 million and a periodic distribution rate of 4.30% per annum. The structured Sukuk offer under a new method of "Trust Schools Programme" fund under the capital market. Funding from the SRI Sukuk has utilized to fund 20 schools under Yayasan AMIR's (YA) Trust School Programme. YA is a non-profit organization under Khazanah, which establish to improve the quality of education in Malaysian public schools (World's Islamic Finance Marketplace Report, 2016). Khazanah, on 13 June 2017, announced its intention to issue another RM100 million of SRI Sukuk as a continuation of the first SRI Sukuk to roll out more schools under the Trust Schools Programme. The second SRI Sukuk is part of Khazanah's continuing efforts to push innovation in Islamic finance and support Malaysia's position as a global Islamic financial center.

In July 2017, Tadau Energy Sdn. Bhd. is one of the renewable energy and sustainable technology investment firm issued the world's first green Sukuk under SC's SRIs Sukuk Framework amounted to RM250 million. This project indicated that the successful collaboration between SC, Bank Negara Malaysia, and the World Bank in their efforts to facilitate the growth of SRIs Sukuk and bring more awareness to the market.

Following the success of Green SRIs Sukuk Tadau, Quantum Solar Park Malaysia Sdn Bhd launched the world's largest green SRI Sukuk amounted to RM1 billion in October 2017 to fund the construction of Southeast Asia's largest solar photovoltaic plant project in three districts: Kedah, Melaka, and Terengganu. This project is the largest solar power project of its kind in South-East Asia and will generate about 282,000MWh of electricity to Tenaga Nasional Bhd yearly for 21 years. By the end of 2017, Malaysia saw the issuance of four green SRI Sukuk, totaling RM3.5 billion to finance solar projects and green buildings (Capital Market Malaysia, 2018).

The growth of SRI in Malaysia continues when the companies such as PNB Merdeka Ventures Sdn Bhd (December 2017), Sinar Kamiri Sdn Bhd (January 2018) and UiTM Solar Power Sdn Bhd (April 2018) starts to issuer their projects under the SRI Sukuk guideline. Until the end of 2018, the Sukuk issuers under SRI Sukuk frameworks up to RM882.3milions from the issuers of three megaprojects (Securities Commission Annual Report, 2018). This achievement indicated that SRIs in Malaysia have a bright future to be grown.

The Commonalities between SRI and IFI

Generally, SRI and Islamic finance share the same fundamental aim, which is to utilize the funds with high morals and ethics. SRI use funding and investment activities to express

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individual and institutional values or advance the institution's mission (Caplan et al., 2013) Besides, SRI investing also aims to improve investment performance, outcomes and the benefits to the society through varieties of the social program such as to overcome the issue of poverty, unemployment, homeless, healthcare, criminal offending and others (Marwan, 2015). This motion contradicts the traditional conventional finance practice, which mainly focuses on maximizing the profits. However, the contradiction with conventional practice does not mean SRI and Islamic finance practices sidelined the profits generation purposes. Both concepts do not only focus on economic returns but also emphasize on the social returns from the practices that are compliant with their beliefs and ethics.

SRI is a moral investment initiative based on the belief system that an institution should be observed the ESG issues despite the financial consequences. These approaches will use the specific fund to solve the societal problem (Kassim & Abdullah, 2017). Hopefully, it will give positive impacts to the environment in particular and the society at large such as pollution control, alleviating poverty, providing necessary infrastructures, among other schools and hospitals, avoiding corruption and other social problems. Besides that, Caplan et al. (2013) added, SRI investing activities on social criteria also refers to avoiding controversial industries/investment such as tobacco, alcohol or gambling based on specific moral or ethical guidelines. Therefore, SRI has developed to enhance the investment decision making to consider the factors ESG issues, social well-being as well as profit generated through a set of approaches included a selection of specific investment, retention and rejection process.

On the other hand, IFI derives from Islamic law that comprises a set of principles and requirements that should be followed by the followers. IFI very concerns with the specific principles that embedded in their daily operation such as fairness, equality, and ethics that led to social well being (Ziauddin, 2003; Laldin & Furqani, 2013; Syahiza et al., 2015). Besides, IFI also emphasizes social justice and economic prosperity for the society as well as encourages sustainable economic activity.

Besides, the establishment of IFI also aims to fulfill the Maqasid Shariah (Objectives of Shariah) and maslahah (public good). Maqasid shariah can divide into two elements, which are attracting the benefit and maintaining those benefits. Another dimension for Maqasid Shariah by determining the focus of maqasid on human lives is to the protection of religion, lives, intellect, lineage, and wealth (Al-Kaylani, 2009; Laldin & Furqani, 2013). In this context, IFI closely related to the protection of religion and wealth. The functions of IFI, among others, to ensure the circulation of Muslims' wealth are secured, justice distribution, well managed, and others. Besides, in the context of religion protection, IFI also responsible for ensuring that any transactions manage by them are free from any elements that prohibited in Islam, such as the elements of usury, gambling, and uncertainty. Through this approach, the IFI able to guaranty that the protection of wealth and religion always became their priority in dealing with daily operation transactions.

