

Analysis of The Economic Value Added (EVA) Method As A Measurement of Financial Performance at PT X Indonesia

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Abstract

Performance appraisal of a company is very important and the appraisal process must be in line with effectiveness and efficiency in achieving competitive advantage in the business world. The concept of Economic Value Added (EVA) as an alternative to value-based performance measurement is a measure of the economic added value generated by a company as a result of management activities or strategies. With EVA, company owners will only value activities that add value and discard activities that damage or reduce the value of the company as a whole. PT X Indonesia is engaged in Warehousing and Distribution, becoming a promising business in the development of Distribution and Warehousing in Indonesia. The data analysis method in this study is quantitative analysis based on secondary data from the financial statements of PT X. The population of this study is a logistics service provider company at PT X Indonesia for the 2018-2020 financial statements. The results of the calculation of economic value added in 2018, 2019, 2020 based on the audited financial statements of PT X Indonesia show an EVA value below 0 or negative EVA for 2020, but for 2018 and 2019 is positive EVA. This results in the process of adding to the company's economic value not occurring, which means that the profits generated each year cannot meet the expectations of creditors and company shareholders (investors) for 2020.

Keywords: Economic Added Value, Financial Performance

Abstrak

Penilaian kinerja suatu perusahaan sangatlah penting dan proses penilaian tersebut harus sejalan dengan efektifitas dan efisiensi dalam mencapai keunggulan kompetitif dalam dunia bisnis. Konsep Economic Value Added (EVA) sebagai alternatif pengukuran kinerja berbasis nilai adalah ukuran nilai tambah ekonomi yang dihasilkan oleh perusahaan sebagai hasil dari aktivitas atau strategi manajemen. Dengan EVA, pemilik perusahaan hanya akan menghargai aktivitas yang menambah nilai dan membuang aktivitas yang merusak atau mengurangi nilai perusahaan secara keseluruhan. PT X Indonesia bergerak di bidang Pergudangan dan Distribusi, menjadi bisnis yang menjanjikan dalam perkembangan Distribusi dan Pergudangan di Indonesia. Metode analisis data dalam penelitian ini adalah analisis kuantitatif berdasarkan data sekunder dari laporan keuangan PT X. Populasi penelitian ini adalah perusahaan penyedia jasa logistik di PT X Indonesia untuk laporan keuangan tahun 2018-2020. Hasil perhitungan nilai tambah ekonomi tahun 2018, 2019, 2020 berdasarkan laporan keuangan PT X Indonesia audited menunjukkan nilai EVA di bawah 0 atau EVA negatif untuk tahun 2020, namun untuk tahun 2018 dan 2019 adalah EVA positif. Hal ini mengakibatkan proses penambahan nilai ekonomi perusahaan tidak terjadi, yang berarti laba yang dihasilkan setiap tahunnya tidak dapat memenuhi harapan kreditur dan pemegang saham perusahaan (investor) untuk tahun 2020.

Kata kunci: Nilai Tambah Ekonomi, Kinerja Keuangan

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INTRODUCTION

Performance appraisal of a company is very important and the appraisal process must be in line with effectiveness and efficiency in achieving competitive advantage in the business world. Only companies that have superior performance can exist and survive in business competition. From the aspect of financing progress in the money market (financial market) and capital market (capital market) it is expected to evaluate the validity of the company's performance. Appropriate performance appraisal supports good and accountable decision-making and provides long-term prospective guarantees for the company.

A new approach in assessing a company's financial performance is known as Economic Value Added (EVA). The EVA model comes from the concept of the cost of capital, namely the risks faced by companies in making investments.

The concept of Economic Value Added (EVA) as an alternative to performance measurement based on value is a measure of the economic added value generated by the company as a result of management activities or strategies. With EVA, the company owner will only reward activities that add value and discard activities that damage or reduce the overall value of the company.

EVA is an approach in assessing company performance by taking into account the expectations of funders or investors fairly. EVA is the profit left after deducting the cost of capital invested to generate that profit. A positive EVA value means that the company's management has created value. Conversely, if the EVA value is negative, it means that there is no economic added value to the company. (Susmonowati, 2018)

PT X Indonesia was established in 2012 is located in Jakarta. PT X Indonesia is a Solution Provider that operates independently to maximize logistics business opportunities in Indonesia, while optimizing the network in Indonesia with 4,367 branch offices and 33,000 sales points. PT X Indonesia is engaged in

warehousing and distribution, becoming a promising business in the development of distribution and warehousing in Indonesia. So the title of this research is Economic Value Added (EVA) Method Analysis as a Measurement of Financial Performance at PT X Indonesia. Based on the background described above, the formulation of the problem for this research is to see the calculation of economic value added on financial performance at PT X Indonesia.

