

Relationship of Economic Value Added (EVA) and Financial Performance of PT. LC Industry Indonesia Period 2013-2017

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ABSTRACT

PT. LC Industry Indonesia aims to collect wood raw materials needed by the furniture industry directly from its source. Considering that raw materials in the wood furniture industry play an important role in running their business, so investment is needed that can support the raw materials, which is certain to always be available. Conditions for the availability of raw materials which are natural products and their availability depend on nature, so many things need to be considered in processing them. Some things that are of concern to PT. LC Industry Indonesia in collecting wood raw materials, namely source, location, purchase price, competitors, selling price, and company capacity. The purpose of this study is to know the relationship of economic value added (EVA) and financial performance of PT. LC Industry Indonesia period 2013-2017. This research used correlation analysis is a statistical method used to find out and measure the relationship between two variables. Correlation is also a term that can describe the linear relationship between the dependent variable and the independent variable. The results showed Economic value added (EVA) was not significantly negative related to return on assets (ROA). Economic value added (EVA) is significantly negative related to current ratio (CR). Economic value added (EVA) is positively related significantly to debt equity ratio (DER). Economic value added (EVA) is not positively related to total assets turnover ratio (TATO).

Keywords: Economic Value Added (EVA), Return on Assets (ROA), Current Ratio (CR),

Debt Equity Ratio (DER), Total Assets Turnover Ratio (TATO)

INTRODUCTION

Measurement of financial performance is one of the factors that is very important for the company, because these measurements are used as a basis for developing a reward system within the company that can influence the behavior of decision making in the company.

In general, the aim of a company is to maximize profits earned by increasing sales and minimizing company expenses or expenses. Measuring company performance is only based on analysis of financial statements such as profitability ratios that have weaknesses. Measurement of financial performance based on financial ratios alone does not reflect actual performance so that the company looks good and increases when it is the exact opposite.

Financial statement analysis is a collection of analysis processes that are part of business analysis. This separate process divides the same bonds in that they all use financial statement information, to varying degrees, for analytical purposes (Subramanyam, 2014).

Financial statement analysis has five sets of important tools for financial analysis namely comparative financial statement analysis, common size financial statement analysis, ratio analysis, cash flow analysis, and valuation (Subramanyam, 2014).

In this study the analysis that will be used is the analysis of financial ratios. Financial ratio analysis is an analysis that connects the balance sheet and income statement estimates to one another, which provides an overview of the company's history and an assessment of the state of a particular company. Financial ratio analysis allows financial managers to predict the reactions of potential investors and creditors and can be taken to obtain additional funds (Baridwan, 1997).

Ratio is a tool to provide a view of the underlying conditions. The ratio is one of the starting points of the analysis, not the end point. If the ratio is interpreted correctly, identify areas that require further investigation. Ratio analysis can reveal important relationships and basis for comparison in expressing conditions and trends that are difficult to detect by examining each component that forms the ratio (Subramanyam, 2014).

PT. LCII aims to collect wood raw materials needed by the furniture industry directly from its source. Considering that raw materials in the wood furniture industry play an important role in running their business, so investment is needed that can support the raw materials, which is certain to always be available.

Conditions for the availability of raw materials which are natural products and their availability depend on nature, so many things need to be considered in processing them. Some things that are of concern to PT. LCII in collecting wood raw materials, namely source, location, purchase price, competitors, selling price, and company capacity.

Judging from the above report PT. LCII in the period 2013 to 2017 made changes and increased production and exports. In 2017 experiencing very bad conditions, the difficulty of getting wood materials due to new competitors who bought at a price higher 30%. This price increase and decreasing demands on the quality of materials needed made PT. LCII cannot compete with outside competitors.

The decrease experienced by the company in 2017 is almost the same condition as in 2013 and 2014. In 2013 and 2014 the source of raw materials was obtained easily and in large quantities. This is what has attracted the attention of researchers to look for other causes.

LITERATURE REVIEW

2.1 Economic Value Added (EVA)

Economic value added (EVA) according to Iramani and Febrian (2005) is a method of financial management to measure economic profits in a company which states that welfare can only be created when the company is able to meet all operating costs and capital costs. According to Tandelilin, EVA is a measure of the success of company management in increasing added value for the company. The assumption is that if management's performance is good/effective (seen from the value added given), it will be reflected in an increase in the company's stock price.

EVA improvement and value creation can occur when a company can achieve the following (Young and O'Bryne, 2001):

- a) Increase returns on existing capital. If NOPAT increases while WACC and fixed capital are invested, EVA will increase
- b) Favorable growth, value is created when NOPAT growth exceeds WACC
- c) Release of assets that destroy value. If the reduction in capital compensates more by increasing the difference between NOPAT and WACC, EVA increases.
- d) A longer period in which NOPAT is expected to be higher than the WACC.
- e) Reduction of capital costs.

