

Original Article

# The Effect of Trading Volume Activities, Earning Per Share and Stock Returns on Market Value Added (Empirical Study on LQ45 Companies)

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Received Date: 04 January 2021

Revised Date: 11 February 2021

Accepted date: 14 February 2021

**Abstract** - This study aims to examine the effect of Trading Volume Activity, Earning Per Share, Stock Return on Market Value Added (Empirical study in LQ 45 Companies). The numbers of samples are 45 companies, carried out by census. While the data processing method used by researchers is multiple linear regression analysis. The results showed that Trading Volume Activity and Earning Per Share had a positive and significant effect on Market Value Added, but stock return had a negative and insignificant effect on Market Value Added.

**Keywords** - Trading Volume Activity, Earning Per Share, Stock Return, Market Value Added.

## I. INTRODUCTION

Actual, accurate, and transparent information is required in investing in the capital market. Information relating to the implementation of the investment is important so that the investment can be profitable. Analysis can be carried out by observing and researching the company's performance, which is reflected in financial reports or commonly referred to as fundamental analysis. One of the measurements of company performance related to return is a Market Value Added (MVA).

Market Value Added is an external indicator that can measure how much wealth the company has created for its investors. Market value added is considered capable of maximizing shareholders. MVA is the right measure to measure whether shareholder wealth has been successfully created or not; if the total market value of the company exceeds the amount of capital invested in it, the company has succeeded in creating shareholder value and vice versa (Wulandani & Priantinah, 2017).

Apart from Market Value Added, the most dominant performance measurement used by investors in selecting stocks is related to the rate of return they will receive, namely Earning per Share. Earnings information is considered to indicate the company's success in utilizing resources and increasing wealth (Wulandani & Priantinah, 2017).

Trading volume is the number of transactions traded at a certain time. Volume is needed to move stock prices. Stock trading volume reflects the power between supply and demand, which is a manifestation of investor behavior. An increase in trading volume represents an increase in the buying and selling activity of investors on the stock exchange. The more the volume of supply and demand for a stock increases, the greater its influence on stock price fluctuations on the stock exchange, and the increasing volume of stock trading shows that the public is more interested in these shares so that it will affect the price increase or stock return (Yamani & Rakowski, 2019).

Companies that are members of LQ45 are companies that have high market capitalization; therefore, stocks in this class are the target of investors. Currently, the performance of the leading stocks that are included in the LQ45 list of the most actively traded year to date has increased significantly.

Several studies on trading volume activity, earning per share, stock return, market value-added, or company value have been conducted by researchers with different results (Ambarwati, 2008; Cahyadi & Darmawan, 2016; Pioh, Tommy, & Sepang, 2018; Pourali & Roze, 2013; Wulandani & Priantinah, 2017; Yamani & Rakowski, 2019). Therefore based on the existing research gap, this study again explores the effect of trading volume activity, earning per share, and stock return on market value added (empirical study at LQ 45 companies). This study aims to analyze the effect of trading volume activity (TVA) and earning per share (EPS) on Market Value Added (MVA) and analysis of the effect of Stock Return on Market Value Added (MVA). The study results are expected to be a source of reference and contribution in improving the development of accounting, financial management related to the capital market in Indonesia.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### A. Effect of Trading Volume Activities on Market Value Added

Trading Volume Activity is the ratio between trading volume and shares traded. The existence of high trading



activity shows that the stock is in demand by investors; this is because high trading activity shows that the share buying and selling transaction is also high (Suad, 2005). Trading volume is an accepted part of technical analysis. Trading activity in very high volumes on an exchange will be interpreted as a sign the market will improve. The increase in share trading volume is accompanied by an increase in the price of an increasing symptom of a bullish condition. The trading volume of shares used by investors to see whether the shares purchased are stocks that can be actively regulated in the market. Shares that are actively trading certainly have a large trading volume, and stocks with a large volume will generate high profits (Ftiti, Jawadi, Louhichi, & Madani, 2019).

Market Value Added (MVA) is a cumulative measure of company performance that shows the capital market valuation at any given time of the net present value (NPV) of all the company's projected capital projects. MVA is an external indicator that can measure how much wealth a company creates for its investors. MVA is the Market Value of Equity minus the Book Value of Equity (Brigham, 2010).

The results of Ambarwati (2008) can be concluded that stock trading activity has a positive effect on market value (MVA), meaning that the higher the value of trading volume activity can increase the value of the stock market. Based on this description, the hypothesis proposed in this study are:

H1: Trading Volume Activity has a positive effect on Market Value Added.

**B. Effect of Earning Per Share on Market Value Added**

Earning Per Share is one of the market ratios, which is the result of income that will be received by shareholders for each share they own for their participation in the company. The size of the earning per share that will be received by shareholders is influenced by financial risk. EPS is defined as net income after interest and tax divided by the number of shares outstanding (Tandelilin, 2010). Profit is the main measure of a company's success; therefore, investors often focus on the number of earnings per share in conducting the stock analysis. The higher the EPS value, the greater the profit provided to shareholders (Wulandani & Priantinah, 2017).

