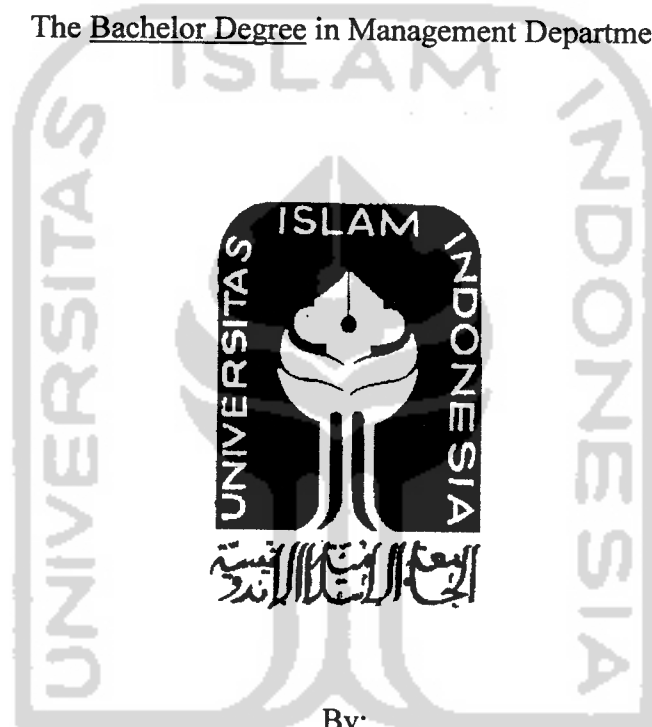


**THE INFLUENCE OF GROWTH ON COMPANY VALUE CREATION AND
SHAREHOLDER VALUE CREATION**

(Case Study of Company Listed in Jakarta Stock Exchange 2002-2004)

A THESIS

Presented as Partial Fulfillment of the Requirements to Obtain
The Bachelor Degree in Management Department



By:

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YOGYAKARTA
2006

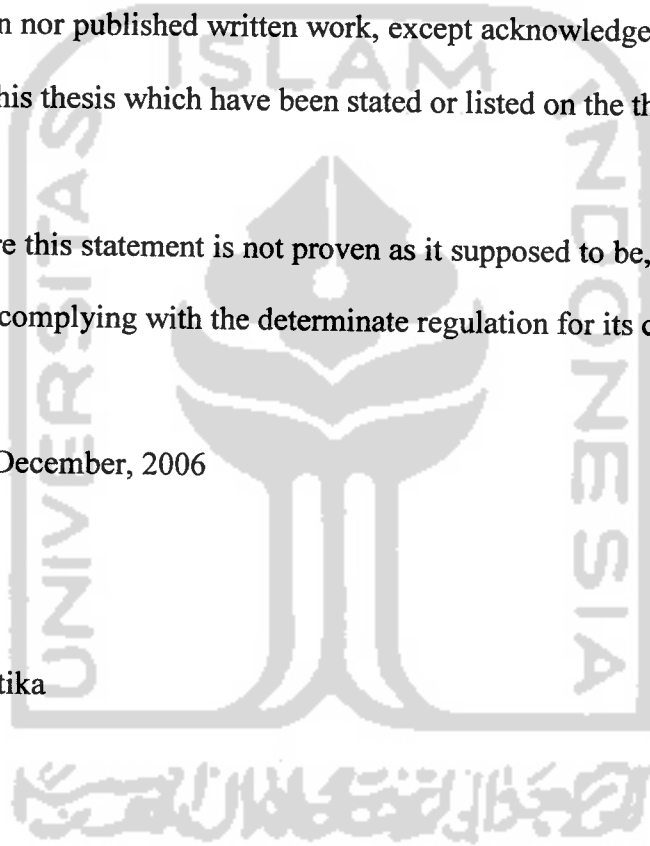
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Yogyakarta, December, 2006

Dini Angwantika



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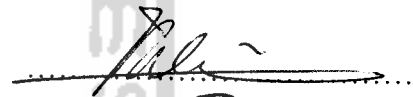
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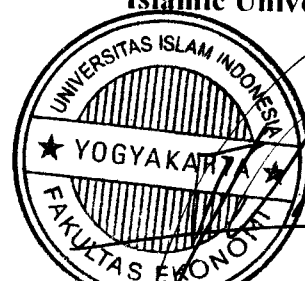


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To:

Allah SWT



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This thesis was written for the purpose to obtain the Bachelor Degree in Management Department, Faculty of Economics, Universitas Islam Indonesia.

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I believe that all the good deeds come from Allah SWT, and all good deeds will bring about goodness. So, the writer hopes that this research will bring about beneficial contributions for all of us. Also, this research may encourage others to do further research in the future. As perfection is only embodied by Allah SWT, critiques and suggestions are needed to develop better research in relevance with this research.

Dini Angwantika

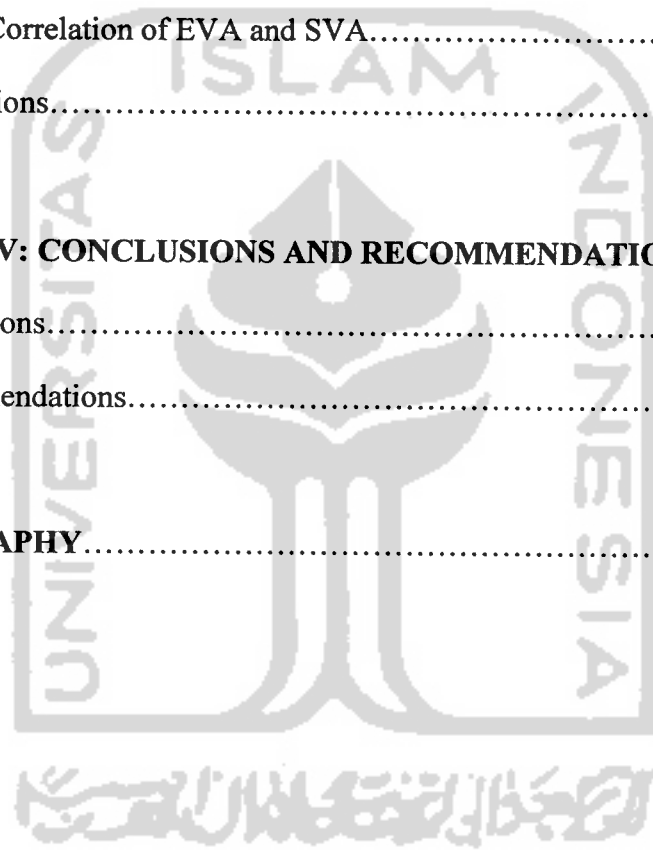
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ABSTRACT

Dini Angwantika (2006): The Influence of Growth on Company Value Creation and Shareholder Value Creation. (Case Study of Companies Listed in Jakarta Stock Exchange 2002-2004).

There are two kinds of growth: good growth, which magnifies value creation; and bad growth, which magnifies value destruction. In order for a company to attain its long-term goals, it should define the future condition of the company itself, by identifying what kind of growth it will have to face, what influences growth has on value creation, and how deep the kind of growth influencing that value creation is. All of the above elements play a crucial role in strategy development. Thus, it is very important that this area is studied further, so that businesses have a better understanding of the influence of growth on company value creation and shareholder value creation. This research was conducted with the aim to empirically prove the influence of growth on value creation. Because of many limitations, growth studied in our research is limited to sustainable growth, growth determination, and financial growth, while company value creation is represented by Economic Value Added (EVA) and shareholder value creation represented by Shareholder Value Added (SVA). We chose to limit growth to the three areas mentioned above in response to the fact that most companies consider growth as value drivers from a financial perspective, further, we chose EVA and SVA to represents value creation due to the fact that both are the latest proxy in relevance with value measurement. Our results shows that only growth determination has significant influence on EVA, and price per share has significant influence on SVA, which proves that growth should be seen as something holistic. Not only something that is always positive and profitable (in terms of financial). Rather, growth is like a coin; it has two sides; on the one side it can lead to value creation, but on the other side, it can lead to value destruction.

Keywords: sustainable growth, growth determination, financial growth, Economic Value Added (EVA), Shareholder Value Added (SVA).

ABSTRAKSI

Dini Angwantika: The Influence of Growth on Company Value Creation and Shareholder Value Creation. (Case Study of Companies Listed in Jakarta Stock Exchange 2002-2004).

Ada dua jenis pertumbuhan: pertumbuhan baik, yang mencerminkan penciptaan nilai (value creation); dan pertumbuhan buruk, yang mencerminkan perusakan nilai (value destruction). Agar tujuan perusahaan dalam pencapaian tujuan tercapai, perusahaan sebaiknya memprediksi bagaimana keadaan perusahaan di masa mendatang, dengan mengidentifikasi macam pertumbuhan yang kemungkinan akan dihadapi, bagaimana pengaruh pertumbuhan terhadap penciptaan nilai, dan seberapa jauh pertumbuhan tersebut mempengaruhi penciptaan nilai. Semua elemen tersebut memegang peranan penting dalam pembangunan strategi (strategy development). Maka dari itu, sangatlah penting untuk mempelajari area ini lebih lanjut, agar pelaku bisnis mendapat pemahaman yang lebih baik mengenai pengaruh pertumbuhan terhadap penciptaan nilai perusahaan dan penciptaan nilai pemegang saham. Penelitian ini bertujuan untuk membuktikan secara empiris tentang pengaruh pertumbuhan terhadap penciptaan nilai. Dikarenakan berbagai keterbatasan, pertumbuhan dalam konteks penelitian ini meliputi 3 area; yaitu sustainable growth, growth determination, dan financial growth, sedangkan penciptaan nilai perusahaan menggunakan Economic Value Added (EVA) sebagai alat ukur, dan penciptaan nilai pemegang saham menggunakan Shareholder Value Added (SVA) sebagai alat ukur. Penelitian ini memilih 3 area konteks pertumbuhan sebagai respon terhadap fakta bahwa sebagian besar perusahaan lebih banyak menekankan pertumbuhan dalam aspek financial sebagai pencipta nilai. EVA dan SVA sebagai alat ukur dikarenakan keduanya merupakan alat ukur terbaru penciptaan nilai. Hasil dalam penelitian ini menunjukkan bahwa growth determination berpengaruh signifikan terhadap EVA, dan price per share berpengaruh signifikan terhadap SVA. Hal ini membuktikan bahwa pertumbuhan seharusnya dipandang secara holistic, tidak hanya sesuatu untuk diraih, menguntungkan (secara financial), atau dalam arti positif. Lebih jauh lagi, pertumbuhan ibarat mata uang; mempunyai 2 sisi; yaitu penciptaan nilai, atau perusakan nilai.

Kata Kunci: sustainable growth, growth determination, financial growth, Economic Value Added (EVA), Shareholder Value Added (SVA).

CHAPTER I

INTRODUCTION

1.1. Background of the Study

The dynamic changing conditions of business can bring about a lot of impacts and challenges for all stakeholders of the business environment. Further, companies as the core parties of business environment, have to be well managed in order to secure future survival. Short term goals and policies can lead to dynamic changes that will have impacts on long term goals of a company. Therefore, companies should also consider the long term impacts, so that the long term goals can be achieved despite any potential situation that could occur.

It goes without saying, that one of the main long term goals of any company concerns growth and value creation; including company value creation and shareholder value creation. Some people may have the assumption that growth is always something good and expected, but in fact it can also be unexpected and have negative impacts on a company.

There are two kinds of growth: good growth, which magnifies value creation; and bad growth, which magnifies value destruction. In order for a company to attain its long-term goals, it should define the future condition of the company itself, by identifying what kind of growth it will have to face, what influences growth has on value creation, and how deep the kind of growth influencing that value creation is. Also, it is important to detect the influence of financial growth which

brings the most influence on value creation. All of the above elements play a crucial role in strategy development.

Based on the above reasons, the writer decided to conduct a thesis titled **“The Influence of Growth on Company Value Creation and Shareholder Value Creation.”(Case Study of Companies Listed in Jakarta Stock Exchange 2002-2004).**

1.2. Problem Identification

This research aims to determine the different kinds of growth (good growth, or bad growth), and how these kinds of growth influence company and shareholder value creation; what kind of financial growth indicators mostly affect company and shareholder value creation; and the influence and links between these three variables (growth, company value creation, and shareholder value creation) in making a triangle synergy in an effort to achieve company goals.

1.3. Problem Formulation

This research investigation will be conducted in order to answer the questions below:

- 1) What is the influence of sustainable growth on company value creation and shareholder value creation?

- 2) What is the influence of growth determination on company value creation and shareholder value creation?
- 3) What is the influence of financial growth on company value creation and shareholder value creation?
- 4) What is the link between growth, company value creation, and shareholder value creation? (Could there be a triangle synergy?).

1.4.Problem Limitation

The research will be restricted to three main areas, which are; the sustainable growth rate and the influence on value creation (company value creation and shareholder value creation), secondly, growth determination (revealed by the amount of equity spread as shown by ROE and Cost of Equity) and the influence on value creation (company value creation and shareholder value creation), and thirdly, determining the influence of financial growth indicators on value creation (company value creation and shareholder value creation) which represented by EPS growth, DPS growth, total profits growth (sales growth), shareholder equity growth, Book Value per share growth, price per share growth, and market value growth. The company value creation will be measured by EVA (Economic Value Added), and the shareholder value creation as shown by SVA (Shareholder Value Added).

