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The effect of economic value added and market value added on bank stock returns

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Abstract

This research aimed to analyze the influence of economic value added and market value added on stock returns in IDX30 banking companies on the IDX for the 2018-2022 period. This research is a quantitative descriptive research with descriptive statistical analysis by using panel data, classical assumption tests and statistical analysis through E-Views version 10. The results showed that economic value added has a positive effect on bank stock returns and market value added has no effect on bank stock returns.

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1. Introduction

Investment is a form of investing in company or individual assets or funds for a certain period of time to achieve higher returns in the future. Meanwhile, the capital market is an activity in carrying out buying and selling transactions of securities or securities between investors, issuing companies and other capital market players. The better the capital market, the more companies will enter the capital market, so that many investors invest by purchasing securities on the capital market. Securities that are generally bought and sold on the capital market are called investment instruments in the form of shares and bonds. The dominant investment instrument used in the Indonesian capital market is stock transactions. Shares are a valuable document that will display and serve as proof of ownership of a company.

Large companies usually declare themselves to be open companies and have open their shares to the public. This aims for the public to participate in investing their finances in the company and as a sign of share ownership in the company. If a company has declared that it is open or has gone public, the company must be more active and look more closely at the company's financial situation in the capital market.

The increasing investment trend in Indonesia cannot be separated from the millennial generation who is synonymous with technological advances and all available facilities. Being born in the age of technology makes it easier for millennials to gain knowledge in investing. The increase in investment interest among the younger generation is also influenced by social media. Some influencers often show off their investment profits, some even create content to encourage and teach others how to invest correctly.

When investing, an investor will obviously analyze a company that has financial reports that will later be profitable for investors. To determine the company's performance on stock returns, the investors really need knowledge about the actual performance conditions of banks in order to know the performance of financial ratios to make better investment decisions. This makes a company prepare its financial performance by using appropriate performance measurement tools. Measuring financial performance is important for a company to show how much revenue it can generate. High income greatly influences share prices and if the company's profits are high, the risks the company will face are also high, both from the company and investors.

A company is declared successful if it can provide positive value for investors in terms of stock returns. To determine how much value the company provides, there are new thoughts on calculating a company's profits so that an approach is created utilizing the latest methods to measure work results. A company that pays attention to the objectives of investors (investors, creditors), this measurement is called the economic value added (EVA) and market value added (MVA) methods.

Economic value added (EVA) is a financial management system for measuring economic profit in a company, which states that prosperity can only be created if the company is able to meet its operating and capital costs. The higher the EVA value, the higher the company's profit. This will attract investors to invest in the company. As the number of investors increases, share prices will rise, which is then followed by an increase in share returns through capital gains. As profits increase, the profits distributed to shareholders in the form of dividends will also increase. The higher the capital gains and dividends, the higher is the stock return.

Apart from the EVA method, there is another approach used to measure company performance which is based on market value, known as market value added (MVA). MVA calculates the difference between the market value of shares and the book value of shares. A positive MVA shows that the company has succeeded in providing added value to its shareholders. The higher the MVA value means the company has been able to maximize shareholder wealth as a result of good company performance and received a high response from the market. Then the share price will also be higher, so stock returns will increase. Thus, it can

be said that shareholder wealth will increase if the MVA value also increases through increasing capital gains and share prices. So the higher the capital gains and dividends, the more stock returns will increase.

Therefore, to determine whether the share returns produced by IDX30 banking companies on the IDX are of good value for investors, it is necessary to conduct an analysis based on the EVA and MVA methods to determine the company's performance in generating added value that will be provided to investors.

Previous research has stated whether there is an influence of EVA and MVA on Stock Returns. There is research that says EVA and MVA have no influence on stock returns, there is also research that explains that EVA and MVA have an effect on stock returns. Based on research conducted by Agrawal et al. (2019), Ismail (2023), Salman & Haq (2023), and Silalahi & Manullang (2021), it is stated that EVA has a positive and significant effect on stock returns. This showed that EVA has an effect on stock returns. Meanwhile, based on research conducted by Andrinaldo et al. (2020), Sunaryo (2019), and Zhang & Aboud (2019), it is stated that there is no significant influence between EVA on stock returns.

Meanwhile, based on research conducted by Amna (2020), Andrinaldo et al. (2020), and Salman & Haq (2023) which stated that MVA has a positive and significant effect on stock returns. This showed that MVA has an effect on stock returns. Meanwhile, based on research conducted by Mantisa & Tandika (2019) and Sunaryo (2019), it is stated that there is no significant influence between MVA and stock returns. Based on the aforementioned description, the researchers are interested in conducting further research.

