



## Analysis of Financial Ratios and The Economic Value Added (EVA) Method As a Measurement of Financial Performance to Assess the Health of Banks (Case Study of Banks Registered on The Idx For The 2014-2018 Period)

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### ABSTRACT

The study aim to determine how the banking financial performance based on the Financial Ratios and Economic Value Added (EVA) methods for the 2014-2018 period. The type of research is descriptive quantitative approach using secondary data obtained from idx.co.id. The study took samples of banking companies listed on the BEI. The sampling methoos is nonprobability, and the sampling technique used purposiv sampling and 17 samples are obtained. The result of the study showed that the liquidity ratio which waas posited wot a long to deposit ratio from three years in a row showed good value. Solvability ratio calculation result which are proxied by the primary ratio show the results above the primary ratio value. The result of the calculation of probability ratios which are proxied by returnon asset and return on equity then to fluctuate. The result of the calculation of economic value added produce economic added value for shareholders.

## INTRODUCTION

According to RI Law Number 10 of 1998 concerning Banking it states that, "banking is a business entity that collects funds from the public in the form of savings and distributes them to the community in the form of credit and or other forms in order to improve the standard of living of the common people".

Measurement of financial performance is needed to determine the success of a bank in achieving bank goals, an analysis of the development of financial performance is obtained through analysis of financial data arranged in financial reports, (Supriyanto and Widiанти Lestari, 2015). According to the Indonesian Accounting Association (IAI, 1995) in Novelina Hutagalung et. al. (2013) company performance is measured by analyzing and evaluating financial reports. Furthermore Novelina (2013) said that performance is an important thing that must be achieved by a company, because performance is a reflection of the ability to manage resources. Analysis of financial statements is one way that can be used to assess performance whether a bank's performance is in good condition or not (Melissa Olivia, 2015).

The method often used to assess bank performance is financial ratio analysis, this ratio analysis can be used easily, (Jilly Karamoy, 2016). This financial ratio analysis analyzes the relationship between one item and another in the financial statements, which can provide clues about financial conditions, (Meidita Kartikasari, 2014). Analysis of bank financial performance begins with reviewing, calculating, comparing or measuring, interpreting and providing solutions (Melita Sari, 2017).

However, the weakness of this financial ratio method is that it cannot measure performance in terms of bank value, (Jilly Karamoy, 2016). Fauziah (2012: 4) in Dewi Oktavia (2018) analysis of financial performance using financial ratios cannot represent the interests of shareholders because financial ratios do not pay attention to the cost of capital. To overcome these weaknesses, the concept of measuring financial performance based on added value was developed, namely the Economic Value Added (EVA) Method, (Jilly Karamoy, 2016). EVA is a measure of the economic added value generated as a result of management activities or strategies, (Supriyanto and Widiанти Lestari, 2015).

According to O'Byren and Young (2001) in Jilly Karamoy (2016) Economic Value Added is a performance measure by measuring the difference between the return on company capital and the cost of capital. Arsad (2014) has the advantages of the EVA method, namely taking into account the existence of capital costs that arise as a result of investments made, both the cost of capital on debt and equity, so that the economic value added method is more accurate in measuring performance and calculating added value.

## THEORETICAL REVIEW

### *Financial Ratio Analysis*

Horne (2012:110) in Olivia Tanor et. al. (2015) stated that financial ratio analysis is an index that relates two numbers and is obtained by dividing one number by another.

### *Liquidity Ratio*

Arsad (2014) liquidity ratio is the ratio used for measure the bank's ability to meet short-term obligations or obligations that have matured. In this study the liquidity ratio used is the Loan to Deposit Ratio (LDR). LDR is a ratio to measure the comparison between all loans given by banks and funds received by banks, (Meidita Kartika Sari, 2014). LDR is expressed in the formula:

$$\text{LDR} = (\text{Total Loan}) / (\text{Total Deposit} + \text{Equity}) \times 100\% = \dots\%$$