1.5. Research Objectives

It is the goal of this paper to contribute to the small but growing body of research on growth and value creation. The research will focus on three main objectives: firstly, sustainable growth and the influence on value creation (company value creation and shareholder value creation), secondly, growth determination and the influence on value creation (company value creation and shareholder value creation), and third, determining influence of financial growth indicators on value creation (company value creation and shareholder value creation). The writer acknowledges that there is not much empirical evidence about growth influence on company value creation and shareholder value creation.

1.6. Research Contributions

The writer hopes that this research will bring the following benefits:

- 1) Researchers/Economist

This research is as a basis for future research about growth generally, and specifically its influence on company value creation and shareholder value creation.

2) Academician

This research is to enrich existing knowledge and give broader point of view about the study. Encouraging individuals to conduct more research related with the issues.

3) Management

Help the management in strategic decision making concerning the creation of triangle synergy between growth, company value creation, and shareholder value creation, so as the company can best implement their strategy toward attaining their goals, besides being able to survive in any challenging condition.

4) Investors

To help investors in investment decision making, by providing them with the empirical evidence of how growth explains the company value creation and shareholder value creation.

5) Government/Official

Contribute to knowledge of the effect of growth and how it is linkage to company and shareholder value creation, in order to help government to determine the best policy to support the business environment as part of microeconomics.

1.7. Definition of Terms

1.7.1. Growth

This research uses growth in three different contexts, first, following Mc Taggart, W.Kontes, and C. Mankins on growth determination to determine good/bad growth, the sustainable growth rate used as the growth indicator, and the term financial growth, these three are to detect whether growth has influence on company value creation and shareholder value creation. Tim BEJ (1998) defines the financial growth indicators as sales growth, net profit growth, price per share, dividend, and book value of share. Those elements are considered as important to growth which, according to Tim BEJ (1998) leads to value added in certain ranges. Erich A. Helfert in his book "Techniques of Financial Analysis: A Guide to Value Creation" (2000) has stated that the financial growth plans covers the objectives of growth in Earnings Per Share, growth in Dividend Per Share, growth in total profit, growth in shareholder's equity, and growth in market value. Based on the above references, this research is conduct by using the following financial growth indicators; shareholder equity growth, growth in Earning per Share (EPS), growth in Dividend per Share (DPS), total profit growth, Book Value per share growth, price per share growth, and market value growth as the external growth indicator.

1.7.2. Sustainable Growth Rate

Sustainable growth rate is the maximum rate of growth a firm can maintain without increasing its financial leverage and using internal equity only.

1.7.3. Growth Determination

Following (Mc Taggart, et., al, 'Value Imperative', 1994:76), the distinction between good growth and bad growth:

1. Good Growth

Good growth results when the shareholders' money-the equity capital supporting a business unit or the company-is invested in strategies that earn consistently positive equity spreads and, thus, positive economic profit over time. The economically profitable growth will increase both warranted equity value and value creation. Further, good growth acts as a powerful magnifier-the more good growth investments a business unit or company can make, the more value it will create.

Good growth defined: $ROE > \text{cost of equity "spread"}$

2. Bad Growth

Bad growth occurs when the shareholders' money is invested in strategies that produce consistently negative equity spreads and, thus, economic losses over time.

The more investments a business unit or company makes in bad growth, the more value it destroys.

Bad growth defined: $ROE < \text{cost of equity "spread"}$.

1.7.4. Financial Growth

A. Shareholder Equity Growth

The growth of shareholder's equity is the amount of total shareholder's equity derived from year-to-year period. Data can be derived from the balance sheet of financial statement.

B. Growth in Earning per Share (EPS)

The growth of the amount a company earns on a share year-to-year period.

C. Growth in Dividend per Share (DPS)

The growth of the amount dividend earn by stockholder in a share amount year-to-year period.

D. Total Profit Growth

The growth of total profit of a company (net profit after tax and interests) derived from year-to-year period.

E. Book Value per Share Growth

Is the growth of the book value per share derived from year-to-year company total equity and the number of shares outstanding.

F. Price per Share Growth

The growth of the share price of a company derived from year-to-year its share closing price, taken from financial statement.

G. Market Value Growth

The growth of market value as external growth indicator, which is represent by MVA (Market Value Added).

* Market Value Added (MVA)

Market Value Added (MVA) is use to measure the past managerial performance to current managerial performance. It also refers to EVA resulted by the whole life of company managerial performance and being present valued. (Mirza & Imbuh, 1999).

1.7.5. Company Value Creation

The company value creation in this research is represented by EVA as measurement tool. Higher EVA compares to cost of capital means higher value created, on the reverse, lower EVA compares to cost of capital means that value is destroyed.

Economic Value Added (EVA):

- A relatively new measure of managerial performance.

(Lefkowitz, 1999).

- A measure of financial performance that combines the familiar concept of residual income with principles of modern corporate finance-specifically, that all capital has a cost and that earning more than the cost of capital creates value for shareholders.
- EVA is after-tax net operating profit –NOPAT-minus a capital charge. (Dierks, Patel, 1997).

1.7.6. Shareholder Value Creation

The shareholder value creation in this research is represented by SVA as measurement tool. SVA is obtained by subtracting the present value of incremental investment from the present value of capitalized NOPAT increase.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

2.1.1. Growth

Martin Concannon, until last month managing director Australia/New Zealand with Stern Stewart, says managers should ask themselves two key questions: How do we find the incremental compound growth that isn't being picked up? And what's holding us back from maximizing value creation? (Anonymous, 2002).

Both questions above seem to bring us to our views related with what the basic goals of a company are. As the business world circling and experience their evolution, the 'grand-daddy' of defining the company's goals are still; how to achieve the creation of company's value and shareholder value.

The term "growth" is often used vaguely, sometimes referring to growth in sales or revenues, and sometimes to growth in profits. Principally the exploitation of market imbalances can occur as a mix between sales growth and profit growth depending on the pricing policy of the company. The more value added that is transferred to the customers through low-prices vis-à-vis offered utility added, the faster is sales growth and the lower is profit growth, and vice versa. An optimal combination of sales and profit growth will result in maximization of the

will result in maximization of the expected value of future residual incomes, i.e., shareholder value and company value. (Ekholm & Wallim, 2003).

Mc. Taggart, W. Kontes, and C. Mankins in their book “Value Imperative” describes that only profitable growth creates value. For economically profitable business, an increasing sustainable growth rate may increase value. By reverse, for economically unprofitable business, increasing sustainable growth may cause value to fall. Growth is very much a double-edged sword. Good growth results when the shareholders’ money-the equity capital supporting a business unit or the company-is invested in strategies that earn consistently positive equity spread, and, thus, positive economic profit over time. This economically profitable growth will increase both warranted equity value and value creation. Further, good growth acts as a powerful magnifier-the more good growth investments a business unit or company can make, the more value it will create. Bad growth, of course, is just the opposite. It occurs when the shareholders’ money is invested in strategies that produce consistently negative equity spreads and, thus economic losses over time. The more investments a business unit or company makes in bad growth, the more value it destroys. This economically unprofitable growth may well increase sales and earnings, but it will always cause value to be destroyed.

Further, following Mc. Taggart, W. Kontes, and C. Mankins on growth determination, good growth, according to them, is occurs as the

positive relationship between sustainable growth rate, warranted equity value, and value to book. A company may be determined as having a good growth and an economically profitable when an increase in sustainable growth rate followed by an increase in warranted equity value ($+ \Delta$ warranted equity value) and an increase in value to book ($+ \Delta V/B$). On the reverse, a company is defined as having a bad growth and economically unprofitable when an increase in sustainable growth rate followed by a decrease in warranted equity value ($- \Delta$ warranted equity value) and a decrease in value to book ($- \Delta V/B$). In turn, Mc. Taggart, W. Kontes, and C. Mankins then simply defines that a good growth is determined when the difference of Return on Equity (ROE) and cost of equity "spread" (average of cost of equity or K_e "spread") is positive ($ROE > K_e$ "spread") or to be called as a positive equity spread. Meanwhile, bad growth is determined when the difference between Return on Equity (ROE) and cost of equity "spread" (average of cost of equity or K_e "spread") is negative ($ROE < K_e$ "spread") or to be called as a negative equity spread.

So, we can conclude that a positive sustainable growth rate ($+ \Delta g$) is not always a good sign or a mean of good growth occurs, and vice versa, but also it depends on how is the equity spread, whether it is positive or negative. Positive sustainable growth is not an indicator of a good growth and vice versa.

Below, we can summarize the distinction between good growth and bad growth according to Mc. Taggart, W. Kontes, and C. Mankins:

Table.1

The Distinction between Good Growth and Bad Growth

Growth Determination Indicator	Good Growth	Bad Growth
Sustainable Growth Rate	Positive or Negative	Positive or Negative
Equity Spread	Positive ($ROE > K_e$ "spread")	Negative ($ROE < K_e$ "spread")

In achieving the company's goal, the academic and practitioners literature has intermittently questioned the virtues of "growth for the sake of growth". (Ramezani, Soenen, and Jung (2002)). As Filler (1963) noted that;...many managers have a view of their company's future that is strikingly analogous to the child's view of himself when asked what they want their companies to become over the next few years, they reply "bigger". It means that the effort of a company to achieve the shareholder value creation is also associates with the achievement of company's growth. Moreover, according to Ramezani, Soenen, and Jung, the optimal growth rate will maximizes EVA (Economic Value Added) which also represents the company value creation, which then,

according to Dierks and Patel, the gains in EVA will mean the gain in shareholder wealth (shareholder value creation).

2.1.2. EVA

As the company goals are to be achieved, the next thing to be considered is a value-based metric as an instrument to measure the value creation. The innovation of value-based metric has led us to an innovation of Economic Value Added (EVA) which is born from the concept of economic profit developed and popularized by Joel Stern and Bennet Stewart, and their consulting firm, Stern & Stewart Company since 1982, and it is currently being used in industry today. Economic Value Added (EVA) according to Joel M. Stern, EVA founding father, was invented from the intensive brainstorming between experts from Stern Stewart & Co., including Stern's partners; David Glassman, Gregory Milano, and Bennet Stewart. They previously had developed the Free Cash Flow (FCF) method in 1970's which was widely implemented until 1980's. However, FCF still does not answer the true measurement of managerial performance and value added. FCF is different with EVA, by which it often occurs in negative while the company's performance is at its best. This is because the company spent a lot on investments, compared to generating more cash. On the other hand, the positive FCF, often likely have a limited chance for new investments. So, the higher the FCF would mean that the company fails to develop advantageous

products. Moreover, the negative FCF would mean the company would experience a boost of growth.

EVA is a measure of financial performance that combines the familiar concept of residual income with the principles of modern corporate finance specifically, that all capital has a cost and that earning more than the cost of capital creates value for shareholders. Companies consistently generating high EVAs are top performers that are valued highly by shareholders. (Dickens and Patel, 1997). This definition may be simply means that the gains in shareholder wealth are driven by gains in EVA.

EVA defined by formula: $EVA = (r - c^*) \times \text{capital}$

Where r = rate of return; and c^* = cost of capital or the weighted average cost of capital. Then, $EVA = (r \times \text{capital}) - (c^* \times \text{capital})$

$EVA = \text{NOPAT} - c^* \times \text{capital}$; and

$EVA = \text{operating profits} - \text{capital charges}$

$EVA = \text{net investments} \times (\text{RONA} - \text{required minimum return})$

Where $\text{RONA} = \text{return on net assets}$

$= \text{NOPAT} / \text{capital}$

If RONA is above the threshold rate, EVA is positive, and value is created. Whether the EVA as the value-based metric is really in line with shareholder value creation is still remains an open question until now. Concerning to that, shareholder value approach is invented.

EVA –different from FCF- increases dramatically only if the company is achieving success in its performance and it will decrease when the company fails to invest. This theory was developed in 1983, but it was not fully developed in a complex management system until in 1987.

Therefore, as its method has developed overtime till nowadays, EVA finally could answer the complex management system through **5M**, which are: *Measurement of performance, Management of the capital allocation process, altering the Mindset through effective training and development of people, Motivating the workforce by designing incentives to reinforce behavior, and Mollifying the strategic process to conform to a value-added rather than a market share focus.*

Although a company often thinks to increase their market share to add value, but the reality is that this does not answer the company's own goals. Sometimes the increase of market share could destroy the company's value by the development of projects without an equal result generated or the result generated was too low compares the amount invested in the projects built.

Marc J. Epstein and S. David Young (1999) on their article "Greening with EVA" suggest that EVA is innovative in three important ways. First, because it is not bound by GAAP, its users are willing to make whatever adjustments are needed to produce economically valid numbers. Second, proponents have been pushing companies to bring EVA into lower levels of the organization on the assumption that all employees, not just senior managers,

must undertake their tasks with the overriding goal of creating the shareholder value. Third, EVA offers a means of measuring and communicating performance that can be used in the capital markets, for capital investments appraisal, and in the evaluation and compensation of managerial performance.

