
The Role of EVA in Determining Company's Value through the Ownership Structure and Internal Factors

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Abstract:

Purpose: This study aims to determine the influence of liquidity, leverage, asset-size on company's value through the ownership structure of manufacturing companies in Indonesia.

Design/Methodology/Approach: The study uses an explanatory design using secondary data in the form of financial statement data obtained from manufacturing companies in the Indonesia Stock Exchange for seven years, the period 2010 - 2016 which was published in Indonesian Capital Market Directory. Samples were taken by purposive sampling, 46 companies for seven years using the path analysis method.

Findings: The results showed that leverage did not influence the ownership structure, while the asset size had a positive influence on the ownership structure. Liquidity does not influence the value of the company, asset size has a positive and significant influence on company value while leverage a significant negative influence, on company value.

Practical/Implication: Various ways can be taken to increase the value of the company, among others, by maintaining and paying attention to the liquidity variables. Asset size can be increased while the company's leverage can be pressed. For future research external factors need to be considered for inclusion in the model, in order to produce a better model. The existence of several findings that are not in accordance with previous researches may be due to the characteristics, behavior and culture of capital market actors in Indonesia that are different from the characteristics and culture of the capital market actors in developed countries.

Originality/Value: The study implies a recommendation for manufacturing companies to be considered to include behavioral and cultural aspects in the model in a way to perform better.

Keywords: Liquidity, leverage, asset size, ownership structure, company value.

JEL Codes: D46, G32.

Paper type: Research article.

1. Introduction

The ownership structure of a company will have different motivations in monitoring the company, its management and its board of directors. Ownership structure is believed to have the ability to influence the course of the company which can later influence the company's performance. Agency problems can be reduced by the ownership structure. Ownership structure is a mechanism to reduce conflicts between management and shareholders. The proportion of managerial ownership in the company can indicate that there is a common interest between management and shareholders (Fauzan, 2012). Holdings of institutional shares have more expertise than individual (public) investors, especially the majority of institutional shareholders or investors above 5%. Large institutional shareholders are assumed to have a long-term investment orientation. Institutional ownership and public ownership generally act as a party that monitors the company (Frederick, 1989).

The general structure of public ownership in the period of 2010-2016 has generally decreased, although the changes have not significantly decreased. This indicates that the proportion of the structure of public ownership is very limited and not more than 30%, the rest is still controlled by institutional and managerial ownership, so the public role is only a source of funding and it is very difficult to intervene in company policy.

2. Literature Review

2.1 The Value of the Company

Go public companies, an important element of the company's value is the value of shares, resulting in financial literature known as the stock market value. The value of a company depends not only on the value of the stock but also on the value of the debt. Longbrake (1972) in Manurung (2012), defines corporate value as investors' expectations for the influence of corporate financial investment policies. This theory explains that firm value is a function of dividends and the rate of return from an equity. Basically, this theory states that company value is the result of investor valuations and expectations of the company's shares in the capital market. An investor will determine the present value of equity (securities) by specifying his expectations for changes in the assets and liabilities of a company (Elton and Gruber, 1996).

2.2 Economic Value Added (EVA)

A newer approach in corporate valuation is to calculate the Economic Value Added (EVA) of a company. EVA is a measure of the success of company's management in increasing value added for the company. The assumption is that if management performance is good, it will be reflected in the increase in the company's stock price (Tandelilin, 2010). EVA was first popularized by Stern

Steward through its management service company, a consulting company from the United States, Britain and Germany. EVA is basically a measure of the extent to which companies create economic added value for shareholders (Suripto, 2015). EVA proves its ability to provide good stock returns (Stewart & Co, 1995 in Chen, 2001). The advantages of the EVA concept are useful as a performance appraiser that focuses on value creation, making the company pay more attention to capital structure, and can be used to identify activities that provide higher returns than capital costs (Hanafi, 2014).

2.3 Ownership Structure

The ownership structure reflects the proportion of company ownership. Ownership structure is the composition of capital between debt and equity, including also the proportion between share ownership inside shareholders and outside shareholders. Ownership that is concentrated in the context of good corporate governance, the more concentrated ownership, principals have incentives to monitor agents, so they act in harmony with the interests of owners (Khamis, 2015). Basically the theory of ownership is the opposite of the agency theory of Jensen and Meckling in Lestari and Juliarto (2017). The fundamental difference between these two theories is on the assumption of the form of the shareholding structure of a company.