#### *Solvency Ratio*

This ratio is used to measure a bank's ability to meet its long-term debt or the bank's ability to meet its debts in the event of liquidation, (Meidita Kartikasari, 2014). In this study the ratio used is the Primary Ratio (PR). The Primary Ratio is used to measure whether the capital owned has been used, or the extent to which the decrease in total incoming assets can be covered by capital equity, (Meidita Kartikasari, 2014). Primary Ratio is expressed in the formula:

$$\text{PR} = (\text{Equity Capital}) / (\text{Total Assets}) \times 100\% = \dots\%$$

#### *Profitability Ratio*

This ratio is used to measure the productivity of the use of bank operating assets in carrying out its activities. In this study the ratio used is:

#### *Return on Assets (ROA)*

This ratio is used to measure the productivity of the use of bank operating assets in carrying out its activities. Expressed in the formula  
$$\text{ROA} = (\text{Profit Before Tax}) / (\text{Total Assets}) \times 100\% = \dots\%$$

#### *Return on Equity (ROE)*

This ratio is used to measure a bank's ability to earn net profit based on its capital, (Arsad, 2014). Expressed in the formula

$$\text{ROE} = (\text{Net Profit}) / (\text{Total Equity}) \times 100\% = \dots\%$$

#### *Economic Value Added (EVA) Method*

Economic Value Added is a performance measure that combines value acquisition with costs to produce added value, (Jilly Karamoy et. al, 2016). The components that support EVA are:

#### *Net Operating Profit Margin (NOPAT)*

NOPAT is the company's operating profit after tax and measures profit earned from ongoing operations, (Suprianto, 2015). Expressed in the formula  
$$\text{NOPAT} = \text{Net Profit} + \text{Interest Expense}$$
  
Invested Capital

Zulkarnain (2013) in Arsad (2014) states that invested capital is the amount of capital available for companies to finance businesses consisting of debt and equity.

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$$\text{IC} = \text{Total Debt and Equity} - \text{Short Term Debt}$$

#### *Weighted Average Cost of Capital (WACC)*

Julianti & Peter (2011) in Arsad (2014) WACC is said to be the minimum rate of return weighted based on the proportion of each financing instrument in the capital structure generated by the company to meet the expectations of creditors and shareholders. Expressed in the formula

$$\text{WACC} = [(D \times r_d) (1 - \text{Tax}) + (E \times r_e)]$$

#### *Financial performance*

Financial performance is a certain measure that measures the success of a bank in generating profit, (Melita Sari, 2017). According to Fahmi (2012: 2) financial performance is an analysis carried out to see how far the company has carried out by using the rules of financial implementation properly and correctly.

Measurement of financial performance is an important factor for companies, where the existence of these measurements can influence decision making, (Adi Sucipta et. al. 2015). Ayu Arindia et. al. (2013) financial performance appraisal is also generated as a result of the decision making process.

MelitaSari (2017) in analyzing financial performance the analytical tool used is ratio analysis, namely a comparison of related financial data so that a picture of company performance can be obtained.

## METHODOLOGY

This study aims to obtain an overview of financial ratios and the economic value added method as a measure of a bank's financial performance. Because of this, this research is descriptive quantitative in nature, which is an assessment method by collecting actual data.

In this study, sampling was carried out using a purposive sampling technique, which limited the object of research to certain criteria. The following criteria are determined in this study:

- Banking company listed on the Indonesian Stock Exchange (IDX).
- Banks reporting their financial statements for the 2014-2017 period consecutively.
- Banks that profit during the 2014-2017 period in a row.
- Banking that presents a complete component of the calculation of financial ratios and the method of economic value added.

The data needed in this study were obtained from various sources. Data regarding bank financial statements were obtained from publications on the Indonesia Stock Exchange (IDX), as well as other supporting data obtained from books and journals.

The method used in this research is archival data collection. Secondary data is data obtained by researchers indirectly through intermediary media. Secondary data is in the form of evidence of records or reports history that has been compiled in archives, official documents and general description of the company.

