



THE EFFECT OF ECONOMIC VALUE ADDED AND PROFITABILITY ON FIRM VALUE

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Abstract

Firm value is a one of the representations of the company's performance. Firm value very important because it reflected the company's performance, which influenced investors' perceptions of the company. This study aimed to determine and analyze the effect of Economic Value Added (EVA) and Profitability (Return On Assets (ROA) and Return On Equity (ROE)) on Firm Value. Firm value was measured using the Price Book Value (PBV). The study used a quantitative method and was conducted in the banking sector listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. Sampling was carried out using purposive sampling technique with the criteria of 10 companies with the highest assets so that the sample obtained was 30. Data analysis used the panel data regression analysis method. The results of this study showed that Economic Value Added (EVA) had a negative and insignificant effect on firm value. Return On Assets (ROA) and Return On Equity (ROE) partially had a positive and significant effect on firm value. Economic Value Added (EVA), Return On Assets (ROA), and Return On Equity (ROE) simultaneously had a positive and significant effect on firm value.

Keywords: Firm Value, EVA, ROA, ROE.

Abstrak

Nilai perusahaan merupakan salah satu gambaran dari kinerja perusahaan. Nilai perusahaan penting karena memperlihatkan kinerja perusahaan yang berpengaruh pada persepsi investor terhadap perusahaan. Penelitian ini menganalisa pengaruh Economic Value Added (EVA) dan Profitabilitas (Return On Assets (ROA) dan Return On Equity (ROE)) Terhadap Nilai Perusahaan. Nilai perusahaan akan diukur dengan Price Book Value (PBV). Penelitian menggunakan metode kuantitatif dan dilakukan pada sektor perbankan yang terdaftar pada Bursa Efek Indonesia (BEI) periode tahun 2021-2023 . Pengambilan sampel dilakukan dengan teknik *purposive sampling* dengan kriteria 10 perusahaan dengan aset tertinggi sehingga sampel yang didapatkan sebanyak 30. Analisa data menggunakan metode analisis regresi data panel. Hasil penelitian ini menunjukkan bahwa Economic Value Added (EVA) berpengaruh negatif dan tidak signifikan terhadap nilai perusahaan. Return On Assets (ROA) dan Return On Equity (ROE) secara parsial berpengaruh positif dan signifikan terhadap nilai perusahaan. Economic Value Added (EVA) , Return On Assets (ROA) dan Return On Equity (ROE) secara simultan atau secara bersama berpengaruh positif dan signifikan terhadap nilai perusahaan.

Kata Kunci: Nilai Perusahaan, EVA, ROA, ROE.

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Introduction

The banking industry plays a major role in a country's economy and is important for financial sector stability and enhancing economic growth as it is one of the most highly

supervised and regulated industries. Banks must not only provide good financial services, but must also generate value for other stakeholders.

In addition to their important role in the financial sector, banks also seek to maximise their own firm value. The greater the value of the company, the greater the benefits for shareholders and owners. All company owners hope that the value of their company will increase because it indicates that the welfare of shareholders will also increase and increase public confidence and investor interest.

The value of a company is usually calculated by a financial ratio, namely price to book value (PBV), PBV compares the carrying value per share of equity with the price of equity. A high PBV ratio illustrates the share price of a company that is considered good by investors and can provide reciprocity in increasing the value of the company.

When viewed in the banking sector in Indonesia, this sector has also shown significant growth in recent years. Based on the Financial Services Authority (OJK) report in 2023, national banking assets reached more than Rp10,000 trillion, and increased compared to previous years. This growth illustrates that the banking sector is still a key pillar of the Indonesian economy.

However, in terms of PBV (Enterprise Value), there are striking variations between banks. Based on data from the Indonesia Stock Exchange (IDX) in 2023, Bank Central Asia (BBCA) has a PBV above 4.0, while small and medium-sized banks have a much lower PBV, even below 1.0