Sri Isworo Adiningsih and Sumarni (2005), has stated the advantages, strengths and weaknesses of EVA in their research about the relationship between EVA and MVA on Companies listed in Jakarta Stock Exchange 1998-2002, as below:

- The advantages of EVA
 1. EVA uses as the company performance measurement tool which focuses on value creation.
 2. EVA makes the attention of board of management to be in line with the shareholder interests.
 3. By using EVA, managers think and act like the shareholders, by choosing the investments which maximize the returns and minimize the cost of capital, so the value of the company could be maximized.
 4. EVA can be used to identify the activities or projects which could give higher returns compared to costs of capital.
 5. By using EVA managers must always compares the rate of return of a project held with the rate of its cost of capital which represents the project's risks.

- The strengths of EVA
 1. EVA focuses its measurement on the value added by calculating weighted average cost of capital (WACC) as the consequence of investments.
 2. The calculation of EVA is relatively easy, but it needs the calculation of cost of capital which needs more data and deeper analysis.
 3. EVA can be used independently without requiring comparable data from other companies or industry standard, and does not apply the concept of valuation and measurement using the ratio analysis.

- The weaknesses of EVA

According to Sri Isworo and Sumarni (2005), by all the advantages of EVA, it has several weaknesses. Firstly, EVA describes the value creation of only a certain year. The value of company is described as the accumulation of EVA over the age of the company. A company could have a positive EVA in its recent operations, but the value created is low because the amount of EVA on the next year may result as negative. So, in using EVA to measure the performance of a company, we should also be concerned with previous years EVA and future EVA.

Secondly, practically EVA is not always easy to be implemented. The process of EVA calculation needs the estimation of cost of capital. This is difficult to do precisely, particularly in the case of

companies which have not yet gone public. For a company which has gone public, the cost of capital and equity could be determined by using capital asset pricing model (CAPM) or market model.

Below are the weaknesses of EVA:

1. EVA only measures the result. This concept does not measure the dependent activities which influence the EVA, such as loyalty and the consumer retention rate.
2. EVA believes that the investors mainly consider the fundamental approach in analyzing and making decisions about selling and buying certain stocks, which is in reality another factor disturbing concerning to this may be more dominant.
3. The concept of EVA is dependent on internal transparency in making an accurate EVA calculation.

On investigating the relationship between EVA and MVA Sri Isworo Adiningsih & Sumarni (2005) found that the valuation of managerial performance of a company resulted on positive and negative EVA. The positive EVA means that the rate of return of capital is higher than the cost of capital. This condition shows that the company has successfully creates value. The negative EVA means that the value of company is decreases as the result from the lower rate of return of capital compared to its cost of capital. For the MVA, most of the companies have a positive MVA which shows the high appreciation of investors toward the company's future. Negative MVA has the reverse

meaning. The research then concluded that there is a positive relationship between EVA and MVA, which means that an increase in EVA will result in the increase of MVA, and vice versa.

Further research about the EVA and MVA was also conducted by Scott Devin Lefkowitz (1999) about the correlation between EVA and MVA and the market value of companies, it found that with near 100% confidence there is a correlation between companies' change in market value and EVA and that there is evidence of a linear relationship between EVA and market value changes of companies.

Lehn and Makhija (1996) held a study about how EVA and MVA relate with stock performance- a well established market measure of performance, were suggests that EVA and MVA, are effective measures of performance, which means providing EVA with a slight edge as a performance measure.

According to Al Ehrbar (1998), "Stern Stewart has done a number of empirical tests of the relationship between EVA and MVA. The performance 1,000 database found that EVA statistically 'explains' about half of the movement in a company's MVA". He claims that no other performance measure explains nearly as much of the change in MVA and EVA does.

James L. Grant (1996) examines EVA and corporate valuation for the fifty largest U.S "wealth-creators" at year-end 1993. He looks at EVA and corporate valuation and finds that "a currently adverse EVA outlook may

have negative information content about the firm's growth opportunities." Thus, Grant concludes that empirical research indicates that EVA has significant impact on the firm's market value added.

Grant (1996) also conducts a study on the empirical relations between EVA and corporate valuation. His study suggests that "EVA significantly impacts the market value-added of a firm and that this wealth effect stems from the company's positive residual return on capital".

On EVA and stock return, Chen and Dodd (1997) found that although improving EVA performance is associated with a higher stock return, the association is not as perfect as claimed by EVA advocates. Secondly, EVA is more powerful than traditional measures of accounting profit in explaining stock return; however, accounting earnings are still significant incremental information value in addition to EVA, and not only is EVA similar to residual income in concept, the two metrics are empirically comparable.

In line with the development of the study about EVA, researchers were over and over deeply explored about EVA from time to time instead of developing the EVA method itself. Many research and study were conducted which results on proving EVA as a better measurement tool and how EVA engage with other variable is very rich to be analyzed. This, then will leads to a contribution of the evolution of EVA method, its implication, and its application.

Related with this research, other previous study as literature that we must also capture is about the growth and its implication on value creation. On shareholder/stakeholder value management, company growth and financial performance, Bo-Goran Ekholm and Jan Wallin (2003) held an exploratory study which suggests that the high sales growth is positively associated with financial performance not only in companies characterized by combined shareholder/stakeholder management but also in companies in which the contemporary management accounting techniques EVA and the balance scorecard (BSC) are not highly appreciated (traditionally managed companies). Moreover, the evidence suggests that shareholder/stakeholder management in combination with high sales growth is associated with superior financial performance and thus with high profitable growth. By contrast, traditionally managed companies seem to lag behind in terms of financial performance if sales growth is low. Their research has the implications that we should also pointed out in related with this research, which is that sales growth seems to be closely associated with profitability, and that managing profitable sales growth requires both successful usage of modern management accounting techniques and attention to different stakeholder needs. However, profitable sales growth is only an expression of the exploitation process following the creation of new values for the market.

Further, Bo-Goran Ekholm and Jan Wallin (2003) stated that we should accentuate the need to think expansively about the term “value” and the possibilities that the new information technology offers with regard to the continuous measurement and distribution of value among the stakeholders in order to secure (the present value) of the long-term residual income of a company, i.e., to maximize its own value.

On the contrary to the above research, Cyrus A. Ramezani, Luc Soenen, and Alan Jung (2002) have conducted the research about growth, corporate profitability, and value creation. Their empirical results indicate that maximizing growth (represents by sales growth) does not maximize corporate profitability or shareholder value. In contrast, companies with moderate growth in sales or earnings shows the highest rates of return and value creation for their owners. This also could show that the sales growth cannot mainly represent the company’s growth, in related to that, this statement is become one of the writer considerations to not using the sales growth as the main indicator of growth in conduct the research. Cyrus A. Ramezani, Luc Soenen, and Alan Jung (2002) also add that managers need to make a fundamental shift in their strategic orientation from “growth now, profitability later” to “profitable growth now”. That is, growth should not be the input to strategic planning but the outcome of a sound investment strategy that is geared to accepting value-creating projects.

2.1.3. SVA

Studies about shareholder value added (SVA) is still remain lacking, So, the writer decide to measure the shareholder value mainly based on the Alfred Rappaport's book about creating shareholder value which has give a detail exploratory study as a literature. Shareholder Value Added (SVA) is a creation of Dr. Alfred Rappaport and LEK/Alcar Consulting Group. Its origins from the discounted cash flow model. On his book, Rappaport (1998) stated that linking cash-flow growth targets to the level of incremental investment using the SVA model has another important organizational advantage.

“It enables management to produce an unbiased economic road map for the business without the time-consuming, counter-productive distractions that arise from commingling performance and compensation issues with the planning process. The variable SVA approach reduces the gaming aspects of the budgetary process and gives management strong financial incentives to invest only in value creating activities.”

On his book, Rapapport pointed that the basic estimation of shareholder value describes that the total economic value of an entity such as a company or business unit is the sum of the values of its debt and its equity. This value of the business called “company's value” and the value of the equity portion is called “shareholder value”. This leads to an arrangement between those factors, which is; $\text{shareholder value} = \text{company's value} - \text{debt}$. While shareholder value characterizes the absolute economic value resulting from the

forecasted scenario, SVA addresses the *change* in value over the forecast period. SVA is obtained by subtracting the present value of incremental investment from the present value of the capitalized NOPAT increase. If the liquidation or “break-up” value of a business is greater than its discounted cash flow value, then liquidation value should be used in the analysis. Under such circumstances the shareholder value added would be assessed as:

$$\text{SVA} = \text{cumulative present value of cash flows} + \text{present value of liquidation at end of forecast period} - \text{current liquidation value.}$$

The change in shareholder value or SVA that generates incremental sales and thereby incremental cash flows as a result of fixed and working capital investment can be depicted as follows:

$$\text{Change in Shareholder Value} = (\text{present value of incremental cash flow before new investment}) - (\text{present value of investment in fixed and working capital}).$$

$$\text{Change in Shareholder Value} = \frac{(\text{incremental sales}) (\text{operating profit margin on incremental sales}) (1 - \text{income tax rate})}{(\text{Cost of capital})}$$

$$\text{Change in Shareholder Value} = \frac{(\text{Incremental sales}) (\text{incremental fixed plus working capital investment rate})}{(1 + \text{cost of capital})}$$

The incremental threshold margin is the operating profit margin on incremental sales that equates the present value of the cash inflows to the present value of the cash outflows. The incremental threshold margin can thus be found by setting the present value of the inflows and the outflows equal to each other and then solving for the incremental threshold margin.

Incremental Threshold Margin:

$$\frac{(\text{Incremental fixed plus working capital investment rate}) (\text{Cost of capital})}{(1 + \text{cost of capital}) (1 - \text{income tax rate})}$$

Therefore, SVA is determined by the product of three factors: (1) sales growth, (2) incremental threshold spread, that is, profit margin on incremental sales less incremental threshold margin, and (3) the duration over which threshold spread is expected to be positive, that is, the value growth duration.

So that, SVA is provided by the following equation:

$$\text{SVA} = \frac{(\text{Incremental sales in period } t) (\text{Incremental threshold spread in period } t) (1 - \text{income tax rate})}{(\text{cost of capital}) (1 + \text{cost of capital})^{t-1}}$$

$$SVA = \frac{NOPAT}{(\text{cost of capital}) (1 + \text{cost of capital})^{t-1}}$$

$$\text{Less: Incremental investment x } \frac{1}{(1 + \text{cost of capital})^{t-1}}$$

$$= \text{change in NOPAT} / K(1+K)^{t-1} - \text{PV of incremental investment}$$

With : NOPAT : Net Operating Profit After Tax

K : Cost Of Capital

PV : Present Value

(Alfred Rappaport, "Creating Shareholder Value", 1998).

Rappaport, also summarizes ten-value creation questions to be concerned:

1. How well have we done in producing a competitive total return to shareholder over the past few years?
2. What are the principal factors responsible for the company's superior or inferior returns relative to our principal competitors?
3. Do we have a sound plan in place for creating value over the next few years?
4. How might alternative strategies affect shareholder value and future returns to shareholders?
5. Which business units are creating value and which are not? Why?
6. What are the most leverage able value drivers in each of our business units?

7. What are the critical risks for each of our business and what can we do to reduce those risks?
8. Are the company's activities financed at lowest cost given management's target level of financial risks?
9. Do management's expectations and the market's expectations (as impounded in the stock price) about the future prospects of the company differ? If so, what opportunities are presented?
10. How do the market's expectations about our company compare with those of our principal competitors?

2.2. Hypotheses Formulation

Below are the hypotheses to be tested by this research:

- I. The hypothesis developed to investigate the influence of growth determination on company value creation and shareholder value creation.

H1 : Growth determination positively influences company value creation or shareholder value creation.

- II. The hypothesis developed to investigate the influence of sustainable growth rate on company value creation and shareholder value creation.

H2: Sustainable growth positively influences company value creation or shareholder value creation.

III. The hypothesis developed to investigate the influence of financial growth on company value creation and shareholder value creation and to define the financial growth indicators that influence the value creation.

H3 : Financial growth positively influences company value creation or shareholder value creation.



