

Economic Value Added and Corporate Financial Performance: Empirical Evidence from PT. Argamas Jaya Lab

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ABSTRACT

Purpose: This study aims to evaluate the financial performance and value creation of PT. Argamas Jaya Lab using the Economic Value Added (EVA) approach over a five-year period.

Design/Methodology/Approach: This research employs a quantitative descriptive approach by analyzing the company's financial statements from 2019 to 2023. Financial performance is assessed through the calculation of Economic Value Added (EVA), which incorporates key components such as Net Operating Profit After Tax (NOPAT), Invested Capital, and Weighted Average Cost of Capital (WACC). Data were obtained from company financial reports and supporting documentation to ensure the reliability of secondary data.

Findings: The results indicate that the company's EVA fluctuated during the observation period, reflecting variations in NOPAT, invested capital, and the cost of capital. The findings suggest that the EVA approach provides a more comprehensive assessment of corporate financial performance and value creation compared to traditional accounting-based performance indicators, as it explicitly considers the cost of capital in measuring economic profit.

Research Implications: This study contributes to the financial management literature by highlighting the relevance of EVA as a value-based performance measurement tool, particularly in sectors where its application remains limited. The findings also provide practical insights for managers and investors in evaluating corporate financial performance and supporting strategic decision-making aimed at improving value creation.

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INTRODUCTION

Financial performance evaluation plays a crucial role in determining a firm's sustainability and its ability to generate value for stakeholders. In modern financial management, performance assessment is no longer limited to profitability indicators but increasingly emphasizes the firm's ability to create economic value beyond the cost of capital employed. Corporate finance theory emphasizes that the primary objective of financial management is maximizing shareholder value, which requires performance measurement tools capable of reflecting the real economic returns generated by the firm (Damodaran, 2017). Therefore, investors and managers increasingly demand financial performance indicators that provide a more comprehensive evaluation of value creation rather than relying solely on traditional accounting-based measures.

Traditional financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and net profit are widely used in evaluating corporate performance. However, these accounting-based measures often fail to incorporate the cost of capital, which represents the opportunity cost of funds invested in the firm. As explained by Ross et al. (2019), accounting-based financial ratios may show profitability but do not necessarily indicate whether a company has created economic value for its investors. Consequently, firms may appear financially successful based on accounting profits while actually destroying shareholder value when the returns generated are lower than the cost of capital.

To overcome these limitations, value-based performance measurement approaches have been developed, one of which is Economic Value Added (EVA). EVA is a financial performance metric that measures economic profit by subtracting the cost of capital from the company's operating profit after tax. According to Grant (2016), EVA provides a more accurate reflection of value creation because it explicitly incorporates both Net Operating Profit After Tax (NOPAT) and the Weighted Average Cost of Capital (WACC) into the performance evaluation process. When EVA is positive, the firm generates returns that exceed its cost of capital, indicating that it creates value for shareholders. Conversely, a negative EVA indicates that the firm fails to generate sufficient returns to cover its capital costs.

Recent empirical studies have increasingly emphasized the relevance of EVA as a comprehensive indicator of corporate financial performance. For instance, Bhasin (2020) found that EVA provides a more reliable measure of corporate value creation compared to traditional accounting indicators because it integrates profitability and capital efficiency into a single metric. Similarly, Maditinos et al. (2019) argued that value-based performance measures such as EVA have become increasingly important in corporate financial analysis because they align managerial decision-making with shareholder value maximization. Furthermore, research in emerging markets indicates that EVA-based performance evaluation provides deeper insights into financial efficiency and long-term firm sustainability compared to conventional financial ratios (Ismail, 2021; Sharma & Kumar, 2022). Despite the growing interest in EVA within corporate finance research, empirical studies applying EVA at the firm level—particularly in privately held or medium-sized companies—remain relatively limited. Much of the existing literature focuses on large publicly listed corporations, leaving a gap in understanding how EVA can be applied to evaluate financial performance in smaller or non-listed firms. Sharma and Kumar (2022) emphasize that further research is needed to explore the applicability of EVA across different organizational contexts and industry sectors in order to broaden the understanding of value-based performance measurement.

PT. Argamas Jaya Lab, a company operating in the laboratory services sector, provides an interesting context for examining financial performance from a value-based perspective. As a service-oriented company, the firm faces challenges in maintaining profitability while ensuring efficient capital utilization. Evaluating the company's financial performance using the Economic Value Added (EVA) approach can provide deeper insights into whether the firm has successfully generated economic value after accounting for the cost of capital employed. Therefore, this study aims to evaluate the financial performance of PT. Argamas Jaya Lab using the Economic Value Added (EVA) method over a five-year period. By applying a value-based performance measurement framework, this research seeks to provide a more comprehensive understanding of the company's ability to create economic value and contribute to the literature on financial performance evaluation using EVA.