Therefore, the objectives of SRI and IFI have clearly illustrated as a socially responsible financial tool that is in line with the Islamic concepts of Maqasid Shariah and Maslahah (Dusuki, 2005; Laldin & Furqani, 2013). Regarding this matter, issues such as the preservation of life, improvement of life quality, and preservation and promotion of mind/intellect of youth directly related to the Dharruriyat (necessities) of Maqasid Shariah. Apart from that, the SRI concept also denotes the principles that promote socio-economic justice, repulsion of harm, and encouragement of the practice of ethics and morality in financial practice, which is in line with Islamic principles (Wahab & Naim, 2018).

Next, SRI and IFI also shared the similarities in terms of growth rates. Islamic finance and SRI have been two of the most rapidly growing areas of finance over the last two decades. During this period, those industry's growth rates have substantially exceeded the financial market's growth rates as a whole (Michael & Iqbal, 2013). The total current assets of IFI globally have increased from USD1.4 trillion in 2015 to USD1.5 trillion in 2016 (Islamic Financial Services Board Report, 2017). The total current assets are estimated to continue growing and will reach USD1.8 trillion by the end of 2020, recording 16% to 17% year-over-year (y-o-y) growth. The Islamic banking sector has been leading the growth with almost 93% share of the global IFI in 2020 (Islamic Financial Services Board Report, 2017).

There is the same correlation with the growth of SRI assets. For example, in 2013, the total volume of assets held by explicitly SRI investors exceeded US$3 trillion, having increased by more than 30 percent since 2005. At the end of 2015, the total asset managed by SRI globally has reached USD22.9 trillion, increased by 25.2% compared to USD18.3 trillion in 2014 (Global Sustainable Investment Alliance, 2016). In both instances, the growth indicates that investors seek to achieve a healthy return on their investments; and similarly, they also concern about social returns to society and not only real economic return. Thus, SRI and IFI could broaden its investment portfolio by connecting these overlapping core values in order to access a large amount of SRI and IFI funds globally available today.

The Opportunities

In ensuring that the IFI will continue to grow in a highly competitive market, a new value proposition needs to formulate to capture the future preferences of investors and customers. Product innovation is one of the tools created in the new value proposition for IFI. The continuous and concerted efforts needed in order to provide a new direction for the Islamic finance industry through innovative financial propositions. It will bring the industry towards contributing to the social responsibility-based activities development agenda. This effort will not only from the introduction of innovative products but would also help in sustaining its growth by participating in the various portfolio.

Currently, IFI expects to play more effective intermediation functions, display better asset quality, and not only focus on managing funds. IFI asks to serve a better outcome to human well-being, such as providing sufficient efforts in risk-sharing and socially responsible activities, including responsible financing, embracing ethical investment, social impact financing, helping to alleviate poverty, and providing socio-economic security to the people. IFI has also asked to give more focus on Islamic social paradigm activities instead of being stuck in commercial intermediary functions.

In this regard, SRI Sukuk has a high potential to be developed as an innovative Islamic

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financial instrument that can use to address specific community and social issues. Besides, SRI Sukuk also would help to enhance Islamic finance towards realizing its underlying philosophy of economic justice and social balance. Therefore, the SRI concept can be one of the new value propositions for IFI. Some researchers claimed SRI as one of the best product innovations in the Islamic capital market (Marwan & Rabiah, 2015; Mohamad et al., 2016).

However, the Islamic finance industry should make a proper decision before actively involved in these concepts, although the global practices highly encourage SRIs and green bond concepts in their investment portfolios. IFI should consider the Shariah risk issue as to whether the practices of those concepts will fulfill the Shariah requirement. For example, Mohamad et al. (2016) mention that the IFI need to conduct careful identification and investigation of a desired social outcome. Simply adopt the SRI concept may raise Shariah issues that will affect the product offerings.

Conclusion

The Islamic finance industry has shown rapid growth over the last two decades. However, there are still enormous rooms for improvement to achieve the industry's full potential. This condition is possible by raising their efforts to improve society and address issues such as poverty and socio-economic security besides the initial effort to achieve profits. The emergence of innovative financial tools such as SRIs that promote social impact on top of financial returns may become an avenue for Islamic financial institutions to improve. On the other hand, SRI can be one of the tools to diversify the financial portfolio in Islamic financial institutions. Moreover, SRI also contributes towards the social impact project and strengthens the Shariah requirement by fulfilling the principles of Maqasid Shariah and Maslahah. Hence, continuous efforts are needed from the authorized body in the Islamic financial industry to facilitate the development of SRI. The ideas and objectives of SRI need to be promoted further in order to create greater awareness and attract more interest in the market.

Thus, this paper concluded that SRI and IFI have their strength and opportunities that can utilize each other. For IFI, it is the right time for them to bridge the gap between Islamic financial theory and practice by developing and utilizing tools that embody the principles of Islamic finance through the SRI concept. For SRI perspectives, as the newcomer to the industry with the excellent growth rate especially in developed and developing countries, SRI can play the vital roles to educate and create awareness among the investors, managers, and others to consider the issues of ESG in their investment decision portfolios.

Several limitations can identify in this study. First, in the broad idea, this research focuses on Malaysia's perspective, but undeniably, the finding might be useful to international practices. However, many data obtained from previous studies generate from international papers due to the lack of data from local research. Second, this paper purely bases on previous studies in nature. Thus it is possible to the researches that might be overlooking the more precious papers that very related to the topic.