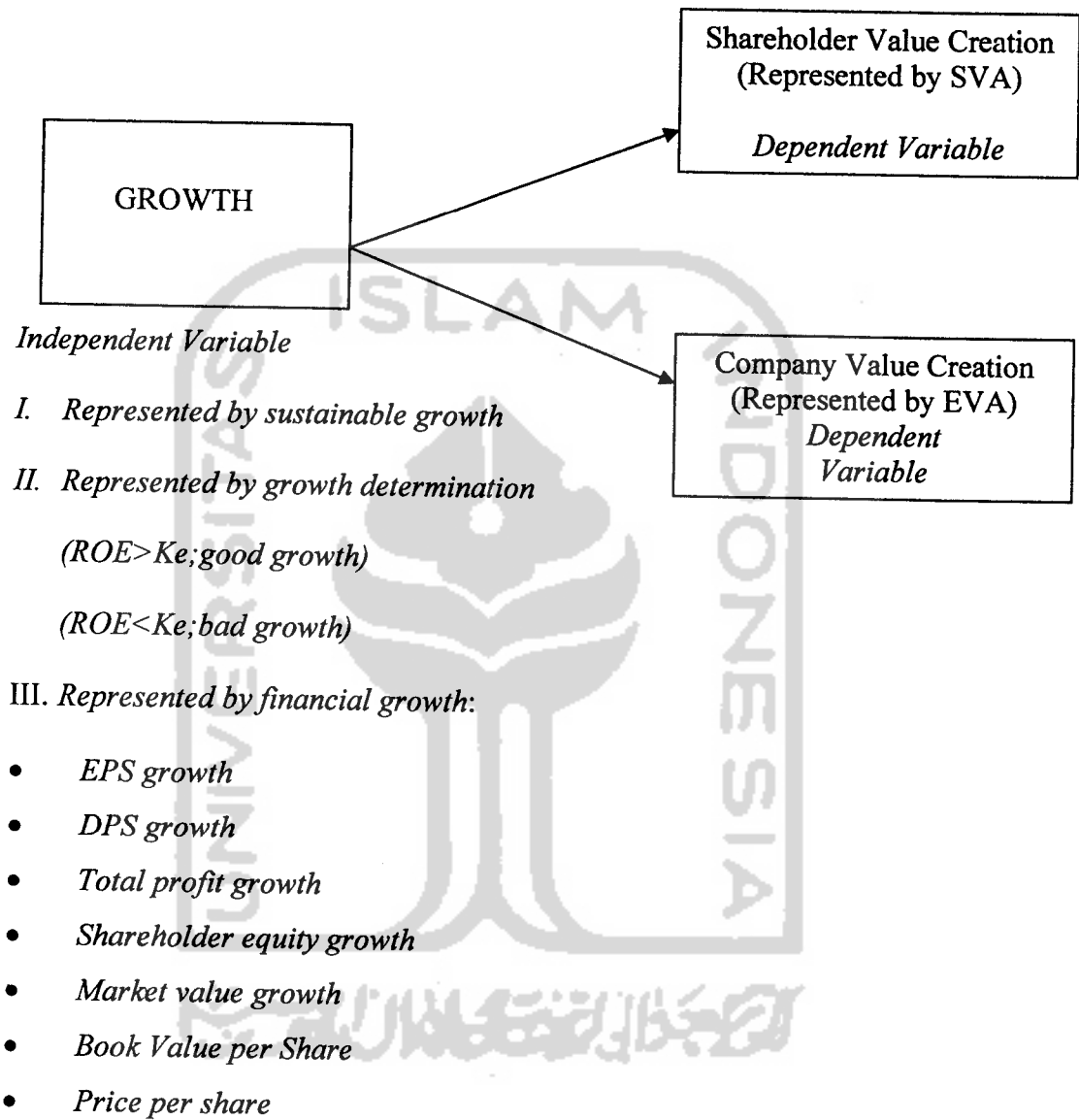


Figure.1

The Influence of Growth on Company Value Creation
And Shareholder Value Creation

CHAPTER III

RESEARCH METHOD

3.1. Research Subject

This research taking population of companies listed in Jakarta Stock Exchange between the year 2002-2004, by taking a sample of 250 companies as the sample are drawn from 30 different industrial areas, which includes almost all industrial areas, except banking, insurance, and securities sector, regarding the different valuation method used, growth, condition, and many other different aspects should be considered compares to other industrial areas which is more similar. We considers to take samples of almost all the companies in various industrials sector to avoid bias of different classification of industrial size, the company's category and so on.

3.2. Research Data

Data were collected from the Indonesian Capital Market Directory 2005, 2004, 2003, and 2002, which provided available data for the years 2002-2004.

The secondary data taken includes:

1. Financial Report
2. Monthly Composite Price Index (IHSG)
3. Monthly Closing Stock Price
4. SBI (Risk Free Rate)

3.3. Operational Definition of Research Variables

3.3.1. Independent Variable

In this research, growth is the independent variable. The growth itself, specifically defined by three main ideas, which are; the sustainable growth rate, the growth determination (good/bad growth based on comparison of ROE and cost of equity), and the financial growth (which includes of seven elements to be considered) which are EPS growth, DPS growth, total profit growth, shareholder equity growth, market value growth, BV per share, and price per share.

A. Sustainable Growth

Sustainable growth rate is the maximum rate of growth a firm can maintain without increasing its financial leverage and using internal equity only. The precise value of sustainable growth can be calculated as:

$$\text{Sustainable growth rate} = \text{ROE} \times \text{retention ratio}$$

$$\text{ROE} = \text{Net Income} / \text{Average common stockholder's equity}$$

$$\text{Retention Ratio} = \text{Retained earnings} / \text{Net Income}$$

$$\text{Retained Earning} = \text{Net Income} - \text{Dividends}$$

B. Growth Determination

1. Good Growth

Good growth results when the shareholders 'money-the equity capital supporting a business unit or the company-is invested in strategies that earn consistently positive equity spreads and, thus, positive economic

profit over time. The economically profitable growth will increase both warranted equity value and value creation. Further, good growth acts as a powerful magnifier-the more good growth investments a business unit or company can make, the more value it will create.

Good growth defined: $ROE > \text{cost of equity "spread"}$.

2. Bad Growth

Bad growth occurs when the shareholders' money is invested in strategies that produce consistently negative equity spreads and, thus, economic losses over time.

The more investments a business unit or company makes in bad growth, the more value it destroys.

Bad growth defined: $ROE < \text{cost of equity "spread"}$.

C. Financial Growth

1. EPS growth

The growth of the amount a company earns on a share year-to-year period.

The EPS defined:

$$EPS = ROE \times \text{Book Value} / \text{share}$$

$$EPS = \text{profit after tax} / \text{the amount of share outstanding}$$

(Tim BEJ, 1998).

2. DPS growth

The growth of the amount dividend earn by stockholder in a share amount year-to-year period.

The DPS defined:

DPS = cash dividend / the number of share outstanding.

3. Total profit growth

The growth of total profit of a company (net profit after tax and interests) derived from year-to-year period.

Total profit defined:

Sales

Less : Revenue (COGS)

Equals to : Gross Profit

Less : Operating Expenses

Equals to : Operating Profit

Less : Interests Charges

Equals to : Net Profit before Taxes

Less : Tax Charges

Equals to : Net Profit

4. Shareholder equity growth

The growth of shareholder's equity is the amount of total shareholder's equity derived from year-to-year period. Data can be derived from the balance sheet of financial statement.

5. Market value growth

The growth of market value as external growth indicator, which is represent by MVA (Market Value Added).

* Market Value Added (MVA)

Market Value Added is use to measure the past managerial performance to current managerial performance. It also refers to EVA resulted by the whole life of company managerial performance and being present valued.

It is defined:

$$\text{MVA} = (\text{Market Value of Equity} - \text{book value of equity}) \times \text{outstanding shares}$$

(D. Young, O'Bryne, "EVA and VBM", 2001).

Or

Gordon growth model: Grant (1996)

$$\text{MVA} = \text{EVA} (1) / (r-g)$$

Where, EVA (1) = the predicted EVA of the next period (current EVA x g),

r = the firm's cost of capital

g = a constant growth rate for the firm

(Grant, James, 1996).

6. Book Value per share

Book Value per share growth is the growth of the book value per share derived from year-to-year company's total equity and the number of shares outstanding.

BV/share defined:

$$\text{BV/share} = \text{Total Equity} / \text{number of shares outstanding}$$

(Tim BEJ, 1998).

7. Price per share

The growth of the share price of a company derived from year-to-year its share closing price, taken from financial statement.

3.3.2. Dependent Variable

The dependent variables are defined as the company value creation which is represented by Economic Value Added (EVA) and shareholder value creation which is represented by Shareholder Value Added (SVA).

A. Economic Value Added (EVA)

- A relatively new measure of managerial performance.
(Lefkowitz, 1999).
- A measure of financial performance that combines the familiar concept of residual income with principles of modern corporate finance-specifically, that all capital has a cost and that earning more than the cost of capital creates value for shareholders.

B. Shareholder Value Added (SVA)

SVA is obtained by subtracting the present value of incremental investment from the present value of capitalized NOPAT increase.

SVA defined:

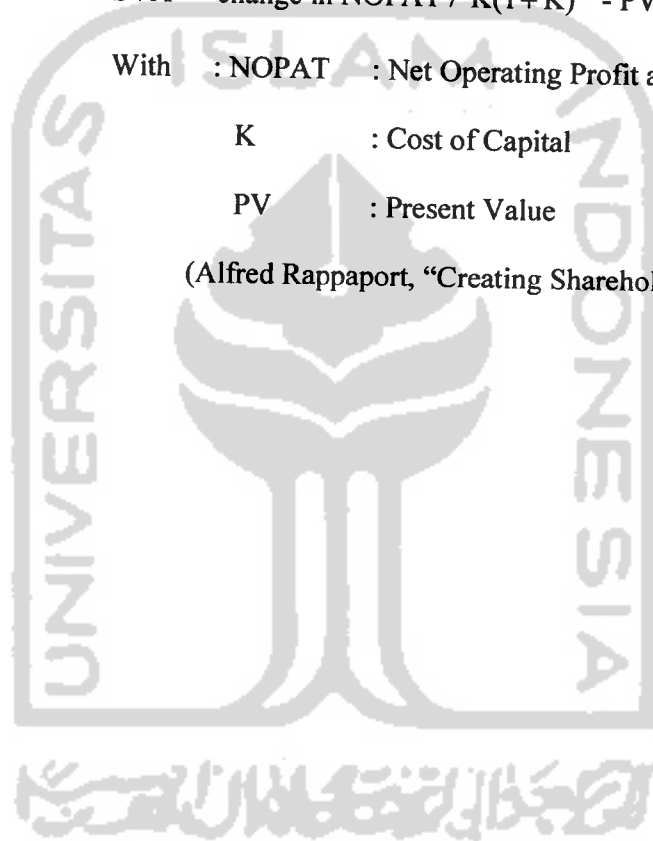
$SVA = \text{change in NOPAT} / K(1+K)^{t-1} - \text{PV of incremental investment}$

With : NOPAT : Net Operating Profit after Tax

K : Cost of Capital

PV : Present Value

(Alfred Rappaport, "Creating Shareholder Value", 1998).



3.4. Research Procedures

3.4.1. Research Procedures on Determining the Influence of Sustainable Growth on Company Value Creation and Shareholder Value Creation

According to the theoretical framework, this research aims to determine firstly, the influence of sustainable growth on company value creation and shareholder value creation, by taking following steps:

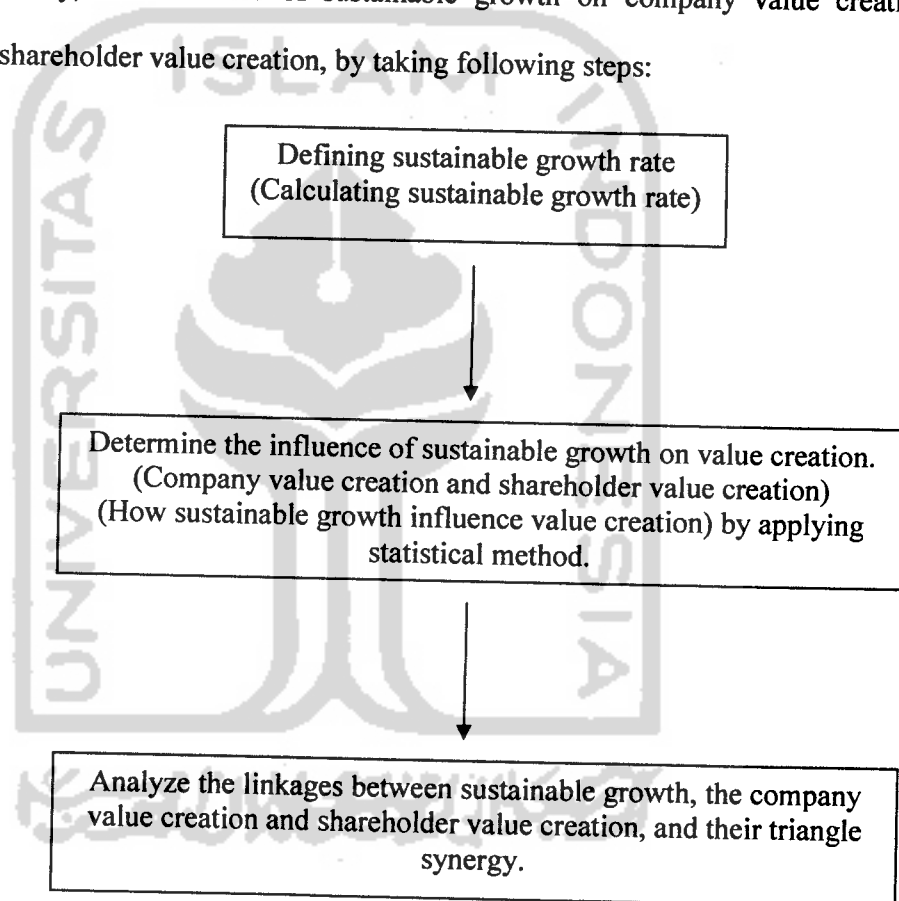


Figure.2

Research Procedures

The Influence of Sustainable Growth on Value Creation

3.4.2. Research Procedures on Determining the Influence of Growth Determination on Company Value Creation and Shareholder Value Creation

