

## **EFFECT OF FINANCIAL PERFORMANCE ON THE SHARE PRICE OF RETAIL TRADING SUBSECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE**

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***Abstract** - Economic Value Added, Market Value Added, and Cash Value Added as a measure of the company's financial performance to assess whether financial performance has added value for companies and investors.*

*This research aims to test the effect of financial performance on the share price of retail trading subsectors listed on the Indonesia Stock Exchange. The population in the study was a retail trade subsector listed on the Indonesia Stock Exchange for the period 2015-2019 as many as 22 companies. The sample is determined based on the purpose sampling method, with the number of samples as many as 17 companies selected. The data used in this study is secondary data. Data collection techniques using secondary data obtained from the Indonesia Stock Exchange. This research uses multiple linear analysis methods.*

*The results of the study prove that Economic Value Added has no significant effect on the share price. Market Value Added has a positive effect on the share price. And Cash Value Added negatively affects the share price. Simultaneously Economic Value Added, Market Value Added, and Cash Value Added have a significant effect on the share price.*

*Keyword : Share Price, Economic Value Added, Market Value Added, and Cash Value Added.*

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investors. This study aims to test the effect of financial performance on the share price of retail trading subsector companies listed on the Indonesia Stock Exchange. The population in the study was a retail trading subsector listed on the Indonesia Stock Exchange for the period 2015-2019 as many as 22 companies. The sample is determined based on *purpose sampling method*, with the number of samples as many as 17 companies selected. The data used in this study is secondary data. Data collection techniques using secondary data obtained from the Indonesia Stock Exchange. This research uses multiple linear analysis methods.

The results prove that *Economic Value Added* has no significant effect on the share price. *Market Value Added* has a positive effect on the share price. And *Cash Value Added* has no effect on the share price. Simultaneously *Economic Value Added*, *Market Value Added*, and *Cash Value Added* have a significant effect on the share price.

Keywords: Stock Price, *Economic Value Added*, *Market Value Added*, and *Cash Value Added*.

## I. INTRODUCTION

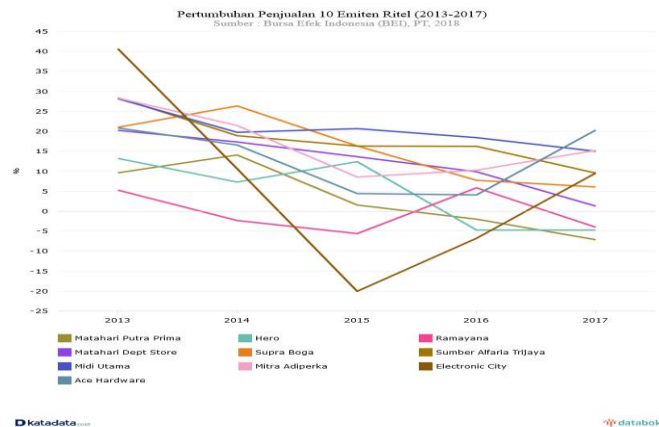
Capital market development affects national economic growth, the importance of the role of capital markets in boosting national economic growth as seen from capital market developments will have an effect on macro-economic indicators such as the exchange rate, inflation rate, and also economic growth measured based on gross domestic product rill ([www.kompasiana.com](http://www.kompasiana.com)). If in a company the development of shares will cause increasingly competitive competition between companies to be more effective. The company's ownership is intended from shares owned by investors. The share price reflects the financial performance of the company has a good prospect, then the shares will be attracted by investors and the price will increase and the performance of a company is said to be good enough if the rate of return and the level of profit generated in accordance with the risks borne.

The share price is the reason investors make investment decisions because the share price shows the achievements of the issuer. Stock price movements are in line with the performance of the issuer, if the issuer has a better performance then the luck obtained and generated from business operations is greater (Tandelilin, 2010:341). The share price at any time increases or decreases in no particular way due to several factors, namely: the fundamental condition of the issuer, the law of demand and supply, interest rates (SBI), foreign exchange, foreign funds on the exchange, the composite stock price index.

