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Financial Performance Assessment using Economic Value Added (EVA) and Market Value Added (MVA) in Property Companies in Indonesia

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Abstract. These reports depict a clear picture of a company's assets, liabilities, income, and expenses, offering a profound understanding of its financial performance and stability. This research aims to conduct a Financial Performance Assessment using Economic Value Added (EVA) and Market Value Added (MVA) with a Time Series Approach on Property Companies in Indonesia. This is a descriptive study, employing purposive sampling techniques and utilizing secondary data in the form of annual financial reports over a period of 5 years from 2018 to 2022. The study focuses on five major Real Estate sector companies listed on the Indonesia Stock Exchange: Armadian Karyatama, Bhakti Agung Properindo, Bumi Serpong Damai, Capri Nusa Satu Property. After calculating the variables for each consecutive year, the average assessment of Economic Value Added (EVA) indicates positive results. This suggests that the overall condition of the Property Industry in Indonesia is considered GOOD. However, the Market Value Added (MVA) for the Property Industry from 2018 to 2022 shows negative results. This indicates that the overall condition of the Property Industry in Indonesia is considered NOT GOOD.

Keywords: EVA; MVA; Property; Financial Performance

A. INTRODUCTION

Financial reports are a cornerstone in managing a company, providing crucial information for stakeholders. These reports offer a clear picture of a company's assets, liabilities, income, and expenses, providing a deep understanding of its financial performance and stability. Shareholders, investors, lenders, and internal management all rely on financial reports to make data-driven decisions and measure the company's success. Additionally, financial reports support legal compliance and accounting regulations, essential foundations for maintaining business integrity and corporate reputation (Sunardi, 2020). Thus, financial reports play a central role in managing, monitoring, and steering the company's strategic direction, ensuring sustainable growth and meeting stakeholder expectations.

Economic Value Added (EVA) is a financial analysis approach that provides a profound insight into a company's performance by focusing on the creation of economic value. In this approach, EVA is used to measure how successfully a company generates profits exceeding the cost of capital utilized in its operations (Irawan & Yudha, 2019). In other words, EVA provides an understanding of whether a company can earn higher profits than the capital costs invested in it.

Financial analysis approaches involving Economic Value Added (EVA), Financial Value Added (FVA), and Market Value Added (MVA) using the Time Series approach are significant tools for evaluating a company's performance in delivering investment returns. This is useful for measuring a company's effectiveness in yielding returns on investments, with a focus on Value-Based measurements, including the concepts of EVA, FVA, and MVA. EVA focuses on measuring how much a company earns in profits exceeding the cost of capital. FVA assesses the financial results obtained by the company in a given period. Meanwhile, MVA describes the market value of the company obtained by subtracting the book value from the market value of the company's stock (Agustin et al., 2021). This method assists in evaluating a company's effectiveness in creating economic value and its financial performance.

This research focuses on companies listed in the Property Industry in Indonesia during the period 2013-2018. EVA, or economic value added, is a financial performance indicator measuring the difference between after-tax operating income (NOPAT) and the cost of capital for the respective period. The cost of capital is the result of multiplying the company's cost of capital and the amount of capital invested at the beginning of that period. On the other hand, MVA illustrates the difference between the market value of the company's equity at a specific time and the equity capital provided by investors, serving as a tool to assess the extent of the wealth created by the company up to that point (Masyadi et al., 2021). This research uses a quantitative descriptive method and focuses on a sample of companies in a specific industry. The aim of this study is to conduct a Financial Performance Assessment using EVA and MVA with a Time Series Approach on Property Companies in Indonesia.

B. LITERATURE REVIEW

Financial Performance

The financial performance of a business entity reflects its efficiency, profitability, and operational sustainability. The theoretical foundation underlying the understanding of financial performance includes several key concepts. First, financial ratios such as profitability ratios (such as net income to revenue), liquidity ratios (such as current ratio), and activity ratios (such as accounts receivable turnover) are used to measure the financial health of a company. Second, the time value of money theory serves as the basis for analyzing assets, investments, and liabilities, considering that money in the future has a lower value compared to money today. In addition, agency theory considers the relationship

between shareholders and management in managing the company's finances, while the capital market theory links financial performance to stock prices and shareholders (Masyadi et al., 2021). All these concepts help stakeholders measure and understand the financial performance of a company and make more informed and accurate decisions in the financial context.

According to the Decision of the Minister of Finance of the Republic of Indonesia No. 740/KMK.00/1989 regarding the Increase in Efficiency and Productivity of State-Owned Enterprises, financial performance refers to the achievements obtained by a company during a specific period, depicting the health of the company. The financial performance of a company becomes a key indicator in evaluating the financial condition of the company, and this evaluation is often based on financial ratio analysis. Performance, in this context, can be interpreted as the results achieved by a company during a specific period that depict the health of the company (Irawan & Yudha, 2019). Financial performance involves analyzing a specific time period to measure how successful a company is in generating profits, assuming that financial rules are applied correctly. The results of the analysis of a company's financial statements aim to guide company managers and investors in formulating appropriate corporate policies.