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Maqashid Sharia Implementation in Indonesia and Bahrain

Erik Nugraha[1], Lucky Nugroho[2*], Citra Novianti Lindra[3], Wiwin Sukiati[4]
*Corresponding author

Abstract. *This study aims to analyze the performance of Islamic banking in Indonesia and Bahrain from the perspective of the maqashid shariah index. Performance is the success of an organization in implementing its strategy so that its achievement on the targets set. Maqashid shariah is a measurement of Islamic banking performance following the objectives and characteristics of Islamic banking. The research method used is descriptive and comparative methods, while the data analysis technique used is the independent t-test. The results of this study are that there is no significant difference between the application of Islamic maqashid in Indonesia and the implementation of Islamic maqashid in Bahrain. Thus, the application of Islamic values and the application of sharia maqashid has been integrated with Islamic bank business activities so that different government policies or regulations because each country has a specific constitution, then the impact is not significant or does not affect the implementation of sharia maqashid on operational and business activities in Islamic banks.*

Keywords: *maqashid shariah index, Islamic bank, government regulation*
JEL Classification: G21, L25

Abstrak. *Penelitian ini bertujuan untuk menganalisis perbandingan kinerja perbankan syariah di Indonesia dan Bahrain ditinjau dari maqashid shariah index. Kinerja adalah keberhasilan personel, tim atau unit organisasi dalam mewujudkan secara strategik yang telah ditetapkan sebelumnya dengan perilaku yang diharapkan. Maqashid shariah adalah pengukuran kinerja perbankan syariah yang sesuai dengan tujuan dan karakteristik perbankan syariah. Metode penelitian yang digunakan adalah metode deksriptif dan komparatif, sedangkan teknik analisis data yang digunakan adalah independent t-test. Hasil penelitian ini adalah tidak ada perbedaan yang signifikan antara penerapan maqashid Islam di Indonesia dan implementasi maqashid Islam di Bahrain. Dengan demikian, penerapan nilai-nilai syariah dan penerapan syariah maqashid telah terintegrasi dengan kegiatan bisnis bank syariah sehingga berbeda kebijakan atau peraturan pemerintah karena masing-masing negara memiliki konstitusi tertentu, maka dampaknya tidak signifikan atau tidak mempengaruhi implementasi syariah maqashid pada kegiatan operasional dan bisnis di bank syariah.*

Kata Kunci: *maqashid syariah Index, bank syariah, peraturan pemerintah*

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[1,3,4]Universitas Sangga Buana Jl. PPH Mustofa, Bandung, West Java, Indonesia
[2]Universitas Mercu Buana, Jl. Meruya Selatan, No. 1, Jakarta, Indonesia
E-mail: [1]erik.nugraha@usbypkp.ac.id, [2]lucky.nugroho@mercubuana.ac.id, [3]citralindra21@gmail.com, [4]wiwin.sukiati@usbypkp.ac.id
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Introduction

The development of Islamic economics in Indonesia took place so rapidly in recent decades. This is likely to be influenced by several factors, namely: economic, political, social, cultural, geographical and security stability and also the presence of legislation in the field of Islamic economics, among others, which is quite phenomenal is the issuance of Law Number 19 of 2008 concerning Sukuk State and Law Number 21 Year 2008 concerning Islamic Banking. Islamic banking in June 2018 showed positive growth and an improved intermediation function as indicated by an increase in assets, an increase in the amount of financing disbursed, and also third-party funds, which were higher than the same period in the previous year.

The Islamic banking sector is one of the determinants in the development of the sharia financial industry (Jannah & Nugroho, 2019; Nugroho et al., 2019; Nugroho, Kuncoro, & Mastur, 2019). Even so, when viewed from the number of assets, capital adequacy ratio (CAR-capital adequacy ratio), profitability ratio (ROA-return on assets), and a decrease in bad loans (NPF-Non Performing Financing), Islamic banking data in 2014 to 2018 show a positive trend. Furthermore, when viewed through total Islamic banking assets, according to the Ministry of Finance data until April 2018, total Islamic banking assets in Indonesia reached Rp 435 trillion or 5.79 percent of the total assets of the national banking industry.

The characteristics of the Islamic banking system that operates based on profit-sharing principles provide an alternative banking system that is mutually beneficial to the public and banks. By providing a variety of products and various banking services with more varied financial schemes, Islamic banking has become a credible alternative to the banking system. Thus, all classes of people, without exception, can access the impact of various products and various services, Islamic banks. The Koran has provided several emphatic examples of economic problems, which emphasize that economics is one area of concern for Islam or commonly mention with muamalah (Choudhury & Hoque, 2006). Performance measurement of the leading financial indicators of banks is essential because performance measurement is an indicator of achievement that has been carried out in its operational activities so that the indicator can show the excellent performance condition of a bank.

