



Strategic Decision Policy of Public Service Agency as Government Institution: Analysis of Government Financial Performance

Shinta Rahma Diana¹, Nandan Limakrisna^{2*}

¹Center for Aerospace Policy Studies, LAPAN, Jakarta, Indonesia, ²Universitas Persada Indonesia YAI, Jakarta, Indonesia.

*Email: amarta.nandan@gmail.com

Received: 01 September 2018

Accepted: 28 October 2018

DOI: <https://doi.org/10.32479/ijefi.7287>

ABSTRACT

This study will assess whether the strategic decision policy of having public service agency in a government institution will result in a good value by observing government financial performance using economic value added (EVA) (applying Financial Accounting Standard and Financial Government Standard). Research contributions: (1) will be used to evaluate policies that are already running, if EVA shows a positive number, it is necessary to consider strategic decision of Public Service Agency discontinue in a government institution, for Public Service Agency will offer more value if it is properly managed; (2) getting the EVA value which is calculated using the basis financial statements that are guided by two reporting standards, Financial Accounting Standard and Government Accounting Standard. Secondary data will be used in this research. Specifically, data of 2014 and 2015 in which during those years, Aerospace Technology Utilization Center LAPAN still served as a Public Service Agency. Data analysis method used is quantitative descriptive method. The results of the study show that both using financial data based on Financial Accounting Standards and Government Accounting Standards, Aerospace Technology Utilization Center LAPAN as a working unit of Public Service Agency, has a good performance as indicated by positive EVA results in 2014 and 2015. This can be used as a consideration for LAPAN in evaluating its policies.

Keywords: Government, Public Service Agency, Economic Value Added, SAK, SAP

JEL Classifications: G32, G38, G28

1. INTRODUCTION

Aerospace Technology Utilization Center is one of working units in LAPAN which considered as Public Service Agency. Public Service Agency should offer a professional service by prioritizing product quality and service, as well as efficiency and effectivity of resource use. As stated in the Minister of Finance Regulation No. 109/PMK. 05/2007 concerning supervisory board of public service agency, written that the public service agency, hereinafter abbreviated as public service agency, is an agency within the central and regional governments established to provide services to the public in the form of goods and/or services provision

without prioritizing seeking profit and in carrying out its activities based on the principles of efficiency and productivity (Amit & Zott, 2001).

Aerospace technology utilization center has the flexibility to manage programs and activities that support the optimization of services in the aviation and space sectors and implement them while maintaining the principles of accountability. In achieving this goal, Aerospace Technology Utilization Center has set a strategic objectives on its Performance Determination, which reads: "Realizing excellent services in the use of aerospace technology for the community." Currently, aerospace technology utilization center

is no longer a public service agency, but an integrated working unit that only manages funds from national budget and no longer it manages its own value. In this case, the author wants to find out if during Aerospace Technology Utilization Center operates as Public Service Agency it shows a good performance that in accordance with PMK No. 109/PMK. 05/2007 above.

Performance measurement is one of the important factors for the organization. These measurements can be used to assess the success of the organization concerned. The success of a public sector organization cannot be measured solely from a financial perspective. The surplus or deficit in the financial statements can not be a benchmark of success. Because of its nature that does not seek profit, the success of a public sector organization should also be measured by its performance. Believe that performance measurement is a process of assessing work progress on predetermined goals and objectives, including information on efficiency, use of resources in producing goods and services, quality of goods and services, comparison of activities result with targets, and actions effectiveness in achieving goals (Bridson et al., 2013).

Performance can be known only if the individual or group of individuals has predetermined success criteria. These criteria are in the form of specific goals or targets to be achieved. Without a goal or target, performance of an individual or organization may not be known, having no benchmarks (Roghé et al., 2012). Organization performance on the assessment of Corporate Governance effect can be measured using economic value added (EVA).

EVA measures the value added generated by the organization as a result of activity or management strategy that makes performance assessment using EVA more accurate. EVA in a government institution as an organizational unit of ministries/ departments, non-departmental government institution, and other government institutions is used as a manifestation of good corporate governance (GCG). Assessment of the performance of Government Institutions as a manifestation of the GCG needs to be measured to determine whether it can generate added value with good performance. In this case, it needs to be assessed whether a Government organization in performing its activities capable of producing added value, so that the output is indeed a positive contribution to the State (Nurainy et al., 2013).

