



## PROCEEDINGS

*The 2nd International Conference  
on Finance, Management and Business*

*"Disseminating Ideas for Development  
in The Field of Finance, Management, and Business"*



**FACULTY of  
ECONOMICS  
& BUSINESS**  
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SEMARANG, INDONESIA  
**AUGUST 1, 2018**



**Professor Hemant Merchant**  
(Kate Tiedemann College of Business  
University South of Florida St. Petersburg, USA)



**Professor Othman Yong**  
(Universiti Kebangsaan Malaysia)

**ifma**

The Indonesian Financial Management Association



# Proceedings

The 2nd International Conference on  
Finance, Management and Business  
(ICFMB 2018)

"Disseminating Ideas for Development in The Field of Finance, Management and Business"



Department of Management  
Faculty of Economics and Business  
Universitas Diponegoro

## Proceedings

# The 2nd International Conference on Finance, Management and Business (ICFMB 2018)

"Disseminating Ideas for Development in The Field of Finance, Management and Business"

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## FOREWORDS

Salaam,

I am delighted to welcome you to Semarang, Indonesia. The purpose of International Conference on Finance, Management and Business is to bring together researchers and practitioners all over the world to share new ideas and present latest developments in the theoretical and practical areas of finance, management and business.

I am honored to have the keynote speakers in the conference: Professor Hemant Merchant from University of South Florida in St. Petersburg, USA and Professor Othman Yong from Universiti Kebangsaan Malaysia.

I am hoping that all participants of the conference to take time not only for paper presentation, but also to actively engage one another and to take this opportunity to further develop your professional links.

The conference will not be possible to be organized without the dedicated efforts of many individuals who have contributed to the various process that make up this event. For their dedication, I sincerely convey my appreciation. My sincere gratitude also goes to our institution partners and journal partners that provide their support in this conference.

Last but not least, Semarang with its exotic and unique atmosphere is very interesting to be explored. So, enjoy your stay in Semarang.

Wassalaamualaikum

Best wishes,

Dr. Harjum Muharam

Conference Chair

Head of Management Department FEB Universitas Diponegoro

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Professor Hemant Merchant (University of South Florida in St. Petersburg, USA)

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**CONFERENCE PROGRAM**

<b>Hour</b>	<b>Program</b>	<b>Location</b>
07.30 – 14.00	Registration	4th floor, C Building
08.00 – 10.00	Concurrent session 1	Room 1-5, 3th floor, C Building
10.00 – 10.15	Coffee break	4th floor, C Building
10.15 – 10.25	Opening speech	Main hall, 4th floor, C Building
10.25 – 12.00	Keynote speeches by Prof. Hemant Merchant and Prof. Othman Yong	Main hall, 4th floor, C Building
12.00 – 13.15	Lunch	4th floor, C Building
13.15 – 14.45	Seminars by Prof. Hemant Merchant and Prof. Othman Yong	Main hall, 4th floor, C Building
14.45 – 15.00	Coffee break	4th floor, C Building
15.00 – 17.00	Concurrent session 2	Room 1-5, 3th floor, C Building
17.00 – 17.30	Closing ceremony and best paper awards	Main hall, 4th floor, C Building