Table 1. Financial Statement Summary of PT. Argamas Jaya Lab (2019–2023)

Year	Revenue (IDR)	Net Profit (IDR)	Total Debt (IDR)	Equity (IDR)
2019	5,650,226,149	383,067,543	405,600,000	1,373,453,835
2020	4,334,930,762	282,730,675	434,334,100	840,511,924
2021	4,807,390,383	188,926,151	440,587,623	866,658,591
2022	5,373,961,962	255,428,366	379,826,300	783,944,764
2023	1,844,799,680	280,868,982	202,796,825	799,578,951

Source: Internal financial reports of PT. Argamas Jaya Lab

The financial data of PT. Argamas Jaya Lab during the period 2019–2023 indicate significant fluctuations in the company's financial condition. Revenue reached its highest level in 2019 at IDR 5.65 billion, followed by a decline in 2020 and 2021. Although the company experienced a temporary recovery in 2022, revenue dropped sharply in 2023 to approximately IDR 1.84 billion. This pattern reflects the instability of the company's operational performance and suggests the presence of external or internal factors affecting business sustainability.

A similar trend can be observed in net profit performance. The company recorded its highest net profit in 2019 at IDR 383 million, followed by a continuous decline in subsequent years, reaching the lowest level in 2021 at IDR 188 million. Although net profit slightly improved in 2022 and 2023, the overall profitability remained below the level achieved in 2019. From a value-based financial management perspective, declining profitability may directly affect the company's ability to generate economic value, particularly when the profit generated is insufficient to cover the cost of capital required to finance operational activities. In contrast, the company's capital structure shows a different trend. Total debt gradually decreased from IDR 405 million in 2019 to IDR 202 million in 2023, indicating a reduction in the company's reliance on external financing. Meanwhile, the equity position remained relatively stable, with slight fluctuations throughout the observation period. This condition suggests that despite fluctuations in revenue and profitability, the company was able to maintain its net asset position and financial stability. However, traditional financial indicators such as revenue growth and net profit alone are insufficient to determine whether the company has successfully created economic value. These accounting-based measures do not explicitly consider the cost of capital used to finance the company's operations. Therefore, a value-based performance measurement approach is required to assess whether the profits generated by the firm exceed the cost of capital employed.

The Economic Value Added (EVA) method provides a more comprehensive framework for evaluating corporate financial performance by incorporating both operating profitability and capital costs. Through EVA analysis, companies can determine whether their operational performance generates true economic profit after accounting for the cost of both debt and equity financing. This approach allows managers and investors to assess whether the firm creates or destroys shareholder value.

The novelty of this study lies in the application of the EVA method to evaluate the financial performance of a medium-sized company operating in the laboratory equipment sector, a context that has received limited attention in previous empirical studies. By applying a value-based performance measurement framework, this research provides empirical insights into the economic value creation of PT. Argamas Jaya Lab and offers strategic implications for managerial decision-making aimed at improving financial efficiency and long-term corporate value.

LITERATURE REVIEW

Shareholder Value Theory

Shareholder Value Theory argues that the primary objective of a firm is to maximize the wealth of its shareholders. The value of a company is reflected in the increase in shareholder wealth achieved through the growth of firm value over time. In this perspective, corporate performance should not only be assessed through accounting profits but also through the firm's ability to generate economic value after considering the cost of capital employed. As explained by O'Connell & Ward (2020), value-based performance measurement focuses on whether a company is able to generate returns that exceed the cost of capital, thereby creating value for shareholders. In this context, Economic Value Added (EVA) is considered one of the most relevant measurement tools within shareholder value theory. EVA measures the economic surplus generated by a firm after deducting the total cost of capital, including both equity and debt financing. A positive EVA indicates that the firm has successfully generated returns above its capital costs and created value for shareholders, while a negative EVA suggests that the firm has destroyed shareholder value even if it reports accounting profits.

Agency Theory

Agency Theory explains the relationship between the owners of a firm (principals) and managers (agents) who are responsible for managing the company's operations. A key issue within this theory is the potential conflict of interest between principals and agents, often exacerbated by information asymmetry. Managers may pursue decisions that benefit their personal interests rather than maximizing shareholder value (Hendrastuti & Harahap, 2023). In this context, EVA can serve as an objective performance evaluation tool because it links managerial performance directly to the cost of capital employed in business operations. According to Hundal (2015), value-based performance measures such as EVA provide incentives for managers to make decisions that enhance long-term firm value rather than focusing solely on short-term accounting profits. Consequently, EVA can function as an effective governance mechanism that aligns managerial interests with those of shareholders.