In general, companies listed on the IDX have individual constraints or supervision, especially companies owned by descendants of Indonesian citizens, this will certainly influence various decisions taken by management that no longer reflect purely the interests of other shareholders. Theoretically this means that the interests of management and shareholders will be relatively in line. Therefore it is not surprising that many family members have a large percentage of share ownership which often has key positions in the company (Fauzan *et al.*, 2012). The variable ownership by executive or management is often a starting point for the emergence of agency conflicts in the bag. According to Jensen and Meckling (1976) agency conflict when the management does not control 100% of its shares, or in other words when there is a composition of ownership of the company outside of management, there will be agency problems (Suteja and Manihuruk, 2009) found that share ownership variables had a negative influence on firm value. Sinarmayaran (2016) and Suranta (2003), claimed that ownership has not a significant influence on the value of the company.

Managerial ownership shows a positive influence on dividend policy, this indicates that companies that have a large percentage of managerial ownership will also distribute large dividends, or vice versa (Arifin and Zainal, 2007; Fauzi and Rosidi, 2007; Jayaningrat *et al.*, 2017). This result is inconsistent with Jensen and Meckling (1976) Agency theory, which explains that the high managerial ownership will reduce agency costs, because with the ownership of shares by management, the management will feel the direct influence of all decisions taken.

2.4 Liquidity

According to Sutrisno (2009), liquidity is measured by the current ratio (CR) which is the ratio of current assets to current liabilities or short-term debt. A CR that is too high indicates an excess of cash or other current assets compared to what is needed. Liquidity is an indicator of the life of a company to pay for all short-term financial obligations at maturity using available current assets (Husnan and Pujiastuti, 2015). Liquidity is measured as the current ratio, namely current assets divided by current debt (Harjito and Martono, 2013). Oktrima (2017) states liquidity does not influence the value of the company. Gultom *et al.* (2013) in their research found that liquidity had a negative and not significant influence on firm value. Jariah (2017), Jayaningrat *et al.* (2017), Lubis *et al.* (2017) found that the current ratio has a positive relationship with stock prices. This indicates that investors will get a higher return if the company's ability to meet its short-term obligations is getting higher.

2.5 Leverage

Leverage is a part or portion of fixed costs that shows the company's risk (Awat, 1999). According to Harjito and Martono (2013) Leverage is the use of funds with a fixed burden in the hope that the use of these funds will increase the revenue per share. Weston and Brigham (2002) state that companies that use funds with fixed costs are said to produce profitable leverage or positive influence if the income received from the use of these funds is greater than the fixed burden on the use of the funds concerned. From several measures of leverage, one conclusion can be drawn that the definition and measurement are definitions of capital structure. Capital structure that is too high has a negative influence on the performance of the company, because the higher level of debt means the company's interest burden will be greater and reduce the benefits of Hanafi (2004).

Capital structure theory is the basis of conceptual arguments to explain differences in debt ratios. Static trade-off theory explained by Jensen and Meckling (1976) in general states that there are 4 (four) sources of funds, namely: debt, preferred stock, ordinary shares, and retained earnings. Each of these funding sources requires different compensation and different forms of engagement with respect to the risks attached to it. Frederik *et al.* (2015) and Hamidi *et al.* (2015) stated that debt to equity ratio has a positive and significant influence on company value, this result indicates that the greater the debt ratio (DER) of corporate value tends to move up.

Theoretically this phenomenon supports the MM theory which was published in 1963 in Sartono (1994), whereas Pertiwi *et al.* (2016) stated that DER had a positive but not significant influence on company value, while Wijaya (2014), Suroto (2015), Putri and Isyuwardhana (2016) stated that DER does not have a significant influence on firm value. Arifin and Agus Zainal (2007), Kurnia Susanto (2011), Nuringasih (2006), Wahudi and Paswetri (2006) stated that the capital structure influences the ownership structure. Wahidahwati (2002) found that

institutional ownership has a negative and significant influence on the debt ratio. This indicates that the presence of institutional ownership in companies can be used as a supervisory mechanism to minimize agency costs caused by debt.