**PRESENTATION SCHEDULE**

**CONCURRENT SESSION 1 (Hour: 08.00 – 10.00)**

ROOM	ROOM 1	ROOM 2	ROOM 3	ROOM 4	ROOM 5
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	CUSTOMER LOYALTY: JUST OVERT BEHAVIOR, WITHOUT ATTITUDINAL COMPONENT Lerbin R. Arionang R	THE INFLUENCE OF CAPITAL ADEQUACY RATIO, LOAN EXPOSURE, LOAN TO DEPOSIT RATIO, NET INTEREST MARGIN AND CASH RATIO TO RETURN ON TOTAL ASSET ON BANKING SECTOR LISTED AT INDONESIA STOCK EXCHANGE PERIOD 2011 – 2016. Astrid Dita Meirina Hakim, Mia Laksmiwati	INDIVIDUAL CHARACTERISTICS, FINANCIAL LITERACY AND ABILITY IN DETECTING INVESTMENT SCAMS Anis Chariri, Wibowati Sektiyani, Nurlina, Richa Wahyu Wulandari	LOCAL CULINARY MSME DEVELOPMENT ON INDONESIA TOURISM Asep Mulyana, Rita Komaladewi, Dika Jatnika, Deru Andika	HAPPINESS FROM ECONOMIC STATUS: EVIDENCE FROM THE ELDERLY IN THE NORTHEASTERN REGION OF THAILAND Jongrak Hong-ngam, Dusadee Ayuwat, Kesinee Saramrittichai
	THE INFLUENCE OF BRAND AWARENESS, PERCEIVED QUALITY, PRICE, AND ADVERTISING ON CONSUMERS' PURCHASING DECISION ON THE PRIVATE-BRANDED PRODUCTS OF ALFAMART DEPOK INDONESIA Waseso Segoro, Bella Linda Yuniar	INTERCONNECTEDNESS ANALYSIS INTERBANK MONEY MARKET (PUAB) ON BANKING AS ONE OF THE FINANCE SYSTEM VULNERABILITY INDICATORS IN THE CONTEXT OF SYSTEMIC RISK MITIGATION Luthfi Ardian, Ruslan Prijadi	IMPLICATIONS OF INTANGIBLE ASSETS IDENTIFICATION WITH DEMPE IN THE INDONESIA'S TRANSFER PRICING TAX REGULATIONS Leonard Saputra, Christine Tjen	MODEL OF SMALL MEDIUM ENTERPRISES PERFORMANCE BASED ON GREEN ECONOMY THROUGH STRENGTHENING INSTITUTIONAL AND PRODUCTION Sriyono Sriyono, Sigit Hermawan, Sarwendah Biduri	SYNCHRONIZING ISNC MODEL AND INDONESIA'S VILLAGE FUND PROGRAM TO STIMULATE RURAL AGRICULTURE-BASED INDUSTRIALIZATION THROUGH RURAL INFRASTRUCTURE DEVELOPMENT Firrean Suprpto, Sukardi Sentono, Rezaldi Alief Pramudha
	THE INFLUENCE OF SERVICE QUALITY, BRAND IMAGE AND PRICE ON CUSTOMER LOYALTY THROUGH CUSTOMER SATISFACTION (A CASE STUDY ON XYZ INSURANCE COMPANY) Rianto Nurcahyo, Sambudi	THE IMPACT OF NON-INTEREST INCOME ON BANK MARKET PERFORMANCE: THE ROLES OF REGULATIONS, BANK CONCENTRATION, AND CORPORATE GOVERNANCE Hsiao-Jung Chen, I Gusti Agung Musa Budidarma	THE EFFECTS OF TAX AVOIDANCE AND AUDIT QUALITY ON TAX AMNESTY Ni Kadek Rahayu Nadi, Dwi Martani	TOWARD A NEW MODEL OF INNOVATION BEHAVIOR FOR FEMALE ENTREPRENEURS IN BATIK INDUSTRY Nur Laily, Triyonowati, Wahidawati	BUILDING ACCELERATION OF ECONOMIC GROWTH MODEL THROUGH EDUCATION AND HEALTH BUDGET ALLOCATION CASES IN INDONESIA Hasyim, Rina Anindita, Baharuddin, Gunawan

	Hamali, Durwin, Gelbert Gunawan				
	<p>THE EFFECT OF STORE ATMOSPHERE, SERVICE QUALITY, PRICE, AND LIFESTYLE TO REPURCHASE INTENTION IN SALATIGA CAFE Terra Imelta Ole, Yusepaldo Pasharibu</p>	<p>UNDERSTANDING THE INDONESIAN ENVIRONMENT TO OVERCOME THE CHALLENGES OF TAKAFUL INDUSTRY MARKET DEVELOPMENT Peni Nugrahens</p>	<p>ETHICS AND TAX EVASION: IS IT ETHICAL NOT PAYING TAXES IN A CORRUPT COUNTRY? Nurhidayati, Dyah Purwanti</p>	<p>THE EFFECT OF FINANCIAL INCLUSION TO MICRO SMALL AND MEDIUM ENTERPRISES CREDIT IN INDONESIA Linati Haida Alimi, Astiwi Indriani</p>	<p>EVALUATION OF LECTURERS' COMPETENCE IN IMPROVING TEACHING AND LEARNING ACTIVITIES TO FACE THE ASEAN ECONOMIC COMMUNITY (MEA) AT THE FACULTY OF ECONOMICS, UNIVERSITY OF WIJAYA KUSUMA SURABAYA Siti Asiah Murni, James Tumewu, Rica S. Wuryaningrum</p>
	<p>HOW DOES SAMSUNG ABLE TO MANAGE SUSTAINABLE CORPORATE BRAND THROUGH CONSUMER LOYALTY? (THE CUSTOMER'S PERCEIVED STUDY OF SAMSUNG CORPORATE BRAND) Ira Murweni, Mokh. Adib Sultan</p>	<p>A NON-MAINSTREAM PERSPECTIVE OF "TIME VALUE OF MONEY" ON MURABAHAH Virginia Nur Rahmanti, Dian Agustia</p>	<p>OWNERSHIP STRUCTURE AND AVOIDANCE OF TAXES Ery Suprapti</p>	<p>A STUDY ON THE BRIGHT SIDE AND THE DARK SIDE OF CHANNEL RELATIONSHIPS ACROSS FURNITURE SMALL-MEDIUM-ENTERPRISES: WHICH ONE DOMINATE MOST? I Made Sukresna, Mahfudz, Augusty Tae Ferdinand</p>	<p>SYSTEMATIC REVIEW: THE DEVELOPMENT OF BURNOUT OVER 37 YEARS Astri Dias Maharani, Ayu Desmalita, Mirwan Surya Perdhana</p>
	<p>HOW DOES THE TYPE OF PRODUCT MODERATE CONSUMERS' BUYING INTENTIONS TOWARDS TRADITIONAL FOODS? (STUDY OF CONSUMER BEHAVIOR IN INDONESIA) Budhi Haryanto, Djoko Purwanto, Amina Sukma Dewi, Edi Cahyono</p>	<p>COMPARATIVE ANALYSIS OF ISLAMICITY PERFORMANCE INDEX IN ASEAN ISLAMIC BANKS IN 2011 - 2016 PERIOD (A CASE STUDY ON INDONESIA, MALAYSIA, BRUNEI DARUSSALAM, AND THAILAND) Noer Fauziah Aulia Rahayu, Dina Fitriasia Septiarini</p>	<p>INADEQUATE MANAGEMENT ACCOUNTING INFORMATION IS THE CAUSE OF THE DECLINING PERFORMANCE OF MANAGERIAL OF INDONESIAN TEXTILE INDUSTRY Rima Rachmawati</p>	<p>ACHIEVING BUSINESS PERFORMANCE THROUGH SUPPLY CHAIN AGILITY, STRATEGIC AND MANUFACTURING FLEXIBILITIES: EMPIRICAL STUDY ON SMES IN THE FASHION INDUSTRY IN BOGOR, INDONESIA Amie Kusumawardhani, Nadhila Hakim</p>	<p>ANALYSIS OF PERCEPTION AND WILLINGNESS TO PAY NEW VIRGIN RED PALM OIL (VRO) "SALMIRA" ON AFRICAN EXPATRIATE IN JAKARTA M. Syaefudin Andrianto, Darmono Taniwiryo</p>



