# A BIG PUSH TO WORLD-CLASS TOURISM: Strategic Analysis & Opportunities

14th INSYMA

Proceeding 14th International Annual Symposium on Management
Tanjung Pinang, Riau Islands, Indonesia | March 3rd - 4th, 2017

A Big Push to World-Class Tourism: Strategic Analysis & Opportunities

14th INSYMA


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PROCEEDING

**The 14th UBAYA International Annual Symposium on Management**

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# Proceeding

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# A BIG PUSH TO A WORLD-CLASS TOURISM: STRATEGIC ANALYSIS & OPPORTUNITIES

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Layout and Cover Designer:
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Published by:
Department Of Management, Faculty Of Business & Economics
Universitas Surabaya
Jl. Raya Kalirungkut
Surabaya, Indonesia 60293
Phone : +62-31-2981139
Fax : +62-31-2981239

ISBN: 978-602-73852-1-4

# FOREWORD

We are delighted to welcome you to 14th International Symposium on Management (INSYMA) Tanjung Pinang, Riau, Indonesia. The high quality of the papers and the discussion represent the thinking and experience of researchers, academics and practitioners in the particular fields. Their contributions helped to make the conference as outstanding as it has been.

This proceeding is a compilation of papers submitted for the 14th International Symposium on Management (INSYMA) conducted by the Department of Management, the Faculty of Business and Economics, University of Surabaya (UBAYA) themed "**A BIG PUSH TO WORLD-CLASS TOURISM: STRATEGIC ANALYSIS AND OPPORTUNITIES"**. The conference organizers have put together both the latest research and provide an opportunity to make friendship and new acquaintances.

The 14th INSYMA is a means for participants consisting of researchers, academics and practitioners to have a discussion forum. The event is expected to enable participants in sharing initiatives, ideas and efforts from the results of research and discussion concerning how to create a Big Push in a strategy to deal with all the challenges and find opportunities in the tourism industry of each country to be a world-class tourism.

In this opportunity, we would like to say that we are greatly honored by all presenters and participants' presence both from Indonesia and from other country. We would like to share our grateful to the Sponsorship and partnership in this 14th INSYMA.

This theme represents strategic analysis and opportunities of implementation that will extend far beyond the sector, as tourism enhances province's reputation as a premier destination to visit, invest, work–live, and integration with the global community. The strength of tourism destination product will be counted and will continue to find ways how economic integration in tourism sector can achieve the sustainability of: growth of economic, prosperity and welfare to all countries.

Finally, we would like to thank the researchers for their willingness to share their research and ideas. Without their efforts, this proceeding would not possible. The committees and editors deserve special thanks for their outstanding effort in reviewing and preparing the event and manuscripts for publication. We hope that this compilation of papers can enrich our perspective in Tourism strategic analysis and opportunities.

Tanjung Pinang, March 3rd, 2017
Prita Ayu Kusumawardhany
Chairwoman of 14th INSYMA


ISBN: 978-602-73852-1-4

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 ISBN: 978-602-73852-1-4

ISBN: 978-602-73852-1-4

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# THE EFFECT OF TUNNELING, PROFITABILITY, LEVERAGE AND SIZE TO THE FUTURE FIRM PERFORMANCE AND FINANCIAL DISTRESS ON THE CONSUMER GOODS SECTOR (ASEAN STOCK EXCHANGE 2011-2015 PERIOD)

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Abstract

The objective of this research is to examine the effect of tunneling, profitability, leverage and size as the independent variable to future firm performance as the dependent variable, also the effect of tunneling, profitability, asset turnover, leverage, sales growth and size to financial distress on the consumer goods sector that listed on the ASEAN Stock Exchange 2011-2015 period. This research uses quantitative perspective with linier regression and logit regression model in a panel data for all of the research's observation that used in this research. The number of observation in this research are 568 (linier regression) and 710 (logit regression) observations, consist of 142 firms (45 firms from Malaysia, 30 firms from Indonesia, 30 firms from Thailand, 24 firms from Singapore, 8 firms from Vietnam, 5 firms from Philippine) that enlisted for 2011-2015 period. The result shows that in the future firm performance model, tunneling and size have negative significant effect on future firm performance. Profitability have no significant effect on future firm performance. Leverage have positive significant effect on future firm performance In the financial distress model, tunneling and leverage have positive significant effect on financial distress. Profitability, asset turnover and size have negative significant effect on financial distress. On the other hand, sales growth have no significant effect on financial distress.

