

The Effect of Company's Size, Capital Structure, Good Corporate Governance, Sales Growth, and Liquidity toward Financial Performance and Company's Value

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ABSTRACT : Property sector until today still becomes the target for investors to allocate the portfolio of investment. The prices of property that keep on increasing and that are supported by the increasing demand are the main attraction for investors to invest in property sector. Besides, the price of land tends to increase due to fixed land supply, while the demand is always high along with the increase in population. It is assumed that the increase in price land is 40%. The price of land is also rigid, meaning that the determiner of the price is not market but land. With that paradigm, the company must make maximal efforts to improve the company's value, so that it can attract many investors. In this implementation, some influencing factors must be considered. Theoretically, one of them is the company's ability to gain profit or profitability. This study examines the effect of company's size, capital structure, corporate governance, sales growth, and liquidity of the company's Financial Performance and value. Research results indicate that Financial Performance is influenced by the Size of the Company, Capital Structure, Growth Sales. On the other hand, Financial Performance is not significantly affected by good corporate governance and liquidity. Then the company's value is significantly influenced by the Size of the Company, Capital Structure, Sales Growth, Liquidity, and Financial Performance. While there was no significant direct effect between good corporate governance of the Company's value.

KEYWORD: company's financial performance, company's value

I. BACKGROUND

Property sector until today still becomes the target for investors to allocate the portfolio of investment. The prices of property that keep on increasing and that are supported by the increasing demand are the main attraction for investors to invest in property sector. Besides, the price of land tends to increase due to fixed land supply, while the demand is always high along with the increase in population. It is assumed that the increase in price land is 40%. The price of land is also *rigid*, meaning that the determiner of the price is not market but land (Suyanto, 2007).

This study examines the effect of company's size, capital structure, corporate governance, sales growth, and liquidity of the company's Financial Performance and value. Nowadays, the development of property industries shows significant growth. It is signified by the growth of the number of residential, apartment, offices and hotels building. Other than that, the development of property sector can be seen in the increasing number of real estate in big cities. Based on macro-economic perspective, property industries have a wide range of business, so that the growth of property business later in turn will effect on economic growth and job vacancy. The property also becomes important indicator for economic health of a country because it indicates economic conditions of a country (Santoso, 2005). The positive indicator of property growth is shown by the facts that the growth of property industries today is 40 percent in average, which is higher than that in 2010 by 20% (Media Indonesia, 17 August 2011). This is also supported by final statement in 2010, in which Indonesia Real Estate Company Union (REI) paid attention to the condition of property sector in the last two years that starts being recovered due to global economic crisis in 2008. The recovery of this sector is mainly promoted by stable domestic economic climate. Besides, some macro economic indicators, such as rupiah exchange rate and interest rate, support the revival (KOMPAS.com, 22 December 2010). With that paradigm, the company must make maximal efforts to improve the company's value, so that it can attract many investors. In this implementation, some influencing factors must be considered. Theoretically, one of them is the company's ability to gain profit or profitability. Companies that gain stable and big profit will attract investors, because automatically they benefits them. The high profitability of a company also indicates good management of the company, so that it grows the investors' trust. The investors' trust later will become the most effective instrument to lift the company's stock price. The increase in stockprice is the same as the increase in the company's value, so that it further can guarantee the prosperity of the investors. Differently, if the profability of the company is low, the

investors are in doubt to invest their stocks. This incredulity becomes the serious trigger for the company's stock price decrease, so that the value of the company will be down.

II. LITERATURE REVIEW

The size of a company describes the measurement of the company which can be stated by total activa or total net sales. The larger total activa or sales, the larger the size of the company. The larger the activa, the bigger the capital invested; while the higher the sales, the higher the money circulation in the company. Thereby, the size of a company is the measurement of the *asset* owned by the company. Capital structure, according to Gitman (2000), is fund collection that can be allocated by a company. The fund is obtained from long-term debt and equity. The capital structure reflects entirely *passiva* in a balance. For examples, long term debt, short term debt and equity capital. For Weston & Copeland (2007), capital structure or capitalization of a company is permanent financing consisting of long term debt, preferent stock, and investors' capital. Besides, capital structure shows comparison between the number of long-term debt and equity (Riyanto, 2008). According to Kartadinata (2005), financial structure describes the whole arrangement next credit of balance consisting of short-term debts, long-term debts, capital stock and retained earnings. Meanwhile, capital structure is arrangement or comparison between equity and long term loan. Therefore, capital structure is a part of financial structure.

Corporate governance is one of concepts that can be used in improving economic efficiency, consisting of a series of relationships among company's management, management board, investors and other stakeholders. Corporate governance gives a structure facilitating the determination of the targets of a company and performance monitoring technique. In relations to this matter, Watts (2003) states that one of ways used to monitor contractual matters and to limit *opportunistic* behavior of management is *corporate governance*.