This study will assess whether the strategic decision policy of having public service agency in a government institution will result in a good value by observing government financial performance using EVA (applying Financial Accounting Standard and Financial Government Standard) (Sharma & Kumar, 2010).

2. LITERATURE REVIEW

2.1. Financial Performance

Financial performance is a reflection of success or failure that occurs in operational performance. Financial performance shows the actual conditions or company's strengths and weaknesses. To evaluate financial condition and performance of a company, regular financial health checks must be carried out (Morgan, 2012).

Several objectives of performance measurements according to (Huiian, 2012) are creating public accountability, knowing the level of achievement of organizational goals, improving the performance of subsequent periods. Whereas, according to (Grewal et al., 2016) performance assessment is a periodic determination of the operational effectiveness of an organization, part of the organization and its employees based on the targets, standards and criteria that have been previously determined. Financial performance standard shows whether strategy, strategic objectives, initiatives and its implementation are able to contribute in generating profits for the company (Thakur & Workman, 2016). According to (Seyedboveir et al., 2017) Current performance measurement is a combination of financial and non-financial information that will also create financial performance (for example, increased profit and stock prices) and non-financial performance (for example customer satisfaction). Manager has a great role in company performance assessment in relation to his ability to develop the company. Performance assessment can be used to suppress desired behaviors through feedback on the results of performance in time appreciation that are intrinsic and extrinsic (Kuusk et al., 2014).

Financial performance is also needed to enable organizations to generate services that satisfy customers and develop a productive and committed personnel. To motivate personnel in generating financial performance, organizations need to design a reward system that is able to motivate them in generating financial performance (Ebaid, 2009).

2.2. EVA

The idea of EVA has been around since the 1920s. Alfred Stern implemented a system like EVA (reducing the capital costs of the profits earned) for the general motors operating division. Japanese company Matsushita created a similar system in the 1950s. At that time, people named it as residual income or economic profit (Sharma & Kumar, 2010).

EVA is a management concept that has been popular in United States business circles since 1983. EVA is a standard for operational performance that was first initiated by George Bernet Stewart and Joel M. Stern, one of the managing partners from a leading management consulting company, Sten Stewart and Company based in New York, in his book entitled "The Quest for Value" in 1980 (Hanushek & Rivkin, 2010).

According to Nurainy et al. (2013), EVA is an operational profit after tax is reduced by capital costs that are used to assess the company's performance by paying fair attention to the expectations of the shareholders. (Aulia, 2016), "EVA is the net cost of operating after tax (NOPAT) minus the capital cost after taxes needed to support operations." (Nurainy et al., 2013) states "EVA is the residual income (residual income) after all capital providers are compensated according to the rate of return needed or after all the capital costs used to generate these profits." (Shil, 1997) state that "EVA is a value added by management to shareholders for a certain year. EVA reflects the remaining residual profit after the costs of all capital including equity capital deducted." The concept of EVA is not only used in a assessment of an investment, but also plays a role in the goal setting, capital budgeting, performance assessment, and incentive compensation.

According to Mutmainah (2015) with EVA calculation, it is expected to get the results of a more realistic calculation of the company's economic value. Therefore, EVA is calculated based on cost of capital which uses market value based on creditors interests, especially shareholders, and not based on historical book value. EVA calculation is also expected to support financial statements presentation, so that it will make it easier for its users.

3. METHODOLOGY

The type of research in this study is associative research. It is a research aiming to find out the connection between two or more variables (Sekaran, 2014). Data collection in this research is using documentation method and also the use of secondary data. Other than secondary data, data collection using documentation method as well as descriptive-quantitative method as analysis method are used to calculate EVA.

Suryana et al. (2013) argue that, descriptive method is a method that describes what currently prevails in which there is an attempt to describe, record, analyze and interpret the current conditions. Quantitative method is a research using numbers which are added as a data then being analyzed and intended to explain a phenomena by using numeric data (Ueno & Sekaran, 1992).