CUSTOMER LOYALTY WITH CUSTOMER SATISFACTION AS INTERVENING VARIABLE ON LIONAIR CUSTOMER IN INDONESIA Avianto Dimas Praditya, Sri Rahayu Tri Astuti	FINANCIAL PERFORMANCE ANALYSIS SURROUNDING INITIAL PUBLIC OFFERINGS Marmono Singgih, Selfi Dewi Qomariyah, Tatang Ary Gumanti	BEHAVIOURAL AND PSYCHOLOGICAL FACTORS INFLUENCING MALAYSIAN HOUSEHOLDS' FINANCIAL WELL-BEING Nurul Shahnaz Mahdzan, Rozaimah Zainodin, Fauzi Zainir, Mohd Edil Abd Sukor, Wan Marbaini Wan Ahmad	SOCIAL ENTREPRENEURSHIP: INNOVATION OF EMPLOYMENT OPPORTUNITIES IN RURAL (CASE STUDY OF MUSHROOM BUSINESS IN MAJALENGKA REGENCY) Mulyaningrum, Ellen Rusliati
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CONCURRENT SESSION 2 (Hour: 15.00 – 17.00)

ROOM	ROOM 1	ROOM 2	ROOM 3	ROOM 4	ROOM 5
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	THE EFFECT OF PRICE AND PRODUCT QUALITY TOWARDS CUSTOMER SATISFACTION AND CUSTOMER LOYALTY ON MADURA BATIK Prĕbanus Wantara, Muhammad Tambrin	HOW DO THE PERCEPTION OF TAX PROFESSIONALS ON TAX COMPLEXITY AND ITS CONSEQUENT ON TAX NONCOMPLIANCE BEHAVIOR? Dyah Purwanti, Benny Setiawan	THE IMPACT OF POLITICAL RISK ON EQUITY MARKET Paulina Yuritha Amiran	FINANCIAL LITERACY FOR ENTREPRENEUR: A SYSTEMATIC LITERATURE REVIEW Astric Krisnawati, Jurry Hatammimi	INTELLECTUAL CAPITAL DISCLOSURE: EVIDENCE FROM UNIVERSITIES IN SOUTHEAST ASIA Sigit Hermawan, Sriyono, Wiwit Hariyanto, Niko Fedyanto
	KEY FACTORS THAT INFLUENCE CUSTOMER ADOPTION OF TECHNOLOGY INNOVATION IN THE INDONESIA CONSTRUCTION SECTOR: A CASE OF HILTI B. Silaban, R.A. Nasution	ENTERPRISE RESOURCE PLANNING (ERP), USER COMPETENCY AND ORGANIZATION COMMITMENT TO QUALITY OF ACCOUNTING INFORMATION AND ACCOUNTING INFORMATION SYSTEM ON QUALITY OF ACCOUNTING INFORMATION (EMPIRICAL STUDY OF MAJOR SECTOR COMPANIES OF PLANTATION SUB-SECTOR YEAR 2017) Sugeng Riyadi, Anita Wahyu	DETERMINANTS OF INTELLECTUAL CAPITAL DISCLOSURE IN INITIAL PUBLIC OFFERINGS Tatang Ary Gumanti, Ira Puspita Sari, Elok Sri Utami	NEW MODEL OF ENTEPRENEUR CREATION FROM PROFESSIONAL WORKER Masruhan Kholil, Sony Heru Priyanto, Roos Kities Andadari, Sri Sulandjari	THE MEDIATING ROLE OF PSYCHOLOGICAL CAPITAL ON THE LINKAGES BETWEEN RELIGIOSITY ORIENTATION AND JOB STRESS Dwi Marlina Wijayanti, Niluh Putu Dian Rosalina H. N

