



The Effect of Financial Performance and Company Size on The Indonesian Sharia Stocks

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Abstract

There are new alternatives that measure performance based on value and are still rarely used specifically in stocks based on Islamic law. This study aims to find and obtain empirical evidence concerning the influence of Economic Value Added (EVA), Market Value Added (MVA), Financial Value Added (FVA) and the size of the company to the stock price of sharia companies listed in the Jakarta Islamic Index period 2014-2016. By using purposive sampling, obtained sample of 13 sharia stocks observed in annual period, hence obtained panel data as much as 39. Data analyzed by using multiple regression. The results showed that Market Value Added has a significant positive effect on stock prices. EVA, FVA, and firm size have no significant effect on stock prices.

Keywords: *Economic Value Added (EVA); Market Value Added (MVA); Financial Value Added (FVA); Jakarta Islamic Index (JII)*

1. Introduction

Capital market growth in Indonesia attracts companies to make the capital market as a source of working capital, business expansion, and product diversification. Companies prefer capital market as a means to obtain sources of funds in the development of the company. Many companies are interested for Initial Public Offering (IPO) on Indonesia Stock Exchange to sell the company's ownership to the public. These developments can be seen from the positive growth of Jakarta Composite Index in the last five years in the capital market statistics 2016. Capital market growth creates an exciting new alternative financial system that is capital market based on Islamic law called Sharia capital market [1]. Like conventional capital market in general, sharia-based capital market is an important component in an overall financial system [2]. Sharia-based capital markets have Islamic principles with the aim of equitable prosperity with justice on the transactions [3]. The principles of sharia are Islamic legal principles governing activities in the Capital Market based on the fatwa of the *Dewan Syariah Nasional (DSN)*, *Majelis Ulama Indonesia (MUI)* and not contrary to the Financial Service Authority Regulation [4]. Islamic principles such as caution, prohibited speculation or manipulation and do not contain or remove elements of *riba*, *gharar*, *maysir*, *risywah*, *gharar*, *maksiat*, and *dzalim* on each transaction [5].

The growth of sharia-based capital markets can be seen in the JII index which increased in 2014 until 2017 although it had a decline in 2015 to 2016. The growth of Islamic capital market based on Islamic Sharia is attracting potential investors to invest in obtaining expected

return on funds that implanted. This expected rate of return is considered in an investment decision. To consider an investment decision, an investor wants to know the financial situation in a company. Thus, measurements to analyze financial performance is required. The increase in stock prices in the capital market is the hope of companies with good financial performance [6].

To see a company already using and implementing good and correct financial regulations required an analysis of financial performance [7]. Abdullah, et al. [8] find the negative effect between the company's financial performance on the stock price. While Rakasetya, et al. [9], Tan and Syarif [10] find that the company's financial performance has a positive effect on stock prices. Companies whose financial performance is well managed will create a positive reputation for the company and is expected to increase the company's stock returns.

Company performance is calculated using the financial ratio. The calculation of performance appraisal using the financial ratio method is easy to do but has some disadvantages, among others, can not measure the company's performance of firm value. Financial ratios can only measure the level of profitability, liquidity, solvency, and activity. Therefore to complete the weakness of financial analysis is the concept of Economic Value Added (EVA), Market Value Added (MVA) and Financial Value Added (FVA). EVA can measure performance by paying attention to the expectations and interests of the fund provider, i.e. creditor and shareholder. Market Value Added calculates the market performance of a company that describes the company's capability of capital from investors [11]. In addition to EVA, there are tools to measure other performance that is Financial Value Added (FVA) which is still rarely used. FVA is a new method that takes into consideration the value of a firm's fixed assets in measuring the ability of a firm to generate net income in an enterprise [12]. This study calculates the financial performance based on the value measured by EVA, MVA, and FVA which are still rarely used specifically in sharia companies listed on the Indonesia Stock Exchange.

The size of a company can be measured using the amount of income, total assets, number of employees, and total capital. Setiyono and Amanah [13], Wijaya [14], Acheampong, et al. [15], Murniati [16] found that firm size had a positive effect on stock prices. This is reflected by the large total assets owned by the company can provide a positive signal to investors and potential investors that the company is in good condition [17].