The rate of profit per share shows the amount of profit obtained by investors in investing in go public companies. The greater the Earning Per Share of a company will have

a positive impact on changes in share prices and demand for shares in the capital market and the market value of these shares. Conversely, the lower the value of a company's Earning Per Share will have an impact on the decline in demand for shares in the capital market and have an impact on market value. In the research conducted by Pioh et al. (2018), it was concluded that Earning Per Share has a positive effect on firm value (MVA). Based on this description, the hypothesis proposed in this study are: H2: Earning Per Share has a positive effect on Market Value Added.

**C. Effect of Stock Return on Market Value Added**

Return is the result obtained from investment or the level of profit enjoyed by investors for their investment efforts. Every investment, whether short-term or long-term, has the main objective of obtaining a profit called to return, either directly or indirectly. The rate of return or return is the rate of return enjoyed by investors on an investment they make. Therefore, the existence of a Market Value Added (MVA) will help investors in making investment decisions because investors can assess the company's performance and can invest their funds in the right company (Ftiti et al., 2019).

The main reason people invest is to get a profit. In the context of investment management, the level of return on investment is called return (Tandelilin, 2010). The sources of investment return consist of two main components, namely yield and capital gain (loss). Yield is a return component that reflects the cash flow or income obtained periodically from an investment. While the gain (loss) is an increase (decrease) in the price of securities (shares), which can provide profit (loss) for investors (Tandelilin, 2010). The total return is expressed as the share price in the current period minus the share price in the previous period plus dividends in the current period divided by the share price in the previous period (Jogiyanto, 2010).

Research conducted by Ambarwati (2017) concluded that stock returns have a positive effect on market value (MVA). Based on this description, the hypothesis proposed in this study are:

H3: Stock return has a positive effect on Market Value Added.

Based on the theoretical framework mentioned above, the model of this research framework can be described as Figure 1.

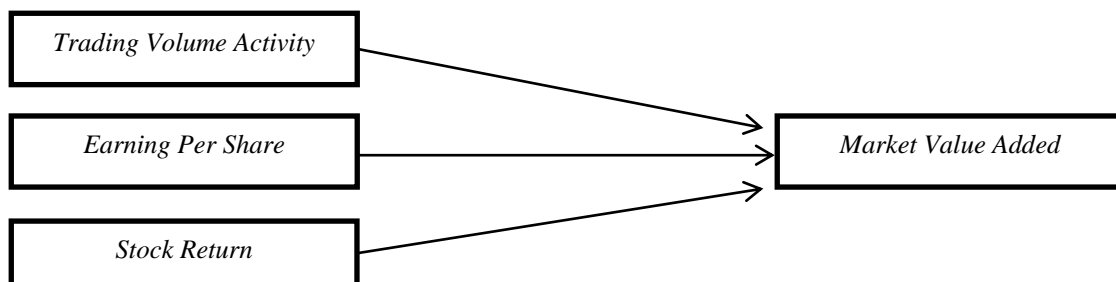


Fig. 1 Market Value Added framework model

**III. METHODS**

The sample in this study amounted to 45 LQ 45 companies on the Indonesia Stock Exchange in 2018, taken using sampling techniques with census or total sampling (Ghozali, 2017). The hypothesis in this study was tested using multiple linear regression analysis tools with the ordinary least square and a significant level of five percent ( $\alpha = 0.05$ ). The regression equation model used is as follows (Sugiyono, 2017):

$$Y = \alpha_1 + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + e \dots 1$$

Information :

Y = Market Value Added (MVA)

a = constant

$\beta_1$ ,  $\beta_2$ , and  $\beta_3$  = the regression coefficient

X1 = Trading Volume Activity (TVA)

X2 = Earning Per Share (EPS)

X3 = Stock Return

e = residual error

The classical assumption test uses normality, multicollinearity, and heteroscedasticity. The goodness of fit regression test is shown by Adjusted R2, whose magnitude ranges from  $0 < \text{Adjusted R}^2 < 1$ . The F-test is carried out to determine the simultaneous significance of the influence of the independent variables on the dependent variable. This t-test is used to determine the significance of the effect of the independent variable partially on the dependent variable (Ghozali, 2017). All statistical calculations were performed with the help of the IBM SPSS Version 22 program.

**IV. RESULT AND DISCUSSIONS**

**A. Result**

The test results in Table 1 show that in the normality test, the Z value of skewness and the Z value of kurtosis is between  $\pm 1.96$  so that it meets the normality assumption test. The results of the heteroscedasticity test with the Glejser test, the LN\_TVA sig value is 0.410, the LN\_EPS

sig is 0.263, and the LN\_RETURN sig is 0.345 greater than 5%, meaning no-heteroscedasticity. The multicollinearity test results showed the amount of tolerance  $> 0.1$  and the VIF number in the range of more than 1 and less than 10, so that it was stated that there was no-multicollinearity.