Financial Performance

Financial performance refers to the process of evaluating a company's financial condition over a certain period in order to determine the extent to which the organization has succeeded in generating profits and managing its financial resources effectively. Financial performance analysis is typically conducted through the examination of financial statements, which provide relevant information for managers, investors, and other stakeholders in making strategic decisions (Sunardi, 2020). Traditionally, financial performance is measured using various financial ratios such as profitability ratios—including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM)—as well as liquidity and solvency ratios (Larage et al., 2025). These indicators are useful in assessing the financial condition of a company from an accounting perspective. However, such conventional ratios often fail to capture the firm's ability to generate economic value beyond the cost of capital. Therefore, this study adopts a value-based performance measurement approach by using Economic Value Added (EVA) instead of conventional financial ratios.

Financial Statements

Financial statements play a critical role as the primary source of financial information for various stakeholders. These reports generally consist of several components, including the balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the financial statements (Kasmir, 2019). The purpose of preparing financial statements is to present reliable financial information that enables stakeholders—including management, investors, and creditors—to evaluate the financial condition and performance of the company and make informed economic decisions (Sanjoyo et al., 2024). Although financial statements provide essential information regarding a firm's financial performance, they primarily present accounting-based figures. A company may report accounting profits in its financial statements; however, if those profits are insufficient to cover the cost of capital, the firm may not actually create value for its shareholders. Therefore, financial statements and EVA have a complementary relationship. Financial statements provide the necessary financial data, while EVA serves as an analytical tool that offers a more comprehensive evaluation of whether the company has successfully generated economic value.

Economic Value Added (EVA)

Economic Value Added (EVA) is a financial performance measurement method used to evaluate the extent to which a firm generates economic value within a certain period. The concept of economic profit can be traced back to the work of Alfred Marshall, who emphasized the importance of adjusting accounting profit to reflect the opportunity cost of capital. Without such adjustments, accounting profit may provide misleading signals regarding a firm's true

economic performance (Worthington & West, 2001). EVA has been widely recognized as an effective performance measurement tool because it reflects the expectations of investors and creditors regarding the return on capital invested in a company (Manullang et al., 2024). While EVA shares similarities with conventional profit measurement in accounting, the key difference lies in the inclusion of the full cost of capital in the calculation, resulting in a more comprehensive measure of economic profit (Salsabila & Aisjah, 2023). Therefore, EVA provides a more accurate and holistic evaluation of financial performance compared to traditional accounting-based measures. By incorporating capital costs into the performance evaluation process, EVA measures not only the nominal profitability of a firm but also its effectiveness in generating returns that exceed the expectations of investors and creditors (Mamun et al., 2012).

The Relationship Between EVA and Financial Performance

Economic Value Added serves as an important indicator that bridges financial performance achievement with the economic value expected by capital providers. Unlike conventional accounting indicators that may be influenced by accounting policies or managerial discretion, EVA focuses on real economic performance by explicitly considering the cost of capital. Consequently, EVA is widely regarded as a more holistic and reliable measure of financial performance that aligns with the fundamental objective of shareholder value maximization (O'Connell & Ward, 2020). By incorporating both profitability and capital efficiency, EVA provides a clearer picture of whether a company truly generates economic value. As a result, EVA can be used not only as a performance evaluation tool but also as a strategic decision-making instrument that helps management improve financial efficiency and enhance long-term firm value..

METHODS

This study employs a descriptive quantitative approach to evaluate the financial performance of PT. Argamas Jaya Lab using the Economic Value Added (EVA) method. Quantitative research is a scientific approach used to obtain measurable data in order to achieve specific research objectives (Sugiyono, 2023). In this research, numerical data from the company's financial statements are analyzed to assess the firm's ability to generate economic value. The data used in this study consist of the financial statements of PT. Argamas Jaya Lab for the period 2019–2023, including the income statement, balance sheet, and supporting financial information. These data are used to calculate the main components of EVA, namely Net Operating Profit After Tax (NOPAT), Invested Capital (IC), Weighted Average Cost of Capital (WACC), and Capital Charge. Data were collected through documentation of the company's financial reports and supported by limited interviews with company representatives to ensure the validity of the secondary data. In this study, Economic Value Added (EVA) is used as the main indicator to evaluate financial performance. EVA measures the economic profit generated by a company after deducting the total cost of capital used in its operations (Pole et al., 2023). A positive EVA indicates that the company successfully creates economic value for investors, while a negative EVA suggests that the company fails to generate returns that exceed the cost of capital. The analysis is conducted through several calculation stages. First, Net Operating Profit After Tax (NOPAT) is calculated by subtracting taxes from Earnings Before Interest and Tax (EBIT). Second, Invested Capital is calculated by adding total equity and total debt and then subtracting short-term debt. Third, the Weighted Average Cost of Capital (WACC) is calculated by considering the proportion of debt and equity in the company's capital structure as well as their respective costs. After obtaining the WACC value, Capital Charge is calculated by multiplying WACC by invested capital. Finally, Economic Value Added (EVA) is obtained by subtracting Capital Charge from NOPAT. The resulting

EVA values are then interpreted to determine the company’s financial performance. If EVA is positive, the company is considered to have created economic value. If EVA equals zero, the company is in a break-even position where returns are equal to the cost of capital. Conversely, if EVA is negative, the company is considered unable to create economic value because the profit generated is insufficient to cover the cost of capital.