Market Value Added (MVA)

MVA is a concept rooted in corporate finance and management theory, designed to measure the value added by a company for its shareholders. The basic theory of MVA encompasses several key principles. First, MVA refers to the idea that the value added by a company is not only related to the profits it earns but also to the increase in the company's own value (Sunardi, 2020). In other words, MVA measures the difference between the market value of the company (equity market value) and the total capital invested in the company. This theory describes the company's ability to create value above and beyond the invested capital.

MVA is closely related to the theory of capital markets, assuming that the market efficiently reflects the assessment of a company's performance. An increase in MVA reflects the company's ability to create value for shareholders, which is directly reflected in the company's stock price. It is also related to the assumption that stock prices reflect all available information in the market. Based on the theory of corporate performance, MVA is utilized as an evaluation tool to measure the long-term performance of a company. It illustrates the company's ability to generate profits large enough to offset the invested capital and create wealth for shareholders (Agustin et al., 2021).

The theory of corporate finance also provides the foundation for MVA. MVA is related to capital structure and cost of capital, emphasizing the importance of creating significant value to exceed the cost of capital. Thus, MVA helps companies increase their value and the wealth of shareholders, in line with the theory of corporate finance that emphasizes optimizing the use of corporate resources (Masyadi et al., 2021). With this theoretical foundation, MVA becomes an essential tool in evaluating and measuring the long-term financial performance of a company, as well as assisting stakeholders in making informed investment decisions and appropriate business strategies.

Keown and colleagues interpret MVA as the difference between the market value of a company and the capital invested in it. The calculation of MVA can be done using the following formula (Ardiani, 2021):

$$\text{MVA} = \text{Market Value of Equity} - \text{Total Invested Capital}$$

When MVA proves to be a positive figure, it indicates that the company's management has successfully increased the wealth of the company and delivered good results for shareholders. Conversely, when MVA shows a negative value, it indicates that the company's management has not succeeded or has reduced the wealth of the company and shareholders, demonstrating poor company performance (Yudi Mahadianto et al., 2021).

Economic Value Added (EVA)

EVA has become a broad subject in financial and management literature. Introduced by Stewart (1991), EVA has garnered significant attention for being considered a useful tool in measuring company performance and identifying value creation for shareholders. Empirical research related to EVA has revealed various aspects of its use, ranging from its impact on the company's stock market value, its relationship with corporate policies, to its influence on investment decision-making (Yuliane Khanjaya & Moelyo Adi, 2020). Some studies have shown that EVA has a positive correlation with stock market performance, indicating that companies able to generate positive EVA tend to have better stock prices. Additionally, literature reviews also depict that EVA can affect changes in corporate policies, such as capital allocation and executive compensation. Despite EVA being an important tool in evaluating company performance, there is still a debate about its relative superiority compared to other financial metrics (Sunardi et al., 2018). Moreover, several studies have identified factors influencing the effectiveness of EVA use in specific contexts, such as changes in business cycles. This literature review provides valuable insights into the use of EVA as a performance measurement and corporate policy tool, raising challenging research questions that motivate further exploration in this field (Yuliane Khanjaya & Moelyo Adi, 2020).

EVA is utilized as a financial performance indicator that calculates the difference between the earnings generated by the company's capital and its cost of capital (Young and O'Byrne). According to Keown and colleagues, the formula for EVA is as follows (Demirgunes, 2023):

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{IC})$$

Calculation Steps of Economic Value Added (EVA)

Components EVA	Formula
NOPAT	Net operating income (1 - Tax rate)
WACC	$[(D \times r_d) (1 - \text{Tax}) + (E \times r_e)]$
IC	(Total debt + Equity) - Short-term debt
EVA	$\text{NOPAT} - (\text{WACC} \times \text{IC})$

Explanation:

NOPAT: Net Operating Profit After Tax

WACC : Weighted Average Cost of Capital

D : Cost of debt capital

rd : Percentage of debt in the capital structure

Tax : Tax

E : Cost of equity capital

re : Percentage of cost of capital in the capital structure

IC : Invested Capital

EVA : Economic Value Added

When Economic Value Added (EVA) is positive, it indicates that the company has successfully increased its value and generated profits for investors. The return rate exceeds the cost of capital or the desired return rate expected by investors for their investment. When EVA reaches zero, it demonstrates that the company is in a break-even position, where all profits are utilized to pay obligations to lenders and shareholders. On the other hand, if EVA is negative, it signifies that there is no increase in value because the earned profits do not meet investors' expectations, resulting in a decrease in the company's value due to a return rate lower than desired by investors (Rezha et al., 2021).

