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ABSTRACT

Palm Oil is a fantastic plant for the people of Riau Province. It can be seen from the rapid development of plantations, in 2001 palm oil plantations covered an area of 1,119,798 ha and in 2010 it increased to 1,925,341 ha with a growth of 36.02%. Palm oil plantation activities brought economic impact on society, both for the people who are directly involved with the activities of plantations and for their surrounding community. To anticipate the rapid development, a model avoiding inequality of income among farmers needs to be designed, especially for self-supporting farmers in a partnership pattern. Institutional model aims to increase the welfare of rural farmers in the form of Palm Oil Based Agroestate (ABK). The concept of Palm oil Based Agroestate collaborates between farmers, cooperatives, and business enterprises. Through the ABK program, farmers will have an opportunity to buy/have shares of the Palm oil Factory (PKS). There are two main business activities of ABK model; first, business activities that build palm oil plantations and factories of the derivative industry; if necessary the settlement of participating farmers will be established by the developers; second, managing plantations and participating farmers-owned factories as well as market the products carried out by a business enterprise or a cooperative formed by the participant farmers.

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**T**he long-term development emphasizes economic development with the main objective to achieve a balance between agriculture and industry. To achieve this, the agricultural sector requires strength and ability to support its growth amidst the strong, more advanced industrial sector.

This can be seen from the development which had been designed during the New Order era in the form of five-year development plans I to V, which focused on the agricultural sector. Since the reform era, the rural-based agricultural sector also has received considerable attention, resulting in the development

of the agribusiness-based agricultural sector. The rural economic development is also accelerated through the increased production and the added value of the agricultural sector.

The economic development in Riau Province is based on two general patterns of development: the long-term general pattern and the short-term general pattern. The long-term general pattern includes the foundation of development with economic policy which is directed towards two key sectors, namely agriculture and industry sectors, by taking into account their relationship with other sectors. Specifically, the regional development policy in Riau Province is still focused on the key sectors. The direction of development is to stimulate regional economic growth and increase the contribution to GDP of Riau Province. According to the data from the Plantation Advisory Service (*Dinas Perkebunan*) in Riau Province (2010) in the 2005-2009 period, the growth in the agricultural sector was at 19.08% per year, while over the same period the plantation sub-sector grew by 18.97% per year. The significant growth in the plantation sub-sector was from the contribution of palm oil.

The people in rural areas have given a considerable attention to plantation crops. One reason is because there is a steady market for these plantation crops; meanwhile, the market for other plants outside the plantation sub-sector is very volatile. Especially, palm oil has been an excellent commodity in Riau that grows the interest of the people who are not part of the People's Nucleus Plantations (PIR) scheme from the lower class to the upper class in planting palm oil independently. Since the 1998 post-crisis time, the increase in the area of palm oil plantations in Riau has been dramatic, from 901,276 ha of plantations in 1998 to 1,119,798 ha in 2001. The area increased to 1,925,341 ha in the late 2009. During the 1998-2009 period the average growth rate was 8.59% per year, while other commodities such as rubber and coconut suffered a decrease in the size of plantation areas. The increase in the plantation area and the production of palm oil during the last three years in Riau is presented in Table 1.

The activities of rural plantations have provided work opportunities for the people. The results of the research conducted by Almasdi Syahza (2009a) show that with the presence of plantation

companies the livelihoods of the local communities are no longer limited to the primary sector in meeting their needs as now they could expand their livelihoods to the tertiary sector. Various sources of income are available for them as they can work as such as sellers (selling groceries, rubber, transportation ticket, and ice), employees (teachers, employees of the village government), workers in domestic industry (the industry of tofu, bread, and roof tiles), menial laborers, fishermen, timber seekers in the woods and carpenters.

For the people in rural areas, plantation crops have been an alternative source of income to improve the family's economy, so their interest in the development of plantations remains high. Palm oil cultivation is proved to contribute to the increase in the welfare of farmers in the rural areas. In regard to human activities, the development of plantations has also caused a high mobility of the population.

The development of palm oil plantations in Riau Province has created impact on the economic activities in rural areas. The results of the research conducted by Almasdi Syahza (2010) show that the farmers' income range from Rp3,475,029 to Rp 4,125,242. If the assumed exchange rate of Rupiah against Dollar is US \$ 1 = Rp 9,000, the income of palm oil farmers range from US \$ 4,633.37 to USD \$ 5,500.32 per year. In addition, the development has impact on the acceleration of development of the people's economy which will help to reduce poverty in rural areas.

The rapid development of palm oil plantations lead to the emergence of centers of economic growth in rural areas surrounding the plantations. This increases the purchasing power of the rural communities, especially to buy the daily needs of the household and palm oil production facilities. However, the preparation of the development of plantations requires land. If this is not controlled by the policy makers, there will be conversion of land use in rural areas (Almasdi Syahza, 2011).

Based on the illustrations and the problems outlined above, the purpose of this research is to obtain information on the development of palm oil plantations in Riau and the solutions in terms of the institutional arrangements in the context of economic development in rural areas.

The research has managed to find a model for Institutional Arrangement of Palm oil in the Efforts to Spur the Economy in Rural Areas. This design is expected to increase rural economic growth from both the plantation and non-plantation sectors. The results of this research can also be used to formulate which activities or strategies should be taken by the local government for future agricultural development and strategies for rural economic development.

#### Theoretical Framework

In Indonesia the agribusiness sector has the potential to compete and seize the market opportunities in this free trade era. Outside the agribusiness sector, not only it is difficult to compete but also it is also challenging to empower the people's economy. The government policy which favors the development of the agribusiness sector at the macro level needs to be combined with efforts at the micro level to ensure that the benefits of the development can be enjoyed by society. Past experience shows that the major contribution of the agribusiness sector to the national economy was not followed by sufficient increase in farmers' income. Therefore, to empower the people's economy, favorable conditions created for the the development of the agribusiness sector at national level should be combined with a mechanism which can ensure that the benefits of the development can be enjoyed by everyone.

One reason of the powerlessness of the rural people is the policy mismatch in the past, overlooking the agricultural sector as the basis for comparative and competitive advantages. Meanwhile, in fact the economic empowerment of the rural community

Table 1. Increase in Plantation Area and Production of Palm oil in Riau Province in 2007-2009

DISTRICT/CITY	Size (Ha)		
	2007	2008	2009
Kampar	291,475.50	311,137.00	316,282
Rokan Hulu	275,609.10	262,673.60	379,969
Pelalawan	177,906.01	182,926.19	183,400
Indragiri Hulu	114,582.00	118,076.78	118,538
Kuantan Singingi	121,854.36	116,527.32	122,731
Bengkalis	127,259.00	147,643.50	162,415
Rokan Hilir	148,879.00	166,311.00	206,173
Dumai	24,930.00	27,954.00	31,022
Siak	183,598.13	184,219.48	186,819
Indragiri Hilir	143,431.50	148,729.50	210,529
Pekanbaru	2,857.00	7,353.00	7,464
Total (ha)	1,612,381.60	1,673,551.37	1,925,341
Production (tons)	5,119,290	5,764,201	5,932,310

Source : Regional Office of Plantations in Riau Province, 2011.

does not only benefit the rural community, but it also builds Indonesia's economic strengths which is based on its comparative and competitive advantages (Yuswar Zainal Basri, 2003).

Income inequality between the rural and urban areas is quite considerable. The agribusiness is seen as the solution to remove this inequality. According to Lewis in Todaro Todaro, Michael P (2006), underdeveloped economy consists of two sectors, namely: 1) the traditional sector, or the rural subsistence sector which is overpopulated and is characterized by the marginal productivity of the labor which is equal to zero, 2) the modern urban industrial sector with its high productivity level which becomes a transition for workers who gradually move from the subsistence sector. Lewis assumed that the wage level in urban areas is 30 percent higher than the average income in rural areas, and this condition forces the workers to move from the village to the city.

Rural development should be able to reduce the disparity between rural and urban areas. One of the concepts put forward by Friedmann, J and Mike Douglass in Almasdi Syahza (2007b) is development of an agropolitan. The concept describes how to accelerate the development in rural areas using the potentials owned by the village itself. The following are the things which should be done: *First*, to change the rural areas by introducing elements of urban lifestyle (urbanism), which have been adapted to a particular rural environment. This will discourage migration from the rural to urban areas. Investment in rural areas is one way to reduce urbanization and to change rural settlements into a mixed entity which is called an agropolis or a city in the field; *Second*, to expand the social relations in rural areas beyond the village boundaries, thus forming a broader socio-economic and political space (an agropolitan district); *Third*, to reduce social dislocation in the development process by maintaining the family unity, increasing the sense of security, and providing personal satisfaction in building a new society; *Fourth*,

to ensure steady revenues of villages and cities. The disparity is minimized by way of increasing productive work opportunities in rural areas, especially by combining the agricultural and non-agricultural activities in the same community; *Fifth*, to employ the existing workforce more effectively by directing the workforce to activities in the development of resources in each and every agropolitan district, including the increase in agricultural products; *Sixth*, to establish a network of agropolitan districts into a regional network by establishing and improving the relationship between agropolitan districts and cities; *Seventh*, to establish a government and a planning process which are adjusted to the rural conditions so that the priority in the development is created and its implementation on the local population is assured; *Eighth*, to provide financial resources to build an agropolitan.

According to Ginanjar Kartasasmita (1996), the development of rural areas needs to be carried out using the approach which is suitable to the nature and characteristics of the rural areas. Rural development should follow four major efforts, which are interrelated and form the main strategies, namely: *First*, to empower the economy of the rural people. The empowerment requires capital and guidance on the utilization of technology and marketing to empower and create independence of the rural communities; *Second*, to improve the quality of human resources in rural areas in order that they have an adequate basis to improve and strengthen their productivity and competitiveness; *Third*, to develop infrastructures in rural areas. Transportation infrastructure is an absolute requirement in these areas, since it will help villages to keep up with other more advanced villages; and *Fourth*, to build both formal and nonformal rural institutions. The institutional development required is the creation of good services especially to boost the rural economy such as financial institutions.

For the government of Indonesia, rural development has been associated with the development of

agricultural sector which later is developed in the form of agribusiness. Agricultural development which has been developed on a large scale is the plantation sub-sector which generates excellent export commodities, including palm oil, rubber, gambier, and coconut. Bustanul Arifin (2001) states that the development of the agricultural sector in a broad sense should be directed to the system of agribusiness and agro-industry because this approach will increase the added value of the agricultural sector, which in fact can increase the income of local players or actors in agribusiness and agro-industry.

Agribusiness has a very important role in Indonesia's economy and in fact its degree of importance is expected to increase, especially after the sectors of mining and petroleum experience a particularly alarming decline in production. The agribusiness sector requires cooperation of various parties involved namely the government, private sector, farmers, and banking in order that this sector could contribute to the country's foreign exchange reserves. The policy on the increase in investment must be supported by the creation of favorable climate for investment in Indonesia, including in terms of bureaucracy, access to credit, and a review of taxation laws and tax rates for the agribusiness sector (Gumbira Sa'id, E. and L. Febriyanti, 2005).

The development of agricultural sector in a broad sense should be directed to the system of agribusiness and agro-industry since this approach will increase the added value of the agricultural sector, which substantially increases the income of the local players or actors in agribusiness and agro-industry. The results of the research conducted by Almasdi Syahza (2005) show other factors that support the prospects of future development of agribusiness, including: 1) the growing population which leads to the increasing needs for food, creating a good market opportunity for agribusiness; 2) the rising income which will improve the food quality and diversification.

Product diversification requires the processing of products (agro-industry), and 3) the development of agribusiness which will also have an impact on the economic growth of a region, increasing the farmers' income and in turn expected to reduce the disparity of the people's income.

Nevertheless, the future development of agricultural sector still encounters some obstacles, especially in the development of agricultural system which is based on agribusiness and agro-industry. The obstacles especially encountered by small-scale farmers, are among other things (Almasdi Syahza, 2007a): 1) lack of capital structure and access to financial sources, 2), availability of land and soil fertility problems, 3) provision and distribution of production facilities, 4) limited mastery of technology, 5) lack of organization and management of agricultural business, and 6) low quantity and quality of human resources in the agribusiness sector. Farmers are human resources that play an important role in determining the success of agricultural activities since they are the workers and managers in the business.

To develop the economy in rural areas, the government of Riau Province have adopted a policy on the development of agricultural sector that is focused on the rural areas. For that purpose, the local government have developed plantation subsector as part of the agricultural sector, especially palm oil as the main commodity. There are several reasons why the government of Riau Province prioritizes palm oil: *First*, the physical and environmental conditions of the region permits the development of palm oil plantations; *Second*, the condition of soil in Riau allows the cultivation of palm oil trees which generate more yields than in other areas; *Third*, in terms of product marketing, Riau Province has the advantage because of its close proximity to the international markets in Singapore; *Fourth*, Riau has become one of the regions of development in West Indonesia upon the launching of Indonesia Malaysia Singapore Growth Triangle (IMS-GT) and Indonesia Malaysia

Thailand Growth Triangle (IMT-GT), which means there are more profitable market opportunities, and *Fifth*, the results which have been gained show that palm oil generates higher income for farmers compared to other plantation crops (Almasdi Syahza, 2003).

In order to stimulate economic growth, the current economic policy should embrace a new paradigm in which the empowerment of people's economy should be a major concern. Since the livelihoods of most people are in the agricultural sector and the sector still makes a significant contribution to the country's economy, the empowerment of the people's economy also means building a better agricultural economy. Industrial development should consider its backward linkage with the agricultural sector or the primary sector while its forward linkages should pay attention to the processing which increases the added value and to effective marketing so that products are useful. The concept of agricultural development is referred to as the concept of agribusiness.

In order to realize the objective to develop the people's economy, especially through the agricultural sector, it is necessary to prepare a strategic policy to increase or accelerate the growth of the agricultural sector, particularly to increase the income and improve welfare. One way to achieve this is by the development of agribusiness which is well planned and linked to the development of other economic sectors.

#### METHODS

The research is conducted using a survey with a descriptive method (Descriptive Research). The purpose of a descriptive research is to capture in a systematic, factual and accurate manner the facts and characteristics of the population (palm oil farmers) in areas selected as the research sites.

The research was conducted in several sites in Riau Province which develop the plantation sub-sector particularly by growing palm oils. The sites were

decided at random, although a special attention is given especially to the sites in which centers of economic growth emerge in rural areas as the impact of the development of palm oil plantations. The reasons for the site selection include: 1) the spatial plan of Riau Province, which means that the area is part of the center of development of plantation particularly palm oil plantation, 2) the age of palm oil in the survey area on the optimum production age which is 10 to 16 years (for production of FFB, palm oil and palm kernel), 3) on the areas of the development of plantations, there are two types of activities, namely: *plasma* palm oil plantations with state-owned enterprises as the core and palm oil plantations with private companies as the core, 4) in the surrounding areas of the palm oil plantations a lot of local people plant palm oils independently, and 5) the selected sites taken as samples have different level of plantation productivity.

Stratified Cluster Sampling was conducted to obtain samples which represent each of selected sites. This method was used based on the consideration that the research sites are scattered and the characteristics of people who are the object of study are diverse. In each selected cluster, two types of respondents were taken: the respondents who are plantation farmers and the respondents who are non-plantation farmers. The sample size in each stratum (the plantation farmers and the non-plantation farmers) is determined proportionally.

This research used the primary and secondary data. The required primary data include the identity of samples, land ownership and control, household income, diversification of business, business opportunities, and increase in employment. To complement the information, an interview of public figures in the research sites was conducted. The primary data was collected using a list of questions that had been prepared based on the needs of the research. The questionnaire serves as a general guideline to remind the researcher not

to deviate from the purpose of the research. The accurate information was obtained by using the method of Rapid Rural Appraisal (RRA), which is a participatory approach to obtain data / information and a general assessment in a relatively short time. The advantage of this approach is that the research can cover a wider area in a relatively short period of time to obtain extensive information in general. In this RRA method the information collected is limited to the information required in accordance with the purpose of the research, but the data are more in-depth as the sources of the information are traced. This way, complete information about a particular thing can be obtained.

To reduce the bias which is caused by the subjective element of the researcher, a preliminary analysis was conducted each time an interview of the respondent was completed. If the analysis finds data errors or different data from what were expected due to misinformation or incorrect interpretation, the sources of information would be confirmed or the search for additional information would be obtained to complete the one available. Based on the information from the site and the results of data analysis, a institutional model for development of palm oil plantation in rural areas is formulated in an effort to spur the rural economic growth.

#### RESULTS AND DISCUSSION

##### Development of Economic Institutional Model in the Palm oil Sector

The rapid increase of the community plantation areas particularly those which are individually managed has created the need to design a model to prevent income disparity between *plasma* farmers and individual farmers. The model which is designed to increase the welfare of farmers in rural areas is the Oil Palm Based Agroestate (ABK). The model presented is intended to remove the dichotomies from the unfair distribution of profits between the (*plasma* and individual) farmers of palm oil and the core company and to ensure the development and sustainability

of palm oil factories (PSK). The results of the research conducted by Almasdi Syahza (2010) show that the program for the development of palm oil plantations has been only limited to the community plantation (*plasma*) and the company plantation (nucleus). The farmers' ownership is only limited to the parcel of land which has been determined in the *plasma* program, while the factory which processes fresh fruit bunches (FFB) is owned solely by the company. In the future, it is necessary to consider a model of partnership for the development of palm oil plantations, in which the farmers have some form of ownership of the palm oil plantations and shares of the palm oil mill or factory. Farmers will buy a package consisting of a parcel of palm oil plantation and the factory's shares through a cooperative. In this program the farmers are given the opportunity to buy / own shares in the factory of the nucleus company.

The availability of quality, quantity and continuity of raw materials needs to be guaranteed to achieve the agro-industry, including palm oil industry. The link between the source of raw materials and the agro-industry of palm oil should be integrated into a form of ownership. This concept of partnership emphasizes the principle of joint ownership by farmers of the agricultural activities and the processing factory, which is managed by the farmers' cooperative.

This implementation is oriented to the welfare of farmers by putting the emphasis on efficiency in the processing of productive agricultural activities and increase in the added value in the context of agribusiness with an institution designed within a working network based on the ability and professionalism of various different actors including the developers, industrial factories, settlement of participant farmers, active participant farmers, business entity for processing (BUP) or cooperative, or management (agricultural activities, industrial factories), and financing institutions.

In the palm oil-based agroestate (ABK) model, there are two main business activities: *first*, the activities to establish plantations and industrial factories, and if necessary, to build the settlement of participant farmers that will be carried out by the developers, *second*, the business of managing the plantations and factories of the participant farmers and of marketing the yields which is carried out by an entity managing the business or a cooperative established by the farmers themselves. The palm oil-based agroestate (ABK) model is a concept in the development of the plantations in rural areas for the future, and this concept is one form of cooperation with the developer.

The above model is designed for the economic development in rural society which is based on

agriculture (palm oil plantation). The model aims to build palm oil plantations for farmers who do not have their own land for plantations or for farmers who have land but do not own capital for developing their agricultural business. These farmers do not have adequate land as a source of their livelihoods nor do they have land to live a decent life to support their family. This model is also the development of the agropolitan concept as introduced by Friedman and Douglass (1976). The agropolitan concept is one strategy to accelerate the rural economic development.

In brief, the concept of Palm Oil-based Agroestate (ABK) model which involves the rural community (farmers who do not have plantations) is presented in Figure 1.

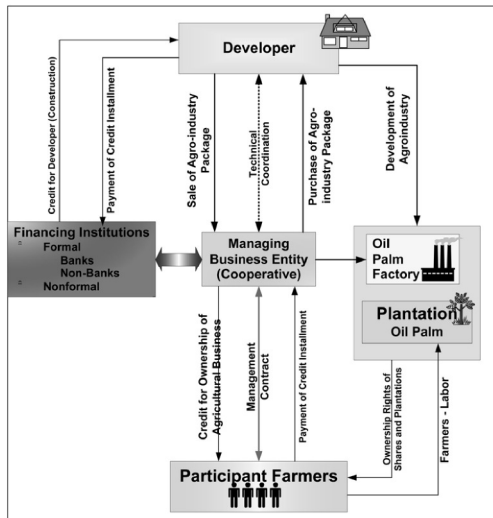


Figure 1. Conceptual Scheme of Palm oil Based Agroestate (ABK) model in Rural Areas (Almasdi Syahza, 2007b)

For more details, the model can be described as follows:

- The developer establishes a plantation (agricultural activities) and a factory which processes the crops (agribusiness) until the plantation is ready to produce and the industrial factory is ready for operation. The developer can use its own sources of funding or loans from banks or other parties to establish the plantation and the factory.
- The plantation and the factory that have been established by the developer are sold in the form of units or shares to active farmers or farmers who are really interested in managing a plantation and the participants are the rural community. As the owner of the plantation, the participant farmers will receive a title deed as a proof of ownership of a parcel of the plantation and as a proof of ownership of the factory these farmers will receive shares.
- The participant farmers purchase a plot of plantation and the factory's shares using a credit facility provided by financing institutions. The availability of this credit scheme is facilitated by the developer or by the cooperative. The participant farmers as the owners of the plantation plots pay a management fee in the amount which is agreed on and specified in the contract of management. The company providing the management services will manage the plantation and the factory under the principles of plantation management and professionalism.
- The ownership of capital of the factory by participant farmers is limited to a maximum of 40% of its total working capital, while the rest is owned by the nucleus company and the local government. This is to maintain the professional management of the factory. The model of share ownership can be seen in Figure 2.
- In the management of plantations, active farmers are grouped into field farmers group (KPH or *Kelompok Petani Hampan*) and are needed as workers who receive wages

according to the agreement.