	<p>THE IMPACT OF BRAND IMAGE, PRODUCT ATTRIBUTES, AND ATTITUDE TOWARD BUNDLING ON CONSUMER SATISFACTION AND REPURCHASE INTENTION Rendi Arfandi, I Made Sukresna</p>	<p>Indrasti, Prita Andini AN EMPIRICAL INVESTIGATION ON THE IMPACT OF XBRL ADOPTION ON INFORMATION ASYMMETRY WITH CORPORATE GOVERNANCE AS MODERATING ROLE: EVIDENCE FROM INDONESIA Rina Dharmawati, Siti Nurwahyuningih Harahap</p>	<p>INFLUENCE OF BOARD COMMISSIONERS SIZE, MANAGERIAL OWNERSHIP, AND PROFITABILITY TOWARD ENVIRONMENTAL DISCLOSURE ON WEBSITE Riana Dwi Kartika, Imanita</p>	<p>COMPANY RESOURCE ANALYSIS IN DEVELOPING DYNAMIC CAPABILITY MATRIX: A CASE STUDY IN UNDERSTANDING THE SOURCE OF SUSTAINABILITY OF COMPANY'S EXCELLENCE PERFORMANCE OF INDONESIA LISTED NON-BANK FINANCIAL INSTITUTIONS Randy Hadipoespito, Hardijanto Saroso</p>	<p>PUBLIC SERVANTS CHARACTERISCS AND THEIR PERCEPTION ON MOTIVATION AND PERFORMANCE A.T. Headrawijaya, N. Insiyah, D.T. Indrianti, T.A. Gumanti</p>
	<p>PERCEIVED PATIENT-CENTERED BEHAVIOR AND PATIENT ENGAGEMENT ON QUALITY OF CARE WITH PATIENT'S ORIENTATION PREFERENCE AS THE MODERATING VARIABLE Linda Kong, Ying-Chyi Chou, Ching-Hua Lu</p>	<p>CONTENT ANALYSIS : MENTORING POLICY AND AUDITOR TURNOVER BEHAVIOR AT PUBLIC ACCOUNTING FIRM Nur Diana, Maslichah, M. Cholid Mawardi</p>	<p>ANALYSIS ON THE EFFECT OF FINANCIAL PERFORMANCE, INVESTATION DECISIONS, AND FUNDING DECISIONS TOWARDS CASH HOLDINGS: THE ROLE OF DIVIDEND POLICY AS A MODERATING VARIABLE Woen Cliff Wibowo, Sugeng Wahyudi</p>	<p>THE ROLE OF SUPPLY CHAIN MANAGEMENT ON COMPETITIVE ADVANTAGE AND BUSINESS PERFORMANCE: AN EMPIRICAL STUDY AT THE CENTER OF TOFU CRAFTSMEN IN MAGELANG, INDONESIA Amie Kusumawardhani, Sinta Putri Karunia, Cahyaningratri</p>	<p>FACTORS INFLUENCING EMPLOYEE ENGAGEMENT TOWARDS THE ORGANIZATION OF KHON KAEN UNIVERSITY PERSONNEL Dusadee Ayuwat, Jongrak Hong-ngam, Wanichcha Narongchai, Supee Samorna, Kriangkrai Pasata, Krongkaew Kingsawat, Sompbot Thinpru, Kwannakorn Sonman, Nattawat Aurasampai</p>
	<p>LOYALTY, IMAGE, SATISFACTION, AND INTENTION: MEDIATED BY TRUST Lerbin R. Aritonang R</p>	<p>THE DETERMINANTS OF GROWTH AND FIRM VALUE Abid Djazuli, Ervita Savitri, Dinarossi Utami</p>	<p>THE RELATIONSHIP BETWEEN COMPANY CHARACTERISTICS AND INTELLECTUAL CAPITAL IN INDONESIA INITIAL PUBLIC OFFERINGS Nurhayati, Tika Maningarta, Tatang Ary Gumanti</p>	<p>IMPROVEMENT OF INVENTORY MANAGEMENT OPERATION AT PT. RED TO INCREASE COMPANY'S REVENUE Grace Listiani</p>	<p>PEOPLE MANAGEMENT AS A TOOL FOR SUSTAINABLE HUMAN RESOURCE MANAGEMENT Alfa Santoso Budiwidjojo Putra, Christiantius Dwiatmadja, Gatot Sasongko, Leli Suharti</p>