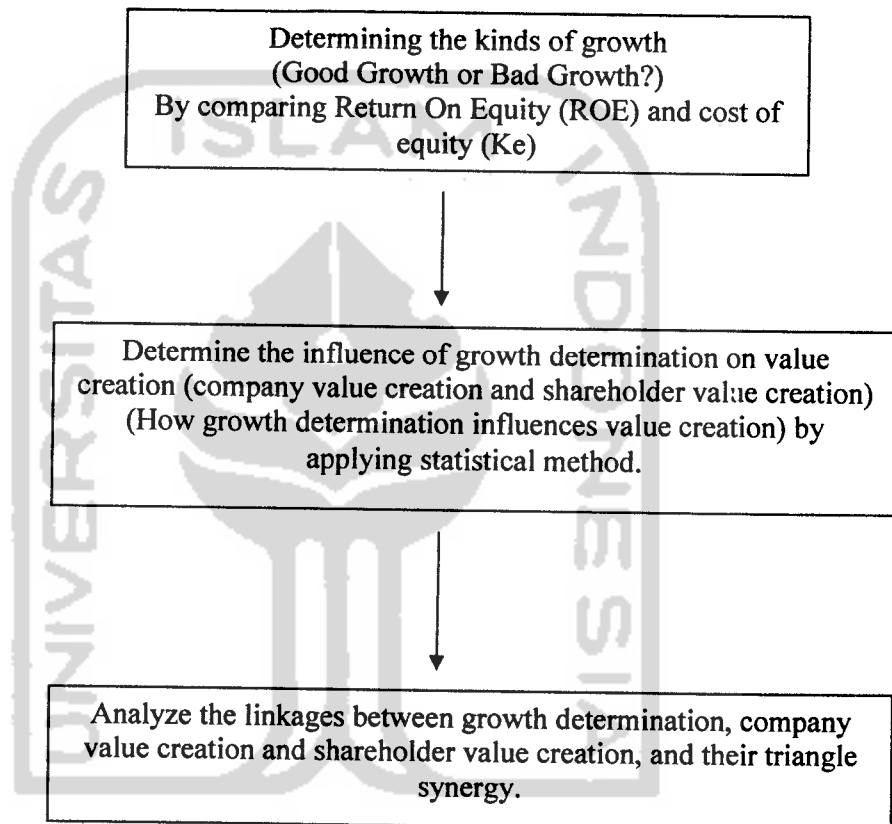


Figure.3

Research Procedures

The Influence of Growth Determination on Value Creation

3.4.3. Research Procedures on Determining the Influence of Financial Growth on Company Value Creation and Shareholder Value Creation

Thirdly, we define the financial growth and the influence of the financial growth indicators on company value creation and shareholder value creation. By this, further we can determine which financial growth indicator has the most influence on value creation.

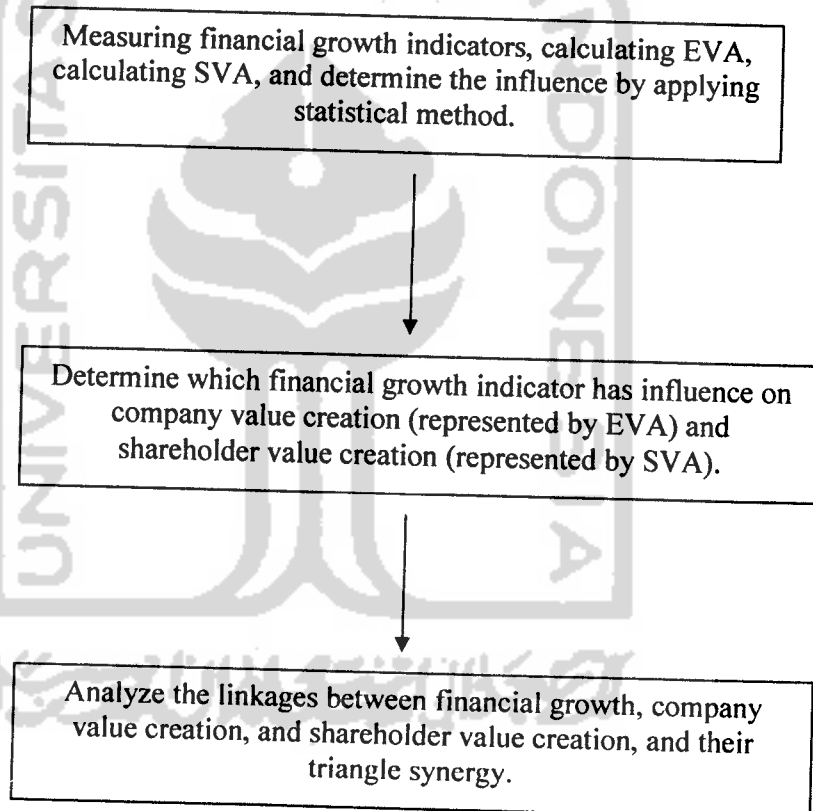


Figure.4

Research Procedures

The Influence of Financial Growth on Value Creation

After all the above steps, then we try to analyze and conclude the linkages between sustainable growth, growth determination, and financial growth, and their influence on company value creation and shareholder value creation.

3.5. Technique of Data Analysis

The statistic used for data analysis is logistic regression to measure the influence of sustainable growth, growth determination, and financial growth on company value creation and shareholder value creation. Logistic regression is chosen because the value creation represented by EVA and SVA are categorized into two; creates value when it is positive (>0), and destroys value when it is negative (<0). The statistical analysis above is held by using the SPSS 13.0 computer program.

3.5.1. Steps in Data Analysis

A. Growth determination and the influence on company value creation and shareholder value creation.

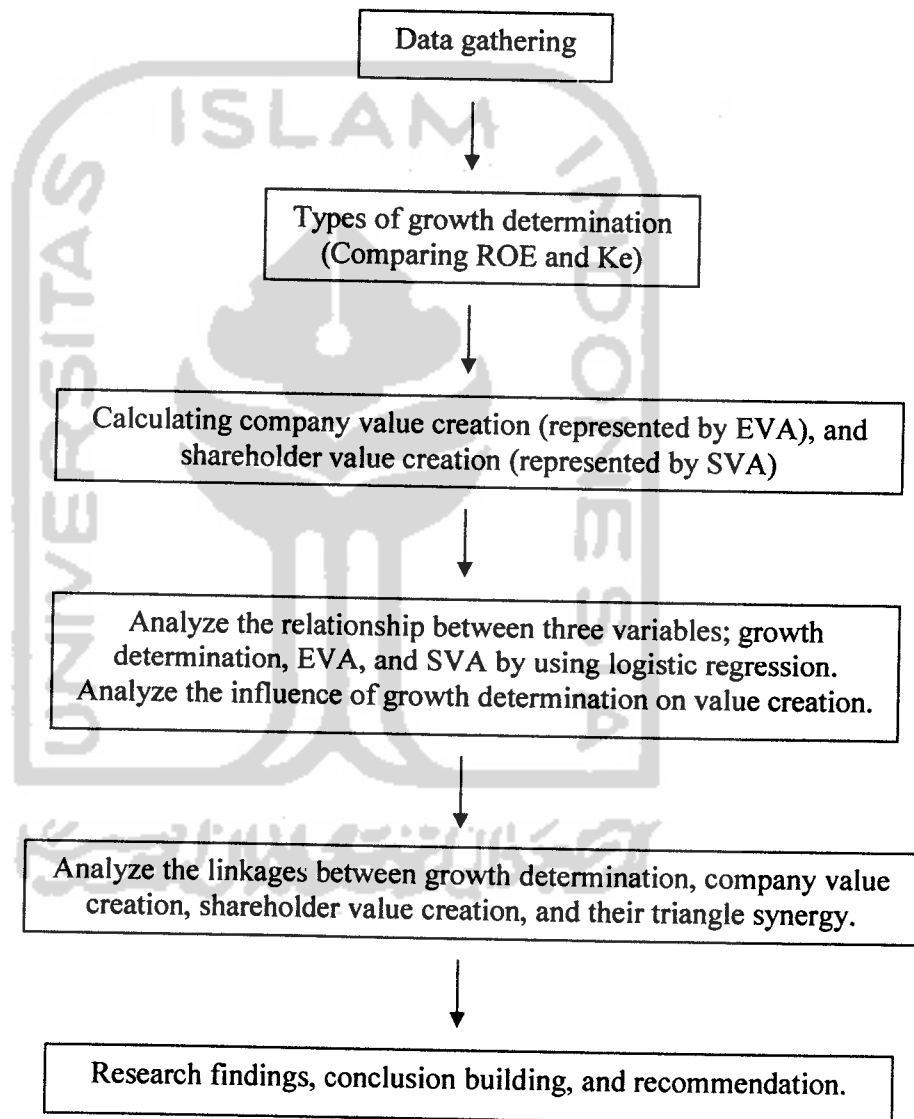


Figure.5

Steps in data analysis; The influence of growth determination on value creation.