RESULT AND DISCUSSION

Net Operating Profit After Tax (NOPAT)

Based on the financial statements of PT. Argamas Jaya Lab for the period 2019–2023, an analysis was conducted to determine the company’s Net Operating Profit After Tax (NOPAT). NOPAT reflects the company’s operating profit after deducting tax expenses and represents the net income generated from operational activities.

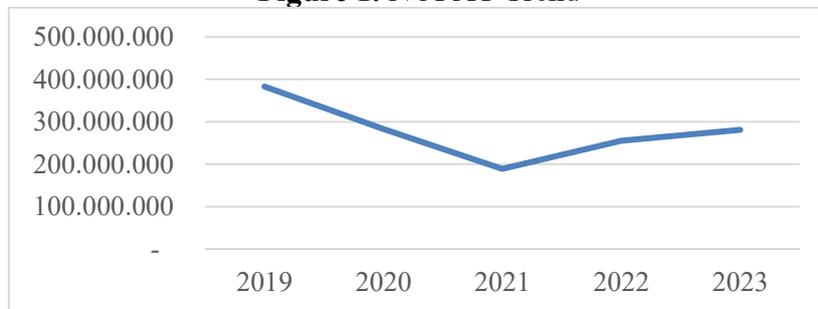
Table 2. NOPAT Development (2019–2023)

Year	Profit Before Tax (IDR)	Tax (IDR)	NOPAT (IDR)
2019	491,112,235	108,044,692	383,067,543
2020	362,475,224	79,744,549	282,730,675
2021	242,213,014	53,286,863	188,926,151
2022	327,472,264	72,043,898	255,428,366
2023	360,088,438	79,219,456	280,868,982

Source: Processed data, 2025

The results show that the NOPAT value fluctuated during the five-year observation period. In 2019, the company recorded the highest NOPAT at IDR 383,067,543. However, the value declined in 2020 to IDR 282,730,675 and reached its lowest point in 2021 at IDR 188,926,151. This decline indicates a reduction in the company’s operating profitability during that period. The trend began to improve in 2022 when NOPAT increased to IDR 255,428,366 and continued to rise in 2023, reaching IDR 280,868,982. The increase in NOPAT suggests an improvement in the company’s operational performance after the decline experienced in the previous years.

Figure 1. NOPAT Trend



Changes in NOPAT are primarily influenced by fluctuations in profit before tax and the amount of tax expense incurred by the company. Higher operating profits generally lead to higher NOPAT values, which in turn contribute positively to the calculation of Economic Value Added (EVA). Conversely, declining profits may reduce NOPAT and potentially lower the firm’s ability to generate economic value.

Invested Capital

Invested Capital represents the total capital invested in the company’s operations after deducting short-term liabilities. This indicator reflects the amount of long-term funds used by the company to finance its business activities. The calculation results for PT. Argamas Jaya Lab during the 2019–2023 period are presented in Table 3.

Table 3. Invested Capital Development (2019–2023)

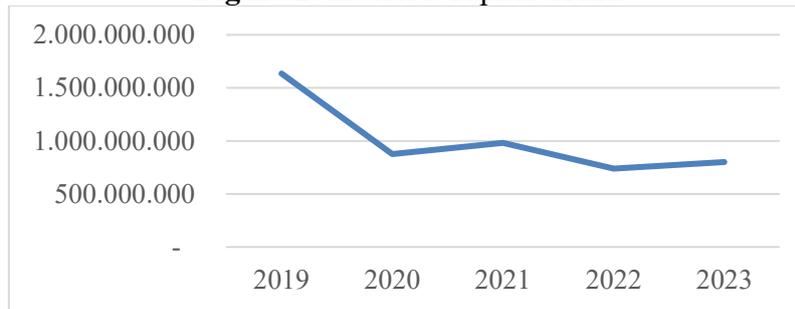
Year	Total Debt and Equity (IDR)	Short-Term Debt (IDR)	Invested Capital (IDR)
2019	1,779,053,835	143,838,800	1,635,215,035

Year	Total Debt and Equity (IDR)	Short-Term Debt (IDR)	Invested Capital (IDR)
2020	961,436,824	85,679,500	875,757,324
2021	1,068,571,814	88,443,423	980,128,391
2022	828,821,064	89,876,300	738,944,764
2023	854,216,816	54,637,865	799,578,951

Source: Processed data, 2025

The results indicate that the company’s invested capital fluctuated throughout the observation period. The highest value was recorded in 2019 at IDR 1,635,215,035. A significant decline occurred in 2020, followed by a moderate increase in 2021. The value decreased again in 2022 and slightly increased in 2023.

