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## Araştırma Makalesi • Research Article

# Influence of Financial Architecture on Financial Performance and Corporate Value in the Indonesian Capital Market

*Endonezya'nın Sermaye Piyasasında Finansal Mimarinin Finansal Performans ve Kurumsal Değer Üzerine Etkisi*

Wayan Widnyana <sup>a</sup>

<sup>a</sup> Dr., Faculty of Economics and Business, University of Mahasarwati Denpasar, 80233, Bali / Indonesia.  
ORCID: 0000-0002-0337-1830

### MAKALE BİLGİSİ

*Makale Geçmişi:*

Başvuru tarihi: 22 Şubat 2019

Düzeltilme tarihi: 02 Nisan 2019

Kabul tarihi: 13 Nisan 2019

Anahtar Kelimeler:

Finansal Mimari

Finansal Performans

Kurumsal Değer

Sermaye Piyasası

### ARTICLE INFO

*Article history:*

Received February 22, 2019

Received in revised form April 02, 2019

Accepted June April 13, 2019

Keywords:

Financial Architecture

Financial Performance

Corporate Value

Capital Market

### ÖZ

Bu çalışma, finansal mimarinin Endonezya Sermaye Piyasası'ndaki finansal performans ve kurumsal değer üzerindeki etkisini incelemeyi amaçlamaktadır. Çalışma 2015 yılında Endonezya Sermaye Piyasası'nda (Endonezya Menkul Kıymetler Borsası (IDX)) kayıtlı olan finans sektörü dışındaki şirketler üzerinde yapılmıştır. Çalışmada nicel veriler ve ikincil veri kaynakları kullanılmıştır. Finansal mimarinin etkisinin hipotez testi, Yol Analizi kullanılarak analiz edilmiştir ve mülkiyet yapısının, sermaye yapısının ve kurumsal yönetimin finansal performans ve kurumsal değer üzerindeki etkisini içermektedir. Çalışmada oluşturulan araştırma modeline uygun bulgular elde edilmiştir. Çalışma sonucunda Endonezya Başkent Piyasasında mülkiyet yapısının, sermaye yapısının, kurumsal yönetimin ve yönetim kurulunun finansal performans ve kurumsal değer üzerindeki boyutları ile finansal mimarinin etkisi üzerine teorik bir model ortaya koyulmuştur.

### ABSTRACT

This study aims to examine the effect of financial architecture on financial performance and corporate value in the Indonesian Capital Market. This research was conducted on non-financial sector companies which were registered in the Indonesian Capital Market, namely Indonesia Stock Exchange (IDX) in 2015. This study used quantitative data and used secondary data sources, meaning that data was obtained, collected and processed from other parties. In this study, the hypothesis testing of the effect of financial architecture included the dimensions of ownership structure, capital structure and corporate governance on financial performance and corporate value using Path Analysis. The results of this study have provided findings that are in accordance with the research model that has been built. This research has been able to give theoretical model on the effect of financial architecture with the dimensions of ownership structure, capital structure, corporate governance and board process on financial performance and corporate value in the Indonesian Capital Market.

## 1. Introduction

This research raised the phenomenon occurred on the Indonesian Capital Market. The Indonesian Capital Market in 2015 was still lagging behind, both from the number of issuers and the number of investors when compared with ASEAN countries such as Thailand, Singapore and

Malaysia. The number of issuers in Indonesia was 525 companies, Thailand was 639 companies, Singapore was 769 companies and Malaysia was 902 companies. On the other hand, Indonesia had 434,844 investors, Thailand had 974,000 investors, Singapore had 1,500,000 investors and Malaysia had 4,000,000 investors. The low number of

\* Sorumlu yazar/Corresponding author.

e-posta: wayan.unud.jp@gmail.com

investors and issuers in Indonesia occurred due to: (i) Lack of understanding on stock investment instruments, (ii) Shares have a large risk in the eyes of the Indonesian people, (iii) Indonesian people think that this type of investment instrument is for rich people, (iv) Most of our middle class people still have a conventional view in terms of investing excess funds, namely through bank savings rather than investing in the capital market (Results of the financial survey of National Financial Services Authority (OJK), 2014). Muliaman (2013) stated that in order to increase the competitiveness of the capital market, what needs to be done is education for the community.

In exploring its performance, a company must build all components of a company's financial design (Ivashkovskaya and Stepanova, 2011). Therefore corporate financial architecture concept is important because it views financial perspectives from different dimensions. The company's financial architecture is a combination of various different financial structural dimensions consisting of ownership structure, capital structure, company incentives and controls through corporate governance and board process (Myers, 1999).

The phenomenon of the importance of the company's financial architecture was also found in the April 2014 edition of IDX Newsletter, with the title "tips for choosing issuers". In choosing an issuer, investors can start by studying the prospectus which contains, among others:

(1) Business type and also issuer's history; (2) The number of shares or bonds offered to the public, as well as the price of the offering; (3) The purpose of the Initial Public Offering; (4) The issuer's business prospects along with business risks that may occur in the future; (5) Debt interest payment policy and dividend distribution policy; (6) Historical financial performance; (7) Sales Agents who participate in the initial public offering process; (8) Schedule for conducting the initial public offering.

The tips above indicate the existence of financial architecture variable in this study, namely 1. tip (1) issuer's history: indicates corporate governance dimension, 2. tip (2) number of shares offered to the public: indicates ownership structure dimension, 3. tip (5) debt interest payments, indicates capital structure dimension.

Other phenomena regarding financial architecture can be seen from the statement of Indonesia's President, Mr. Joko Widodo, in front of entrepreneurs on November 15, 2015 at a conference at the G20 Summit in Antalya Turkey:

..... the need to reform the global financial architecture to encourage the emergence or growth of financing infrastructure in achieving economic growth that has a certain quality ...

The statement of the President of the Republic of Indonesia in front of the entrepreneurs emphasized the need to reform the global financial architecture, which when linked to syllogistic reasoning that global conditions can be reduced

to the condition of the company, the conclusion of the company's financial architecture variable is obtained.

Based on the results of these studies, there are differences in results between (a) studies that support the statement that financial architecture has a significant positive effect on financial performance and corporate value with (b) studies that do not support the statement that financial architecture has a significant positive effect on financial performance and corporate value. From the differences, this study takes the gap to reexamine the effect of financial architecture on financial performance and corporate value.

