

Effects of Growth & Learning and Internal Business Processes on Financial Performance (Survey of Regional Water Company (PDAM) in Java)

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***Abstract**---The study aims to find out whether growth & learning affect financial performance; does the internal business process affect financial performance. This type of research is verification and descriptive with an analysis unit of 108 Regional Water Supply Companies (PDAMs) in Java. The analysis used is multiple regression analysis. The results of the study show that growth & learning are influential and internal business processes influence financial performance.*

***Keywords**---Growth & Learning, Internal Business Processes, Financial Performance.*

I. RESEARCH BACKGROUND

Regional company is a regionally-owned enterprise (BUMD) in the form of a limited liability company whose capital is divided into shares which all or at least 51% (fifty-one percent) of its shares are owned by 1 (one) region. The establishment of BUMD aims to: a) provide benefits for regional economic development; b) organize public benefits in the form of provision of quality goods and/or services for the fulfillment of community life accordingly the conditions, characteristics and potential of the region concerned based on good corporate governance; and c) obtain profits and/or profits (Government Regulation of the Republic of Indonesia Number 54, 2017).

Regional Water Company (PDAM) is one of the regional-owned enterprises that organize drinking water supply systems (SPAM). According to the Government Regulation of the Republic of Indonesia, Number 122 of 2015 SPAM is a series of activities in carrying out the development and management of facilities and infrastructure that follow the basic process of management for the supply of Drinking Water to the community. To realize this, the government is accelerating the achievement of universal access to 100% safe water in 2019 by revitalizing the organization of the drinking water supply system (SPAM). This institution was formed through presidential regulation number 90 of 2016 concerning the agency for the improvement and implementation of drinking water supply systems (BPPSPAM), structurally under the coordination of the minister of public works and housing, struggling to help the central government and local governments to improve the organization of spam executed by state-owned enterprises or regional-owned enterprises (BUMN / BUMD) SPAM providers. BPPSPAM has several functions, namely:

1. Assessing the performance of the provision of drinking water systems to fulfill the requirements for quality, quantity, and continuity of service for drinking water supply systems;
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2. Facilitating improved performance in the implementation of drinking water supply systems;
3. Provision of recommendations to the central government and regional governments to increase the implementation of drinking water supply systems;
4. Providing recommendations to the central government and regional governments to maintain a balanced interest between the organizer and the customer.

Indonesia's potential for water resources reaches 3.9 trillion cubic meters per year. A total of 691 billion cubic meters or 18% that can be managed from the water potential in Indonesia currently reaches and the rest is wasted into the sea. So the untapped potential is still around 3.2 trillion cubic meters per year or 82 percent. The problem of the lack of availability of clean water in the community is meant (Basri, 2018).

Budi (2019) says management drinking water services in Indonesia still not yet maximum. Next Syarifuddin (2019) said that many factors caused PDAMs to be declared sick. One of them: a) the professionalism of the manager and supervisor; b) subscription rates that are not easy to raise; c) the high level of water loss caused by pipeline leakage and the second about service coverage; and d) lack of capacity or competence of PDAM managers. According to Sudiatmo (2019), fluency payment customer influenced because the PDAM hasn't given away drinking water servants who fulfill principle Quality, Quantity and Continuity (K3) optimally.

Related to this, it is above the importance of the PDAM to make special changes in internal business processes. According to Krinjar (2008), there is competitive pressure, organizations must reevaluate their business model and underlying business processes, because of business processes is the core of the functioning of an organization. Furthermore, in other aspects according to Tibbs, CY, & Langat, L. K (2016) the importance of organizations must decide on the processes and competency advantages that must be possessed to ensure satisfying results are achieved. The ability of employees, the ability of information systems, empowerment and motivation have important effects in communication between people to achieve performance.

In other perspectives, organizational learning affects performance (Tibbs, CY, & Langat, L. K, 2016; Berková, Adamová, & Nývltová, 2017; Saudi, 2018)). Michna's research, A. (2009) also states that high level of organizational learning will achieve higher performance.

The results of several studies suggest that there are internal business processes that positively influence organizational performance (Nafei, 2015; Elbashir, Collier, & Davern, 2008; Kalinowski, 2016; Elbashir, Collier, & Davern, 2008; Dijkman, Lammers, & De Jong, A., 2016). Things that are different from the results of Skrinjar, R., Bosilj-Vukšić, V., & Indihar-Štemberger, M. (2008) says that there is no influence of internal business processes on financial performance, the same thing as Tang, Pee, & Iijima (2012) found that business processes have no effect on innovation performance.

Based on the problem above, the question in this study is whether growth & learning affect financial performance; is Internal business processes affect financial performance.