<p>BUILD THE IMAGE EAST JAKARTA INDUSTRIAL PARK (EJIP) Andriasan Sudarso, Lili Suryati</p>	<p>THE EFFECT OF FIRM SIZE, EARNING VOLATILITY, AND INTEREST RATES ON THE STOCK RETURN AND FINANCIAL PERFORMANCE AS MEDIATION Tonny Maringka</p>	<p>THE DETERMINANTS OF CREDIT CARD MISUSE AMONG GENERATION Y URBANITES IN MALAYSIA Rozaimah Zainudin, Nurul Shahnaz Ahmad Mahdzan, Yeap Ming Yee</p>	<p>EVALUATION OF TIME BASED MAINTENANCE (TBM) TO REDUCE MAINTENANCE COST Nisa Isrofi, Moses Laksono Singgih</p>	<p>THE RELATIONSHIP OF JOB SATISFACTION, ORGANIZATIONAL CHANGE DIMENSIONS, AND ORGANIZATIONAL CYNICISM Heni Kusumawati, Wisnu Prajoga, Nikodemus Haris Setiadi Wijaya</p>
<p>THE DIFFERENCE IN EFFECTIVENESS BETWEEN NIKAH OR S2 VERSION AND GOYANG BERSIH/JINGLE VERSION OF FAIR &amp; LOVELY TELEVISION ADVERTISEMENTS IN PALEMBANG CITY Siska Putri, Sri Rahayu, Ervita Safitri</p>	<p>INTELLECTUAL CAPITAL DISCLOSURE AND THE UNDERPRICING OF INDONESIAN INITIAL PUBLIC OFFERINGS Elok Sri Utami, Nurul Illiyin, Tatang Ary Gumanti</p>	<p>ANALYSIS OF PDAM PERFORMANCE IN EAST JAVA BEFORE AND AFTER DEBT RESTRUCTURING Ady Setiawan, Isti Fadah, Elok Sri Utami</p>	<p>GLOBALIZATION IMPACTED TO SUSTAINABILITY OF VOLCANIC DISASTER MANAGEMENT PERFORMANCES IN MT.SLAMET, INDONESIA Diah Setyawati Dewanti, Dusadee Ayuwat, Sekson Yongvanit</p>	<p>THE IMPACT OF ORGANIZATIONAL JUSTICE ON JOB PERFORMANCE WITH AFFECTIVE COMMITMENT AS A MEDIATOR STUDY AT A PRIVATE UNIVERSITY IN BENGKULU PROVINCE, INDONESIA Ansori Fazjerin, Suharnomo</p>
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**ANALYSIS OF PDAM PERFORMANCE IN EAST JAVA  
BEFORE AND AFTER DEBT RESTRUCTURING**

**Ady Setiawan  
Isti F adah  
Elok Sri Utami**

**Abstract**

This study aims to analyze the process of restructuring in PDAM. This research was conducted at PDAM in East Java. The population and samples used in this study amount to 38 PDAM in East Java. Data collection techniques using secondary data in the form of financial performance reports. The analytical method used is the analysis of financial statements and discriminant analysis.

The results show that the variables of each group have a significant difference. The one of the real impacts of the size of the debt rate is the magnitude of the interest rate that burdens the operational of the PDAM. The greater the debt, the greater the interest rate (including the principal of the debt) to be paid. Interest expense will be a problem and hamper the performance of PDAM, both financial and operational performance, if the proportion to total operational cost is quite large compared to the proportion of other operational costs. Conditions on PDAMs in East Java. The direct cost of PDAM business is also a burden because the numbers are very large. Together with the high interest expense, this condition further exacerbates the financial performance of PDAM in East Java Province prior to debt restructuring, especially on the aspect of profitability. The low efficiency of production where the average production efficiency is 64.47% and even decreased to 62.70% after the restructuring. Debt and interest expense for each cubic meter of clean water produced also shows that PDAMs in East Java Province have to bear the burden of debt and interest costs per cubic meter are much higher. All operational costs must ultimately be charged to the consumer, then the debt and interest expense per cubic meter also automatically becomes the burden of the consumer.