Economic Value Added (EVA)

Young & Stephen F. O'Byrne argued that "EVA measures the difference in the financial sense between the company's return on capital and the cost of capital. EVA is an effective communication tool both for value creation that can be reached by managers which ultimately drives company performance and for connecting with capital markets. EVA is able to calculate True Economic Profit of a company in a certain year and is very different when compared to accounting profit" (S David Young, Stephen F O'byrne, David S Young, S Young, 2000).

Calculation of Economic Value Added (EVA)

Young & O'Byrne's definition of Economic Value Added is EVA equal to the difference between the company's operating profit after tax (NOPAT) and the cost of capital (S David Young, Stephen F O'byrne, David S Young, S Young, 2000). The cost of capital equals the company's invested capital multiplied by the weighted average cost of capital.

The steps for calculating Economic Value Added according to Young & O'Byrne:

$$EVA = NOPAT - WACC \times \text{Invested Capital}$$

EVA Components	Calculation Formula for Each Component
WACC	$(k_e \times W_e) + (k_d (1-t))$
NOPAT	$\frac{EBIT (1-Tax)}{W_d}$
Invested Capital	Long Tem Liability + Shareholder's Equity
EVA	

	NOPAT – (WACC x Invested Capital)
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Net Operating After Tax is profit obtained from change operations after tax but before financing costs and non-cash bookkeeping such as depreciation costs. Thus NOPAT can also be interpreted as the amount of profit available to provide cash returns to providers of funds for stock capital. (Amin Widjaya Tunggal, 2001).

NOPAT is profit from the company's operations after deducting taxes. (S David Young, Stephen F O'byrne, David S Young, S Young, 2000). The Calculation formula is:

$$\text{NOPAT} = \text{EBITDA} - \text{depreciation Cost and amortitation cost} - \text{tax}$$

Category Performance with the EVA Method

The results of evaluating the performance of a company using the Economic Value Added measure can be grouped into 3 different categories:

1. EVA Value > 0 or EVA is Positive
In this position, it means that the company's management has succeeded in creating economic added value for the company.
2. EVA Value = 0
This position means that the company's management is at the breakeven point. The company did not decline but at the same time did not progress.
3. EVA Valeu < 0 or EVA is Negative
In this position, it means that there is no process of adding economic value to the company, in the sense that the profits generated cannot meet the expectations of creditors and company shareholders (investors). (Rudianto, 2013)

RESEARCH METHODOLOGY

The research method used is a case study by conducting an Economic Value Added (EVA) analysis of the 2019-2020 financial reports. This research was conducted at PT X Indonesia. Limiting the research focus is very important and closely related to the problem and data collected, where the research focus is part of the problemsolving step. In order for this research to

be more focused and easier to search for data, the focus of the research is determined first. The focus in this research is to analyze the financial performance of PT. X Indonesia using the Economic Value Added (EVA) method.

The research phase starts from a field study, by observing the object to be studied to obtain information about the problem. After observing the object, then identifying the problems that exist within the company, especially those related to the company's financial performance. After the problem is identified, then collect data or sources related to the company's financial performance for later analysis using the economic value added method. The purpose of this study is to prove from the data obtained, especially financial performance with alternative performance calculations using the economic value added method. The data taken is secondary data in the form of financial report data from the company. After the data related to the company's performance assessment has been collected, then the data is processed to become the value of the EVA formulation results. To complete the research, a non-statistical analysis phase was then carried out, in the form of a qualitative analysis based on its substance. Finally, general conclusions were drawn by focusing on the problems discussed, and suggestions were also made for further attention by future researchers regarding the limitations of this study.

The population in this study are companies engaged in the logistics services sector, namely PT X Indonesia for financial reports from 2018 to 2020. Sampling in this study was carried out using purposive sampling, namely a sampling technique with certain considerations. (Sugiyono, 2018). The samples taken in this study are PT X Indonesia's financial reports from 2018 to 2020.