2. Literature review and hypotheses development

2.1. Economic value added

According to Brigham and Houston (2018), EVA is the excess of net operating profit calculated after tax (NOPAT) over capital costs. A positive EVA indicates that the company has succeeded in creating value for the market and capital owners because the company can generate a higher rate of return as compared to the cost of capital, so that companies that make a profit will share some of their profits in the form of dividends to investors. The greater the profit the company earns, the greater the dividends investors will receive. The greater the capital gains and dividends, the more stock returns will increase.

2.2. Market value added

According to Brigham and Houston (2018), MVA is the difference in the price (value) of shares on the stock exchange over the quantity (amount) of equity value after being deposited and paid by investors. MVA is an instrument that is suitable for checking whether a company is successful in providing high returns for investors. The MVA limit according to Perbawa (2018) is the difference between the market value of a company's equity and the book value as presented in the balance sheet, the market value is calculated by multiplying the share price by the number of shares outstanding.

2.3. Stock returns

According to Hartono (2014) stock return is the difference between the selling price or current price and the purchase price or the beginning of the period. Thus, it can be concluded from the definition that stock returns are the reciprocity of investments made by investors or shareholders in the form of profits obtained from buying and selling shares on the capital market. A financial asset shows an investor's willingness to provide a certain amount of funds at this time to obtain a flow of funds in the future as compensation for the time factor during which the funds are invested and the risks borne. In the context of investment management,

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return or profit level is the reward obtained from investment.

2.4. Hypotheses development

Return has an important role in determining the value of an investment. According to Ansori (2015), returns can be an indicator of improving the welfare of investors, including shareholders. When a company wants to increase shareholder prosperity, the company needs to provide additional value. EVA is a performance measurement tool that shows a good measure of the extent to which the company has provided additional value to its shareholders. This added value occurs if the company earns a profit greater than the company's cost of capital. The higher the EVA value, the higher the company's profit. This will attract investors to invest in the company.

Based on research conducted by Muhammad et al. (2021), Rahman (2022), Salman & Haq (2023), and Silalahi & Manullang (2021), it is stated that EVA has a positive and significant effect on stock returns. This showed that EVA has an effect on stock returns. Meanwhile, based on research conducted by Andrinaldo et al. (2020) and Sunaryo (2019), it is stated that there is no significant influence between EVA on stock returns. Based on the aforementioned research, the following hypothesis were proposed:

H01: There is no significant influence of economic value added on stock returns
Ha1: There is a significant influence of economic value added on stock returns

MVA is a financial performance measurement that shows how much value is added to the cost of capital invested by investors in a company (Ramadhani & Sipayung, 2016). The higher the MVA value, the higher the share price, so the share return will increase. Thus, it can be said that shareholder wealth will increase if the MVA value also increases through increasing capital gains and share prices. So the higher the capital gains and dividends, the more stock returns will increase.

Based on research conducted by Andrinaldo et al. (2020), Salman & Haq (2023), and Rahman (2022) which stated that MVA has a positive and significant effect on stock returns. This showed that MVA has an effect on stock returns. Meanwhile, based on research conducted by Mantisa & Tandika (2019) and Sunaryo (2019), it is stated that there is no significant influence between MVA on stock returns. Based on the aforementioned research, the following hypothesis were proposed:

H02 : There is no significant influence of market value added on stock returns
Ha2: There is a significant influence of market value added on stock returns

3. Methodology

The method used in this research is quantitative research method. This method was chosen to look for the effect of the independent variables, namely economic value added and market value added, on the dependent variable, namely stock returns. Economic value added equals net operating profit after tax minus (weighted average cost of capital multiplied by invested capital). Market value added equals market capitalization minus shareholder’s equity. Stock return is the growth rate of annual stock price.

The research was conducted on IDX30 affiliated banking companies on the IDX for the 2018-2022 period. Documentation techniques were used to obtain data through secondary data taken on the official website of the Indonesia stock exchange (IDX). Specifically, data was collected from the financial reports of IDX30 affiliated banking companies on the IDX for the 2018-2022 period. The sample determination process used the purposive sampling method with predetermined criteria. The population taken was banking companies that were members of the

IDX30 on the Indonesia stock exchange, namely 7 companies and a sample of 4 companies that met the criteria.

4. Results

4.1. Descriptive statistics

The descriptive analysis consists of mean, maximum value, minimum value, and standard deviation obtained from each sample of banking companies listed on the IDX30 from 2018-2022 period (see Table 1). The data comprise as many as 4 banking companies and a total of 20 observations.

