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The Significant Impact of Financial Performance Assessment Value-based Management at Star Hotels in Bali

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Abstract

Bali is very dependent on the tourism industry. Many entities rely on business from tourism industry including large hotels owned by foreign investors. The existence of hotels in Bali has a huge effect on economic growth. During this time, the hotel performance is measured more based on the financial ratios. This financial ratio is very dependent on the method of accounting treatment that is used in composing the company's financial report. The things that caused the company's performance to look good and improved, even though it could not have increased and even decreased. Performance measures are needed which should emphasize value or value-based management. The purpose of this study was to determine the effect of financial performance assessment with Value-based Management at star hotels in Bali, especially toward: (1) the enhancement of the room occupancy rates, (2) the enhancement of profits, (3) the enhancement of creditor's confidence, and (4) the enhancement of confidence of investor and potential investor. The choice of hotels is based on the following considerations: (1) the extent of business carried out, (2) foreign ownership, and (3) the responsibility of foreign investor toward the preservation of Bali. Determination of the sample using purposive sampling method. The effect of value-based management is tested by multiple linear regression. The results of the study prove that Value-based Management has a significant influence on: (1) the enhancement of the room occupancy rates, (2) the enhancement of profits, (3) the enhancement of creditor confidence, and (4) the enhancement of confidence of investor and potential investor.

Keywords: financial performance, value-based management, hotel

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1. Introduction

Bali is very dependent on the tourism industry. Many entities that depend on their business from the tourism sector include large hotels owned by foreign investors. On the other hand, the existence of hotels in Bali has a huge effect on economic growth. So far, the hotel performance is more be measured based on financial ratios for a certain period. The financial ratio is highly dependent on the financial accounting methods used in preparing the financial statements of the company. This often causes the company's performance to look good and increasing, even though it actually does not increase and even decline, even the financial performance measures based on accounting profit, such as earnings per share, price earnings ratio and return on equity, is considered no longer sufficient to evaluate the effectiveness and efficiency of the company. Research that examines the effect of company performance on corporate value is carried out by Saepudin (2008), Johnny Jerry (2008), Ulupui (2007), Carlson and Bathala (1997).

The theory underlying the research study is that the higher the financial performance, the higher the value of the company. Research conducted by Anita Ardiani (2007) proves that the *Capital Adequacy Ratio (CAR), Return on Risk Assets (RORA)* and *Loan to Deposit Ratio (LDR)* have a significant effect on stock changes. Ulupui (2007) proves that *Return on Assets* (ROA) has a significant positive effect on stock *returns* in the next period. Carlson and Bathala (1997) also found that ROA has a positive effect on the value of the company. Smith (1992) also found *investment opportunity sets* and *leverage* have an effect on the value of the company.

The results of the study are consistent with the statement that the better the financial performance of the company, the better the value of the company. The value of the company is indicated by the price of shares circulating in the capital market. However, different results were obtained Sri Rahayu (2010) who examined the effect of *Economic Value Added* (EVA), ROA, ROE and EPS on stock prices. The results of the study prove that only EPS has an effect on stock prices. Likewise with Wibowo (2005), who examined the effect of EVA, ROA, and company ROE on shareholder returns. The results of statistical testing partially on each of the independent variables namely EVA, ROA, and ROE does not show a significant influence on stock *returns*, so these variables do not have a partial effect on the company's stock *returns*.

The inconsistency of research results regarding the effect of company performance on the value of the company indicates the influence of other variables. Variables that can strengthen or weaken a relationship are called moderating variables (Sugiyono, 2009).

So far a company's performance is measured by an end of the financial ratios for a specific period (Utomo, 1999). This financial ratio is highly dependent on the method of accounting treatment used in preparing the company's financial statements. This often causes the company's performance to look good and increase, even though in fact it has not experienced an increase or even decreased. This was also notified by Pradhono and Christiawan (2004), the measurement of financial performance that is based on accounting profit, such as earnings per share, ratio of price earnings and return on equity, is considered no longer adequate for evaluation the effectiveness and efficiency of the company. So now, many companies use performance measures that emphasize value or value-based management (Dwi Hartanti and Elsa Rumiris Monika. 2008).

The value of the company can be reflected in the value of the company's equity. Beaver and Ryan (2000) in Watts (2003) use a *market to book ratio of equity* that reflects market value relative to the value of the company. The ratio of market value to book value provides a final and perhaps the most comprehensive assessment of the company's stock market status. This ratio summarizes the investor's view of the company as a whole both in terms of management, profit, liquidity, and future prospects of the company (Walsh, 2003). *Market to book ratio of equity* reflects that the market assess *the return* of investment of the company in the future from the expected *return* on equity (Smith and Watts, 1992; Hartono, 1999). The difference between market value and book value of equity shows the investment opportunity of the company (Collins and Kothari, 1989). The purpose of this study was to determine the effect of financial performance assessment with *Value-Based Management* at star hotels in Bali especially toward: (1) the enhancement number of room occupancy rates, (2) the enhancement of profits, (3) the enhancement of creditor confidence, and (4) the enhancement of confidence of investor and potential investor.