II. PREVIOUS LIBRARY AND RESEARCH STUDIES

II.I. Theoretical Basis

The 2017 PDAM performance appraisal is based on a letter from the Minister of Public Works and Public Housing to the Head of BPKP Number UM.01.11-Mn/24 dated 10 January 2017, concerning Evaluation of Performance of National Owned Enterprises (BUMN) and Regional-Owned Enterprises (BUMD) SPAM throughout Indonesia. The performance indicators used to assess PDAM performance consist of 4 (four) aspects, namely financial, service, operational and human resources aspects. Each aspect consists of several performance indicators so that the total indicators assessed are 18 indicators. Furthermore, the results of the assessment produced 3 (three) types of PDAM categories, namely Healthy, Poor Health and Pain.

Assessment of PDAM performance is carried out using the Balance Score Card method, where PDAM performance appraisal is prepared by applying balanced score principles that take into account the characteristics of each PDAM. In this regard, in each aspect and performance indicators are given relatively balanced and proportional weight, according to the characteristics of the aspects concerned. Financial aspects weighing 25%, service aspects weighing 25%, operational aspects weighing 35%, and aspects of human resources with a weight of 15%. In the operational aspect, the weight given is higher than other aspects, namely 35% based on an agreement between BPKP, BPPSPAM, and PERPAMSI. Determination of the standard values of each indicator is done by taking into

account the differences in the characteristics of PDAMs in the District and PDAMs in the City. The PDAM performance appraisal with 4 (four) aspects produces performance values that group PDAMs into three categories: 1) Healthy, with a value of > 2.8 ; 2) Unhealthy, with a value of $2.2 - 2.8$; 3) Pain, with a value of < 2.2 (BPPSPAM, 2017).

Company performance is the result of management's efforts to take advantage of opportunities to get the best results with the lowest risk choice (Hunger and Wheelen, 2004). Organizational performance by Bastian (2001) as an illustration of the level of achievement of tasks in an organization to realize the goals, objectives, mission, and vision of the organization.

Financial performance is a description of the success of the company in the form of results that have been achieved thanks to various activities that have been carried out (Fahmi, 2014). Furthermore, according to Kasmir (2017), Financial performance is the assessment of financial conditions that are the company's achievements that require analysis with several benchmarks. Rudianto (2013) The financial performance by Rudianto is the result or achievement that has been achieved by the management in carrying out its functions effectively manage the company's assets during a certain period. It can be concluded that financial performance is the financial results of the company in a certain period as a result of company activities.

Financial and non-financial performance measurements are known as Balance Scorecards. This performance measurement system is better because it can see various aspects of performance in the perspective of current business environment conditions. The four perspective framework of the Balanced Scorecard explains how to create shareholder value through increasing customers through excellence in internal processes (Kaplan & Norton, 2006).

The Balanced Scorecard perspective in performance measurement can be explained as follows (Kaplan & Norton, 2006):

1) Financial Perspective (financial perspective)

Various financial aspects that can be used as a measure of the achievement of a company's financial performance consist of measuring the company's profitability through various ratios such as Return on Investment, Return on Equity, Sales Growth, Earning per share, Dividend per Share. Performance measurement with perspective finance is carried out using information taken from financial statements or other sources of financial statements. Some financial performance measurement criteria, along with their respective understandings, include: a) Liquidity ratio; b) Solvability ratio; c) Profitability ratio; d) Activity ratio; and e) productivity.

2) Customer Perspective (Customer Perspective)

It is a performance measurement, to measure customer satisfaction, divided into two measurement groups, namely the main customer measurement group, and the supporting customer measurement group. The measurement group from the customer can use how the company must identify its market share (market share), retention (market retention) and customer acquisition (customer acquisition), the company's efforts to satisfy customers (consumer satisfaction). Customers have different preferences for products and services served. Customer satisfaction is influenced by the level of responsiveness and commitment of the company concerning time problems and service procedures. Image and reputation (Image and reputation) describe intangible factors that attract customers to connect with the company.

3) Internal Business Process Perspective (Internal business process perspective)

The purpose of IBPP is to find out how well the company's business is run and whether the products and services by customer specifications. The internal business process starts from the process of innovation, operation and after-sales service. Benchmarks that can be used are the percentage of service for new products and services, and the length of time needed to market new products and services. In the operation process in the company will focus on the process of service to customers efficiently, quality, and on time.

4) Learning and Growth Perspective (Learning and Growth Perspective)

The benchmark used consists of three categories for the main measure, including a) Employee capabilities include employee productivity, employee turnover, employee satisfaction, and employee training to support their skills and productivity; b) The capability of information systems (information systems capabilities) is the level of availability of information needed, the level of accuracy of information, and the period of time to obtain the information needed; and c) motivation, empowerment, and harmony (motivation, empowerment, and alignment).