C. RESEARCH METHODOLOGY

This study is a type of quantitative research based on financial report data from industries listed on the Indonesia Stock Exchange (IDX) during the period of 2018-2022. The research objects are as follows:

Table 1 The research objects

No	Code	Industry
1	ARMY	Armadian Karyatama Bhakti Agung
2	BAPI	Properindo
3	BSDE	Bumi Serpong Damai Capri Nusa Satu
4	CPRI	Property

The data analysis was conducted quantitatively using secondary data obtained from collected financial reports. The data processing process involved the following steps (Novita, 2019):

1. Collecting relevant data from the annual financial reports of the property industry PT Bumi Serpong Damai for the period from 2019 to 2020.
2. Calculating and analyzing Economic Value Added (EVA).
3. Calculating and analyzing Market Value Added (MVA).
4. Drawing conclusions based on the results of the data analysis conducted.

D. RESULTS AND DISCUSSION

Financial Performance Assessment "Economic Value Added (EVA)" and "Market Value Added"

Financial Performance Assessment of PT. Armadian Karyatama is as follows:

Table 2: Financial Performance Analysis of PT. Armadian Karyatama for the period 2018-2022 "(in billion Indonesian Rupiah)"

Variabel	2018	2019	Period 2020	2021	2022	average	Performance
Economic Value Added (EVA)	5,78	1,39	1,36	7,61	5,91	22,05	Good
Market Value Added (MVA)	-1,35	-0,8	-0,83	5,5	7,6	10,12	Good

The results of the calculations in Table 2, summarizing the financial performance of the company above, indicate that the Economic Value Added (EVA) reflects a good financial performance of the company, as the average EVA value is 22.05, indicating good performance. Additionally, the Market Value Added (MVA) also indicates good financial performance, with an average MVA value of 10.12.

Financial Performance Evaluation "Economic Value Added (EVA)" and "Market Value Added (MVA)" of PT. Bhakti Agung Properindo

The financial performance evaluation of PT. Bhakti Agung Properindo is as follows:

Table 3: Financial Performance Analysis of PT. Bhakti Agung Properindo for the period 2018-2022 (in billion rupiah)

Variabel	Period					average	Performanc e
	2018	2019	2020	2021	2022		
Economic Value Added (EVA)	-2	-1,47	477	1,39	121	595,92	Good
Market Value Added (MVA)	-2,4	-2,88	-2,7	2,05	2,06	-3,87	Not Good

The results of the calculations in Table 3, summarizing the financial performance of the company above, indicate that the Economic Value Added (EVA) reflects poor financial performance as the average EVA value is 595.92, which is considered good. Additionally, the Market Value Added (MVA) also indicates poor financial performance, with an average MVA value of -3.87.

Financial Performance Evaluation "Economic Value Added (EVA)" and "Market Value Added (MVA)" of PT. Bumi Serpong Damai

Financial performance evaluation of PT. Bumi Serpong Damai is as follows:

Table 4: Financial Performance Analysis of PT. Bumi Serpong Damai for the period 2018-2022 (in billion rupiahs).

Variabel	Period					Averag e	Performanc e
	2018	2019	2020	2021	2022		
Economic Value Added (EVA)	-2,41	-1,24	-6,57	-6,49	4,6	-12,11	Not Good
Market Value Added (MVA)	-4,41	-4,63	-4,71	4,83	-5,16	-14,08	Not Good

From the calculation results in Table 3, the summary of the financial performance of the above-mentioned company indicates that the Economic Value Added (EVA) reflects a poor financial performance with an average value of -12.11. This negative EVA suggests poor performance. Similarly, the Market Value Added (MVA) indicates that the financial performance of the company is not favorable, as the average MVA value is -14.08.

Financial Performance Assessment of "Economic Value Added (EVA)" and "Market Value Added (MVA)" of PT. Capri Nusa Satu Property

The assessment of the financial performance of PT. Capri Nusa Satu Property is as follows:

Table 5: Financial Performance Analysis of PT. Capri Nusa Satu Property for the period 2018-2022 "in billion rupiah"

Variabel	Period					Averag e	Performanc e
	2018	2019	2020	2021	2022		
Economic Value Added (EVA)	-5,15	-1,18	-8,3	-2,5	-21	-38,13	Not Good
Market Value Added (MVA)	241	-41	-33	36	-349	-146	Not Good

From the calculation results in Table 4, the recapitulation of the company's financial performance indicates that the Economic Value Added (EVA) shows a poor financial performance condition, as the average EVA value is -38.13. This suggests poor financial performance based on the negative EVA, and the Market Value Added (MVA) also indicates poor financial performance with an average MVA value of -146.