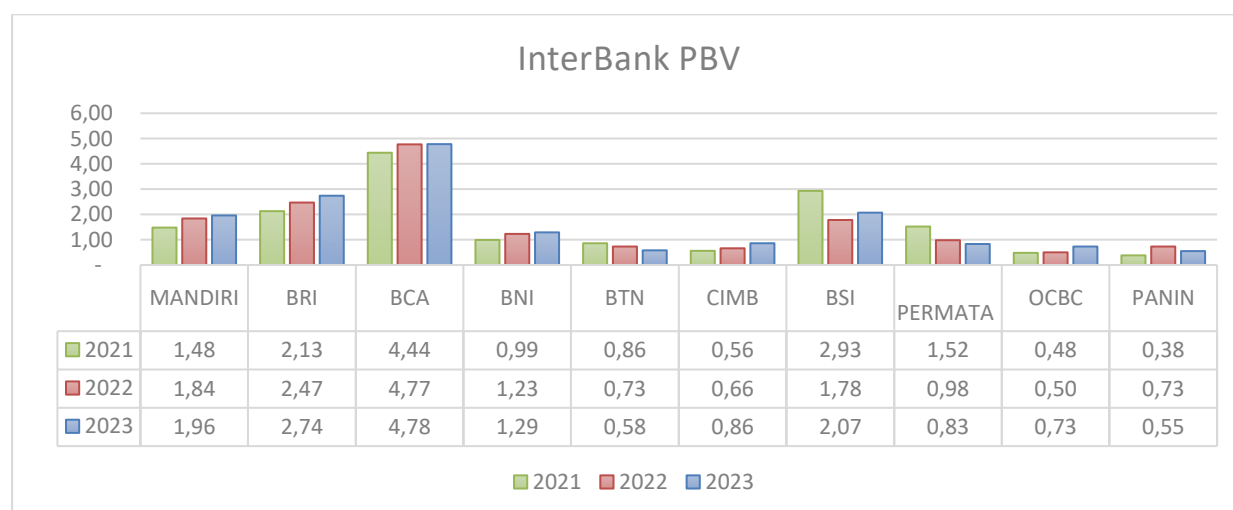


Figure 1.1 PBV Antar Bank 2021-2023

Source: Data Processed, 2024

From the data above, Bank BCA, has the highest PBV, which is above 4.0. This reflects the high market confidence in the bank's growth prospects and performance stability. Bank Mandiri, BRI and BSI also show solid PBVs, each in the range of 1.5 - 3.0. These large banks benefit from good operational efficiency and profitability, which makes investors more optimistic about their enterprise value. This difference shows that the

market's perception of banks' performance and prospects varies widely, depending on how they are able to create value and maintain profitability.

Profitability is a factor that determines the value of a company. Profitability is a measurement in evaluating a company's performance to generate profits. Profitability is important and shows how effective a company is in generating profits. A company's performance and value in generating profits is usually better if the value of its profitability ratio increases. Profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) are measurements used to evaluate the performance of a business in generating profits from equity, which can increase the value of the company.

In addition to profitability, economic value added (EVA) is a measure of the annual increase in investment value of a business. EVA is the company's economic value added from a certain time activity and one of the methods to evaluate the company's financial performance.

Economic Value Added (EVA) is a ratio that assesses a company by assessing the cost of invested capital including the interest paid by the company when borrowing funds and the expected return to shareholders when investing in the company.

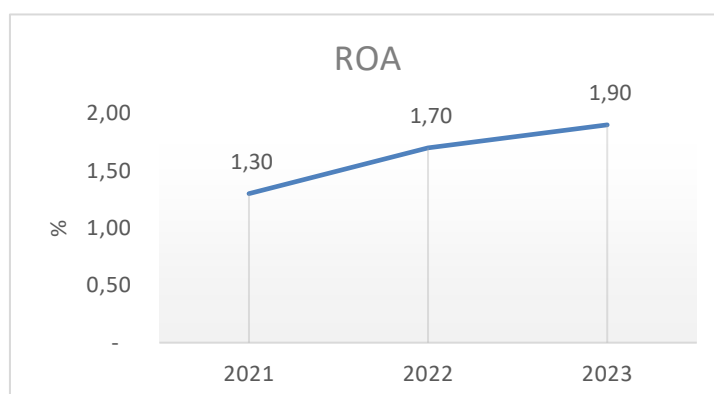
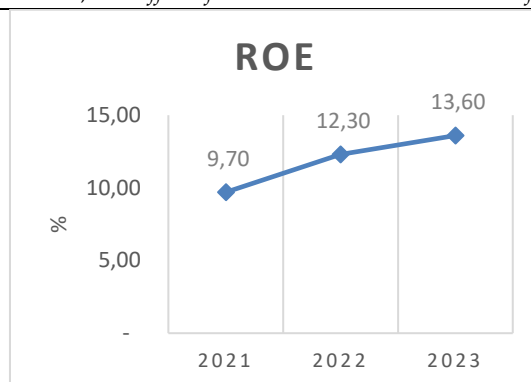