- The farmers' income is expected to be fairly large because it comes from various sources. Active farmers receive their income from the yields of their own plantations, wage as workers, and dividends from holding the shares of the factory. Another advantage is the continuity of raw material for the factory will be assured because these farmers feel that they own the factory, thus minimizing the possibility of them selling FFB to another factory.
- The developer will return the capital used (its own funds and loan from the financing institutions) and will benefit from the yields of the plantation and shares of the industrial factory which has been built.

For farmers in rural areas who have parcels of land to develop into palm oil plantations but do not have sufficient working capital for the development, ABK model with a partnership pattern is developed. In this partnership, the plantation development is carried out by using credit facilities from banks or non-bank financial institutions. The purpose is to establish and develop the community plantations in a new area or the existing areas with advanced technologies so that farmers can earn a decent income. This also creates a business management system called agribusiness by incorporating a variety of activities of production, processing, and marketing of products in an integrated manner.

ABK model with a partnership pattern is developed by companies engaged in the plantation business which are designated as the nucleus company (partner) with the guidance and support of the local government agencies whose functions are relevant with the development of plantations. The partnership adopted in the development of plantation business by utilizing the credit facilities is a nucleus partnership with the *plasma* farmers. In this partnership, farmers are represented by a cooperative that is established directly by farmers. The coordination of development of this plantation



project or the ABK model with a partnership pattern is carried out by the Provincial and District Project Plantation Development Team established by the relevant Governor and Head of District. Thus, the partnership between the plantation companies and the cooperative becomes complete and sustainable.

This ABK Program provides participant farmers with the opportunity to hold shares of the palm oil factory. The procedure for share ownership can be arranged by the agreement between the farmers who in this case are represented by the cooperative and the government through the nucleus companies and related agencies. In this program it is recommended that the ownership of shares should involve three components, namely: farmers through a cooperative, the

nucleus company, and the local government. Meanwhile, the composition of share ownership can be arranged by the agreement of all three components. In addition, Setiadi Wijaya (2002) reveals the benefits of the cooperative are: 1) to help to improve the social and economic standards in the region by utilizing the potential and providing work opportunities 2) to give direct benefits, because a cooperative is suitable to the life of the rural community and 3) the rural economy can grow since a cooperative is firmly rooted in the rural areas.

The design of the capital ownership of the factory through ABK Program with a partnership pattern is also the same as the model of the capital ownership through the ABK program for new farmers as presented in Figure 2.

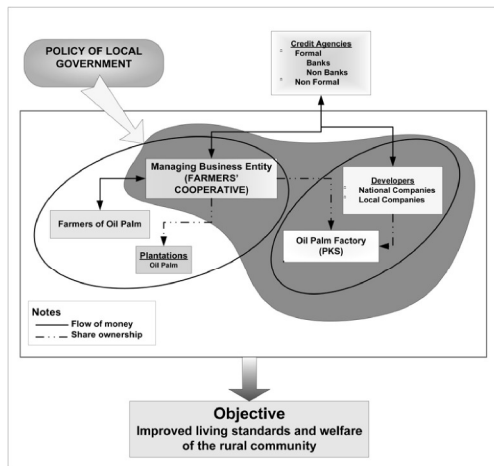


Figure 2. Design of Capital Ownership in Palm oil Based Agroestate (ABK) in Rural Areas (Almasdi Syahza, 2009c).

The empowerment of rural economy through the use of ABK model with a partnership pattern should meet the following requirements:

- Farmers who are participants of ABK with a partnership pattern are the local residents who own land and farmers whose land is affected by the development of KKPA palm oil plantations or who are not yet members of the cooperative.
- The preparation and determination of prospective participant farmers is carried out by the management of the cooperative with the acknowledgment of the head of village as the basis for the approval from the head of district.
- The prospective participant farmers are given the opportunity to participate in the development of plantations as workers.
- The participant farmers are entitled to palm oil plantation of a certain size in accordance with the cooperation agreement agreed between the farmers with the cooperative and the nucleus company.
- The participant farmers receive the proceeds from the sale of FFB after deduction for installment of loans and obligations to the cooperative.
- The participant farmers receive a certificate of ownership of the palm oil plantation after the loan is paid off.
- The farmers have the right require the accountability of the cooperative management for the plantation development at the meeting of members.
- The participant farmers must comply with and adhere to all the terms set forth in the establishment of ABK model with a Partnership pattern.
- The farmers are entitled to an opportunity to purchase shares of the palm oil factory which is built by the nucleus company.

The cooperation for development of palm oil in the rural areas with the involvement of the

business players, the local government and the local community will reduce the socio-economic inequality in the rural areas. The local community will feel the impact of the plantation development through their engagement and increased income. Cooperation will create the purchasing power and demand for goods, thus increasing the mobility of goods in the rural areas. This condition will lead to improved living standards of rural society and the emergence of growth centers in the rural areas.

**Model of Credit Scheme provided by a Cooperative for its Members (KKPA)**

A credit scheme provided by a primary cooperative for its members and called KKPA is the investment credit and working capital from Bank Indonesia or PT. Permodalan Nasional Madani for primary cooperatives to be channeled to their members to finance the members' productive business. One of the activities is the development of plantation with partnership model through the utilization of KKPA facilities. The purpose is to establish and develop the community plantations in a new area or the already existing areas with advanced technologies so that farmers can earn a decent income. It also creates a business management system that is agribusiness by incorporating a variety of activities of production, processing, and marketing in an integrated manner.

The development of plantations with KKPA partnership pattern is carried out by plantation companies which are designated as the nucleus companies (partner) with the guidance and support of the local government agencies whose functions are relevant with the development of plantations. The partnership model adopted in the development of the plantation business by utilizing KKPA is a core partnership pattern with the plasma (farmers). In this partnership, the farmers are represented by a cooperative which is formed directly by the farmers themselves. The coordination of development of plantation project called the ABK model with partnership pattern is carried out by the Provincial and District Project

Plantation Development Team established by the relevant Governor and Head of District. Thus, the partnership between the plantation companies and the cooperative is complete and sustainable.

The development of plantation with KKPA pattern is based on the Decree of Governor of Riau Province No. 07 of 2001 on the procedures for palm oil development with a partnership pattern through the utilization of a credit scheme provided by a cooperative for its members which is called KKPA. The participants of KKPA program are the local farmers and members of the cooperatives that have land. Meanwhile, the cooperative which carries out the management is a primary cooperative as a business entity whose members are the community and has obtained its deed of establishment (being a legal entity) which is issued by the government.

KKPA Program provides the opportunities for participant farmers to hold shares of the factory. The procedure for share ownership can be arranged by an agreement between the farmers who in this case are represented by the cooperative and the government through the nucleus company and the related agencies. In this program, it is recommended that the share ownership should involve three components, namely: farmers through cooperatives, the nucleus companies, and the government. Meanwhile, the composition of share ownership can be arranged by the agreement of all three components. The design of the ownership of capital of the factory in KKPA program is the same as the capital ownership in a partnership for palm oil business that is presented in Figure 2.

**Participant farmers**

The participant farmers of KKPA program according to the Decree of Governor Number 07 of 2001:

- The participant farmers in KKPA program with a partnership pattern are the local residents who own land including farmers whose land

are affected by the development of palm oil plantation utilizing KKPA and who are members of a cooperative.

- The preparation and determination of prospective participant farmers is carried out by the management of the cooperative with the acknowledgment of the head of village as the basis for the approval from the head of district.
- The prospective participant farmers are given the opportunity to participate in the development of plantation as workers.
- The participant farmers are entitled to palm oil plantation of a certain size in accordance with the cooperation agreement agreed between the farmers with the cooperative and the core company.
- The participant farmers receive the proceeds from the sale of FFB after deduction for installment of loans and obligations to the cooperative.
- The participant farmers receive a certificate of ownership of the palm oil plantation after the loan is paid off
- The farmers have the right require the accountability of the cooperative management for the plantation development at the meeting of members.
- The participant farmers must comply with and adhere to all conditions as determined in the establishment of plantation which uses the KKPA pattern.
- The farmers are entitled to an opportunity to purchase shares of the palm oil factory which is built by the core company.

**Farmers' Cooperative**

A farmers' cooperative that manages the community palm oil plantations is a primary cooperative which is established as a legal entity in accordance with Law No. 25 of 1992 on Cooperatives. In the implementation of partnership, the cooperative must first enter into an agreement for the development of palm oil plantations with the companies which are

designated as partners and have the expertise in palm oil plantation. To obtain KKPA funds, the cooperative must submit a project proposal to the implementing bank through and/or in cooperation with the core company as a partner.

In order to increase the income of participant farmers, the cooperative should also foster its members in developing the supporting or additional crops, such as palawija crops, horticulture crops, etc. These crops become the source of income other than from the palm oil plantations for its members. In other words, if the price of FFB decreases, the farmers still have another source of income from the other activities. To provide motivation to the farmers, the cooperative must help to establish cooperation for the marketing of agricultural products with third parties. Figure 3 shows the form of business partners in the community plantations and the supporting plants in rural areas.

According Setiadi Wijaya (2002), a cooperative is a business organization that must be managed in the same way as a business institution is run. Nowadays, a cooperative does not reflect a form of modern business which is professionally managed, and it even has an image that it is only suitable for the poor and does not require management. On the contrary, a cooperative is a business entity, so management is necessary to maintain its survival. If a cooperative wants to advance itself, it does not have any choice but to establish a partnership with other business entities which share its interests to be mutually beneficial. This business partnership is necessary to support the efforts to develop a cooperative.

**Developer (the Nucleus Company)**

A nucleus company which becomes a working partner of a cooperative is a privately/state-owned plantation companies or state-owned legal entities in Indonesia which according to the assessment

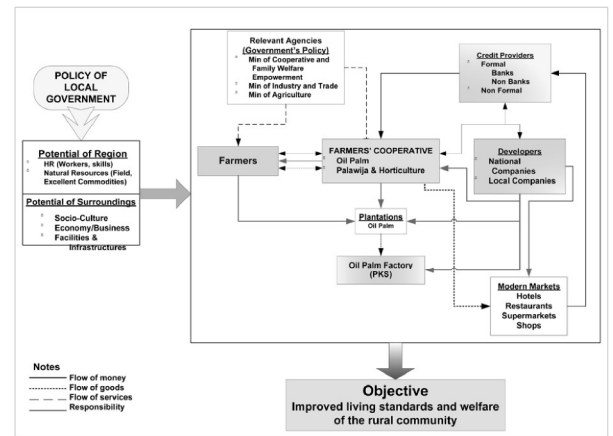


Figure 3. Model of Partnership in Development of the Community Plantation through KKPA

of the government have sufficient ability in terms of funding, human resources and management to implement the function as a corporate partner. In the development of the community palm oil plantations with KPPA pattern, a nucleus company should carry out the following obligations, which include:

- The nucleus company which has been designated as a partner of a cooperative has to independently appoint consultants to carry out a feasibility study.
- The nucleus company which establishes partnership with a cooperative must make an agreement in writing which is acknowledged by the head of district. The Plantation Regional Office and the Cooperative Regional Office in this district as the witnesses and as implementers of KPPA development must have a business license for cultivation and a business license for industry.
- The nucleus company establishes the plasma plantation in accordance with the operating instructions and physical standards as established by the Director General of Plantations cq. Plantation Provincial Office.
- To collect the yields of palm oil plantations from the members at a reasonable price in accordance with the guidelines as set by the government which in this case is the Team for Assessment and Determination of Purchase Price of Palm Oil FFB which are harvested by the farmers.
- To assist the farmers in the repayment of credit by making deduction from the sale of FFB at a maximum of 30%.

**Models of the Management of Palm oil Plantations**

The purpose of the development of palm oil plantations is to improve the welfare of the rural communities (farmers). One of the indicators of welfare is an increase in the farmers' income. One source of their income is the proceeds from the agricultural activities, such as: palm oil plantations, supporting crops which consist of the palawija crops and the horticulture crops. In order that the

farmers earn a decent income from cultivating crops, the business must be managed properly. For this purpose, various stakeholders should be involved, including: farmers, cooperatives, companies, financial institutions and relevant government agencies. To ensure that the system in the development of the community plantations is running as expected, the activity needs to be monitored by independent institutions, including, universities (research institutes, study centers), research and development agencies, or NGOs. For more details, the model of the management of community palm oil plantations can be seen in Figure 4.

The cooperative has an active role in managing the community plantations because the cooperative connects between the farmers and the partner companies. The cooperative plays the dual roles in the agricultural activities since it purchases FFB to be supplied to the palm oil factory and while at the same time it provides production facilities and agricultural tools which can support the activities of palm oil plantations. Playing those roles, the cooperative will receive two types of benefits which are essentially the benefits for its members. In addition, the cooperative serves as a connecting agency between its members and financial institutions, in which the cooperative can become a guarantor for credit from banks whenever the farmers need funds for their business development.

To perform its role as a farmers' organization, the cooperative must be fostered by the relevant agencies and the partner companies, which can be done by improving the quality of management of its administrators and managers, or carrying out other forms of development that support the cooperative's work program.

The development of agribusiness which is combined with the development of the agribusiness cooperative will require a reorientation of services provided by the government. In the past the

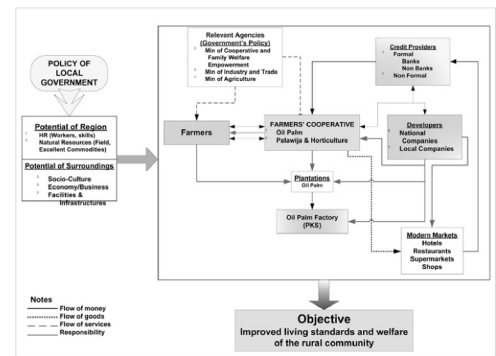


Figure 4. Partnership Model in the Management of Community Palm oil Plantations in Rural Areas (Modified from Almasdi Syahza, 2009a)

agricultural credit system was only aimed at the agricultural activities, whereas in the future it needs to be also oriented to the non-agricultural activities. Similarly, in the past the extension work on agriculture was only focused on the agro-technical aspects, but later it needs to be expanded into providing extension work on agribusiness, or even it needs to change a role into an agribusiness consultant. Overall, the development of agribusiness requires integrative government's policy.

If the development of agriculture with the agribusiness approach which is accompanied with the development of agribusiness cooperatives is successful, it will not only remove farmers from the vicious cycle of the socio-economy, but at the same time it will also build a competitive national agribusiness. The reasons include: *First*, this approach which is combined with the development of the agribusiness cooperative can eliminate the paradox of productivity at the agricultural level, so it can help to remove the farmers from the vicious cycle of socio-economy. Any increase in productivity will be accompanied

with an increase in income, whether derived from the added value of the agriculture and non-agriculture products through the cooperative; *Second*, the establishment of the agribusiness cooperative in non-agricultural activities which have institutional ties with the farmers, among cooperatives, and with the private companies and the state-owned enterprises, will be able to eliminate the problem of transmission prices and multiple margins. Thus, the price of agricultural facilities paid by the farmers will be less expensive, stimulating the expansion of agricultural activities, and the price of the final agribusiness products as a whole can be less expensive at the consumer level (encouraging an increased consumption). In addition, the consistency and continuity of the quality of the final products can be assured. Overall, this will enable agribusiness products to compete in the international markets; *Third*, the elimination of problem of price transmission will integrate the farmers' economy and the non-farmers' economy. The increase in non-farmers' income will increase consumption of end products of agro-industry, which is generally elastic to the changes in income. This will increase the farmers' income

through the cooperative; and *fourth*, because the added value of the non-agriculture products partly lies in the hands of the farmers' cooperative, the cooperative can accelerate the accumulation of capital that will be used to make the farmers and their cooperatives independent.

**MANAGERIAL IMPLICATINS**

**Model Scheme of Small Scale Palm Oil Factory**  
Agribusiness with palm oil as a commodity integrates the activities of cultivation/agriculture and of the palm oil factory or mill into a type of ownership which emphasizes the principle of joint ownership of the agricultural business and processing factory by farmers. The running of the factory or the mill should take into account the production capacity of each business activity, the availability of land (which is increasingly limited), the availability of the processing industry (particularly the production capacity), and the amount of investment.

Since the palm oil plantations which are cultivated by the self-supporting farmers are located in scattered areas (not in one area like the plasma plantations), the development of an palm oil factory should be adjusted to size of the plantations which will supply the factory in a particular area. The appropriate ratio between the size of the area and the palm oil factory and the palm oil factory is presented in Figure 5.

A cooking oil factory can be designed up to the capacity of 1.5 tons MGS / Hour or 7,200 tons MGS / year, with the assumption of 16 hour working hours/day, 25 days/month and 12 months/year (Figure 5). This palm oil factory is designed to purify CPO into palm oil and it is also equipped with the equipment for a fractionation process, so the resulting product is Refinery Bleaching Deodorizing Palm Olein (RBD Palm Olein) which is a cooking oil product with grade "A" quality.

**CONCLUSION**

The results of the research which was conducted in rural areas suggest that the development of palm oil plantations can improve the economy in rural areas. It will create the purchasing power in rural areas, which in turn increases the demand for goods which are needed by the community.

For the rural community, plantations have been an alternative to improve the family's economy, so their interest in the development of plantations remains high. Furthermore, the clearing for plantations requires land, and if it cannot be controlled by the policy makers, there will be conversion in land use in rural areas.

The activities of palm oil plantations in rural areas have two business patterns: the plasma pattern, which is known as PIR pattern by private companies or state-owned enterprises and the individual or self-supporting pattern by the community. The self-supporting farmers feel there a price distortion at the farmer level because the market for their palm oil products is not guaranteed. To prevent price distortion, the development of palm oil agribusiness in the future is designed in the form of partnership between the farmers and the developer, in which the farmers have a plot of palm oil plantation and have a share in the capital ownership of the palm oil factory. This concept emphasizes the principle of joint ownership with farmers of both the agricultural activities and the processing factory, which is managed by the farmers' cooperatives. The model is designed in the form of palm oil-based agroestate (ABK)

The design of ABK model in rural areas aims to ensure the certainty in the processing of fresh

fruit bunches (FFB) produced by the participant farmer. The agroestate package will ensure price certainty of FFB at the level of farmers and provide multiple benefits to farmers, among other things: the certainty of collection and pricing of FFB; the dividends from ownership of the shares of the palm oil company by farmers; the distribution of net profits of the farmers' cooperative.

A plantation management model should be designed in accordance with the needs of the farmers and partners, both raw materials required by the palm oil factory and the production facilities and agricultural machinery by farmers. The linkage between the farmers and the partners in ABK model should be integrated by a farmers' cooperative and supported by financial institutions. The ABK model in rural areas should be planned in such a way as to give priority to the principle of mutual benefits. The development of agroestate should be designed to increase the income and welfare of rural communities. Institutions are designed in a working network based on the ability and professionalism of various actors in the business, namely the developers, industrial factors, settlements of farmers, active participant farmers, the managing business entity (BUP) or cooperatives, or management of the manager (agricultural activities, industrial factories), and financing institutions.