One of the challenges in the development of Islamic banking is the absence of financial performance measurement tools that are by the characteristics and objectives of Islamic banks, which are also different from conventional banks. According to (Ghifari et al., 2015), there are still many measurements of the performance of companies in the global world, including Islamic banking, which use financial ratio measurements such as Data Envelopment Analysis (DEA), Return on Assets (ROA) and Return on Equity (ROE), where these measurements are only intended to determine the benefits that can be generated by the company or bank. Some previous researchers said there were challenges in measuring the performance of Islamic banks, which included the following: *First*, regarding previous research that it is still difficult to distinguish characteristics between Islamic banks and conventional banks to establish the appropriate different financial indicators (Arafah & Nugroho, 2016; Zaman & Movassaghi, 2002). That is because there are differences in views about Islamic finance, primarily related to Islamic banks functioning as intermediary financial institutions in the community so that it is necessary to adjust to the environment and local regulations (Hawary et al., 2013). *Second*,

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referring to the results of previous studies which stated that in measuring the performance of Islamic banks is certainly not the same as measuring conventional banks, because both are different in their objectives and operational characteristics (Asutay & Harningtyas, 2015; Omar & Taib, 2015; Rusydiana & Parisi, 2016; Syafii et al., 2012). *Third*, some conditions also indicate that the regulator in the local country has not seriously addressed the primary objectives of Islamic banking itself. Therefore, the existence of Islamic banking performance measurement indicators is still using conventional measurement tools that only focus on financial measurement (Zarrouk et al., 2016). Thus, there is a need to develop Islamic banking performance measurements that are following Islamic (Ahmad & Hassan, 2007). Referring to research conducted by Syafii et al., (2012), stated that the performance of Islamic banking in Indonesia in terms of the implementation of maqashid sharia has a better performance when compared to the performance of Islamic banks in Jordan.

Furthermore, according to Omar & Taib (2015), Islamic banks are banks that have a focus not only on the financial aspects but also have a focus on social aspects, environmental aspects, and spiritual aspects. Therefore, with these different objectives, the performance measurement of Islamic banks must also have a specific approach, one of which uses the maqashid sharia index. So far, the maqashid sharia index (MSI) model has been widely applied in subsequent scientific studies to measure the performance of Islamic banking in various countries including Indonesia. Some studies that use the maqashid sharia index on Islamic banking are Firmansyah, (2018); Rusydiana & Firmansyah, (2018); and Sudrajat & Sodiq, (2016). These studies are indications that Islamic banking can not only be measured through financial performance with conventional measurements, but as an Islamic business entity. Therefore,Islamic banks can also be measured in terms of the implementation of sharia values and the implementation of sharia maqashid has been carried out by Islamic banking with optimal.

Islamic banking requires a measuring tool in terms of sharia objectives (maqashid shariah) to assess the extent to which performance has been achieved and must comply under Islamic principles in its operations, especially in terms of the objectives of the Islamic bank itself. The purpose of Islamic banks is not limited to financial aspects but also must consider other aspects such as the social aspect, environmental aspect, and spiritual aspect (Nugroho & Tamala, 2018). Based on the Law of the Republic of Indonesia No. 21 of 2008 concerning Islamic banking, “The purpose of Islamic banks is to support the implementation of national development to improve justice, equality, brotherhood and equitable distribution of people’s welfare.” Thus, to achieve these national development goals, Islamic banking must, in its operations, adhere to the principles of sharia comprehensively and in totality (kaffah), as well as consistently (istiqamah).

Maqashid shariah is the objectives that are to be achieved by Islam religion, which is implemented in the daily life of a Muslim. Therefore maqashid sharia becomes one of the crucial concepts in the study of Islamic law, and also in research related to Islamic banks. Regarding Nugroho et al., (2017) dan Satibi et al., (2018), Implementation of maqashid sharia must be carried out by a Muslim in fulfilling his daily life where the main determinant factor to meet the needs of life is maslahah. Nevertheless, the concept of maslahah is the goal of the actions of a Muslim to benefit all God’s creatures. Therefore, in line with the concept, there are three important aspects to measure the performance of Islamic banks based on Islamic Maqashid. The three aspects of maqashid sharia include Tahdzib al Fard (education), Iqamah al-adl (justice), and Jalb al-maslahah (welfare). Then the three elements are transformed into a ratio to assess the performance of Islamic banks (Sarif et al., 2017).

The implementation of Islamic bank operations cannot be separated from the application of accounting standards. Indonesia and Bahrain use sharia standards and AAOIFI accounting standards as a basis for guidelines in the preparation of sharia standards and sharia accounting standards. AAOIFI is an Accounting and Audit Organization for Islamic Financial Institutions, which is an organization founded in 1991 and based in Bahrain. AAOIFI is a non-profit organization that focuses on developing and publishing accounting standards for the global Islamic financial industry, including Islamic banks. One of AAOIFI's objectives is to disseminate accounting standards and relevant audit standards in Islamic financial institutions whose training is through training, seminars, magazine publishing, organizing training, and other facilities. AAOIFI carries out these objectives to conform to the comprehensive teachings of Islamic Sharia in all aspects of life and following the environment in which Islamic financial institutions are located. Also, Indonesia and Bahrain are the countries with the most significant number of Islamic banks in the world (Alam, 2014).

Furthermore, based on the above phenomena, the problem formulation in this study is how the performance of Islamic banks in Indonesia and Bahrain is based on the perspective of Maqashid Sharia. Therefore, this research will contribute to the Islamic banking industry, both executives, regulators, and all stakeholders, to assess the performance of Islamic banks. Also, this research contributes to academics that will measure the performance of Islamic banks based on the concept of Maqashid Sharia.