Based on the results of the determination test in Table 2, the coefficient of determination is obtained as seen from the Adjusted R Square value of 0.250. It can be concluded that the variables Trading Volume Activity, Earning Per Share, and Stock Return can explain the variation of Market Value Added variables by 25%, while the remaining 75% of the Market Value Added variation could be explained by other variables outside the model. Based on the ANOVA test or F test in Table 2, the calculated F value is 5.897 with a probability of  $0.002 < \alpha = 0.05$ . Therefore, this first revised model is a fit model and can be used to predict MVA, and then the next step is to do the t statistical test or hypothesis testing.

Based on the results of the analysis in Table 2, the t-count value of the Trading Volume Activity is positive at 2.542, with a significance value of  $0.015 < 0.05$ . So that the decision-making is to accept hypothesis 1, this means that Trading Volume Activity has a positive and significant effect on Market Value Added at the LQ 45 company. The second result is that the t-count value of the Earning Per Share is positive at 2,964 with a significance value of  $0.005 < 0.05$ . It means that Earning Per Share has a positive and significant effect on Market Value Added so that the second hypothesis is accepted. The next calculation shows that the t-count value of the Stock Return variable is negative at -1.431 with a significance value of  $0.160 > 0.05$ . Based on this value, the third hypothesis is rejected.

**Table 1. Classical Assumption Test Result**

Test	Criteria	Result
Normality	Z-value Skewness Residual	-0.572
	Z-value Kurtosis Residual	-0.850
Multikolinierity	Tolerance	0.987, 0.945, 0.957
	VIF	1.013, 1.058, 1.045
Heteroscedasticity	Absolute Residual Probability	0.410, 0.263, 0.345

**Table 2. F-Test, T-Test, and R-square**

Hyp.	Effect	t-count	Sig.	Decision
1	Trading Volume Activity → Market Value Added	2.542	0.015	Accepted
2	Earning Per Share → Market Value Added	2.964	0.005	Accepted
3	Return Saham → Market Value Added	-1.431	0.160	Redjected
Adjusted R-square		0.250		
F-count		5.897		
Sig.		0.002		

**B. Discussion**

The results of multiple linear regression analysis show that the higher the value of trading volume activity, the higher the value of the stock market/market value-added.

High stock trading activity indicates that stock performance can influence investor interest. With the increase in the number of investors who want to invest, the sale and purchase of shares will also increase, which in

turn will affect the market value of the shares. This research is following Ambarwati (2008), which concludes that trading volume activity affects market value-added.

The high volume of stock trading results in many investors interested in investing so that the demand and price of shares in the market will increase and will have an impact on the company's ability to increase wealth for its shareholders. It can be concluded that one of the ways to increase Market Value Added is by increasing the activity of the trading volume of shares owned by the company.

The second research result states that earning per share has a positive and significant effect on market value-added. The rate of profit per share shows the amount of profit obtained by investors in investing in go public companies. The greater the Earning Per Share of a company will have a positive impact on changes in share prices and demand for shares in the capital market and the market value of these shares. Conversely, the lower the value of a company's Earning Per Share will have an impact on the decline in demand for shares in the capital market and have an impact on market value. In line with Pioh et al. (2018), it is concluded that Earning Per Share has a positive effect on Market Value Added.

Market value added can be maximized by increasing earnings per share. The higher the profit earned on one sheet owned by the investor, the difference between the funds invested and the amount of money that will be received by the investor will increase. Another way to increase the number of earnings per share is to maximize net income on the number of shares outstanding. Also, the company can minimize the costs incurred by the company because the more efficient the costs incurred, the more net profit the company receives. Various strategies can be implemented, for example, by conducting a merger. The merger of the two companies will make management more biased to improve performance in maximizing profit.

The third research result states that stock returns have a negative and insignificant effect on Market Value Added at LQ 45 companies. Stock returns are not significant to Market Value Added because investors in Indonesia expect to get quick profits in the short term so that the investment made is more speculative. The capital market in Indonesia, in this case, the IDX, is still weak from efficiency, so that the stock prices formed are not based on actual information but are more influenced by historical price movements (the power of demand and supply of shares).

Another factor that causes the insignificance of Stock Return to Market Value Added is the possibility of window dressing practices on financial statements so that

the company's performance looks better. As a result, investors do not trust them because the information often does not describe the actual condition of the company.

## V. CONCLUSION

Based on the results and discussion, it can be concluded that Trading Volume Activity has a positive and significant effect on Market Value Added in LQ 45 Companies. The next conclusion can be stated that Earning Per Share has a positive and significant effect on Market Value Added in LQ 45 Companies. Lastly, Stock Return has a negative and not significant to Market Value Added in LQ 45 Company.

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