Keywords: Future Firm Performance, Financial Distress, Tunneling, Financial Ratio


ISBN: 978-602-73852-1-4

The effect of tunneling, profitability, leverage and size to the future firm performance and financial distress on the consumer goods sector (ASEAN Stock Exchange 2011-2015 period)

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## Abstract

*The objective of this research is to examine the effect of tunneling, profitability, leverage and size as the independent variable to future firm performance as the dependent variable, also the effect of tunneling, profitability, asset turnover, leverage, sales growth and size to financial distress on the consumer goods sector that listed on the ASEAN Stock Exchange 2011-2015 period. This research uses quantitative perspective with linier regression and logit regression model in a panel data for all of the research's observation that used in this research. The number of observation in this research are 568 (linier regression) and 710 (logit regression) observations, consist of 142 firms (45 firms from Malaysia, 30 firms from Indonesia, 30 firms from Thailand, 24 firms from Singapore, 8 firms from Vietnam, 5 firms from Philippine) that enlisted for 2011-2015 period. The result shows that in the future firm performance model, tunneling and size have negative significant effect on future firm performance. Profitability have no significant effect on future firm performance. Leverage have positive significant effect on future firm performance In the financial distress model, tunneling and leverage have positive significant effect on financial distress. Profitability, asset turnover and size have negative significant effect on financial distress. On the other hand, sales growth* have *no significant effect on financial distress.*

*Keywords: Future Firm Performance, Financial Distress, Tunneling, Financial Ratio*

## INTRODUCTION

*Corporate governance* is a major issue in the modern financial world. Johnson *et al.* (2000) in Jiang *et al.* (2010) to measure *corporate governance* by *tunneling* (transfer of assets or income out company to the controlling shareholder). Jiang *et al.* (2010) showed that in countries with emerging economic conditions, the controlling shareholder has a greater possibility to expropriate the rights of minority shareholders through an aggressive *tunneling* activity due to a weak state rules protecting minority shareholders. The most common form of *tunneling* is done by controlling shareholders is to perform asset or cash loan companies are recorded as other accounts receivable *(other receivable).*

Qian and Yeung (2014) conducted a study *inefficient bank financing* to *corporate governance* in all companies listed in *Shanghai Stock Exchange* (SHSE) and *Shenzhen Stock Exchange* (SZSE) in the period 1995-2009. Results from this study showed that the *tunneling* and *leverage* negatively affect *future firm performance,* while having an effect positive *profitability* and *size* of the *future firm performance.* Besides *size, asset turnover, sales growth, profitability* have a negative effect on the *financial distress,* while *tunneling* and *leverage* has a positive influence on the *financial distress.* The research was supported by several other researchers such as Jiang *et al.* (2010) conducted a study on the abuse of the company by doing *tunneling* through *intercorporate loan* activity that caused the problem takeover of minority shareholders. Ying and Wang (2013) conducts research on *propping* action (shareholders mayortitas inject funds into the company) and the behavior of companies through the transfer of wealth *tunneling* activities by the majority shareholders that affect the performance of the company. Zhang *et al.* (2007) conducted a study on the development of the model Z-score ($Z_{China)}$ to identify potential *financial distress* in China.

This study is limited only discuss about *tunneling, profitability, leverage* and *size* of the *future firm performance* as well as *tunneling, profitability, asset turnover, leverage sales growth* and *size* of the *financial distress* throughout the company *the consumer goods* sector listed on the Stock Exchange of ASEAN which consists of country Indonesia , Malaysia, Philippines, Singapore, Thailand, and Vietnam in the 2011-2015 period. Selection of studies in ASEAN due per January 1, 2016 has been enacted AEC (ASEAN Economic Community), where the MEA there is *free flow of goods, services and investment.*