Retail companies have an important role in helping the Indonesian economy because the level of demand for products in the form of goods and services by consumers is very high, so there is a financial turnaround between product providers and consumers. According to BPS (Badan Pusat Statistik) Aprindo plays a strategic role in advancing modern retail and maintaining the efficiency of traditional retail distribution. Aprindo has an important role to play in working with the government in maintaining the security of goods distribution and price stability, especially vulnerable to price [fluctuations](#) ([www.republika.co.id](http://www.republika.co.id)).

In late 2014 to 2015 when inflation was at 7% - 8%, the retail industry began to dim. Even in 2017 the lowest growth did not reach 7% ([www.katadata.co.id](http://www.katadata.co.id)). In 2019, the future of the retail industry was again in the spotlight after PT. Hero Supermarket. Tbk announced that it will close six Giant supermarket outlets on July 28, 2019. Two years ago PT. Modern Sevel Indonesia (MSI), the manager of 7-Eleven in Indonesia even closed all existing outlets ([www.cnnindonesia.com](http://www.cnnindonesia.com)). In fact, the retail industry is one of the drivers to improve indonesia's economic industry.

Figure 1.1. Sales Growth of 10 issuers 2013-2017



Good company performance judging by the financial statements. Financial statements are a basis for measuring the company's performance, by analyzing financial statements into assessments for stakeholders in deciding on investments in the company. Stakeholders use financial statements to view the returns they make to the company and to make comparisons with other companies related to fertility rates.

For an investor or prospective investor, it is necessary to assess the financial performance of a company by measuring financial performance to measure the cost component of equity in a company using the methods of Economic Value Added, Market Value Added, and Cash Value Added through analysis of the company's financial statements. IMPCA 2017 shows that strong companies in indonesia are estimated to be 50%-70% of the market capitalization value of all shares listed in the IDX. In addition to having high liquidity and a large market capitalization value, kandidate companies also have good fundamentals and performance. The selection is conducted by identifying the best financial performance and being able to create added value for the economy. With EVA efforts to create corporate value and assess the company's financial performance fairly with a weighted measure of the existing initial capital structure (<https://swa.co.id>).

## I- The Foundation of Theory

### Share Price Understanding

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Shares are proof of capital or fund ownership in a company, paper clearly stated face value, company name and followed by rights and obligations described to each holder (Fahmi, 2015:67).

Stock prices can change up or down in a matter of time. The change is influenced by the demand and supply between stock buyers and sellers of shares. There are two kinds of analysis that are widely used to determine the true value of stocks, *namely fundamental security analysis* and *technical analysis*. Fundamental analysis uses fundamental data derived from the company's finances such as profit, dividends paid, sales and so on, while technical analysis uses market data from stocks such as the price and volume of frequency of interest rate transactions as well as the strength of the stock market in influencing the company's share price.

### Company's Financial Performance

The term performance *or performance*. Performance is an important thing that must be achieved by every company, because performance is a reflection of the company's ability to manage and optimize its resources. The company's financial performance becomes a benchmark for an investor whether the company is good at managing finances and generating high returns and is able to distribute dividends to investors.

According to Rudianto (2013:189) stated that the performance of keungan is the result or achievement that has been achieved by the management of the company in carrying out its function of managing the company's assets effectively during a certain period.

### Performance Measurement

The company's performance measurement includes the process of planning, controlling, and transactional processes for securities company managers, company executives, owners, exchange actors, creditors, and other stakeholders. The company's performance assessment by stakeholders is used as one of the basis for decision making related to the interests of the company.

### Economic Value Added

EVA is a financial management system to measure economic profit in a company that states that welfare can only be created if the company is able to meet *alloperating costs* and capital costs ( *cost of capital*)).

According to Rudianto (2013:217) EVA is a measurement of financial performance based on the value that reflects the absolute amount of the value of shareholders' wealth generated, either increasing or decreasing annually. EVA is a useful tool for choosing the most promising financial investments and at the same time as a suitable tool to control the company's operations.