B. Sustainable growth and the influence on company value creation and shareholder value creation.

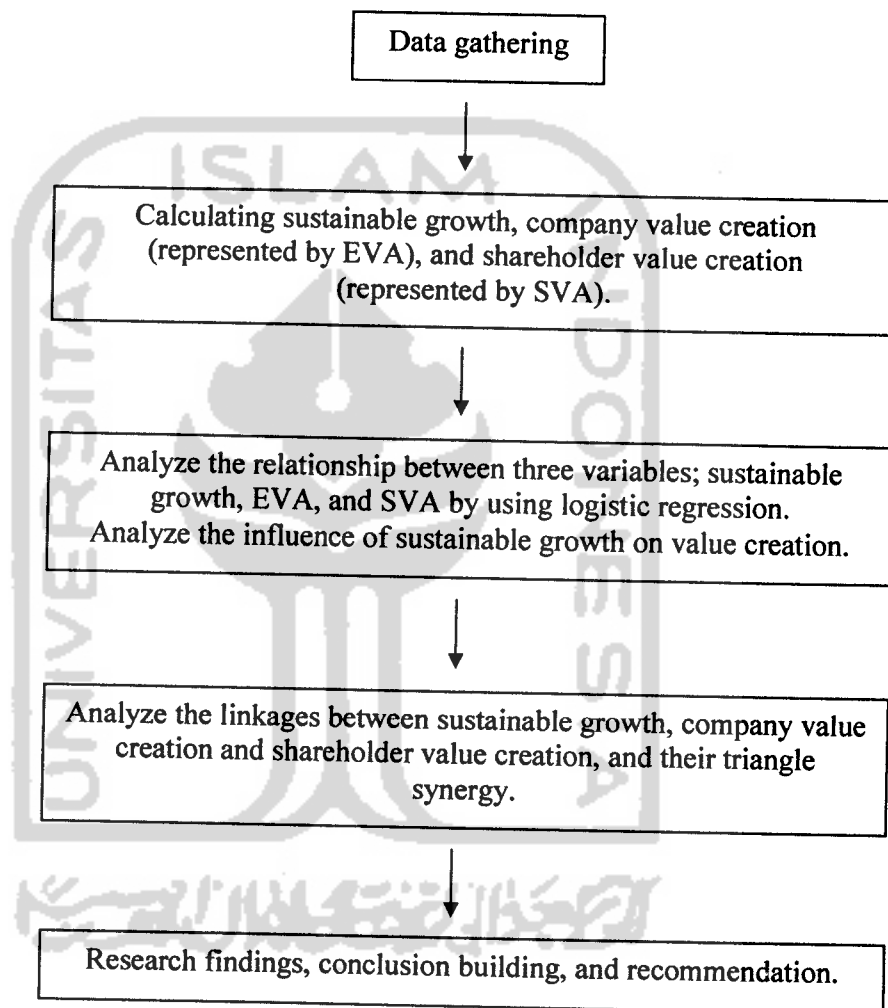


Figure.6

Steps in Data Analysis

The Influence of Sustainable Growth on Value Creation

C. Financial growth and the influence on company value creation and shareholder value creation.

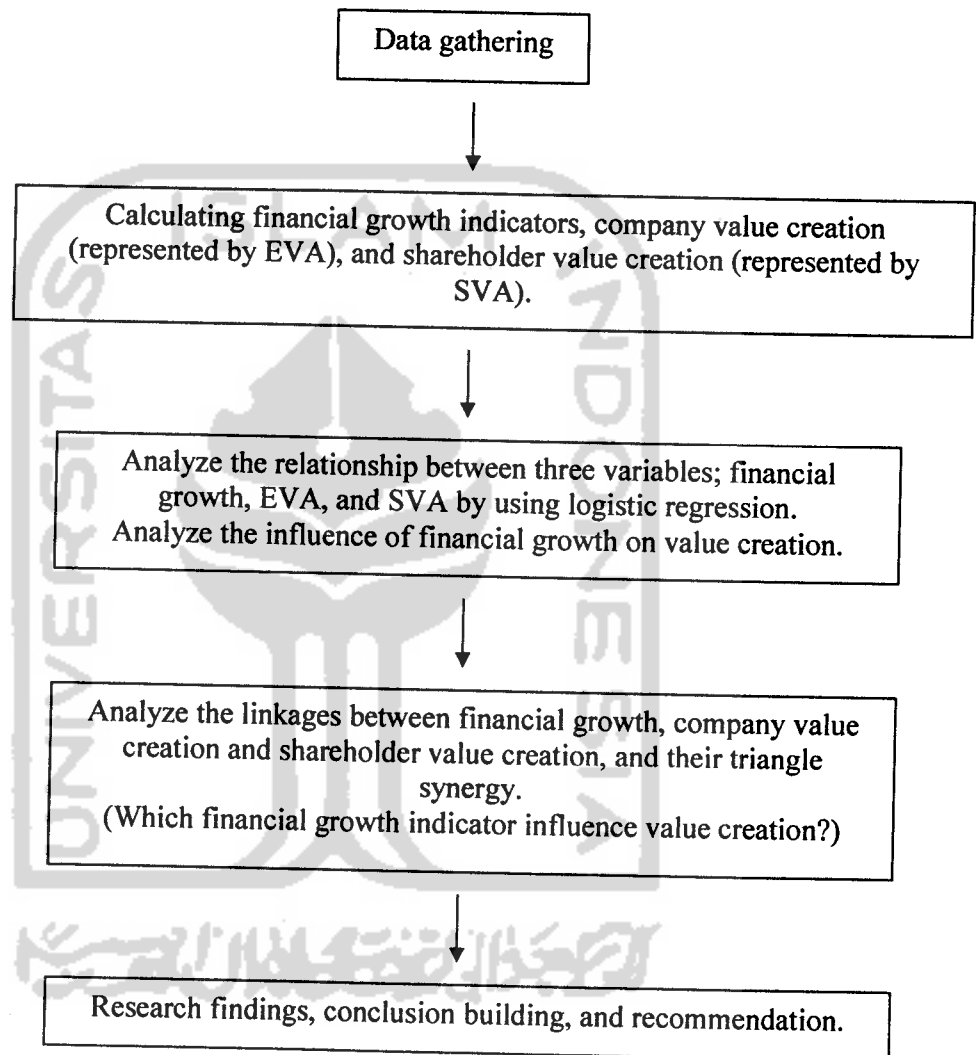


Figure.7

Steps in Data Analysis

The Influence of Financial Growth on Value Creation

3.5.2. Step-by-Step Method of Calculation

A. Defining Sustainable Growth Rate

1. Sustainable growth rate = ROE x retention ratio
2. ROE = $\frac{\text{Net Income}}{\text{Average common Stockholder's equity}}$
3. Retention Ratio = $\frac{\text{Retained earnings}}{\text{Net Income}}$
4. Retained Earning = $\text{Net Income} - \text{Dividends}$

B. Determination of Good Growth and Bad Growth

Growth defined:

Good Growth (ROE > Ke)

Bad growth (ROE < Ke)

1. ROE determination

ROE = $\frac{\text{Net Income}}{\text{Average common stockholder's equity}}$

With:

NI derived from Income Statement

Average Common stockholder equity derived from Income Statement

2. Cost of Equity (Ke)

Ke = $r_f + \beta (r_m - r_f)$

With:

β = beta coefficient for stock

rf = risk free rate (SBI rate)

3. Average Risk Free Rate (rf) / SBI rate:

Table.2

Average Risk Free Rate (rf) / SBI rate

Average Risk	2002	2003	2004
Free Rate (rf)	0.151	0.1013	0.0749

$$\bullet \beta = \frac{\text{Cov} (R_{it} - R_{mt})}{\text{Var} (R_{mt})}$$

With:

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

P_t = recent month closing stock price

P_{t-1} = previous month closing stock price

R_{mt} = market risk

R_{it} = stock return

Where market risk (R_{mt}) were derived from the changes of composite price index (Δ IHSG):

$$\Delta \text{ IHSG} = \frac{\text{IHSG}_t - \text{IHSG}_{t-1}}{\text{IHSG}_{t-1}}$$

IHSG = recent month composite price index

IHSG_{t-1} = previous month composite price index

C. Financial Growth

1. Shareholder Equity Growth (Δ Shareholder Equity)

$$\Delta \text{ Shareholder Equity} = \frac{\text{Recent Shareholder Eq.} - \text{Prev. Shareholder Eq.}}{\text{Previous Shareholder Equity}}$$

2. Growth in Earning per Share (EPS)

EPS can be derived from financial statement.

EPS defined as

$$\text{EPS} = \text{ROE} \times \text{Book Value} / \text{share}$$

$$= \text{profit after tax} / \text{the amount of share outstanding}$$

$$\Delta \text{ EPS} = \frac{\text{EPS}_t - \text{EPS}_{t-1}}{\text{EPS}_{t-1}}$$

With: EPS_t = EPS at recent time

EPS_{t-1} = previous EPS

3. Growth in Dividend per Share (DPS)

DPS can be derived from financial statement.

DPS defined as = cash dividend / the number of share
outstand.

$$\Delta \text{ DPS} = \frac{\text{DPS}_t - \text{DPS}_{t-1}}{\text{DPS}_{t-1}}$$

With: DPS_t = DPS at recent time

DPS_{t-1} = previous DPS

With: DPS_t = DPS at recent time

DPS_{t-1} = previous DPS

4. Total Profit Growth

Total Profit can be derived from financial statement, which is the same as profit after taxes.

$$\Delta \text{total profit} = \frac{\text{Total Profit } t - \text{Total Profit } t-1}{\text{Total profit } t-1}$$

With: Total Profit t = Total profit at recent time

Total Profit $t-1$ = previous Total Profit

5. Book Value per Share Growth

BV/share can be derived from financial statement.

BV/share defined:

$$\text{BV/share} = \frac{\text{Total Equity}}{\text{number of shares outstanding}}$$

$$\Delta \text{BV/share} = \frac{\text{BV/share } t - \text{BV/share } t-1}{\text{BV/share } t-1}$$

With:

$\text{BV/share } t$ = BV/share at recent time

$\text{BV/share } t-1$ = previous BV/share

6. Price per Share Growth

The price derived from closing price at the end of the year stated on financial statement.

$$\Delta \text{ price/share} = \frac{\text{price/share}_t - \text{price/share}_{t-1}}{\text{price / share}_{t-1}}$$

With:

price/share t = price/share at recent time

price/share t-1 = previous price/share

7. Market Value Growth

Market Value derived from the amount of Market Value Added.

MVA =

(Market Value of Equity – book val. of equity) x outstanding shares

$$\Delta \text{MVA} = \frac{\text{MVA}_t - \text{MVA}_{t-1}}{\text{MVA}_{t-1}}$$

With:

MVA t = MVA at recent time

MVA t-1 = previous MVA

D. EVA Calculation step-by-step

1. The Calculation of Cost of Debt (Kd)

$$Kd^* = Kd (1 - T)$$

$$Kd = \frac{\text{Annual interest expense}}{\text{Total debt}}$$

$$Kd^* = \text{annual debt expense after tax}$$

$$T = \text{tax rate} = (\text{tax} / \text{profit before tax}) \times 100 \%$$

2. Calculation of Cost of Equity

$$Ke = rf + \beta (rm - rf)$$

3. Capital Structure

Total Capital = total debt + stockholder's equity + minority interest
in net assets of subsidiaries

$$\text{Capital composition} = 1$$

$$= \text{Debt composition} + \text{equity composition}$$

$$\text{Debt Composition} = \text{Total Debt} / \text{Total Interests capital}$$

$$\text{Equity Composition} = 1 - \text{Debt composition}$$

4. WACC (Weighted Average Cost of Capital)

$$WACC = (\text{Debt Composition} \times Kd) + (\text{Equity Composition} \times Ke)$$

5. EVA

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Capital})$$

$$\text{NOPAT} = (\text{profit before tax expense} + \text{interest expense}) - \text{tax expense}$$

$$\text{NOPAT} = \text{profit after tax expense} + \text{interest expense}$$

$$\% \text{ EVA} = \text{EVA} / \text{invested capital}$$

When: EVA (+) or EVA > 0 company creates value

EVA (-) or EVA < 0 company destroy value

E. SVA

$$\text{SVA} = \frac{\text{NOPAT}}{(\text{Cost of capital})(1 + \text{cost of capital})^{t-1}}$$

$$\text{Less: Incremental investment} \times \frac{1}{(1 + \text{cost of capital})^{t-1}}$$

$$= \text{change in NOPAT} / K(1 + K)^{t-1} - \text{PV of incremental investment}$$

With:

NOPAT : Net Operating Profit after Tax

K : Cost of Capital

PV : Present Value

(Alfred Rappaport, "Creating Shareholder Value", 1998).

* SVA calculation step-by-step:

1. NOPAT

NOPAT = profit after tax + interest expense

2. Change in NOPAT

Δ NOPAT derived from Δ yearly NOPAT

3. Proportion of debt

$$\text{Proportion of debt} = \frac{\text{totaldebt}}{\text{investedcapital}}$$

Where, Invested capital = total debt + stockholder's equity + minority interest in net assets of subsidiaries.

4. Cost of debt (Kd*)

Cost of debt (Kd*) = Kd (annual debt expense after tax) x (1 – tax rate)

Where,

Kd (annual debt expense after tax) = annual interest expense / total debt

$$\text{Tax rate} = \left(\frac{\text{tax}}{\text{profitbeforetax}} \right) \times 100 \%$$

5. Weighted cost of debt

Weighted cost of debt =

(Proportion of debt x cost of debt)

((proportion of debt x cost of debt) + (proportion of equity x cost of equity))

Where,

Proportion of equity = 1 – proportion of debt

Cost of equity = $r_f + \beta (r_m - r_f)$

R_f = risk free rate

β = market sensitivity

r_m = market risk

6. Weighted cost of equity

(Proportion of equity x cost of equity)

((proportion of equity x cost of equity) + (proportion of debt x cost of debt))

7. Cost of capital (K) = weighted cost of debt + weighted cost of equity = 1

8. $K \times (1 + K)^{t-1}$

Where K is cost of capital and t is the i^{th} year.

9. Incremental investment = Δ yearly invested capital

10. Present value of incremental investment

= incremental investment x $\frac{1}{(1 + \text{cost of capital})^{t-1}}$

11. Change in NOPAT / $K \times (1 + K)^{t-1}$

12. SVA = change in NOPAT / $K(1 + K)^{t-1}$ - PV of incremental investment

3. 5.3. Equation Method

Below are our equation methods to give a brief description about research framework and variables we are assumes:

I. Sustainable growth and the influence on company value creation and shareholder value creation.

The influence of sustainable growth on company value creation and shareholder value creation:

$$\text{EVA} = a + b * \text{sustainable growth rate}$$

$$\text{SVA} = a + b * \text{sustainable growth rate}$$

II. Growth determination and their influence on company value creation and shareholder value creation.

The influence of growth determination on company value creation and shareholder value creation:

$$\text{EVA} = a + b * \text{growth determination}$$

$$\text{SVA} = a + b * \text{growth determination}$$

III. Financial growth and their influence on company value creation and shareholder value creation.

The influence of financial growth on company value creation and shareholder value creation:

$$\text{EVA} = a + b \cdot \text{EPS growth } (\Delta \text{ EPS}) + c \cdot \text{DPS growth } (\Delta \text{ DPS}) + d \cdot \text{Total profit growth } (\Delta \text{ Total Profit}) + e \cdot \text{Shareholder equity growth } (\Delta \text{ Shareholder equity}) + f \cdot \text{Market Value Growth } (\Delta \text{ MVA}) + g \cdot \text{Book Value per Share } (\Delta \text{ BV/share}) + h \cdot \text{price per share } (\Delta \text{ Price per Share})$$

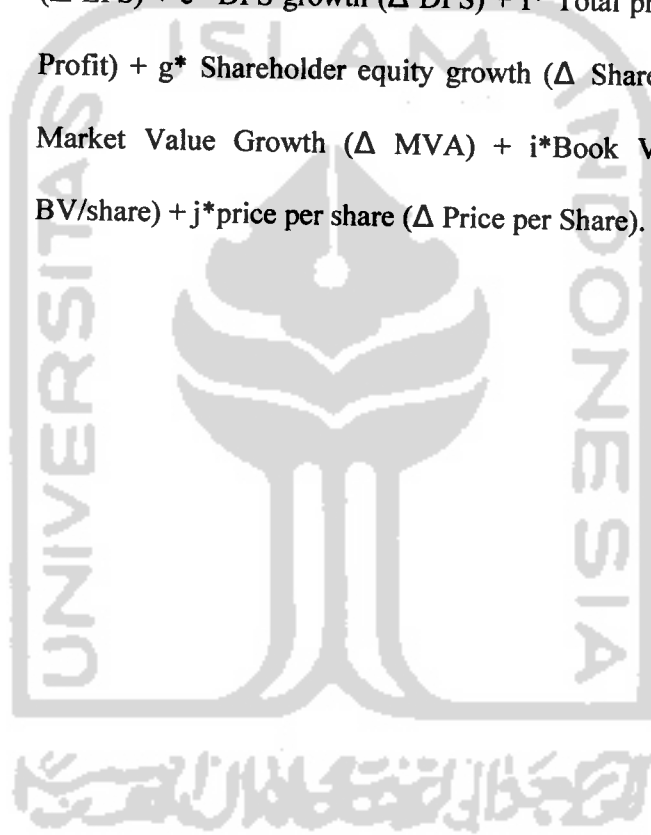
$$\text{SVA} = a + b \cdot \text{EPS growth } (\Delta \text{ EPS}) + c \cdot \text{DPS growth } (\Delta \text{ DPS}) + d \cdot \text{Total profit growth } (\Delta \text{ Total Profit}) + e \cdot \text{Shareholder equity growth } (\Delta \text{ Shareholder equity}) + f \cdot \text{Market Value Growth } (\Delta \text{ MVA}) + g \cdot \text{Book Value per Share } (\Delta \text{ BV/share}) + h \cdot \text{price per share } (\Delta \text{ Price per Share})$$