Keyword: restructuring, PDAM, debt, financial performance

## INTRODUCTION

Standard evaluation of quality and performance service of Water Supply System (WSS) development, is an assessment and measurement activity of each aspect of performance appraisal so as to know the quality and performance of PDAM in providing drinking water service to the community. This study shows the performance evaluation results of all PDAMs in East Java as many as 38 districts in fiscal years of 2007, 2008, 2009, 2010 or 4 years before (debt restructuring) and 2011, 2012, 2013 and 2014, or 4 years after debt restructuring) using the same indicators from four aspects of financial assessment aspect, service aspect, operational aspect and human resources aspect referring to Article 59 of Regulation of the Minister of Public Works No. 18/PRT/M/2007 concerning the Implementation of WSS Development.

Principles used in the performance indicators BPPSPAM is Balance Score Card approach. With this approach, PDAM performance appraisal indicators are prepared by applying principles of the Balance Score Card, taking into account the characteristics of the PDAM own. This research was inspired by several previous studies, among others, research from Matheous Tamonsang *et al* (2002) on PDAM Financial Performance Analysis in East Java. The financial performance of PDAM with better profit is viewed from the ratio of working capital turnover, receivable turnover, cash ratio, net profit margin ratio and ROA. While the financial performance of PDAM is proven to have loss ratio of long-term debt with total assets and operating ratio is higher than PDAM's profit. Research of Sulistiowati *et al* (2017) to analysis of financial statements to assess the financial performance of PDAM Tegal concluded that the financial performance of PDAM Tegal has not been maximally measured and analyzed from profitability ratio, solvability ratio, operating ratio.

Mian & Atia (2010) conducted research on the effect of financial restructuring on banking performance in Pakistan with DEA approach. Previous research has shown significant positive effects privatization on the profitability of

financial institutions. The results of the approach show that privatization can not help banks in increasing operating income.

Departing from the empirical evidence arises a question and the problem: (1) Is the Restructuring done on PDAM can affect the improvement of Performance? (2) What aspects should be improved in restructuring for the performance of the company especially the increasing PDAM?

## LITERATURE REVIEW

The aspects of PDAM performance indicators related to the restructuring process consist of:

1. Financial aspects that include:

- a. Profitability, aims to determine the ability of PDAMs to create profits and ensure sustainability. Assessment of this aspect also aims to measure the level of management effectiveness in running the company's operations.

These aspects include:

- *Return On Equity* , where the ratio measures the ability of the rate of return on the amount of equity.
- *Operating Ratio* , in order to measure how much cost efficiency is spent to generate revenue.

- b. Liquidity aims to determine the ability of the PDAM to meet its short-term obligations. Another meaning is the ability of the PDAM to fulfill obligations or debts that must be paid immediately with its current assets. These aspects include:

- *Cash Ratio* , to measure cash capability in order to guarantee short-term liabilities.
- The effectiveness of billing, to measure the effectiveness of collection activities on the sale of water.

2. ServiceAspects that include;
  - a. Scope of technical services, to find out how much percentage of the population served by the PDAM compared to the population in the PDAM service area.
  - b. The growth of customers, used to find out what percentage increase in the number of customers PDAM in one year.
3. Operational Aspects that include;
  - a. Production efficiency, to measure the efficiency of production systems.
  - b. The rate of water loss, to measure the efficiency of the distribution system to water sales.
4. Human Resource Aspect , 15% weight, covering;
  - a. The ratio of employees to 1000 customers, to measure the efficiency of labor usage in serving every 1000 customers.
  - b. Employee education and training ratios, measuring company awareness to improve employee competence.
  - c. Ratio of education and training costs, measuring company awareness to fund in terms of employee capacity building.

## **Company Performance Measurement**

Brigham (1998) suggested that measuring the performance of a company consists of financial and non-financial factors that include the concept of efficiency and effectiveness. Financial performance is generally measured by comparing the benefits (*benefit*) and cost (*cost*) or between certain sacrifices to obtain the maximum possible results. While Stoner and Freeman (1989) quoted Drucker who said that the company's performance can be measured by two concepts of efficiency and effectiveness. Efficiency is the relationship between input and output that is the ability to achieve optimal results with a certain cost. While effectiveness is the ability to choose and achieve the right goals.

Robbin (2002) combines efficiency with effectiveness where efficiency is a short-term criterion that demonstrates a company's ability to produce output with

minimum input usage, in which case efficiency measures are always expressed by comparison such as cost benefits, cost per output or cost per time. While the effectiveness of the company concerning the results of operating objectives relating to profitability, productivity, employee welfare and customer satisfaction.

## RESEARCH METHODS

### Population and Sample

Based on data up to 2014 (published 2016), the population of PDAMs in East Java were 38 companies.

### Operational Definition of Variables

#### Variable Finance:

#### Ratio between long-term debt and capital.

$$\frac{\text{Long Term Debt}}{\text{Total Asset}}$$

This ratio shows the importance of long-term capital in the capital structure. This ratio is to measure the level of corporate *leverage*. The greater the level of *leverage* in general, the greater the risk of the company, in the sense of the greater the cost incurred to get a loan or long-term debt.