2.6 Asset Size

Company size can be interpreted as the size of the company seen from the magnitude of the equity value, company value, or the result of the total value of assets of a company (Riyanto, 1995). The size of the company is seen from the total assets owned by the company that can be used for company operations. If the company has large total assets, the management is more flexible in using the assets in the company. Jogiyanto (2014) suggests that asset size is measured as the logarithm of total assets. In financial research, asset size is used as a proxy for the size of the company. In Prasetia *et al.* (2014), the variable size has a negative relationship to the managerial ownership structure, they state that managerial ownership in small firms is greater than in large companies. If the company gets bigger the number of shares owned by the manager is getting less due to the limitations of their personal wealth and the problem of diversification.

Companies that have good prospects in a relatively long period of time will cause the company's shares to remain attractive to investors, so that stocks are able to survive at high prices and stay relatively stable. Prasetia *et al.* (2014), Manoppo and Arie (2016), Short and Keasey (1999) in their research showed that firm size has a positive influence on firm value. Large companies internally are easier to generate funds and easier to access external sources of funds. Demsetz and Lehn in Jogiyanto (2015), argue that the relationship is positive. They argued that the greater the assets, *ceteris paribus*, the greater the company's capital resources and the greater the value of the company.

2.7 Ownership Structure and Company Value

According to Jensen and Meckling (1976) agency conflict arises when the management does not control 100% of its shares, or when there is a composition of ownership of the company outside the management there will be agency problems. Arifin and Agus Zainal (2007) stated that the structure of share ownership influences the performance of the company.

These results are not consistent with the Agency Theory of Jensen and Mecklin (1976), which explains that the high managerial ownership will be able to reduce agency costs, because with the ownership of shares by management, the management will feel the consequences of all decisions taken directly. Suteja and Manihuruk (2009), Sujoko and Soebantoro (2007), Sudarma (2004) stated that stock ownership has a negative influence on firm value.

3. Research Methods

The population is all the companies in the manufacturing industry category that has been listed in the Indonesian Stock Exchange. The sampling technique in this study is using the purposive sampling method. In this study, the sample companies must have the following conditions: listed in the IDX continuously in the period 2010-2016; audit report data from independent auditors are available at intervals of the study period; active companies pay dividends; have no losses and total negative equity in the year period 2010-2016.

The study uses time series data and cross section (data pooling), based on the criteria of the side technique, the number of samples that meet the criteria of 46 companies from 2010 to 2016. The data used is secondary data obtained from the Indonesian Capital Market Directory 2010-2016, the Indonesian Stock Exchange, the Bank Indonesia and other sources relevant to the research.

The data analysis technique used is path analysis, processing of data using the Analysis of Moment Structure (AMOS), SPSS and Microsoft Excel programs. There are several steps taken in this test. First, in the form of a model that is in accordance with the discussion of theoretical studies and proposed empirical studies. Second, describe the model in the form of a path diagram. Third, conduct confirmatory analysis to test the significance of the proposed model. Fourth, test the path diagram to find out the direct or indirect influence of a relationship (Ferdinand, 2002). To test the hypothesis the influence between variables (causality test) is used at the alpha level (α) of 5%. In accordance with the conceptual framework, the functional relationship model between the concepts built is as follows:

$$Y_1 = f(X_1, X_2, X_3) \quad (1)$$

$$Y_2 = f(X_1, X_2, X_3, Y_1) \quad (2)$$

Where :

X_1	=	Liquidity
X_2	=	Leverage
X_3	=	Asset size
Y_1	=	Ownership Structure
Y_2	=	The value of the company

Based on the hypothesis stated above the variables to be analyzed can be defined as follows:

Liquidity (X_1) describes the company's ability to meet obligations that are soon due, in this study liquidity is measured by the current ratio, where this ratio shows the comparison between current assets and current debt in the year and expressed as percent (%);

Leverage (X₂) is a comparison of the use of the company's external funding sources with the company's internal funding sources, or a comparison between long-term debt with own capital. In this study leverage is measured by a debt to equity ratio measured as percent (%);

Asset Size (X₃) the size of an asset is used as a proxy for the size of a company. The asset size variable is measured as the logarithm of total assets (Log Total Assets);

Ownership Structure (Y₁) is the share ownership by the public as measured by the percentage of shares held by the public compared to all shareholders;

Company Value (Y₂) is a reflection of the level of success of the company in managing its resources in year t. Variables which are indicators of success in this study is the value of the company using EVA.

