Financial Management Governance Effectivity on Economic Value Added

Ainun Jariah¹, Hesti Budiwati²
STIE Widya Gama Lumajang
anjar040820@gmail.com, hestibudiwati1404@gmail.com

ABSTRACT

Purpose: is to analyze and get empirical evidence of the effect of investment decisions, funding decisions, dividend policy, good corporate governance and profit management both partially and simultaneously on economic value added.

Design/methodology/approach: the method used is quantitative method with causality, survey and explanatory as well as predictive. The population in this research is manufacturing companies in Indonesia from various sectors of 2013-2017 and based on purposive sampling technique, the sample is 37 companies.

Findings: the result of the study shows that of the five predictor variables, the dividend policy is the only predictor variable that has effect on economic value added, while simultaneously all predictor variables are not able to affect the economic value added variable.

Research limitations/implications: the population of this study is manufacturing companies from various with different industries ratio.

Practical implications: to meet the economic value added value, the profit management (income smoothing) does not need to be implemented. For the investors to pay attention to the financial decisions of the companies.

Originality/value: is using the profit management, especially income smoothing action as a predictor variable on economic value added.

Paper type: Research paper.

Keyword: Dividend Policy, Economic Value Added, Funding Decisions, Good Corporate Governance, Investment Decisions, Profit Management.

Received: June 18th, 2021
Revised: July 13th, 2021
Published: July 31st, 2021

I. INTRODUCTION

Currently, the financial performance appraisal by using ratio analysis has several weaknesses and limitations. It is because only based on historical financial value data which appraisal does not consider the market value from the company assets and sometimes those financial data are not reflecting the real value (Warsono 2002). Therefore, tools are needed to analyze company financial statement, namely EVA (Economic Value Added) to meet all management desires and the funds provider for the company.

According to (Tunggal 2001), EVA is a financial management system to measure economic profits in a company which states that welfare can only be created if a company is able to fulfill all operations and capital costs. EVA shows good measure of how far a company has added value to the company owners. If the EVA value is positive, the operating profits after tax exceed the cost of capital that needed to make those profits and management action to add value to the shareholders.
This study aims to uncover several factors that able to affect the Economic Value Added. The predictor variables proposed that affect to Economic Value Added are: investing decisions, funding decisions, dividend policy, good corporate governance and profits management.

1. **Objective**
   The aims of this study is to analyze and get empirical evidence of the effect of investment decisions, funding decisions, dividend policy, good corporate governance and profit management both partially and simultaneously on economic value added.

2. **Hypothesis**
   The hypothesis of this study, as follows:
   - There are significant financial decisions, good corporate governance and profits management partially on economic value added.
   - There are significant financial decisions, good corporate governance and profits management simultaneously on economic value added.

**II. METHODOLOGY**

The method used is quantitative method with research objectives are explanatory research and prediction which explanatory research is a research that explains the causal relationship between one variable and another through hypothesis testing. Based on its character, this research is exploratory because further testing of a study.

**A. Population and Sampling Technique**

The population of this study is listed manufacturing companies in Indonesia Stock Exchange of 2013-2017. Sampling is done by purposive sampling method with the following criteria:
- Listed manufacturing companies in Indonesia Stock Exchange with minimum research period since 2011;
- Financial statements are using the same unit of money; and
- Companies that distribute cash dividends consecutively during the research period.

**III. RESULTS AND DISCUSSION**

1. **Data Collection Results**

   ![Figure 1. - Investment Decision Movement of 2013 – 2017](image1)

   ![Figure 2. - DER Movement of 2013 – 2017](image2)
2. Data Analysis Results
   a. Classical Assumption Testing Results
### Table 1. – Data Normality Test Result – Kolmogorov Smirnov Testing

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>Asymp. Sig. (2-tailed)</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.105</td>
<td>0.065</td>
<td>Normally distributed</td>
</tr>
</tbody>
</table>

### Table 2. – Multicollinearity Test Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Tolerance</th>
<th>Variance Inflation Factor (VIF)</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAP/BVA</td>
<td>0.99</td>
<td>1.009</td>
<td>Multicollinearity free</td>
</tr>
<tr>
<td>DER</td>
<td>0.97</td>
<td>1.002</td>
<td>Multicollinearity free</td>
</tr>
<tr>
<td>DY</td>
<td>0.97</td>
<td>1.025</td>
<td>Multicollinearity free</td>
</tr>
<tr>
<td>AUDIT COMIT TEE</td>
<td>0.96</td>
<td>1.035</td>
<td>Multicollinearity free</td>
</tr>
<tr>
<td>IS</td>
<td>0.98</td>
<td>1.015</td>
<td>Multicollinearity free</td>
</tr>
</tbody>
</table>

### Figure 7. – Heteroscedasticity Test Result

### Table 3. - Autocorrelation Test Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson</th>
<th>Ket erangan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Tidak terjadi gejala autokorelasi</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Financial Management Governance Effectivity on Economic Value Added

Ainun Jariah, Hesti Budiwati

Table 4. – Multiple Regression Analysis Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>B</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.00</td>
<td>83</td>
<td>0.83</td>
</tr>
<tr>
<td>CAP</td>
<td>0.01</td>
<td>2</td>
<td>0.01</td>
</tr>
<tr>
<td>DER</td>
<td>0.00</td>
<td>04</td>
<td>0.00</td>
</tr>
<tr>
<td>DY</td>
<td>0.36</td>
<td>65</td>
<td>0.36</td>
</tr>
<tr>
<td>AUDIT COMMITTEE</td>
<td>0.33</td>
<td>7</td>
<td>0.33</td>
</tr>
<tr>
<td>IS</td>
<td>0.00</td>
<td>8</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Regression equation is:
EVA = -0.083 + 0.012CAP – 0.004DER – 0.365DY + 0.337AUDIT + 0.008IS

