Evaluation of Investment and Divestment Strategy of "VIP Finance" Company for Period 2016 - 2018

Tien yustini[1], Siti Komariah Hildayanti[2], Atika Yusni Ferdina[3]
[1 2]*Universitas Indo Global Mandiri Palembang, Indonesia*
[3]*Universitas Gajah Mada, Yogyakarta*
Email : tien_yustini@uigm.ac.id

Abstract- The aim of this study is evaluating the opening and closing feasibility of VIP financing branches during 2016-2018. This descriptive quantitative study conducts by interviewing several parties related to branch opening and closing. There is 119 questionnaires which are distributed to 46 respondents. The questionnaire is measured by Likert scale which shows the level of respondent's approval. Interview is conducted to determine other evaluation criteria besides investment feasibility analysis, such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PP), and Profitability Index (PI). VIP Finance closes or downgrades the status of several branches that have been operating for less than two years because the income or profit obtained is lower than operational costs. If the branch still keep running, the branch will get greater losses. In addition, some branches do not fulfilled the requirements as a branch based on the Financial Services Authority provisions. VIP finance company often use overcapacity reason to open another branch in a nearby location without conducts a broader feasibility analysis to open new branch. The company uses some criterias when they are decide to open and close branches namely sales quantity, sales quality, market potential, competition, industry and internal strength.

Keywords – Strategy, Investment, Divestment

I. Introduction

A manager must have basic foundation to increase investment, namely planning a good corporate strategy. Investment is the company's commitment to spend a number of funds or other resources that will be recovered within a period of time or not returned at all (Soelaksono et. Al. ., 2018). Investment considers as expenditure for purchasing capital goods and equipment to replace or add capital goods that will be used to produce goods and services in the future which requires large amounts of funds and long payback period (Sasana, 2008). Therefore, the company's decision to open a branch must be calculated and planned properly so that the opened branch operates properly and provides benefits as expected. Divestment is the opposite of investment. It also requires good calculation and planning because it affects the competitiveness of companies. Branch closure is one form of divestments that will affect the competitiveness of companies in one region. Closing finance branches in an area will make consumers lose access to financing and switch to another finance companies.

There are four strategy types that company run to face the competition, namely integration strategy, intensive strategy, diversification strategy, and defensive strategy (David, 2011). VIP finance company choose intensive strategy to face the competition by developing the market. Market development includes the introduction of company products or services into new geographical areas. The finance industry chooses to enter areas where not yet covered by large multipurpose finance companies. As an implementation of the market development strategy, the VIP finance company began to open branches in several regions. Intensive branch opening was conducted after the VIP Finance Company acquired in 2015 by one of the largest finance companies in Japan. However, the branch opening program only run for two years namely 2016 and 2017 and stopped in 2018. In 2018, VIP Finance Company only opens a branch as last branch in the next five years.

The multipurpose financing industry is an industry whose performance can be significantly affected by infrastructure development. Multipurpose financing generally provides financing for two-wheeled and four-wheeled vehicles (Nababan, 2018). Good infrastructure will accelerate the work duration (completed in one day). VIP Finance company started to expand branch opening in a large amount (for the financing company size with assets of Rp 1 trillion to <Rp 5 trillion) since it was acquired at the end of 2015 by one of the largest finance companies in Japan. Four branches opened in 2016, followed by eight branches opened in 2017. However, the massive branches opening

in 2016 to 2017 is not continued in 2018. In 2018, the VIP finance company opened one new branch, closed three branches, and downgraded four branches status to Point of Sales (POS) or Point of Payment (POP).

Divestment is conducted when the assets or divisions of the company do not perform as expected (Change, 2019). According to the theory, when the VIP finance company closes or downgrades the branch status, the branch or division are not performing as expected. Therefore, the decision to close or downgrade branch status based on branch performance evaluation. However, branch performance is not the only reason to close a branch because the company has not yet received a refund or profit as a basis for performance evaluation. Some closed branches are branches that opened less than two years.