Since the palm oil plantations which are cultivated by individual farmers are located in scattered areas (not in one area like the plasma plantations), the development of an palm oil factory should be adjusted to size of the plantations which will supply the factory in a particular area. ■

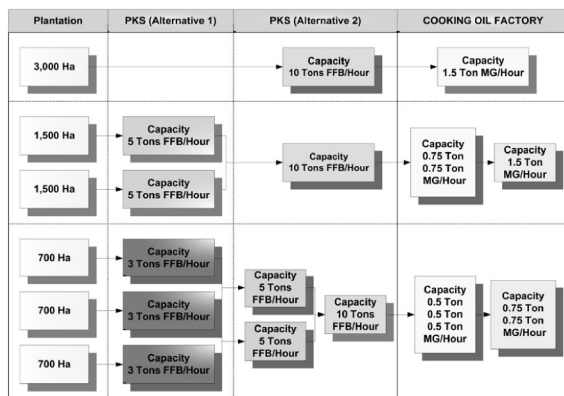


Figure 5. Conceptual Scheme of Palm oil Factory (PKS) and Small Scale Cooking Oil Factory in Rural Areas (Almasdi Syahza, 2004)

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## The Impact of Age, Educational Background, Gender, and Monthly Expenditure on the Potential of Green Products Buyers

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CHAID

## ABSTRACT

The level of environmental degradation continues rising to lead a global warming. Without immediate prevention measures, this could bring the Earth into total breakdown. Therefore environmental preservation campaign buzzing for every element of the society to participate in the campaign. Number of people understand and care about environmental degradation and global warming is growing. Many people aim is to influence the lifestyle and consumption pattern of the society. The campaign is to attract and motivate the society to purchase environmentally friendly goods which are also known as green products. The number of potential people to the purchase green products continues rising along with the spread of knowledge concerning the importance of conserving the environment. Such condition recognized by the companies. Therefore they start to consist them as the target market. One of the important marketing aspects is market segmentation. There are many ways and statistical methods to classifying consumers into particular segmentations; one of the methods is the Chi-squared Automatic Interaction Detector (CHAID). CHAID, it is implemented in this research for green product market segmentation (Segmentation result subsequently used to determination of the following strategic marketing measures). CHAID examines independent variables used in classification and arrangement process based on the level of chi-square statistical significance towards the dependent variable. Dependent variable used in this research is potential customer trend to purchase preference of green products. The result shows that significantly influential variables towards the potential of green products buyers are age, educational background, gender and their monthly amount of expenditure / spending.

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Environmental degradation, nature and its content that causes global warming has become a major topic discussed by everyone lately. In fact, the topic had long been concerned by the researchers, scientists, and environmental care activists. Nowadays people share the same concern for the impact of global warming began to get real. The most obvious phenomenon indicating global warming is climate change. For instance, frequent heavy rain in what is supposed to be the period of dry season.

Temperature increase between 0.15 - 0.30 C (Wikipedia, 2009) throughout the earth has started to happening during 1990-2005. If it continues to increase, the entire north and south polar icebergs would be totally gone by 2040. Subsequently, in case of no improvement to the situation, there will be scarcity of freshwater that could give rise to the problem of hunger around the world by 2050. There will be serious heat, decline in agricultural sectors, freshwater scarcity causing millions of people struggling for food and water. Fumes and dusts will cause shortness of breathing. Coastal residential areas will be submerged by rising sea level, obliterating islands.

The government and environmental care institutions keep on campaigning environment preservation to the societies. Despite the minimum result, the societies began to understand and aware of the importance of preserving the environment. The society is increasingly aware that with even the smallest contribution could help to preserve the environment globally. The condition influences society's consumption pattern. Nowadays people start to put environmentally friendly product, known as green product, into their list of choices.

Following the growing popularity of environmentally friendly product, thus it is very interesting to determine the products' marketing strategy. One of the steps in determining the strategy is to identify market segment for consumers or potential consumers interested in the product.

There are numerous methods that can be used for market segmentation. One of the commonly used methods is statistical analysis method, Chi-squared Automatic Interaction Detector (CHAID). Researchers had been using this CHAID model for such segmentation, for instance, in Hoare (2004), Antipov (2010), Kusakci (2010), Ramaswani and Bhaskaran (2010), Hoare (2004) using CHAID analysis for classification based on fairly complex non-linear daily financial data. CHAID application for market segmentation in higher education environment was conducted by Kusakci (2010) using various characteristic of prospective students to predict their success in college. Similar research was performed by Ramaswani and Bhaskaran (2010), analyzing the data on the characteristic of high school students to predict college success. To evaluate the accuracy of classification model, CHAID had been used by Antipov (2010) which at the same time recommended better predictive classification model.

In the research, CHAID was used to form segmentation which separates the sample into two or more different groups based on certain criteria. Subsequently further separate the groups into smaller groups based on other independent variables. The process continues until there are no statistically significant independent variables left. Dependent variable that will be used in the research is potential buyer as the direct target market for green product whether the respondent a potential buyer or not. Whereas product purchase decision making of consumer behavior is used to determine the independent variables.

Concern about global warming and the importance of preserving the environment has become a common thing, it is not only for the scientist or government people. Information about global warming and environment preservation are available for almost everyone. Almost every nation in the world acknowledged the danger of global warming, including Indonesia.

In Indonesia, global warming and environment preservation is popularly discussed in the TV, media, seminars as well as schools. Nowadays almost every element of the society is aware of this. The condition encouraged the people to start appreciate the importance of preventing global warming by way of preserving the environment. They have also further understands that they can contribute, even in a small scale, to help preserve the environment thus prevents global warming from worsening. It encourages some part of the society to change their lifestyle and behavior. Such behavioral change is subsequently studied by the marketers for the sake of capitalizing the opportunity in order to market and sell their product more, which also known as green product marketing or green marketing.

Green product marketing started to be popular in 1980s along with the development of research indicating that earth has been badly damaged and the news has publicized to the society thus influencing their lifestyle (Avro, 2009). Several companies then took a stand to be committed to help prevent the environment degradation. Evidently that such measure gained positive response from the consumers. Consumers support came in the form of the purchase of the companies' environmentally friendly products. Subsequently the number of companies embracing the same approach increased. Companies intentionally creating campaign for their product, informing that it was environmentally friendly or green, because it was well received by the public as the consumer. Green marketing is used to boost up the sales.

The number of consumers purchasing green product, also known as the green consumers, is considerable (Robin, 2007). In addition to the growing concern for environment preservation among consumers, the trend shows that green product is becoming increasingly popular among the people. It has become a lifestyle (green style). Reasoning that it does not only help to the environment preservation, green style also considered to bring cost savings to the consumers.

Examples of green product are:

- a. Low-power lamps,
- b. Electronic devices such as refrigerator, air conditioner, computer etc. with low power,
- c. Printer that uses environmentally friendly inks,
- d. Recycled products such as: recycled books, recycled wipes, recycled shopping bags, etc.
- e. Cosmetics and soaps with environmentally friendly organic ingredient,

In a marketing system, a company has to develop strategy by analyzing influential factors to the business, including the available opportunity, regarding its scale and the time period. The following is competition factor regarding its intensity level in the business. Who is the company's main competitor, what their main advantage is and how to win the competition. The next factor is to analyze the marketing target. To whom the marketing will be carried out on by referring the profile of potential consumers.

In case the factors mentioned above have been analyzed, the next step is to determine the target market. Citing Belch (2007), the process is divided into several steps, namely:

- a. Identifying market
- b. Market segmentation
- c. Targeting
- d. Positioning

In terms of market segmentation, Lehman (2005) suggested evaluating the market segments, the company needs to observe at least two factors: first is the attractiveness of the segment structure, Measurement and growth of the targeted segment and which will generate profitability? Second factor is the goal as well as the company's ability as they have to determine whether a potential segment comes with the right measurement and growth characteristics for the company. However, although a segment is in accordance with both factors mentioned above, yet incompatible to the company's goal or does not meet the company's capability and adequate resources, then the segment is negligible.

There have been many references related with the market segmentation. Nelson (2010) had reviewed the market segmentation, ranging from objective of segmentation, basis of segmentation, basic criteria used, analysis method (*Cluster Analysis, Conjoint Analysis, CHAID, Discriminant Analysis*). Other author, for example, Thomas (2007) also conducted similar analysis covering geographic segmentation, media segmentation, distribution channel segmentation, price segmentation, psychographic segmentation, demography segmentation and time segmentation. International market segmentation issue and perspective had been reviewed by Steenkamp and Hofstede (2002). They interviewed 25 empirical studies ranging from its sample aspects, geographic configuration, the validation, prospects and its weaknesses. Segmentation using *Neural Network* had been conducted by Bloom (2005) for South Africa's tourist market segmentation. The model is also capable to support the analysis of tourist behavioral changes within and between the segments.

After the segmentation, the company is able to implement strategy to the segment. Thomsson (2008) briefly explained the strategy to win a competition. The strategy divided based on the nature of the product benefits and targeted market volume. The nature of the product benefits divided into lower-cost or differentiation, as for targeted market volume divided based on extensive or narrow. Combining the two dispositions we will get four different strategies plus another strategy that covers the first whole four strategies. The five strategies can be summarized as follows:

- a. Comprehensive low-cost strategy
- b. Centralized low-cost strategy
- c. Broad differentiation strategy
- d. Centralized differentiation Strategy
- e. Best-cost strategy

After determining the marketing strategy, the next step is to make a plan that includes product decision, price decision, channel of distribution decision, and promotional decision. Indubitably,

marketing main goal is for the consumers to purchase the product.

**METHODS**

Data gathering in the research carries out using survey method that is by conventionally distributing written questions. Respondents are given the question sheet or direct questionnaire to be filled. In this case, respondents know understand clearly that they themselves are part of the under observation object and actively participating in the research. The resources of data and research population are group of productive-age employees, assumed to be aged between 2- to 55 year-old. The data were collected from Bandung that considered representing Indonesia's big cities. Sampling method performed using simple random sampling method from various segments, types of occupations, gender. The sample will be picked randomly in various public locations in Bandung.

The research formed based on number of references obtained from respondents describing variables structured within green product potential buyer characteristic or in other words to acquire green product potential buyer segmentation. To develop the segmentation, analysis method used is statistical analysis method, Chi-squared Automatic Interaction Detector (CHAID).

Lehman (2001) explained the steps towards CHAID analysis. First step in CHAID analysis is to create two-way contingency table equipped with its dependent variables, in which Y as the dependent variables and X as predictor variables. Next calculate the p-value for each of the chi-square value in pairs to assess the level of significant or  $\alpha$ . Among the insignificant pairs, combine the most similar category pair (the pair with smallest paired chi-square value) into a single category. For certain combined category composed of 3 or more categories, conduct a trial to find whether a particular independent variable category should be separated by testing its significance between the category with other category within the combined category. In case

of significant chi-square value result, separate the category with others. In case of more than one category that are available for separation, separate one of them with the highest chi-square value.

Gallagher (2000) further describe four steps in the use of simple CHAID analysis namely: (1) Examine each independent variables using chi-square test to determine which category could significantly indicates the difference within dependent variables and to collect all insignificant categories; (2) Determine the best or the most significant independent variables to be used in differentiating the dependent variables; (3) to split the data using the independent variable category with the most significant data; (4) examine the remaining independent variables category to determine the most significant level in specifying differences in the subsequent dependent variables and separate them with the insignificant; (5) determining which independent variables the most significant and then continued with dividing the data using the variables. Subsequently to repeat the five steps mentioned to identify all subgroups.

Gallagher (2000) suggestion is to conduct data testing based on the merged table. Data testing is needed to know whether there is any significant correlation between the factors. It is considered as independent or statistically free in case of insignificant correlation between them. The significance testing performed with **Chi-Square Test ( $\chi^2$ )** as shown in Table 1.

Description:

- $n_i$  = The number of rows to i
- $n_{.j}$  = The number of rows to j
- $n$  = Respondent total number
- $n_{ij}$  = The number of observations in row i and column j

Based on the table, we can get the expected value or counted Eij using the formula as follow:

$$E_{ij} = \frac{n_{i.} \cdot n_{.j}}{n}$$

The formula used in Chi Square is:

$$\chi^2 = \sum_{i=1}^{X_i} \sum_{j=1}^{Y_j} \frac{(n_{ij} - E_{ij})^2}{E_{ij}}$$

When the error probability value (p-value) < level of significant ( $\alpha$ ) then H0 is rejected and H1 accepted which means both factors are interrelated. Yet when error probability value (p-value) > level of significant ( $\alpha$ ) then H0 is acceptable and H1 is rejected which means both factors are not interrelated. Level of significant or  $\alpha$  used in the research is 5% (0,05).

The analysis continued with selecting the best independent variables, that is the one with the lowest p-value, and then make groups distribution with the independent variables, by using each of the independent variable categories that have been merged optimally to determine the sub division

Table 1. Chi-Square Test Contingency Table

		Variable Y				Total
		$Y_1$	$Y_2$	...	$Y_j$	
Variable X	$X_1$	$n_{11}$	$n_{12}$	...	$n_{1j}$	$n_{1.}$
	$X_2$	$n_{21}$	$n_{22}$	...	$n_{2j}$	$n_{2.}$
	...	...	...	...	...	...
	$X_i$	$n_{i1}$	$n_{i2}$	...	$n_{ij}$	$n_{i.}$
Total		$n_{.1}$	$n_{.2}$	...	$n_{.j}$	$n$

from the master group into new sub groups. The group divisions cannot be done if there are no independent variables with significant p-value

Segmentation process and CHAID result can be made into tree diagram, as shown in figure 1.

Based on explanation by Lehman (2001) CHAID tree diagram works top down, in which the diagram set from main groups, continued by sub groups structured successively based on result of main groups division in accordance with certain criteria. Each of the nodes in the diagram represents sub group from observed sample. Every node will be consisting of sample entirety and absolute frequency for each category above. In CHAID classification tree, there is term of depth resembling the amount of nodes level all the way down to the last sub group nodes. On the first depth, sample is divided by X1 as the best independent variable for dependent variable based on Chi-square test. Every node consisting of information regarding Y variable frequency, as a dependent variable, which is part of the resulting sub groups based on the category (X1). On the second depth (node X2 and X3) is

the result of division by X1 (for the 1<sup>st</sup> and 3<sup>rd</sup>). In the same manner, next sample will be divided by other descriptive variable which are X2 and X3, thus become sub groups of the 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, and 7<sup>th</sup> node. Each node shows respondent percentages for each dependent variable categories, as well as the total respondent number for each node.

This node will be interpreted as a segmentation to be tabulated divided into green product potential buyer consumers and green product non-potential buyer consumers. Green product market segmentation will be generated from the tabulation.

CHAID is used to generate segmentation dividing a sample into two or more groups based on certain criteria. Then divide the groups into smaller group based on other independent variables. Proceed until there are no statistically significant independent variables left. Dependent variable used in the research is potential buyer that will be the target of green product marketing. Dependent variables divided into two categories:

- Green product potential buyer consumers,
- Green product non-potential buyer consumers.

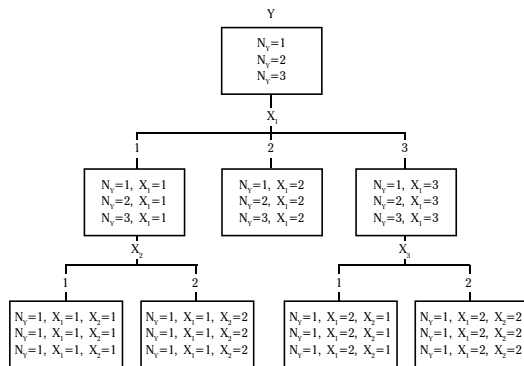


Figure 1. CHAID Analysis Tree Diagram

The dependent variables acquired from several questions directly indicating whether the respondent come under as potential buyer or not. Whereas independent variables can be acquired from the analysis of product purchase decision-making.

**RESULTS AND DISCUSSION**

CHAID analysis result to determine interrelation between independent variables towards dependent variables can be acquired with the assistance from SPSS 17.0 software as shown in Table 2.

From the result of Chi-Square test mentioned above, thus it is known that the variables with correlation or affecting potential buyer towards green product are Age variable and Education by reason of its p-value level is lower compared to level of significance (α) of 0,05. Subsequently after running level of significance test on several variable level and categories, Age variable is taken as first node.

The next step in CHAID analysis is jointing stage. In the research, Age variable divided into 4 categories:

- below 23-year-old
- 23 – 30 -year-old
- 31 – 40 -year-old
- over 40 -year-old

Based on CHAID analysis through the search of level of significance from amalgamation possibilities, thus the category of below 23-year-old amalgamated with category of 23 – 30 –year-old and 31 – 40-year-

old. Resulting in change of Age Category variable to become as follows:

- Below of equal to 40 -year-old.
- Over 40 -year-old.

The amalgamation was done for the composition qualify chi-square significant requirement, which is p-value level below 0,05 and the biggest chi-square. It indicates that group of over 40-year-old has the tendency of ignorance towards environment thus probably considered to be included as non-potential buyer in green product marketing. There is a chance that the age group's level of understanding and knowledge regarding environment is low, thus they bear the tendency of ignorance towards preservation of the environment.

After acquiring significance value on each step, the next step is to repeat the same CHAID analysis with limited respondent for the category below or equal to 40 -year-old. Next step, highest level of significance referring to Education variable, then continued with its categories amalgamation process. Education categories prior to the amalgamation are:

- Elementary/Junior High
- High School/equal
- Diploma/equal
- Under/Post graduate

And based on chi-square level of significance, then the category of Elementary/Junior High amalgamated with category of High School/Equal.

Table 2. Chi Square Potential Buyer Test Result for Green Product Between Dependent Variable and Respondent Demographic

Variable	chi-square test	p-value
Gender	3.461	0,063
Marital Status	0,099	0,753
Age	20.088	0,000
Education	28.859	0,000
Occupation	6.713	0,152
Occupation Field	18.014	0,081
Monthly Expenditure	9.156	0,057



The category of Diploma/Equal amalgamated with Under/Post graduate. After the amalgamation to become as follows:

- High School/Equal and below
- Diploma/Under/Post graduate

It indicates that education is highly correlated to green product potential buyer. Community groups with lower-middle level education will have less understanding and knowledge of environment. This has led the community group into slight ignorance towards environmental preservation, let alone the potential of green product purchase.

The following Chi-square analysis indicates Gender variable with highest significance on narrowed total respondent number. On this stage, the amalgamation is not necessary. There are only two categories, which are:

- Male
- Female

Total number of male category considered as green product potential buyer is equal with the female that is 68, however each category's percentage vary with male category potential buyer as much as 79% (68 compared to 86), while the female is as much as 92% (68 compared to 74). Thus in percentage female category is larger than the male category. This indicates that women have greater tendency to be green product potential buyer compared to man.

The process then retested to find if there were any significant variables left. Variable that can still be examined is the variable of monthly expenditure. This variable should also be amalgamated, the category of less than Rp. 1 Million to be amalgamated with the category of Rp. 1-2 Million, whereas the category of Rp. 2-3 Million amalgamated with the category of Rp. 3-5 Million and the category of less than Rp. 5 Million. The results of the amalgamation are as follows:

- Less than or equal to 2 Million
- Over 2 Million.

This proves that monthly expenditure affects green product potential buyer, in which the bigger the amount of monthly expenditure, the bigger the chance to be green product potential buyer.

CHAID analysis process mentioned above and its amalgamation process can be described in CHAID classification tree as shown in the figure 2. The figure clearly shows the nodes along with its Chi-square analysis result.

Figure 2. shows that there are four variables with significant result namely Age, Education, Gender and Monthly Expenditure. In addition to that, CHAID analysis result classification tree diagram has four depths up to no variable correlated with its dependent variable left. Whereas variables with no correlation namely Marital Status, Occupation and Occupation.

Level of p-value and chi-square test from each independent variable considered to be in correlation with its dependent variables as shown in the Table 3.

The four variables in Table 3 have the value of less than  $\alpha = 0.05$ . The conclusion is that chi-square test is to reject H0 or in other word that the variables have the correlation with dependent variable, that is green product potential buyer.

Tree diagram in Figure 2. shows that the market can be divided into five segments, namely:

- 1<sup>st</sup> Segment Potential buyer of age < 40 -year-old, education of Diploma/under/post graduate, female and monthly expenditure of > Rp. 2 Million.
- 2<sup>nd</sup> Segment Potential buyer of age < 40 -year-old, education of Diploma/under/post graduate, female and monthly expenditure of < Rp. 2 Million.
- 3<sup>rd</sup> Segment Potential buyer of age < 40 -year-old, education of Diploma/under/post graduate, male.
- 4<sup>th</sup> Segment Potential buyer of age < 40 -year-old, education of High school/Equal or below.
- 5<sup>th</sup> Segment Potential buyer of age > 40 -year-old.

