
Effect of Business Unit Performance on Company Value

Submitted 18/03/19, 1st revision 21/04/19, 2nd revision 11/05/19, accepted 18/6/19

Samidi¹, Ina Primiana², Martha Fani Cahyandito³, Erie Febrian⁴

Abstract:

Purpose: This research aims to examine the effect of business unit performance on the value of BUMD business units in West Java.

Design/Methodology/Approach: The research was conducted using a quantitative approach. The unit of analysis in this study is the business unit of BUMD owned by West Java Province. The observation unit is the management of the business unit owned by the West Java Provincial BUMD. Questionnaires were distributed to 34 managers of the West Java Provincial BUMD business units.

Findings: Business unit performance influences the value of the company. Resources provide the highest influence in increasing the value of the company, when compared to operation management and culture.

Practical Implications: The research has implications for the management of BUMD business units in West Java where in order to increase the value of the company it can be done by increasing the ownership of resources supported by the development of operation management, and culture.

Originality/Value: This research shows how to increase the value of the company by increasing the ownership of resources, supported by the development of operation management, and culture.

Keywords: BUMD, Business unit performance, company value, Partial Least Squares (PLS).

JEL codes: M14; M41.

Paper Type: Research article.

¹Postgraduate Program of Universitas Budi Luhur, Jakarta, Indonesia, Student of Science Management Program Faculty of Economic and Business Universitas Padjadjaran, Bandung, Indonesia samidiunpad@gmail.com

²Professor, Faculty of Economic and Business, Universitas Padjadjaran, Bandung, Indonesia inaprimiana@unpad.ac.id

³Lecture, Faculty of Economic and Business Universitas Padjadjaran, Bandung, Indonesia marthafani@unpad.ac.id

⁴Lecture, Faculty of Economic and Business Universitas Padjadjaran, Bandung, Indonesia, eriefebrian@unpad.ac.id

1. Introduction

BUMD is a company owned by the Regional Government with all or most of its capital coming from separated regional assets. BUMD as one of the economic actors in the region is expected to be able to create added value in the form of profit / profit. This is important to do, because some of the profits obtained by BUMD are one component of Regional Original Revenue (PAD), so it is necessary to increase the productivity of BUMDs.

BUMDs have not been able to contribute optimally, this is indicated by the small percentage of BUMD results to revenues for local governments. Percentage of BUMD Results & Regional Wealth Management that were separated compared to Regional Original Revenues in 2013 of 2.79%, in 2014 amounted to 2.44%, in 2015 amounted to 1.32% and in 2016 amounted to 2.84%. This shows that the portion of the contribution from the BUMD is still very small in contributing income to local governments. Data shows that there are around 41% of BUMDs in Indonesia that suffer losses without taking into account the category of Financial Services and Insurance.

The ROE value shows the company's ability to generate net income on the capital invested in the company and the value of ROA shows the company's ability to generate net income on the value of assets used by the company. ROE value of 4.76 and ROA of 1.48 in 2014, shows the low net profit generated by BUMD. BUMD in West Java amounted to 61 (BPS Jabar, Profil BUMD Jawa Barat, 2015, p.8) units with the highest number in the City of Bandung, namely 10 units. Based on the business field, the characteristics of BUMD in West Java amounted to 40.98% managing the electricity, gas and water sector, precisely in the form of 25 units of Regional Water Supply Companies.

Data from BPS Jawa Barat, Profil BUMD Jawa Barat 2015 shows ROE value from BUMD in West Java is 12.89%, ROA is 1.72%, Current Ratio is 110.14%, Solvability is 86.70%, and Current Ratio is 652.09% (BPS, 2015), at first glance that BUMD in West Java experienced positive development, but on the other hand the value was still far from the optimum condition of the operation of BUMD in West Java. Data from BPS Jawa Barat, Statistik Keuangan Pemerintah Provinsi dan Pemerintah Kota/Kabupaten Jawa Barat 2016 (p.19) shows the percentage of BUMD results & regional wealth management that are separated compared to the original regional income in 2012 of 2.33%, in 2013 amounted to 2.11%, in 2014 amounted to 2.02%, in 2015 amounted to 1.73% and in 2016 amounted to 1.91%.