Based on several studies on the effect of ownership structure with financial performance and corporate value, there is a difference between (a) studies that support ownership structure having a significant positive effect on financial performance and corporate value with (b) studies that do not support ownership structure having a significant positive effect on financial performance and corporate value. From the differences, researchers can take research gaps to further examine the effect of ownership structure on financial performance and corporate value.

The next component or dimension of financial architecture is the capital structure. Capital structure can be defined as permanent funding consisting of long-term debt, preferred stock and capital of shareholders (Brigham and Houston, 2014: 15). Mogdiliansi and Miller, (1963: 53) stated that corporate value is determined by capital structure. Capital structure is a very important problem for every company, because the good and bad condition of capital structure will have a direct effect on the company's financial position. This is supported by agency theory proposed by Jensen and Meckling (1976) who stated that the selection of certain capital structure can reduce agency conflict. For example, if a company makes a loan to a bank, then the bank also monitors the performance of the company indirectly. This happens because the bank has an interest in the smooth running of credit to the company.

Some studies show that capital structure influences financial performance and corporate value. The results of the studies of Christi et al. (2013), Mujahid et al. (2015), Negasa (2016), showed that the capital structure with DAR proxy has a significant positive effect on financial performance with ROA proxy. While the studies conducted by Leon (2013), Mahmudi and Mohamadi (2015) found that capital structure with DAR proxy has a significant positive effect on financial performance with ROE proxy. Isshaq et al. (2009) suggested that capital structure with DER proxy has a significant positive effect on corporate value with Tobin's Q proxy. The research of Hasan et al. (2013) obtained the results that capital structure with LDAR proxy has a significant positive effect on corporate value with EPS proxy. Mujahid et al. (2014) showed that capital structure with DER proxy has a significant positive effect on financial performance with ROE proxy. Christi et al. (2013), Mahmudi and Mohamadi (2015) found that capital structure with DAR proxy has a significant positive effect on financial performance with

ROI proxy. Research by Ahmad et al. (2013), Ebrati et al. (2013) got the results that capital structure with LDAR proxy has a significant positive effect on financial performance with ROE proxy. Ebrati et al. (2013) also examined the capital structure of corporate value, the results showed that LDAR proxy has a significant positive effect on PBV proxy and EPS proxy.

Different results are obtained from the results of Leon (2013), Pung and Hoang (2013), Quang and Xin (2014), Zakaria et al. (2014). It was found that capital structure with DAR proxy has a significant negative effect on financial performance with ROA proxy. While the results of Quang and Xin's research (2014) showed that capital structure with DAR proxy and LDAR proxy has a significant negative effect on financial performance with ROA proxy and ROE proxy. Research by Ruan et al. (2011), Pung and Hoang (2013) found that capital structure with DAR proxy has a negative effect on corporate value with Tobin's Q proxy. Meanwhile the research of Meca et al. (2011) showed that capital structure with DAR proxy has no effect on Tobin's Q. Mumtaz et al. (2013) showed that capital structure with DER proxy has no effect on corporate value with EPS proxy. Christi et al. (2013), Mireku et al. (2014) obtained the results that capital structure with DER proxy has significant negative effect on financial performance with ROA proxy and ROE proxy.

Based on several studies on the effect of capital structure on financial performance and corporate value, there are differences between studies that (a) support ownership structure having a significant positive effect on financial performance and corporate value with (b) studies that do not support ownership structure having a significant positive effect on financial performance and corporate value. From the difference in results, there is a gap that can be used by researchers to reexamine the effect of capital structure on financial performance and corporate value.

The last dimensions or components of a company's financial architecture in accordance with Myers's concept (1999) are corporate governance and board process. In accordance with the Law, Limited Liability Company (PT) is a company that has a separate organizational structure between the owner and management. The owner is a shareholder, while the management is the management appointed by the owner to carry out company activities. Some concepts of corporate governance, among others, proposed by Shleifer & Vishny (1997) stated that corporate governance is related to ways or mechanisms to convince capital owners to obtain returns that are in accordance with investments that have been invested. Prowson (1999) argued, corporate governance is a tool to ensure directors and managers (insiders) to act their best for the benefit of outside investors (creditors or shareholders).

Corporate governance is very closely related to agency theory. Agency theory explains how the parties involved in the company (managers, owners and creditors) will behave, because basically, they have different interests. Managers

have an obligation to maximize the welfare of shareholders, but on the other hand, managers also have an interest in maximizing their welfare. The situation shows that there are differences in interests between management and shareholders of the company. Unification of the interests of these parties often creates a problem which is commonly called as agency conflict.

The owner as the company's capital supplier delegates authority over the management of the company to professional managers. As a result, the authority to use company resources is entirely in the hands of management. Shareholders expect management to act professionally in managing the company. Every decision taken should be based on the interests of shareholders and existing resources are used solely for the benefit of the growth of the corporate value

However, what often happens is that the decisions and actions taken by management are not solely for the interests of the company but also for the interests of the executives. This will certainly harm the company. In other words, management has an agenda of interests and goals that are different from the interests and objectives of the owner. If company's managers carry out selfish actions by ignoring the interests of investors, it will cause investors to fall in hopes of returns on the investment they have invested (Almilia and Sifa, 2006). This might occur because of the existence of information asymmetry, where managers know more about internal information and future company prospects compared to shareholders and stakeholders. The existence of information asymmetry and conflicts of interest that occur can motivate managers to present incorrect information to the owner, especially if the information is related to the measurement of managers' performance. With the authority granted, management must be responsible for reporting the corporate performance on resources entrusted in the form of financial statements to the company's shareholders. The causes of conflict between managers and shareholders include making decisions related to fundraising activities (financing decisions) and making decisions about how the funds obtained are invested. To anticipate the emergence of opportunities for management to take actions that harm shareholders, it can be done in two ways, namely: monitoring and bonding. Monitoring is supervision carried out by outside investors, while bonding is a limitation carried out by the manager himself in taking action. This mechanism will generate costs called agency cost. Good corporate governance is said to reduce monitoring costs due to increased supervision and transparency (or a decrease in information asymmetry).

In supporting the implementation of corporate governance, the task of the board of commissioners is maximally needed. The board of commissioners is the representative of the owner whose duty is to supervise the activities of the company managed by management. There must be an independent commissioner in the structure of the board of commissioners so that supervision is more independent and

objective. The board process describes how the board of commissioners carries out control mechanisms, for example through board of commissioners meetings. Board of Commissioners meetings are a process carried out by the board of commissioners in making joint decisions about company policies that are made and run by management. A good meeting of the board of commissioners must end by reading conclusions and meeting decisions. This is used to avoid uncertainty regarding the conclusions and decisions of meetings for all meeting members and can be used as a formal document to take agreed steps in the meeting (Muntoro, 2006). The more often the frequency of the board of commissioners holds a meeting, the more effective the supervisory function of management, according to the principles of Good Corporate Governance.