The method of data analysis in this study is quantitative analysis using secondary data from PT X Indonesia's financial statements. The analysis is carried out by processing the financial data through the following stages:

1. Searching for data in the financial reports of PT X Indonesia from 2018 to 2020.
2. Calculating and analyzing Economic Value Added (EVA)
3. Make conclusions from data analysis.

RESULTS AND DISCUSSION

The summary of PT X Indonesia's financial report data for 2018, 2019 and 2020 is as follows

ASET	2020	2019	2018
CURRENT ASSETS	275.719.632.348	353.811.557.033	173.284.938.669
NON CURRENT ASSETS	165.994.553.782	187.508.465.185	139.859.641.787
TOTAL ASET	441.714.186.130	541.320.022.218	313.144.580.456

LIABILITIES AND EQUITY

CURRENT LIABILITIES	270.230.909.675	346.487.360.800	173.339.788.012
NON CURRENT LIABILITIES	30.045.756.482	51.608.809.803	6.554.768.845
EQUITY	141.437.519.973	143.223.851.615	133.260.024.599
TOTAL LIABILITIES AND EQUITY	441.714.186.130	541.320.022.218	313.154.581.456

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

NET SALES	678.001.013.001	659.096.715.217	524.211.693.772
COST OF SALES	- 581.061.843.446	- 564.630.907.522	- 435.574.158.598
GROSS PROFIT	96.939.169.555	94.465.807.695	88.637.535.174
SELLING EXPENSE & GENERAL AND ADM EXPENSE	- 74.759.943.620	- 74.036.542.674	- 76.671.916.156
FINANCE INCOME - NET	391.272.467	147.799.320	96.527.531
FINANCE EXPENSE - NET	- 16.894.902.744	- 12.099.628.083	- 4.643.887.632
LOSS ON FOREIGN EXCHANGE - NET	- 742.607.560	- 251.404.781	- 78.112.775
OPERATING INCOME	4.932.988.098	8.226.031.477	7.340.146.142
OTHER INCOME - NET	3.622.616.872	1.354.153.098	402.793.490
PROFIT BEFORE INCOME TAX	8.555.604.970	9.580.184.575	7.742.939.632
CURRENT TAX	-	-	-
DEFERRED TAX	- 3.229.964.079	476.678.690	7.968.540.250
NET INCOME FOR THE YEAR	5.325.640.891	10.056.863.265	15.711.479.882
OTHER COMPREHENSIVE INCOME	- 115.035.960	- 105.536.250	66.621.000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5.210.604.931	9.951.327.015	15.778.100.882

Source: Financial Report of PT X Indonesia

To determine the financial performance of PT X Indonesia using the Economic Value Added (EVA) method, EVA is defined as the difference between the company's operating profit after tax (NOPAT) and the cost of capital (S David Young, Stephen F O'byrne, David S Young, S

Young, 2000). The cost of capital is equal to the company's invested capital multiplied by the weighted average cost of capital.

Below is the Economic Value Added in 2018 with the following details:

Formula for Net Operating After Tax (NOPAT)			
NOPAT =	EBIT x (1-Tax)		
	Profit or Loss	Interest expense	Tax
	15.711.479.882	+ 4.643.887.632	-
NOPAT	20.355.367.514		-
NOPAT	20.355.367.514		

Formula for WACC = (D x Rd) (1-tax) + (E x Re)			
Capital Level D =	Total Liabilities	/ (Total Liabilities	+ Equity)
	179.894.556.857	179.894.556.857	133.260.024.599
	179.894.556.857	313.154.581.456	
	0,574459285 x	100%	
	57,45%		
Capital and Equity E =	Interest Expense	/ (Liabilities	+ Equity)
	4.643.887.632	179.894.556.857	133.260.024.599
	4.643.887.632	313.154.581.456	
	0,014829378 x	100%	
	1,48%		
Cost of Debt Rd =	Interest Expense	/ Total Long Term Liability	
	4.643.887.632	48.264.225.588 x	100%
	0,096218008 x	100%	
	9,62%		
Cost of Equity (Re) =	(Net Profit - Tax)	/ Total Equity	
	15.711.479.882 -	- /	133.260.024.599
	15.711.479.882	133.260.024.599 x	100%
	11,79%		
Tax=	Tax	/ Profit Before Income Tax	
	-	7.742.939.632 x	100%
	0,00%		
WACC =	(D x Rd) (1-tax) + (E x Re)		
WACC =	5,70%		
	0,0570		