Data from BPS Jawa Barat, Statistik Keuangan Pemerintah Provinsi dan Pemerintah Kota/Kabupaten Jawa Barat 2016 (p. 77) shows the Percentage of BUMD Results & Regional Wealth Management that were separated compared to Revenues in 2012 of 1.17%, in 2013 amounted to 1.18%, in 2014 amounted to 1.18%, in 2015 amounted to 0.98% and in 2016 amounted to 1.05%.

Data from BPS Jawa Barat, Statistik Keuangan Pemerintah Provinsi dan Pemerintah Kota/Kabupaten Jawa Barat 2016 (p. 20) Percentage of BUMD Results & Regional Wealth Management which are separated compared to Regional Original Revenues in 2012 of 3.01%, in 2013 amounted to 2.571%, in 2014 amounted to 2.08%, in 2015 amounted to 1.96% and in 2016 amounted to 1.95%.

Data BPS Jawa Barat, Statistik Keuangan Pemerintah Provinsi dan Pemerintah Kota/Kabupaten Jawa Barat 2016 (p. 78) reveals the percentage of BUMD Results & Regional Wealth Management that were separated compared to Revenues in 2012 amounted to 0.45%, in 2013 amounted to 0.43%, in 2014 amounted to 0.41%, in 2015 amounted to 0.48% and in 2016 amounted to 0.40%.

This shows that the portion of the contribution from the BUMD is still very small in contributing income to the Regional Government of the City / Regency in West Java Province and indicates the value of the company in the form of profit that is not optimal. This is allegedly related to the performance of business units that have not been optimal. Based on this description, this study aims to examine the effect of business unit performance on the value of enterprises in West Java.

2. Literature Review

Kaplan and Norton (1996) measure performance into 4 aspects of assessment, namely starting from learning and growth, internal business processes, customer aspects and financial aspects. These four aspects are known as the Balanced Scorecard. Gomathi (2013), BSC accommodates a complete picture of organizational performance aspects through 4 perspectives: financial goals, customer perspective, internal processes, and learning and innovation.

Sucuahi & Cambarihan (2016) revealed the main goal of each company is to maximize the assets or value of the company. Maximizing company value is very important for a company because it means increasing shareholder wealth as well. Based on the opinion of Güleriyüz (2009), the value of a company is the acquisition and trading value of the company anticipated by buyers and sellers who are willing to share comprehensive information about the company that is free of any problems. Sucuahi & Cambarihan (2016) measure the value of a company using Tobin Q. Tobin Q measures the relationship between a company's stock market value and the cost of replacing a company's resources (Sahay and Pillai, 2009). Tobin Q is considered the best predictor of market correction (Pett, 2013) and can also explain most of the variability in investment (Cooper and Ejarque, 2003). Tobin Q can also be applied in the analysis of a company's financial condition which means that the investor who acquires the company's stock will first calculate Tobin Q. The high value of Tobin Q indicates that the value of the replacement of the company's plant and equipment is low and vice versa. With this situation, companies with a high Q coefficient will be appropriate (Jahani, Zalgahdr-Nasab and Soofi, 2013). The use of

Tobin Q in measuring corporate value is also found in the research of Bambang Sudiyatno, Elen Puspitasari, and Andi Kartika (2012).

Meanwhile, Rajhans and Kaur (2013) and Bratamanggala (2018) suggested to increase the value of the company, the important question is to determine the factors that play a key role in influencing the company's market price. Based on various literatures, various factors can be identified, namely net sales, profits, fixed assets and the most important is the capital structure.

Sudiyatno *et al.* (2012) used ROA as a proxy for company performance and Tobins Q as a proxy for company value, and found that the company's performance had positive and significant at the significance level of less than 1% of the value of the company. Suryanto and Thalassinos (2017) refer to cultural ethics in accounting reporting affecting the company value as such. At Bambang Sudiyatno, Elen Puspitasari, Andi Kartika (2012) explained that Carlson and Bathala (1997), Makaryawati (2002), Ulupui (2007), and Bambang Sudiyatno (2010) found that ROA had a positive and significant influence on firm value. The hypothesis proposed in this study is:

H: The performance of business units affects the value of the company.