The results of studies conducted by Fauzi and Locke (2012), Moradi et al. (2012) showed that corporate governance with board size proxy has a significant positive effect on financial performance with ROA proxy. Studies conducted by Isshaq et al. (2009), Rashid et al. (2010), Fauzi and Locke (2012), Moradi et al. (2012) showed that corporate governance with board size proxy has a significant positive effect on corporate value with Tobin's Q proxy. While the results of the research conducted by Ma and Tiang (2009), Narwal and Jindal (2015) found that corporate governance with directors meeting proxy has a significant positive effect on financial performance with ROI proxy. Research conducted by Elvin and Ahmad (2015) showed that corporate governance with board compensation proxy has a significant positive effect on corporate performance with ROE proxy and corporate value with Tobin's Q proxy. Narwal and Jindal Research (2015) showed that corporate governance with board compensation proxy has a significant positive effect on financial performance with ROI proxy. The results of the Vafeas (1999) study showed that the board process with commissioners meeting proxy has a significant effect on financial performance with a ROA proxy. Elvin and Hamid's research (2015) found that the board process with commissioners meeting proxy has a significant positive effect on corporate value with Tobin's Q proxy and EPS proxy. Ma and Tian's research (2009) found that the board process with commissioners' independence proxy has a significant positive effect on corporate performance with ROI proxy. Furthermore, the results of Sungu et al. (2014) showed that the board process with commissioners' independence proxy has a significant positive effect on financial performance with ROA proxy, while the results of a study conducted by Elvin and Hamid (2015) showed that board process with commissioners' independence proxy has a significant positive effect on financial performance with ROA proxy and ROE proxy.

The opposite results are obtained from studies conducted by Rashid et al. (2010), Ghabayen (2011), Francis et al. (2012), which stated that corporate governance with board size proxy has no effect on financial performance with ROA proxy. While the results of studies conducted by Chatterjee (2011), Ongore et al. (2015) showed that corporate

governance with board size proxy has a negative effect on financial performance with ROA proxy. Research conducted by Sin and Hui (2011) found that corporate governance with board size proxy has negative effect on corporate value with the Tobin's Q proxy. While the results of Elvin and Ahmad's research (2015) stated that corporate governance with board compensation proxy has a significant negative effect on financial performance with ROA proxy. Studies conducted by Rashid et al. (2010), Ghabayen (2011), Francis et al. (2011), Fauzi and Locke (2012) showed that the board process with commissioners' independence proxy has a significant negative effect on financial performance with ROA proxy. Azeez's research (2015) found that the board process with commissioners' independence proxy has no effect on financial performance with ROA proxy and corporate value with EPS proxy. While the results of research by Rashid et al. (2010) showed that board process with commissioner's independence proxy has a significant negative effect on corporate value with Tobin's Q proxy.

Based on some of the results of these studies, there are differences between the results of studies that (a) support corporate governance and board process having a significant positive effect on financial performance and corporate value with (b) the results of studies that do not support corporate governance having a significant positive effect on financial performance and corporate value. From the differences in research results, there is a gap for researchers to reexamine the effect of corporate governance and board process on corporate performance and corporate value.

In connection with the existence of phenomena and research gaps, then financial architecture, financial performance and corporate value are appropriately appointed in this study, because this study seeks to examine the financial architecture variable in the dynamic moving stock market comprehensively, then analyze its influence on financial performance and corporate value.

When compared with previous studies, this study has differences in several aspects, namely:

- (i) In addition to conducting partial analysis on the form of financial architecture, namely ownership structure, capital structure, corporate governance and board process, this study also conduct comprehensive analysis, while other studies only conduct partial analysis. Judging from the meaning of financial architecture that is an integrated financial system design, it becomes appropriate if the financial architecture is analyzed comprehensively, so that one financial architecture value which is a combination of the three dimensions will be obtained
- (ii) In this study, specific for the corporate governance variable, it is separated from the board process, so that the board process variable is used as intervening variable. The reason for the separation of corporate

governance and the board process is adjusted to the two tier systems adopted by Indonesia. In the two tier system in Indonesia, there is a separation between the management (board of directors) and the supervisor (board of commissioners), where the board of commissioners on behalf of the owner oversees the operations of the company managed by the board of directors. In this study, governance is a management activity carried out by the board of directors, while the board process is a supervisory activity carried out by the board of commissioners. Good governance can be achieved with good supervision which will result in good financial performance. Thus the researcher places the board process as an intervening variable that links corporate governance and financial performance.

Based on the differences with previous researchers, it can be concluded that the renewal of this research lies in the research variable, namely the determination of one value from the financial architecture variable comprehensively and the board process variable Being the intervening variable. Based on the description of the background, there are various phenomena and theoretical and empirical debates regarding this research, therefore this study aims to examine the effect of financial architecture on financial performance and corporate value in the Indonesian Capital Market.

## 2. Literature Review

### 2.1. Corporate Financial Architecture, Financial Performance and Corporate Value

In exploring its performance, a company must build all components of a company's financial design (Ivashkovskaya and Stepanova, 2011). Therefore corporate financial architecture concept is important because financial architecture views financial perspectives from different dimensions.

Studies conducted by Ivashkovskaya and Stepanova (2011), Kokoreva and Stepanova (2013), Ivashkovskaya et al. (2013) raised the financial architecture variable with all three dimensions associated with financial performance and corporate value. The study of Ivashkovskaya and Stepanova (2011) took a sample of 300 companies in Europe which were divided into three categories, namely developed country, emerging market country and Russian, analyzed the effect of financial architecture on corporate value. Financial architecture variable was not computed in a comprehensive or multidimensional manner partially for each dimension, corporate value used the Tobin's Q proxy and was analyzed by regression. The results obtained that ownership structure as measured by managerial ownership and ownership concentration did not affect corporate value. Capital structure with DAR proxy had a significant negative effect on corporate value. The corporate governance variable

measured by board independence had a significant positive effect on corporate value.

A study conducted by Kokoreva and Stepanova (2013), which took a sample of 52 large non-financial companies in Russia, showed that ownership structure as measured by managerial ownership and ownership concentration did not affect corporate value. The capital structure with DER proxy had a significant positive effect on corporate value with Tobin's Q proxy. Corporate governance measured by board independence also had a significant positive effect on corporate value, but corporate governance measured using board size had a significant negative effect on corporate value.