Figure 1.2 Avg ROA for the period 2021-2023

Source: Data Processed, 2024

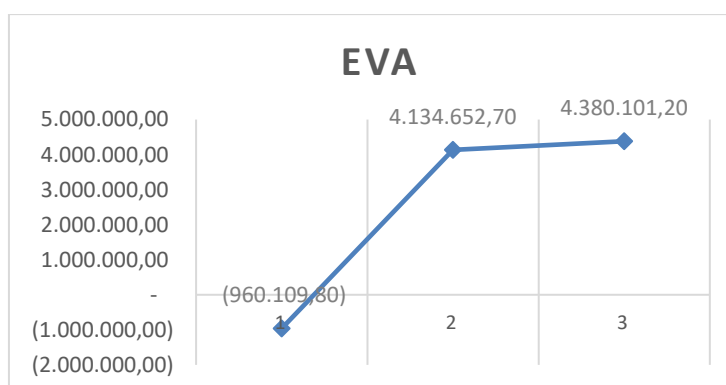
From the picture above, the average ROA of banking companies in 2021 - 2023 has grown every year. In 2021 to 2022, the average banking ROA was found to have increased by 0.4% from 1.30% to 1.70%, while in 2023, the average banking ROE rose to 1.90%, ROA increased by 0.20% from the previous year. The increase in ROA from year to year shows that banking companies have successfully managed assets to generate profits.



Gambar 1.3 Avg ROE for the period 2021-2023

Source: Data Processed, 2024

Meanwhile, the ROE displayed in the figure above, it can be seen that the average banking ROE from 2021 to 2023 has grown every year. From 2021 to 2022, banking ROE showed an increase of 2.6% from 9.70% to 12.30%, while in 2023, the average banking ROE rose to 13.60%, ROE increased by 1.30% from the previous year. A good increase in ROE indicates that banking companies successfully manage their capital and generate profits.



Gambar 1.4 Avg ROE for the period 2021-2023

Source: Data Processed, 2024

Likewise, from the results of the figure above, EVA in banking companies from 2021 - 2023 also shows an increase every year. In 2021, the EVA of the banking sector is negative, namely - 960,109 which shows a decrease in company performance, while in 2022 and 2023 the EVA value of banking is positive. From a value of - 960,109 it rose to a positive value of 4,134,652 in 2022 and 4,380,101 in 2023. In 2022 and 2023 with a positive EVA value, it shows that banking companies are successful in utilising capital and generating more value for the company.

When viewed from the data data that has been presented, ROA, ROE and EVA always increase. In general, the higher the value of ROA and ROE, the better the

management of assets and capital, which can benefit the company and increase its value. Likewise with EVA, the higher the EVA means the higher the value of the company.

Methods

The research used quantitative methods and was conducted in the banking sector listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. Sampling was carried out using purposive sampling technique with the criteria of the 10 companies with the highest assets so that the sample obtained was 30. This study analyses the effect of Economic Value Added (EVA) and Profitability (Return On Assets (ROA) and Return On Equity (ROE)) on Firm Value. Firm value will be measured by Price Book Value (PBV).

A hypothesis is a short statement that explains a certain event, behaviour, or condition that has occurred or is expected to occur. In research, hypotheses refer to the initial assumptions put forward by researchers regarding the relationship between the variables being studied. In this study there are 4 hypotheses, which are:

H1 : Economic Value Added (EVA) Partially Has a Positive and Significant Effect on Firm value

H2 : Return On Assets (ROA) Partially Has a Positive and Significant Effect on Firm value

H3 : Return On Equity (ROE) Partially Has a Positive and Significant Effect on Firm value

H4 : Economic Value Added (EVA), Return On Assets (ROA) and Return On Equity (ROE) Simultaneously Have a Positive and Significant Effect on Firm value