## RESEARCH METHODS

This research included in this type of *basic research* is research to develop research that has been done before. Based on the purpose, this study include the type of causal research for this study was conducted to test the effect of independent variables *(tunneling, profitability, asset turnover, leverage, sales growth* and *size)* on the dependent variable *(future firm performance* and *financial distress)* sector enterprises *consumer goods* ASEAN is registered in the period 2011 - 2015. Based on the approach, this study used quantitative data involves a lot of time *(time series)* with a lot of samples *(cross section)* or the so-called panel data. The data used are secondary data obtained from the company's financial statements *consumer goods* sector enterprises registered in ASEAN the period 2011 - 2015. Aras measurement used in the study is the level ratio. Data collection procedures used in penelitiaan are as follows:

1. Assign the data - data that is required according to the variables measured in this study;
2. Secondary data from the data provider's site (www.idx.co.id);
3. Processing the raw data obtained from the data provider's website in accordance with the needs analysis;
4. Doing tabulation data into Microsoft Excel.

This study uses multiple linear regression data processing to measure *future firm performance* and analysis of multivariate discriminant analysis (MDA) to measure *financial distress* due to the direct knowledge of the independent variables affect related variables.

## RESULTS AND DISCUSSION

The regression equation in Table 4:12 until 4:18 table shows the *future firm performance* as the dependent variable, while *tunneling (tun), profitability (prof), leverage (lev),* and the *size* is the independent variable.

**Table 1 Results of Regression Testing *Future Firm Performance* (ASEAN)**

| ASEAN | | | | |
|---|---|---|---|---|
| Independent variables | Coefficient | tS *tatistic* | probability | hypothesis |
| C | 1.8375 | 3.5095 | 0.0005 | |
| TUN | -0.4958 | -2.2387 | 0.0257 ** | Negative |
| PROF | -0.0863 | -1.0342 | 0.3016 | Positive |
| LEV | 0.1598 | 2384 | 0.0176 ** | Negative |
| SIZE | -0.1488 | -3.4669 | 0.0006 *** | Positive |
| R-squared | 0.588902 | | | |
| Adjusted R-squared | 0.477648 | | | |
| SE of regression | 0.123523 | | | |
| F-statistic | 4.169092 *** | | | |

Description: *: significant at 10%
**: Significant at the 5%
***: Significant at 1%

$FFP_{ASEAN}$ = 1.8375 - 0,4958.Tun - 0,0863.Prof + 0,1598.Lev - 0,1488.Size

This equation has a constant value of 1.8375 This means that when the independent variable is 0, then the value of *future firm performance* will be at 1.8375%.
Variable *tunneling* has a regression coefficient of -0.4958. This value indicates that there is a significant negative effect *tunneling* between variables change with *future* changes in *firm performance* in ASEAN. This means that if there is an increase or decrease of 1% variable *tunneling*, the *future firm performance* variables will move in opposite amounting to 0.4958%, assuming other variables remain. In accordance with the *Agency Theory*, the information gap between majority and minority shareholders led to the majority shareholders can expropriate over minority shareholders. This expropriation action decrease the performance of the company.

Variable *profitability* has a coefficient by -0.0863. This value indicates that there is a negative effect but not significant between *profitability* variables change with *future* changes in *firm performance* in *ASEAN*. This means that if there is an increase or decrease of 1% variable *profitability,* the *future firm performance* variables will move in opposite of 0.08638%, assuming other variables remain. According to Horne and Wachowicz (2013) analysis and interpretation of the various financial ratios will provide a better understanding of the condition of the company. So financial ratios need to be recognized as a whole because there is no single ratio that can provide sufficient information to make an informed assessment of company performance. Murhadi (2013.56-66) classifies 5 groups, namely the ratio of *liquidity ratio, asset management ratio, debt management ratios, profitability ratios* and *market value ratio.* This shows that the company's performance is not affected by the *ratio of profitability* alone. Therefore it can be concluded that the *profitability* individually do not have a significant influence on *future firm performance.*