The results of a study conducted by Ivashkovskaya et al. (2013) showed that of the 39 top banks in European developed countries and 54 top banks in Russia and developing countries, it was found that ownership structure and capital structure had a significant negative effect on corporate value, while corporate governance did not affect corporate value.

The study of Isshaq et al. (2009) involved the three dimensions of financial architecture, but the elaboration of the discussion and analysis did not explain the financial architecture variable comprehensively. It was purely done separately between dimensions. The results of study conducted by Isshaq et al. (2009) found that ownership structure measured using managerial ownership did not have a positive effect on corporate value with Tobin's Q proxy. However, the capital structure with DER proxy and corporate governance that used board size had a significant positive effect on corporate value with Tobin's Q proxy.

### 2.2. Ownership Structure, Financial Performance and Corporate Value

The ownership structure describes the role of shareholders or company owners in overseeing their company. Different ownership structure will have different motivations in monitoring management and its board of directors. Ownership structure is believed to have the ability to influence the course of the company which can later affect corporate performance and corporate value.

Some studies examine the effect of concentration of ownership on financial performance and corporate value, such as Zakaria et al. (2014), Hess et al. (2010), Javid and Iqbal (2009), Meca et al. (2011), Fauzi and Locke (2012), Pathirawasm and Wickremashinge (2012), Aymen (2014), Vintilla and Gherghina (2014). The results of the study of Zakaria et al. (2014) showed that ownership concentration had a significant positive effect on financial performance with ROA proxy.

A study conducted by Hess et al. (2010) took a sample of 431 companies registered in Shanghai (SHSE) and Shenzhen Stock Exchange (SZSE) in China, obtained a result that ownership concentration had a significant

positive effect on corporate value. Similar to studies conducted by Javid and Iqbal (2009), Meca et al. (2011) found that ownership concentration had a significant positive effect on corporate value. Studies conducted by Fauzi and Locke (2012), Pathirawasm and Wickremashinge (2012) showed that ownership concentration had a significant negative effect on financial performance as measured by ROA. Fauzi and Locke (2012) studied 79 companies on the New Zealand Stock Exchange (NZX) from 2007 to 2011. Pathirawasm and Wickremashinge (2012) conducted research on 102 companies listed on the Colombo Stock Exchange (CSE) Sri Lanka in 2008 to 2009. A study conducted by Aymen (2014) showed that ownership concentration did not affect financial performance. The study conducted by Vintilla and Gherghina (2014) showed that ownership concentration did not affect corporate value with Tobin's Q proxy.

The results of the study conducted by Liang et al. (2011) showed that managerial ownership had a significant positive effect on corporate value with Tobin's Q proxy. A study conducted by Zakaria et al. (2014) showed that managerial ownership had a significant positive effect on financial performance with ROA proxy. From the results of the study conducted by Gugung et al. (2014), it showed that managerial ownership had a significant positive effect on financial performance with ROE proxy. Research conducted by Ruan et al. (2011) in 197 companies in China showed that managerial ownership did not affect corporate value. The results of studies conducted by Quang and Xin (2014), Ongore et al. (2011) showed that managerial ownership did not affect the company's financial performance, both measured using ROA and ROE.

Based on the results of these studies, there are significant positive, significant negative and no effect between the variables of ownership structure and financial performance and corporate value.

### 2.3. Capital Structure, Financial Performance and Corporate Value

Capital structure is a very important problem for every company, because good or bad condition of capital structure will have a direct effect on the company's financial position.

Miguel et al. (2004) conducted a study on the effect of capital structure on financial performance in 135 companies from four countries (America, Britain, Germany, Japan). The study indicated that capital structure with DAR proxy had a significant positive effect on corporate value. Mujahid et al. (2014) showed that capital structure with DER proxy had a significant positive effect on financial performance with ROE proxy and ROA proxy.

A study conducted by Quang and Xin (2014) showed that capital structure with DAR proxy had a significant negative effect on financial performance with ROA proxy and ROE proxy. Studies conducted by Ayman (2014), Moradi et al. (2014) showed that capital structure with DAR proxy did not

affect financial performance with ROA proxy. Muntaz et al. (2013) indicated that capital structure with DER proxy had a significant negative effect on financial performance, both measured by ROA and ROE. A study conducted by Meca et al. (2011) showed that capital structure did not affect corporate value. A study conducted by Mireku et al. showed that capital structure with DAR proxy had a significant negative effect on financial performance.

Based on the results of these studies, there are significant positive, significant negative and no effect between the variables of capital structure and financial performance and corporate value.

### 2.4. Corporate Governance, Board Process, Financial Performance and Corporate Value

Corporate governance and board process are corporate management and supervision activities. The two-tier system adopted by Indonesia separates the duties of directors as managers of companies with the commissioners who serve as supervisors of the company. Separation of management and supervision tasks is a form of internal control in order to achieve good corporate governance to improve company's financial performance.

A study conducted by Ma and Tian (2009) showed that corporate governance as measured by board size had a significant positive effect on financial performance. Studies conducted by Moradi et al. (2012), Fauzi and Locke (2012) indicated that corporate governance had a significant positive effect on corporate value with Tobin's Q proxy and financial performance with ROA proxy. Rashid et al. (2010) which examined 90 non-financial companies listed on the Dhaka Stock Exchange (DSE) indicated that corporate governance had a significant positive effect on corporate value, but did not affect financial performance. The results of study conducted by Vafeas (1999) showed that board process with commissioners meeting proxy had a significant effect on financial performance with ROA proxy. Elvin and Hamid's research (2015) found that the board process with commissioners meeting proxy had a significant positive effect on corporate value with Tobin's Q proxy and EPS proxy.

A study conducted by Chatterjee (2011) stated that corporate governance had a significant negative effect as measured by board size on corporate value which was measured by Tobin's Q, while corporate governance if measured by the board independence did not affect corporate value. Francis (2012) stated that corporate governance had no effect on financial performance as measured by ROA. Azeez's research (2015) found that the board process with commissioners' independence proxy did not affect financial performance with ROA proxy and corporate value with EPS proxy. While the results of research by Rashid et al. (2010) showed that the board process with commissioners' independence proxy had a significant negative effect on corporate value with Tobin's Q proxy.