Figure 2. Invested Capital Trend



These fluctuations reflect changes in the company’s capital structure, particularly variations in total equity and debt levels. Since invested capital represents the funds used to support the company’s operational activities, changes in this value may affect the overall cost of capital and ultimately influence the calculation of Economic Value Added (EVA). Higher invested capital may increase capital costs, while efficient capital utilization can improve the company’s ability to create economic value.

Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital (WACC) represents the average cost incurred by a company from its sources of financing, including both debt and equity. WACC reflects the minimum rate of return required by investors for providing capital to the firm. Therefore, it is an important component in the calculation of Economic Value Added (EVA) because it determines the cost of capital that must be covered by the company’s operating profit.

The calculation of WACC in this study involves several components, namely the proportion of debt (D), proportion of equity (E), cost of debt (Rd), cost of equity (Re), and tax rate. The proportion of debt and equity represents the capital structure of the company, which indicates the relative contribution of each financing source.

1. Proportion of Debt (D)

The proportion of debt (D) represents the share of debt in the company’s capital structure relative to total financing sources. This ratio is calculated by dividing total debt by the total of debt and equity. The proportion of debt indicates the extent to which a company relies on external financing to support its operational activities. The calculation results of the debt proportion for PT. Argamas Jaya Lab during the 2019–2023 period are presented in Table 4.

Table 4. Proportion of Debt (D)

Year	Total Debt	Total Debt and Equity	D
2019	143,838,800	1,779,053,835	0.08
2020	85,679,500	961,436,824	0.09
2021	88,443,423	1,068,571,814	0.08
2022	89,876,300	828,821,064	0.11
2023	54,637,865	854,216,816	0.06

Source: Processed data, 2025

The results show that the proportion of debt in the company's capital structure remained relatively low throughout the observation period. The highest debt proportion was recorded in 2022 at 0.11, while the lowest occurred in 2023 at 0.06. Overall, the debt ratio fluctuated between 6% and 11%, indicating that the company relied more heavily on equity financing rather than external borrowing. A relatively low debt proportion suggests that PT. Argamas Jaya Lab adopts a conservative financing strategy by minimizing dependence on external debt. This condition may reduce financial risk associated with interest obligations, although it may also limit the potential benefits of financial leverage in enhancing returns to shareholders.

2. Proportion of Equity (E)

The proportion of equity (E) reflects the share of shareholders' funds in the company's overall capital structure. This ratio is calculated by dividing total equity by the total amount of debt and equity. The equity proportion indicates the extent to which the company finances its operations using internal funding sources.

The calculation results for the proportion of equity at PT. Argamas Jaya Lab during the 2019–2023 period are presented in Table 5.

Table 5. Proportion of Equity (E)

Year	Total Equity	Total Debt and Equity	E
2019	1,373,453,835	1,779,053,835	0.77
2020	840,511,924	961,436,824	0.87
2021	866,658,591	1,068,571,814	0.81
2022	783,944,764	828,821,064	0.95
2023	799,578,951	854,216,816	0.94

Source: Processed data, 2025

The results indicate that equity dominated the capital structure of PT. Argamas Jaya Lab throughout the observation period. The equity proportion ranged from 0.77 to 0.95, suggesting that the company relied heavily on internal funding rather than debt financing. The highest equity proportion occurred in 2022, reaching 0.95, which reflects the company's strong dependence on shareholders' capital.

A high equity proportion generally reduces financial risk because the company has lower obligations related to interest payments. However, excessive reliance on equity may also increase the overall cost of capital since equity financing typically requires higher expected returns from investors.

3. Cost of Debt (Rd)

The cost of debt (Rd) represents the interest rate that the company must pay on borrowed funds obtained from creditors or financial institutions. This indicator reflects the financial burden associated with external financing. The calculation results for the cost of debt are presented in Table 6.