4. Results

4.1 Functional Relationship of Liquidity, Leverage and Asset Size Against Ownership Structure and Corporate Value

To facilitate the analysis of functional relationships between variables then the coefficient values are arranged in Table form, as shown in Table 1 below:

Table 1. Variable Functional Relationships

Influence Variable		Dependent variable	Estimation	T Value	Prob
Liquid4ty (X ₁)	2	Company Value (Y ₂)	-0.104	-1.413	0.158
Leverage (X ₂)	1	Ownership Structure (Y ₁)	-0.008	-0.107	0.215
	2	Company Value (Y ₂)	-0,197	-2,684	0.007
Asset Size (X ₃)	1	Ownership Structure (Y ₁)	0.264	3.414	0,000
	2	Company Value (Y ₂)	0.371	4,905	0,000
Ownership Structures (Y ₁)	1	Company Value (Y ₂)	-0,044	-0,572	0.156

Source: Attachment output, processed 2018.

4.1.1 Influence of leverage, asset size on ownership structure

The coefficient of influence of the leverage variable (X₂) on ownership structure (Y₁) is -0.008 at significance level 0.215. The coefficient shows that the leverage variable (X₂) has a negative influence on the ownership structure (Y₁). Statistical values t calculate the influence of leverage (X₂) on the ownership structure (Y₁) of - 0.107 with significance level 0.215. This means that leverage (X₂)

does not have a significant influence on the ownership structure (Y_1). The influence coefficient of the Assets Size (X_3) variable on the ownership structure (Y_1) is 0.264 at significance level 0,000.

The coefficient shows that the Assets Size (X_3) variable has a positive influence on the ownership structure (Y_1). The statistical value t calculates the influence of Assets Size (X_3) on the ownership structure (Y_1) with a coefficient of 3.414 with significance level 0.000. This means that Assets Size (X_3) has a significant influence on the ownership structure (Y_1).

4.1.2 Influence of liquidity, leverage and asset size on firm value

The coefficient of the influence of the variable liquidity (X_1) on the Firm Value (Y_2) is -0,104 at significance level 0,158. The coefficient shows that the liquidity variable (X_1) has a negative influence on Company Value (Y_2). The statistical value t calculates the influence of liquidity (X_1) on the Company Value (Y_2) with a coefficient of -1,413 and significance at 0,158 or above 0,05. This means that liquidity (X_1) does not have a significant influence on Company Value (Y_2).

The coefficient of influence of leverage (X_2) on the Firm Value (Y_2) is -0,197 at significance level 0.007. The coefficient shows that the leverage (X_2) has a negative influence on Company Value (Y_2). The statistical value t calculates the influence of leverage (X_2) in the Company Value (Y_2) with a coefficient of -2,684 at significance level 0.007 or below 0.05 . This means leverage (X_2) has a negative and significant influence on Company Value (Y_2).

The coefficient of influence of the Asset Size variable (X_3) of the Company Value (Y_2) is 0,371 at significance level of 0.000. The coefficient shows that the variable Asset Size (X_3) has a positive influence on Company Value (Y_2). Statistical value t calculates the influence of Asset Size (X_3) of the Company Value (Y_2) with a value of 4,905 at significance level 0.000 or below 0.05. This means that Asset Size (X_3) has a significant influence on Company Value (Y).

4.1.3 Influence of Ownership Structure on Company Values

The influence coefficient of the Ownership Structure variable (Y_1) on the Firm Value (Y_2) is -0,044 at significance level 0.156. The coefficient shows that the Ownership Structure variable (Y_1) has a negative influence on Firm Value (Y_2). The statistical value t calculates the influence of the Ownership Structure (Y_1) variable on the Firm Value (Y_2) which is -0,572 at significance level 0.156 or above 0.05. This means that Ownership Structure (Y_1) does not have a significant influence on Company Value (Y_2).