IV. In summary, this research will conclude the equation method on how the overall growth will influence the value creation through general equation as below:

$$\text{EVA} = a + b \cdot \text{sustainable growth} + c \cdot \text{growth determination} + d \cdot \text{EPS growth } (\Delta \text{ EPS}) + e \cdot \text{DPS growth } (\Delta \text{ DPS}) + f \cdot \text{Total profit growth } (\Delta \text{ Total Profit}) + g \cdot \text{Shareholder equity growth } (\Delta \text{ Shareholder equity}) + h \cdot$$

Market Value Growth (Δ MVA) + i*Book Value per Share (Δ BV/share) + j*price per share (Δ Price per Share)

SVA = a + b*sustainable growth + c*growth determination + d*EPS growth (Δ EPS) + e* DPS growth (Δ DPS) + f* Total profit growth (Δ Total Profit) + g* Shareholder equity growth (Δ Shareholder equity) + h* Market Value Growth (Δ MVA) + i*Book Value per Share (Δ BV/share) + j*price per share (Δ Price per Share).



CHAPTER IV

RESEARCH FINDINGS, DISCUSSION, AND IMPLICATIONS

4.1. Research Description

Generally, this research was conducted to find out how growths influence value creation. Many arguments have been developed over the years by various business actors, about what company goals should be in relation to growth. Some argue that maintaining growth will drive the company's value, but some still consider that growth must be in the context of 'profitable' growth. Many other theories exist including one argument that growth is not a value driver or even something necessarily to be concerned about. All of these theories leave us in a 'grey area' and research concerning this matters still remains lacking.

Thus, growth and value creation have become a "mysterious-puzzle" to be solved. Many companies tend to have subjective views of growth and value creation whether it is as a friend to be loved or an enemy to be hated, or even a friend to be hated, or enemy to be loved. Thus it is very important that this area is studied further, so that businesses have a better understanding of the influence of growth on company value creation and shareholder value creation.

This research was conducted with the aim to empirically prove the influence of growth on value creation. Because of many limitations, growth studied in our research is limited to sustainable growth, growth determination, and financial growth. We chose to limit growth to the three

areas mentioned above in response to the fact that most companies consider growth as value drivers from a financial perspective. We hope that the findings of this research can help companies to broaden their view of growth from a more holistic perspective; not only financial.

4.2. Research Findings

4.2.1. Descriptive Statistics

Below are the descriptive statistics:

Table.3
Descriptive Statistics

	N	Range	Min.	Max.	Sum	Mean	Std.Dev	Var.
EVA	750	3.2E+16	-3.2E+16	1.6E+14	-3.2E+16	-4.3E+13	1.177E+15	1.4E+30
SVA	750	1.9E+13	-1.3E+13	5.4E+12	1.8E+13	2.3E+10	6.414E+11	4.1E+23
SG	750	1259.009	-1097.48	61.52959	-3182.74	-4.24366	55.0499091	3030.492
GD	750	1	0	1	374	.50	.50	.250
EPSG	750	925.50	-126.50	799.00	342.24	.4563	30.2375	914.304
DPSG	750	1400.0	-1.00	1399.00	1441.33	1.9218	51.0885	2610.033
TPG	750	1566.84	-106.28	1460.56	1648.71	2.1983	60.5096	3661.412
SEG	750	446.52	-11.11	435.41	682.93	.9106	16.8522	283.996
MVG	750	695.85	-313.63	382.22	115.34	.1538	21.1707	448.198
BVPS	750	1666.39	-6.56	1659.83	2213.97	2.9520	61.9311	3835.467
PPSG	750	24.99	-.99	24.00	293.37	.3912	1.6702	2.789
Valid N (listwise)	750							

Note:

- EVA (Economic Value Added)
- SVA (Shareholder Value Added)
- SG (Sustainable Growth)
- GD (Growth Determination)
- EPSG (Earning per Share Growth)
- DPSG (Dividend per Share Growth)
- TPG (Total Profit Growth)
- SEG (Shareholder Equity Growth)
- MVG (Market Value Growth)
- BVPS (Book Value per Share Growth)
- PPSG (Price per Share Growth)

4.2.2. Models

By the process of logistic regression, we found the model as below:

$$\begin{aligned} \text{EVA} = & -1.769 + 0.001 \text{ sustainable growth} + 3.392 \text{ Growth Determination} \\ & + 0.001 \text{ Earning Per share growth} + 0.003 \text{ DPS growth} - \\ & 0.003 \text{ Total Profit Growth} + 0.011 \text{ Shareholder Equity growth} + \\ & 0.007 \text{ Market Value growth} + 0.001 \text{ Book value per share} + 0.003 \\ & \text{price per share} \end{aligned}$$

Table.4
Variables in the Equation (EVA)

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	SG	.001	.002	.345	1	.557	1.001
	GD	3.392	.204	277.209	1	.000	29.732
	EPSG	.001	.007	.037	1	.848	1.001
	DPSG	.003	.011	.060	1	.807	1.003
	TPG	-.003	.003	.938	1	.333	.997
	SEG	.011	.014	.587	1	.444	1.011
	MVG	.007	.010	.468	1	.494	1.007
	BVPS	.001	.005	.101	1	.751	1.001
	PPS	.003	.060	.002	1	.961	1.003
	Constant	-1.769	.148	142.869	1	.000	.170

a. Variable(s) entered on step 1: SG, GD, EPSG, DPSG, TPG, SEG, MVG, BVPS, PPS.

$$\begin{aligned}
 \text{SVA} = & -0.391 - 0.001 \text{ sustainable growth} + 0.173 \text{ Growth Determination} \\
 & + 0.003 \text{ Earning Per share growth} - 0.040 \text{ DPS growth} - 0.005 \\
 & \text{Total Profit Growth} - 0.025 \text{ Shareholder Equity growth} - 0.004 \\
 & \text{Market Value growth} + 0.036 \text{ Book value per share} - 0.170 \text{ price} \\
 & \text{per share}
 \end{aligned}$$

Table.5
Variables in the Equation (SVA)

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	SG	-.001	.001	.438	1	.508	.999
	GD	.173	.152	1.298	1	.255	1.189
	EPSG	.003	.014	.045	1	.832	1.003
	DPSG	-.040	.096	.170	1	.680	.961
	TPG	-.005	.014	.155	1	.694	.995
	SEG	-.025	.037	.457	1	.499	.975
	MVG	-.004	.004	.878	1	.349	.996
	BVPS	.036	.049	.536	1	.464	1.036
	PPS	-.170	.075	5.171	1	.023	.843
	Constant	-.391	.107	13.290	1	.000	.676

a. Variable(s) entered on step 1: SG, GD, EPSG, DPSG, TPG, SEG, MVG, BVPS, PPS.

4.2.3. Research Finding on the Influence of Growth on EVA

Below are our results of logistic regression on the influence of growth on company value creation represented by EVA (Economic Value Added):

Table.6
Results of Logistic Regression (Enter Method)
on The Influence of Growth on EVA

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	396.570	9	.000
	Block	396.570	9	.000
	Model	396.570	9	.000

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	642.809	.411	.548

Classification Table^a

		Predicted			
		EVA		Percentage Correct	
Observed		destroy value	creates value		
Step 1	EVA	destroy value	322	61	84.1
		creates value	55	312	85.0
Overall Percentage					84.5

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	SG	.001	.002	.345	1	.557	1.001
	GD	3.392	.204	277.209	1	.000	29.732
	EPSG	.001	.007	.037	1	.848	1.001
	DPSG	.003	.011	.060	1	.807	1.003
	TPG	-.003	.003	.938	1	.333	.997
	SEG	.011	.014	.587	1	.444	1.011
	MVG	.007	.010	.468	1	.494	1.007
	BVPS	.001	.005	.101	1	.751	1.001
	PPS	.003	.060	.002	1	.961	1.003
	Constant	-1.769	.148	142.869	1	.000	.170

a. Variable(s) entered on step 1: SG, GD, EPSG, DPSG, TPG, SEG, MVG, BVPS, PPS.

Based on the result regarding the growth influence on EVA, we found that the Cox & Snell $R^2 = 0.411$, which means that all of the independent variables have an influence on EVA of about 41.1 %. Or in other words, EVA is influenced by other variables excluded from our model by 59.9%. The Nagelkerke $R^2 = 0.548$ which shows that all of the independent variables have an influence on EVA of about 54.8 %. Or in other words, EVA is influenced by other variables excluded from our model by 45.2%. The result from the omnibus test of model coefficients shows that Chi-square = 396.570, by sig = 0.000 < $\alpha = 0.05$, which means that all the independent variables (together) significantly influence EVA.

Regarding sustainable growth, our result shows that sig = 0.557 > $\alpha = 0.05$, which means that sustainable growth does not influence EVA. On the contrary, we found that growth determination based on comparisons of ROE and cost of equity have significant influence on EVA, as sig = 0.000 < $\alpha = 0.05$.

On the influence of Earning Per Share (EPS) on EVA, we found that, sig = 0.848 > $\alpha = 0.05$, which means that EPS does not influence EVA. Similar to the above result, the other variable, Dividend Per Share (DPS) has sig = 0.807 > 0.05,

which means that DPS also does not influence EVA. Our result on total profit growth shows $\text{sig} = 0.333 > 0.05$, which means that total profit growth does not influence EVA. On shareholder equity growth, we found that $\text{sig} = 0.444 > 0.05$, which also means that shareholder equity growth does not influence EVA. Our result on other variable, market value growth, which represented by (Δ MVA), shows $\text{sig} = 0.494 > 0.05$, which means that market value growth also does not influence EVA.

While, two other variables of financial growth, which are Book Value per share and price per share showed that Book Value per share $\text{sig} = 0.751 > 0.05$, and price per share $\text{sig} = 0.961 > 0.05$, which means that neither variable show influence on EVA.

From the statistical result, we can conclude that only one variable representing growth has an influence on EVA, which is growth determination.

4.2.4. Research Finding on the Influence of Growth on SVA

Below are our results of logistic regression on the influence of growth on shareholder value creation represented by SVA (Shareholder Value Added):

Table.7
Results of Logistic Regression (Enter Method)
on The Influence of Growth on SVA

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	15.305	9	.083
	Block	15.305	9	.083
	Model	15.305	9	.083

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	1001.062	.020	.027

Classification Table^a

Observed			Predicted		Percentage Correct
			SVA		
			negative	positive	
Step 1	SVA	negative	436	5	98.9
		positive	305	4	1.3
		Overall Percentage			58.7

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1	SG	-.001	.001	.438	1	.508	.999
	GD	.173	.152	1.298	1	.255	1.189
	EPSG	.003	.014	.045	1	.832	1.003
	DPSG	-.040	.096	.170	1	.680	.961
	TPG	-.005	.014	.155	1	.694	.995
	SEG	-.025	.037	.457	1	.499	.975
	MVG	-.004	.004	.878	1	.349	.996
	BVPS	.036	.049	.536	1	.464	1.036
	PPS	-.170	.075	5.171	1	.023	.843
	Constant	-.391	.107	13.290	1	.000	.676

a. Variable(s) entered on step 1: SG, GD, EPSG, DPSG, TPG, SEG, MVG, BVPS, PPS.

Our findings on how the variables representing the growth influence SVA show that Cox & Snell $R^2 = 0.020$, which means that all the variables representing growth (independent variables) have an influence on SVA of 2%, or we can say that SVA is influenced by other variables excluded from our models by 98%. The Nagelkerke R^2 also shows a similar result of 0.027, or 2.7%, which means that all the variables representing growth (independent variables) have an influence on SVA of 2.7%, or we can say that SVA is influenced by other variables excluded from our model by 97.3%. From the omnibus tests of model coefficients, we found that Chi-square= 15.305, by sig = 0.083 > $\alpha = 0.05$, which means that all the independent variables (together) do not influence SVA.