EVA is the difference from net operating profit after tax minus capital costs. The company's capital cost is the average weighted capital cost *for debt* and *equity* used by the company. Therefore the company must calculate how much the debt costs and its own capital costs. The *Economic Value Added* is as follows (Young and O'Byrne:2001:39) :

$$EVA = NOPAT - (WACC \times Total\ Capital) \dots\dots\dots (2.1)$$

Description:

NOPAT = Net Operating Profit After Tax

WACC = Weighted Average Cost Capital

### **Value Added Market (*Market Value Added*)**

According to Wiagustini (2010:96) MVA is used to measure all the influence of managerial performance since the company was established until now. MVA is obtained by means of the difference between equity market value and equity capital paid up by shareholders. Equity market value is obtained by transferring the number of shares outstanding at the share price, while the paid-up equity capital of shareholders equals the total equity of the company or the value of the equity book.

The main objective of the company is to maximize the welfare of shareholders by maximizing the difference between *the market value of equity and the amount* invested by investors into the company. The difference is referred to as *Market Value Added (MVA)*. MVA is used to measure all the influence of managerial performance since the company was established until now. MVA is generated by managerial performance throughout the life of the company in *present value*. The company's market value is characterized by the acquisition of the value of the company valued on the stock market which is a multiplier between the share price and the number of shares available.

According to Brigham and Houston (2010:50) MVA calculations are as follows:

$$\text{MVA} = (\text{Stock Market Value} - \text{Stock Book Value}) \times \text{Number of Shares Outstanding}.. (2.2)$$

### **Cash Value Added**

According to Ottosson and Weissenrieder (1996:23) CVA is a measure of the company's performance that looks at how much money the company generates through operations. Generally cash value adds a high number that benefits both companies and investors, as it demonstrates the ability of companies to generate cash from one financial period to another.

CVA is the NOPAT achieved by the company plus depreciation minus the economic depreciation and minus the WACC. According to Boston Consulting Group in Hejazi and Malektaj (2007:23) CVA is calculated in two ways, namely by direct calculation method then:

$$\text{CVA} = \text{net cash flow} - \text{economic depreciation} - \text{capital charge} \dots\dots\dots (2.3)$$

Indirect calculations as follows:

$$\text{CVA} = (\text{CFROI} - \text{Cost capital}) \times \text{net worth of an investment}$$

CFROI is net cash flow after reduced depreciation and divided by the net value of investments.

### **Hypothesis Development**

Research hypotheses are temporary answers to possible research problems that still need to be sought for truth. Based on the relationship between the variables described above, the hypotheses can be formulated as follows:

H<sub>1</sub> = It is suspected that there *is an influence of Economic Value Added* on the share price of Retail Subsector Companies on the Indonesia Stock Exchange.

H<sub>2</sub> = It is suspected that there *is an influence of Market Value Added* on the share price of Retail Subsector Companies on the Indonesia Stock Exchange.

H = It is suspected that there *is an influence of Cash Value Added* on the share price of Retail Subsector Companies on the Indonesia Stock Exchange.

### III. RESEARCH METHODS

#### Population and Sample

The population taken in this study is a Retail Trade Subsector Company listed on the Indonesia Stock Exchange for the period 2015-2019 as many as 27 companies. In this study sampling using *purposive sampling techniques*. *Purposive sampling* is sampling using specific purpose-adjusted criteria from researchers.

**Table 3.1. Research Sample Criteria**

No	Description	Number of companies
1.	Retail Trading Subsector Company listed on Indonesia Stock Exchange	27
2.	Retail Trading Subsector Company listed on Indonesia Stock Exchange which is not included in the period 2015-2019	(5)
3.	Inconsistent Retail Trade Subsector Company publishes annual financial statements for the period 2015-2019	(5)
Number of Sample Data		17

### IV, I'm going to need Results of research and discussion

#### 1. The Effect of Economic *Value Added* on Stock Prices

The results of this study showed that EVA in Uji t had no significant effect on the share price, indicated by its significant value of  $0.2978 > 0.05$  with a negative coefficient. This means the size of the company's EVA does not affect the share price. Companies with large EVA small share prices can be high or low. Eva's shareholder-oriented approach relates to the demand for supply on the capital market. This is due to several internal and external factors of the company.