2. Research Method

The purpose of this study was to examine the significant impact of the financial performance assessment of *value based management* at star hotels in Bali. Based on theoretical and empirical studies, the variables used in the design of this study are: (1) independent variables is a financial performance assessment of *value based management,* (2) the dependent variables are occupancy rates, company profits, the level of trust creditors and the level of trust of investors and potential investors. Research locations are star hotels in Bali. Selection of star hotels based on the availability of complete financial reports including the implementation of financial performance assessment of the value-based management. The determination of the research sample was carried out by *purposive sampling* method that is the *sampling* method based on certain criteria. The criteria used in sampling in this study are: (1) Star hotels in Bali, (2) publish financial reports, and (3) the hotels which have complete data related to the variables used in the study. The total research sample was 48 hotels. Data analysis method in this research is quantitative analysis techniques. This study uses regression test regression model not only shows the influence of the independent variables on the dependent variables, but there are other factors that can lead to errors in observation called spam or disturbance's error. In order for the regression analysis model to be used in this study produced parametric value, the classical assumption testing is done first. Classical assumption testing is conducted to determine the significance of the relationship between the independent variables and the dependent variable (Ghozali, 2009). Classical Assumption Tests include tests of normality, multicollinearity, heteroscedasticity and autocorrelation.

3. Results and Discussion

The object of the research is star hotels in Bali. The research sample was conducted using *purposive sampling method* with criteria: (1) starred hotels in Bali, (2) publish financial statements, and (3) hotels have complete data related to the variables used in the study. Requests for submission of data collection were carried out as many as 65 star hotels scattered throughout Bali. However, only 54 hotels were willing to serve as research objects and were willing to provide their financial data. From 54 hotels, 6 hotels have incomplete data to be used as research material, so that the total complete data that can be analyzed in this study are 48 hotels in Bali. Based on predetermined criteria, 48 final observations were obtained. The samples can be seen in Table 1.

Table 1: Sample Determination Results.

Criteria	Number of hotels
Total Submission of data collection to the Hotel	65
Total Hotels willing to provide data company	54
Total Hotels whose data is incomplete	(6)
Number of final samples with complete data	**48**
Source: Data processed.	

Data normality testing uses the Kolmogorov-Smirnov test. Residuals are normally distributed if the significance level shows a value greater than 0.05 (5%). The result of normality test shows that Kolmogorov-Smirnov value is 0, 544 and is significant at 0, 3 74 this means that the residual data is normally distributed. Heteroscedasticity test results indicate that the significance value of the independent variables are all greater than 0.05, this means that heteroscedasticity does not occur. 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. Test results show that autocorrelation does not occur.

Multicollinearity testing is done by correlation analysis between independent variables and calculation of tolerance values and variance inflation factor (VIF). Multicollinearity occurs if the tolerance value is less than 0.1 (10%) or the VIF value is greater than 10. If the tolerance value is more than 10% or VIF is less than 10 then it can be said that the independent variable used in the model is reliable and objective (there is no multicollarity). The test results show that all dependent variables have tolerance values greater than 0.1 and VIF < 10, meaning that they are free from multicollinearity.

The purpose of this study was to determine the effect of financial performance assessment with Value-Based Management on star hotels in Bali, especially on: (1) the enhancement number of room occupancy rates, (2) the enhancement of profits, (3) the enhancement of creditor's confidence, and (4) the enhancement of confidence of investor and potential investor. The test results prove that Value-Based Management gives a parameter coefficient of 0.238 with a significance level of 0.0052 which means a significant influence on the occupancy rate of the room. The meaning of the regression coefficient of Value-Based Management of 0.238 states that every value added of the company's Value-Based Management by 1% will increase the room occupancy rate by 0.238%.

Value Based Management provides a parameter of coefficient of 0.181 with a significance level of 0.004 which means that it has a significant influence on company profits. The meaning of the regression coefficient of Value-Based Management of 0.181 states that every value of Value-Based Management of company 1% will increase the company's profit by 0.181%. Value-Based Management variable gives a parameter coefficient of 0.211 with a significance level of 0.0041 which means that it has a significant influence on the level of creditor's confidence. The meaning of the Value-Based Management regression coefficient of 0.211 states that every value of Enterprise-Based Management of 1% will increase the level of creditor's confidence level by 0.211%. Value Based Management Provides a parameter of coefficient of 0.309 with a significance level of 0.049 which is significant to the level confidence of investor and potential investors. The meaning of the Value-Based Management regression coefficient of 0.049 states that every value of Value-Based Management of company 1% will increase the level confidence of investor and potential investor by 0.049%.