From micro point of view, strategic planning provides goal and direction for the company. Company which do not have a plan have exponentially higher failure rates than company that has a plan and implement it well (Lawlor, 2006). Based on this theory and existing problems, a strategic plan affects the company’s success or failure. If this theory is reflected in closing or downgrading branch status, it means the company do not have plan or there is an error in planning or implementation. The decision to open a branch can be another reason that causes the branch status to be closed or downgrade for less than two years. Therefore, this study examines VIP finance company’s decision to open and close branches, identifies appropriate branch opening and closing criteria, and evaluates the feasibility of opening and closing VIP financing branches in 2016-2018.

II. LITERATURE REVIEW

2.1. Strategy

In large company, decision about business approach and new step to start must be based on the consideration of all levels in a company, such as senior executives, heads of business units, heads of functional areas, and supervisory levels (Thompson & Strickland, 2001). Strategy is the initiation of four levels in the organization, namely the corporate level (corporate strategy), business unit level (business strategy), functional unit level (functional strategy), and operational level (operational strategy).

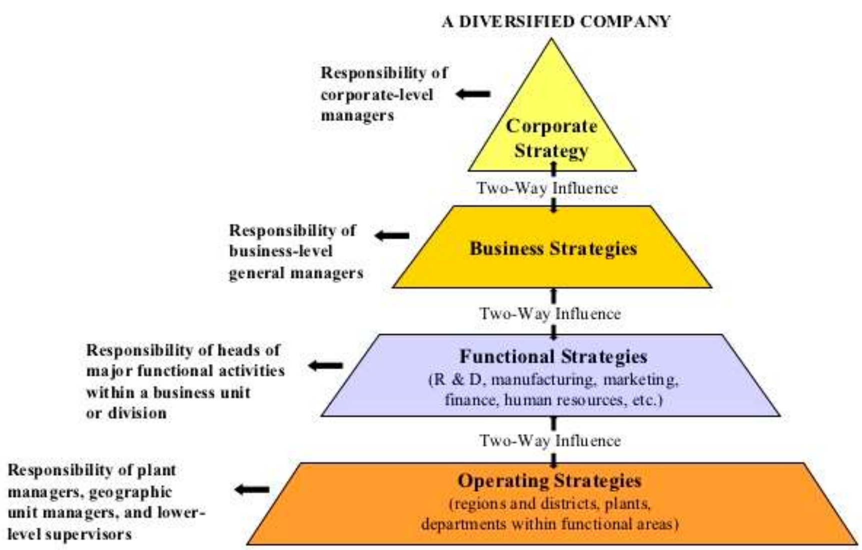

Figure 1. Formulation Strategy Pyramid
Source: Strategic Management, Thompson & Strickland, 2001

According to Wheelen & Hunger (2010), company's strategy illustrates the overall company’s direction in general attitudes towards the growth and management of various businesses and product lines. The company's strategy is all of which related to three key issues faced by the company, namely:

a. Overall company’s orientation to grow, stable, and savings (strategic direction)
b. The industry or market in which the company competes with its products and business units (Portfolio Analysis)

c. The company management’s coordination in its activities, share the company resources, and manage capability between product lines and business units (parent company strategy).

Nuary (2016) argues that the right strategy is a strategy which supports an aggressive growth policy (growth oriented strategy) which includes (1) improving product’s quality, (2) maintaining customer service, (3) strengthening the community’s image. Sulaiman (2015) states that strategic planning use several investment analysis calculation methods, namely Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PP), and Profitability Index (PI). Gul (2016) The main work of capital budgeting is evaluate the prerequisites of venture capital business. Part of the technique depends on the idea of additional cash flow from businesses or potential businesses. For data analysis, capital budgeting techniques are used, namely Payback Period (PP), Net Present Value (NPV), Profitability Index (PI) and Internal Rate of Return (IRR).