## 2.5. Financial performance and corporate value

Financial performance is a measure to see the company's ability to generate profits. High profitability shows good financial performance and company prospects so that investors will respond positively to these signals, which in turn will increase the corporate value.

Research conducted by Ramezani, et al. (2004) showed that financial performance with ROE proxy had a significant positive effect on corporate value. Chen and Chen (2011) conducted research on 302 electronic industry companies and 345 other industries listed on the Stock Exchange in Taiwan for the period of 2005-2009 regarding the effect of financial performance as measured by RO on corporate value as measured by Tobin's Q. From Chen and Chen's research, it obtained the results that financial performance had a significant positive effect on corporate value. Sudiyatno, et al. (2012) stated that profitability as an indicator of corporate financial performance as measured by ROE had a significant positive effect on corporate value. High profit will give an indication of good company prospects so that it can trigger investors to participate in increasing stock demand. If the demand for shares increases, it will cause the corporate value to increase as well.

Financial performance as measured by profitability can increase corporate value, however, it can also reduce corporate value. This can happen because when the company plans to increase profitability, of course the company's operational activities also increase, so that the costs incurred from this activity will also increase. This increase in costs will result in a company spending more, so that profitability becomes more liquid for the company but not solvable so that profitability will not guarantee the survival of the company in the long run.

## 3. Methodology

Research design is a plan and a research procedure that starts from broad assumptions to detailed methods in data collection and analysis (Creswell, 2013: 25). Data for this research was deductive, namely testing data and theories that were general in nature through testing of the submitted hypotheses. This study also identified and integrated financial architecture variable in relation to financial performance that affected the achievement of the value of non-financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2015.

This research was conducted on non-financial sector companies which were registered in the Indonesian Capital Market, namely Indonesia Stock Exchange (IDX) in 2015. The location was chosen because: (i) Indonesia Stock Exchange is the only one of Indonesia Capital Market which trades the most complete securities, (ii) the data provided in the IDX is complete and easy to obtain, (iii) Data on the IDX is accurate and reliable.

By type, the data was divided into two, namely quantitative data and qualitative data (Sugiyono, 2014: 223). This study used quantitative data, namely data in the form of figures such as the number of ownership shares, the number of outstanding shares, the amount of debt, long-term debt, equity, income before taxes, net income, total assets, working capital, compensation, the number of directors, directors' meeting, total of commissioners, the number of independent commissioners, commissioners' meeting and stock prices.

According to the source, data is divided into two, namely primary data sources and secondary data sources (Sugiyono, 2010: 47). This study used secondary data sources, meaning that data was obtained, collected and processed from other parties. Sources of data was in the form of annual financial statements of companies listed on the Indonesian Stock Exchange (IDX). Secondary data were obtained from the Indonesian Capital Market Directory (ICMD) and the official website of IDX at <http://www.idx.co.id>.

The variables in this study consisted of financial architecture, ownership structure, capital structure, corporate governance, board process, financial performance and corporate value.

The variables in this study consisted of:

- (i) Independent variables are variables that explain or influence other variables in the model. In this study, the independent variables were financial architecture, ownership structure, capital structure, corporate governance.
- (ii) Dependent variable is the type of variable that is explained or influenced by other variables in the model. In this study, the dependent variable was corporate value.
- (iii) Intervening variable is a type of variable that affects the relationship between one variable with other variables, this variable must exist as an interrelating variable between the independent variable and the dependent variable, so that the independent variable does not directly affect the change or emergence of the dependent variable. In this study, the intervening variable was the board process
- (iv) Mediating variable is a variable that is located between the independent variable and the dependent variable, so that the independent variable does not directly explain or influence the dependent variable. The mediating variable in this study was financial performance.

**Table 1:** Identification of Research Variables

Variable	Type	Proxy	Code	Scale
Financial Architecture (AK)	X Independent Variable	Composite Index:	SK	Ratio
		- Ownership structure	SM	Ratio
		- Capital structure	TK	Ratio
		- Corporate governance and board process		
Ownership Structure (SK)	X1 Independent Variable	- Concentrated ownership	KON	Ratio
		- Managerial ownership	MAN	Ratio
		- Institutional ownership	INS	Ratio
		- Foreign ownership	ASI	Ratio
		- Family ownership	KEL	Ratio
		- Public ownership	PUB	Ratio
Capital Structure (SM)	X2 Independent Variable	- Debt to assets ratio	DAR	Ratio
		- Debt to equity ratio	DER	Ratio
		- Long term debt to assets ratio	LDAR	Ratio
		- Long term debt to equity ratio	LDER	Ratio
Corporate Governance	X3 Independent Variable	- Size of directors	UKD	Ratio
		- Board of Directors meeting	RAD	Ratio
		- Board compensation	KOD	Ratio
Board Process	X4 Intervening Variable	- Board of Commissioners meeting	RAK	Ratio
		- Independence of the commissioner	INK	Ratio
Financial Performance	Y1 Mediating Variable	- Return on assets	ROA	Ratio
		- Return on equity	ROE	Ratio
		- Return on investment	ROI	Ratio
		- Return on capital employed	ROCE	Ratio
Corporate Value	Y2 Dependent Variable	- Tobin's Q	TBQ	Ratio
		- Price earning ratio	PER	Ratio
		- Price book value	PBV	Ratio
		- Earning per share	EPS	Ratio

Source: Processed data

#### 4. Research Results

In this study, the hypothesis testing of the effect of financial architecture included the dimensions of ownership structure, capital structure and corporate governance on financial

performance and corporate value using Path Analysis. Path analysis is a technique for analyzing the causal relationship that occurs in multiple regression if the independent variable affects the dependent variable not only directly, but also indirectly.

##### a) Direct Effects

**Table 2:** Direct Effects of Independent Variables on Dependent Variables

Hypothesis Notation	Path	Standardized Coefficients $\beta$	Significance	Conclusion (+/-, $\leq 0.05$ )
H1	SK -> NP	-0.006	0.909	No effect
H3	SK -> KK	0.236	0.000	Significant positive effect
H4	SM -> NP	-0.012	0.826	No effect
H6	SM -> KK	0.022	0.690	No effect
H7	TK -> NP	0.093	0.041	Significant positive effect
H10	TK -> KK	0.089	0.114	No effect
H11	KK -> NP	0.283	0.000	Significant positive effect
H12	AK -> NP	0.245	0.000	Significant positive effect
H14	AK -> KK	0.817	0.000	Significant positive effect

Based on Table 2, the results of the direct effect between independent variables and dependent variables are obtained, by looking at the regression coefficient:

- (i) H<sub>1</sub>: Ownership structure has a negative effect on corporate value, because the standardized coefficient  $\beta$  is negative (-0.066).
- (ii) H<sub>3</sub>: Ownership structure has a positive effect on financial performance, because the standardized coefficient  $\beta$  is positive (0.236).