Variable *leverage* has a coefficient at 0.1598. This value indicates that there is a significant positive effect between changes in variables *leverage* with *future* changes in *firm performance* in ASEAN. This means that if there is an increase or decrease of 1% *leverage* variable, then the variable *firm future performance* will be increased or decreased by 0.1598%, assuming other variables remain. These findings are consistent with the *Signaling Theory* and *Agency Theory,* which according *Signaling Theory,* which increases the company's debt a positive signal that shows the *confidence* the company's performance is getting better. Meanwhile, according to *Agency Theory,* asymmetry of information between the majority shareholders of the minority shareholders will give rise to agency costs. Agency fees can be resolved by increasing the use of debt. Creditors as funders will conduct supervision to reduce the asymmetry of information between the majority shareholder with minority shareholders. Impact on the company that is the action of expropriation can be prevented and the performance of the company will increase. Therefore, it can be concluded that *leverage* variable has a significant positive effect on *future firm performance.*

Variable *size* has a coefficient by -0.1488. This value indicates that there is a negative influence of the change of variable *size* with *future* changes in *firm performance* in *ASEAN.* This means that if there is an increase or decrease of 1 unit of variable *size,* then the *future firm performance* variables will move in opposite of 0.1488 assuming other variables remain. These findings are consistent with the *Industry Competition* in the *Five Forces Model of Competition* by *Michael Porter,* who stated that the industry is in the *mature* or stagnant conditions that can cause performance degradation in the future when not doing *rejuvenation* (rejuvenation). The object of this study is the companies that are in *the consumer goods sector,* where many companies on a large scale followed by the number of competitors who are in this sector caused the industry are in *mature condition.* In this condition, between companies will seek to take *market share* of other companies through price competition. The price competition caused a decline in sales impact on the performance of the company in the future. Therefore, it can be concluded that the *size* variable has a significant negative effect on the *future firm performance.*

The coefficient of determination (R [2]) in ASEAN amounted to 0.588902. This value indicates that the independent variable *(tunneling, profitability, leverage* and *size)* can explain the dependent variable *(future firm performance)* amounted to 58.89%, while the rest is explained by other variables not included in this study.

**table 2**

**Logged Variables Model Financial Distress**

| financial ratios | Coefficient | Significant |
|---|---|---|
| Tun | 7.908 | 0,035 * |
| Prof | -13.496 | 0,000 *** |
| TATTOOS | -1.432 | 0.001 *** |
| Lev | 2,163 | 0.001 *** |
| Sales Growth | -0.129 | 0545 |
| size | -0.687 | 0.009 *** |
| Constant | 6.330 | 0046 |

Description: *: significant at 10%
**: Significant at the 5%
***: Significant at 1%

Table 4:23 shows the *profitability (prof), asset turnover (TATO), sales growth and size* have a negative influence by *financial distress.* The higher this ratio, the possibility of *financial ditress* getting smaller. While *tunneling (tun)* and *leverage (lev)* has a positive influence on the *financial distress.* The higher this ratio, the possibility of greater *financial distress.* Model for *financial distress:*

If Prof, TATO, Lev, Sales Growth, Size Tun constant then increases the *financial distress* will increase by 7.908. This means that *tunneling* variables have a significant positive relationship to variable *financial distress.* The higher occurrence of *tunneling* activity in the company, the higher the likelihood of companies that are in *financial distress.* This is supported by research conducted by Qian and Yeung (2014) and Jiang *et al.* (2010) which states that the *tunneling* has a significant positive effect on *financial distress.*

If Tun, TATO, Lev, Sales Growth, Size constant then increases the Prof would reduce *financial distress* at 13.496. This means that *profitability* variables have a significant negative relation to variable *financial distress.* Horner and Wachowich (2013) states that the ROA shows the effectiveness of management in using assets to generate revenue, and assess the company's efficiency in utilizing its assets to the company's operations. The smaller the ratio is, the worse the effectiveness of companies utilize assets to generate earnings that may cause the company is in *financial distress.*

If Tun, Prof. Lev, Sales Growth, Size TATO constant then increases the *financial distress* will decrease by 1.432. In accordance with Murhadi (2013), which states that showed the effectiveness of the *company's asset turnover* in using its assets to generate *income.* The higher this ratio, the company will earn a high income with minimal use of assets. Revenue will decrease the risk of companies that are in *financial distress.*

