

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The company is a production activity unit that manages economic resources to provide goods and services for the community with the aim of gaining profits and in order to satisfy the needs of the community. The company is tasked with processing economic resources or often called production factors. The main purpose of establishing the company as a businessman is to get the profits used for business continuity. Capital is one of the dominant factors in the company's business continuity.

To find out the company's ability to manage capital paid up by investors in the context of the company's progress, it is necessary to measure the company's performance. Various aspects need to be considered in measuring this performance, especially the expectations of the parties invest funds. This is to determine the extent to which the company is able to manage funds originating from investors or shareholders, by assessing the amount of capital gain that can be generated by the company. The higher the level of capital gain provided by the company to investors, the higher the value of the company reflected in the value of shares on the stock exchange. This condition usually occurs in companies that go public or public companies (Tbk), which sell shares in the capital market or stock exchange. One company that sells its shares on the stock exchange and has a good performance, PT Astra International Tbk

PT Astra International Tbk was founded in Jakarta in 1957 as a general trading company under the name Astra International Inc. In 1990, a name change was made to PT Astra International Tbk, in the context of the initial public offering of the Company's shares to the public, followed by the listing of the Company's shares on

the Indonesia Stock Exchange using the ASII ticker. The value of Astra's market capitalization at the end of 2017 is Rp336.0 trillion.

In accordance with the Company's articles of association, business activities that can be carried out by the Company include general trading, industry, mining, transportation, agriculture, development, services and consulting. Until 2017, Astra has expanded its business by implementing a diversified and diversified business model in seven business segments, consisting of:

- a. Automotive.
- b. Financial Services.
- c. Heavy Equipment, Mining, Construction & Energy.
- d. Agribusiness.
- e. Infrastructure and Logistics.
- f. Information Technology.
- g. Property.

With diverse businesses, Astra has touched various aspects of the nation's life through the products and services it produces. In everyday life, the people of Indonesia use motorbikes and cars, toll roads, printers, to Astra's financing, banking and insurance services. Business people partnering with Astra utilize various commercial vehicles, heavy equipment, logistics services, information technology systems and mining services from Astra. Various products produced, including palm oil, coal and motorized vehicles, are always exported so Astra can contribute in contributing foreign exchange to the country.

At the end of 2018, business operations spread throughout Indonesia are managed through 226 subsidiaries, joint ventures and associated entities, supported by 226,140 employees. As one of the largest national business groups today, Astra has built a strong reputation through offering a range of quality products and services, taking into account the implementation of good corporate governance and environmental governance.

Astra always aspires to be a proud company of the nation that participates in efforts to improve the welfare of the Indonesian people. Therefore, Astra's business

activities strive to implement a balanced mix of commercial aspects of business and non-business contributions through sustainable social responsibility programs in the fields of education, environment, development of small and medium enterprises and health.

Rising stock prices are the goals to be achieved by the people of share holders because investors will benefit from ownership shares in the form of capital gains (representing more difference than the purchase price of shares and selling price of shares) in addition to cash dividends (i.e. the division of a portion of profits company to shareholders). By considering performance company shareholders who are not satisfied with the company's performance will sell their shares and invest them in other companies.

So far, popular tools commonly used in performance calculations company finance is financial ratio analysis, but it is realized that the ratio finance as a performance measurement tool has several disadvantages. The main weakness is that the financial ratios ignore their capital costs so it is difficult to know whether the company has create value or not. In addition, in analyzing each ratio above, the numbers obtained from the calculation cannot stand alone. Rasio will mean if at least one of the following two things can fulfilled, namely the comparison with similar companies have almost the same level of risk and analysis must also be held trend of each ratio to previous ratios.

Given the limitations of financial ratio analysis as a tool measuring the company's financial performance, then there is another approach called with Economic Value Added (EVA). The concept of Economic Value Added is company performance measurement must consider expectations on funders fairly by considering the average capital costs Weighted Average Cost of Capital (WACC). With calculation of Economic Value Added and Market Value Added, is expected get the results of a realistic calculation of the company's economic value, and also can support the presentation of financial statements so that they can facilitate the users of financial statements in analyzing company performance in order to make a decision to invest.

The concept of EVA can be simply expressed as a measure real calculation of company operations. EVA is obtained from net operating profit after tax (NOPAT) minus the cost of capital, namely the amount funds available to companies which are the sum of total debt and share capital multiplied by the weighted average capital cost (WACC).