Investors and potential investors will be attracted to reputable companies and good financial performance so that the company's stock price may increase. The price of fluctuating stocks is caused by daily demand and supply in Jakarta Automatic Trade (JAT). This study aims to analyze the effect of financial performance based on firm value measured by Economic Value Added, Market Value Added and Financial Value Added and the size of a company that will impact on stock price of a company in accordance with the principles of Islamic Sharia in Indonesia. Thus, this research can be a consideration of investors in making investment decisions in accordance with consider the value of the company and according to Islamic Shari'a. Companies can also create value added at the lowest possible cost.

2. Literature Review

2.1 Financial Performance and Hypothesis Development

Measuring company performance is needed to know the success of the company in maximizing shareholder wealth [18]. Performance measurement often uses easy financial ratio analysis methods in its inclusion as long as historical data is available. But the analysis of

financial ratios have a weakness that is because the past data used is accounting data in the form of estimates that can cause distortions that cause financial performance can't be measured accurately. The measurement focuses on the financing the company spends on. Alternatives of the measurement of performance is by Economic Value Added (EVA) [19], Market Value Added (MVA) [11], and Financial Value Added (FVA) [19].

2.1.1 Economic Value Added

In 1982 the company Stern Steward & Co. developed the method of Economic Value Added (EVA), which focused on perceptual changes in corporate profits [20]. This is a new method to translate the company's success. EVA explains the economic value-added of a company that encourages companies to create economic benefits with minimal expenditure. Lehn and Makhija [21], Machuga, et al. [22], Ahmed [23] find that EVA performance measurements are closely related to stock returns. EVA can complete financial ratio analysis because it can pay attention to fund provider's expectation (creditor & shareholder). So it can be seen how the actual cost is needed based on the use of the venture capital company. According to [24], Tunggal [25], EVA has several benefits, among others: (1) EVA can stand alone without comparing with other measures such as similar companies or analyze trends (2) Eva encourages companies to capital cost efficiency in investment. EVA is calculated by subtracting the operating profit after tax (Net Operating Profit After Tax or NOPAT) with the cost of capital (Cost Of Capital or COC). With the existence of EVA the company can make policy about capital structure and company and choose investment or project with low capital cost but have high rate of return and maximize company value.

H1: Economic Value Added (EVA) have a positive influence on stock price

2.1.2 Market Value Added (MVA)

To estimate companies that can create shareholder value added can be measured with Market Value Added [26]. MVA is the difference between the market value of the firm and the capital provided by the investor over a period. MVA is also connected to the value of EVA [11]. Market Value Added, or MVA indicates the market performance of a company. Performance in question is the level of ability of the company's capital owned by investors. The data used is stock price. The higher MVA value shows good performance because it can increase the value addition of capital from investor. The company succeeded in creating market value added for shareholders if the total market value of the company exceeds the amount of capital invested in it. If the invested capital is more than market value then, the company has destroyed shareholder value [24].

H2: Market Value Added (MVA) have a positive influence on stock price

2.1.3 Financial Value Added (FVA)

New methods that use this added value as well as EVA but pay more attention to the contribution of fixed assets in generating profits in the company [12]. Therefore, Financial Value Added (FVA) can be measured by Net Operating Profit After Tax (NOPAT) minus Equivalent Depreciation and Depreciation. A positive FVA calculation indicates that net operating profits and depreciation can cover equivalent depreciation. Companies that have added financial value will be able to increase the return on capital invested in the company so that it will be able to increase shareholder's wealth [19].

H3: Financial Value Added (FVA) have a positive influence on stock price

2.1.4 Company's Size

Hartono [27] said that the total assets can determine the size of a company according to the company's latest financial statements. The size of the firm is often seen in terms of the total assets, whereby the total assets of the company can reflect the position of the firm's position where investors and potential investors are more interested in firms with high or large total assets [14, 17]. The greater the market capitalization, sales, total assets, sales, log size, and market value of shares will be the size of a company [28]. The tendency of companies using foreign capital will be greater following the size of the company. This is caused by large companies will need a large amount of funds to support their operational activities, and one source of funds to fulfill it is to use foreign capital if equity is not sufficient for its working capital [29].

A large asset amount indicates that the company can generate greater profits and relatively more stable than companies with small total assets [13]. The financial condition of a company will be monitored by the public because the company must issue financial statements. Therefore, in the financial statements, companies will be more careful and contain information that is more informative and more transparent. The larger the size of a company has a higher profit quality because it has a lot of assets and productive.