#### Operating Ratio

$$\frac{\text{Total Expense}}{\text{Sales}}$$

This ratio reflects the level of efficiency of the company, which is seen from all operating costs incurred compared to sales. The higher the operating ratio, the more inefficient a company because biaya issued also grew, and the resulting smaller profit.

#### Cash ratio

$$\frac{\text{Cash}}{\text{Current Debt}}$$

This ratio helps management to measure the efficiency of cash turnover used by the company. The faster or higher the cash ratio, the more efficient the cash turnover, and vice versa, the lower the cash ratio, the more inefficient the use of debt means the excess debt.

## **Analysis Technique**

### ***Financial Ratio Analysis and Discriminant Model***

The PDAM's financial ratios above will be further investigated by discriminant analysis to determine the most important financial ratios, which are the most dominant ratios in PDAM financial performance assessment, so that they can be grouped into Healthy PDAM and Poor PDAM.

### **Specify Variable Variables**

The differentiating variable is the independent variable which, if used in the analysis, will be able to classify a sample. In this discriminant model, the differentiating variables are the 3 financial ratios of PDAM, namely:

$X_1$  = long-term debt / total assets

$X_2$  = total cost of business / sales (operating ratio)

$X_3$  = cash / current debt (cash ratio)

## **ANALYSIS AND DISCUSSION**

### **Overview of Research Objects**

This research uses PDAM Performance Data in East Java based on audit result of BPKP Representative of East Java Province. The data used from 2007 to 2014. PDAMs that become the sample of this research are as many as 38 Regency / City in East Java.

### **Description of PDAM Financial Performance Statistics**



The results of research on PDAM Performance in East Java before to restructuring in 2007, 2008, 2009, 2010 and after debt restructuring in 2011, 2012, 2013 and 2014 are presented in the table below:

Indicator	Before Restructuring					After Restructuring				
	2007	2008	2009	2010	Average	2011	2012	2013	2014	Average
ROE	-32.26%	-30.33%	-2.08%	-33.35%	-24.50%	-23.54%	-11.08%	-4.13%	-11.63%	-12.60%
Operating Ratio	1.02	1.01	1.16	1.13	1.08	0.98	0.99	0.97	0.99	0.98
Cash Ratio	406.79%	386.11%	1559.14%	313.70%	666.44%	1413.27%	485.18%	917.44%	1790.28%	1151.54%
Billing Effectiveness	89.02%	61.74%	64.20%	68.14%	70.77%	90.71%	90.96%	91.31%	93.56%	91.63%
Service Coverage	37.41%	36.78%	32.47%	33.13%	34.95%	36.93%	36.32%	39.84%	44.12%	39.30%
Customer Growth	2.96%	3.27%	4.41%	3.36%	3.50%	4.38%	5.97%	5.80%	4.89%	5.26%
Production Efficiency	67.72%	66.68%	61.99%	61.50%	64.47%	58.72%	74.01%	58.19%	59.87%	62.70%
NRW	34.17%	31.23%	32.51%	33.45%	32.84%	27.67%	29.77%	30.17%	27.63%	28.81%
Employee Ratio	8.31	7.81	7.94	7.28	7.83	6.98	6.94	6.86	6.24	6.75
Training Ratio	38.64%	42.52%	17.15%	17.02%	28.83%	54.72%	22.13%	68.37%	39.01%	46.06%
Training Cost Ratio	1.11%	1.17%	0.58%	0.75%	0.90%	0.92%	0.87%	1.62%	1.05%	1.11%

The basis for establishing discriminant analysis calculated using the SPSS program is shown by three variables which are discriminant or differentiating variables ie independent variables which, if used in the analysis, will be able to classify a sample. In this discriminant model, the differentiating variables are the 3 financial ratios of PDAM, namely:

$X_1$  = long-term debt / total assets

$X_2$  = total cost of business / sales (operating ratio)

$X_3$  = cash / current debt (cash ratio)

The result of calculation of discriminant analysis for PDAM financial performance in East Java Province before and after debt restructuring can be seen in table 2 below:

Table 2

Discriminant Analysis Results

Wilks' Lambda

Test of Function (s)	Wilks' Lambda	Chi-square	Df	Sig.
1	.225	6,703	3	.000

Discriminant analysis results show that the significance value for the three discriminant variables is 0.000, due to the significant value 0.000 ( $<0.05$ ) then the variable of each group has a significant difference.

1. Long-term debt ratio with capital (X1)

This ratio shows the importance of long-term capital in the capital structure, this ratio is to measure the level of corporate *leverage*. The greater the level of *leverage* in general, the greater the risk of the company, in the sense of the greater the cost incurred to get a loan or long-term debt. Descriptive calculation results in Table 1 show that, on overall average data of long-term debt ratio 4 years before the restructuring was 24.50% and the average long-term debt ratio 4 years after the restructuring period was 12.60%. The value of this ratio is higher after 4 years debt restructuring.