2.2. Investment

Investment is capital investment for one or more assets that are owned for a long time to get profit in the future (Sunariyah, 2003). The main principle in investment as an investor is low risk, low return and vice versa (Natalie, 2014). Investment can be divided into two, namely real investment and financial investment. Real investment involves tangible assets, such as land, machinery, or factories, while financial investment is dividend and capital gain. Indirect investment is trading through financial intermediaries (Sunariyah, 2003). Ensuring the investment’s main objective is an important part on making investment strategy decisions (Sultana et al., 2018). Understanding the overall investment decisions and investment performance helps determine the investment objectives (Pérez-Gladish et. Al., 2012).

2.3. Divestment

Shares divestment is capital release and reduction (Yoesry, 2019) or a company’s policy whose entire shares are gradually owned by foreign investors but it surely transfer their shares to local business partners or shares transfer from foreign investors to national investors (Erman, 2017). Moin (2003) believes divestment is an effort to sell a business unit or subsidiary to another party to get fresh funds in order to make the company healthy. Divestment is not only triggered by the poor performance of business unit, but also company’s political and financial interests (Harun & Bangun, 2006).

III. METDHOD

The evaluation to open and close a branch not only use one analysis method but also another analysis that provide a lot of information for decision making. The data in this study is obtained by depth interviews with 7 key informants, namely branch managers and area managers who are able to provide decision maker’s view. After interviews, researchers distribute two questionnaires to respondents from the central office (equivalent to General Manager) and from branch offices related to opening and closing branches (equivalent to Area Managers and Branch Managers). The first questionnaire is SWOT analysis of branch opening, while the second questionnaire is analysis of Internal External (IE) branch closure. Both questionnaires are list of statements that measured by Likert scale to indicate the level of respondent's approval of the statement by choosing one of the available choices. The questionnaires are prepared based on literature studies and interview result. The weighting is determined based on the weighting questionnaire results filled out by interviewees. There is 119 questionnaires which are distributed to 46 respondents.

Measurement for primary data (questionnaire) is conducted by Likert scale which shows the respondent’s agreement level of the statement by choosing one of the available choices. Number 5 = Strongly Agree, number 4 = Agree, number 3 = Disagree, number 2 = Disagree and number 1 = Strongly Disagree (Sugiyono, 2013). Branch opening will be evaluated by investment feasibility analysis methods, namely Net Present Value (NPV), Internal Rate of Return (IRR), Profitability Index (PI), and Payback Period (PP) analyzes. In addition, it will also be evaluated with Vintage comparison and SWOT analysis (Strengths, Weaknesses, Opportunities, Threats). Branch closure will be evaluated by a simple analysis method namely the sales team’s productivity comparison, Vintage branch comparison, and IE (Internal-External) analysis.

IV. RESULT

4.1. Evaluation on Branch Opening Data

In the evaluation of the opening branch, researchers use analysis tool, namely financial plan feasibility analysis, vintage area data analysis, and SWOT analysis. At the beginning of the study, researchers planned to divide this evaluation into six criteria, namely: Net Present Value, Internal Rate of Return, Profitability Index, Payback Period, Vintage area, and SWOT analysis. The six criterias have same weight because based on the interview's result, the researchers conclude that all criterias have the same role in measuring branch performance (summary of interview results in appendix). Based on the six criterias, a branch feasible to open if it fulfills at least four criterias, otherwise the branch is not feasible to open if it has less than three criterias. A branch that has three criterias requires broader consideration to be opened.

Researchers realize that the financial plan feasibility analysis tool will shows the same results regarding a branch's feasibility. If the researchers use the six criterias by dividing the financial plan feasibility analysis, the analysis result is unbalanced. When four financial plan feasibility criterias are fullfiled and the vintage analysis and SWOT analysis is not fulfilled, the branch is still declared feasible. Whereas from data of sales quality (vintage data), market, industry, and internal eligibility, branch is declared not feasible. Therefore, to obtain more appropriate feasibility result, the researchers change the criteria category which is based only on three criterias, namely the financial plan feasibility, sales quality (vintage area data), market feasibility, industry, and internal (SWOT analysis).