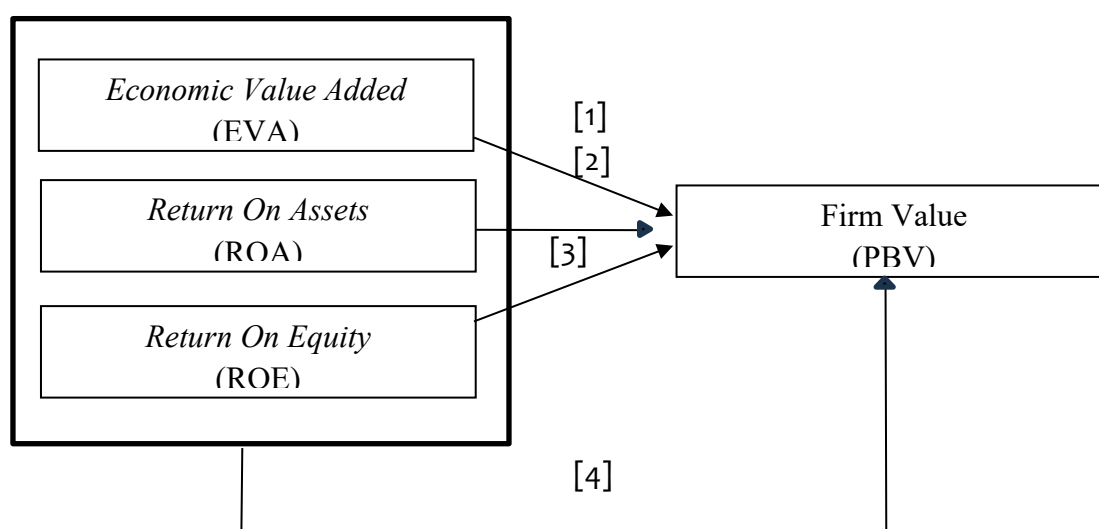


Figure 2.1 Research Framework

Source: Data Processed, 2024

Table 1.1 Operational Variables

No	Variabel	Definisi Operational	Indikator	Skala
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1	Economic Value Added (EVA) (X1)	Measures financial performance by combining value creation with the cost of capital to obtain economic value added.	1. NOPAT 2. Invested Capital 3. WACC	Ratio
2	Return On Assets (ROA) (X2)	Measures the Company's performance by dividing net income by total assets	$ROA = (\text{Net Income} / \text{Total Assets}) \times 100\%$	Ratio
3	Return On Equity (ROE) (X3)	Measures the Company's performance by dividing net income by equity	$ROE = (\text{Net Income} / \text{Equity}) \times 100\%$	Ratio
4	Firm Value (PBV) (Y)	Measures Company Performance by dividing net income by shareholders' equity.	Price to Book Value (PBV) = <u>Current Share Price</u> Book Value Per Share (BVPS)	Ratio

Source: Data Processed, 2024

Table 1.2 Research Sample

Sample	Total
Banking Companies Listed on the Indonesia Stock Exchange for the Period 2021-2023	47
Companies Publish Complete Financial Statements and Have Assets > 200 Trillion Rupiah	10
Total Research Period (Years)	3
Total Sample (Observation)	30

Source: Data Processed, 2024

Result and Discussion

Model Selection Estimation

Table 1.3 Common Effect Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.418329	0.445880	-3.180968	0.0038
X1	-4.25E-08	1.60E-08	-2.653306	0.0134
X2	77.85591	18.82536	4.135694	0.0003
X3	15.71464	3.743892	4.197409	0.0003

Source: Data Processed, 2024

Table 1.4 Fixed Effect Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.440473	1.358092	0.324332	0.7496
X1	-5.45E-09	1.86E-08	-0.293600	0.7726
X2	15.97694	36.16700	0.441755	0.6642
X3	7.673495	7.176499	1.069253	0.2999

Source: Data Processed, 2024

Table 1.5 Random Effect Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.922705	0.695868	-1.325976	0.1964
X1	-1.88E-08	1.53E-08	-1.227270	0.2307
X2	50.74924	18.12699	2.799651	0.0095
X3	14.71914	3.912349	3.762225	0.0009

Source: Data Processed, 2024

Panel Data Regression Method Selection Estimation

Table 1.6 Chow Test

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.462978	(9,17)	0.0000
Cross-section Chi-square	71.315517	9	0.0000

Source: Data Processed, 2024

From the Chow Test results above, it shows that the Cross-section F probability value is 0.0000 (<0.05), so the model chosen is the Fixed Effect Model. Next, the Hausman Test is carried out.

Table 1.7 Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.913263	3	0.4052

Source: Data Processed, 2024

From the Hausman Test results above, it shows the cross-section random probability value of 0.4052 (> 0.05), so the model chosen is the Random Effect Model. Next, the Lagrange Multiplier Test is carried out.