Table 6. Cost of Debt (Rd)

Year	Interest Expense	Short-Term Debt	Rd
2019	26,176,120	143,838,800	0.18
2020	34,865,460	85,679,500	0.41
2021	35,214,420	88,443,423	0.40
2022	28,995,000	89,876,300	0.32
2023	14,815,896	54,637,865	0.27

Source: Processed data, 2025

The results show that the cost of debt fluctuated during the study period. The highest cost of debt occurred in 2020 (0.41) and remained relatively high in 2021 (0.40). Afterward, the ratio gradually declined to 0.27 in 2023, indicating a reduction in interest expenses relative to the company's outstanding debt. This decrease suggests that the company may have improved its debt management or reduced its reliance on high-interest borrowing. Lower debt costs can positively affect the overall cost of capital and potentially improve the company's economic value creation.

4. Cost of Equity (Re)

The cost of equity (Re) represents the expected rate of return required by shareholders for investing their capital in the company. It reflects the opportunity cost faced by investors when allocating funds to the firm. The calculation results for the cost of equity are presented in Table 7.

Table 7. Cost of Equity (Re)

Year	Net Profit After Tax	Total Equity	Re
2019	383,067,543	1,373,453,835	0.28
2020	282,730,675	840,511,924	0.34
2021	188,926,151	866,658,591	0.22
2022	255,428,366	783,944,764	0.33
2023	280,868,982	799,578,951	0.35

Source: Processed data, 2025

The cost of equity fluctuated throughout the observation period. The lowest value was recorded in 2021 (0.22) due to a decline in net profit, while the highest value occurred in 2023 (0.35). This indicates that the expected return required by shareholders increased as the company's profitability improved. Higher cost of equity implies that investors demand greater returns for the risks associated with their investment in the company.

5. Tax Rate

The tax rate represents the proportion of corporate income paid as tax relative to profit before tax. This variable is important in WACC calculations because interest expenses on debt are tax-deductible.

Table 8. Corporate Tax Rate

Year	Tax Expense	Profit Before Tax	Tax Rate
2019	108,044,692	491,112,235	0.22
2020	79,744,549	362,475,224	0.22
2021	53,286,863	242,213,014	0.22
2022	72,043,898	327,472,264	0.22
2023	79,219,456	360,088,438	0.22

Source: Processed data, 2025

The results show that the company's tax rate remained stable at 22% throughout the five-year period. This stability reflects the application of Indonesia's corporate income tax rate during the study period.

6. Weighted Average Cost of Capital (WACC) = (D x Rd)(1-Tax) + (E x Re)

WACC represents the average cost of capital that a company must pay to finance its operations, taking into account both debt and equity components. This measure is crucial in evaluating financial performance using the Economic Value Added (EVA) method.

Table 9. WACC Calculation

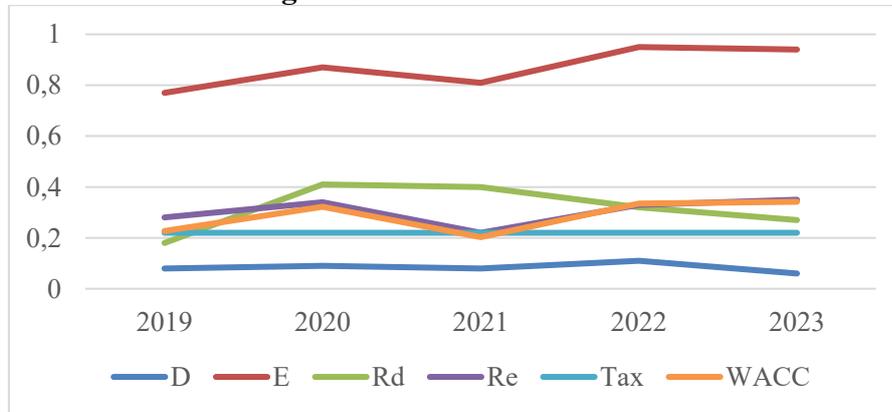
Year	D x Rd	(1 - Tax)	E x Re	WACC
2019	0.015	0.78	0.215	0.227
2020	0.036	0.78	0.294	0.322
2021	0.033	0.78	0.177	0.203
2022	0.035	0.78	0.308	0.335

Year	$D \times R_d$	$(1 - \text{Tax})$	$E \times R_e$	WACC
2023	0.017	0.78	0.329	0.342

Source: Processed data, 2025

The results indicate that the company’s WACC generally increased during the study period. It rose from 22.7% in 2019 to 34.2% in 2023, although a temporary decline occurred in 2021 due to lower costs of debt and equity.

Figure 3. WACC Trend



An increasing WACC implies that the company faces higher capital costs, meaning that it must generate higher operating returns to satisfy investor expectations. In the context of EVA analysis, WACC serves as the capital charge, which determines whether the company is able to create positive economic value beyond the cost of its invested capital.

Capital Charge

Capital Charge represents the cost of capital that must be covered by the company’s operating profit. In the Economic Value Added (EVA) framework, capital charge reflects the opportunity cost of the funds invested in the business. It is calculated by multiplying the Weighted Average Cost of Capital (WACC) by the Invested Capital (IC). The calculation results of the capital charge for PT. Argamas Jaya Lab during the 2019–2023 period are presented in Table 10.