But it is said that the increase in stock prices cannot increase shareholder wealth (MVA) and not show performance positive for the company. The essence of MVA concept is the difference between the market value of the company's shares with the book value of the company. MVA indicates the size of the company's performance from the beginning of the firms' establishment based on the stock values. If MVA measure the overall performance, then the concept of EVA measure the effectiveness of the company's performance in any given year only. EVA is an estimate of the economic profit of the company in concerning years and it is very much different from the concept of net profit after tax (Earnings After Tax-EAT). By the both of alternative concept, investors are expected not to get traps in the net profit after tax (level of company profitability), the beauty of financial ratios and dividend per share. Both of these concepts will be more readily applied to go public companies in which the shares are traded on the stock exchange because of the extent of the access of investors to determine the company's financial statements.

Research from Satriya Candra Bondan Prabowo (2017) with title "Financial Performance Analysis Using Economic Value Added And Market Value Added Method In PT Gudang Garam Tbk, PT Hanjaya Mandala Sampoerna Tbk And PT Bentoel Internasional Investama Tbk". The results are PT Gudang Garam Tbk and PT Hanjaya Mandala Sampoerna Tbk produced positive EVA and MVA values for 5 (five) years of the research period. PT Bentoel Internasional Investama Tbk got negative EVA value during the last 4 (four) years of research. Meanwhile, the MVA value of the three companies was positive.

Research from Firdausi, et al (2017) with title "*Analisis Kinerja Keuangan Dengan Menggunakan Metode Economic Value Added (EVA), Financial Value Added (FVA) Dan Market Value Added (MVA) Studi Kasus Pada Operator*

Telekomunikasi Yang Terdaftar Di BEI Periode 2008-2015". The results are showed a negative EVA value on all company but in 2008 & from 2013 to 2015 on EVA, TLKM has a positive value. Seeing from the calculation of FVA, positive in all companies. But in the 2012-2015 on BTEL has a negative FVA. And there is a negative FVA value on FREN in 2008-2010. Seeing from the MVA calculation, negative in all companies. But 2009 and 2015, BTEL has a positive MVA. And in 2008-2011 on FREN has a positive MVA. There is also a positive MVA value in TLKM at 2011-2015. Also 2010-2013 at EXCL has a positive MVA.

Based on the explanation above and remembering the importance of measurement of the company's financial performance, especially to fulfill the desires of parties with an interest in the company and the availability of other financial measuring instruments, namely Economic Value Added (EVA) and Market Value Added (MVA), the authors make this a topic in research with the title "**The Analysis of Financial Performance by Using Economic Value Added and Market Value added of PT. Astra International, Tbk Period 2013-2018**"

1.2 Problem Limitation

The limitation of this research are:

1. Researcher will do research the financial performance by using economic value added and market value added.
2. The objects for this research is PT. Astra International, Tbk
3. The required target population for the research is available in the study area. The research focuses on the financial statement of PT Astra International, Tbk. In all 6 years of financial statement (2013-2018) were used for the research.

1.3 Problem Formulation

The problem formulation which will be discussed as follows;

1. What is the financial performance of PT Astra International, Tbk using analysis Economic Value Added?
2. What is the financial performance of PT Astra International, Tbk using analysis Market Value Added?

1.4 Objective of the Research

The study will achieve the following objectives:

1. To analyze the financial performance of PT Astra International, Tbk using analysis of Economic Value Added (EVA).
2. To analyze the financial performance of PT Astra International, Tbk using analysis of Market Value Added (MVA).

1.5 Benefit of the Research

The benefits of this study are divided into two, namely theoretical benefit and practical benefit.

1.5.1 Theoretical Benefit

Theoretically, to writer and reader, the result of this research is expected to be a reference or input for the development of communication science and increase the study of entrepreneurship, especially to determine the financial performance in PT Astra International, Tbk with using Economic Value Added (EVA) and Market Value Added (MVA).

1.5.2 Practical Benefit

Practically, to the company, the results of this study are expected to be input for PT Astra International, Tbk especially in decision making to determine company policy, helping PT Astra International, Tbk solve its problems, increase sales and profit. And for others this research is also expected to assist other parties in presenting information to conduct similar research

1.6 Systems of Writing

In the systematics of writing, the author will briefly describe the chapter by chapter in sequence. The order of writing the chapter to be presented is as follows:

Chapter I : Introduction

It is the outline, the direction of purpose, and the encouraging research grounds the author do the research and including: Background of the study, Problem limitation, Problem formulation, Objective of the research, Benefit of the research (Theoretical and Practical benefit) and Systems of writing

Chapter II : Literature Review and Hypothesis Development

Explaining further about the theory on which the author is based, which cover: Theoretical background, Previous research, Hypothesis Development, Research model and Framework of thinking

Chapter III : Research Methodology

Describe about: Research design, Population and sample, Data collection method, Operational variable definition and variable measurement, Data analysis method.

Chapter IV : Data Analysis and Discussion

Describe about: General view of “Research Object”, Data analysis (Descriptive statistic, Result of data quality testing and Result of the hypothesis testing), Discussion

Chapter V : Conclusion

Describe about: Conclusion, Implication and Recommendation