Our result shows that sustainable growth does not influence SVA, with sig = 0.508 > $\alpha = 0.05$. We also found that growth determination does not have influence on SVA, by which sig = 0.255 > $\alpha = 0.05$. Earning Per Share (EPS) growth also does not have influence on SVA, based on the result that sig = 0.832 > 0.05. Other variables representing growth, such as Dividend Per Share (DPS)

growth also shows the same result, $\text{sig} = 0.680 > 0.05$, which means that DPS is not influencing SVA.

Our result on total profit growth also brought to the same conclusion, that total profit growth does not influence SVA, which showed by $\text{sig} = 0.694 > 0.05$. On shareholder equity growth, we also statistically drawn the same conclusion, that it does not either influence SVA with $\text{sig} = 0.499 > 0.05$. Market value growth also has results which remains the same, which is $\text{sig} = 0.349 > 0.05$, neither Book Value per share which result $\text{sig} = 0.464 > 0.05$. After all the above we found that all of the variables has results a statistical conclusion which remain the same, only one that has influence on SVA, which is price per share.

The price per share shows the results that it has a significance influence on SVA, by $\text{sig} = 0.023 < 0.05$.

Based on our result, statistically we can conclude that only price per share as the independent variable that has influence on SVA. So, from the statistical result, we can conclude that all independent variables represents by growth does not have influence on EVA, and only price per share growth has influence on SVA.

4.3. Discussions

As our statistical results show empirically that no variables represented by growth have influence on EVA, and that only price per share is the independent variable that significantly influences SVA. Let us break down the theories which support the assumption that growth does influence value creation.

4.3.1. The Influence of Sustainable Growth on EVA and SVA

Regarding the influence of sustainable growth toward EVA and SVA, according to Robert C. Higgins (2003), in his book *Analysis for Financial Management*:

Sustainable growth rate is the maximum rate at which company sales can increase without depleting financial resources...An important conclusion will be that growth is not necessarily something to be maximized. In many companies, it may be necessary to limit growth to conserve financial strength. In others, the money used to finance unprofitable growth might better be returned to owners.

(Robert C. Higgins 2003:115).

From our research findings we can consider that sustainable growth does not influence EVA and SVA. We view that the companies we took samples from mainly conserve financial strength rather than maintain growth. This is due to the unstable economic condition affecting our

sample time range, which had an effect on companies need to strengthen their financial condition to survive.

We strongly agree that companies may chose to give higher returns to shareholders in order to bring back the shareholder's trust in the company itself. That may be a considerable factor in affecting our result, that price per share does significantly influence the SVA.

4.3.2. The Influence of Growth Determination on EVA and SVA

Mc Taggart, W.Kontes, and C.Mankins, (1994) in their book, *Managing for Superior Shareholder Returns: The Value Imperative*, stated that there are financial determinants, which are:

Value is created only when a business unit or company can earn a return on equity over time that exceeds its cost of equity capital; when ROE consistently falls short of the cost of equity, value is destroyed...There are two kinds of growth-good growth, which magnifies value creation, and bad growth, which magnifies value destruction-a distinction that plays a crucial role in strategy development. (Mc Taggart, et.al., 1994:70)

Furthermore, Mc Taggart, et.al.(1994), they have developed the *Profitability Principles*, which are:

(1) If a business unit or company earns a return on equity that is consistently greater than its cost of equity capital (i.e., if it consistently generates an economic profit over time), it creates value for its shareholders. To the extent that new investment consistently earns a positive spread and, thus, positive economic profit, the resulting growth is good and will magnify value creation.

(2) If a business unit or company earns a return on equity that is consistently less than its cost of equity capital (i.e., if it consistently generates an economic loss over time) it destroys value for its shareholders. To the extent that new investment consistently produces a negative spread and economic losses, the resulting growth is bad and will magnify the amount of value destroyed. (Mc Taggart, et.al., 1994:78).

Our result found that growth determination (good/bad growth determination based on ROE and cost of equity) does significantly influence EVA but does not significantly influence SVA, which means that growth determination does influence company value creation but does not influence shareholder value creation. This might indicate that growth determination is

only describes the economic value rather than shareholder value. It is also maybe because we follows growth determination which based on ROE (Return on Equity) and cost of equity, which are both directly influences the company itself rather than shareholder. Even though influencing the company logically may leads to the influence on shareholder. These also indicate that company value creation may not always directly relate and does affects shareholder.

However, we accept the profitability principles under the requirement that the new investment consistently earns a positive spread and economic profit, or the reverse, that the new investment consistently earns a negative spread and economic losses. So, the profitability principles may prove to the extent of the condition related to the influence of growth determination on EVA on our sample.

4.3.3. The Influence of Financial Growth on EVA and SVA

In our view, it is logical that our result shows that although price per share does influence SVA, it does not influence EVA because companies in our sample mainly focus on how to bring back public trust in the company (including EPS, BV, and shareholder's equity), so the amount of money earned from selling the share is returned to the shareholder as the first priority, and the rest is for company itself.

So, in the other words, we view that in that time range, most companies made policy to make the shareholder's wealth the first priority.

This, logically, should also lead to the result that DPS will also influence EVA and SVA, as price per share does influence SVA.

Our research encountered an obstacle that affected our result on how DPS affects EVA and SVA, which was limited resource of information on DPS. Not all of the companies in our sample are kindly published the amount of DPS.

In relevance to total profit growth and its influence on EVA and SVA, the A.T. Kearney has developed a growth matrix, which is as below (Mc Grath, et.al, 2000:18).

Table.8
The A.T. Kearney Growth Matrix (CAGR 1988-1998)

>industry average	Q3 Simple Growers	Q1 Value Builders	R g E r V o E w N t U h E
Industry average	Q4 Underperformers	Q2 Profit Seekers	
<industry average			
	<ind.average	ind.average	
	VALUE growth		

The value builders achieve both above-average revenue growth and above-average growth in shareholder value over long periods. The perfectly average company sits at the crosshairs of the matrix. It has revenue growth exactly equal to the revenue average of its industry peers. The value builders constantly try to extend their advantages and push

themselves farther...trying to put as much distance as possible between themselves and the center. They do this by consistently finding ways to stay ahead of their peers in the competition for growth opportunities, capital, and talent...The profit seekers rely on established ports and have perfected the art of keeping tight control over their crew. They show revenue growth rates below their industry average, although they still create significant shareholder value. The simple growers send out a reconnaissance team to plant a flag every time they sight land. They manage to outperform their peers in generating revenue, but overtime the once anticipated profit fails to follow. Thus, the companies rank below their industry's average for creating shareholder value. And what happens to the underperformers? Relatively speaking, they are below average on both counts: revenue growth and shareholder value creation since 1988. They move exactly the opposite direction as the value builders. (Mc Grath, et.al,2000:19).

Based on the above, we view that the reason why our result shows that total profit growth does not influence value creation is that our samples may include simple growers or underperformance. We cannot neglect, that bias might happen because of we did not consider the industry average.

“...Strong, stable revenue growth triggers superior share price performance” (Mc Grath, et.al,2000:27). Our result may also shows that companies from our sample do not yet have strong and stable revenue growth, and therefore it does not significantly influence EVA and SVA. Here, we can analyze that higher revenue will trigger a higher share price; meanwhile, based on our result, price per share has a reverse relationship with SVA. Thus, we can conclude that strong and stable revenue will increase the price per share, but based on our results, it will decrease the SVA, and the reverse.

Concerning with our results on the influence of market value growth on EVA and SVA, here is an opinion that we might consider: “An attractive market is one in which the average competitor is creating value for shareholders, and an unattractive market is one in which the average competitor is destroying value” (Mc Taggart,et.al., 1994:88).

Table.9
Linking Strategic Position to Value Creation (Mc Taggart,et.al., 1994:106).

Attractive Market Economics	Uncertain, Usually unprofitable	Always Profitable ($ROE > K_e$)
	Always unprofitable ($ROE < K_e$)	Uncertain, Usually profitable
Unattractive	Disadvantaged	Advantaged

Competitive
Position

Our view based on the results is that the market value growth was shown not to influence EVA and SVA because the time range from which we took the sample was somewhat unattractive. By unattractive we mean that post the recession period generated tough conditions for companies which made equity spread and economic profit earned by the average competitor is not positive, but rather negative.

In summary, we conclude that all growth variables (standing together) have more influence on EVA compared to SVA, as statistically described by Cox & Snell R square and Nagelkerke R square of EVA (0.411 and 0.548) are higher than that of SVA (0.020 and 0.027) . It may indicate that growth in Indonesia is more concerned with how to achieve company value creation rather than shareholder value creation. Another possible assumption is that, in Indonesia, companies are mostly concerned about creating company value at first rather than achieving shareholder wealth. However, the reason why price per share is significantly influences SVA may be due to the needs of companies to increase their funds, which leads to competition between companies to attract people to buy their shares. Price is the factor which clearly describes what the company really offers to the shareholder. Price also represents what looks “attractive” and seems “promising” for people to be part of as shareholders.

Meanwhile, the fact that growth determination influences EVA the most shows that good growth or bad growth does influence company value creation. Further, it also shows implicitly that higher ROE and lower cost

of equity will lead to growth categorized as “good” and will also lead to positive EVA, which is also a means of company value creation. Reversely, lower ROE and higher cost of equity will lead to growth categorized as “bad” and will also lead to negative EVA, which magnifies value destruction.

Regarding the result of the influence of growth variables on EVA and SVA, which overall growth seems does not significantly influence value creation, the writer hopes that the results of this research will encourage further investigation of growth variables that significantly influence company value creation and shareholder value creation.

4.3.4. Correlation of EVA and SVA

We interested to trace, what is the problem leads to the assumption that most variables does not significantly influence the value creation as represented by Economic Value Added (EVA) and Shareholder Value Added (SVA). We predict that factor leads to our results is that may be EVA and SVA does not really represent true the value creation, which means that may be EVA and SVA are not exactly the best proxy to measure value creation, as logically company value creation suppose to be high correlate with shareholder value creation. This interest leads us to further investigate on how EVA correlates with SVA.

Our result on investigation is described by following correlations statistics:

Table.10
Correlations

Correlations

		Economic Value Added	Shareholder Value Added
Economic Value Added	Pearson Correlation	1.000	.003
	Sig. (2-tailed)	.	.940
	N	750	750
Shareholder Value Added	Pearson Correlation	.003	1.000
	Sig. (2-tailed)	.940	.
	N	750	750

Based on the above result, we can see that between EVA and SVA there is only a 0.003 or 3% correlates to each other; and sig = 0.940 > $\alpha = 0.05$, which means that EVA is not significantly correlates with SVA, or the reverse. Further, it is describes that EVA and SVA as recent proxy in value measurement needs to be more developed in order both can better represent the value creation. We chose both proxies in this research, regarding that both are the latest proxy in relevance to our research topic.

These results also may become reasons, why in our logistic regression test EVA shows percentage correct of 84.5%, but SVA only can predict of 58.7%. It may because EVA does not significantly correlate with SVA, which affects the relation of both on variables are far different.

We hope that this research leads to better development of proxies, so that we can draw a better measurement result.

4.4. Implications

Taking into consideration that the purpose of this research is not to reject the null hypothesis, but to find out the real result of which the objective is to contribute to the small but growing body of research on growth and value creation. However, we as human being face many limitations, as perfection is only embodied by Allah SWT.

Below are the implications of our research:

- (1) The variable (not fixed) time range of the sample and the unstable economic condition has made it difficult for this research to determine a distinctive result.
- (2) The samples that we collected which includes companies in different industrial areas should be classified first and the industry average should also be considered.
- (3) The need for complete data which is not limited from all of the companies in the sample taken will provide clear information for research purposes.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

Our research concludes that sustainable growth does not influence value creation, so as most of financial growth. We found that growth which has influence on value creation (in terms of shareholder value creation) is growth determination on EVA, and price per share growth on SVA.

Growth is not only something which identically to be achieved, something profitable, or something with positive meaning. Furthermore, growth is like a coin; it has two sides; on the one side it can lead to value creation, but on the other side, it can lead to value destruction.

Growth should be seen as something holistic. We cannot only be concerned with growth from one point of view, but as a whole, this is of value creation. Both can not be seen as something which stands alone, nor seen as something united. Ideally, a company should manage a profitable growth and maintain value creation in balance. This balance term is not mean 'fifty-fifty', but should be implemented in line with corporate strategy.

5.2. Recommendations

The writer hopes that this research on growth and value creation will evolve in order to achieve a better understanding of the origin, progress, and development of each growth and value creation.

The writer realizes that the research has limitations; so therefore, below are points recommended to be considered for current and future research on this topic:

- 1) To set a longer time range, which is fixed and in a relatively normal and stable economic condition.
- 2) The sample drawn must be better classified and industry average should also become a subject matter of concern.
- 3) Complete data requires better data resources and proactive action from companies for research purposes.
- 4) More research should be conducted in order to better explore about variables that might have greater influence on value creation.
 - a. Better measurement tool (such as EVA and SVA) are needs to be developed so as research can draw a better result.
 - b. As growth is too wide to be represented by our variables, future research may better investigate what variables are really represent the true growth in relevance with value creation.
- 5) Concerning the companies, we recommend the companies to put more consideration on value creation, due to its role as parts of the corporate strategy to attain the long-term goals.

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