Value-Based Management Assessment and The Improvement of Creditors' and Investors' Confidence in Bali

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***Abstract* - The main purpose of preparing financial statements is to provide information to investors and creditors. Financial performance is needed by investors and creditors to ensure that the funds they have given to the company are guaranteed in the form of investment and loans. Financial performance is calculated based on financial statements prepared by the company. The financial statements are prepared based on the accounting methods and treatments that have been prepared by the company. Consequently, the financial performance will usually looks good and increase. Other financial performance measurement methods are needed that can be measure the real condition of a company's financial based on value based management. This study aims to examine and analyze the effect of the financial performance assessment of value based management on: (1) the level of creditor confidence and (2) the level of investor confidence. The location of the study was in star-rated hotels in Bali, the study sample used purposive sampling method. Data analysis uses multiple linear regression. The results of the study prove that: (1) the financial performance assessment of value based management affects the level of creditor confidence and (2) the financial performance assessment of value based management affects the level of investor confidence. The results of this study recommend to those who are most interested in the performance of the company can be use the financial performance assessment of value based management as one of the important indicators in decision making.**

Keywords: performance, investors, creditors, value based management

I. INTRODUCTION

Company performance through financial ratios can show the success of company management in managing assets and capital to maximize the value of the company. The party that has the most interest in financial performance is an external party, namely creditors and investors. If investors want to see how much the company generates returns on investment, then what will be seen first is the company's performance which is shown by the ability to generate profits. The better the company's performance, the greater the company's ability to generate profits, by itself can be a positive signal for investors in making investments.

Some studies have shown that the company's performance has a positive effect on the value of the company. ROA and *Return on Equity* (ROE) affect *Earning Per Share* (EPS) [1]. Other research found that LDR, ROE, ROA, and CAR affected the Composite Stock Price Index (CSPI) [2]. These studies emphasized that ROE and ROA had a positive correlation with stock prices.

However, different results were also obtained by other studies. Of all *Economic Value Added* (EVA), ROA, ROE and EPS, only EPS affects the stock price [3]. Likewise, EVA, ROA, and ROE does not show a significant influence on stock *returns*, thus these variables do not have a partial effect on the company's stock *returns* [4].

Value-Based Management is a term that is currently being popularized by software companies and consultants in order to explain an integrated framework of performance and management measurement tools [5]. Value-Based Management provides dynamic assessment and high organizational performance results based on financial strength. Various principles, concepts, and techniques that underlie Value Based Management are increasingly developing in influencing the strategies of companies around the world. Economic Value Added is claimed to be the best method of performance measurement which is one of the application of Value based management [6]. The concept of Economic Value Added (EVA) is actually similar to the measurement of residual income. EVA is a method of evaluating financial performance to calculate the true economic profit of a company. The company's financial performance can reflect the company's market value which can be used as an indicator to increase the level of trust of external parties, namely creditors and investors. This study aims to examine and analyze the effect of financial performance assessment of value based management on: (1) the level of creditor confidence and (2) the level of investor confidence.

II. LITERATURE REVIEW

All this time the performance of a company has been measured more based on financial ratios for a certain period. This financial ratio is highly dependent on the method or an accounting treatment used in preparing the company's financial statements. So that often the company's performance looks good and increases, even though in fact the performance has not increased and even decreased. Value-Based Management is a term that is currently being popularized by software companies and consultants in order to explain an integrated framework of performance and management measurement tools [5]. Value-Based Management provides a dynamic assessment and high organizational performance results based on financial strength, such as Economic Value Added (EVA) which can indicate an organization's success or failure. The economic value of a commercial company is only legitimized by the benefits achieved. A good company must ensure that customers are satisfied, employees are well looked after but the point is always profit.

The various principles, concepts, and techniques that underlie *Value Based Management* (VBM) are increasingly developing in influencing the strategies of companies around the world, especially in the United States and Europe. In 1997, The Coca Cola Company began implementing the VBM concept in the company. Still in 1997, one German company, Siemens, announced that they had changed direction to VBM by using *Economic Value Added*.

Economic Value Added is claimed to be the best method of performance measurement which is one of the application of Value based management [6]. This concept was first developed by Joel M. Stern and Stewart, financial analyst from consulting firm Stern Stewart & Co in the late 1980s. According to Stewart, earnings and earnings per share are incorrect measurements for company performance. The concept of Economic Value Added (EVA) is actually similar to the measurement of residual income. EVA is a method of evaluating financial performance to calculate the true economic profit of a company. EVA measures the difference in the rate of return between company capital and capital costs. EVA positive indicates that there is value creation for shareholders, while EVA negative indicates that value destruction has occurred.

EVA can be said to be more innovative because: EVA is not limited by GAAP, EVA can be applied to a low level in the organization [7]. EVA has something that cannot be done by other financial measures, namely how to measure and communicate performance that can be used in all areas, such as capital markets, assessment of capital investments, and in the assessment and compensation of managerial performance. Good financial performance will cause to high level of confidence from external parties, namely creditors and investors.