There are several basic elements that become a major factor in the analysis of EVA calculations that need to be understood before EVA calculation. These elements are as follows:

3.1. NOPAT (Net Operating After Tax)

NOPAT is one of important elements in EVA calculation. NOPAT itself is a nett profit plus after-tax interest. So, NOPAT can be considered as operation profit after tax which described value production results in a company. According to Zango et al. (2015) although operating profit after tax rises, it is not necessarily raising the value of EVA. This is because the increase in operating profit can result in increase of company's business risk while EVA still depends on the capital structure which then will determine the level of financial risk and capital costs.

3.2. Weighted Average Cost of Capital

Weighted average cost of capital (WACC) is one of other important components in EVA. WACC is used as a standard to define the level of capital costs where it illustrates the rate of return on investment expected by investors (Seyedboveir et al., 2017).

3.3. Invested Capital

Invested capital is total liabilities to equity minus short-term loans. It is the total number of company's loan out short-term loans without non-interest bearing liabilities, such as accounts payable, accrued expenses, tax liabilities, customer advances, and so on (Guo et al., 2016).

4. RESULTS AND DISCUSSION

In this case, EVA is being calculated based on financial statements in line with Financial Accounting Standard and Government

Table 1: EVA (SAK and SAP)

SAK		SAP	
2014	2015	2014	2015
581.340	18.908.780.763	0	15.851.608.244

Source: Data processed

Accounting Standard. Financial performance which later be analysed based on EVA measurement with data source from financial statement audited by BPK and KAP.

Comparison of calculation results using financial data based on Financial Accounting Standar and Governmental Accounting Standard of 2014 and 2015 are as follows Table 1:

In 2014, there is no operational report for financial data that is in accordance with SAP, so EVA cannot be calculated. Meanwhile, in 2014, even though EVA has just begun to operate using data based on SAK, it's already generated EVA worth 581.340. Although in 2014 there was no reporting on operational statements based on SAP financial data, it does not generate EVA, but the company was still operating at a profitable level when compared to the cost of capital, it also happens in 2015.

In 2015, both financial data using SAK and SAP generated a positive value of EVA with significant increase. By using SAK in 2015, Aerospace Technology Utilization Center generated EVA of 18.908.780.763. Meanwhile, by using SAP, about 15.851.608.244 of EVA is generated in 2015.

By looking at EVA calculation results of 2014 and 2015, both using SAK and SAP, it generates positive EVA with high EVA value. Calculation outcome of EVA on Aerospace Technology Utilization Center LAPAN working unit shows a positive criteria or $EVA > 0$ which means there is an increasing value of GCG in Aerospace Technology Utilization Center LAPAN.

This shows that aerospace technology utilization center performance during those years is good. A good performance for institutions shows that it has GCG, so it gives positive value or contribution for the contry. Aerospace Technology Utilization Center LAPAN working unit has a good working quality or performance during 2014-2015.

The results of the study show that both using financial data based on financial accounting standards and government accounting standards, aerospace technology utilization center LAPAN as a working unit of Public Service Agency, has a good performance as indicated by positive EVA results in 2014 and 2015. This can be used as a consideration for LAPAN in evaluating its policies (Brandl et al., 2014; Mutmainah, 2015; Nurainy et al., 2013; Sharma & Kumar, 2010; Shil, 1997).

5. CONCLUSION

Based on the calculation mentioned earlier, both using financial data in accordance with Financial Accounting Standard and Governmental Accounting Standard, shows that Aerospace

Technology Utilization Center LAPAN as Public Service Agency working unit has a great performance indicated by a positive value of EVA in 2014 and 2015. This can be counted as consideration for LAPAN in evaluating its policies. However, a decision related to evaluation of policies will be better by conducting advanced research which is calculating EVA value when Aerospace Technology Utilization Center LAPAN becomes Public Service Agency and after it is no longer part of Public Service Agency, so it can be clear which differences are better in organization management.

6. ACKNOWLEDGEMENTS

Author is very grateful to Mr. Agus Hidayat as a Chairman of the Center for Aerospace Policy Studies, National Institute of Aeronautics and Space who has contributed to this research. Also, thank you to the reviewers of this article.