Based on those three criterias, eleven branches are feasible to open and the two branches are not feasible open (Bintaro and Bekasi Tambun). However, several branches that feasible to open require further review because they are not feasible on vintage area criteria. Those branches are the Cibiru, Ciputat, Gresik, Salatiga, Ambon, and Sangatta. In addition, several branches are feasible to open, but they have SWOT analysis result that is different from other branches, namely the Ciputat and Sangatta. One or two respondents considered that these two branches are in quadrant 2, while all other branches are in quadrant 1. Based on the data, although it is declared feasible to open, there are several branches that needed special treatment because some of these branches have weak feasibility percentages on several criteria.

Net Present Value, Internal Rate of Return, Profitability Index* and *Payback Period
Table 2. The Financial Plan Feasibility Analysis Results

No.	Branch	Value			
		NPV	IRR	PI	PP
1	Cibiru	249.785.113	15,46%	1,26	33,55
2	Sumbawa	769.655.637	30,83%	1,70	29,74
3	Bintaro	(94.239.359)	7,08%	0,90	>36,00
4	Batam	131.757.995	12,31%	1,11	34,78
5	Ciputat	125.691.713	11,96%	1,10	34,88
6	Gresik	159.998.928	13,47%	1,16	34,34
7	Bekasi Tambun	(106.148.389)	6,78%	0,90	>36,00
8	Salatiga	6.121.554	9,28%	1,00	35,96
9	Maumere	579.761.538	23,18%	1,50	31,82
10	Medan II	38.960.674	9,96%	1,03	35,60
11	Ambon	639.399.962	23,40%	1,54	31,79
12	Manokwari	84.436.775	10,95%	1,06	35,24
13	Sangatta	30.221.578	9,88%	1,02	35,71

Based on table 2, Bintaro and Bekasi Tambun can be declared not feasible to open because they do not fulfill the financial plan feasibility criteria. Based on NPV, the two branches are not feasible because they have negative NPV. While based on IRR, PI and PP, the two branches are not feasible because IRR shows a lower percentage of the company's hurdle rate (9.26%), PI less than 1.00, and PB longer than 36 months.

Besides showing the feasibility of branch to open, four feasibility criterias for financial planning also provide information on branches that require special attention when opened, namely Salatiga, Medan II, Manokwari, and

Sangatta. The four branches are feasible to open although the financial planning is weak. Based on NPV, the four branches have a low NPV while other branches have high NPV.

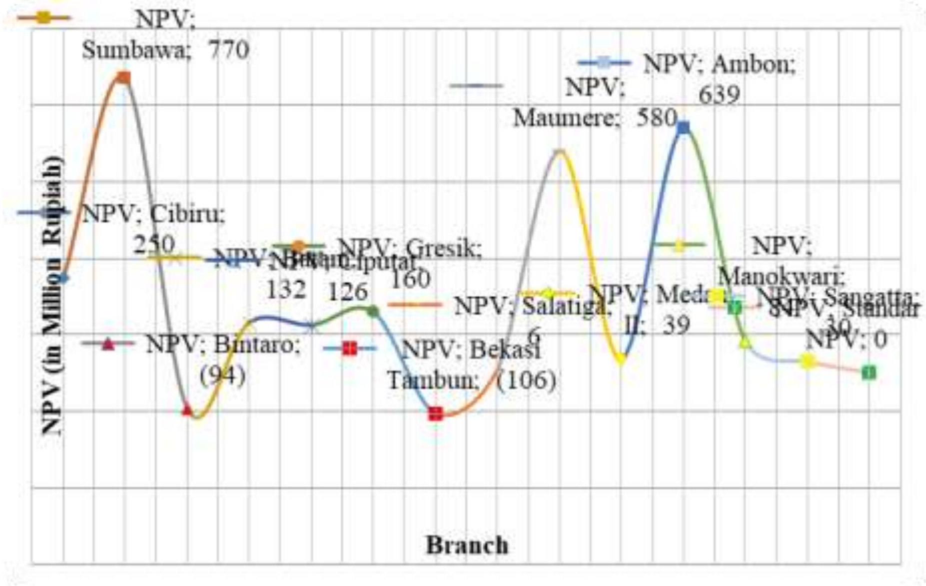

Figure 3. Branch NPV Graph

The same result also shown for IRR, PI and PP which are quite weak compared to some other branches.