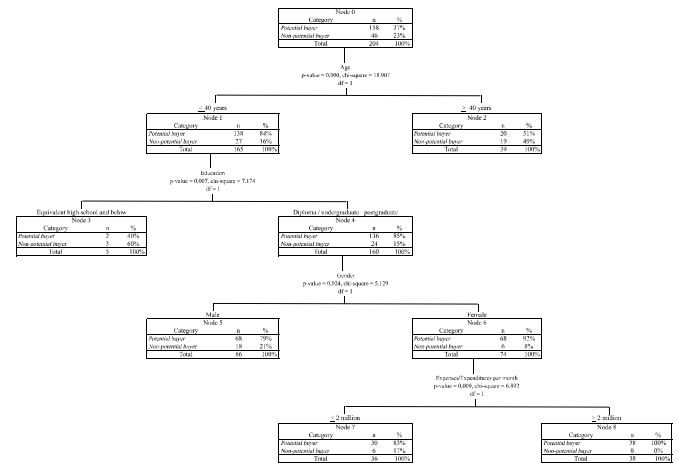


Figure 2. CHAID analysis result classification tree diagram for the Variable of Green Product Potential Buyer towards Demography of Respondents

Table 3. Level of P-Value & Chi-Square Green Product Potential Buyer Towards Demography of Respondents in the Tree Diagram

Variable	chi-square test	p-value
Age	18.907	0,000
Education	7.174	0,007
Gender	5.129	0,024
Monthly Expenditure	6.892	0,009

From the five segments formed will be used to calculate both green product potential and non-potential buyer as shown in Table 4.

Tabel 4. Tabulation of Green Product Potential Buyer and Non-potential CHAID Analysis Result

Segment	potential buyer		non-potential buyer	
	Total	%	Total	%
1	38	100%	0	0%
2	30	83%	6	17%
3	68	79%	18	21%
4	2	40%	3	60%
5	20	51%	19	49%

Therefore based on the tabulation results of table 4 it is found out that the first segment has the largest percentage of potential buyers (100%), nevertheless, the third segment has the most total number of potential buyers compare to the other four segments. The first segment has a characteristic of age less or up to 40 years, Diploma/Bachelor/Master holders, and female with big expenditure more than Rp. 2 million per month, while the third segment has a characteristic of age less or up to 40 years, Diploma/Bachelor/Master holders, and male. Here can be seen that the two segments have the equation in the age variable (less than or up to 40 years) and education variable (Diploma/Bachelor/Master holders). And the difference starts from the sex variable. Based on the results of CHAID analysis, it turns out that male's variable is not determined by the big expenditure per month, while female's variable still can be classified based on the big expenditure per month. In other words, men are the potential buyers for the green product regardless how big their expenditures are, whereas for women, they can be a potential buyer for the green product when the big expenditure is more than Rp. 2 Million per month. These results show us that job, occupation and marital status are irrelevant with the target of green product's marketing.

Marketing of the green product has good prospects for this present day and future. As predicted, for

this product the number of potential buyers will continue to grow. This is due to:

- Environmental conservation cannot be compromised any longer, this effort is essential and absolute to be done for all mankind, so it's not only the responsibility and obligation of the scientist nor for the government. This effort of environmental conservation will continue to be pursued and campaigned in order to be implemented by all mankind. It will become a lifestyle.
- Higher education will give knowledge and awareness to consumers about the importance of environmental conservation, which will then affect their lifestyle and consumption pattern.
- The energy that gets more expensive day by day will bring the people to finally think about cost-saving, which will also encourage them to choose products that are energy efficient.

Companies that intend to produce green product need to be fully supported by the professional research & development divisions (R & D), because the green product requires a continuous assessment in technology in order to produce products that can be categorized as green product, and surely to meet customers' expectation. The expenditure occurred is not small. For that reason, the competition on this field is only for those companies that have huge financial to be able to finance the R &

D divisions. For companies that cannot afford to provide professional R & D divisions are suggested to think wisely, before entering this market. Thus it can be assumed that this market is classified as low competition factor, and hard entering this market for the other new players.

Target marketing or the potential buyers are those consumers who care enough about preserving the environment, and those who are willing to participate in environmental conservation effort. They are willing to change their consumption patterns on their attitudes towards the environmental destruction and its preservation.

Referring to the strategy explained by Thomson (2008) as previously discussed, currently the green product marketing is under the category of differentiation product. While on the market target side, the green product marketing is categorized under the wide market target. Therefore, the green product market should set its product differently from its competitors. This can be emphasized through its different package, unique advertisement, and unique product appearance without turning aside its message or identity where the product is environmental friendly or energy efficient. So that consumers who purchase the product will feel that they have to help preserve the environment, or have been saving energy consumption. And if the product offered is addressed to women, it is necessary to observe any possible additional variable; those are women who have a big expenditure more than 2 million per month. For further strategic implementation is discussed in the following section.

Referring to the selected segment, the selected product ought to be relevant with today's modern and dynamic style, because one of the characteristics of the selected segment is that age less or up to 40 years. In this category, potential buyers are those who are on their productive and mobile age. Informative product is an obligation hence the potential buyers in this age range are close with information, they are familiar with cyberspace. Mo-

reover, other segment characteristic is education: Diploma/Bachelor/Master holders. CHAID analysis results explain that both men and women can be the potential buyers for the green product with the additional variable for women, big expenditure with more than 2 million per month. Therefore, it is determinable from the beginning whether the product was created for multigender or intended for men or women only. If the product is intended for men and or multigender, then the target marketing is a wide differentiation strategic. This strategic is applied when the benefit of the product is differentiated or differ with other competitors' products. The product may be in a high price because it comes from the professional research & development (R&D) divisions to achieve a product differentiation, the expensive cost of the target can be covered with a large market, while companies continue to improve themselves to tighten the cost in order to make a greater profit. If the product is offered for women, then the product must have a particular style. That doesn't mean feminism is needed to be shown, but it is needed to make women take their choices whether to buy or not to buy a product. Women tend to buy a product based on recommendations of friends, family or other people, they are like detective, firstly, they have to know the profit and benefit of certain items before purchasing it, especially highly educated women. The products should be able to recommend themselves. Women are also concerned with shape, color, packaging and others associated with a particular style that is able to build a certain perception. Therefore, products must be designed as beautiful as possible, unique, and so forth. Women are also easily attracted to an additional bonus when buying a particular product, although that additional product is not needed, or not at all useful. The important thing is they feel like gaining some advantage rather than buying another product without any bonus. Therefore, once again, the products to be marketed in green product should really add additional values in order to satisfy consumers.

In terms of marketing green product, pricing or price

seems to be quite sensitive if the segmentation is addressed for women, considering the presence of a big variable expenditure more than 2 million per month for women. But it is not hard if the segmentation is addressed for men. Potential buyers can receive a higher price as long as they feel satisfy with the profit or benefit gained from the green product. Companies can set their prices high, while continuing to do the research to keep the production cost, in order to make a greater benefit. Moreover, basically the production cost of green product is quite high, considering producers will need to do the research and keep on developing to make the green product. But if consumers were disappointed as they did not get the products as promised, then that product will soon be abandoned because consumers will feel like they have been cheated, they did not get any benefit for the money they had spent.

Suitable promotions with the selected segment are suggested to fulfill a few things, as follows:

- Complete information, considering the segment is a group of consumers who have higher education (Diploma/Bachelor/Master holders). Information can be offered through brochures, catalogs, packaging, etc. If necessary have a website on the internet, so it would be easier for the potential buyers to get the information needed about the product.
- Be consistent in giving friendly messages about the environment, this purpose will lead the potential buyers to buy some products. Therefore, they need to be convinced about the value consistently, because if a product is set to enter the market of green product, there is no cancelation and we cannot change market's direction. If not, then the product will be abandoned.
- In sales, if necessary, place the sales force directly (personal selling). Additionally salesperson may play the role as consultant to explain how that product can help consumers to prevent environmental damage.

## CONCLUSION

Research result of green product marketing, using CHAID analysis generates five potential buyer, as follows:

- Potential buyer of age < 40-year-old, education of Diploma/Under/Post graduate, female with monthly expenditure of > Rp. 2 Million.
- Potential buyer of age < 40-year-old, education of Diploma/Under/Post graduate, female with monthly expenditure of < Rp. 2 Million.
- Potential buyer of age < 40-year-old, education of Diploma/Under/Post graduate, male.
- Potential buyer of age < 40-year-old, education of High School/Equal or below.
- Potential buyer of age >40-year-old.

From the result of the analysis mentioned above, there are several managerial implications made into consideration in making decision, as follows:

1. The first segment need to be prioritized in the green product marketing target is those potential customer with the following group classifications: Age segment of less or equal to 40-year-old female, education of Diploma/Under/Post graduate, with monthly expenditure of over Rp. 2 Million;
2. Second target need to be worked out is the group of potential customer with the following classification: Age segment of less or equal to 40-year-old male, education of Diploma/Under/Post graduate, male;
3. It is recommended that green product marketing to adapt product differentiation strategy targeting the niche market or combination between market specialization and product specialization towards segmentations mentioned above
4. Green product marketing may ignore the variables of occupation, field occupation, and marital status for the reason that those variables do not have any significant correlation with green product potential buyer. ■

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## The Effects of Job Autonomy on Work Outcomes: Self Efficacy as an Intervening Variable

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### ABSTRACT

The purpose of this research was to examine the relationship between job autonomy and work outcomes (job performance, job satisfaction and job stress), self efficacy as a mediating variable. This research also investigated the impact of job satisfaction on job performance and job stress on job performance. Variables in this research were measured via a survey of 190 banking salespersons in D.I. Yogyakarta and Solo. Structural Equation Modeling (SEM) were used to examine the effects of job autonomy on work outcomes, job satisfaction on job performance, and job stress on job performance. Results showed that the estimated model in this research is acceptable based on its score of the goodness of fit index. The structural relationship showed that job autonomy significantly related to job satisfaction and performance, but not significant with job stress. It also showed that self efficacy partially mediated the relationship between job autonomy and job satisfaction, and job performance. In addition, this research found that self efficacy not mediated the relationship between job autonomy and job stress. There was no significant relationship between job autonomy and job performance but this research showed that job satisfaction significantly related to job performance. Finally, these results had an important implication to managers in designing job.

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Previous researches have been used job autonomy to predict and test the effects of job design on work outcomes. These researches describe that job autonomy became the critical antecedent for many positive work out-

comes. Gellatly and Irving (2001), Langfred and Moyer (2004) found the positive effects of job autonomy on job performance. Job autonomy enhances performance because workers with high job autonomy will perceive that he/she trusted to perform the

task. This perceives positively effects their intrinsic motivation and the effectiveness in working.

Several researches found positive association between job autonomy and job satisfaction (DeCarlo and Agarwal, 1999; Finn, 2001; Liu et al., 2005; Nguyen et al., 2003; Thompson and Prottas, 2005). Workers that given high autonomy will feel that the results of their job are determined by their efforts, actions and decisions so, they will feel more satisfied.

Another work outcomes that related to job autonomy is job stress. Job autonomy allow individuals to limit their exposure to stressors and able to choose their task or allow individuals to limit the more stressful tasks, thereby reducing feelings of threat and encouraging positive coping behaviors (Elsass dan Veiga, 1997). Thompson and Prottas (2005) support this finding. They found that job autonomy significantly negative to job stress, turnover intention, and work and family conflict. Furthermore, Kauffeld (2006), Nonaka et al., (2000) in Smith et al. (2003) also found positive association between job autonomy and worker's competency and creativity.

Generally speaking, researches in job autonomy have showed the consistent relationship between job autonomy and work outcomes. However, research on job autonomy has left several questions unanswered. This present study focuses on question: what are the processes by which job autonomy effects work outcomes? To answer that question, this research used self efficacy as an intervening variable between job autonomy and work outcomes. According to Gist and Mitchell (1992), self efficacy is an important motivational construct. It influences individual choices, goals, emotional reactions, efforts, coping and persistence. Self efficacy also changes as a result of learning, experience, and feedback.

To the extent that autonomy is high, work outcomes will be viewed by employees as depending

substantially on their own efforts, initiatives, and decisions, rather than on the adequacy of instructions from the boss or in a manual of procedures. This condition has positive effects on employees' self efficacy judgment because they perceive themselves as more capable and more resourceful thereby increasing their self efficacy (Wang dan Netemeyer, 2002). Employee with high self efficacy will put forth more effort and is more likely to persist when encountering obstacles or negative experiences (Kreitner and Kinicki, 2004). On the other hand, employee with low self efficacy is apt to give up, believing the difficulties merely prove that he or she was unable to do the job. Self efficacy also has a significant positive correlation with job satisfaction, job performance and job stress. Employees' satisfaction increases because the feeling of competence and confidence that accompany self efficacy make job the more enjoyable and able to coping the stressor in the workplace. Therefore, job design with high autonomy will be powerful in influence employees' performance, satisfaction and reduce job stress through increased self efficacy.

Finally, by setting self efficacy as an intervening variable between job autonomy and work outcomes (performance, satisfaction and job stress), this research is going to explain the process of job autonomy effects work outcomes. This study is important for the following reasons. First, it contributes to the literature by used self efficacy to explain how job autonomy effects work outcomes. Second, this study also contributes an empirical evidence in investigated the relationship within the work outcomes occurred on job autonomy, such as the effects of job satisfaction on performance and the effects of job stress on performance. Third, the results of this study may have important implications for human resource managers in designing job.

#### Theoretical Framework and Hypotheses

##### Development

##### Job Autonomy, Self Efficacy and Job Performance

Job autonomy is defined as the degree to which the job provides substantial freedom, independence, and discretion to the individual in scheduling work and in determining the procedures to be used in carrying it out. Job autonomy is one of several core job design characteristic (the others are skill variety, task identity, task significance and feedback from the job) developed by Hackman and Oldham (1975). According to Hackman and Oldham (1975), autonomy leads to the critical a psychological state of "experienced responsibility for outcomes of the work", which in turn leads to outcomes such as high work effectiveness and high internal work motivation.

Researches in job autonomy have showed a consistent and positive association between job autonomy and performance. Gellatly and Irving (2001) found positive effect of perceived autonomy on contextual performance. Managers who report greater autonomy in their work have a better performance than managers who report lower autonomy. Claessens et al., (2004) found that perceived autonomy in time was positively related to job performance and job satisfaction and negatively to work strain. According to Langfred and Moye (2004), job autonomy enhances job performance because they perceive themselves capable and more resourceful in performing the task. Psychologically, employee will more motivate to do the best and leads to higher performance. Therefore, a positive linkage is hypothesized between job autonomy and job performance.

##### Hypothesis 1: Job autonomy is positively related to job performance.

A high level of autonomy as perceived by employees has sends a message that supervisor has confidence in his or her capability therefore allows the employees to carry out the task the way he or she wish to. This message has a positive effect on employees' self efficacy. Wang and Netemeyer (2002) test the effects of job autonomy and self efficacy. The result showed a positive association

between job autonomy and self efficacy. The higher job autonomy leads to higher confidence in performing the task. According to Bandura (1997), this confidence will affect the effort invested to attain the best performance. Therefore, a positive linkage is hypothesized between job autonomy, self efficacy and job performance.

##### Hypothesis-2: Job autonomy is positively related to job performance, self efficacy as an intervening variable.

##### Job autonomy, Self Efficacy and Job Satisfaction

Job autonomy is believed could influence job satisfaction. More autonomy is expected to be associated with greater job satisfaction because employees have more freedom to determine their own effort and work schedule. Previous research in this area has been found the significant and consistent results. Morrison et al. (2005) explain that job autonomy became a critical factor in enhancing employees' intrinsic motivation and job satisfaction. Finn (2001) found that job autonomy became the important component in nurses' job satisfaction. Cuyper and Witte (2005) also support this finding; job autonomy is found significantly effect job satisfaction both permanent and temporaries employment. A cross cultural study by DeCarlo and Agarwal (1999) examines the effects of job autonomy on salesperson's job satisfaction. In general, this study finding suggests perceived job autonomy is an important antecedent to job satisfactions among salesperson from Australia, India and U.S. Therefore, it is hypothesized that:

##### Hypothesis-3: Job autonomy is positively related to job satisfaction

Job autonomy will enhance employees' self efficacy because they feel they can go about job basically by themselves without much guidance, resulting in a stronger autonomy-efficacy linkage. Research indicates that high job autonomy enhances employee feelings that job outcomes are a result of his/her efforts (Wang and Netemeyer,

2002; DeCarlo and Agarwal, 1999). In addition, the feeling of job personal responsibility leads employees to develop favorable affective and behavioral reactions to their job thereby increasing job satisfaction. Cohrs et al. (2006) examined the effects of self efficacy on job satisfaction and found a positive association. According to Bandura (1997) individual with high self efficacy will have greater job satisfaction because the feelings of competence and confidence that accompany self efficacy make the job more enjoyable (Purwanto, 2002). Therefore, it is hypothesized that:

**Hypothesis-4: Job autonomy is positively related to job satisfaction, self efficacy as an intervening variable.**

**Job autonomy, Self Efficacy and Job Stress**

Some researchers suggest that the need for personal control may be an intrinsic, ongoing desire (Elsass and Veiga, 1997). Although the need for personal control appears to vary among individuals, as well as across time and situations in a single individual, it may be that a desire for personal control is an inherent motivation. Therefore, when individual loss of control in her/his work (low job autonomy), it will associated with increased level of stress.

Previous researches have documented compelling evidence linking how level of job autonomy with the incidence of negative stress-related outcomes. High job autonomy will leads to reducing job stress because the presence of control may encourage individuals to believe positive outcomes are possible, thereby reducing feelings of threat (Spector, 1986; Elsass and Veiga, 1997). Karasek (1979) examined the effects of job control and level of depression and the result show that job control has a negative association with employees' level of depression. The higher job autonomy, the lower level of stress he/she have. This condition happens because high autonomy allows employees to carry out the job the way he/she wishes to and lead to reducing feelings of threat. Therefore, a negative

linkage is hypothesized between job autonomy and job stress.

**Hypothesis 5: Job autonomy is negatively related to job stress.**

The literature suggests that people's perception on job autonomy enhance their self efficacy because this autonomous job allows people to use their skill, knowledge, and creativity to choose and formulate sales strategies without others' interference. According to Bandura (1997), people with high self efficacy will more likely to persist when encountering obstacles or negative experiences. Therefore, it is hypothesized that:

**Hypothesis-6: Job autonomy is negatively related to job stress, self efficacy as an intervening variable.**

**Job Satisfaction and Job Performance**

Perhaps the most controversial issues that have evolved from behavior research is the job satisfaction and job performance relationship. Previous researchers identified the following viewpoints that have been assumed by theorists with respect to the satisfaction and performance relationship. First, satisfaction causes performance. Second, performance causes satisfaction. Third, the satisfaction and performance relationship is moderated by a number of other variables.

Meta analysis conducted by Petty et al. (1984) found that the first viewpoint (satisfaction causes performance) is stronger and more consistent than others viewpoints. Engko (2006) also support this finding; job satisfaction found has a significant and positive effect on job performance with path coefficient 0,252. Therefore, it is hypothesized that:

**Hypothesis -7: Job autonomy is positively related to job performance**

**Job Stress and Job Performance**

Understanding job stress is a major concern of organization research because it has been

shown to play a role in a number of key job-related attitudes (organizational commitment, job satisfaction) and behavior, such as turnover (Sager, 1994). Moreover, stress can lead to physical illness and chronic diseases such as heart disease, mental ill-health, depression or other problems such as alcoholism (Eckles, 1987 in Moncrief et al. 1997).

Narayanan et al. (1999) examined stressful incidents at work for three different occupations (clerical workers, university professors and sales associates). Lack of control and work overload were reported as major stressors by clerical group and interpersonal conflict as a major stressor by the academic and sales group. Gender differences in stress were also found in this research. Therefore, it can be conclude that stress occurred in all kind of job and affects the individual, group and organization's performance. Therefore, it is hypothesized that:

**Hypothesis -8: Job stress is positively related to job performance**

**METHODS**

**Sample and Data Collection**

Data were obtained from banking salesperson in Yogyakarta and Solo, Indonesia. Purposive sampling is used as sampling method so several criteria was applied to this study. The respondents have been working with those companies for more than 3 months. According to Gist and Mitchell (1992), judgments about self efficacy become more routinized and automatic as experience with a task increases. Therefore, setting 3 months as a criterion is relevant in reducing bias in answer self efficacy, job satisfaction, job stress and job performance. A total of 230 questionnaires were distributed to the salesperson directly through coordination with supervisor and area sales manager. A total 190 questionnaires with complete responses were returned directly to the researcher. Therefore, the response rate in this study is 89, 13 %.

The average age of the respondents was 26-35 years, 56,3 percent of the respondents were male and 67,9 percent received a 4-years college degree

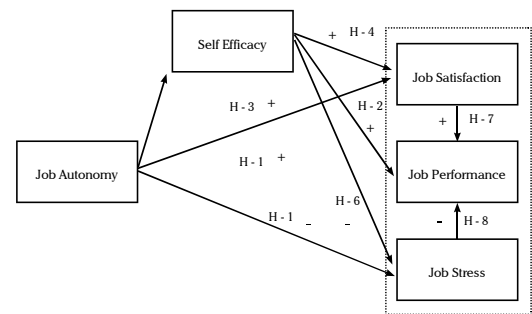


Figure 1. Research Model

or higher education. The respondents have been affiliated with the companies for an average of 2 years, and their range selling experience was 2-6 years.