(iii) H<sub>4</sub>: Capital structure has a negative effect on corporate value, because the standardized coefficient  $\beta$  is negative (-0.012).

(iv) H<sub>6</sub>: Capital structure has a positive effect on financial performance, because the standardized coefficient  $\beta$  is positive (0.022).

(v) H<sub>7</sub>: Corporate governance has a positive effect on corporate value, because the standardized coefficient  $\beta$  is positive (0.093)



- (vi) H<sub>8</sub>: Corporate governance has a positive effect on financial performance, because the standardized coefficient  $\beta$  is positive (0.089).
- (vii) H<sub>11</sub>: Financial performance has a positive effect on corporate value, because the standardized coefficient  $\beta$  is positive (0.283).
- (viii) H<sub>13</sub>: Financial architecture has a positive effect on corporate value, because the standardized coefficient  $\beta$  is positive (0.245).
- (ix) H<sub>14</sub>: Financial architecture has a positive effect on financial performance, because the standardized coefficient  $\beta$  is positive (0.817).

#### b) Indirect Effects

**Table 3:** Indirect Effects of Independent Variables on Dependent Variables

Hypothesis Notation	Path	Sobel's Z Coefficient	Significance	Conclusion (+/-, $\leq 0.05$ )
H2	SK -> KK -> NP	0.324	0.001	Significant positive effect
H5	SM -> KK -> NP	0.402	0.688	No effect
H8	TK -> KK -> NP	1.512	0.131	No effect
H9	TK -> PD -> KK	1.971	0.049	Significant positive effect
H13	AK -> KK -> NP	4.980	0.000	Significant positive effect

Source: Processed data

Based on Table 3, the results of the indirect effect between independent variables and the dependent variable are obtained, looking at the coefficient of Z:

- (i) H<sub>2</sub>: Ownership structure has a positive effect on corporate value through mediating variable of financial performance, because the coefficient of Sobel's Z is positive (0.324).
- (ii) H<sub>5</sub>: Capital structure has a positive effect on corporate value through mediating variable of financial performance, because the coefficient of Sobel's Z is positive (0.402).
- (iii) H<sub>8</sub>: Corporate governance has a positive effect on corporate value through mediating variable of financial performance, because the coefficient of Sobel's Z is positive (1.512).
- (iv) H<sub>9</sub>: Corporate governance has a positive effect on financial performance through the intervening variable of board process, because the coefficient of Sobel's Z is positive (1.971).
- (v) H<sub>13</sub>: Financial architecture has a positive effect on corporate value through mediating variable of financial performance, because the coefficient of Sobel's Z is positive (4.980).

#### 4.1. The Effect Of Ownership Structure On Financial Performance and Corporate Value

##### 4.1.1. Ownership Structure Does Not Affect Corporate Value

The results of data analysis indicated that ownership structure did not affect corporate value. This result is contrary to the hypothesis proposed or there is a rejection of the hypothesis which states that ownership structure has a significant positive effect on corporate value.

Based on the average shareholding structure ratio in Indonesia, which is only 25% of the total outstanding shares,

it has not been able to increase the company's stock price in the Indonesian Capital Market (IDX). The rights held by shareholders are still relatively small, so the decisions taken have not fully benefited shareholders. For investors who are rational in determining their investments, they also consider the ability of shareholders to control their companies as seen from the percentage of share ownership. The results of this study are in line with studies conducted by Vintilla and Gherghina (2014), that ownership structure does not affect corporate value. In their research, ownership structure was proxied by concentrated ownership and Tobin's Q as a proxy for corporate value. While the results of research by Ahmed and Iwasaki (2015) showed that ownership structure with managerial ownership proxy did not affect corporate value with Tobin's Q. Navisi and Naker (2006) carried out a research and the results was ownership structure with institutional ownership proxy did not affect corporate value with Tobin's Q proxy. While the results of the study conducted by Javid and Iqbal (2009) showed that ownership structure with foreign ownership proxy did not affect corporate value with Tobin's Q proxy.

The results of this study are not in accordance with Jensen and Meckling (1976) which stated that ownership structure was a mechanism to reduce the existence of agency conflict. The greater the structure of share ownership in a company means the potential for agency conflict diminishes. However, in this study, the greater the ownership structure, the less significant change in corporate value will be. This can happen because investors in investing do not see who the owner is and how much share ownership most investors. These results also differ from those of Hess et al. (2010), Meca et al. (2011), Liang et al. (2011), Elvin and Hamid (2015), who stated that ownership structure had a positive effect on corporate value. The study of Javid and Iqbal (2009) showed that ownership structure with managerial ownership proxy had a significant positive effect on corporate value with Tobin's Q proxy. The results of research conducted by Elvin and Hamid (2015) found that ownership structure with institutional ownership proxy had

a significant positive effect on corporate value with Tobin's Q proxy.

#### *4.1.2. Ownership Structure Has A Significant Positive Effect on Corporate Value Through Mediating Variable of Financial Performance*

The results of data analysis showed that ownership structure had a significant positive effect on corporate value through mediating variable of financial performance. In this research, financial performance was able to play a role in mediating the relationship between ownership structure and corporate value. Previously, based on the results of the analysis of the direct effect between ownership structure and corporate value, the results showed that it had no effect. However, after adding the mediating variable to financial performance, it produced a positive and significant effect. In the perspective of signaling theory, financial performance is seen as a reference by investors in assessing the stock price of a company, even though investors do not see who and how large the share ownership is.

The results of this study are in line with the results of the study of Javid and Iqbal (2009) who stated that ownership structure did not affect corporate value with Tobin's Q proxy, but had a significant positive effect on corporate value with ROA proxy. Navissi and Naiker (2006) found that ownership structure with institutional ownership proxy did not affect corporate value with Tobin's Q proxy, but ownership structure had a significant positive effect on financial performance.

The results of this study are different from the results of the research conducted by Vintilla and Gherghina (2014) which showed that ownership structure was not affected by corporate value with Tobin's Q proxy and also on financial performance with a ROA proxy. Liang et al. (2011) obtained the results that ownership structure with managerial ownership proxy did not affect corporate value and financial performance.