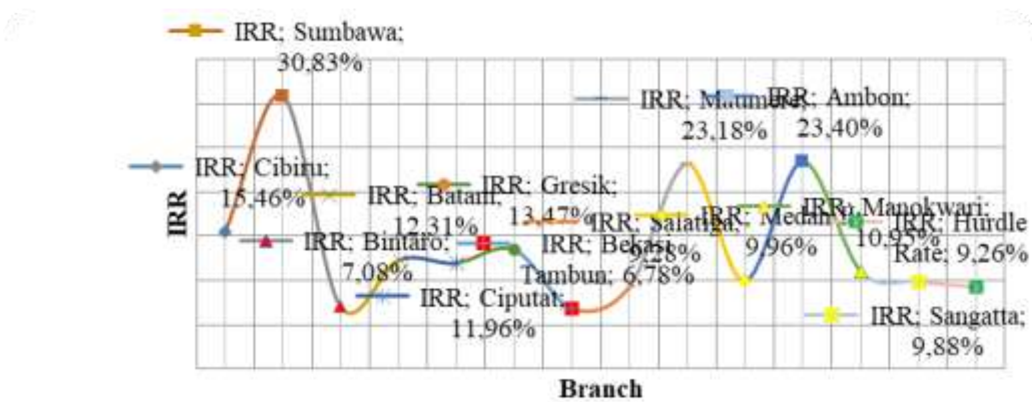

Figure 4. Branch IRR graph

Salatiga branch has the lowest IRR, which is only 0.02% higher than the company's hurdle rate. Based on PI, Salatiga branch also has lower PI when the value is rounded two digits behind the comma (1.00). It is quite doubtful to assess the feasibility to open branch when only rely on PI value.

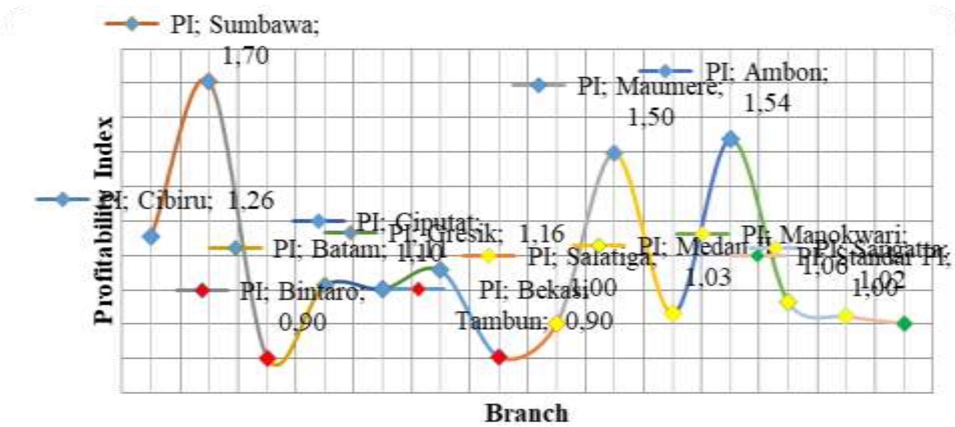

Figure 5. Branch Profitability Index Graph

PB evaluation result of Salatiga branch shows that new investment return exactly when the project period ends. In this case, it is assumed that the rental period of the branch shop is three years or 36 months.