H4: The size of the firm have a positive influence on stock price

3. Research Methodology

3.1 Data

This study uses secondary data types obtained from published sources and can be trusted. The required data is the annual financial report data of each sharia share listed Jakarta Islamic Index (JII) period 2014-2016. As for data source about financial report from idx.co.id website, Jakarta Islamic Index data obtained from idx.co.id.

3.2 Population and Sample

The population in this study uses Sharia stocks registered with the Financial Services Authority (OJK). Jakarta Islamic Index consists of 30 stocks of companies. However, not all those stocks will be used in this research sample. The sampling technique used is purposive sampling technique. The purposive sampling technique is a technique of determining the sample with the criteria determined according to the purpose of the research.

Table 1. Sampling Research

Description	
List of Companies registered in Jakarta Islamic Index	35
Consistent during the research period (2014-2016)	18
Not performing a corps action that causes a change in the nominal price of the shares (2014-2016)	15
Using IDR in Financial Statement	13
Total sample in the study	13

Source : idx.co.id, www.sahamok.com, processed

The number of observations in this study was 39 obtained from 13 times three years.

Table 2. The List of Company Sample

No	Code	Name of Company
1	AKRA	AKR CorporindoTbk
2	ASII	Astra Internasional Tbk
3	BSDE	Bumi Serpong Damai Tbk
4	INDF	Indofood Sukses Makmur Tbk
5	INTP	Indocement Tunggul Prakasa Tbk
6	KLBF	Kalbe Farma Tbk
7	LPKR	Lippo Karawaci Tbk
8	LSIP	PPLondon Sumatra IndonesiaTbk
9	SMGR	Semen Indonesia Tbk
10	SMRA	Summarecon Agung Tbk
11	TLKM	Telekomunikasi Indonesia Tbk
12	UNTR	United Tractors Tbk
13	UNVR	Unilever Indonesia Tbk

3.3 Definition of Operational Variables

3.3.1 Economic Value Added (EVA)

EVA calculated as follows:

$$EVA = NOPAT - COC$$

Whereas :

NOPAT = Net Operating Profit After Taxes

COC = Cost of Capital, obtain from Weighted Average Cost of Capital * Invested Capital

From the calculation will be obtained conclusion with interpretation of results as follows:

If $EVA > 0$ then there is economic value added for the company.

If $EVA < 0$ then there is no economic value added for the company.

If $EVA = 0$ indicates a position on the breakeven point because the profit is used to pay the liabilities to the funder, both creditor, and shareholder.

Where the calculation of variables using Ln because the nominal value is too large, avoid the occurrence of bias.

3.3.2 Market Value Added

MVA calculated by using formula as follows:

$$MVA = \text{equity market value} - \text{equity capital invested}$$

Where the calculation of variables using Ln because the nominal value is too large, and avoid the occurrence of bias.

3.3.3 Financial Value Added

Calculating Financial Value Added (FVA)

$$FVA = NOPAT - (ED - D)$$

Whereas:

NOPAT = Net Operating After Tax
 ED = Equivalent depreciation
 D = Depreciation

Interpretation of FVA measurement results can be explained as follows:
 If $FVA > 0$, indicates the occurrence of financial value added for the company.
 If $FVA < 0$, shows no financial value added for the company.
 If $FVA = 0$ this indicates a breakeven position.

Where the calculation of variables using Ln because the nominal value is too large, avoid the occurrence of bias and facilitate the calculation on SPSS.

3.3.4 Company Size

As for the size of the company that shows the size of the company can be seen from the size of capital used, total assets owned, or total sales obtained. Where the calculation of variables using Ln because the nominal value is too large, avoid the occurrence of bias and facilitate the calculation on SPSS.

3.4 Techniques of Analysis

Analysis method used to test the hypothesis is multiple regression analysis (multiple regression) that is to know the effect of change of independent variable to dependent either individually or collectively. The Multiple Linear Regression model used is:

$$\text{Price} = \alpha + \beta_1 \text{EVA} + \beta_2 \text{MVA} + \beta_3 \text{FVA} + \beta_4 \text{Company Size} + e$$

Price : Stock Price
 α : Constant
 $\beta_1 \beta_2 \beta_3$: Coefficient Variable
 EVA : Economic Value Added
 MVA : Market Value Added
 FVA : Financial Value Added
 Size : Company Size
 e : error

Classical assumption test will conducted before multiple regression analysis.

