

CHAPTER I

INTRODUCTION

1.1. Research Background

Technology is a tool, machine, method, process, activity, or idea that provides convenience to the world in running its life. Maryono and Istiana (2008) stated, “Technology is the result of human thought to develop certain procedures or systems and use them to solve problems in his life” (p. 3). Nowadays technological sophistication is developing rapidly, especially in the telecommunications sector. The telecommunications sector plays an important role in information dissemination. This makes the telecommunications sector very important especially in Indonesia because it has many separate islands. This makes telecommunications companies competing to create services and technology at competitive prices to their customers. To be able to compete optimally in a challenging market, each telecommunications company is required to have a superior product in order to improve the company's financial report performance. Financial performance is an overview of achieving the success of the company's financial condition at a certain period that can help investors to make a decision to invest in a company.

Nasarudin and Surya (2004) explained, “investors are parties both individuals and institutions originating from within the country who carry out an investment activity that is both long-term and short-term”. In investing, investors

do not only look at how historical stock movements are, but also look at and measure company financial performance.

According to Kasmir (2014), financial statements are statements that show the company's financial condition at this time or in a period certain. The financial statements give data about an entity comprising of assets, liabilities, equity, income, and expenses just as contribution and distribution to the investors in his ability as owners, and cash flows. This data helps the users of the financial statements anticipate the future incomes and performance of the entity. The financial statements must be prepared by the company in accordance with the standard rules for the preparation of financial statements that have been set.

International Accounting Standards are known as IFRS (International Financial Reporting Standards) which were formerly known as IAS (International Accounting Standards). IFRS defined as an international accounting framework that governs the reporting of various types of accounting transactions and events in the financial statements. IFRS issued by the IFRS Foundation and the International Accounting Standards Board (IASB). The aim of this standard is to make financial statements transparent, consistent, comparable, and reliable from company to company and country to country. This helps investors make financial analysis and decisions. Applying principle-based IFRS to companies provides benefits for these companies, one of which is that investors prefer to put their money in companies that are transparent to their business activities. Furthermore, companies benefit from the IFRS because the global adoption of IFRS would save money on duplicate accounting work, and the costs of analyzing and comparing

companies internationally, so this helps in lowering financial report costs. In contradiction, companies face challenges in adopting IFRS, including the costs incurred in adopting this standard, takes a long time for training, and the complexity of IFRS. In order to further align the Indonesian Financial Accounting Standards (IFAS) with IFRS, the Indonesian Financial Accounting Standards Board (DSAK-IAI) adopts several standard amendments and annual enhancements, namely PSAK based on IFRS.

The financial performance of a company can be assessed using a number of financial analysis tools, one of which is financial statements using several ratios analysis approaches such as analysis of liquidity ratios, solvency ratios, profitability ratios, and activity ratios. Performance measurement using ROI, EPS, and ROE in its operations uses historical data and does not pay attention to the level of investment risk associated with the cost of capital that must be borne by the owner of the capital itself. Measurements that are only done by analyzing financial statements have a major weakness that is ignoring the existence of capital costs so it is difficult to know whether the company has created value or not. Based on these weaknesses, at this writing, the authors choose to use another method to measure the company's financial performance that takes into account the interests and expectations of investors, which are Economic Added Value (EVA) and Market Value Added (MVA) approaches.

Economic Value Added (EVA) and Market Value Added (MVA) are performance measurement developed by Stern Value Management, which is a consulting firm originating from the United States. The concept of Economic

Value Added (EVA) measures the added value of a company over a specific period of time by reducing profits with the cost of capital arising from investments made by the company, where the burden of capital costs reflects the level of risk of the company. The cost of capital also reflects the level of compensation or return the investor expects for a number of investments invested in the company. Stewart, as cited in Ramana (2005), emphasized that Market Value Added (MVA) as the excess of the market value of capital (both debt and equity) over the book value of capital. If the MVA is positive, then it means that the company has created wealth for its shareholders.

This research takes the object of two telecommunications companies listed on the Indonesia Stock Exchange which are PT. Telekomunikasi Indonesia, Tbk., and PT. XL Axiata, Tbk,. One of the reasons this research uses PT. Telekomunikasi Indonesia, Tbk.,'s financial statements is because until now PT. Telekomunikasi Indonesia, Tbk,. is the only state-owned enterprise in the telecommunications sector in Indonesia that implements PSAK based on IFRS in preparing financial statements. PT. Telekomunikasi Indonesia, Tbk,. started to implement PSAK based on IFRS from 2011. The Financial Accounting Standards Board (DSAK) stipulates that companies need to implement PSAK based on IFRS, effectively on January 1, 2020. Rosita Uli Sinaga, Member of the National Management Board of the Indonesian Accountants Association (DPN-IAI), said that based on observations on other companies globally, it would take at least two to three years to prepare for the adoption of PSAK based on IFRS. The adoption of PSAK based on IFRS will have an impact not only on accounting records but

also will have an impact on process changes in various business units, data and system preparation as well as human resource readiness. Because of this, it requires a complex process and a long time in the preparation of financial statements and audit processes, especially in the first year of application. PT. XL Axiata, Tbk,. is seen to be implementing PSAK based on IFRS effectively this year, therefore the author uses the financial statements of PT. XL Axiata, Tbk,. in this case study. Another reason the author conducted research at PT. Telekomunikasi Indonesia, Tbk,. and PT. XL Axiata, Tbk,. because these two telecommunications companies in Indonesia are included in the list of LQ45 companies for the 2016-2019 period on the Indonesia Stock Exchange.

Based on the description above, the authors are interested to analyze the financial performance of PT. Telekomunikasi Indonesia, Tbk,. and PT. XL Axiata, Tbk,. 2016-2019 period.

1.2. Research Question

Based on the background above then the central question in this research asks how is the financial performance of PT. Telekomunikasi Indonesia, Tbk,. & PT. XL Axiata, Tbk,. measured using the Economic Value Added (EVA) & Market Value Added (MVA) approaches?

1.3. Research Objective

Part of the aim of this research is to measure the financial performance of PT. Telekomunikasi Indonesia, Tbk,. & PT. XL Axiata, Tbk,. using Economic Value Added (EVA) & Market Value Added (MVA) approaches.

1.4. Research Benefit

The benefits of this research are as follows:

1. For Academics

Results from this study are expected to give their views and insight into the comparison of financial performance in the telecommunication sector in Indonesia.

2. For Investors

This research is expected to be used as material for consideration and illustration for investors in financial analysis and decisions in investing in telecommunications sector companies in Indonesia.

3. For Further Research

This research as a source of reference and information to allow subsequent studies concerning discussion comparison of financial performance.

1.5. Writing Systematic

1. CHAPTER I: INTRODUCTION

This chapter contains an explanation of the research background, problem formulation, objectives research, research benefits, and systematic writing.

2. CHAPTER II: A LITERATURE REVIEW

This chapter explained the theories that form the basis of preparation for this research. Previous research related to research that will be discussed also

described in this chapter. This chapter contains the theoretical foundation, previous research, and theoretical frameworks.

3. CHAPTER III: RESEARCH METHOD

This chapter discusses how to collect data, population and sampling, models research, variables used, and analysis methods.

4. CHAPTER IV: RESEARCH RESULTS AND DISCUSSION

This chapter will discuss the results of the research conducted and will answer questions from the initial problem formulation.

5. CHAPTER V: CONCLUSION

In the last chapter contains conclusions from the research that has been done and advice that will be given for subsequent research related to this research.