Economics has a vital role in the life of humanity, namely in the framework of human activities to meet their needs. Economics is generally defined as the study of human activities related to the production, distribution, and consumption of goods and services (Miller & Rose, 1990). Islam, as a perfect religion and a way of life by Muslims, certainly does not only regulate religious or spiritual aspects but also regulates all aspects of human life (muamalah), including those related to economic activities. Islamic economic activity is not only material but also aims to meet the needs of a person of adequate living. Furthermore, greed for wealth and attitudes that are concerned with mere material are intensely disliked (Nugroho & Husnadi, 2014).

Akhlaq (good moral) as a pillar of Islamic economics in which all Islamic economic activities must be based on morals. Moral occupies a vital position in the teachings of Islam, because as the Bukhari-Muslim hadith, "Prophet Muhammad SAW said, I was sent to improve the morality of mankind." Therefore good morals (akhlaqul karimah) became the foundation in transactions in Islamic economics. Morals cannot be separated from faith (aqeedah). Both are a unity that cannot be separated.

Furthermore, the foundation of Islamic banks is Islamic Maqashid that consists of six elements, among others according to Fitrotulloh (2013), and Masruri & Rossidy (2007) are: *first*, maintain the religion; *second*, maintain the soul; *third*, maintain the brain; *fourth,* maintain the properties; *fifth*, maintain the families; and *six*th, protect the environment. The sharia maqashid is implemented in everyday human life, namely in meet up the basic needs, secondary needs,

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and tertiary needs so that Islamic banking services in supporting human life in business and financial transactions need to have the appropriate vision and mission. The vision and mission must be based on sharia maqashid, which aims to achieve maslahah and Falah (hereafter). Also, Islamic banking with its pillars (prophet, profit, people and planet) is to maintain a balance between business profits that have moral and spiritual responsibilities and have an impact on reducing social problems such as poverty, unemployment, and social inequality.

Economic conditions are undoubtedly inseparable from the social problems that occur in the country. Developing countries like Indonesia and Bahrain have economies that are not so good when compared to developed countries. One reason is that there are still many social problems that occur in developing countries (Dobers & Halme, 2009). Islamic banking, as one type of Islamic financial institution, has an inseparable social responsibility in conducting business and operations (inherent), which aims to provide benefits to all stakeholders (maslahah). Furthermore, it stated in the Qur'an as a source of worldview related to the muamalah concept (QS. Al-Jumu'ah verse 10), which mean: "And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed." The importance of the contribution of Islamic banks to public welfare and financial stability, then Islamic banks need to maintain their performance. Performance evaluation is a method for measuring company achievements based on predetermined business targets and is usually done at the end of the year, along with a budget realization. Performance determination is part of the control that aims to help the company improve its future performance and also helps to identify deficiencies in the organization's operations throughout the financial year. Financial performance is an activity of analyzing to determine the extent to which the company has realized its work program and strategy following the achievement of key financial indicators that have become commitments from the management board (Prentice, 2016).

Performance measurement with the maqashid Sharia Index in this study refers to the theory of maqashid sharia by Zahra (1997), which includes three aspects of sharia objectives, namely Tahdzib al Fard (education aspect), Iqamah al-adl (justice aspect), and Jalb al-maslahah (welfare aspect). These three objectives were reduced to several measurement indicators. This is so that the three aspects of sharia objectives can be operationally measured and determined in value. The unique character possessed by Islamic banks allows the measurement of performance from a different perspective from conventional banks. This paper begins with the background of the study, which includes the literature review relevant to this study as well as the conceptual framework. It is followed by the research method and provides and discusses the result of hypothesis tests. Finally, it concludes with summary, implication and recommendation for further research.

Methods

The research method used in this research is descriptive and comparative methods. The descriptive approach is a method used to describe or analyze research results. The comparative method is research that compares one or more variables in two or more different samples. Furthermore, this study uses cross-sectional data types, which is a type of data whose value is taken at a particular time (one shoot time) within limits corresponding to specific attributes measurement. The source of the data used is secondary data that is data from parties or institutions that have used or published it. Therefore the data used can be ascertained of its use, so researchers are no longer needed to test their validity and reliability. The population in this study is 13 Sharia Commercial Banks in Indonesia in 2017, and in Bahrain, which is 9 Banks in 2017. The sampling technique used is the census sampling technique. The census is a technique of taking the whole of the population members. In determining the maqashid shariah index variable. Furthermore, to provide an assessment of these ratios, a weighting value is determined to calculate the valuation of the sharia maqashid index of an Islamic bank. The weight of the value of each ratio shows in Table 1.