4. Result and Discussion

4.1 Result of Multiple Linear Regression Analysis

Based on data analysis conducted, there is no classical assumption violation in the model used in this study. Regression analysis results can be shown in Table 3. In the multiple regression analysis obtained the following formula:

Table 3. Multiple Regression Analysis Results

	Unstandardized Coefficient	Standardized Coefficient	t
Constant	-3.239000		-0.52
EVA	0.000349	0.004763	0.03
MVA	0.390847	0.427214	2.658**
FVA	0.018250	0.285709	1.56

Company Size	-0.026127	-0.020117	-0.14
R Square	0.351038		
F	4.598*		

* sig. 1%

** sig. 5%

Source : idx.co.id, processed

The F-statistic test is used to test the significant level of regression coefficient of independent variables simultaneously for the dependent. The table shows the result of F test statistic calculation at 4.598 with probability 0,004. For probabilities much smaller than 0.05, it means that EVA, MVA, FVA, and firm size have a rapid effect on stock prices. The number of Determinant Coefficient (R^2) is 0.351. The EVA, MVA, FVA, and Company Size to stock prices which is at 0.351 or 35.1%, while the remaining 64.9% is influenced by other variables which are not studied here.

4.2 Discussion

4.2.1 The Effect of Economic Value Added on Stock Price

The result of regression shows that there is no significant positive effect on stock price with coefficient value of 0.004 at t-value of 0.03 so H1 that stated Economic Value Added (EVA) have a positive influence on stock price is rejected. This finding does not support Gulo and Ermawati [11], Alverniatha and Dossugi [19]. Investors do not consider Economic Value Added specifically in doing their investment considerations. The high company can create value and save its cost of capital does not become the benchmark of investors in the consideration of its investment. Though this can be a comparison how much the company can create more economic value than similar companies.

4.2.2 The Effect of Market Value Added on Stock Price

Regression results indicate that Market Added Value has a significant positive relationship with coefficient value of 0.391 and t-value of 2.658 which is significant at 5% level. Hence H2 that stated Market Value Added (EVA) have a positive influence on stock price is accepted. This finding supports Gulo and Ermawati [11], Baum, et al. [26]. The higher the company can create Market Value Added then it can affect the high stock prices. Investors consider the Market Value Added to see how far a company can create a market value that benefits investors. Market value added also indicates investors who have interest in these shares in line with the growing stock price.

4.2.3 The Effect of Financial Value Added on Stock Price

The result of regression is FVA has no significant positive effect with coefficient of 0.0183 at t-value of 1.56 so that H3 that stated Financial Value Added (EVA) have a positive influence on stock price is rejected. This finding does not support Alverniatha and Dossugi [19], Machuga, et al. [22]. Companies with high FVA value are not necessarily interested for investors. Investors tend to use intrinsic value if they depend on fundamental analysis and long-term investors.

4.2.4 The Effect of Company Size on Stock Price

The result shows that the influence of firm size with stock price is negative with coefficient of -0.026127 and t-value of 0.14, which show there is no significant effect so that H4 that stated the size of the company have a positive influence on stock price is rejected. This finding show that firm size do not have any effect toward stock price. Bigger firm size does not reflected in its stock price because there are many factor such as nominal value, number of outstanding shares, book value and intrinsic value which may determine the stock price [30, 31].

5. Conclusion and Implication

This study aims to prove the EVA, MVA, FVA and the size of the company affecting the price of sharia shares listed in the Jakarta Islamic Index. Based on the data analysis and discussion described, the conclusions can be drawn as follows: MVA has a significant positive influence on stock prices. But EVA, FVA, and Corporate Size do not affect stock prices. EVA, MVA, FVA, and company size simultaneously provide a significant effect on stock prices. These findings can be attributed to signal theory that EVA, MVA, FVA, and company size information will be an important factor for investors to invest in sharia shares in JII. The coefficient of determination of regression equation is 35.1%. Future research may use other relevant variables that are not used in this study. Good Corporate Governance can be used as an independent or moderate variable. Due to sample limitations, further research should add more samples.

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