If Tun, Prof, TATO, Sales Growth, Size Lev constant then increases the *financial distress* will increase by 2,163. This means that *leverage* variables have a significant positive relationship to variable *financial distress.* In accordance with the *Pecking Order Theory,* the company will tend to use funding from internal sources is through *retained earnings.* This is done to avoid the company through debt financing. The higher the debt the company, the higher the interest expense to be paid. High interest expense increased the risk of companies that are in *financial distress.*

If Tun, Prof, TATO, Lev, constant Size of the increase of the Sales Growth will reduce *financial distress* at 0.129. This means that the variable *sales growth* has a negative correlation but not significant to the variable *financial distress.* These findings are consistent with Fraser and Ormiston (2004: 104-109) in Yuliafitri (2011) which states that the company's *net income* is income after taking into account all income and expenses reported during the accounting period. These results indicate that the positive *sales* growth did not show that the *net income* as an indicator *of financial distress* also certainly is positive. This is due to the possibility of the accounts of the other (production costs, operating expenses, interest and taxes) that makes the *net income* to be negative.

If Tun, Prof, TATO, Lev, Sales Growth is constant then increases the Size will reduce *financial distress* at 0.6330. This means that the variable *size* has a significant negative relation to variable *financial distress.* Total assets of the company shows the company's ability to maintain its viability. When the size of the company grew, the company will achieve economies of scale which companies can produce more output with fixed input so it is likely the company is in *financial distress* is getting smaller.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the results of hypothesis testing using the *software* Eviews F 8, was obtained that showed statistical calculation results F count = 4.169092 with a probability of 0.000000 <0.05. This means jointly variable *tunneling, profitability, leverage* and *size* has a significant influence on *future firm performance.*

Based on the results of hypothesis testing by t-test, has obtained results that variable *tunneling, leverage* and *size* significantly influence the *future firm performance.* Variable *profitability* significant negative effect on the *future performane firm.*

Based on the results of multiple regression analysis, the variables *tunneling* has a significant negative effect on the *future firm performance.* Variable *profitability* have significant negative effect on the *future firm performance.* Variable *leverage* has a significant positive effect on *future firm performance.* Variable *size* has a significant negative effect on the *future firm performance.*

The value of $R^2$ and *adjusted*- $R^2$ is 0.588902 and 0.477648. Thus, it can be concluded that the dependent variable *(future firm performance)* can be explained quite well by the independent variable *(tunneling, profitability, leverage* and *size).*

The results of *logistic regression* analysis to *financial distress* with SPSS18 *software,* available models capable of predicting *financial distress financial distress* with an accuracy of 94.1%. From this model, it can be seen that the *tunneling* and *leverage* variables have a positive influence on the *financial distress,* where it is indicated that an increase in *tunneling* and *leverage* increases the likelihood of *financial distress.* As for *profitability, asset turnover, sales growth* and *size* has a negative effect on the *financial distress.* This indicates that the increase in *profitability, asset turnover, sales growth* and *size* lowers the likelihood of *financial distress.*

For companies that are in *the consumer goods sector,* the study can be considered to make decisions on the company's performance in the future and avoid the company of the possibilities that are in *financial distress.* In addition, these factors can also be used to be taken into consideration for the company Malaysia, Thailand, Singapore, Vietnam and Philippine in predicting the performance of the company in the future appeared and the possibility of companies that are in *financial distress.*

For investors, this research can be a reference to consider the factors relating to *future firm performance* such as *tunneling, leverage* and *size,* or factors relating to *financial distress* such as *tunneling, profitability, asset turnover, leverage* and *size.* Consideration of investment decisions by investors restricted assuming normal conditions (no other factors other than those already mentioned). In addition, this study can also be used as consideration for investors who wish to invest in other ASEAN countries, such as Malaysia, Thailand, Singapore, Vietnam and the Philippines.

This research can be used as a recommendation for further research. This study has limitations, namely the number of observations slightly in each country, the results were less supportive on the *robustness test* and just focus on *the consumer goods* sector alone. For further research, is expected to increase the number of observations by examining other sectors listed on the stock exchanges in ASEAN countries.

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