II.II. Previous Research

Process-oriented work means that the work of employees is based on key business processes, and requires employees to take full responsibility for the process. Process values and beliefs emphasize creating a process culture with consistent structures and systems (Tang, Pee, & Iijima, 2012).

According to Nafei, WA (2015) in developing countries, organizations strive to be part of the global economy by becoming more competitive. By adopting certain strategies such as organizational learning, allowing organizations to have better opportunities to become more sustainable and competitive (Hussain et al., 2019).

As Tibbs, CY, & Langat, L. K, (2016) states that organizations must decide on what processes and competencies are excellence. The results of the study state that the learning and growth perspective in the Balanced Scorecard model has a positive influence on organizational performance. Internal process perspective influences organizational performance.

The same is the result of research by Dijkman, R., Lammers, SV, & De Jong, A. (2016) shows that business processes affect the performance of the organization. Furthermore Kalinowski, TB (2016) there is a significant positive relationship between business processes and organizational performance.

Nafei, WA (2015), the results of his research found that there was a significant relationship between organizational learning and organizational performance. Elbashir, MZ, Collier, PA, & Davern, MJ (2008), stated that there is a significant relationship between the performance of business processes and organizations Performance. Furthermore, Berková, I., Adamová, M., & Nývtová, K. (2017), states that learning and growth perspectives influence perspective Finance.

The results of Khan's research, RAG, Khan, FA, & Khan, MA (2011), found that training and employee development had a positive effect on Organizational Performance. Michna, A. (2009) states that higher levels of organizational learning might achieve higher performance. As the results of the Berková research, I., Adamová, M., & Nývtová, K. (2017) also show the perspective of learning and growth influencing financial perspective indicators. On Figure 2.1 can see chart from framework thoughts.

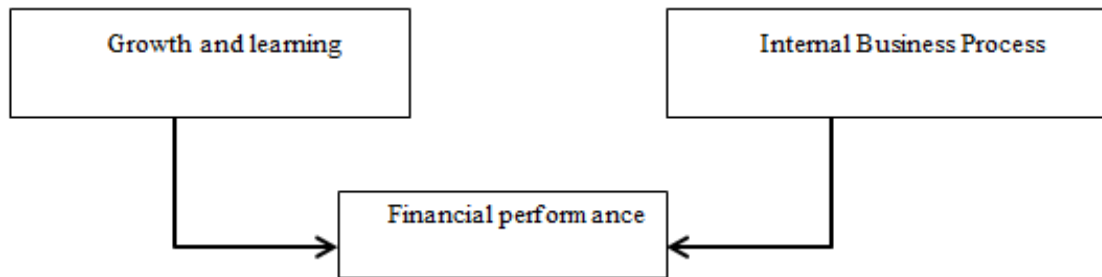


Figure 2.1: Chart Framework Thought

II.III. Hypothesis Research

On basic description framework the thoughts above, then author formulate a hypothesis for research this as following:

H1: Growth & learning take effect on Financial performance.

H2: Internal business process take effect on Financial performance.

H3: Growth & learning, internal business processes simultaneously influential to Financial performance.

III. RESEARCH METHODOLOGY

The object of this research is growth & learning, internal business processes, and financial performance. This type of research is descriptive and verification. The population of this study is the Regional Drinking Water Company (PDAM) in Java as many as 108 (one hundred and eight) PDAM. The data analysis method used in this study is the multiple regression analysis.

Testing the hypothesis in this study uses multiple regression analysis models. Multiple regression analysis was conducted to examine the effect of independent variables on the dependent variable (Ghozali, 2016). The independent variables in this study are growth & learning, internal business processes, while the dependent variable is financial performance. The regression equation is as follows:

$$Y = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \varepsilon$$

Information :

- Y : Financial performance
- α : Constant
- $\beta1$: Growth & regression coefficients Learning
- $\beta2$: Internal Business Process regression coefficient
- X1 : Growth & Learning
- X2 : Internal Business Process
- ε : Standard error

IV. RESEARCH RESULTS AND DISCUSSION

IV.I. Research Result

IV.II. Descriptive Analysis

Table 4.1: *Internal Business Process*

Indicator	Minimum	Maximum	Average
Production efficiency	34,26	98,72	49,93
Water loss rate	8,91	52,09	29,81
Service operating hours	13,00	24,00	19,57
Connection pressure	0,00	100,00	92,72
Replacement of water meter	0,07	28,70	3,35

Source: BPPSPAM, 2018 (Data processed)

Based on the results of the study, in table 4.1. for business process variables with a minimum production efficiency indicator of 34.26% and a maximum of 98.72% with an average of 49.93%; minimum water loss rate of 8.91% and maximum of 52.09% with an average of 29.81%; service hours of operation in a day of at least 13 hours and a maximum of 24 hours with an average of 19.57 hours; minimum connection pressure of 0% and maximum of 100%, with an average of 92.72%; minimum water meter replacement is 0.07% and the maximum is 28.70%; with an average of 3.35%.