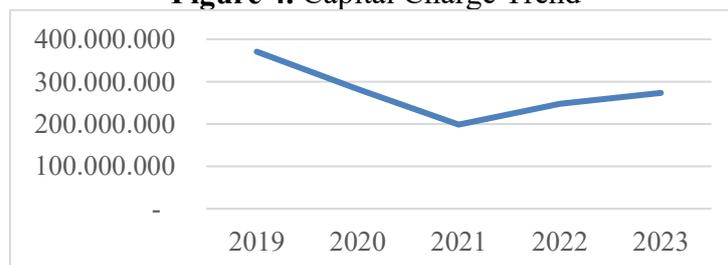
Table 10. Capital Charge Calculation

Year	WACC	Invested Capital (IC)	Capital Charge (CC)
2019	0.227	1,635,215,035	370,862,640
2020	0.322	875,757,324	282,306,361
2021	0.203	980,128,391	198,482,976
2022	0.335	738,944,764	247,893,678
2023	0.342	799,578,951	273,721,115

Source: Processed data, 2025

The results indicate that the capital charge fluctuated during the observation period. From 2019 to 2021, the capital charge showed a declining trend, mainly due to decreases in both the WACC and invested capital. However, in 2022 and 2023, the capital charge increased again as both the WACC and invested capital rose.

Figure 4. Capital Charge Trend



The highest capital charge was recorded in 2019, amounting to IDR 370,862,640, which corresponded with the highest invested capital in that year. In subsequent years, the value declined but increased again in 2023, reaching IDR 273,721,115. Within the EVA framework, capital charge plays a crucial role because it represents the cost of capital that must be deducted from Net Operating Profit After Tax (NOPAT). Therefore, higher capital charges increase the financial burden on the company and may reduce the likelihood of generating positive Economic Value Added.

Economic Value Added (EVA)

Economic Value Added (EVA) is a financial performance measure that evaluates whether a company is able to generate economic value beyond the cost of capital invested in the business. EVA is calculated by subtracting the Capital Charge (CC) from Net Operating Profit After Tax (NOPAT). The EVA calculation results for PT. Argamas Jaya Lab during the 2019–2023 period are presented in Table 11.

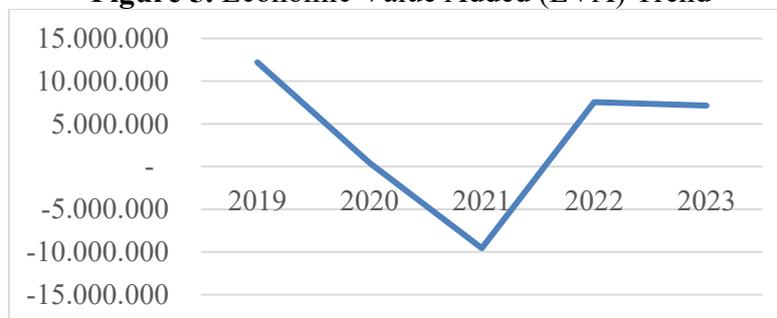
Table 11. Economic Value Added (EVA) Calculation

Year	NOPAT (IDR)	Capital Charge (IDR)	EVA (IDR)
2019	383,067,543	370,862,640	12,204,903
2020	282,730,675	282,306,361	424,313
2021	188,926,151	198,482,976	(9,556,825)
2022	255,428,366	247,893,678	7,534,687
2023	280,868,982	273,721,115	7,147,867

Source: Processed data, 2025

The results show that PT. Argamas Jaya Lab was generally able to generate positive economic value during the observation period, although a negative EVA occurred in 2021. A negative EVA indicates that the company was unable to generate sufficient operating profit to cover its cost of capital, suggesting that the capital employed was not utilized optimally in that year.

Figure 5. Economic Value Added (EVA) Trend



The highest positive EVA was recorded in 2019, amounting to IDR 12,204,903, which reflects the company’s strongest value creation during the study period. In subsequent years, EVA values remained positive but relatively small, indicating that the company still generated returns above its capital costs, albeit with a narrow margin. Overall, these findings suggest that although PT. Argamas Jaya Lab consistently generated accounting profits, the level of economic value creation remained limited. This implies that improvements in capital efficiency and investment decisions are necessary in order to enhance the firm’s ability to generate greater economic value in the future.