2. Operating Ratio (X2)

This ratio shows the working capital embedded in receivables. The higher the turnover ratio, the more operating costs used mean getting weak. Similarly, the lower the operating ratio, the smaller operating costs in revenue. To assess whether this ratio is good or not, in the sense of not too low or too high can be compared to the overall operational ratio of PDAM as a whole. The results of descriptive calculation in table 1 shows that, on average the overall data receivable turnover ratio at 4 years after restructuring was 0.98. The value of this ratio decreased after 4 years before restructuring.

3. Cash Ratio (X4)

This ratio indicates that the cash value is so many times the current debt. By calculating the cash ratio can be known ability company to pay short term debt. The higher the cash ratio, the better the company in fulfilling its short-term liabilities, but the cash ratio is too high indicates the existence of cash surplus compared to that required at the time. The calculation shows that, the total cash ratio data at 4 years after the restructuring was 1151.54% . Cash ratio from 4 years before restructuring was 666.44%.

## DISCUSSION

Theoretically there is a difference in conceptual definition between *Liabilities with Debt*. *Liabilitis* is the sum of all debts in that year concerned, so not only long-term debt, but included short-term debt. While the *debt* is calculated based on the amount long-term debt only (Faris, 2012) . The size of the debt is not the only measure to see the quality of the debt. Another measure that better reflects the quality is to look at the various financial ratios associated with debt (Ashifa, 2015). Average *Debt to Equity Ratio* PDAM in East Java for 4 years after restructuring is higher than before restructuring. When compared to the cash held, it appears that average cash ratio still above 0.5. This means more than 50% cash PDAM in East Java financed from debt. Management in making decisions concern debt as one source of investment funds is not discussed here because the incidence has been too long (Bogna *et al.*, 2015) .

The high level of debt and the weakness of the management cause higher debt costs. It gets worse when decisions are made investment from sources of debt funds is not through the process of consideration and a truly accurate feasibility study. In the end the asset results Such investment decisions will not result in optimal *output* (Isaac , 2016). This ratio shows the working capital embedded in receivables. The higher the turnover ratio, the more operating costs used to mean getting weak. Similarly, the lower the operating ratio, the smaller operating

costs in revenue (Ted, 2016). For 7 debt restructuring, the average ratio PDAM operations in East Java are still above 1, after the restructuring so that it can down the value of its operational ratio.

In this study it is easy to suspect that most the source of PDAM's investment fund is from debt because it is no longer a secret almost all PDAMs have poor financial performance only the ability of investment from internal fund sources is very low. With Thus, the role of debt management is very important to get the optimal investment return (Faulkender, M. and M. Petersen, 2012). But with weak management of debt, both due to internal factors namely: the ability of customer acquisition, increase of water sale price, sales volume, receivable billing and income as well as factors external factors such as economic growth and ability customers in buying water then ultimately lead to a level very low asset return.

More specifically, it can be seen the PDAM's ability in East Java to pay interest expense for the last 8 (five) years. PDAM Capability in East Java Province less healthy in paying the interest expense this is because the ratio of long-term debt shows a negative number. This condition seen from the ability to pay interest expense from net cash derived from operating activities or the amount of net income obtained by the company before taxes and interest. This is an indication that the interest expense of PDAM in East Java has become a burden operational and affect its investment capability.

One of the real effects of the size of the debt level is the magnitude of interest rates that burden the operation of PDAMs. It is logical if the greater the debt, the greater the interest rate (including principal debt) to be paid. But the interest expense will become a problem and hamper the performance of PDAM, both financial performance or operational, if it turns out to be proportional to the total cost the operation is quite large compared to the proportion of costs other operations.

The direct costs of the PDAM business are also a burden because the numbers are very large. PDAM financial performance in East Java prior to debt restructuring, especially on the aspect of profitability where the average efficiency of production before the restructuring only 64.47% and decreased to 62.70% even after restructuring. Another prominent fact is the burden of debt and interest for every cubic meter of clean water produced also shows that PDAMs in East Java should bear the burden of debt and interest costs per cubic meter is much higher. Because all operational costs should eventually be charged to the consumer, the burden of debt and interest per meter This cubic also automatically becomes the burden of consumers.

## CONCLUSION

Based on data analysis result that has been described and to PDAM performance in East Java before and after debt restructuring can be summarized as follows:

1. Debt restructuring did not show the effect to PDAM performance in East Java.
2. Average cash ratio still above 0.5. This means more than 50% of PDAM cash in East Java financed from debt.
3. Efficiency of production where the average production efficiency before the restructuring is only 64.47% and even decreased to 62.70% after the restructuring.

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