Table 4.2: *Growth and Learning*

Indicator	Minimum	Maximum	Average
Employees to customers ratio	2,37	11,10	7,16
education and training to Increasing competence ratio	0,00	125,63	26,21
Education and training to employee cost ratio	0,00	6,10	1,14

Source: BPPSPAM, 2018 (Data processed)

Based on the results of the study, in table 4.2 for growth and learning variables with an indicator of the ratio of employees to customers a minimum of 2.37% and a maximum of 11.10% with an average of 7.16%; The ratio of education and training to minimum competency increases is 0.00% and the maximum is 125.636% with an average of 26.21%; the ratio of education and training to a minimum employee fee of 0% and a maximum of 6.10% with an average of 1.14%.

Table 4.3: *Financial performance*

Indicator	Minimum	Maximum	Average
ROE	-25,54	21,73	1,38
Operating ratio	0,68	2,09	0,97
Billing effectiveness	54,51	104,63	97,93

Source: BPPSPAM, 2018 (Data processed)

Based on the results of the study, in table 4.3. for financial performance variables with a minimum ROE indicator of -25.54% and a maximum of 21.73% with an average of 1.38%; The minimum operating ratio is 0.68% and the maximum is 2.09% with an average of 0.97%; minimum billing effectiveness 54.51% and maximum 104.63% with an average of 97.93%.

IV.II.I. Hypothesis Testing

The following are the results of the determination below:

Table 4.4: Coefficient Determination.

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate
1	.448 ^a	0.201	0.186	21.72202
a. Predictors: (Constant), X2, X1				
b. Dependent Variable: Y				

Based on results calculation on Table 4.4 obtained results that coefficient determination (KD) the influence of growth & learning and internal business processes on financial performance by 20.10%, amounting to 79.90% is influence other variables outside the model.

Table 4.5: Test Simultaneous

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	12464.016	2	6232.008	13.208	.000b
Residual	49543.836	105	471.846		
Total	62007.852	107			
a Dependent Variable: Y					
b Predictors: (Constant), X2, X1					

Table 4.5 showing the significant value of 0,000 < 0,05, meaning that growth & learning and internal business processes simultaneously influence Financial performance.

Table 4.6: Correlation coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	20.239	14.126		1.433	.155
X1	.562	.256	.199	2.191	.031
X2	.342	.088	.352	3.877	.000
a Dependent Variable : Y					

The regression equation is the result of statistical testing as follows:

$$Y = 20.23 + 0.562 X1 + 0.342 X2$$

In table 4.6 growth & learning (x1) significant value of 0.031 < 0.05 means growth & learning affect financial performance. Furthermore, internal business processes (X2) significant value of 0.000 < 0.05 means that internal business processes influence financial performance.

IV.III. Discussion

Influence of growth & learning and internal business processes on financial performance by 20.10%, amounting to 79.90% influenced other factors not examined by researchers. Simultaneous test obtained a significant value of 0,000 < 0.05, shows growth & learning, internal business processes simultaneously influence financial performance, these results are consistent with the results of research by Tibbs, CY, & Langat, L. K (2016).

The results of this growth and learning test growth & learning (x1) significant value of 0.031 < 0.05 growth & learning affect the financial performance, the results of this consistency with the results of research by Tibbs, CY, & Langat, L. K, (2016); Berková, Adamová, & Nývltová, (2017); and Michna, A. (2009). Furthermore, the internal business process has a significant value of 0.000 < 0.05, which means that internal business processes influence financial performance, this result is consistent with the results of Nafei's research (2015); Elbashir, Collier, & Davern, (2008); Kalinowski, (2016); Elbashir, Collier, & Davern, (2008); and Dijkman, Lammers, & De Jong, A., (2016).

The existence of process-oriented work means that the work of employees is assigned based on key business processes so that it requires employees to be responsible for the process so that focus on customers who can

ultimately improve company performance. Another thing k Capacity of employee empowerment and motivation through education and training has an important effect on the achievement of performance.

V. CONCLUSIONS AND RECOMMENDATIONS

Based on the research results, it can be concluded:

1. Growth & learning affect financial performance.
2. Internal business processes affect financial performance.
3. Growth & learning and internal business processes influence financial performance.

Suggestions for research results that can be submitted are as follows:

1. For further researchers
Future research can also consider including other variables that can affect financial performance.
2. For the company

In internal business processes, it is necessary to pay attention to the level of production efficiency and the level of water loss so that it can be minimized, which in turn can improve financial performance. Related to internal business processes, employee education and training programs are improved, especially in the aspects of operational, accounting and financial competencies.

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