Formula for IC			
Invested Capital (IC) =	(Total Liabilities	+ Equity)	- Current Liabilities
	179.894.556.857	133.260.024.599	173.339.788.012
	139.814.793.444		

Formula for Capital Charges			
Capital Charges (CC) =	WACC	x IC	
	0,0570	139.814.793.444	
	7.972.480.738		

EVA (Economic Value Added)			
EVA =	NOPAT	- Capital Charges	
	20.355.367.514	- 7.972.480.738	
	12.382.886.776		

The economic value added in 2018 was Rp 12,382,866,776.

Furthermore, the calculation of economic value added for 2019 is as follows:

Formula for Net Operating After Tax (NOPAT)			
NOPAT =	EBIT x (1-Tax)		
	Profit or Loss	Interest expense	Tax
	10.056.863.265	+	12.099.628.083
			-
NOPAT	22.156.491.348		-
NOPAT	22.156.491.348		
Formula for WACC = (D x Rd) (1-tax) + (E x Re)			
Capital Level D =	Total Liabilities	/ (Total Liabilities	+ Equity)
	398.096.170.603	398.096.170.603	143.223.851.615
	398.096.170.603	541.320.022.218	
	0,735417413	x	100%
	73,54%		
Capital and Equity E =	Interest Expense	/ (Liabilities	+ Equity)
	12.099.628.083	398.096.170.603	143.223.851.615
	12.099.628.083	541.320.022.218	
	0,022352079	x	100%
	2,24%		
Cost of Debt Rd =	Interest Expense	/ Total Long Term Liability	
	12.099.628.083	156.503.169.147	x 100%
	0,077312352	x	100%
	7,73%		
Cost of Equity (Re) =	(Net Profit	- Tax)	/ Total Equity
	10.056.863.265	-	- / 143.223.851.615
	10.056.863.265	143.223.851.615	x 100%
	7,02%		
Tax =	Tax	/ Profit Before Income Tax	
	-	7.742.939.632	x 100%
	0,00%		
WACC =	(D x Rd) (1-tax) + (E x Re)		
WACC =	5,84%		
	0,0584		
Formula for IC			
Invested Capital (IC) =	(Total Liabilities	+ Equity)	- Current Liabilities
	398.096.170.603	143.223.851.615	346.487.360.800
	194.832.661.418		
Formula for Capital Charges			
Capital Charges (CC) =	WACC	x IC	
	0,0584	194.832.661.418	
	11.383.363.918		
EVA (Economic Value Added)			
EVA =	NOPAT	- Capital Charges	
	22.156.491.348	- 11.383.363.918	
	10.773.127.430		

The Economic Value Added value in 2019 is Rp. 10,773,127,430

Furthermore, the calculation of economic value added for 2020 is as follows:

Formula for Net Operating After Tax (NOPAT)			
NOPAT =	EBIT x (1-Tax)		
	Profit or Loss	Interest expense	Tax
	5.325.640.891	+	16.894.902.744
			-
NOPAT	22.220.543.635		-
NOPAT	22.220.543.635		
Formula for WACC = (D x Rd) (1-tax) + (E x Re)			
Capital Level D =	Total Liabilities	/ (Total Liabilities	+ Equity)
	300.276.666.157	300.276.666.157	141.437.519.973
	300.276.666.157	441.714.186.130	
	0,679798557	x	100%
	67,98%		
Capital and Equity E =	Interest Expense	/ (Liabilities	+ Equity)
	16.894.902.744	300.276.666.157	141.437.519.973
	16.894.902.744	441.714.186.130	
	0,038248495	x	100%
	3,82%		
Cost of Debt Rd =	Interest Expense	/ Total Long Term Liability	
	16.894.902.744	83.849.476.452	x 100%
	0,201490856	x	100%
	20,15%		
Cost of Equity (Re) =	(Net Profit	- Tax)	/ Total Equity
	5.325.640.891	-	- / 141.437.519.973
	5.325.640.891	141.437.519.973	x 100%
	3,77%		
Tax=	Tax	/ Profit Before Income Tax	
	-	8.555.604.970	x 100%
	0,00%		
WACC =	(D x Rd) (1-tax) + (E x Re)		
WACC =	13,84%		
	0,1384		
Formula for IC			
Invested Capital (IC) =	(Total Liabilities	+ Equity)	- Current Liabilities
	300.276.666.157	141.437.519.973	270.230.909.675
	171.483.276.455		
Formula for Capital Charges			
Capital Charges (CC) =	WACC	x IC	
	0,1384	171.483.276.455	
	23.735.581.403		

EVA (Economic Value Added)		
EVA =	NOPAT	- Capital Charges
	22.220.543.635	- 23.735.581.403
	- 1.515.037.768	

The economic value added in 2020 is (Rp1,515,037,768).