Tabel 1. Descriptive statistics

Variables	Obs	Mean	Max	Min	SD
Stock return	20	0.0701	0.4128	-0.2133	0.1685
EVA	20	3.62E+13	6.06E+13	1.31E+13	1.23E+13
MVA	20	1.37E+14	8.33E+14	-6.36E+13	2.73E+14

4.2. Multicollinearity test

Table 2 presents the results of the correlation analysis. These results present no multicollinearity and no correlation coefficient between variables with a value of more than 0.8. Thus, it can be concluded that there is no correlation between the independent variables.

Table 2. Correlation matrix

	EVA	MVA
EVA	1	
MVA	0.434***	1

***p<0.01 indicates statistical significance at the 1% level.

4.3. Results

After processing the data by using E-Views version 10, by carrying out the Hausman test, Chow test, and Lagrange multiplier test (LM-test) to get the most appropriate model. The results showed that the best model for this research is the fixed effect model. Then the classical assumption test was carried out. The results obtained were valid data and continued with statistical analysis tests. The influence of economic value added and market value added on bank stock returns is determined by carrying out the t test. The results are presented in Table 3 as below.

Table 3. Regression

Variables	Stock returns
Constant	-0.6003***
	(0.005)
EVA	1.93E-14***
	(0.002)
MVA	-2.05E-16
	(0.222)
F-stat	3.339**
	(0.034)
R-squared	0.543
Observations	20

***p<0.01, **p<0.05 indicate statistical significance at the 1%, 5% levels respectively.

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4.3.1. The effect of economic value added on bank stock returns

This research results showed that the economic value added (EVA) variable has a positive effect on bank stock returns. EVA has a value of t-stat 3.730 with a positive direction > t-table 2.1 and a significance value of 0.002 < 0.05. This means that EVA has a positive correlation and has a positive and significant effect on share returns, especially in banking companies that are members of the IDX30 on the Indonesia stock exchange for the 2018-2022 period.

EVA is a performance measurement tool that shows a good measure of the extent to which the company has provided additional value to shareholders. This added value occurs if the company earns a profit greater than the company's cost of capital. The higher the EVA value, the higher the company's profit. This will attract investors to invest in the company.

As the number of investors increases, share prices will rise, which is then followed by an increase in share returns through capital gains. As profits increase, the profits distributed to shareholders in the form of dividends will also increase. The higher the capital gains and dividends, the higher the stock returns. The results of this research were supported by Muhammad et al. (2021), Rahman (2022), Salman & Haq (2023) and Silalahi & Manullang (2021) which stated that EVA has a positive and significant effect on stock returns.

4.3.2. The effect of market value added on bank stock returns

The results of this research indicated that the MVA variable has no effect on bank stock returns. MVA has a value of t-stat -1.276 with a negative direction < t-table 2.1 and a significance value of 0.222 > 0.05. This means that MVA has a negative correlation and no significant on stock returns, especially in banking companies that are IDX30 members on the Indonesia stock exchange for the 2018-2022 period.

MVA is a financial performance measurement that shows how much value is added to the cost of capital invested by investors in a company (Ramadhani & Sipayung, 2016). The higher the MVA value, the higher the share price, so the share return will increase. Thus, it can be said that shareholder wealth will increase if the MVA value also increases through increasing capital gains and share prices. So the higher the capital gains and dividends, the more stock returns will increase.The results of this research are supported by Sunaryo (2019) and Mantisa & Tandika (2019) which stated that there is no significant influence between MVA and stock returns.

4.3.3. The effect of economic value added and market value added simultaneously on bank stock returns

The results of this research indicated that the variables EVA and MVA simultaneously have an effect on bank stock returns. It is known that the Prob (F-Statistic) significant number is 0.034. So it can be concluded that the significant number of 0.034 which is smaller than 0.05. This means that the EVA and MVA variables together (simultaneously) have a significant effect on stock returns.

EVA and MVA are used for measuring the work results of a company. If a company has an EVA rate or MVA rate above normal, the company will also receive high funding. It also affects the share rates. The company will also provide a rate of return on capital to investors. The results of this research were supported by Silalahi & Manullang (2021) which stated that there is significant simultaneous influence between EVA and MVA on stock returns.

5. Conclusion

This research was conducted to determine the effect of economic value added (EVA) and market value added (MVA) on stock returns in IDX30 incorporated banking companies on the Indonesia stock exchange for the 2018-2022 period. In this study, multiple panel data linear regression analysis was used. Based on the result, the conclusions from this research are as

follows: EVA has a positive and significant impact on bank stock returns and MVA has a negative and insignificant impact on bank stock returns. EVA and MVA simultaneously have significant impact on bank stock returns.

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