III. RESEARCH METHOD

Based on theoretical and empirical studies, the variables used in the design of this study are: (1) independent variables is *Value-Based Management*, (2) the dependent variable is the level of creditor confidence and the level of investor confidence and (3) control variables are company size and type of industry. The research location is on star hotel in Bali, sample using *purposive sampling* method that is the method of sampling based on certain criteria. The criteria used in sampling in this study are: (1) is star hotel in Bali, (2) complete financial data in the last five years from 2013 to 2017, and (3) the company has complete data related to creditors and investors. Data analysis method in this research is quantitative analysis techniques. The analytical methods required include: (1) classical assumption tests which include normality test, multicollinearity test, heteroscedasticity test, autocorrelation test and (2) test multiple linear regression.

IV. RESULTS AND DISCUSSION

A. Data Description

This study only used data from 2003 until 2017. Determination of the research sample was carried out by purposive sampling method. Based on the predetermined criteria, a final sample 67 research samples was obtained. From the descriptive statistical test results, the following information is obtained: (1) Value-Based Management variables have a value range of -2.62 to 5.71. The average value of Value-Based Management is 2.73 and the standard deviation is 1.46. (2) Variable Size has a range of values from 26.91 to 34.77. The average size is 29.45 and the standard deviation is 1.915. (3) Profile variable is a dummy variable with a range of 0 and 1. The average profile value is 0.152 with a standard deviation of 0.397. (4) The level of creditor's confidence has a range of values from 3 to 5. The average value of the level of debtor's confidence is 4.01 and the standard deviation is 1.899. (5) Variable level of investor confidence has a range of values from 2 to 5. The average value of the size is 3.87 and the standard deviation is 1.86.

B. Classic Assumption Test

Data normality test was used by Kolmogorov-Smirnov test. Residuals are normally distributed if the significance level shows a value greater than 0.05 (5%). The results of the normality test showed that the Kolmogorov-Smirnov value was 0.807 and significant at 0.515, this meant that the residual data was normally distributed. Heteroscedasticity test is done by *Glejser* test by regressing the absolute residual value to the independent variables. The test results show that the significance value of all independent variables is greater than 0.05, this means there is no heteroscedasticity. Autocorrelation test aims to examine the correlation between confounding errors in period t with errors in period t-1 (previous period). If there is a correlation, then there is an autocorrelation problem. The test used to detect autocorrelation is the Durbin Watson test. The test results show that the DW value is 1.799, this value is compared with the table value using a 5% significance. For the number of samples n = 100, the values dl = 1,613 and du = 1,736. Because the values of DW> du and <4 - du, means there is no autocorrelation. Multicollinearity test is carried out by correlation analysis between independent variables and calculation of *tolerance* values and *variance inflation* factor (VIF). The test results show that all dependent variables have *tolerance* value is greater than 0.1 and VIF <10, meaning that it is free from multicollinearity.

C. Research Results

The main objective of this study is to examine the effect of Value-Based Management on the level of creditor and investor confidence. The test results prove that the effect of Value-Based Management on the level of creditor's confidence gives a coefficient of parameters 0.339 with a significance level of 0.0059 which means that it has a significant influence on the level of creditor's confidence. The meaning of the regression coefficient of Value-Based Management of 0.339 states that every value added of the company's Value-Based Management by 1% will increase the level of creditor's confidence by 0.238%. Other tests prove that Value-Based Management gives a parameter coefficient of 0.274 with a significance level of 0.0039 which means a significant influence on the level of investor confidence. The meaning of the regression coefficient of Value-Based Management of 0.274 states that each addition of Value-Based Management of the company by 1% will increase the level of investor confidence by 0.274%. There are several things that cause Value Based Management to prove to have an effect on the level of creditor and investor confidence, including: (1) Value Based Management shows the economic value added created by the company from its activities or strategies during a certain period, (2) The principle of Value Based Management provides a measurement system that both to assess the performance and financial performance of the company's management because it is directly related to the market value of a company, (3) Value Based Management focuses its assessment on value added by paying attention to the cost of capital as a consequence of investment. By the calculation of capital costs, it can be seen whether the company can create value added or not, and (4) Value Based Management can be used independently without requiring comparative data.

In this study used control variables namely Size and Profile. Companies with large sizes are said to be more stable and more able to generate profits than smaller companies so that the value of the company is also getting better. Likewise, high profile companies have better performance compared to low profile companies so that the value of the company will also be better.

The results of this study show SIZE with a significance level of 0.481 and PROFILE with a significance level of 0.4 01 each does not significantly influence the level of creditor confidence. This means that both Size and Profile of company do not affect the level of confidence of external party of company. This is indicated because investors in making investment decisions tend to pay more attention to the company's Value Based Management. They think that the main goal of investing is to get the maximum return possible. By looking at the good Value Based Management they no longer need to see the Size and Profile of the company.

The value of the company can be expressed as the sum of the total capital invested plus the present value of the total *Value Based Management of the* company in the future. The higher *Value Based Management* means the higher the company's performance and vice versa the lower the *Value Based Management* means the lower the company's performance. *Value Based Management* is a measurement based on the idea of *residual income* [7]. *Value Based Management* has to do with the creation of corporate value, and the value of the company now reflects the total value creation over the life of the company.

V. CONCLUSION

The results of the study prove that: (1) the assessment of the financial performance of value-based management affects the level of creditor confidence and (2) the assessment of the financial performance of value-based management affects the level of investor confidence. The results of this study recommend to those who are most interested in the performance of the company can use the assessment of financial performance value-based management as one of the important indicators in decision making.

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