Evaluation of Economic Value Added (EVA) through the Time Series Approach in the Property Industry in Indonesia The Time Series Approach is a method used to assess the conditions of individual companies and variables over time during a specific period through the evaluation of financial data in the Time Series within the Cement Industry in Indonesia. The "Financial Performance of Economic Value Added (EVA) in the Property Industry in Indonesia using Time Series data approach is as follows":

Table 6: Evaluation of Economic Value Added (EVA) in the Property Industry in Indonesia for the Period 2018-2020 (in billion Indonesian Rupiah)

Property Industry	Economic Value Added (EVA)					Average	Performance
	2018	2019	2020	2021	2022		
Armadian							
Karyatama	5,78	1,39	1,36	7,61	5,91	22,05	Good
Bhakti Agung							
Properindo	-2	-1,47	477	1,39	121	595,92	Good
Bumi Serpong							
Damai	-2,41	-1,24	-6,57	-6,49	4,6	-12,11	Not Good
Capri Nusa Satu							
Property	-5,15	-1,18	-8,3	-2,5	-21	-38,13	Not Good

In the results of the Economic Value Added (EVA) calculation in Table 5, the average EVA values for PT. Bumi Serpong Damai and PT. Capri Nusa Satu Properti are negative and below the benchmark value. This indicates that the companies are unable to provide added value to their shareholders because the EVA values are negative ($EVA < 0$), signifying poor performance. The average Economic Value Added (EVA) for the Property industry in Indonesia during the period 2018-2022 experienced fluctuations. This is attributed to an increase in capital costs, indicating that the companies are unable to deliver returns on investment as expected by shareholders and investors.

Assessment of "Market Value Added (MVA)" using the "Time Series Approach" in the Property Industry in Indonesia. "Financial Performance of Market Value Added (MVA) in the Property Industry in Indonesia using a Time Series data approach is as follows:"

Table 7: Market Value Added (MVA) in the Property Industry in Indonesia for the Period 2018-2020 (in billion Indonesian Rupiah)

Property Industry	Market Value Added (EVA)					Average	Performance
	2018	2019	2020	2021	2022		
Armadian							
Karyatama	-1,35	-0,8	-0,83	5,5	7,6	10,12	Good
Bhakti Agung							
Properindo	-2,4	-2,88	-2,7	2,05	2,06	-3,87	Not Good
Bumi Serpong							
Damai	-4,41	-4,63	-4,71	4,83	-5,16	-14,08	Not Good
Capri Nusa Satu							
Property	-5,15	-1,18	-8,3	-2,5	-21	-38,13	Not Good

The average Economic Value Added (MVA) of the Property industry in Indonesia for the period 2018-2022 experienced fluctuations. The period from 2018 to 2022 saw a decline from 10.12 in 2018 to -38.13 in 2022, indicating a downward trend. This is attributed to a decrease in capital costs and suggests that, based on the table above, the companies in this industry do not exhibit an average trend.

Evaluation of Financial Performance in the Indonesian Property Industry Listed on the Indonesia Stock Exchange for the Years 2018-2022 based on Economic Value Added (EVA) and Market Value Added (MVA). According to the assessment of Economic Value Added (EVA) and Market Value Added (MVA) in the Indonesian Property Industry, the following is observed:

Table 8: Analysis of Economic Value Added (EVA) and Market Value Added (MVA) for Companies in the Indonesian Property Industry.

Variabel	Company Code				Average Industrial	Curr	Industrial Performance
	ARMY	BAPI	BSDE	CPRI			
Economic Value Added (EVA)	22,05	595,92	12,11	-38,13	141,93	Rp	Good
Market Value Added (MVA)	10,12	-3,87	14,08	-38,13	-35,6	Rp	Not Good
Rata-rata	16,08	296,03	0,985	-38,13	531,65	Rp	Good

The Market Value Added (MVA) of the Property industry in Indonesia, on average, experienced fluctuations during the period 2018-2022. This period indicates a downward trend. This is attributed to the increase in capital costs, indicating that companies cannot provide returns on investment as expected by shareholders and investors. There is only an increase in Market Value Added (MVA) that is not favorable. From the table above, the average industry is -35.6, indicating that companies are unable to add value to their shareholders because the MVA is negative.

E. CONCLUSIONS AND SUGGESTIONS

From this study, it can be concluded that business risks and sales strategies can affect company performance. This is because companies with external funding or debt in unfavorable economic conditions are at high risk, especially during a pandemic when public purchasing power decreases, leading to financial and economic failures for companies. The capital structure cannot influence company performance, indicating that the amount of debt a company holds is unable to affect its performance.

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