This study used Structural Equation Modeling (SEM) to examine proposed model on figure 1. Samples used in this research are 190 salespersons and this amount are not meets the requirement of MLE based on total amount of estimated parameters (minimal 335 samples). This lackness will effects on identification model process. Therefore, researcher used two step approach on SEM which each construct will be composite first so total amount of estimated parameter can be reduced based on total amount of sample collected.

**Analysis**

Data analysis was conducted in two stages. First, checking for data entry includes validity and reliability, identification outliers and normality of the data. Second, testing of the fit model was conducted by using Structural Equation Modelling (SEM). Two-Step Approach to Structural Equation Modelling (SEM) was used to test the proposed model presented in figure 1. AMOS 4.01 computer program was utilized to run data from questionnaires. Goodness of fit model was based on multiple indices, selected from: the chi-square value and chi-square over degree of freedoms (normed Chi-Square), the Goodness of Fit Index (GFI), the Adjusted Goodness of Fit Index (AGFI), the Root Mean Square Error of Approximation (RMSEA).

Tabel 1. Operationalization Each Variables

NO	Variables	Operasionalized	Measurement	Amount of items	Sample Item
1	Job Autonomy	The extent to which a job allows the freedom, independence and discretion to schedule work, make decision and select the methods used to perform tasks.	James Breaugh's Instrument: (1999)- <i>Work Autonomy Scales</i>	9 items	I am free to choose the methods the methods to use in carrying out my work".
2	Job Performance	Individual achievement that regulated based on organization's standard and regulation	Instrument of Miao dkk. (2007)	4 items	"I am very effective in contributing to my firm's market share".
3	Job Satisfaction	a pleasurable or positive and negative emotional states resulting from the appraisal of one's job in organization.	Dubinsky dan Hartley's Instrument (1986)	5 items.	"I am generally satisfied with the kind of work I do in this job".
4	Job Stress	A mental and physical condition which affects an individual's productivity, effectiveness, personal health and quality of work in organization.	Instrument of House dan Rizzo (1972).	7 items	"I often take my work home with me in the sense that I think about it when doing other things".
5	Self-Efficacy	Individual's belief in his or her ability to perform job-related tasks.	Instrument of Bandura (1977)	8 items.	"I feel I am overqualified for the job I will be doing".

**RESULTS AND DISCUSSION**

**Validity and Reliability of Measures**

Confirmatory Factor Analysis was used to assess the validity of each construct. Items with factor loading 0.4 or greater are considered practically significant (Hair et al. 2006). Results of Confirmatory Factor Analysis asserted that final items used in this study are 29 items. Cronbach's Alpha coefficients were used to estimate the reliability of each indicator in this research. Although, there was a difference criteria in Cronbach's Alpha coefficients, this research used 0,6 as a criteria. According to Hair et al. (2006) this value is threshold to accept. Table 2 provides the reliability of the measures.

**Descriptive Statistic and Correlation between Construct**

Descriptive statistic in this research involved mean, standard deviation and correlation between

construct. Table 3 provides the descriptive statistic and correlation between construct. Result showed that job autonomy, self efficacy, job satisfaction and job performance correlate and significant in 0.01 while there is no correlation existed between job stress and other construct.

**Fixing the Error Terms and the Lambdas**

This study used two-step approach to test the proposed model in figure 1. Testing structural model using two-step approach requires value of lambda ( $\lambda$ ) and epsilon ( $\psi$ ). The measurement error (epsilon) terms were fixed at (1- $\alpha$ ) X variance and the corresponding lambdas-the loading from a latent construct to its corresponding indicator were fixed at (alpha)<sup>2</sup> X standard loading deviation. The lambdas and epsilon of the constructs are presented in table 4.

Tabel 2. Reliability Coefficients (Cronbach's Alpha) of the Construct

Construct	Number of items in the questionnaire	Number of item retained	Cronbach's Alpha
Job Autonomy	9 items	9 items	0.915
Self Efficacy	8 items	6 items	0.868
Job Satisfaction	5 items	3 items	0.608
Job Stress	7 items	7 items	0.809
Job Performance	4 items	4 items	0.914

Tabel 3. Alphas ( $\alpha$ ), lambdas ( $\lambda$ ) and Epsilon ( $\psi$ )

Variables	Correlation Coefficient				
	OTO	SE	KK	SK	K
Job Autonomy (Oto)	1,00	.593**	.347**	.005	.500**
Self Efficacy (SE)		1,00	.451**	-.014	.485**
Job Satisfaction (KK)			1,00	-.046	.379**
Job Stress (SK)				1,00	-.012
Job Performance (K)					1,00
Mean	5.7754	5.2509	4.8193	3.5301	5.2263
Std. Deviasi/Minimum	.96174	1.17973	1.14528	1.18165	1.16330
Maximum	1.00	1.00	1.00	1.43	1.50
	7.00	7.00	7.00	7.00	7.00

\*\* Significant correlation at the level 0,01

OTO= Job Autonomy; SE= Self Efficacy; KK= Job Satisfaction; SK= Job Stress; K= Job Performance

Tabel 4. Reliability Coefficients (Cronbach's Alpha) of the Construct

Construct	Alpha ( $\alpha$ )	Lambda ( $\lambda$ )	Epsilon ( $\epsilon$ )
Job Autonomy	0,92	0,72	0,061
Self efficacy	0,87	0,87	0,71
Job Satisfaction	0,63	0,34	0,27
Job Performance	0,92	0,95	0,11
Job Stress	0,82	0,76	0,24

Tabel 5. Structural Model Equation Results

Indices	Cut of value	Result	Remarks
( $\chi^2$ ) - Chi-square	expected to be smaller	0.494	Marginal
Significance Probability	$\geq 0,05$	0.482	Marginal
RMSEA	$\leq 0,08$	0.000	Good
GFI	$\geq 0,90$	0.999	Good
AGFI	$\geq 0,90$	0.984	Good
CMIN/DF	$\leq 2,00$	0.494	Good
TLI	$\geq 0,90$	1.026	Good
CFI	$\geq 0,90$	1.000	Good
NFI	$\geq 0,90$	0.998	Good

**Test of the Structural Model**

Table 4 interpret the test of structural model proposed. Goodness of fit model was assessed base on multiple indices. The result showed that the model proposed is acceptable and has a good fit (table 5).

**Test of Structural Relationship**

After the criteria of goodness of fit have been fulfilled, the test of structural relationship is conducted. The relationship between constructs in output AMOS 4.01 showed by value of standardized regression weight. According to Hair et al. (2006) structural relationship is significant if estimate parameter more than 1,96 (significance level 0.05) and  $\geq 2,58$  (significance level 0,01). Regression weight model in this research provide in table 6.

Table 6 showed that critical ratio (CR) for relationship between job autonomy and job performance is 2,795 (significant at  $\alpha = 0.01$ ). It indicated that hypothesis 1 is supported; job

autonomy significantly positive related to job performance. Similarly, the test showed a strong support for H-2. Critical ratio for relationship between job autonomy and self efficacy is 9,459 and self efficacy on performance is 2.151. It means that, self efficacy partially mediated the relationship between job autonomy and job performance. This study also support hypothesis 3; CR for job autonomy on job satisfaction is 2.097 (significant at  $\alpha = 0.05$ ). It indicated that the higher level of job autonomy, the higher level of job satisfaction. Critical ratio for job autonomy on self efficacy, and self efficacy on job satisfaction also significant at 0,01. Therefore, self efficacy partially mediated the relationship between job autonomy and job satisfaction (H-4 supported).

Furthermore, critical ratio for job autonomy on job stress is 0,079 and it lower than criterion required. Therefore, this research did not support hypothesis 5. It indicated that there is no significant relationship existed between job autonomy and job stress. Similarly, CR for job autonomy on self

Tabel 6. Regression Weights

Structural Relationship	Critical Ratio
selfefficacy <-----autonomy	9.459*
jobsatisfaction <-----selfefficacy	3.680*
jobsatisfaction <----- autonomy	2.097**
jobstress <-----selfefficacy	-0.240
jobstress <----- autonomy	0.079
jobperformance <-----jobsatisfaction	2.345**
jobperformance <-----jobstress	-0.043
jobperformance <-----selfefficacy	2.151**
jobperformance <-----autonomy	2.793*

\* Significant at  $\alpha = 0.01$ ; \*\* Significant at  $\alpha = 0.05$

efficacy is 9,459 (significant at 0,01) and CR for self efficacy on job stress 0,240 (not significant). Based on this, this research did not support hypothesis 6. Self efficacy did not mediate the relationship between job autonomy and job stress.

In addition, this research supports the hypothesis 7. The results showed that critical ratio for job satisfaction on job performance is 2,345 (significant at 0,05). The higher job satisfaction, the higher job performance. Table 5 also showed that CR for job stress on job performance is 0,043 and lower than 1,96 (not significant). So, it can be conclude that there is no significant relationship existed between job autonomy and job performance.

This research's result showed that job autonomy positively related to performance. This finding support the study conducted by Gellatly and Gregory (2001). The higher salesperson perceives job autonomy will lead to increasing job performance. Job autonomy affects salesperson's performance because through job autonomy, salesperson granted responsibility and independence to perform their work. Psychologically, salesperson will more motivate which in turn leads to outcomes such as high self

efficacy. According to Bandura (1997) individual with high self efficacy will put forth more effort to attain the best performance. Therefore, similar with the result, self efficacy partially mediated job autonomy on job performance (H-2 supported).

This research also support that job autonomy positively related to job satisfaction. This results support the study conducted by Morrison et al. (2005) which found that job autonomy became an important factor for employee's job satisfaction. High autonomy affects salesperson's perception about their job. They will feel that the results of their job are determined by their efforts, actions and decisions. This condition changes their judgement of self efficacy and behavior in performing the job which leads to increasing self efficacy and job satisfaction. Therefore, we can conclude that job autonomy enhance job satisfaction through self efficacy (H-4 supported).

Job autonomy negatively related to job stress (Elsass and Veiga, 1997; Karasek, 1979; Spector, 1979). Job autonomy allows salesperson to carry out the job with the way he/she wishes to which leads to reducing feeling of threat. This condition creates a comfortable work environment and



reducing job stress. This research did not support this relationship. There is no significant relationship existed between job autonomy and job stress. Table 2 reported that salesperson's job stress is lower than other variables (autonomy, satisfaction, performance and self efficacy). This research also did not find the role of self efficacy in mediated job autonomy on job stress.

This inconsistency result occurred because of several factors. First, there are many antecedents of job stress. Salespersons might be exposed to the same stressors but they experience different stress levels or different stress symptoms. This happens because of individuals differences. Each of salespersons perceives the same situation differently. Each salesperson also has different thresholds of resistance to a stressor and different way to coping stressors (Greenberg and Baron, 2003). These individual difference may be the causes inconsistency the relationship between job autonomy and job stress. Second, job experience may be effects the level of salesperson's job stress. Based on respondent's demography in this research, 34, 21% of salespersons have been working as a salesperson for 2 until 6 years while 31, 57% have been working less than two years.

Job experience enhances salesperson's belief that he or she has the ability to complete a task and coping the stressors successfully. Gist and Mitchell (1992) state that judgments about self efficacy become more routinized and automatic as experience with a task increases. Third, each salesperson has a difference perception on stressful circumstance. Stress involves people's cognitive appraisal of the potential stressors they face (Greenberg and Baron, 2003). Job autonomy shapes important factor in influencing salesperson's behavior, namely self efficacy. Self efficacy changes salesperson's perception about stressful circumstance. Salespersons perceive stressors as challenge rather than threat in work. This condition may be the causes of insignificance

the role of self efficacy in mediated the relationship between job autonomy and job stress.

The testing of seventh hypothesis showed that job satisfaction positively related to job performance. Satisfied salesperson will put forth more effort and leads to increasing job performance. This result support Engko's (2006) study which states that satisfied worker is an effective worker. Finally, this research did not found significant relationship between job stress and performance (H-7). A Meta analytic test by Lepine et al. (2005) report that inconsistent relationship among stress and performance is occurred because of previous researches did not distinguishes among positive and negative stress. Positive stress (challenge stress) is a stressful demands viewed by manager/ organization as obstacles to be overcome in order to learn and achieve. Negative stress (hindrance stress) is a stressful demands viewed by manager/ organization as unnecessarily thwarting personal growth and goal attainment. Therefore, Lepine et al. (2005) suggests that in further research stress must be distinguishes positive and negative stress. In this research stress is treated as negative stress and it may cause the insignificance of job stress on job performance.

#### MANAGERIAL IMPLICATIONS

This research has an important implication to managers in designing job. Specifically, the implication designed to banking sector due to recent research contexts. First, grant high autonomy will lead to increasing intrinsic motivation thereby increasing self efficacy, job performance and satisfaction. Consequently, managers must grant salesperson the freedom in performing the job in two facets; work method autonomy and work schedule autonomy. Second, the significance of job satisfaction in job performance has been shown by this study. Consequently, manager must find way to increase salesperson's job satisfaction. Job satisfaction can be increase by granting job autonomy, provide a conducive work

environments through reward and punishment system, physical work environment, facility, social support, and supervisor support.

#### Limitation and Futher Study

There are four limitations worth noting in this study. First, this investigates is limited in scope of banking salesperson's which reducing in external validity. So, in further study should involve other salespersons in different industry. Second, the final sample used in this study is relatively small which causes in difficulties fitting models with data. As a consequently, the research conducted two step approach to estimate the model proposed. Third, a self-report job performance measure was used in this study. This may be contained bias in capture the phenomena. So, in further study objective performance measure or multi-rater should be used to assess the job performance. Forth, this research treats stress as a negative stress and did not distinguish between negative and positive stress. However, researcher have been interviewed the supervisor, area sales manager and several salespersons to get the phenomena about stress in their workplace.

#### CONCLUSION

The purpose of this research is to examine the relationship between job autonomy and work outcomes (job performance, job satisfaction and job stress), self efficacy as a mediating variable. This research also investigates the impact of job

satisfaction on job performance and job stress on job performance. Based on the results, can be concluding that:

1. Structural model estimated in this research acceptable fit to the data. It can be seen in several criterion of goodness of fit, such as: Chi-Square (0,494); Significance Probability (0,482); RMSEA (0,000); GFI (0,999); CMIN/DF (0,494); TLI (1,026); CFI (1, 00); NFI (0, 998).
2. Job autonomy positively related to job performance and satisfaction. The higher autonomy will leads to increasing salesperson's job performance and job satisfaction.
3. Self efficacy partially mediated the relationship between job autonomy and job satisfaction, and relationship between job autonomy performances.
4. Job autonomy did not relate to job stress. Self efficacy also did not mediate the relationship between job autonomy and job stress. Individual difference may be the causes of insignificant this relationship.
5. Job satisfaction positively related to job performance. Satisfied salespersons will positively effects their intrinsic motivation and the effectiveness in working.
6. Job stress did not relate to job performance. This condition happens because this research did not distinguish between negative and positive stress which lead to bias. ■

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Appendix

Please check list to the one number which best describe your condition.

	1	2	3	4	5	6	7
	Strongly disagree	Disagree	Rather disagree	Neutral	Rather agree	Agree	Strongly agree
<b>JOB AUTONOMY</b>							
1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SELF-EFFICACY</b>							
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<b>JOB STRESS</b>							
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<b>JOB PERFORMANCE</b>							
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## Factors Affecting the Behavior of University Community to Use Credit Card

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### ABSTRACT

This study was aimed to gain insights and tested the factors that influence credit cards usage in university community of UPI through Theory of Planned Behavior model approach. Using Path Analysis to explain the direct and indirect influence of attitude, subjective norm and behavioral control to intention and behavior of credit card usage. The results showed all respondents have a positive attitude towards credit cards usage, with high influence of subjective norm, high behavior control, high intention to use credit cards and all respondents used credit cards wisely. There was positive and significant effect either simultaneously or partially between behavioral attitudes, subjective norms, and behavior control toward the intention to use credit card. The partial test results showed behavioral attitude has the greatest influence on the intention to use credit card. There was a positive and significant influence both simultaneously and partially between behavioral attitudes, subjective norms, and behavioral control on default-risk debt behavior. The partial results showed that attitude gives the greatest influence on default debt risk behavior. The result also proved there was a positive and significant influence of the intention to use credit card on default debt risk behavior.

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Development of information technology in the financial sector has lead to a shift of public preferences, in the use of payment instruments, from the use of cash to non-cash payment instruments-based cards such as ATM cards, debit cards and credit cards. Particularly in the use of credit cards, showed an increased of

credit cards usage in the period of 2008 through 2010, where within three years the volume of transactions using credit cards was increased by an average of 16.43 percent per year, while nominal transactions was increased by an average of 32.38 percent per year. (Bank Indonesia, 2010).

Credit card (credit card) is a card used as a means of payment transactions for goods or services that the re-settlement or payment can be made by lump sum or in certain minimum amount installments (Siamat, 2005). Meanwhile, according to Bank Indonesia (2004) credit card defined as payment tool which using a card to make payments on obligations that rise due to economic activities, including purchase transaction and or cash withdrawals where the obligation of the card holder to pay in advance was covered by the card issuer or acquirer, and cardholder has obligation to pay the outstanding liability at the agreed time either at once or in installments.

The increased of adoption of credit cards has shown a shift in public attitudes toward debt where debt is no longer considered as taboo, even Webley & Walker (1995) in the Ricci Saadi S.Psi Wijaya (2009) stated currently debt is considering as a part of the lifestyle of modern society. Using credit cards as a payment at one side provide benefits such as transactions become more practical and safe as well as credit cards can be used as a source of funding during the lack of cash. However, on the other side the improper usage of credit cards encourage users to be more consumptive, and if it is not balanced with sufficient income, the user can be trapped into behavior of risky debt practice that make the user

struggle with debt. Various studies have shown that others than economic factors, behavioral factors also become one of the reason of high credit cards usages. Gross and Souless (2002) in Rutherford and Devaney (2004) explained that main cause of high use of credit card is not due to users liquidity, but users' behavioral factors.

Related to the findings above, this study was aimed to gain insights and tested the factors that influence credit cards usage in university community of UPI through Theory of Planned Behavior model approach. Theory of planning behavior was developed by Ajzen Icek, as a development of the Theory of Reasoned Action (TRA). Theory of Planned Behavior is based on the assumption that human beings are rational and can use information. The theory shows that intention to behave is the closest antecedent of a behavior. The stronger the person's intention to show a certain behavior, the more successful he is expected to do so. Theory of Planned Behavior explains that the intention is a function of a) attitude toward the behavior b) subjective norms of behavior and c) the perceived behavior control as shown in Figure 1. The constructs that forms Theory of Planned Behavior in associated with user behavior on using of credit card describe in Figure 1.

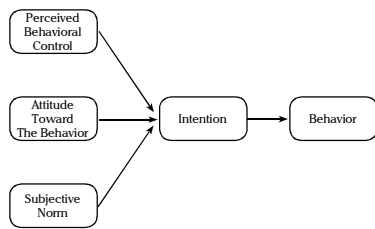


Figure 1. Theory of Planned Behavior

Fishbein and Ajzen in Jogiyanto (2007:71) defined attitude as the number of affections that one feels to accept or reject any behavior that is measured with a procedure that places the individual at two poles of evaluative scale e.g., good or bad, agree or refuse. Based on differences in attitudes, the constructs of attitude are perceived usefulness, perceived risk, and perceived playfulness. The explanation of each constructs associated with the behavior of credit card users are *perceived usefulness* is how far a person believes that a credit card will provide benefits, *perceived risk* is the users perceptions on uncertainty and unintended consequences arising from the use of credit cards and *perceived playfulness* is how far the transaction with credit cards was perceived to be something personally enjoyable other than the value of technology.

Bhattacharjee (2000) in Jogiyanto (2007:70) stated that subjective norm consists of two influence forms, interpersonal and external influences. Interpersonal influence is the influence of friends, family members, coworkers, supervisors and experienced individuals who has potentially to become adopter. Meanwhile the external influence is the influence from outside of organizations such as external reports in the media, expert opinion and other non-personal information considered by the individuals in conducting their behavior. Related with the use of credit cards, Perceived Subjective Norms will show (1) How far people which considered important and support on the use of credit cards, or (2) How far the information received from external parties could support a person to use a credit card.

Perceived behavioral control is related to the premises of perceived ease or difficulty in performing the desired behavior (Jogiyanto, 2007:71). Perceived behavioral control is a reflection of past experience and ownership of resources such as funds, expertise, and time and so on. Ajzen (2002) in Jogiyanto (2007:72) stated that perceived behavioral control consists of (1)

self-efficacy and (2) controllability. Self-efficacy is the individual's perception on the ease or difficulty in performing the behavior or belief in his ability to perform. Individual tends to be more satisfied with the behaviors that they feel able to do so. In opposite, people tend to dislike behaviors that they cannot master in it (Jogiyanto, 2007:72). Related with the usage of credit cards, confidence can be measured with (1) level of confidence to do transaction with credit card, (2) level of financial ability to pay credit card bills, and (3) the level of technical skills to do transaction with credit card. Controllability is the control towards behavior or beliefs about how far the behavior is the will of the individual himself (Jogiyanto, 2007:72). Control toward behavior of credit card usage can be measured by indicators (1) the ability to make decisions of using credit cards, (2) the ability for not using credit cards, (3) ability to adapt the use of credit cards toward the financial capabilities.