3. Methodology

The research method used is survey research method, namely by using a questionnaire as a primary data collection tool. The steps taken in collecting data are by distributing questionnaires. The analysis unit is the BUMD business unit owned by West Java Province. The observation unit is the management of the business unit owned by the West Java Province BUMD. Questionnaires were distributed to 34 managers of the West Java Provincial BUMD business units. Data processing is done using Partial Least Square (PLS).

4. Result and Discussion

4.1 Goodness of Fit Test

a. Test of Outer Model (Measurement Model)

Analysis of outer model shows the connections between manifest variables (indicators) and each latent variable. Validity and reliability test is used to measure the latent variables and the indicators in measuring the dimension that is constructed. Cronbachs Alpha's value is used to measure the reliability of dimension in measuring variables. Value of Cronbachs Alpha bigger than 0.70 (Nunnaly, 1994) indicate that the dimensions and indicators as reliable in measuring variables. Composite reliability and Cronbachs Alpha > 0.70 show that variables in the model estimated fulfill the criteria of discriminant validity. Then, it can be concluded that all of variables has a good reliability. Table 3 shows values

of Cronbachs Alpha > 0.7 and Composite Reliability > 0.7 so it can be concluded that all variables have reliable dimensions and indicators.

Table 1. 1st order Loading factor

| Variable-Dimension | Indicator-Dimension | λ | SE(I) | t-value | Conclusion |
|---------------------------|-----------------------|-----------|-------|---------|------------|
| Business Unit Performance | Bud1 <- Culture | 0.666 | 0.075 | 8.822 | Valid |
| | Bud2 <- Culture | 0.628 | 0.140 | 4.481 | Valid |
| | Bud3 <- Culture | 0.734 | 0.057 | 12.835 | Valid |
| | Bud4 <- Culture | 0.716 | 0.083 | 8.632 | Valid |
| Management | MO1 <- Op. Management | 0.701 | 0.130 | 5.382 | Valid |
| | MO2 <- Op. Management | 0.650 | 0.259 | 2.508 | Valid |
| | MO3 <- Op. Management | 0.664 | 0.143 | 4.655 | Valid |
| | MO4 <- Op. Management | 0.612 | 0.269 | 2.274 | Valid |
| Resources | SDP1 <- Resources | 0.727 | 0.060 | 12.094 | Valid |
| | SDP2 <- Resources | 0.642 | 0.077 | 8.351 | Valid |
| | SDP3 <- Resources | 0.705 | 0.097 | 7.243 | Valid |
| | SDP4 <- Resources | 0.602 | 0.117 | 5.138 | Valid |
| Company Value | MPK1 <- CV3 | 0.744 | 0.120 | 6.218 | Valid |
| | MPK2 <- CV3 | 0.692 | 0.078 | 8.825 | Valid |
| | MPK3 <- CV3 | 0.786 | 0.111 | 7.081 | Valid |
| | MPS1 <- CV1 | 0.824 | 0.075 | 10.939 | Valid |
| | MPS2 <- CV1 | 0.771 | 0.189 | 4.082 | Valid |
| | MSE1 <- CV4 | 0.749 | 0.093 | 8.012 | Valid |
| | MSE2 <- CV4 | 0.650 | 0.075 | 8.622 | Valid |
| | MSE3 <- CV4 | 0.763 | 0.082 | 9.292 | Valid |
| | PMR1 <- CV2 | 0.622 | 0.091 | 6.819 | Valid |
| | PMR2 <- CV2 | 0.648 | 0.193 | 3.352 | Valid |
| | PMR3 <- CV2 | 0.595 | 0.104 | 5.721 | Valid |
| | PMR4 <- CV2 | 0.760 | 0.165 | 4.613 | Valid |

Outer model of dimensions by its indicators show that the indicators are valid which the t value < 2.01 (t table at $\alpha = 0.05$). The result of outer model of latent variables on their dimensions showson the Table 3. wich the extent of validity in measuring latent variables.