4.2 Indirect Influence between Variables

The indirect influence between the variables is obtained from the reduced form equations. Each exogenous variable, namely Liquidity, Leverage, and Asset size, on

Corporate Values through Ownership Structure can be interpreted that the indirect influence of Liquidity (X_1) on firm value (Y_2) is 0,001. This means that when liquidity increases will increase the value of the company. The indirect influence of leverage (X_2) on firm value (Y_2) through the ownership structure (Y_1) is equal to 0,000. This means that when leverage is increased it will increase the value of the company through the ownership structure. The indirect influence of Asset size (X_3) on firm value (Y_2) through the ownership structure (Y_1) is $-0,007$. This means that as the Asset size increases, it will reduce the value of the company through the ownership structure.

4.3 Total Influence between the Variables

Based on the results of the reduced form equations, total influence is obtained, when each exogenous variable, namely Liquidity, Leverage, Asset size, influence the Firm Value. This can be interpreted as the influence of total liquidity (X_1) on firm value (Y_2) which is equal to $-0,080$. These results provide an interpretation that in total, the influence of liquidity on the current value of the company through the Ownership Structure is $-0,080$, the influence of total leverage (X_2) on firm value (Y_2) is equal to $-0,164$. These results provide an interpretation that in total, the influence of leverage on current corporate value through the Ownership Structure is $-0,164$. The influence of total Asset size (X_3) on firm value (Y_2) is $0,303$. This result provides an interpretation that in total, the influence of asset size on the current value of the company through the Ownership Structure is $0,303$.

5. Discussion

The test results show that leverage is proven to have no influence on the ownership structure. This result provides an empirical understanding for management that stockholders do not respond to changes in leverage, this is because changes in leverage are more temporary, so stockholders are not interested in speculating in search of short-term profits. The stockholders maintain their investment to get returns from cash dividends that are still expected in the future. Research on leverage with ownership structures illustrates different results among several researchers. Wahidahwati (2002), Wahyudi and Pawestri (2006), Purwasi *et al.* (2014) state that ownership structure variables influence debt policy.

The test results show that the asset size proved to have a positive influence on the ownership structure. The results of this study provide an empirical understanding for management that if the asset size rises, the ownership structure also increases. This condition illustrates that the use of asset size by the company has an influence on the increase in ownership structure. This finding is not in line with Dea and Rutji's (2011) which states that size has no influence on ownership.

The results of the study show that liquidity does not influence the value of the company. This provides an empirical understanding for management that rising

liquidity does not influence the value of the company. This condition indicates that information on changes in the current ratio that can be obtained from financial statements does not influence the decision on stock prices. The results of this study are in line with Oktrima (2017), Lumoly *et al.* (2018), which states that liquidity does not influence the value of the company. Jariah (2016), Jayaningrat *et al.* (2017), which states that liquidity has a positive and significant influence on Company Value. Lubis *et al.* (2017), states that liquidity has a positive and not significant influence on Company Value. Gultom *et al.* (2013) stated that liquidity has a negative influence on firm value.

The test results show that the capital structure has a negative and significant influence on firm values. One of the disadvantages of financing with debt is a threat to the risk of bankruptcy, but the excess financing with debt will not reduce the share ownership by major shareholders. Donaldson (1961) and Myers (1984) in Manurung (2012) stated that debt ranks second, in their theory known as Pecking Order Theory after retained earnings to fund a company's operating or investment activities. The greater the DER shows that the capital structure uses more debt compared to its own capital. According to Suroto (2015) ratio h debt is intended as the ability of a company to pay all of its debts.

The policy regarding capital structure involves a trade-off between the risk and the rate of return on debt increases the expected rate of return. Modigliani and Miller (1958) in Suroto (2015) state that in the assumption of a perfect capital market, the capital structure does not influence the value of the company. The research was continued by Modigliani and Miller (1963) by including the tax elements in their calculations. The results show that the use of debt is more profitable because the cost of debt is smaller than the cost of shares, and there are tax benefits from using debt. But then, a large amount of debt will be used encourage the increase in interest expense and loan installments so that it will have an influence on the increased risk of inability of cash flows to cover these obligations.