Intention defines as the desire to perform a behavior (Jogiyanto 2007:29). Intentions are not static and may change time by time. The wider interval of time, the intention of a person is more likely to change. Intention to do or not to do a behavior is a direct determinant of the action or behavior. By limiting the unexpected events, people are expected to act in accordance with their intentions. In context of the credit cards usage, the intention to use credit cards can be measured by (1) intentions to keep using credit cards, (2) intention to increase the nominal of transactions by credit card, (3) intention to increase the frequency on using credit cards.

Behavior is the act of a person. In context of credit cards usage, behavior is actual use of credit cards. In various studies due to actual use couldn't be observed by a researcher who uses a list of questions, the real usage has been change by term of perceived usage. In various studies, it also found that behavior of using a credit card was measured by (1) Frequency of use, and (2) nominal value of transactions with credit cards. In relation with risky

credit card used can be measured by (1) intensity of paying bills in a timely manner, (2) intensity of paying entire credit card bill, (3) intensity of using credit cards for cash withdrawals.

Previous research from Prasadjaningsih (1999) found that debt-attitude can significantly predict the choice of debt behavior. People who have a positive attitude toward debt are likely to be in debt, while those who have negative attitudes toward debt are less likely to be owed. Research conducted by Livingstone & Lunt, 1992 in the study Cumhur Erdem (2008) states that a person who has a positive attitude to lend money will be easier to decide to lend further and have higher debts than other who has a negative attitude towards debt. The other previous research from Nur Asyiah Jalil (2007) examined the preferences of lecturers for credit card and the respondents argued that credit card is a payment instrument which easy and practical and having credit card is safer than carrying cash. Especially research related to test the Planned Behavior theory on the credit card usage, Cumhur Erdem (2008) explains that subjective norm and attitude toward the behavior are the effective factors in forming the intention to behave.

**METHODS**

The research methods were descriptive and verificative methods. Descriptive study aimed to obtain a description of attitude toward behavior, subjective norm, perceived behavioral control, intention to behave, and actual use of credit cards among the users. While verificative study was aimed to describe the influence verificative attitudes toward, perceptions of subjective norm, and perceived control of the intention to use credit cards as well as the effect of the influence of Behavioral Intention on debt behavior through credit cards.

The population consisted of credit card users among faculty and staff of UPI with 100 respondents and used purposive sampling as sample

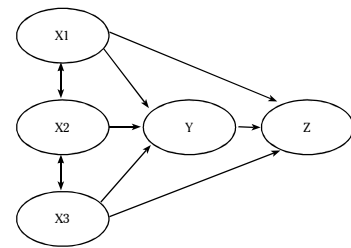
withdrawal technique. The collected primary data were focused on perceived behavioral attitudes, subjective norms and perceived behavioral control and behavioral variables of intention and credit card usage. Secondary data consisted information from various reports on activities / programs and electronic payment systems implementation policy. The Data were collected through observation techniques, interviews and questionnaires. First, the questionnaire validity and reliability were tested with Pearson Product-Moment Correlation Coefficient while the questionnaire reliability was tested with Cronbach's Alpha.

The data analysis consisted of (1) descriptive and (2) verificative analysis. Descriptive analyzes were conducted to measure the performance in criteria of 1 to <2 for very low-performance, 2 to <3 for low performance, 3 to <4 for high performance and 4 - 5 for very high performance. The Path Analysis was used to to explain the direct and indirect effects of cause the independent variables over the dependent variable. In this study the independent variables (X) were attitude toward behavior, subjective norm and behavioral control and dependent variable or cause variable (X4 and Y) were intention and behavior. Figure 2 The following diagram illustrates the complete path diagram for measurement and structural models of the influence of attitudes, subjective norms, behavioral control toward intentions and behavior.

**RESULTS AND DISCUSSION**

**Respondent Characteristics and Experiences Using Credit Card**

The study results showed from 100 respondents, 52% were women and majority age of respondents, 38% were 35-44 years old. Based on educational background and length of time to work, the majority respondents (71%) have S2 background and mostly have worked for 11-20 years (37%). Income levels for majority 51% respondents ranges were 3-5 millions rupiah, while their expense ranges were Rp 1 - 3 millions (49%).



Description:  
 X<sub>1</sub> : Attitude toward behavior  
 X<sub>2</sub> : Subjective Norms  
 X<sub>3</sub> : Control Behavior  
 Y : Intentions  
 Z : Behavior

Figure 2. Structure of Relationship Between Different Variables

Based on their experience using a credit card, this study results showed that majority of respondents (39%) have 2 credit cards and 71% had used credit cards more than 4 years. 39% of respondents had various credit cards such as Visa Classic and MasterCard Classic. Majority of respondents got information on credit cards from various sources such as friends, family, mass media and publishers (39%).

**Perceived Attitude toward Behavior**

Perceived attitude toward behavior was measured by perceived usefulness, perceived risk and perceived enjoyment when using credit card. The study showed that respondents has a positive attitude towards the use of credit cards, where the perceived usefulness was the largest with score 3.79, while perceived risk has average lower score than two other indicators of 2.16. For perceived usefulness indicators, the majority respondents gave high rate of credit card used as a source of funds in shortage of cash condition, while the use of credit cards purposed for emergencies was rated as lowest.

Based on the measurement of perceived risk indicators, the results showed that the majority of respondents still valued the use of credit cards as high risk. High risk was mainly related to the technical risk of the use of credit cards, such as the risk of credit card used by unauthorized parties.

**Perceived Subjective Norms**

Perceived subjective norm was measured by two indicators of interpersonal perceptions and adequacy of information which received by credit card users. Overall results showed that influence of subjective norm was in high performance level, where influence of information adequacy had the highest performance of 3.79 than interpersonal perception. Respondents valued the influence of information, especially sourced from the television media, while the information which received through newspaper and magazine has the lowest rate.

**Perceived Behavior Control**

Perceived behavioral control was measured by two indicators, namely self-efficacy and the

perceived control ability. The measurement results showed that respondents had a high behavioral control, where self-efficacy has the highest value (average score 3.81) compared with control ability (mean score 3.40). From the respondent's ability perception, the technical ability to pay credit card bill was high while the ability to have transaction with credit cards was still relatively low. Meanwhile the perception of indicators related to the ability to control, the ability to stop using credit cards and the financial ability owned by the respondents had the lowest scores.

**Perceived intention to Use Credit Card**

Intention is the desire to perform behavior. Intention to behave was in high category (mean 3.49). The highest indicator was intention to use credit cards to finance routine expenses (the average score of 3.80). Whereas the lowest indicator was intention to continue to use credit cards in future (an average scores of 3.25.).

**Risky debt-Behavior with Credit Card**

In context of the credit cards usage, behavior is the actual use of credit cards. The results showed that the risky debt behavior was categorized as low (mean 2:52). Such findings indicate that, overall, respondents still use credit cards wisely, therefore, if it continues the benefits gained is high and will not cause financial problem in the future. Behavior with high score was the use of credit cards to purchase luxury items that cannot be purchased in cash ( mean 3.59), while the credit card usage behavior with the lowest risk score was withdrawal cash using credit cards ( the average score of 2:02).

**Verificative Testing Results**

The results as shown in Table 1, showed that relationship between behavioral attitude (X1), subjective norm (X2), and behavioral control (X3) of intention to behave (Y) had a high and significant relationship (sig <0.005), where the most powerful

Table 1. Correlation Matrix of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3) toward Behavioral intention (Y) correlation

	Zscore: intention toward behavior	Zscore: Attitude Toward Behavior	Zscore: subjective norm	Zscore: behavioral control Toward behavior
Person Correlation				
Zscore: intention toward behavior	1.000	.587	.504	.463
Zscore: Attitude Toward Behavior	.587	1.000	.000	.443
Zscore: subjective norm	.504	.579	1.000	.405
Zscore: behavioral control Toward behavior	.463	.443	.405	1.000
Sig.(1-tailed)				
Zscore: Behavioral intention	.	.000	.000	.000
Zscore: Attitude Toward Behavior	.000		.000	.000
Zscore: subjective norm	.000			.000
Zscore: behavioral control Toward behavior	.000	.000	.000	
N				
Zscore: Behavioral intention	100	100	100	100
Zscore Attitude Toward Behavior	100	100	100	100
Zscore: subjective norm	100	100	100	100
Zscore: behavioral control Toward behavior	100	100	100	100

Source: Results of Data Processing 2011

relationship was the relationship between attitude (X1) with the behavior of intention (Y) 0.587.

The results of the overall hypothesis test using F test was shown in Table 2, the calculated F value 23.284 with a significance level of 0.000 (Sig <0.05), which means that Ho was rejected or there was the simultaneous influence of attitudes (X1), subjective norm (X2), and behavioral control (X3) of intention toward behavior (Y).

The partial test results in Table 3 shown that the significance level throughout the sub variables are under <0.05 which means partially there were behavior influences attitudes (X1), subjective norm (X2), and behavioral control (X3) of intention (Y). This means that the higher behavioral attitudes, subjective norms, and control, the higher intention of respondent to use credit card.

The effect size for these sub-variables can be seen in Table 4, where the attitude towards the total intention had the greatest impact, which was 0.221.

Based on the calculation of the influence of attitudes (X1), subjective norm (X2), and behavioral control (X3) of intention (Y) the category of influence was quite strong with a total effect of 0.421. A path coefficient for other variables beyond the attitude, subjective norm and behavioral control was determined by:

$$P_{20} = \sqrt{1 - R^2_{Y(X1,X2)}} = \sqrt{1 - 0,421} = 0,761$$

This means that attitude (X1), subjective norm (X2), and behavioral control (X3) were jointly affect intention (Y) 0.421 and the rest (0.761) 2 = 0, 579 influenced by other variables that do not fit into study.

**Influence of Attitudes Behavior, Subjective Norms, Attitudes and Behavior Control**

The results in Table 5 showed that the relationship between behavioral attitude (X1), subjective norm (X2), and behavioral control (X3) on (Y) was a high and significant relationship (sig <0.005), where the most powerful relationship based on

Table 2. Simultaneous Hypothesis Testing Results Effect of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3) Toward intention to behavior (Y)

ANOVA<sup>a</sup>

Model		Sum of Square	df	Mean Square	F	Sig.
1	Regression	41.696	3	13.899	23.284	.000 <sup>b</sup>
	Residual	57.304	96	.597		
	Total	99.000	99			

a. Predictors: (Constant), Zscore: perceived behavioral control, Zscore: Subjective Norm,

Zscore: Attitude Toward the Behavior

b. Dependent Variable: Zscore: intention to behavior

Source: Results of Data Processing 2011

Table 3. Partial results of Hypothesis Testing Effect of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3)

Influence Variable	Coefficient	T count	Sig	Hypothesis
X1 to Y	0.377	3.801	0.000	H <sub>0</sub> Denied
X2 to Y	0.199	2.043	0.044	H <sub>0</sub> Denied
X3 to Y	0.215	2.431	0.017	H <sub>0</sub> Denied

Source: Data Processed 2011

Table 4. Attitudes coefficient (X1), Subjective Norm (X2), and Behavior Control (X3) Intention Toward Behavior (Y)

Variable	Effect				Total Effect
	Direct	Indirect Through X1	Indirect Through X2	Indirect Through X3	
X1	0.142	-	0.043	0.036	0.221
X2	0.040	0.043	-	0.017	0.100
X3	0.047	0.036	0.017	-	0.100
<b>Total Effect</b>					<b>0.421</b>

Source: Results of Data Processed 2011

Table 5. Correlation Matrix of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3) toward Behavioral intention (Y) correlation

	Zscore: Behavior	Zscore: Attitude Toward Behavior	Zscore: subjective norm	Zscore: behavioral control Toward behavior
<b>Pearson Correlation</b>				
Zscore: Behavior	1.000	.795	.701	.639
Zscore: Attitude Toward Behavior	.795	1.000	.579	.443
Zscore: subjective norm	.701	.579	1.000	.405
Zscore: behavioral control Toward behavior	.639	.443	.405	1.000
<b>Sig. (1-tailed)</b>				
Zscore: Behavioral intention	-	.000	.000	.000
Zscore: Attitude Toward Behavior	.000	-	.000	.000
Zscore: subjective norm	.000	.000	-	.000
Zscore: behavioral control Toward behavior	.000	.000	.000	-
<b>N</b>				
Zscore: Behavioral intention	100	100	100	100
Zscore: Attitude Toward Behavior	100	100	100	100
Zscore: subjective norm	100	100	100	100
Zscore: behavioral control Toward behavior	100	100	100	100

Source: Results of Data Processing 2011

study result was the relationship between attitude variables (X1) with the behavior of (Z) was equal to 0.795.

The overall results of hypothesis testing using F test can be seen in ANOVA tables contained in Table 6 where value of F count at 120.207 with a

significance level 0.000 (Sig <0.05), which means that Ho was rejected or there was the simultaneous influence of attitudes (X1), subjective norm (X2), and behavioral control (X3) on the behavior of (Z).

Partial test in Table 7 shows that level of significance throughout the sub variables were

Table 6. Simultaneous Hypothesis Testing Results Effect of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3) Toward behavior (Z)

Model	Sum of Square	df	Mean Square	F	Sig.
1 Regression	78.186	3	26.062	120.207	.000 <sup>a</sup>
Residual	20.814	96	.217		
<b>Total</b>	<b>99.000</b>	<b>99</b>			

a. Predictors : (Constant), Zscore: behavior control, Zscore: subjective norm, Zscore: attitude toward behavior  
 b. Dependent Variable: Zscore: behavior

Source: Results of Data Processing 2011

Table 7. Partial results of Hypothesis Testing Effect of Attitude (X1), Subjective Norm (X2), and Behavior Control (X3) Toward behavior (Z)

Influence Variable	Coefficient	T count	Sig	Hypothesis
X1 to Y	0.491	8.220	0.000	H <sub>0</sub> Denied
X2 to Y	0.294	5.019	0.000	H <sub>0</sub> Denied
X3 to Y	0.302	5.660	0.000	H <sub>0</sub> Denied

Source: Data Processed 2011

Table 8. Attitudes coefficient (X1), Subjective Norm (X2), and Behavior Control (X3) Intention Toward Behavior (Y)

Variable	Effect				Total Effect
	Direct	Indirect Through X1	Indirect Through X2	Indirect Through X3	
X1	0.241	-	0.084	0.066	0.391
X2	0.086	0.084	-	0.036	0.206
X3	0.091	0.066	0.036	-	0.193
<b>Total Effect</b>					<b>0.790</b>

Source: Results of Data Processed 2011

under <0.05, which means that there were partially influence attitudes (X1), subjective norm (X2), and behavioral control (X3) on the behavior of (Z). This means that the higher the behavioral attitudes, subjective norms, and behavior control, the higher the behavior of respondents in using credit cards.

The number of influence coefficient, either directly or indirectly as well as total effect of each variable given in Table 8.

Table 8 described that the highest influence was attitude with total 0.391, while the control behavior with lowest impact was equal to 0.193. Based on the above calculation, the influence of attitudes (X1), subjective norm (X2), and behavioral control (X3) on behavior (Z) was a strong category with total impact 0.790. Path coefficients for other variables beyond the attitude, subjective norm and behavioral control were determined by:

$$P_{ze} = \sqrt{1 - R^2_{Y(X1,X2)}} = \sqrt{1 - 0,790} = 0,145$$

It means that attitude (X1), subjective norm (X2), and behavioral control (X3) jointly influenced behavior (Z) with contribution of 0.790 and the rest (0.145) 2 = 0.145 influenced by other variables that were not studied.

**The Influence of Intention Toward Behavior**

The testing to determine the effect of intention toward behavior (Y) on the behavior of (Z) was used regression analysis. Table 9 presented the calculation results of correlation coefficient between these variables, where relationships between intention (Y) toward behavior (Z) was high and had significant relationship (sig <0.005) with the correlation of 0.738.

The test of significance as can be seen in Table 10 which obtained t count 10.839 with a significance level 0000 (Sig <0.05) and this indicating that Ho was rejected or there was significant influence of intention (Y) on behavior (Z).

The table was based on the regression equation that obtained as follows.

$$Y = a + bX$$

Behavior = 10.214 + 0.855intense toward behavior  
 Furthermore, the effect intention toward behavior on actual behavior presented a table 11. The table it shown that the influence of intention toward behavior on actual behavior was 0.545 or 54.5%. The remaining 45.5% influenced by other factors which were not examined in this research.

**MANAGERIAL IMPLICATIONS**

This study was aimed to gain insights and tested the factors that influence credit cards usage. The one important finding is perception of attitude toward behavior has the most significant influence of both the intention and to the actual usage behavior. Behavior of credit card users in the community will influence the national economy, financial business, and public welfare, so this study have implication to the government, credit card issuers and financial institution.

The findings can enforce government as policy maker to make regulation that control the circulation of credit card among community such as credit card ownership restrictions, restrictions on credit card limit based on income level, and set the interest rates charged to credit card holders.

Table 11. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.738 <sup>a</sup>	.545	.541	3.45173

a. Predictors: (Constant), Minat Berperilaku  
 Source: Results of Data Processing 2011

For policy maker the findings of this study can be a trigger for develop financial inclusion strategy through dissemination and and financial education program for community especially regarding the use of credit cards wisely.

The finding can be used as consideration for credit card issuers to tighten procedures related to acceptance of application submission of credit card as well as a source of information to educate customers and prospective customers related to financial products issued.

The findings can enforce education institution to consider personal finance into the academic curriculum to improve financial literacy for the community as early as possible.

**CONCLUSION**

Overall respondents had a positive attitude towards the use of credit cards, where the perceived usefulness had the highest contribution toward positive attitude to use of credit cards.

Overall respondents had a high influence of subjective norms related to the use of credit cards, where the perception of information received the highest contribution to Perceived Subjective Norms.

Overall respondents had a high behavioral control, where self-efficacy had the highest contribution to the control of behavior

Overall respondents had a strong intention to continue used credit cards, where the highest intention was the desire to finance routine expenses with credit cards.

Overall respondents have been using credit cards wisely, therefore, in long term, the use of credit cards would provide benefits and will not cause financial problem in the future.

There was a positive and significant effect either simultaneously or partially between behavioral attitudes, subjective norms, and control behavior intention to use a credit card. The test results showed that the partial attitude had the greatest influence on the intention to use a credit card.

There was positive and significant effect either simultaneously or partially between behavioral attitudes, subjective norms, and behavioral control on behavior of default-risk debt. The test results showed that partial attitude of behavioral attitude gave the greatest influence on behavior of default-risk debt

There were positive and significant influences of the intention to use a credit card on behavior default-risk debt, which contributed the intention toward behavior of 0.545 and the remaining 45.5% influenced by other factors which were not examined. ■

Table 9. Matrix of intentions (Y) with behavior (Z) Correlation

		Behavior	intention toward behavior
Pearson Correlation	Behavior	1.000	0.738
	Intention toward behavior	.738	1.000
Sig. (1-tailed)	Behavior	.	.000
	Intention toward behavior	.000	.
N	Behavior	100	100
	Intention toward behavior	100	100

Source: Results of Data Processing 2011

Table 10. Coefficient Table

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1. Constant	10.214	1.956		5.222	.000
Intense toward behavior	.855	0.79	0.738	10.839	.000

a. Dependent Variable : behavior  
 Source: Results of Data Processing 2011



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The Insights on Perceived Price-Quality

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ABSTRACT

This research employs four theories; absolute and relative price differences (Theory-1), a "free" product (Theory-2), consumer perception of price unfairness (Theory-3), and consumer perception of price as an indicator of product quality (Theory-4). All of these are integrated and synthesized in order to applicable provide an interpretation framework. Using Consistency Test and phenomenological approach, the author analyzes the participants' responses around the issues of price and benefit to get some insights on perceived price-quality.

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Perceived price-quality or perceived price-quality relationship is price perception on expectation of highest benefit which is manifested in consumers' interpretation on relationship between price and product quality.

There was time when market seemed to be aggressive with the coming of low-priced products. People were rushing to buy for no reason. In this case perceived price-quality is followed by consumers' quick process of decision making to give positive response. In quick process of decision making, there is a very little search and decision effort.

Different products may determine different degree of perceived price-quality. Some can be purchased quickly with very little mental effort, but the others require slow process of buying decision in which a consumer needs moderate amount of time for information gathering and deliberation.