Table 1.8 Langrange Multiplier Test

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	17.99930 (0.0000)	1.127193 (0.2884)	19.12650 (0.0000)
Honda	4.242559 (0.0000)	-1.061694 (0.8558)	2.249211 (0.0122)
King-Wu	4.242559 (0.0000)	-1.061694 (0.8558)	0.848695 (0.1980)
Standardized Honda	5.258119 (0.0000)	-0.731128 (0.7676)	0.256823 (0.3987)
Standardized King-Wu	5.258119 (0.0000)	-0.731128 (0.7676)	-1.004602 (0.8425)
Gourieroux, et al.	--	--	17.99930 (0.0000)

Source: Data Processed, 2024

From the Lagrange Multiplier Test results above, it shows the BreuschPagan value of 0.0000 (< 0.05), so the selected model is the Random Effect Model. From the whole test, it is found that the best model is the Random Effect Model. This model is called Generalised Least Square (GLS).

Table 1.9 Panel Data Regression Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.922705	0.695868	-1.325976	0.1964
X1	-1.88E-08	1.53E-08	-1.227270	0.2307
X2	50.74924	18.12699	2.799651	0.0095
X3	14.71914	3.912349	3.762225	0.0009

Source: Data Processed, 2024

The regression equation above illustrates that the value of variables X1 (EVA), X2 (ROA) and X3 (ROE) affects the value of Y (PBV) with the details below:

- 1.The fixed value of the regression model is -0.92. The negative value illustrates that if the EVA (X1), ROA (X2), and ROE (X3) variables are at zero, the PBV (Y) variable will also decrease by 0.92.
- 2.The regression coefficient for EVA (X1) is -1.88. This means that every 1% increase in X1 with the assumption that the other independent variables do not change will cause PBV (Y) to decrease by 1.88.
- 3.The regression coefficient for ROA (X2) shows a number of 50.74. This indicates that when X2 increases by 1% and other variables remain constant, the value of Y will increase by 50.74.
- 4.The regression coefficient of ROE (X3) is recorded at 14.72. This means that a one-point increase in X3 assuming other variables remain constant will have an impact on the increase in PBV (Y) by 14.72.

The results of this study indicate that Economic Value Added (EVA) has a negative and insignificant effect on firm value. Return On Assets (ROA) and Return On Equity (ROE) partially have a positive and significant effect on firm value. Economic Value Added (EVA), Return On Assets (ROA) and Return On Equity (ROE) simultaneously or together have a positive and significant effect on firm value.

The effect of (EVA) on firm value (PBV) is insignificant and negative. This may be because a large number of banks have a higher level of debt than the net operating profit after tax (NOPAT) generated. The interest expense incurred due to the debt increases the financial risk of the company, which in turn has an impact on decreasing net income and inhibits the creation of added value, thereby reducing the value of the company.

Meanwhile, ROA and ROE have a significant positive effect on PBV, which indicates that the higher ROA and ROE, the more value the company generates. This result indicates that the company can utilise assets and equity to generate profits and thus increase the value of the company. The simultaneous test results show that the Economic Value Added (EVA), Return on Assets (ROA), and Return on Equity (ROE) variables have a significant effect on the company's value (PBV) with a probability value of 0.003 (<0.05), which

indicates that the EVA (X1), ROA (X2), and ROE (X3) variables have a significant influence on the PBV (Y) variable simultaneously.

The coefficient of determination test results show the Adjusted R Square result of 0.33, which indicates that the contribution of the influence of the independent variables (EVA, ROA, and ROE) is 33% to the dependent variable (PBV) and other factors not included in this study contribute 67%.

Conclusion

Based on the overall research, it shows that EVA has a negative and insignificant impact on the firm value (PBV) of the banking companies studied. This indicates that EVA can be used as a measure of financial performance but has not been the main factor in determining investor perceptions of firm value in the banking sector. One of the reasons is the high proportion of debt compared to net operating profit after tax (NOPAT), which increases interest expense and financial risk. This condition ultimately has an impact on the low creation of added value for the company. Meanwhile, the partial effect of ROA and ROE on PBV is positive and significant. This result indicates that the higher the rate of return on assets and equity (ROA & ROE), the better the company is in managing assets and equity to generate profitability, which in turn will have an impact on increasing the firm value (PBV).

Simultaneously, the significant impact of these three indicators on firm value underlines that the higher the EVA, ROA, and ROE of a company, the better the firm value will be. Therefore, company management must continue to improve operational efficiency, maximise asset utilisation, and develop financial strategies that can increase profitability and economic added value so that the company's value is getting better.

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