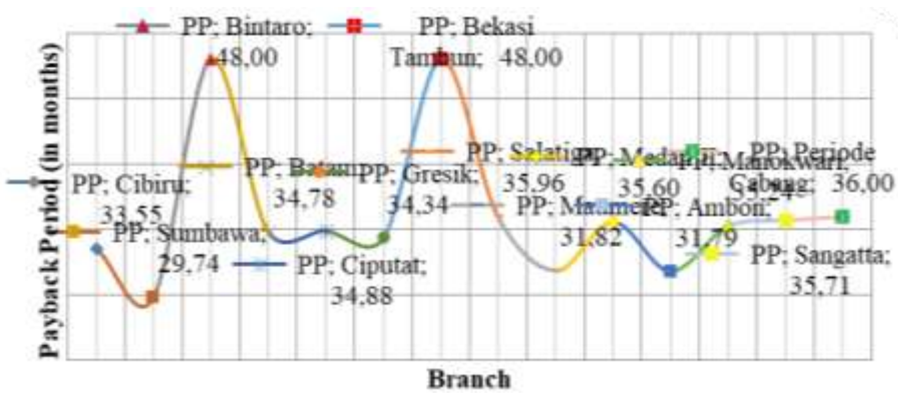

Figure 6. Payback Period Branch Graph

4.2. Closing Evaluation and Downgrade Branch Status Data

An analysis tool namely productivity analysis of sales team performance, branch vintage analysis, and GE Business Screen analysis or internal-external analysis are used to evaluate the closing and downgrade the branch status. The three criterias have the same weight to determine the feasibility of closing or downgrading the branch status.

Table 3. Evaluation of Closing and Downgrading Branch Status

No.	Branch Name	Feasibility based on criteria			Conclusion
		PKM	VC	IE	
1	Palangkaraya	Feasible to Close	Continue	Consider other criteria	Downgrade
2	Cibiru	Feasible to Close	Feasible to Close	Consider other criteria	Feasible to Close
3	Cilegon	Continue	Feasible to Close	Consider other criteria	Downgrade
4	Gunung Sitoli	Feasible to Close	Feasible to Close	Consider other criteria	Feasible to Close
5	Bintaro	Feasible to Close	Feasible to Close	Continue	Feasible to Close
6	Bekasi Tambun	Feasible to Close	Feasible to Close	Continue	Feasible to Close
7	Purwakarta	Feasible to Close	Feasible to Close	Consider other criteria	Feasible to Close
8	Salatiga	Feasible to Close	Consider other criteria	Consider other criteria	Feasible to Close

From the assessment results of three criterias, two branches are feasible to close and the other two branches downgrade the branch status to Point of Sales (POS) or Point of Payment (POP) depending on the remaining potential investment. The four branches whose status are downgrade, all of them is actually feasible to close.

V. DISCUSSION

The VIP finance company implements a horizontal growth strategy by expanding its operations to other geographical locations and/or increasing the range of products and services offered to the market. This strategy is quite appropriate for VIP finance company because the company's current products have real growth potential so concentrating resources on these product lines is more appropriate as a strategy for corporate growth or defense. However, VIP finance company is still not good enough in making the decision to open a branch. As described in research question, VIP finance company closed several branches that had only been operating for less than two years. Based on the interview result, the company made this decision because the income or profit obtained is lower than the operational costs incurred. If it kept running, it would result in greater losses. The reason some branches are downgrading their status due to assets incompatibility to become a branch based on the Financial Services Authority provisions. VIP finance companies sometimes use overcapacity in a branch to open another branch in a nearby location without more extensive feasibility analysis of opening the branch. This reason is also used for the opening of several branches which are then closed or downgraded in less than two years of operation, namely the Cibiru, Bintaro and Tambun Bekasi branch.

Company could use criteria that are often used in measuring the finance company’s performance when making branch opening and closing decisions, such as sales quantity, sales quality, market potential, competition, industry, and internal strength. All of these criterias have actually been applied by VIP finance companies in decision making for opening and closing branches, but the analysis tools used are still not good enough in procedures standardization, data sources feasibility and data projections accuracy. Another deficiency in the opening branch process is the pre-branch implementation. In some branches, the number of manpower is often not available according to plan, even though the branch still can operate. It will caused branch opening delayed even though the asset is available and the project time is running (in this case the building rental period). In addition, administrative management, especially at the Financial Services Authority, also becomes an obstacle in branch opening process. Delays in opening a branch will affect the return on capital which in turn affect the company's next investment.