Some years back in Indonesia there was a great demand of cheap motorbikes from China. People were so enthusiastic to welcome them. In most south-east Asian countries such as Indonesia, Singapore, Malaysia and the Philippines market penetration of low-priced Chinese products are still significant. Everyday low price policy in budget

airline industry offering domestic or international flight shows another fact that low-priced product is not about giving less benefit but reasonable benefit. This reflects a great demand of low-priced product which might configure a reality that price itself can play consumers' emotion. It is not about product consumption but price consumption. Price has become object of consumption.

It was noted in the history that since the invention of information technology life has been very busy with gadget. Suddenly, there is a necessary need of connectivity, and market reactively responds with high demand of low-priced digital products. Nowadays, it is very common to know people in all social class use cellphone in their daily life. Suddenly, cheap products are found everywhere even the pirated version could easily be found in the market. It is always coming with price that contributes to consumers' dynamics on perceived price-quality.

Price can effectively play emotion of the market. Within this context price sensitive market is not merely dealing with buying power. People tend to strongly respond change of price in the market which is caused by perception of product quality. Those who crave for luxury consumption or prestige-seeking consumers may prefer to sacrifice their resources - to pay more rather than to choose product with lower or cheaper price because high price refers to high quality.

For consumer, price is an easy means of product measurement. It is concrete and consumers trust price much more than their own evaluation of product worth (Shapiro in Bedeian 1971). Research in perceived price-quality might be beneficial to know degree of consumer satisfaction, in other words, degree of consumers' well-being. As price perception on quality is related with belief -- the expenditure of money as being similar to the expenditure of effort, the more effort means the more a consumer spends on a high-priced product which means also he is going to the

highest degree of his well-being. However, this should happen when consumers are aware while making decision specially in price reinforcement environment.

There is an area which needs to be considered as consumer limitation. Very often consumers are emotionally authorized indirectly by price and put on their best effort for it. Contribution of ads has been very significant in reshaping image of price ie. the relationship between price and product so that price itself has become dominant or "product" in consumers' mindset. Price has been taken as the most valid representation to value product. Study by McConnell and Stafford and Enis (Bedeian 1971:64) reveals that emotional perception toward price and product quality may happen because consumers are trying to rationalize relationship between price and such things as the physical characteristics of a product, brand name and packaging. The abstract form of price has been brought into being more physical representation.

This research is aimed to explore findings related with perceived price-quality. In addition, this research shall reveal some basic theoretical pillars and give general idea for further perceived price-quality research. Findings may also be used to bring out issues on consumer limitation dealing with perceived price-quality. From this perspective firms may gain informative values and invaluable insights to reshape their competitiveness without lacking their sense of social responsibility.

**Theoretical review**

To support analyzing perceived price-quality four theories are employed namely Theory-1: Absolute price differences and relative price differences or partial relative thinking (Azar 2009), Theory-2: A "free product" (Anderson 2009), Theory-3: Consumer perception of price unfairness (Bolton et al. 2003), and Theory-4: Consumer perception of price as an indicator of product quality (Bedeian 1971). The above four theories are chosen with the assumption that perceived price-quality most likely

happens in price sensitive consumers (Theory-1), trend of free products as promotional gimmick (Theory-2), the risk to experience wrong buying (Theory-3), and trend of unfamiliar brands in a familiar product category where price as common indicator for product quality (Theory-4). Those four theories are integrated and synchronized for

interpretation framework. They are presented using the following four Conceptual Models (Exhibit-1 to Exhibit-4). Proposed integration model is also presented to show the conceptual area of perceived price-quality relationship in the context of Customer Perceived Value (Exhibit-5).

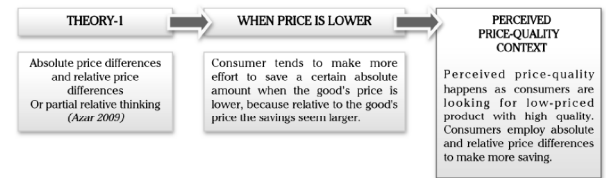


Exhibit 1: Conceptual Model - 1

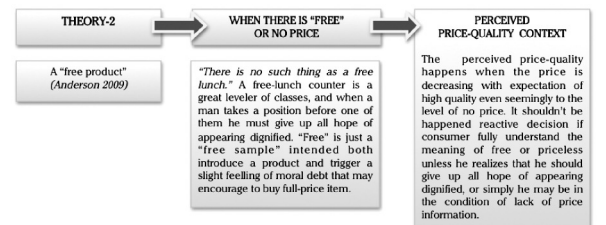


Exhibit 2: Conceptual Model - 2

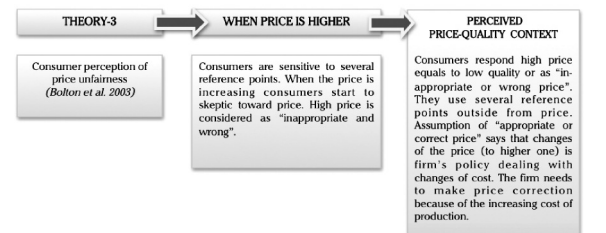


Exhibit 3: Conceptual Model - 3

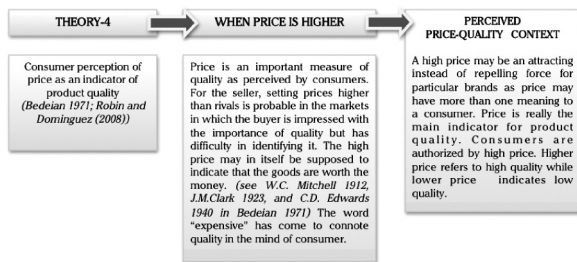


Exhibit 4: Conceptual Model - 4

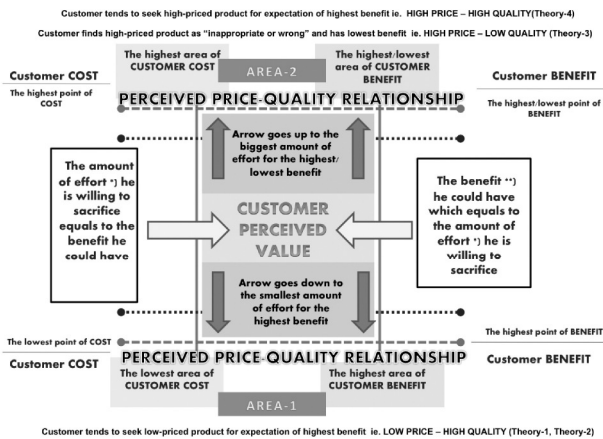


Exhibit 5: Proposed Integration Model in Customer Perceived Value context

Price is the easiest indicator for product quality. Increasing price is easily predicted as increasing product quality or values. The most easiest way to see product quality or values is through price. From this point of view it may happen price trick which is always high price but low quality product ie. offering high-priced low quality product. Bolton et al (2003) used the term "consumer perception of price unfairness" (see Exhibit-3) as consumers are sensitive to several reference points (outside the price). In her article she exposed consumers skepticism toward high price which is inappropriate and wrong as they appear to have poor appreciation of the cost faced by the firm. Therefore, corrective intervention is needed. Perceived price-quality in this context is that high-priced product may potentially be perceived as low quality as consumers find the high price is unfair and incorrect. They experience wrong buying as the result of emotional or reactive decision which is inappropriate and wrong as they appear to have poor appreciation of the cost faced by the firm. Therefore, corrective intervention is needed. Perceived price-quality in this context is that high-priced product may potentially be perceived as low quality as consumers find the high price is unfair and incorrect. They experience wrong buying as the result of emotional or reactive decision which is inappropriate and wrong as they appear to have poor appreciation of the cost faced by the firm. Therefore, corrective intervention is needed.

Azar (2009) conducted experiment related with consumer choice. His research reveals consumer's preference between time and money which depends on the good's price. This is considered as inconsistent with the theory of rational choice. Consumers often behave partial relative thinking that they consider not only absolute price differences but also relative price differences ie. what part of the good's price they can save. This leads consumers to make more effort to save a certain absolute amount when the good's price is lower, because relative to the good's price the savings seem larger. Consumer uses his rationality as he is aware with his decision. He measures

price or money with time or effort. Low price will be considered as more saving not only on money but also time. This theory may be used to explain that people are rushing to buy something because of money and time-saved orientation (Exhibit-1 or Exhibit-5 Area-1). It is the value of money as invaluable asset or resource that people start to think of saving. At the extreme point people might look irrational to buy something seemingly for no reason which is actually manifestation of high benefit ie. their money and time-saved orientation (Exhibit-5 Area-1).

Anderson (2009) described the philosophical meaning of "free product" which is actually wrong. A person cannot get something for nothing. If something appears to be free, there is always a cost to the person or to society as a whole, even though that cost may be hidden or distributed. "There is no such thing as a free lunch." A free-lunch counter is a great leveler of classes, and when a man takes a position before one of them he must give up all hope of appearing dignified. "Free" is just a "free sample" intended both to introduce a product and trigger a slight feeling of moral debt that may encourage to buy full-price item. However, the perceived price-quality in this context happens as consumers are more speculative or "gambling" on low price and high quality. Some just realize that they play with giving up "all hope of appearing dignified", or simply they may be in the condition of lack of price information (Exhibit-2 and Exhibit-5 Area-2).

Robin and Dominguez (2008) show the relationship between the experience of fulfillment and the amount of money we spend to acquire more possessions. More possessions mean more fulfillment. From this point it can be drawn that consuming high-priced product means high expenditure of money, and at the end it reflects high need of experience of fulfillment. Spending money for high-priced product is also to defend against unpleasant emotional states like fear, worry, anxiety and loneliness. Following this motive is the

need to have high-priced products which could give highest benefit. This theory corresponds with Bedeian (1971) that high price policy might be suitable for those who are impressed with the importance of quality or products which can give highest benefit. This context acquires price as commodity. Price has become "money" which is always achieved to satisfy needs. It is not product that should satisfy needs, but it is price. (Exhibit-4 and Exhibit-5 Area-2)

**Research question**

How do we rationalize consumers' responses around the issues of price and benefit to get insight on perceived price-quality ?

**METHODS**

Non-probability sampling with convenience sampling method is applied. Selection of the participants is based on the author's judgement with regard to efficiency and effectivity of the research. Participants are the Third Year local college students taking Marketing Management subject and living in the Philippines. They are required to fill up questionnaire. Quantitative data from questionnaire are computed using SPSS ver. 17.0. The-reafter, output from SPSS are interpreted and analyzed on the aspect of participants' way of thinking coherently specially when they are confronted with some challenging and disturbing statements around the issue of price and benefit. The author proposes this method as Consistency Test (CT).

There are four phases of data analysis. The author uses Consistency Test (CT) for Phase-1 with 42 students as participants. Phase-2 is participated by 37 students, while Phase-3 is participated by two students and conducted using phenomenological approach ie. Narrative Analysis as suggested by Colaizzi (1978) in Goulding (2004) with two basic assumptions: (1) Participants have stocks of knowledge which produce familiarity, but they are always incomplete and open-ended. This condition of incomplete and open-ended familiarity requires interpretative application; (2) A person's life is

a socially constructed totality in which views and experiences interrelate coherently and meaningfully. Those views and experiences of participants can be source of data to describe the fact. Due to limited resource the author labels this approach as "semi-phenomenological" as it covers only on Narrative Analysis. Interpretation on the narratives is made using "fusion of horizons" between the author's frame of reference and the texts being interpreted (Thompson 1997; Goulding 2004). Prior to the interpretation the author applies four steps: (1) acquiring a feeling; (2) extracting main statement; (3) formulating meaning; and (4) clustering meaningful theme. In Phase-4 there are 42 participants. They were given two Situations or Contexts. Situation-1 is dealing with high price and more benefit while Situation-2 is the opposite ie. low price and less benefit. Hence, the participants are required to give response to price and benefit differences in both Situations. It took two months for data gathering from Phase-1 to Phase-4.

**RESULTS AND DISCUSSION**

**Phase-1**

In Phase-1 participants were given Questionnaire-1 and asked to make preference ie. make a choice from nine combination of relationship between price and quality: (1) high price – high quality (Choice-1); (2) high price – medium quality (Choice-2); (3) high price – low quality (Choice-3); (4) medium price – high quality (Choice-4); (5) medium price – medium quality (Choice-5); (6) medium price – low quality (Choice-6); (7) low price – high quality (Choice-7); (8) low price – medium quality (Choice-8); (9) low price – low quality (Choice-9). There are also 4 (four) statements that need to be responded: (1) price always has connection with product quality (V4); (2) price is more important than product quality (V3); (3) high quality is always followed by high price (V1); (4) what I need is high quality with low price (V2). Participants are asked to respond using Likert scale 1 (=strongly disagree) to 5 (=strongly agree). Four Consistency Test (CTs) were used in Phase-1.

**Consistency Test-1:** Consistency test between V1 and V2 (see Table-1.1 to 1.6). Descriptive statistics between V1 (High quality is always followed by high price) and V2 (What I need is high quality and one-sample test to measure the consistency with low price).

Table-1.1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
high quality equals to high price	42	1	5	3.29	1.019	-.326
Valid N (listwise)	42					.365

Table-1.2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
high quality equals to high price	42	2	5	4.33	.786	-1.312
Valid N (listwise)	42					.365

Table-1.3. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Test Value = 4	
					Lower	Upper
high quality equals to high price	-4.543	41	.000	-.714	-1.03	-.40

Table-1.4. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Test Value = 2	
					Lower	Upper
high quality equals to high price	8.177	41	.000	1.286	.97	1.60

Table-1.5. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Test Value = 4	
					Lower	Upper
high quality equals to high price	2.748	41	.009	.333	.09	.58

Table-1.6. One-Sample Test

	Test Value = 2					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
high quality equals to high price	19.237	41	.000	2.333	2.09	2.58

**Interpretation**

There is no consistency between high quality equals to high price (V1) and high quality with low price (V2). Participants respond V2 (I need high quality product with low price) more reactive or stronger. One-sample test with test value of 4 (agree) for V2 shows smaller interval of the difference (lower = .09 and upper = .58) compared to V1 (lower = -1.03 and upper = -.40). The mean difference for V2 with test value 4 is .333 smaller than -.714. Participants seem to be more reactive when it comes to the statement: "I need high quality with low price." Combination of "low price and high quality" seems to be attractive compared to "high price and high quality". Statement in V1 is actually similar to statement in V2, but participants give much favor to V2.

**Consistency Test-2:** Group consistency test related with V2 (see Table-2.1 to 2.8). One-sample test (test value = 4 / agree) to measure difference between 2 (two) groups related with their response to the

statement "What I need is high quality with low price". The groups are Group Choice-4 ie. those who chose the statement "I prefer medium price with high quality", and Group Choice-7 ie. those who chose the statement "I prefer low price with high quality". From questionnaire tabulation it is shown 19 participants choose Choice-4 and 23 participants choose Choice-7. The author takes 19 participants from both groups so that it will be equal.

**Interpretation**

See Table-2.1 and 2.2 Group Choice-4 "I prefer medium price with high quality" has shown more on mean value 4 (=agree) to the statement "what I need is high quality with low price". Mean value 3.84 for Group Choice-4 has the same with mean value 4 (=agree). 2-tailed significance test shows .420 (Table-2.3) which is greater than .05. There is no difference between mean value 3.84 and 4. The rationality of "I prefer medium price with high quality" (Choice-4) inconsistently changed when

Table-2.1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Std. Error
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
high quality equals to high price	42	2	5	4.33	.786	-1.312	.365
Valid N (listwise)	42						

Table-2.2. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
V_2 choice_4	42	4.33	.786	.191

Table-2.3. One-Sample Test

	Test Value = 4					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
V_2 choice_4	-.825	18	.420	-.158	-.56	.24

Table-2.4. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
V_2 choice_7	19	4.74	.452	.104

Table-2.5. One-Sample Test

	Test Value = 4					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
V_2 choice_7	7.099	18	.000	.737	.52	.95

Table-2.6. Paired Sample Statistics

		N	Mean	Std. Deviation	Std. Error Mean
		Pair 1	V_2 choice_4	19	3.84
	V_2 choice_7	19	4.74	.452	.104

Table-2.7. Paired Sample Correlations

		N	Correlation	Std. Error Mean
		Pair 1	V_2 choice_4 & V_2 choice_7	19

Table-2.8. Paired Sample Test

		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		T	Df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	V_2 choice_4 - V_2 choice_7	7.099	18	.737	.52	.95	-4.456	18	.000

it comes with "what I need is high quality with low price" (V2).

See Table-2.4 and 2.5. Those belong to Group Choice-7 "I prefer low price with high quality" have mean value 4.74. With one-sample test it has shown that mean value 4.74 is not the same with 4 (=agree). 2-tailed significance test shows .000 (Table-2.5) which is smaller than .01. The mean value tends to be closer to 5 (=strongly agree). In other words, those who choose Choice-7 are very consistent with the statement "what I need is high quality with low price" (V2). Table-2.6 and 2.7 shows that there is no correlation between Choice-4 and Choice-7 related with the statement

"what I need is high quality with low price" (V2). The significance value .465 (Table 2.7) is greater than .05. The hypotheses of there is no correlation between V2\_Choice-4 and V2\_Choice-7 can not be rejected. Table-2.8 shows the significance value (2-tailed) is .000 which is smaller than .001. It means that there is a significant difference between V2\_Choice-4 and V2\_Choice-7. Eventhough both groups (Choice-4 and Choice-7) refer to the same statement (V2) but they can not be categorized into one group.

**Consistency Test-3:** Consistency test between V2 and V3 (see Table-3.1 to 3.5).

Table-3.1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
I need high quality with low price	42	2	5	4.33	.786
Price is more important than product quality	42	1	5	1.74	.798
Valid N (listwise)	42				

Table-3.2. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Price is more important than product quality	42	1.74	.798	.123

Table-3.3. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 2	
Price is more important than product quality	-2.127	41	.040	-.262	-.51	-.01

Table-3.4. One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
I need high quality with low price	42	4.33	.786	.121

Table-3.5. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 4	
I need high quality with low price	2.748	41	.009	.333	.09	.58

**Interpretation**

Table-3.1 to 3.3 shows mean value of V3 (Price is more important than product) is 1.74 which is also 2 (=disagree). The 2-tailed significance test for value 2 is .040 which is greater than .01. The hypothesis that there is no difference between mean value of 1.74 and 2 can not be rejected. Table-3.4 to 3.5 shows mean value of V2 (What I need is high quality with low price) is 4.33 which is 4 (=agree). The 2-tailed significance test for value 4 is .009 which is greater than .001. It means that the hypothesis that there is no difference between mean value of 4.33 and 4 can not be rejected. The

result shows that participants are not consistent related with V3 (Price is more important than product) and V2 (What I need is high quality with low price). According to them price is not more important than product quality (see Table-3.1 to 3.3), while at the same time, they need high quality with low price (see Table-3.4 to 3.5). If they think that high quality product is more important then it should follow with the price.

**Consistency Test-4:** Consistency test between V1 and V4 (see Table-4.1 to 4.5)

Table-4.1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Price always has connection with product quality	42	3	5	4.14	.718
Valid N (listwise)	42				

Table-4.2. Descriptive Statistics

	Mean	Std. Deviation	N
High quality is always followed by high price	3.29	1.019	42
Price always has connection with product quality	4.14	.718	42

Table-4.3. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 3	
High quality is always followed by high price	1.817	41	.077	.286	-.03	.60

Table-4.4. One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
					Test Value = 4	
Price always has connection with product quality	1.289	41	.205	.143	-.08	.37

Table-4.5. Correlations

		High quality is always followed by high price	Price always has connection with product quality
High quality is always followed by high price	Pearson Correlation	1	.143
	Sig. (2-tailed)		.367
	N	42	42
Price always has connection with product quality	Pearson Correlation	.143	1
	Sig. (2-tailed)	.367	
	N	42	42

**Interpretation**

Mean value of V1 (High quality is always followed by high price) is 3.29 which is also 3 (=uncertain). The value of 2-tailed significance test for 3 is .077 which is greater than .05. It can not reject null hypothesis. It means there is no difference between 3.29 and 3. While mean value of V4 (Price always has connection with product quality) is 4.14. The value of 2-tailed significance test for 4 (=agree) is .205 which is also greater than .05. There is no difference between 4.14 and 4. The participants are uncertain about the statement "High quality is always followed by high price". This uncertainty may be caused by their experience to find high quality product with relatively low price in the market. Therefore, they may have the idea that high quality product is not always followed by high price.