Table 1. Average Weight of Objectives and Elements of Maqashid Sharia index

Maqashid Sharia	Weight Average (100%)	Element (E)	Performance Ratio (R)	Weight Average (100%)
1. Tahdzib al-Fard (Education Aspect) – O1	30 ($W1^{1}$)	$E1^{1}$. Education Grant	$R1^{1}$. Education Grant/Total Income	24 ($E1^{1}$)
		$E1^{2}$. Research	$R1^{2}$. Research Expense/Total Expense	27($E1^{2}$)
		$E1^{3}$. Training	$R1^{3}$. Training Expense/Total Expense	26($E1^{3}$)
		$E1^{4}$. Publication	$R1^{4}$. Publicity Expense/Total Expense	23($E1^{4}$)
		Total		**100**
2. Iqamah al- adl (Justice Aspect) – O2	41 ($W2^{2}$)	$E2^{1}$. Fair Return	$R2^{1}$. Profit/Total Income	30($E2^{1}$)
		$E2^{2}$. Profit and Loss Sharing Contract	$R2^{2}$. Mudharabah and Musharakah Contrat/total investment Contract	32($E2^{2}$)
		$E2^{3}$. Free Interest Products	$R2^{3}$. Interest-Free income/Total Income	38($E2^{3}$)
		Total		**100**
3. Ijalb al-Masalahah (Welfare Aspect) –O3	29($W3^{3}$)	$E3^{1}$. Profit Ratio	$R3^{1}$. Net Profit/Total Asset	33($E3^{1}$)
		$E3^{2}$. Social Purposes Ratio	$R3^{2}$. Zakah/Net Income	30($E3^{2}$)
		$E3^{3}$. Real Sector Investment Ratio	$R3^{3}$. Investment Deposit/Total Deposit	37($E3^{3}$)
Total	**100**	**Total**		**100**

Source: (Syafii et al., 2012)

There are several mechanisms to process it. Some of the steps are as follows:

- The Mechanism to Determine Performance Indicators (PI):
  a. The ratio of Education Grants/Total Expenses ($R1^{1}$)
  b. The ratio of Research/Load Amount ($R1^{2}$)
  c. The ratio of Training Costs/Total Load ($R1^{3}$)

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d. The ratio of Publicity Costs/Total Expenses ($R1^4$)
e. The ratio of Profit Equalization Reserve/Net Profit Investment ($R1^5$)
f. The ratio of Total Mudharabah and Musyarakah Financing/Total Investment ($R2^1$)
g. The ratio of Non-Interest Income/Total Income ($R2^2$)
h. The ratio of Revenue/Total Assets ($R3^1$)
i. The ratio of Zakat/Net Income ($R3^2$)
j. The ratio of Investment in the Real Sector/Total Investment ($R3^3$)

- Calculate the performance of Islamic banks based on each performance indicator (PI). The next step is to multiply the weight of each variable with the weight of the performance ratio for each attribute. Mathematically, the performance indicator calculation model is then called Performance Index (PI) with the following formula:

a. Education Aspect(O1)

$PI\ (O1) = W1^1 \times E1^1 \times R1^1 + W1^1 \times E1^2 \times R1^2 + W1^1 \times E1^3 \times R1^3 + W1^1 \times E1^4 \times R1^4$

or

$PI\ (O1) = W1^1\ (E1^1 \times R1^1 + E1^2 \times R1^2 + E1^3 \times R1^3 + E1^4 \times R1^4)$

b. Justice Aspect (O1)

$PI(O2) = W2^2 \times E2^1 \times R2^1 + W2^2 \times E2^2 \times R2^2 + W2^2 \times E2^3 \times R2^3$

or

$PI(O2) = W2^2\ (E2^1 \times R2^1 + E2^2 \times R2^2 + E2^3 \times R2^3)$

c. Welfare Aspect (O3)

$PI\ (O3) = W3^3 \times E3^1 \times R3^1 + W3^3 \times E3^2 \times R3^2 + W3^3 \times E3^3 \times R3^3$

or

$PI\ (O3) = W3^3\ (E3^1 \times R3^1 + E3^2 \times R3^2 + E3^3 \times R3^3)$

Furthermore, the hypothesis test is using the independent t-test at a 95% confidence level with an error rate of analysis (Vania et al., 2018). Therefore, the criteria for acceptance or rejection of hypotheses will base on p-values. Thus, the decision based on probability is as follows:

(i) If p-value > 0.05 then the hypothesis is rejected (not significant);
(ii) If p-value < 0.05, the hypothesis is accepted (significant).

Result and Discussion

According to the secondary data that we collected and based on the methodology used, the maqashid sharia index (MSI) for Islamic banks in Indonesia and Islamic banks in Bahrain shows in Table 2. Furthermore, this study also uses descriptive statistical analysis to provide an overview of the Maqashid Shariah Index. Table 3 presents descriptive statistics for the Maqashid Shariah Index approach.

Table 2. Maqashid Sharia Index (MSI) of the Islamic Bank in Indonesia and Bahrain