The result shows that two of thirteen branches are not feasible to open and others have weak feasibility values to be opened. The decision to open two branches that are not feasible to operate is an inappropriate decision and it is proven that both branches are downgraded to the point of sale status in less than two years of operation. Although based on study result, these two branches are feasible to be closed because they are not feasible in quantity and quality of sales. Several other branches that have weak feasibility values to be opened, have also been closed and downgraded status, namely Cibiru and Salatiga branch. Based on the interview result, the two branches are closed and downgraded because of poor sales quality. Based on this study, Cibiru branch is feasible to close bacause of low sales quality and sales quantity, while Salatiga branch is more feasible to be closed because of low sales quantity. The closure of Salatiga branch is more feasible than just downgrading its status to a point of sale, because the sales quantity of Salatiga branch is low seen from market potential, industry, and internal strengths. In addition, based on the evaluation of branch opening, Salatiga branch has a very low feasibility value.

Other branches that have a low feasibility analysis can operate well if the implementation is in accordance or better than the plan. It is reflected in the Medan II and Manokwari branch. Although based on financial plan analysis the two branches have a low feasibility value, both branches still operate well. On the contrary, Cibiru branch, which has a high feasibility based on financial plan analysis, is closed because it do not go as planned. The company's divestment strategy by closing several branches in this study is a right decision because based on the study result, most of the branches are feasible to close. However, the closure of Palangkaraya branch and Cilegon branch can be declared not feasible because seen from market, industry, internal strength and sales quality, Palangkaraya branch is still feasible to be downgraded as a payment point. Other considerations can be developed by company such as comparing future potential with current operational cost.

Based on several studies, it is stated that branch closure affect the closed branch, surrounding branch, competitors, and other communities. Therefore, if another VIP finance branch is located in remote area, it would be better for to simply reduce the branch status to payment point. Besides being able to assist in collecting debtor payments in the area, the existence of VIP finance company representative in an area also strengthen the company names (brand recognition). Brand recognition strategy is important for VIP finance companies, it is known from this study that one of the company's internal weaknesses is the centralization of promotional costs that narrow the sales team's space to introduce their products. The operational costs of the Palangkaraya branch, which may be quite large, can be overcome by moving office to smaller buildings and having fewer employees according to their function as payment points. The same thing applies to Cilegon branch. Good sales productivity can be considered to not closing the branch. Companies can lower the Cilegon branch status to a selling point or move the man power (marketing team) to the nearest branch.

VI. CONCLUSION

VIP finance company closes or downgrades the several branches status that have been operating for less than two years. It happens because the income or profit obtained is lower than the operational costs incurred, which if kept running, will result in greater losses. In addition, some branches do not fulfill the requirements to be declared a branch based on Financial Services Authority provisions. The basic error of opening a branch is one of the reasons. VIP finance company sometimes uses overcapacity reason in a branch to open another branch in a nearby location without a broader feasibility analysis of opening a branch. Company can use the some criterias when making a decision to open and close branches, namely sales quantity, sales quality, market potential, competition, industry and internal strength as a consideration. Other important thing besides the criteria is analysis tools, procedures standardization, data sources feasibility, and data projections accuracy which have not yet been applied to VIP finance company.

REFERENCES

[1] Creswell. J. W. (1994). *Research Design Qualitative and Quantitative Approach*. Sage Publications. International Education and Professional Publisher. London

[2] David, F.R. (2001). *Strategic Management Concepts & Cases*, Edisi 8. Prentice-Hall Inc., Upper Saddle River, New Jersey

[3] Erman R. (2017). *Hukum Investasi di Indonesia, Anatomi Undang-Undang Nomor 25 Tahun 2007 Tentang Penanaman Modal.* Jakarta: Fakultas Hukum Universitas Al-Azhar Indonesia.