Financial Performance is the result of individual decisions made continuously by management. To assess financial performance, it is necessary to consider the impact of cumulative finance and economy of the decisions and to consider comparative size. Therefore, to assess financial performance, financial analysts need to consider some indicators. The frequently used indicator is ratio or index, which relates to two financial data each other. Meanwhile, Husnan (2007) proposes that Financial Performance is an instrument to assess achievement and financial conditions of a company, where a financial analyst needs certain measurement. The frequently used measurement is a ratio or an index which shows correlation between two/more financial data. The analysis and interpretation of various ratios will give better understanding toward achievement and financial condition than the analysis that only presents financial statement data. According to Fahmi (2012), Financial Performance is an analysis conducted to find out to what extent a company has implemented and used financial implementation rules well and properly, such as making financial statement that fulfills standards and provisions in SAK (Standards of Financial Accounting). Financial Performance in the financial statement of a company shows information in balance, profit loss statement, cash flow statement as well as other supporting things to strengthen the financial assesment. Mulyadi (2002) states that Financial Performance is the determination of certain measurements that measures the success of a company in gaining profit. In measuring financial performance, it is necessary to consider company's organization and the center of responsibility. In this matter, the responsibility of the manager manifested in the form of achievement of Financial Performance can be shown.

One of ways to measure the good or bad performance of a company is profit. The company that gets a high return level upon the investment of the company that gets big profit is considered successful or has good performance; on the contrary if it gains relatively small profit or less than what it has earned in the previous period, the company is considered less successful or has less good performance.

Pinches (2006) defines *the total value company as a function of the claims of both stock holders and bond holders on the company. Market value of the company is equal to the total of the market value of the stocks and the market value of company's bond (and other debts)*. The total value of a company, according to Weston and Copeland (2007), is market value of all components of the company's financial structure. Based on these definitions, it can be concluded that the company's value is the total market value of the company's stocks, bond and debt.

III. RESEARCH METHOD

Partial Least Square (PLS) is firstly developed by Herman Wold. He is the teacher of Karl Joreskog (the one who developed SEM). This model is developed as the alternative for situations in which the theory is weak and or the available indicators do not meet reflexive measurement model. Wold mentions PLS as "soft modeling". PLS is powerful method analysis because it can be applied on all data scale, which does not have

many assumptions and sample size. PLS is also used to develop correlation which does not have theoretical background or proposition testing yet (Solimun, et al., 2009). PLS approach is based on analysis change from calculation measurement of research model parameter on relevant prediction measurement. Therefore, the focus of measurement should move from calculation of parameter significances (structural path and loading factor) into prediction validity. The basis of parameter significance testing is *resampling* developed Geisser (1975) and Stone (1975) with *predictive sample technique*, i.e. *cross-validation* synthesis and suitability of *observable* perspective or *potential observable* function are much more relevant than artificial construct parameter estimation (Chin, 1997). PLS is mainly aimed to estimate endogeneous construct variance and manifestation variables, termed by reflexive indicator, and other specialties are construct indicators that can be in formative form, termed by *formative indicator*.

IV. RESEARCH FINDINGS

Results of Outer Model Testing

The *Outer Weight* value shows the weight of every indicator as measurer of each latent variable. The indicator with the largest *Outer Weight* shows that the indicator is the dominant variable measurer. It is presented in Table 1 as follows.

Table 1: Results of the Outer Model

Indicator	Company's Size		Capital Structure		Good Corporate Governance		Sales Growth	
1	Asset	-0.145*	DA	0.315*	KA	0.496*	GS	1.000*
2	Sales	1.065*	DER	0.940*	KI	0.498*		
3					KM	0.273*		
Indicator	Liquidity		Financial Performance		Company's value			
1	CR	1.000*	NPM	0.235*	PBV	0.350*		
2			ROA	0.834*	SR	0.235		
3			ROE	0.350*	TQ	0.834*		

Based on the table above it can be found that:

- [1] For the variable of the Company's Size, there are two indicators, i.e. Assets and Sales. The highest *outer weight* value shows that the second indicator is the most dominant indicator to measure the variable of the Company's Size. It means Company's Size measurement is high due to the *Sales* indicator.
- [2] For the variable of the Capital Structure, there are two indicators, i.e. DER and DA. Based on the size of outer weight, the first indicator is the most dominant indicator to measure the variable of the Capital Structure. It means that the Capital Structure variable is high due to the Debt to Equity Ratio indicator.
- [3] For the variable of Good Corporate Governance, there are three indicators, i.e. Independent Commissioner, Managerial Ownership, and Audit Committee. Based on the size of outer weight, the first indicator is the most dominant indicator to measure Good Corporate Governance. It means that the high Good Corporate Governance variable is resulted from the Independent Commissioner variable.
- [4] For the variable of Financial Performance, there are three indicators, i.e. ROA, ROE, and NPM. Based on the size of outer weight, the first indicator is the most dominant indicator to measure the Financial Performance variable. It means that the Financial Performance variable is high due to the Return on Assets indicator.
- [5] For Company's value indicator, there are three indicators, i.e. Tobins'Q, Price Book Value, and *Stock Return*. Based on outer weight size, the second indicator is the most dominant indicator to measure the Company's Size indicator. It means that the high corporate value is mainly due to the high Price Book value.