#### 2. Influence of Market *Value Added* to Share Price

Based on t Test results it is *known that Market Value Added* has a significant value of  $0.0000 < 0.05$  with a positive coefficient. This means that MVA has a positive and significant effect on the share price of retail trading subsector companies that are based on IDX for the period 2015-2019. It can be interpreted that the company that obtains a large MVA share price will be high, on the contrary the company that obtains a small MVA share price will be low. If the value of MVA shows a large value then the greater the added value for investors so that the share price will also increase, or vice versa if the MVA is negative then the company experienced a decrease in performance that affects the decline in the share price.

#### 3. Effect of Cash *Value Added* on Share Price

Based on the results of t Test it is known that Cash Value Added has a significant value of  $0.0649 < 0.05$  positive coefficient. This means that CVA has no significant positive effect on the share price of retail trading subsector companies listed on IDX for the period 2015-2019. This means the small amount of CVA value does not affect the share price. Based on the results of the study that the small amount of CVA value is not able to return the cash flow on this investment because the cost of operating capital is greater than the company's cash flow.

#### 4. Influence of Economic Value Added, Market Value Added, and Cash Value Added

Based on the results of the F Test known EVA, MVA, and CVA have a significant value of  $0.0000 < 0.05$ . This means that EVA, MVA, and CVA jointly (simultaneously) have a significant effect on the share price of retail trading subsector companies listed on the IDX for the period 2015-2019. This indicates that the company's financial performance is able to influence the increase and decrease in the company's share price.

### V. CONCLUSION

Based on the results of research and discussions conducted in this research on the impact of financial performance on the share price of retail trading subsector companies listed on the Indonesia Stock Exchange for the period 2015-2019, it can be concluded as follows:

1. *Economic Value Added* is an economic plus of the company's operational activities. In this study, the small amount of *Economic Value Added* had no significant effect on the share price of retail trading subsector companies listed in idx period 2015-2019. This means that the size of *economic value added* as a measure of financial performance does not make the company's share price high or low. Companies that *obtain Economic Value Added* besat or small may have a high or low share price. The results showed that the profit obtained by the company has not shown the return on capital used by the company to invest. EVA cannot be used as a benchmark for investors to invest their capital.
2. *Market Value Added* is the added value of the market resulting from the company's capital market activities. In this study, the size of *Market Value Added* had a significant positive effect on the share price of retail trading subsector companies listed on IDX for the period 2015-2019. It can be interpreted as the size of Market Value Added as a measure of financial performance makes the company's share price high or low. Companies that acquire a small Market Value Added low share price, companies that acquire a small Market Value Added low share price. This indicates that companies that have a large profit resulting from investing in the capital market succeed in maximizing the wealth of shareholders. So MVA is the determining factor of the share price that is used as a benchmark for investors.
3. *Cash Value Added* is the added value of the company's cash flow activities. In this study, *Cash Value Added* did not have a positive effect on the share price of retail trading subsector companies listed in idx period 2015-2019. It can be interpreted that the small amount of *Cash Value Added* has no effect on the company's share price. This may be due to internal and external factors. Internal factors if high cash is used to finance financial expenses, debt and others means the company is not focused on creating a high share price. External factors are from investor speculation in determining investment into the company.

### Advice

For the next researcher if you want to develop this study it is recommended to give variations on the next study. As for some recommendations for further researchers:

1. For further research it is recommended to use research subjects in companies that have high profits over the last 5 years and in the selection of variables it is recommended to use several other methods such as FVA, REVA and others.
2. For retail trading subsector companies listed on the Indonesia Stock Exchange to pay more attention to the value of sales, liabilities, equity, net income and corporate flows because such value can affect the added value for shareholders.
3. For investors, this research is expected to help and provide information on the company's financial performance with measuring instruments EVA, MVA, CVA so that it can be a consideration for investors in making investments.





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