Table 5. – t Test Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>t count</th>
<th>Sig</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAP</td>
<td>0.126</td>
<td>.00</td>
<td>N o effect</td>
</tr>
<tr>
<td>DER</td>
<td>-0.076</td>
<td>.5</td>
<td>N o effect</td>
</tr>
<tr>
<td>DY</td>
<td>0.357</td>
<td>.04</td>
<td>E effect</td>
</tr>
</tbody>
</table>
3. **Discussion of Research Results**

   **a. The Effect of Investment Decision on Economic Value Added**

   The research result shows that investment decision has not a significant effect on economic value added. This means whether high or low investment decision made by the company has no effect on economic value added. EVA is based on the covered accounting profits in comprehensive income statement, while the company expenses related to the investment are not stated in comprehensive income statement. However, company expenses are stated in cash flow and financial position statement. The return of investment expenses is not obtained in the same period as the expenses, so it does not effect immediately on accounting profits in that period. The economic value added concept is not applied by all companies. It means the concept is not yet accepted generally by most companies, because sometimes the company did not pay attention to the fulfilment of the EVA concept. However, the company obligation to the capital owners are believed to be fulfilled, this because the company depends on investors and creditors. Investment expenses are always become the company needs, both on short and long term, so that no matter how much investment spent has no effect on economic value added. (R. and Bergitta 2014)

   The Effect of Funding Decision on Economic Value Added

   The research result shows that funding decision has not a significant effect on economic value added. This means whether high or low funding decision made by the company has no effect on economic value added. It does not matter how much debt of the company has no effect on economic value added. This because not all debts have interest expense such as accounts payable, salary debt and dividend payable. Debt that does not cause fixed cost (financial leverage) in the form of interest expense is not related to the accounting profit and economic profit. This type of debt has no effect on the income statement, but it does affect the cash flow statement. Decreased Economic Value Added (EVA) is not only caused by interest expense, but more on the company operating cost, especially on salary debt and production cost of the manufacturing companies (for example, food and beverages). (Mara Ikbar and Dewi 2013)
The Effect of Dividend Policy on Economic Value Added

The research result shows that dividend policy has a significant effect on economic value added. If the dividends paid are high, the EVA is decreased and vice versa. The dividends paid greatly affect the economic profit, if the dividends paid are high, economic profit is decreased and vice versa. So, in addition to paying attention to the welfare of shareholders, the company should maintain financial performance based on economic value added. Based on the descriptive statistic shows that average value of dividend yield has increased trend during the study period and the average value of economic value added (EVA) has decreased trend during the study period. This strongly supports the results of data analysis of the relationship between dividend policy and negative economic value added. All the things mentioned above that have been explained are the reasons for the effect of dividend policy on economic value added (EVA). (Yulita Sari 2020)

The Effect of Good Corporate Governance on Economic Value Added

The research result shows that good corporate governance has not a significant effect on economic value added. The good corporate governance in this study is using the number of audit committee owned by the company. When the good corporate governance has not effect on economic value added. This implies whether the number of committee is less or much has not effect on economic value added. In accordance with agency theory that stated that agent in this case is the company management act on the will and orders of the shareholders. All of the company management policies including financial management on the will and agreement with the board of commissioners, it because the managements are selected by the board of commissioners, then managements are obliged to account for all of its work to the shareholders. Based on the descriptive statistic shows that generally the number of audit committee owned by the company in Indonesia is 3 during the study period, while the average value of economic value added has decreased. The decreased economic value added is caused by other factors such as operating cost and production cost. Interest expense and income tax charged to the company. (Dewi, L. N., & Suardana 2015)

The Effect of Profits Management on Economic Value Added

The research result shows that profits management has not a significant effect on economic value added. This means both the profits management is increased or decreased has not affected the economic value added. The profits management in this study is using income smoothing proxy. The income smoothing is done with the aim of showing the financial statement users, especially investor and creditors that company’s financial condition is strong and healthy. While the objective of EVA is to:

- Measure financial performance;
- Encourage companies to pay more attention to their capital structure policies;
- Identifying projects or activities that give a high return than its capital expenses.

Based on the descriptive statistic shows that the average of income smoothing during the study period is fluctuated or variated, while the moving average of economic value added is decreased but still positive. (Liu 2016)

4. Discussion of the Second Hypothesis Test Results

The discussion related to the first hypothesis test results that stated there are significant investment decisions, funding decisions, dividend policies, good corporate governance and profits management effect simultaneously on economic value added on the manufacturing companies in Indonesia. The research result shows that investment decisions, funding decisions, dividend policies, good corporate governance and profits management have no significant effect simultaneously on economic value added. The investment decisions, funding decisions, dividend policies, committee roles and income smoothing act will have no effect at all on economic value added. This because is a routine for the company and the focus of investors and creditors is on the company ability to make profits to be able to fulfil all company obligations, both to the investors and creditors. Not all companies applied the economic value added concept and markets are not paying too much attention to economic value added. (Gazali and Toni 2019)

IV. CONCLUSION

The result of the study shows that of the five predictor variables, the dividend policy is the only predictor variable that has effect on economic value added, while simultaneously all predictor variables are not able to affect the economic value added variable.
1. Implication

For the management to make positive economic value added has to manage the dividend policies more effectively. The profits management, especially income smoothing are not needed to meet the expected value of economic value added. For the investors to pay attention to the financial decisions of the companies.

REFERENCES