#### *4.1.3. Ownership Structure Has A Significant Positive Effect on Financial Performance*

The results of data analysis showed that ownership structure had a significant positive effect on financial performance. These results are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that ownership structure has a significant positive effect on financial performance. The ownership structure with a concentrated ownership proxy will create a majority shareholder so that decision-making by shareholders becomes more effective and quickly responds to management needs in an effort to achieve improved financial performance. The results of this study are in accordance with the opinion of Jensen and Meckling (1976) which stated that managerial and institutional ownership was a form of good supervision of manager's performance.

The results of this study are in line with the results of studies conducted by Javid and Iqbal (2009), Ongore et al. (2011), Elvin and Hamid (2015) which showed that ownership structure with the proxies of concentrated ownership, managerial ownership, institutional ownership, family ownership and foreign ownership had a significant positive effect on financial performance with ROA proxy and ROE proxy. Studies conducted by Navissi and Naiker (2006), Zakaria et al. (2014), Gugung et al. (2014) obtained the results that ownership structure with concentrated ownership had a significant positive effect on financial performance with ROA proxy and ROE proxy. The results of a study conducted by Zang et al. (2002) showed that ownership structure with public ownership proxy had a significant positive effect on ROA. While research conducted by Barontini and Caprio (2005) found that ownership structure with family ownership proxy had a significant positive effect on financial performance with ROA proxy.

#### *4.2. The Effect of Capital Structure on Financial Performance and Corporate Value*

##### *4.2.1. Capital Structure Does Not Affect Corporate Value*

The results of data analysis showed that the capital structure did not affect corporate value. This result is contrary to the hypothesis proposed or there is a rejection of the hypothesis which states that the capital structure has a significant positive effect on corporate value.

In this study, the use of debt was as a proxy of capital structure variable, but the results did not affect corporate value. The existence of debt to the issuer under study did not signal to investors that the company was trusted by creditors. The results of this study are in accordance with the pecking order theory which explains that the preference for using internal financing sources will be greater than using other funding sources such as debt and issuance of new equity.

The results of this study are in line with the results of studies conducted by Ruan et al. (2011), Meca et al. (2011), Pung and Hoang (2013), which showed that capital structure with DAR proxy did not affect Tobin's Q value. Mumtaz et al. (2013) found that capital structure with DER proxy did not affect corporate value with EPS proxy.

##### *4.2.2. Capital Structure Does Not Affect Corporate Value Through Mediating Variable of Financial Performance*

The results of data analysis showed that the capital structure did not affect corporate value through mediating variable of financial performance. This result is contrary to the hypothesis proposed or there is a rejection of the hypothesis which states that the capital structure has a significant positive effect on corporate value through mediating variable of financial performance.

In this study, capital structure did not have direct effect on corporate value. It also did not have indirect effect through the mediating variable of financial performance. The use of debt did not necessarily improve financial performance, especially encouraging an increase in corporate value.

The results of this study are in line with the research conducted by Pung and Hoang (2013) which explained that capital structure with DAR proxy did not affect corporate value with Tobin's Q proxy and also did not affect financial performance with ROA proxy. Mumtaz et al. (2013) found that capital structure with DER proxy did not affect corporate value with EPS proxy and financial performance with ROE proxy.

#### *4.2.3. Capital Structure Does Not Affect Financial Performance*

The results of data analysis showed that the capital structure had no effect on financial performance. This result is contrary to the hypothesis proposed or there is a rejection of the hypothesis which states that the capital structure has a significant positive effect on financial performance. This study is in line with the research of Leon (2013), Pung and Hoang (2013), Quang and Xin (2014), Zakaria et al. (2014) which explained that capital structure with DAR proxy did not affect financial performance with ROA proxy. The results of research conducted by Quang and Xin (2014) found that capital structure with LDAR proxy did not affect ROE. Mumtaz et al. (2013), Mireku et al. (2014), Christi et al. (2013) showed that capital structure with DER proxy did not affect financial performance with ROE proxy.

### **4.3. The Effect of Corporate Governance and Board Process on Financial Performance and Corporate Value**

#### *4.3.1. Corporate Governance Has A Significant Positive Effect on Corporate Value*

The results of data analysis showed that corporate governance had a significant positive effect on corporate value. The results of this study are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that corporate governance has a significant positive effect on corporate value.

The results of this study are in line with the results of studies conducted by Isshaq et al. (2009), Rashid et al. (2010), Fauzi and Locke (2012), Moradi et al. (2012) who stated that corporate governance with board size proxy had a significant positive effect on corporate value with Tobin's Q proxy. Elvin and Ahmad's (2015) research found that corporate governance with board compensation proxy had a significant positive effect on corporate value with Tobin's Q proxy.

#### *4.3.2. Corporate Governance Does Not Affect Corporate Value Through Mediating Variable of Financial Performance*

The results of data analysis showed that corporate governance did not affect corporate value through mediating variable of financial performance. The results of this study is in contrast with the hypothesis proposed or there is a rejection of the hypothesis which states that corporate governance has a significant positive effect on corporate value through mediating variable of financial performance.

The results of this study are in line with the results of studies conducted by Rashid et al. (2010) who stated that corporate governance with board size proxy had a significant positive effect on corporate value with Tobin's Q proxy, but corporate governance with board size proxy did not affect financial performance with ROA proxy. Elvin and Ahmad's research (2015) indicated that corporate governance with board compensation proxy had a significant positive effect on corporate value with Tobin's Q proxy, but had negative effect on financial performance with ROA proxy.

#### *4.3.3. Corporate Governance Has A Significant Positive Effect on Financial Performance Through Intervening Variable of Board Process*

The results of data analysis showed that corporate governance had a significant positive effect on financial performance through the intervening variable of the board process. The results of this study are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that corporate governance has a significant positive effect on financial performance through the intervening variable of board process.

The results of this study are in accordance with the management system of the company (Limited Liability Company/PT) in Indonesia which adheres to the two-tier system, namely the separation between the management of the company (directors) and supervisors (commissioners), but the commissioners cannot appoint and dismiss directors. Good supervision reflects good corporate governance, resulting in an increase in financial performance. In this case, the board process is a supervisory activity done by the commissioner capable of being an intervening variable that can provide a significant positive influence between corporate governance and financial performance.