2.2 Financial Performance

Financial Performance is a picture of the achievement of the company's success can be interpreted as the results that have been achieved for various activities that have been carried out. It can be explained that financial performance is an analysis conducted to see the extent to which a company has carried out using the rules of

financial implementation properly and correctly (Fahmi, 2012).

The objectives of evaluating financial performance are (Munawir, 2012) as follows:

a) Know the Liquidity Level

Liquidity provides the company's ability to meet financial obligations that must be settled when the time is billed.

b) Know the Level of Solvency

Solvency tells the company's ability to meet financial obligations if the company is liquidated, both short-term or long-term financial.

c) Know the Profitability

Profitability or profitability tells the company's ability to make a profit for a certain period.

d) Know the Stability Level

Stability tells the company's ability to conduct business in a stable manner measured by considering the company's ability to pay its debts and pay interest on debt on time.

2.3 Return on Assets (ROA)

ROA is used to measure the company's ability to use the assets it has in generating net profit. The greater the ROA, it can mean the company is able to maximize the efficiency of the company's assets well.

2.4 Current Ratio (CR)

This ratio recognizes the ability of current assets to settle current liabilities (short-term debt). The greater the ratio of current assets, the higher the company's ability to cover short-term debt obligations. The high current ratio indicates excess cash with two possible benefits or as a result of not being used effectively.

2.5 Debt Equity Ratio (DER)

DER is a financial ratio that shows the relative proportion between equity and debt used to finance company assets.

2.6 Total Assets Turnover Ratio (TATO)

TATO is an activity ratio that measures the efficient use of company assets against product sales. This ratio is a measurement of a company's ability to generate sales from its total assets by comparing net sales with average total assets.

RESEARCH METHODS

3.1 Research Location

The research location is the place where the research is carried out. The determination of the research location is a very important stage because with the determination of the research location, it makes it easier for researchers to conduct research with the objects and objectives taken.

This research was conducted at PT. LC Industry Indonesia which is located in Jalan Limau Mungkur No. 1 Hamlet V Desa Bangun Rejo, Tanjung Morawa, Deli Serdang, Sumatra Utara.

3.2 Types of Research

This type of research in this study is quantitative research, referred to as a positivistic research method because it is based on the philosophy of positivism, new science and technology called as a quantitative research method because the research data in the form of numbers and analysis using statistics (Sugiyono, 2014).

3.3 Research Population and Samples

The population in this study is the financial statements obtained from PT. Lacquercraft Industry Indonesia. The sample of this study was taken from the company's financial statements for five years, namely 60 months with a period of 2013 to 2017.

3.4 Data Analysis Methods

In this study using the correlation method, a method used to see the strengths of the independent variables with dependent (Sarwono, 2006).

Correlational research is a study conducted with the aim of detecting the extent to which

variations in a factor are related (correlated) with one or more other factors based on the correlation coefficient (Sinulingga, 2016). In general, correlation analysis is a statistical method used to find out and measure the relationship between two variables. Correlation is also a term that can describe the linear relationship between the dependent variable and the independent variable.

To calculate the correlation coefficient there are several ways, namely:

- a) Pearson Correlation Coefficient Test
- b) Test Spearman Rank Correlation Coefficient (Ordinal)

RESULT

4.1 Correlation Testing

Judging from the normality test results of all the above variables, EVA, ROA, and TATO are normally distributed while CR and DER are not normally distributed then it can be concluded that the correlation analysis method used is EVA against ROA and EVA against TATO using the bivariate pearson correlation test and EVA against CR and EVA against DER uses a spearman rank correlation test.

Correlation between EVA and ROA

Table 1. Correlation of EVA and ROA

| Correlations | | | |
|--------------|---------------------|-------|-------|
| | | EVA | ROA |
| EVA | Pearson Correlation | 1 | -.006 |
| | Sig. (2-tailed) | | .966 |
| | N | 60 | 60 |
| ROA | Pearson Correlation | -.006 | 1 |
| | Sig. (2-tailed) | .966 | |
| | N | 60 | 60 |

Judging from the Pearson test results above can be explained as follows:

- a) Based on the significant value of sig. (2-tailed) from the output table above is 0.966 > 0.05 which means it can be concluded that there is no correlation between EVA and ROA.
- b) Based on the value of r arithmetic (pearson correlation) known r value for the relationship between EVA and ROA is -0.006 < from r table that is equal to 0.25, it can be concluded there is no relationship or correlation between EVA and ROA.

c) From the table above there is no sign * this indicates there is no correlation between EVA and ROA.