## RESULTS AND DISCUSSION

### *Loan to Deposit Ratio (LDR)*

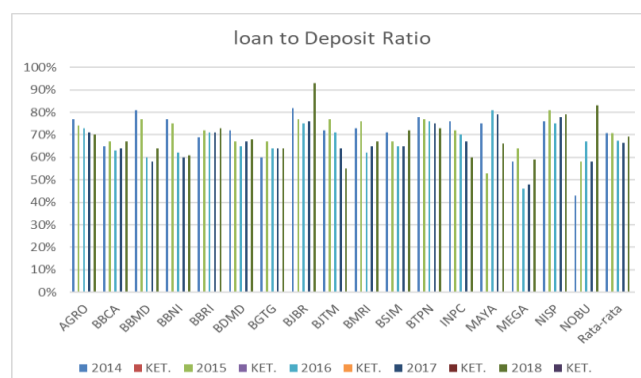


Figure 1. Liquidity Ratio

The results of the calculation of the liquidity ratio proxied by the loan to deposit ratio showed positive results where almost all banks were able to meet the standards set, namely between 85% - 110%. This shows that the bank is able to pay back the withdrawal of funds by relying on the credit provided. But

there are several banks that have not met the standards set by the government or are said to be in an unhealthy condition.

*Primary Ratio (PR)*

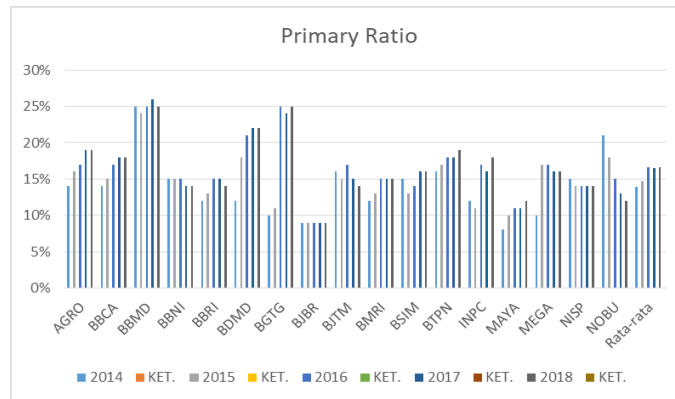


Figure 2. Solvency Ratio Chart

The results of the calculation of the solvency ratio proxied by the Primary Ratio show good or positive results where all bank calculation results get a fairly high value, even above the standard value determined by the government, namely 3% -6%. This shows that the bank's capital has been able to accommodate and the decrease in total incoming assets can be covered by capital equity.

*Return on Asset (ROA)*

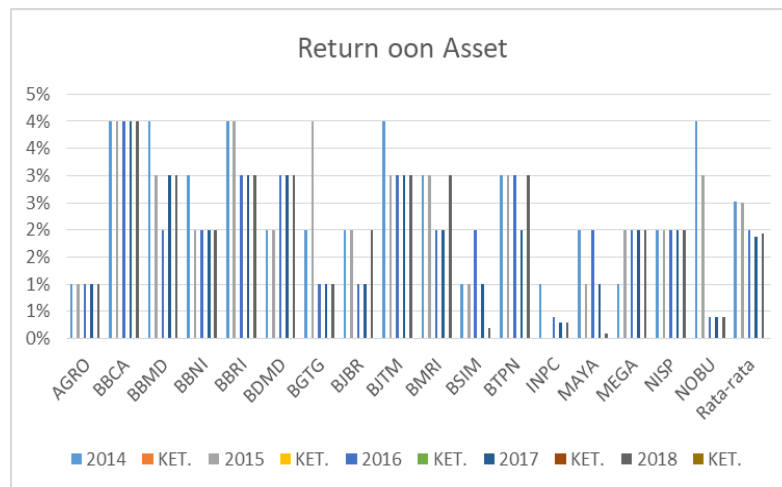


Figure 3. Graph of Profitability Ratios (ROA)

The results of the calculation of the profitability ratio proxied by return on assets show good results where most banks get scores above the standards set by the government, namely 0.5% -1.25%. This indicates that the level of profit obtained by the bank is getting better and in terms of the use of its assets it can be said to be effective and efficient. Although there are still several banks that obtain scores below the specified standard.