Second Order usage in this research model cause the loading factor obtained be able to explain the relationship between latent variables-dimensions and dimensions-indicators. Table 2 show the result of outer model for each dimension on indicators.

Table 2. 2nd order Loading factor

| Variable-Dimension | λ | SE(λ) | t-value | Conclusion |
|---|-----------|-----------------|---------|------------|
| Business Unit Performance-> Culture | 0.798 | 0.044 | 18.333 | valid |
| Business Unit Performance-> Management Op | 0.815 | 0.044 | 18.458 | valid |
| Business Unit Performance-> Resources | 0.881 | 0.031 | 28.152 | valid |
| Company Values -> Cv1 | 0.759 | 0.062 | 12.266 | valid |
| Company Values -> Cv2 | 0.871 | 0.035 | 24.597 | valid |
| Company Values -> Cv3 | 0.858 | 0.055 | 15.749 | valid |
| Company Values -> Cv4 | 0.867 | 0.037 | 23.617 | valid |

The development of a business unit performance relies on development of company resources (0.881), which is followed by the operations management (0.815), company culture (0.798).

b. Test of Inner Model (Structural model)

Analysis of inner model shows the relationships between latent variables. Inner model is evaluated by using the value of R square on endogenous constructs and Q square (Prediction relevance) or known as Stone-Geisser's. The value of Q square obtained 0.02 (minor), 0.15 (medium) and 0.35 (large), and only used for the endogenous construct with reflective indicator. Refer to Chin (1998), the value of R square amounted to 0.67 (strong), 0.33 (medium) and 0.19 (weak).

Table 3. Test of Inner Model

| Variable | AVE | Composite Reliability | R Square | Cronbachs Alpha | Q square |
|---------------------------|-------|-----------------------|----------|-----------------|----------|
| Unit Business Performance | 0.509 | 0.841 | | 0.794 | 0.308 |
| Company Value | 0.567 | 0.874 | 0.592 | 0.842 | 0.362 |

Source: SmartPLS 2.0.

Company Value as endogenous variables has the R square value in medium criteria (> 0.33), and Q square values are in medium criteria (Q square > 0.15), so it can be concluded that the research model is supported by the empirical condition or model is fit. Based on the research framework then obtained a structural model:

$$\eta_1 = 0.769\xi_1 + \zeta_1$$

where η_1 =Company Value

ξ_1 = Business Unit Performance

ζ_1 =Residual

The following picture is results from data processing with SmartPLS.

4.2 Hypothesis Testing

Below is the result of hypothesis testing partially.

Table 4. Partial Testing of Hypothesis

| Hypothesis | γ | SE(γ) | T-Value | R ² | Conclusion |
|---|----------|----------------|---------|----------------|---------------------|
| Business Unit Performance-> Company Value | 0.769 | 0.095 | 8.131* | 0.592 | Hypothesis Accepted |

Note: * significant at $\alpha=0.05$ (t table =2.01).

Figure 1. Complete Path Diagram of Research Model

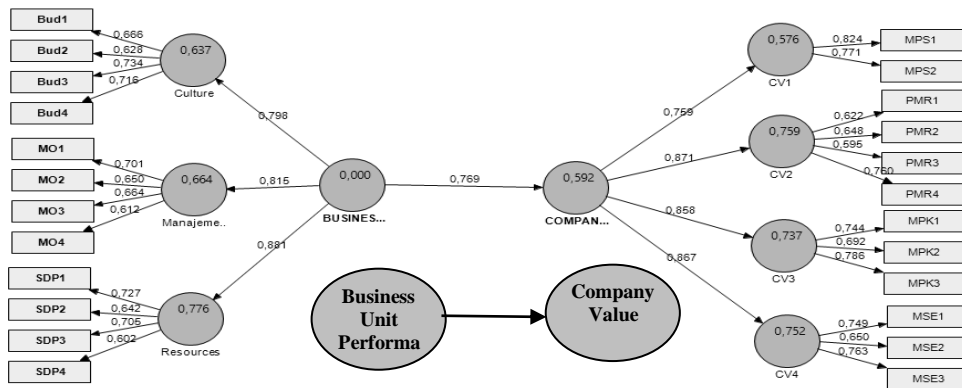
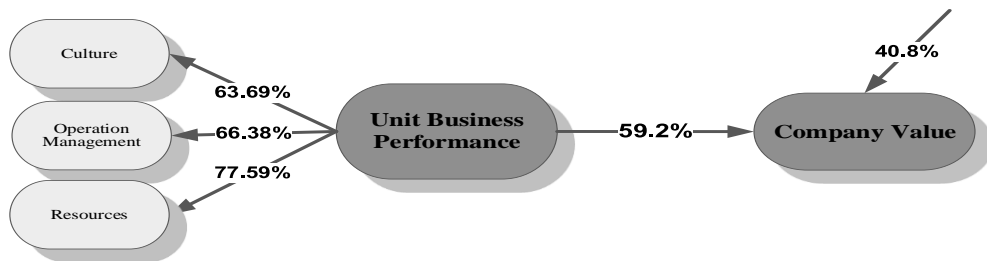