The results of this study are in line with the results of the study of Vafeas (1999) which showed that the board process with commissioners meeting proxy had a significant effect on financial performance with ROA proxy. Ma and Tian's research (2009) found that the board process with commissioners' independence proxy had a significant positive effect on the corporate performance with ROI proxy. Furthermore, the results of Sungu et al. (2014) showed that board process with commissioners' independence proxy had a significant positive effect on financial performance with ROA proxy. While Elvin and

Hamid's research (2015) found that board process with commissioners' independence proxy had a significant positive effect on financial performance with ROA proxy and ROE proxy.

#### *4.3.4. Corporate Governance Does Not Affect Financial Performance*

The results of data analysis showed that corporate governance had no effect on financial performance. The results of this study contradict the proposed hypothesis or there is a rejection of the hypothesis which states that corporate governance has a significant positive effect on financial performance.

The results of this study are in line with the results of studies conducted by Rashid et al. (2010), Ghabayen (2011), Francis et al. (2012) which showed that corporate governance with board size proxy did not affect financial performance with ROA proxy.

#### *4.4. The Effect of Financial Performance on Corporate Value*

The results of data analysis showed that financial performance had a significant positive effect on corporate value, meaning that the value of financial performance significantly affects corporate value. The results of this study are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that financial performance has a significant positive effect on corporate value.

Good financial performance at the issuer is a signal for investors to be interested in investing in the company. With the number of investors investing in the company experience an increase, there will be an increase in the company's stock price, where the stock price reflects corporate value.

The results of this study are in line with the results of research by Ramezani et al. (2004), which indicated that financial performance with ROE proxy had a significant positive effect on corporate value with EPS proxy. Sudiyatno et al. (2012) obtained that financial performance with ROA proxy had a significant positive effect on corporate value with Tobin's Q proxy. The results of Chen and Chen's research (2011) showed that financial performance with ROA proxy had a significant positive effect on corporate value with PER proxy. Chaterjee's research (2011) explained that financial performance with ROCE proxy had a significant positive effect on corporate value with Tobin's Q proxy.

#### *4.5. The Effect of Financial Architecture on Financial Performance and Corporate Value*

##### *4.5.1. Financial Architecture Has A Significant Positive Effect on Corporate Value*

The results of data analysis showed that financial architecture had a significant positive effect on corporate value, meaning that the value of financial architecture significantly affects corporate value. The results of this study are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that financial architecture has a significant positive effect on corporate value. Financial architecture that has three dimensions, namely ownership structure, capital structure, corporate governance and board process is a modern funding decision that can improve corporate performance (Myers, 1999). The results of this study are in line with the results of study conducted by Moradi et al. (2012) which indicated that financial architecture seen from the dimension of ownership structure had a significant positive effect on corporate value with Tobin's Q proxy. Studies conducted by Isshaq et al. (2009), Kokoreva and Stepanova (2013) found that financial architecture seen from the dimension of capital structure and corporate governance had a significant positive effect on corporate value with Tobin's Q proxy. The results of research conducted by Ivashkovskaya and Stepanova (2011) showed the results that financial architecture viewed from the dimension of corporate governance had a significant positive effect on corporate value with Tobin's Q proxy.

##### *4.5.2. Financial Architecture Has A Significant Positive Effect on Corporate Value Through Mediating Variable of Financial Performance*

The results of data analysis showed that financial architecture had a significant positive effect on corporate value through mediating variable of financial performance, meaning that financial performance was able to play a real role as a mediating variable on the effect of financial architecture on corporate value.

Ivashkovskaya and Stevanova (2011) argued that the company's goals can be achieved by improving the company's financial performance through an integrated approach on the basis of corporate financial architecture concept. The results of this study are in line with the results of study conducted by Moradi et al. (2012) which indicated that financial architecture seen from the dimension of ownership structure had a significant positive effect on corporate value with Tobin's Q proxy and also financial performance with ROA proxy.

##### *4.5.3. Financial Architecture Has A Significant Positive Effect on Financial Performance*

The results of data analysis showed that financial architecture had a significant positive effect on financial performance, meaning that the financial architecture

significantly influenced financial performance. The results of this study are in accordance with the opinion of Ivashkovskaya and Stepanova (2011) that in exploring its performance, a company must build all components of a company's financial design, namely financial architecture. Daraghma and Alsinawi (2010) stated that financial architecture seen from the dimension of ownership structure variable had a significant positive effect on financial performance. Research by Ivashkovskaya et al. (2013) obtained the results that financial architecture seen from the dimension of ownership structure had a significant positive effect on financial performance with ROE proxy. Research conducted by Moradi et al. (2012) showed that financial architecture seen from the dimension of ownership structure had a significant positive effect on financial performance with ROA proxy.

## 5. Conclusion

The results of this study have provided findings that are in accordance with the research model that has been built, so that the following theoretical implications can be proposed: (i) Theoretically, this research has been able to give theoretical model on the effect of financial architecture with the dimensions of ownership structure, capital structure, corporate governance and board process on financial performance and corporate value in the Indonesian Capital Market. The results of this theoretical model explains that financial architecture and its dimensions directly affect financial performance. On the other hand, financial architecture and its dimensions indirectly affect corporate value through financial performance. (ii) This research is also able to develop theoretical model about the effect of corporate governance on financial performance in accordance with the two tier systems adopted by Indonesia. The results of this theoretical model explain that good corporate governance involves supervision of the board of commissioners or it is called as the board process on activities carried out by directors. Corporate governance has no direct effect on financial performance, hence the involvement of the board process acts as an intervening variable from the effect of corporate governance on financial performance. (iii) This research has been able to develop an empirical study of the concept of financial architecture proposed by Myers (1999) that identifies a company's financial architecture into a comprehensive value or a combination of all dimensions of financial architecture. (iv) The results of this study provide empirical contributions about the effect of financial architecture comprehensively on financial performance and corporate value in the Indonesian Capital Market.

Based on the findings in this study, the practical implications that can be stated are as follows: (i) Corporate financial architecture concept can be used by management in managing and improving the company's financial performance. This is related to the duty of the management in the form of accountability to the owner of the company, allocation of usage and the optimal proportion of funding

and good corporate governance. (ii) Corporate financial architecture concept can be used by owners in making strategic decisions to strengthen the structure and position of their shareholdings, the strength of funding and more modern business governance. (iii) Corporate financial architecture concept can be used by investors in determining the direction of investment. In investment decisions, careful consideration is needed regarding the structure of share ownership, the strength or failure of funding and the involvement of the board of commissioners in the supervision of company management. (iv) The involvement of commissioners in supervision (board process) indicates good corporate governance. It is evident from the results of research that the board process contributes positively in improving the company's financial performance.

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