WACC analysis

In 2018 to 2019 the WACC experienced a increase and in 2019 to 2020 it experienced a significant increase. This is due to fluctuations in the value of the cost of debt or also caused by an increase in the cost of equity. Overall, the WACC value is sufficient to affect the value of the size of the EVA value obtained by the company because WACC is a multiplier for capital (capital charges).

The WACC value obtained in 2018 was 5,70% when compared to 2019 which increased to 5,84%. This was caused by an increase in long-term debt. In 2020 it experienced a increase to 13.84% due to a decrease in long-term debt.

NOPAT analysis

NOPAT's fluctuating value is affected by the company's operating profit and tax expense. If the operating profit generates a higher value compared to the tax expense, then the NOPAT value will be high and will have a direct impact on the large EVA value. Conversely, if the operating profit generates a lower value than the tax expense, then the NOPAT value will be low and will result in a negative EVA value.

The NOPAT calculation in 2018 was IDR 20,355,367,514, which increased in 2019 to IDR 22,156,491,348. Furthermore, in 2020 it also increased to IDR 22,220,543,635. This is because from 2018 to 2020 the company's operating profit has decreased every year, besides that, interest expenses from 2018 also continue to increase until 2020.

Invested Capital Analysis

The value of invested capital greatly affects the value of EVA, this is because invested capital is a multiplier of WACC which generates capital

charges. With a large value of invested capital, the value of capital charges as a deductible from NOPAT will be even greater. The value of invested capital had increased in 2019, but then experienced a slight decrease in 2020. This was due to an increase in the amount of capital invested.

Analysis of Capital Charges

The value of capital charges as a deduction from NOPAT greatly affects the value of EVA. If the capital charges are greater than the NOPAT value, it will result in a negative EVA value. This is a sign that the value of the company is reduced as a result of the rate of return generated is lower than the rate of return demanded by investors. Conversely, if the value of capital charges is lower than the NOPAT value, it will produce a positive EVA value. This is a sign that the company's value exceeds the level of capital. The value of capital charges from 2018 to 2019 has increased significantly and in 2020 has experienced a slight increase.

Analysis of Economic Value Added

Calculation of economic value added for 2018, 2019 and 2020 can be seen in the table below:

Year	EVA Values
2018	12.382.886.776
2019	10.773.127.430
2020	- 1.515.037.768

According to Rudianto (2013), the results of a company's performance assessment using the Economic Value Added measure can be grouped into 3 different categories, namely as follows.

1. EVA value > 0 or EVA is positive

In this position, it means that the company's management has succeeded in creating economic added value for the company.

2. EVA value = 0

In this position, it means that the company's management is in the break-even point. The company did not experience setbacks but at the same time did not progress economically.

3. EVA value < 0 or EVA is negative

In this position, it means that there is no process of adding economic value to the company, in the sense that the profit generated cannot meet the expectations of creditors and company shareholders (investors). (Rudianto, 2013)

The results of the economic value added calculation method during 2018, 2019, 2020 EVA value is below 0 or EVA is negative for 2020, but for 2018 and 2019 EVA value is positive. This shows that there is no process of adding economic value to the company and the profits generated each year cannot meet the expectations of investors in 2020.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of data collection, data processing and analysis as described above, it can be concluded that every year the company generates a declining net profit. The results of calculations using the economic value added method during 2018, 2019, and 2020 PT X Indonesia resulted in an EVA value below 0 or a negative EVA for 2020, but for 2018 and 2019 EVA value is positive. This shows that there is no process of adding economic value to the company and the profits generated each year cannot meet the expectations of creditors and company shareholders (investors) for 2020.

To be able to increase the confidence of creditors and investors, the company must continue to strive to improve its performance, especially financial performance which is marked by increased profits so that it can produce a positive EVA value for the next year.

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