[4] Ganti, A. (2019). *Divestment*. *https://www.investopedia.com/terms/d /divestment.asp.* Accessed on 8 Mart 2019.

[5] Gul, S. (2018). The Review And Use Of Capital Budgeting Investment Techniques In Evaluating Investment Projects: Evidence From Manufacturing Companies Listed On Pakistan Stock Exchange (PSE). *City University Research Journal*, *8*(2). Pp.247-260

[6] Harun & Bangun, D. K. (2006). Divestasi Indosat: Analisis Kritis Hukum Islam. *SUHUF*, Vol. XVIII, No. 01. Pp. 63 – 84

[7] Lawlor, J. E. (2010). The importance of strategic planning. *London: Observatory on Borderless Higher education Long Range Planning*, *21*(1), 73-81.

[8] Moin, A. (2003). *Merger, Akuisisi, dan Divestasi*. Yogyakarta: Ekonisia Fakultas Ekonomi UII

[9] Nababan, (2018). *Pertumbuhan Pembiayaan 16 Persen, Lebih Tinggi Ketimbang Bank*. https://www.cnnindonesia.com/ekonomi/20180122173333-78-270758/pertumbuhan-pembiayaan-16-persen-lebih-tinggi-ketimbang-bank. Accessed on 8 Mart 2019.

[10] Natalia, E. (2014). Penentuan Portofolio Saham Yang Optimal dengan Model Markowitz Sebagai Dasar Penetapan Investasi Saham (Studi Pada Perusahaan Food and Beverage yang Terdaftar di Bursa Efek Indonesia Tahun 2012). *Jurnal Administrasi Bisnis*, *9*(1).

[11] Nuary, N. S. (2016). Strategi Pemasaran dengan Pendekatan Analisis SWOT pada PT. Super Sukses Motor Banjarmasin. *Jurnal Ilmiah Ekonomi Bisnis*, *2*(1), 30-42.

[12] Pérez-Gladish, B., Benson, K., & Faff, R. (2012). *Profiling socially responsible investors: Australian evidence. Australian Journal of Management, 37(2), 189–209.*

[13] Sasana, H. (2008), Analysis of factors affecting private investment in central java. *Journal of Economics and Policy*, 1(1), 1329-1368.

[14] Soelaksono, T., Sudiro, A., Rahayu, M., & Sudjatno, S. (2018). The Influence of Capability Managerial on Competitiveness of the Company through the Planning Strategy, Investment, Innovation and Performance of the Company (a Study on Corporate Manufacturing Industry Group B Medium Sized Territory Gerbang Kertosusila. *International Review of Management and Marketing*, *8*(2), 22-32.

[15] Sugiyono, (2013). *Metode Penelitian Kuantitatif, Kualitatif dan R&D*, Alfabeta, Bandung.

[16] Sulaiman, (2015). *Analisis Kelayakan Pembukaan Kantor Cabang PT Bank DKI di Palembang*, Thesis http://etd.repository.ugm.ac.id/penelitian/detail/89386

[17] Sultana, S., Zulkifli, N., & Zainal, D. (2018). Environmental, Social and Governance (ESG) and Investment Decision in Bangladesh. *Sustainability, 10(6), 1831.*

[18] Sunariyah, (2003). *Pengantar Pengetahuan Pasar Modal*.ed.ketiga. Yogyakarta: UPP AMP YKPN

[19] Thompson, A. A., & Strickland, A. J. (2001). *Strategic Management Concepts & Cases*, Edisi 12. McGraw-Hill, Singapore.

[20] Wheelen, T. L. dan Hunger, J. D. (2010). *Strategic Management and Business Policy Achieving Sustainability.* Prentice-Hall Inc., Upper Saddle River, New Jersey.

[21] Yoesry, E. (2019). Divestasi pt. freeport indonesia. *Jurnal Hukum & Pembangunan*, *49*(1), 153-179.