No	Bank Name	P1 (O1)	P1(O2)	P1(O3)	MSI
	Indonesia				
1	Bank of Aceh	0,00232	0,00757	0,00297	0,01286
2	Bank of Muamalat Indonesia	0,00160	0,06461	0,05088	0,11709
3	Bank of Victoria Sharia	0,00189	0,07764	0,00127	0,08080
4	Bank of BRI Sharia	0,00199	0,03198	0,00799	0,04197
5	Bank of Jabar Banten Sharia	0,00218	0,02345	-0,00479	0,02084
6	Bank of BNI Sharia	0,00716	0,02493	0,00606	0,03814
7	Bank of Sharia Mandiri	0,00203	0,03868	0,00627	0,04697
8	Bank of Mega Sharia	0,00167	0,01518	0,00514	0,02199
9	Bank of Panin Dubai Sharia	0,00295	0,09643	-0,07464	0,02473
10	Bank of Sharia Bukopin	0,00374	0,07639	0,00002	0,08015
11	Bank of BCA Sharia	0,00216	0,05654	0,00086	0,05955
12	Bank of BTPN Sharia	0,00214	0,00003	0,00700	0,00918
13	Maybank Sharia Indonesia	0,00185	0,00515	-0,00073	0,00626
No	**Bank Name**	**P1 (O1)**	**P1(O2)**	**P1(O3)**	**MSI**
	Bahrain				
1	Al Baraka Bank	0,00646	0,03754	0,00032	0,04432
2	Al Salam Bank	0,00646	0,03258	0,00536	0,04440
3	Al Khair Bank	0,00646	0,00000	0,05423	0,06069
4	Arab Bank bahrain	0,00607	0,00000	0,00077	0,00684
5	Bahrain Islamic Bank	0,01049	0,01521	0,00501	0,03071
6	Gulf International Bank Bahrain	0,00646	0,00000	0,00026	0,00672
7	Ithmaar Bank	0,00646	0,00704	0,00035	0,01385
8	Khaleeji Commercial Bank	0,00976	0,00208	0,04952	0,06136
9	Shamil Bank of Yemen & Bahrain	0,00133	0,00000	0,01607	0,01741

Based on Table 2 and Table 3, it is known that the minimum value of the Maqashid Shariah Index (MSI) of Islamic banking in Indonesia is 0.006. However, the maximum value of MSI of Islamic banks in Indonesia is 0.117, with an average MSI value of 0.043. Meanwhile, Islamic banking in Bahrain has a minimum MSI value of 0.007. While the maximum value of MSI of Islamic banks in Bahrain is 0.061, and the average MSI value is 0.031. According to the data in table 3, the average MSI of Islamic banks in Indonesia is higher when compared to the average MSI of Islamic banks in Bahrain.

Table 3. Descriptive Statistics Result

	Country	N	Mean	Std. Deviation	Std. Error Mean
MSI	Indonesia	13	4311.7692	3326.75676	922.67631
	Bahrain	9	3181.1111	2181.28566	727.09522

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Using the Independent t-Test, in this case, carried out data analysis techniques in this study, the analysis was carried out in the framework of testing the hypothesis, before testing it was carried out examining the normality of the data as a condition for the use of parametric statistics. The data normality test uses the Shapiro Wilk test. The normality test decision is if the significance value of Shapiro Wilk is higher than 0.05, then the data is normally distributed. Vice versa, if the significance value is smaller than 0.05, then the data is not normally distributed. The following data normality test uses the Shapiro Wilk test:

Table 4. Test of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Indonesia	.255	9	.094	.840	9	.057
Bahrain	.190	9	.200*	.891	9	.205

a. Lilliefors Significance Correction
*. This is a lower bound of the true significance.

Based on the test results in Table 4, the results obtained are normally distributed data because the value of the Shapiro-Wilk significance level is above 0.05. Therefore, an Independent T-Test can be carried out because the t-Test, which is a parametric statistic, requires that the data be normally distributed.

Table 5. Independent T-Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
MSI	Equal variances assumed	1.130	.300	.892	20	.383	1130.65812	1267.47262	-1513.24344	3774.55968
	Equal variances not assumed			.962	19.976	.347	1130.65812	1174.73360	-1319.98036	3581.29660

Based on the data in Table 5, hypothesis testing can be done by comparing the significance levels as follows: (i) If sig. > 0.05, then Ho is accepted; (ii) If sig. < 0.05 then Ho is rejected. In this case, it can be seen that the significance is 0.3 > 0.05, then Ho is accepted, and Ha is rejected, meaning that the hypothesis stating that there are differences in performance at Islamic Commercial Banks in Indonesia and Bahrain is rejected.

The average Maqashid Shariah Index in Islamic banking in Indonesia is higher compared to Islamic banking in Bahrain. This shows that the performance of Islamic banking in Indonesia implements the principle of the maqashid shariah index is better if compared to Islamic banking in Bahrain. However, the difference is not significant, so that although the MSI of Islamic banks in Indonesia is higher than Islamic banks in Bahrain, the overall

MSI of Islamic banks in Bahrain is no different from the MSI of Islamic banks in Indonesia. Testing to prove the level of performance appraisal based on the maqashid shariah index can be determined by looking at a descriptive statistical table (Table 3). Nevertheless, the higher the MSI value, the better the implementation of the principles of maqashid shariah in Islamic banks.

As explained previously, the significance of the comparison of the performance of Islamic banking in Indonesia and Bahrain in terms of the maqashid sharia index is 0.3 > 0.05, which means that the hypothesis stating that there are differences in performance at Islamic Commercial Banks in Indonesia and Bahrain is rejected. Although there are differences in the application of accounting standards between the two countries, the measurement using the maqashid sharia index of Islamic banking performance in the two countries, there is no difference that is too significant. This condition is because Islamic banks, despite their location in different countries and also differences in regulations, but in carrying out their operations, Islamic banks remain consistent with Universal and inclusive Islamic values. Therefore, Islamic values teach the upholding of the values of justice, honesty, transparency, anti-corruption, and exploitation. This means that the primary mission of the existence of Islamic banks is to uphold ethical and moral values in business activities in terms of individuals, companies also countries (Sadhana, 2012).