REFERENCES

- Amit, R., Zott, C. (2001), Value creation in e-business. *Strategic Management Journal*, 22(6-7), 493-520.
- Aulia, F. (2016), Pengaruh Car, Fdr, Npf, Dan Bopo Terhadap Profitabilitas (Return On Equity) (Studi Empiris pada Bank Umum Syariah di Indonesia Periode Tahun 2009-2013). *Diponegoro Journal of Management*, 5(6), 1-10.
- Brandl, E.J., Tiwari, A.K., Chowdhury, N.I., Zai, C.C., Lieberman, J.A., Meltzer, H.Y., Müller, D.J. (2014), Genetic variation in the GCG and in the GLP1R genes and antipsychotic-induced weight gain. *Pharmacogenomics*, 15, 423-431.
- Bridson, K., Evans, J., Mavondo, F., Minkiewicz, J. (2013), Retail brand orientation, positional advantage and organisational performance. *International Review of Retail, Distribution and Consumer Research*, 23(3), 245-264.
- Ebaid, IE. (2009), The impact of capital-structure choice on firm performance: Empirical evidence from Egypt. *Journal of Risk Finance*, 3(12), 862-870.
- Grewal, D., Iyer, G.R., Kamakura, W.A., Mehrotra, A., Sharma, A. (2016), Evaluation of subsidiary marketing performance: Combining process and outcome performance metrics. In *International Series in Operations Research and Management Science*, 5(12), 82-90.
- Guo, J., Huang, P., Zhang, Y., Zhou, N. (2016), The effect of employee treatment policies on internal control weaknesses and financial restatements. *Accounting Review*, 91(4), 1167-1194.
- Hanushek, E.A., Rivkin, S.G. (2010), Generalizations about using value-added measures of teacher quality. In *American Economic Review*, 4(11), 23-33.
- Huian, M.C. (2012), Accounting for financial assets and financial liabilities according to IFRS 9. *Annals of the Alexandru Ioan Cuza University-Economics*, 4(13), 112-123.
- Kuusik, K., Kalamees, T., Maivel, M. (2014), Cost effectiveness of energy performance improvements in Estonian brick apartment buildings. *Energy and Buildings*, 5(2), 45-56.
- Morgan, N.A. (2012), Marketing and business performance. *Journal of the Academy of Marketing Science*, 40(1), 102-119.
- Mutmainah, S. (2015), Analisis good corporate governance terhadap nilai perusahaan. *E-Journal Stiedewantara*, 3(22), 45-53.
- Nurainy, R., Nurcahyo, B., Kurniasih, A.S., Sugiharti, B. (2013), Implementation of good corporate governance and its impact on corporate performance: The mediation role of firm size (empirical study from Indonesia). *Global Business and Management Research: An International Journal*, 5(2), 76-87.
- Roghé, F., Toma, A., Kilmann, J., Dicke, R., Strack, R. (2012), Organizational capabilities matter. *BCG*, 5(10), 78-88.
- Sekaran, U. (2014), *Research Methods for Business [Metodologi Penelitian Untuk Bisnis]*. Vol. 6. Jakarta: Salemba Empat. p90-101.
- Seyedboveir, S., Kordrostami, S., Daneshian, B., Amirteimoori, A. (2017), Cost efficiency measurement in data envelopment analysis with dynamic network structures: A relational model. *Asia-Pacific Journal of Operational Research*, 5(11), 112-123.
- Sharma, A.K., Kumar, S. (2010), Economic value added (EVA)-literature review and relevant issues. *International Journal of Economics and Finance*, 7(12), 21-33.
- Shil, N.C. (1997), Performance measures: An application of economic value added. *International Journal of Business and Management*, 4(3), 169-177.
- Suryana, Sugiono, Sekaran, U., Lee, S., Stearns, T., & Geoffrey, G. M. (2013). Metode penelitian kuantitatif, kualitatif, dan R and D. *International Journal of Management*, 3(11), 1-14.
- Thakur, R., Workman, L. (2016), Customer portfolio management (CPM) for improved customer relationship management (CRM): Are your customers platinum, gold, silver, or bronze? *Journal of Business Research*, 69(10), 4095-4102.
- Ueno, S., Sekaran, U. (1992), The influence of culture on budget control practices in the USA and Japan: An empirical study. *Journal of International Business Studies*, 8(4), 62-70.
- Zango, A.G., Kamardin, H., Ishak, R. (2015), Mandatory international financial reporting standards 7 (IFRS 7) disclosure by listed banks in Nigeria. *Academic Journal of Interdisciplinary Studies*, 4(2), 435-440.