The results of this test can be discussed as follows: the increase in the value of the company is usually characterized by rising stock prices on the market. The ratio of market value to book value provides a final and perhaps the most comprehensive assessment of the company's stock market status. This ratio summarizes the views of investors about the company as a whole, management, labor, liquidity, and the future prospects of the company (Walsh, 2003). Investors review the performance of a company by looking at financial ratios as a tool for investment profitability. Through financial ratios can be seen the success of the management of the company managing *assets* and capital to maximize the value of the company. If investors want to see how much the company produces *returns* on investment, the performance they will see first is the ratios related to the ability to generate corporate profits. The higher this ratio, the greater the company's ability to generate profits, which in turn can be a positive signal for investors in making investments. Assessment of a company's performance can be seen from the company's ability to generate profits. The company's profit apart from being an indicator of the company's ability to fulfill its obligations for its funders is also an element in the creation of corporate value that shows the company's prospects in the future.

This study shows that Value Based Management is proven to have an effect on the room occupancy rate. The test results prove that Value-Based Management gives a parameter coefficient of 0.238 with a significance level of 0.0052 which means a significant influence on the room occupancy rate. The meaning of the regression coefficient of Value-Based Management of 0.238 states that every value added of the company's Value-Based Management by 1% will increase the room occupancy rate by 0.238%. This result is consistent with the statement that the higher the financial performance, the higher the level of consumer confidence.

Value-Based Management gives a parameter coefficient of 0.181 with a significance level of 0.004 which means that it has a significant influence on the company's profit. The meaning of the regression coefficient Value-Based Management of 0.181 states that each addition of Value-Based Management of the company by 1% will increase the company's profit by 0.181%. This result is consistent with the statement that the higher the company's performance, the higher the company's profit will be.

Value-Based Management variable gives a parameter coefficient of 0.211 with a significance level of 0.0041 which means that it has a significant influence on the level of creditor's confidence. The meaning of the value-based management regression coefficient of 0.211 states that every additional value-based management of the company by 1% will increase the level of creditor's confidence 0.211%. Value-Based Management gives a parameter coefficient of 0.309 with a significance level of 0.049 which means that it has a significant influence on the level confidence of investor and potential investors. The meaning of the regression coefficient of Value-Based Management of 0.049 states that each addition of Value-Based Management of the company by 1% will increase the level confidence of investor and potential investors by 0.049%. The results of this study prove that good financial performance causes the level of confidence of external companies, namely creditors and investors also increase.

Hotels are specific business entities with a combination of services and production. The existence of hotels in Bali has a huge effect on economic growth. The government and the public also really need the role of the hotel to make a direct positive contribution to the area around the hotel. Research that examines the effect of corporate performance on the value of the company has been done a lot, among others by Saepudin (2008), Johnny Jerry (2008), Anita Ardiani (2007), Ulupui (2007), Makaryawati (2002), Carlson and Bathala (1997). The theory underlying these studies is that the higher the financial performance, the higher the value of the company. Research conducted by Anita Ardiani (2007) proves that CAR, RORA and LDR have a significant effect on stock changes.

Ulupui (2007) proves that ROA has a significant positive effect on stock *returns* for the next period. Makaryawati (2002), Carlson and Bathala (1997) in Suranta and Pratana (2004) also found that ROA has a positive effect on the value of the company. Andri and Hanung (2007) also found *investment opportunity sets* and *leverage* have an effect on the value of the company. Several other studies also show the results that company performance has a positive effect on the value of the company. Yunina, Nazir and Gazali (2009) prove that ROA and ROE affect EPS. Johnny Jerry (2008) also proves that LDR, ROE, ROA and CAR affect the JCI.

However, different results were obtained by Sasongko and Wulandari (2006) in Sri Rahayu (2010) who examined the effect of *Value-Based Management* with *Economic Value Added* (EVA), ROA, ROE and EPS on stock prices. The results of the study prove that only EPS affects the stock price. Likewise with Wibowo (2005), who examined the effect of EVA, ROA, and company ROE on shareholder returns. The results of statistical testing partially on each of the independent variables namely EVA, ROA, and ROE does not show a significant influence on stock *returns*, so these variables do not have a partial effect on the company's stock *returns*.

4. Conclusion

The results of the study prove that performance assessment with *Value Based Management* has a significant impact on (1) the enhancement number of room occupancy rates, (2) the enhancement of profits, (3) the enhancement of creditor's confidence, and (4) the enhancement of confidence of investor and potential investor. This is evidenced by *Value-Based Management* gives a parameter coefficient of 0,238 with a significance level of 0,0052 which means a significant influence on the level of occupancy of the room. *Value-Based Management* gives a parameter coefficient of 0,181 with a significance level of 0,004 which means having a significant influence on company profits. *Value-Based Management* variable gives a parameter coefficient of 0,211 with a significance level of 0,0041 which means that it has a significant influence on the level of creditor's confidence. *Value-Based Management* gives a parameter coefficient of 0,309 with a significance level of 0,049 which means that it has asignificant influence on the level confidence of investor and potential investors.

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