**Phase-2**

Data used for Phase-2 are taken from Questionnaire-2. Participants were assigned to respond two challenging and disturbing statements - "If you

suspiciously find out a product as very cheap, what do you mean by it?" (Statement-1) and "If you say that a product is too expensive, what do you mean by it?" (Statement-2). Statement-1 has 4 (four) choices of response: I like the product (V1); I can buy the product if I want (2); I don't want to buy it because of low quality (V3); It's impossible. I'm in doubt of it. So, I don't want to buy it (V4). While Statement-2 has 4 (four) choices of response: I don't have enough money to buy (V5); The product quality is "too high" for me (V6); I agree that the product quality is very high, but I don't need that too much for product quality (V7); The product quality is considered as "low quality" (V8).

There are 37 participants participated in Phase-2. They are the same students who took Phase-1. The average mean value from two statements is 3 (=uncertain) which means most of the participants seem to be lack of confidence in choosing 5 (=strongly agree) or 1 (=strongly disagree), or even in choosing 4 (=agree) or 2 (=disagree). Choice of 3 (=uncertain) seems

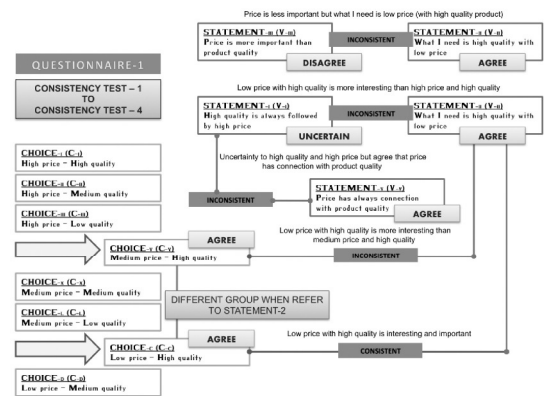


Exhibit 6: Result from Phase - 1

to be more safe rather than trying to challenge by getting into deeper understanding and make absolute response "agree" or "disagree".

The author randomly chooses four participants who are able to express his/her responses confidently using the absolute value 5 (=totally agree) or 1 (=totally disagree). Their initials are CH (Female), DM (Female), SP (Female), and PP (Male).

CH gives absolute response of 5 (=strongly agree) for "I can buy the product if I want". This response is used to answer "If you suspiciously find out a product as very cheap, what do you mean by it?" Even in the condition that product is "suspiciously very cheap" CH responds strongly with "I can buy the product if I want". Her rationality leads her to the "very cheap product" instead of considering the element of "suspicious". CH and DM give absolute response of 5 (=strongly agree) for "I don't have enough money to buy" and "The product quality is too high for me" to answer "If

you say that a product is too expensive, what do you mean by it?" The meaning of "too expensive" is about buying power and unexpected product quality. While DM strongly agrees with "I don't want to buy it because of low quality" to respond "suspiciously very cheap" product. SP strongly agrees that "too expensive" means "the product quality is too high" and she doesn't need it. While PP strongly disagrees with "I can buy the product if I want" in response to "suspiciously very cheap" product.

**Phase-3**

In Phase-3 the author uses Narrative Analysis. It involves reading and interpreting participants' narratives or compositions as suggested by Colaizzi (1978) in Goulding (2004). There are two participants who are selected as they are appointed by the group as the best students in academic performance at the Marketing Department. This is made to meet with assumption that they are considered as competent and rational enough to make a decision specially related with perceived

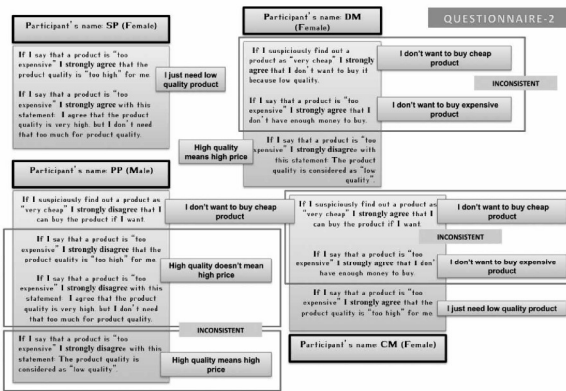


Exhibit 7: Result from Phase - 2

price-quality. Their initials are LM (male) and SC (female). They are required to make two compositions. First composition is entitled "My Story of Best Offer Product", while the second one is "My Story of Disappointed Product". As part of interpretation process the author identifies Feeling, Main Statement, Meaning and Theme. Framework of the interpretation is around the issue of perceived price-quality.

1. LM\_My Story of Best Offer Product

Feeling: supportive, happy, proud, recommending

Main Statement and Meaning :

"I passed by an advertisement in the newspaper from a mobile network company called SC that offers post paid plans with free mobile phones depending on which category you apply in. I chose the Plan 350 offer. Plan

350, for me, was the best offer simply because I get a free mobile phone, plus I get free mobile credits namely, (1) free unlimited texts from S to S, (2) unlimited calls S-to-S, and (3) 250 free texts to other networks (Sm and GN). If you exceed the 250 free texts, you will be charged for the excess." (= There are several attractive free packages that drive me to make decision.)

"So with all these benefits and values, SC I think has just captured the market very well. They have researched and known what today's generation really like. And I believe that it has captured my attention as well. I have been availing of this perks and offers for the past three years and I can say that SC has just done one big job well done. I haven't encountered any network problems so far, so I can really salute them right now. They are serving more than a million Filipinos all over the country and many of my friends personally

say that SC is the cheapest when it comes to rates and charges mainly because of their unlimited offers and perks." (= I use the same product as many people do.)

Theme:

Free product and social value are really attractive for me

2. LM\_My Story of Disappointed Product

Feeling: dissatisfied, disappointed, sad

Main Statement and Meaning:

"I happen to pass by a local grocery store in the city and upon checking the hygiene section, what captured my attention is the new product called Close Up White Now. It's a toothpaste that instantly whitens your teeth after you brush. It costs a more or less 65 pesos since I forgot how much it really costs. I was amazed by what it says outside of the box. I said in my mind that I should try this product because of all the benefits and values I can gain after I try this one. I was excited to try this product because it says that Close up White Now is the newest variant of Close Up." (= I believe that the advertisement is necessary and true.)

When I reached home, after we had lunch, I want to test the product. I went straight to the sink and brushed my teeth really hard and it took me more or less 2 minutes to brush. I like the minty scent while I was brushing. And the final judgment came, when I went up into the mirror just above the sink, I was surprised and disappointed that there was no effect that happened. (= I need to know the exact result as soon as I reach home.)

"Honestly, I was pissed and disappointed of the product. Why do they overpromise a certain product that it gives a lot of benefits and values when in fact all it can even do is just

to clean your teeth? Why persuade consumers to the extent that they go crazy about it and in the end they will just be disappointed? Why don't they think that if they overpromise, and the consumers get disappointed, they will just lose value from customers?" (= Advertisement should bring truth.)

Theme:

Amazing advertisement and emotional response!

3. SC\_My Story of Best Offer Product

Feeling: happy, proud

Main Statement and Meaning:

"My mother told me that I should buy a moisturizer to help bring back the moisture of my skin. As we were choosing and buying things, I stopped for a moment because I saw this very beautiful and eye catching moisturizing lotion. It was a "Myra-E Hand and Body Lotion". I suddenly remembered their commercial that said that it helps bring back the moisture of damaged skin. I examined very clearly the moisturizing lotion and told my mother to buy it because it was on sale and it was very cheap but I can no longer remember the price. We bought the product at home." (= Previous commercial messages and low price attract me.)

"I think the "Myra-E Hand and Body Lotion" was a best seller because during those times, I was in need of a moisturizing lotion and that was the only lotion in the mall that had everything that I was looking for. The other lotions were good too but they did not contain the ingredients I was looking for. The moisturizing lotion was the best seller because the packaging was very good and very eye friendly. I tried the lotion at home and it actually worked. The lotion had in its cover



that it can help bring back the moisture of your skin in two weeks and it actually worked. My skin was back to its normal moisture with the help of the "Myra-E Hand and Body Lotion". I tried the lotion twice a day and it was very convenient." (= I have no choice and this product is convincing and looks nice.)

"My comment to the "Myra-E Hand and Body Lotion" is that, it helped me bring back the moisture of my skin in a less expensive manner. The product is very good and the market strategy being used is very effective. The product did not just satisfy my need but it also helped me save my money." (= It really saves my money.)

Theme:  
It is just the price!

My head was full of dandruffs and there was even a point where I was about to cry because I cannot bear my dandruffs anymore. I immediately threw away the "Vaseline Natural 2 in 1 Anti-Dandruff with Lemon Shampoo and Conditioner" and decided never to use any Vaseline products ever again. Aside from the fact that the shampoo did not work and made things worse, it was also very expensive. I learned my lessons based from the shampoo and promised myself not to purchase anything from the company." (= I'm wrong. It's expensive.)

Theme:  
It's expensive when product fails to meet my expectation.

**Phase-4**

In Phase-4 participants were given two Situations in which they are challenged by perceived price-benefit. Each situations consists two statements which contain the idea of price (Statement-1) and benefit (Statement-2). Situation-1 is dealing with high price and more benefit, while Situation-2 describes a situation of low price and less benefit (Exhibit-11). At the end they are required to make choice. Choice-A: more convenience and time-saved store with high-priced product. Choice-B: less convenience and less time-saved store with low-priced product. Results show that participants tend to favor Situation-1 and Choice-A. They agree that price should have connection with benefit ie. expensive price for high benefit and cheap price for low benefit. However, results reveal paired differences between Statement-1 and Statement-2 with two-tailed significance less than 0.01 (Exhibit-12).

Results from Phase-1 shows some patterns of inconsistent response that is mostly favorable to low price. The statement of "low price and high quality" seems to be favorite and very attractive as it is chosen by most of the participants. This is relevant with Conceptual Model - 1 (Exhibit-1)

- 4. SC\_My Story of Disappointed Product
- Feeling: sad, acceptable

Main Statement and Meaning:  
"I personally had a bad experience on a disappointing product. I decided to change my shampoo due to the weather because it is very hot in the Philippines I was having a lot of dandruffs. I saw this commercial on the television about the "Vaseline Natural 2 in 1 Anti-Dandruff with Lemon Shampoo and Conditioner". The shampoo was very pleasing because they actually have shown people who have already used their product and they were satisfied. So the day my mother and I went to the mall, I bought the shampoo because my dandruffs were unbearable. As I went home I placed the shampoo inside the bathroom so that I can use it." (= I want to be like them.)

"I was very disappointed with the "Vaseline Natural 2 in 1 Anti-Dandruff with Lemon Shampoo and Conditioner" because instead of removing my dandruffs it even increased it.

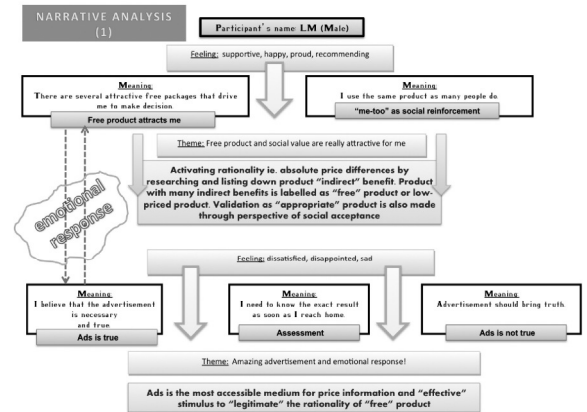


Exhibit 8: Result from Phase-3: Narrative Analysis (1)

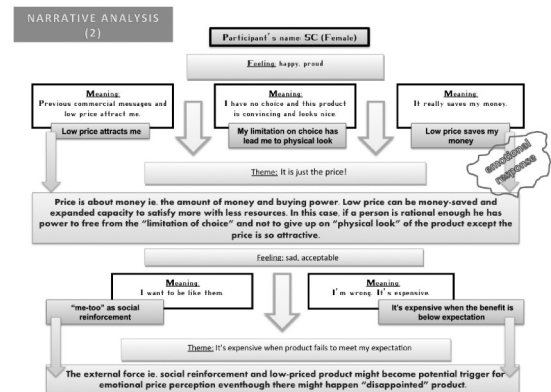


Exhibit 9: Result from Phase-3: Narrative Analysis (2)

## SITUATION-1

Vinnie is a construction worker who makes \$ 12 per hour. Although he could work overtime on Saturday at \$18 per hour, he takes off two consecutive Saturdays to go fishing. Vinnie is a heavy drinker of Diet Pepsi. On the morning of his first Saturday off, he walks two blocks to a convenience food store to purchase a 12-pack for his fishing trip. The price is \$ 5 plus 5 percent sales. Vinnie complains about the high price and is told by the clerk, "I don't set the prices. Take it or leave, Jack!" Vinnie is more than a little upset, but he pays the money because he's in a rush to get to the lake. He vows to himself never to get ripped off like this again. He walks home. The whole trip has taken 10 minutes.

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## SITUATION-2

On the next Saturday, Vinnie again needs a 12-pack of Diet Pepsi for his fishing trip. Remembering his previous experience at the convenience store, he decides to get in his car and drive 6 miles to the discount supermarket. He is pleasantly surprised that Diet Pepsi is on sale for \$ 2.99 a dozen plus tax. Although the store is a bit crowded and it takes him a while to get through the checkout, he drives home feeling good about the purchase and the money he saved. This shopping trip takes 45 minutes.

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Exhibit 10: Phase-4: Perceived Price in Context (1)

GIVEN YOUR CONDITION RIGHT NOW,  
WHICH ONE DO YOU CHOOSE?

### CHOICE-A

MORE CONVENIENCE AND TIME-  
SAVED STORE

More BENEFIT

BUT

HIGH-PRICED PRODUCT

High COST

### CHOICE-B

LESS CONVENIENCE AND LESS  
TIME-SAVED STORE

Less BENEFIT

BUT

LOW-PRICED PRODUCT

Low COST

Exhibit 11: Phase-4: Perceived Price in Context (2)

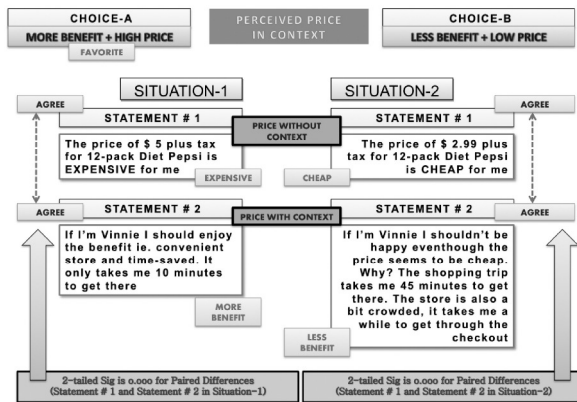


Exhibit 12: Result from Phase-4

that consumers tend to make more effort to save a certain absolute amount when the good's price is lower, because relative to the good's price the savings seem larger. Consumers use their absolute and relative thinking as they are aware with their decision. They measure price with time and effort for more savings motive.

Some choose "medium price and high quality" (Phase-1) which senses more realistic though there is still expectation that price could be more reasonable and lower in relevance with Theory-4 (Exhibit-4). As compared to theory of consumer perception of price unfairness (Exhibit-3) the choice of "medium price and high quality" may indicate participants' objection with high price. However, the two groups namely Group Choice-4 (medium price and high quality) and Group Choice-7 (low price and high quality) give much favor on "what I need is high quality with low

price" (see Phase-1). It is not about high quality but low price. They agree that "price always has connection with product quality" (mean value = 4.14). Price, specially low price, is more interesting than product itself. From the viewpoint of Theory-2 – a free product (Exhibit-2), participants' tendency to favor lower price might indicate lack of information. If lower price resembles with free product there will be such a great sacrifice for the participants to give up all hope of appearing dignified. This could be a new interesting area for further research ie. between perceived price and human dignity.

Table-4.1 to Table-4.5 (see Phase-1) show participants uncertainty about the statement "high quality is always followed by high price" (V1) compared to "price always has connection with product quality" (V4). Mean value of V1 is 3.29 (which is significantly 3 = uncertain) while mean

value of V4 is 4.14 (which is significantly 4 = agree). V1 and V4 are drawn from the same main idea ie. "one direction" of relationship between price and product quality. High price means high product quality, low price means low product quality. This uncertainty might be caused by their experience to find high quality product with relatively low price in the market. Theory-4 (Exhibit-4) states that price is an important measure of quality as perceived by consumers. For the seller, setting prices higher than rivals is probable in the markets in which the buyer is impressed with the importance of quality but has difficulty in identifying it. From this perspective it seems that there is a "great temptation" to favor "what I need is high quality with low price" (V2).

From Phase-2 the author is able to find those (PP, SP, CH and DM) who have strong character to give absolute or extreme response of 1 (=strongly disagree) and 5 (=strongly agree). The controlled element of "suspiciously very cheap" price is responded differently by them. The absolute or extreme response to that element (either 1 or 5) indicates possible consideration that lower price is still powerful and attractive eventhough the element of "suspicious" is present. Referring to Theory-3 (Exhibit-3) the reactive or emotional decision is the results of multiple motivations, but in particular the motives of sociability and self-expression. The absolute or extreme response could be a pressure from social eg. "suspiciously very cheap" is a common term for "negativity" so that the response will be 1 (=strongly disagree), or a just a "best offer" product supported by relative thinking (see Theory-1) so that the possible response is 5 (=strongly agree). Self-expression reflects participants' strong identity to express agree or disagree.

Interpretation resulted from narratives analysis of LM and SC (Phase-3) has shown that external reference is still very relevant and effective stimulus to value perceived price-quality. This corresponds to Theory-4 (Exhibit-4). Perceived price-quality

is mainly caused by hidden pressure of certain values such as identity and money. Price may have more than one meaning to a consumer (Exhibit-4). SC's experience on wrong buying has lead her to define it as expensive price or high price with low quality (Phase-3) which corresponds to Theory-3 (Exhibit-3 and Exhibit-5 Area-2). While low price with attribute "free" is still favorite and attractive, on the contrary, high price or expensive is also an image of "wrong product" (see also Azar 2009; Anderson 2009). Product's physical appearance is easily used to value quality specially when there is no other rivals.

Findings from Phase-1 and Phase-4 show contradiction in participants' responses on "what I need is high quality with low price" (Phase-1) and "I choose expensive price with more benefit" (Phase-4 Exhibit-11). This viewpoint may show in need of specific situation regarding with perceived price-quality relationship. There should be quite understandable the difference between price without context and price with context (Exhibit-12). Paired differences between Statement-1 and Statement-2 with two-tailed significance less than 0.01 (Phase-4 Exhibit-12) shows that price is sometimes perceived as just a number without context. The other possibility is that participants are just having difficulty to reach proportional understanding between price and benefit.

**MANAGERIAL IMPLICATIONS**

Price and pricing are two things which are highly relevant in mentioning customers' expectation on product benefit. Hence, product quality should be designed to meet with the benefit as expected by customers. It is a matter of firms' creativity to have constant and informative communication with their market through various medium. For instance, advertisements can be effective tool to educate market on product's benefit and its pricing policy. Consequently, advertisements should be validated as the source of truth in perceived price-quality relationship context.

Both consistency and inconsistency found in consumers' responses on price and quality offer invaluable insights for marketer. Consistency refers to think coherently which is the ability to value proportional between price and benefit. Consumers categorized in this area may have in-elastic demand as they can easily identify the relationship between price and benefit namely higher price for more benefit or high quality and lower price for less benefit or low quality. They are more product-oriented. On the contrary, inconsistency refers to think incoherently. Consumers in this category are price sensitive or price-oriented. They tend to speculate low-priced products with expectation for higher benefit or quality.

Facts of consistency and inconsistency in consumers' responses may have implication that firms should create an environment offering alternativality in prices. In other words, it is necessary that prices should be appropriately applied to specific benefits even in the context of relative price differences. Differences in price should be relevant with differences in product quality. Some segments who are very critical on prices

can potentially lead into bad campaign toward the product. Meaning to say there should be a new mechanism to educate market. It is not just about price perception (price without context) but price integrated with benefit (price with context).

#### CONCLUSION

Rationalization on participants' responses could be first step to find out dynamics of perceived price-quality. It is reasonable enough to mention that price can effectively play emotion of the market. And, it is about perceived price-quality. Some segments show much favor on low-priced product which may be reality the coming era of new consumers. They are more educated, critical to the price unfairness, and highly expected on product benefit and quality. The linearity of high price with high quality may need some revision. Firms have to work hard to convince market that low price with high quality product is possible without sacrificing product's image.

The author suggest for further in-depth empirical research to achieve more holistic understanding on perceived price-quality. ■

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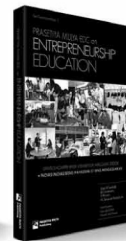
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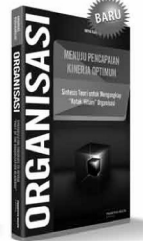
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