*Return on Equity (ROE)*

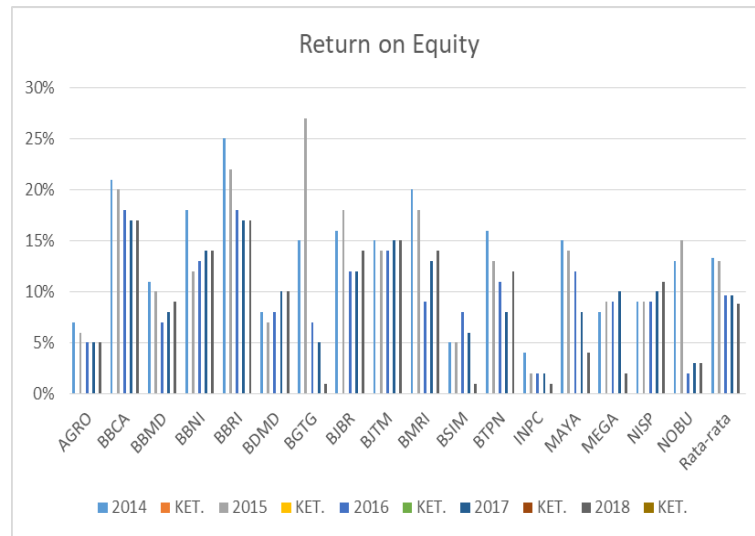


Figure 4. Graph of Profitability Ratios (ROE)

The results of the calculation of return on equity show a good value and exceed the standards set by the government between 5% -12%. This has a positive impact on banks because this ratio is widely observed by shareholders and investors who want to invest their shares. However, there are several banks that have not met the standard values set by the government.

*Economic Value*

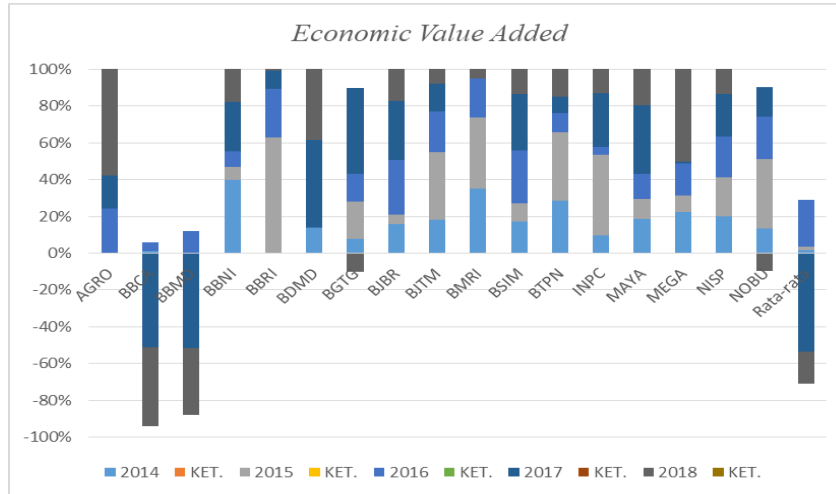


Figure 5. Graph of the Economic Value Added Method

Based on the economic value added calculations for 2014-2018 above, it can be concluded that most banks have shown good results, meaning that banks have been able to obtain economic added value for their shareholders. Of the 24 banks studied in 2016 all banks were able to obtain added value, in 2017 there were 2 banks which were not able to obtain economic added value and in 2018 there were 4 banks which were not able to obtain economic added value.

## **CONCLUSION AND RECOMMENDATION**

The bank's financial performance is assessed by financial ratios showing good performance, even though there are fluctuating values, it does not significantly affect bank performance. The results of the liquidity ratio show that almost all banks are able to get good results where banks are able to repay their short-term obligations. The results of the solvency ratio show that all banks are able to meet the value set by the government. The results of the profitability ratios are appropriate with the standard value determined by BI which shows the bank is in good health, although there are still some banks that have not been able to get good grades. The bank's financial performance is assessed by economic value added, showing good performance where the economic value added is  $> 0$  or has a positive value, which means that the bank is able to generate economic added value for its shareholders.

The researcher hopes that the bank will maintain its good performance so that it does not experience a decline in performance which results in the bank being unable to solve financial problems in the future. For some banks to pay more attention related to profitability ratios, especially return on equity because this ratio is very important for shareholders and investors who want to buy bank shares.

It is recommended for banking companies to use the economic value added method because banks can obtain information on whether banks are able to obtain economic added value.

## **ADVANCED RESEARCH**

This research has limitations so further research is still needed on this topic.



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