The results of this study are in accordance with Prasetyorini (2013), Nur Faridah (2016), Lubis *et al.* (2017), Suroto (2015) giving results where debt policy has a negative and significant influence on firm value. Sumanti and Mangantar (2015), Nurmindia *et al.* (2017), Oktrima (2017), Ibrahim and Raharja (2012), Putri and Isyuardana (2016) found that the capital structure did not significantly influence firm value. Sudiyatno (2010), Jayaningrat (2017), Ananta *et al.* (2014), Ja'riah (2016), Dewi *et al.* (2014) have found that leverage has a positive influence on firm value.

The test results show the asset size has a positive influence on firm value. This result provides an empirical understanding for management that if the asset size rises, the value of the company also increases. This condition illustrates that the use of asset size by the company has an influence on the value of the company. These results support the opinion of Short and Keasey (1999), that the relationship is positive.

They argue that the potential influence of the size of the company's assets on company value can be explained at least by two ways of thinking. First, financial influence, large companies internally are easier to generate funds and easier access to external funding sources. Second, the scale of the economy, large companies will be able to create barriers to entry into the industries, this provides benefits to the performance of the company. This finding also supports the opinion of Aniela Nurmindia *et al.* (2017), Ta'dir Eko Prasetya *et al.* (2014), while Pantow *et al.* (2015), Rumondor *et al.* (2015), state that firm size has a negative and not significant influence on firm value. Wehantouw *et al.* (2017), Manoppo and Arie (2016), Nurmindia *et al.* (2017) Lumoly *et al.* (2018) which states that the asset size does not influence the value of the company.

The results of this study contribute that the ownership structure cannot be used to predict and explain company value. The insignificant influence of ownership structure on the value of the company is due to the fact that listed companies on the Stock Exchange have an average public ownership in a relatively small amount (less than 30%), the founding family still has great control over public companies (Isti Fadiah, 2012). This finding is in line with the research by Ananta *et al.* (2014), Sumanti and Mangantar (2015), Sinarmayarani (2016) who have found that managerial ownership had no influence on firm value. Suteja (2009), Sri Wahyuni *et al.* (2015), found that the relationship between managerial ownership and company value was negative, whereas Mei Yuniati *et al.* (2016), Warouw *et al.* (2018), Lestari and Juliarto (2017) Fauzan *et al.* (2012) found a significant and positive relationship between institutional share ownership and company value.

The theoretical implications that can be stated in this study are that to increase the value of companies in the Capital Market, it can use an internal factor model of company value. The results of this study found that the increase in the value of the company is a result of increasing liquidity as well as a result of a decrease in company leverage.

6. Conclusions

1. Leverage ratio does not have a significant influence on ownership structure, so the hypothesis which states leverage has a positive and significant influence on the ownership structure is not acceptable, while the stated asset size has a positive and significant influence on the ownership structure can be accepted.
2. Leverage ratio has a negative and significant influence on firm value while the Asset size ratio has a positive and significant influence on the value of the company, the liquidity ratio does not influence the value of the company so that the hypothesis that liquidity has a positive and significant influence on the value of the company is not acceptable.
3. The ownership structure does not have a significant influence on company value so the hypothesis that the ownership structure has a positive and significant influence on the value of the company cannot be accepted.

7. Recommendations

1. One of the goals of the company is how to increase its value making shareholders feel comfortable in investing in this company, as well as prospective investors will be interested in investing as well. Various ways can be taken to increase the value of the company, among others, by maintaining and paying attention to the Liquidity Variables, Asset size can be increased while the company's leverage can be pressed.
2. Factors that influence the value of a company are not only internal company factors, but there are other factors, so for future research external factors need to be considered for inclusion in the model in order to produce a better model.
3. The existence of several findings that are not in accordance with previous research may be due to the characteristics, behavior and culture of capital market actors Indonesia that are different from the characteristics and culture of capital market in developed countries. Therefore, for further research behavioral and cultural aspects need to be considered to be included in the model.

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