Also, the results of this study are by previous research conducted by Ramadhani & Mutia (2016) related to the comparative analysis of the performance of Islamic banking in Indonesia and Malaysia in terms of the maqashid sharia index (MSI) is also consistent with this study that overall the object of research is not too significant differences. Although the countries that are the objects of research conducted by the authors differ (Indonesia and Malaysia). Syafii et al., (2012) also conducted further research related to the maqashid sharia index, also stated that MSI of Islamic banks in Indonesia are better than MSI of Islamic banks in Jordanian. However, the gap between MSI Islamic banks in Indonesia and Islamic banks in Jordan is not too far away, namely Islamic International Arab Bank Jordan (IIABJ) has an MSI of 0.09630, and Bank of Muamalat Indonesia (BMI) has an MSI of 0.11008. In other words, MSI of Islamic banks in Indonesia and MSI Islamic banks in Jordanian, there is no significant difference. Nevertheless, the results of this research, also supported by data from IFCI (Islamic Finance Country Index), which states that the ranking of Indonesia and Bahrain are close together. In 2017 Indonesia was ranked 7^{th} while Bahrain was ranked 8^{th}. IFCI itself is a financial advisory company based in London specializing in banking, finance, and Islamic education. IFCI's ranking is released in the annual edition of the Global Islamic Finance Report and is distributed through several conferences and seminars throughout the world.

Islamic values are an integral part of Islamic banking activities. These Islamic values include: justice; equality, fairness, and gender equity (Ahmad & Mahadi, 2019; Anas & Mounira, 2009; Nugroho & Chowdhury, 2016). According to Sukmadilaga & Nugroho (2017), Islam is a comprehensive religion so that in carrying out daily activities both in meeting basic needs (dharuriyah), secondary needs (hajjiyah), and tertiary needs (tahsiniyah) a Muslim must be following the objectives of the Islamic religion or maqashid sharia.

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Likewise, to meet the needs of business transactions and financial transactions, they should choose Islamic bank products and services. Also, the application of Islamic maqashid applies to the operational and business activities of Islamic banks, where the main focus of Islamic banks is to carry out their business to provide benefits for all the Ummah. The existence of Islamic banks based on the concept of the tawhid string relationship (TSR) has the objective of creating a social well being based on the Qur'an and hadith (Choudhury, 2010; Harahap, 2006; Pratiwi, 2016). The purpose of social well being is to realize a "tamadun" society and "tsaqafah," namely a community that has a high civilization (madani) where intellectual (tamadun) and spiritual aspects (tsaqafah) of society have been fulfilled (Nugroho et al., 2019). Because in Islam, the measure of prosperity is not from how much wealth is owned, but the knowledge and assets owned can be beneficial to the Ummah, and the level of faith of a Muslim can only be measured by Allah SWT (Pranam, 2013). Therefore, referring to the results of the research in this article, Islamic banks in Indonesia and Bahrain, although the two countries have different constitutions, the implementation of performance based on the Maqashid sharia perspective does not record significant differences. In other words, the application of maqashid sharia has been integrated into the business activities of Islamic banks. It has become the specific products and services of Islamic banks that differentiate them from conventional banks.

Conclusion

The objectives and operational systems of Islamic banks have different characteristics from conventional banks. Therefore, to measure the performance of Islamic banks, different methods are needed from conventional banks. One of them is using the maqashid sharia index (MSI). Implementation of Islamic banks in a country is influenced by government policies and regulations that apply so that there are possible differences in their application in the country's Islamic banks. However, based on the results of MSI research, Islamic banks in Indonesia and Bahrain Islamic banks, there were no significant differences so that universal values that became one of the principles of Islamic banks could be implemented even though there were differences in government policies and state regulations. Furthermore, this research is expected to be an evaluation material to improve the quality of the performance of Islamic banking by the principles and objectives of sharia (maqashid shariah) in Indonesia and Bahrain.

Islamic banking in Indonesia has developed quite rapidly, but Islamic banking in Indonesia has not forgotten its social responsibility to the community. This can be seen from the measurement results using the maqashid shariah index approach, which shows quite high figures on several measurement elements, which imply that the measurement of Islamic banking performance is not only measured with financial ratios but also there is a measurement of social aspects and spiritual aspects. Nevertheless, Islamic laws and regulations can adapt to social changes that occur in society.

The Islamic banking industry can use the maqashid sharia index to inform its performance following sharia principles in its financial statements to disclose the business performance and compliance with Islamic law. Also, future studies can use the maqashid sharia index to measure the performance of sharia financial institutions so that more evidence found that sharia financial institutions have implemented maqashid sharia in their business activities.

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	2012	2013	2014	2015	2016	2017
Fundraising	52.271	76.036	115.415	147.512	174.018	186.608
Financing	46.886	68.181	102.655	147.505	179.284	187.886
Asset	66.090	97.519	145.467	195.018	229.557	244.197

Source: Islamic banking statistics, Bank of Indonesia

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