Table 4 show business unit performance influential significantly to company value, with a greater influence (R²=59.2%). Based on the results of hypothesis testing, can be described a research finding as follow:

Figure 2. Research Finding



The results of the study support the hypothesis that the performance of business units influences the value of a company. Business unit performance is measured by three dimensions, namely culture, operation management, and resources, where from these three dimensions, resources provide the highest influence in increasing the value of the company, if compared to operation management and culture.

This finding is in line with the results of Bambang Sudiyatno's research, Elen Puspitasari, Andi Kartika (2012), Carlson and Bathala (1997), Makaryawati (2002), Ulupui (2007), and Bambang Sudiyatno (2010) who found the effect of performance on company value.

5. Conclusions and Recommendations

Business unit performance influences the value of the company. Resources provide the highest influence in increasing the value of the company, when compared to operation management and culture. The results of this study have implications for the management of BUMD business units in West Java that increasing the value of the company can be done by increasing the ownership of resources, supported by the development of operation management, and culture.

References:

- Bambang Sudiyatno and Elen Puspitasari. 2010. Pengaruh Kebijakan Perusahaan Terhadap Nilai Perusahaan dengan Kinerja Perusahaan Sebagai Variabel Intervening (Studi pada Perusahaan Manufaktur di Bursa Efek Indonesia). *Dinamika Keuangan dan Perbankan*, Vol 2. No 1, pp 1-22.
- Bambang Sudiyatno, ElenPuspitasari, AndiKartika. 2012. The Company's Policy, Firm Performance, and Firm Value: An Empirical Research on Indonesia Stock Exchange. *American International Journal of Contemporary Research*, Vol. 2 No. 12, 30-40.
- Bratamanggala, R. 2018. Factors Affecting Earning Per Share: The Case of Indonesia. *International Journal of Economics & Business Administration*, 6(2), 92-100.
- BPS Jabar, Profil BUMD Jawa Barat. 2015.
- BPS Jawa Barat, Statistik Keuangan Pemerintah Provinsi dan Pemerintah Kota/Kabupaten Jawa Barat. 2016.
- Chin, W.W. 1998. The Partial Least Squares Approach to Structural Equation Modeling. *Modern Methods for Business Research*, 2, 295-336.
- Kaplan, R.S. and Norton, D.P. 1996. *The balanced scorecard: translating strategy into action*. Harvard Business Press.
- Nunnally, J.C. and Bernstein, I.H. 1994. The Assessment of Reliability. *Psychometric Theory*, 3, 248-292.
- Rajhans, Rajni Kant, Kaur, Kawalpreet. 2013. Financial Determinants of Firm's Value Evidence From Indian Firms. *ZENITH International Journal of Business Economics & Management Research*, ZIJBEMR, 3(5), 70-76.
- Sucuachi, W. & Cambariban, J.M. 2016. Influence of Profitability to the Firm Value of Diversified Companies in the Philippines. *Accounting and Finance Research*, Vol. 5, No. 2, 149-153.
- Suryanto, T., Thalassinos, I.E. 2017. Cultural Ethics and Consequences in Whistle-Blowing among Professional Accountants: An Empirical Analysis. *Journal of Applied Economic Sciences*, 6(52), 1725-1731.