DISCUSSION

The analysis of financial performance using the Economic Value Added (EVA) approach reveals that the financial condition of PT. Argamas Jaya Lab experienced dynamic changes during the observation period. Fluctuations in Net Operating Profit After Tax (NOPAT) indicate variations in the company’s operational efficiency and profitability. Changes in operational profit reflect the firm’s ability to manage operational costs and generate

revenue effectively. From a value-based management perspective, operating profit represents the primary source of return that must be sufficient to compensate for the cost of capital employed in business operations. When operating performance declines, the company's capacity to generate economic value is likely to weaken. In addition to operational profitability, changes in invested capital also influenced the company's financial performance. Invested capital reflects the amount of long-term funds used to finance corporate operations, originating from both equity and debt. Variations in invested capital indicate adjustments in the company's capital structure and financial strategy. Efficient allocation of invested capital is essential to ensure that corporate resources generate returns that exceed the cost of capital. Research in value-based financial management emphasizes that capital efficiency is one of the key determinants of sustainable firm value creation (Young & O'Byrne, 2016).

The analysis of the Weighted Average Cost of Capital (WACC) also indicates that the cost of capital faced by the company varied during the study period. WACC represents the minimum rate of return expected by investors as compensation for the risk associated with their investment. When the cost of capital increases, companies are required to generate higher operating returns in order to maintain value creation. Consequently, increases in capital costs may reduce the firm's ability to generate economic value if operational profitability does not increase proportionally. According to corporate finance theory, WACC serves as a benchmark for evaluating whether corporate investments generate returns above the opportunity cost of capital (Brealey, Myers, & Allen, 2020). The interaction between operating profitability and capital costs ultimately determines the value of Economic Value Added (EVA). EVA measures whether a company is able to generate returns exceeding the cost of capital invested in the business. Positive EVA indicates successful value creation for shareholders, whereas negative EVA suggests that operating profits are insufficient to compensate for the cost of capital. In this sense, EVA provides a more comprehensive evaluation of financial performance compared with traditional accounting indicators because it explicitly incorporates the cost of capital into performance measurement (Koller, Goedhart, & Wessels, 2020).

The findings of this study are consistent with recent empirical research demonstrating that EVA is an effective indicator of corporate value creation. Studies show that companies with strong operational performance and efficient capital structures tend to generate positive EVA, indicating that they are capable of producing economic returns above their capital costs (Sabol & Sverer, 2017). Similarly, research in emerging markets suggests that EVA provides a reliable measure of financial performance because it integrates profitability with capital efficiency in assessing firm value (Tiwari & Kumar, 2015). However, several studies also report that EVA may fluctuate over time due to changes in operating profitability, capital structure, and macroeconomic conditions. Firms operating in sectors with higher operational volatility often experience greater variation in EVA values because both operating profit and capital costs are subject to change (Chen & Dodd, 2017). This phenomenon explains why companies may experience periods of positive and negative EVA despite maintaining accounting profitability.

From a theoretical perspective, the findings of this study support Shareholder Value Theory, which posits that the primary objective of a firm is to maximize shareholder wealth by generating returns that exceed the cost of capital. EVA directly measures this concept by comparing operating profit with the cost of invested capital. When EVA is positive, the company creates additional economic value for shareholders; conversely, negative EVA indicates that the company fails to generate sufficient returns to compensate investors for the capital they provide. This perspective highlights the importance of value-based performance measurement in evaluating corporate financial success (O'Connell & Ward, 2020). The findings also align with Agency Theory, which explains the relationship between shareholders as principals and managers as agents. Agency theory suggests that managers may pursue

objectives that differ from the interests of shareholders due to information asymmetry and differing incentives. In this context, EVA functions as a value-based performance measurement system that aligns managerial decisions with shareholder interests. By incorporating the cost of capital into performance evaluation, EVA encourages managers to focus on long-term value creation rather than short-term accounting profits (Sharma & Kumar, 2016).

Overall, the results of this study demonstrate that the EVA approach provides a comprehensive framework for evaluating corporate financial performance. By integrating operational profitability with the cost of capital, EVA offers deeper insights into the company's ability to generate sustainable economic value and improve long-term financial performance.

CONCLUSION

This study examined the financial performance of PT. Argamas Jaya Lab using the Economic Value Added (EVA) approach. The findings indicate that the company's financial performance experienced fluctuations during the observation period due to variations in operational profitability, invested capital, and the cost of capital. Changes in these components influenced the company's ability to generate economic value. The results show that the company was able to generate positive economic value in several periods, indicating that operating profits exceeded the cost of capital. However, the occurrence of negative EVA in one period suggests that operational profits were insufficient to compensate for the capital employed. This condition highlights the importance of efficient capital management and operational performance in sustaining value creation. Overall, the findings confirm that EVA provides a comprehensive measure of financial performance because it incorporates both profitability and capital costs in evaluating corporate performance. Therefore, EVA can serve as an effective tool for assessing whether a company truly creates economic value for its shareholders.

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