Correlation between EVA and CR

Table 2. Correlation of EVA and CR

| Correlations | | | | |
|----------------|-----|-------------------------|--------|--------|
| | | | EVA | CR |
| Spearman's rho | EVA | Correlation Coefficient | 1.000 | -.319* |
| | | Sig. (2-tailed) | . | .013 |
| | | N | 60 | 60 |
| | CR | Correlation Coefficient | -.319* | 1.000 |
| | | Sig. (2-tailed) | .013 | . |
| | | N | 60 | 60 |

*. Correlation is significant at the 0.05 level (2-tailed).

Judging from the results of the Spearman rank correlation test that is the level of strength of the relationship, obtained by 0.319 *. This means that the level of strength of the relationship between EVA and CR variables is low and * means that the correlation is significant at a significant number of 0.013. The coefficient number above is negative so the relationship between the two variables is not in the same direction so it can be interpreted if CR increases EVA decreases. Significant value (2-tailed) of 0.013, because the value of sig < 0.05 smaller then it means that there is a significant relationship.

Correlation between EVA and DER

Table 3. Correlation of EVA and DER

| Correlations | | | | |
|----------------|-----|-------------------------|--------|--------|
| | | | EVA | DER |
| Spearman's rho | EVA | Correlation Coefficient | 1.000 | .368** |
| | | Sig. (2-tailed) | . | .004 |
| | | N | 60 | 60 |
| | DER | Correlation Coefficient | .368** | 1.000 |
| | | Sig. (2-tailed) | .004 | . |
| | | N | 60 | 60 |

** Correlation is significant at the 0.01 level (2-tailed).

Judging from the results of the Spearman rank correlation test that is the level of strength of the relationship, obtained by 0.368 **. This means that the level of strength of the relationship between EVA and DER variables is low and ** means that the correlation is significant at a significant value of 0.001. The coefficient number above is positive so that the relationship between the two variables is unidirectional and thus can be interpreted if the DER decreases EVA decreases.

Significant value (2-tailed) of 0.001, because the value of sig < .01 smaller then it means that there is a significant relationship.

Correlation between EVA and TATO

Table 4. Correlation of EVA and TATO

| Correlations | | | |
|--------------|---------------------|------|------|
| | | EVA | TATO |
| EVA | Pearson Correlation | 1 | .108 |
| | Sig. (2-tailed) | | .413 |
| | N | 60 | 60 |
| TATO | Pearson Correlation | .108 | 1 |
| | Sig. (2-tailed) | .413 | |
| | N | 60 | 60 |

Judging from the Pearson test results above can be explained as follows:

- a) Based on the significant value of sig. (2-tailed) from the above output table is 0.413 > 0.05 which means it can be concluded that there is no correlation between EVA and TATO.
- b) Based on the value of r arithmetic known r count for the relationship between EVA and TATO is equal to 0.108 < from r table that is equal to 0.25, it can be concluded that there is no correlation between EVA and TATO.
- c) From the table above there is no sign * this indicates there is no correlation between EVA and TATO.

CONCLUSION AND SUGGESTION

CONCLUSION

From the discussion described in the previous chapter, the following conclusions can be drawn:

- a) EVA is negatively related to no significant ROA so H_0 is accepted. This shows that increasingly EVA is not related to ROA in the financial performance of 2013-2017.
- b) EVA is significantly negatively related to CR so H_1 is accepted. This shows that the more EVA increases CR decreases in the financial performance of 2013-2017.
- c) EVE is positively related significantly to DER so that H_0 is accepted. This shows increasingly EVA increased DER increased in the financial performance of 2013-2017.
- d) EVA is not positively related significantly to TATO so H_0 is accepted. This shows that the increase in EVA is not related to TATO in the financial performance of 2013-2017.

SUGGESTION

Based on the conclusions above, suggestions can be given to the company and further research:

- a) Companies must pay attention to the sale value at a cost from time to time. The need to review the sale value once or twice a year, because operating costs are influenced by the price of raw materials and labor salaries.
- b) The company must start paying attention to the amount of raw material availability considering the raw material readiness process. From the results of this study, it can be seen that financial conditions in 2015 can be a guide in determining the amount of raw materials and provide a reasonable limit for each raw material and the use of supporting materials.
- c) The company must control its current debt with the sale value while maximizing production output to reduce costs.
- d) The company must be aware that too much raw material is stored that will cause funds that are unemployed too large. And reprocessing costs such as re-drying because the water content in wood must be reduced to a standard figure.

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