V. RESULTS OF INNER MODEL TESTING

Inner model (structural model) testing mainly examines hypotheses in research. Hypothesis testing is conducted with *t*-test (T-statistic) in each direct effect partially. The analysis results are presented in PLS analysis and shown in the following table.

Table 2: Results of Inner Model: Dirrect Effect

Relationship	Path Coefficient	T-stat	p-value
Company's Size→Financial Performance	0.379	13.919	0.000
Capital Structure→Financial Performance	0.219	3.607	0.000
Good Corporate Governance→Financial Performance	-0.119	1.341	0.180*
Sales Growth→Financial Performance	0.248	5.492	0.000
Liquidity→Financial Performance	-0.038	1.131	0.258*
Company's Size→Company's value	0.361	8.388	0.000
Capital Structure→Company's value	0.285	4.715	0.000
Good Corporate Governance→Company's value	-0.025	0.567	0.571*
Sales Growth→Company's value	0.292	8.829	0.000
Liquidity→Company's value	-0.056	2.423	0.015
Financial Performance→Company's value	0.155	2.437	0.015

Based on the testing results, it can be concluded that:

- [1] From the testing of direct effect between the Company's Size and Financial Performance, the obtained coefficient value of *inner weight* is 0.379, with T-statistic by 13.919, and p-value by 0.000. Since T-statistic > 1.96, and p-value < 0.05, it is suggested that there is direct significant effect between Company's Size and Financial Performance. Considering the positive coefficient value of *inner weight*, it is indicated that the correlation of both variables is positive, meaning that the higher the Company's Size (shown by the high sales variable and the low asset variable), the higher Financial Performance (the high ROA, ROE, and NPM).
- [2] The testing of direct effect between Capital Structure and Financial Performance shows that the coefficient value of *inner weight* is by 0.219, with T-statistic value by 3.607, and p-value by 0.000. Since T-statistic value > 1.96, and p-value < 0.05, it is suggested that there is direct effect that is significant between Capital Structure and Financial Performance. Considering the positive coefficient value of *inner weight*, it is indicated that there is positive correlation between both variables. It means that the high Capital Structure (shown by the high Debt to Total Asset and Debt to Equity Ratio) will cause the high Financial Performance (the high ROA, ROE, and NPM).
- [3] The direct effect testing between Good Corporate Governance and Financial Performance shows that the coefficient value of *inner weight* is by -0.119, with the value of T-statistic by 1.341, and p-value by 0.180. Since the value of T-statistic < 1.96, and p-value > 0.05, it is suggested that there is no direct significant effect between Good Corporate Governance and Financial performance. It means that at any value of Good Corporate Governance, there will no change in the high or low Financial Performance.
- [4] The results of direct effect testing between Sales Growth and Financial Performance shows that the coefficient value of *inner weight* is 0.248, with the value of T-statistic by 5.492, and p-value by 0.000. Since T-statistic value > 1.96, and p-value < 0.05, it is suggested that there is direct significant effect between Sales Growth and Financial Performance. Considering the positive coefficient value of *inner weight*, it is indicated that the correlation between both variables is positive. It means that the high Sales Growth (shown by the high Growth Sales) will cause the high Financial Performance (the high ROA, ROE, and NPM).
- [5] The results of direct effect testing between Liquidity and Financial Performance show that the coefficient value of *inner weight* is by -0.038, with the value of T-statistic by 1.131, and p-value by 0.258. Since T-statistic value < 1.96, and p-value > 0.05, it is suggested that there is no direct effect that is significant between Liquidity and Financial Performance. It means that at any value of Liquidity, there will be no changes in the high or low the Financial Performance.
- [6] The results of direct effect testing between Company's Size and Company's Value show that the coefficient value of *inner weight* is by 0.361, with the value of T-statistic by 8.388, and p-value by 0.000. Since the value of T-statistic > 1.96, dan p-value < 0.05, it is suggested that there is direct effect that is significant between Company's Size to Company's value. Considering the positive coefficient value of *inner weight*, it is indicated that the correlation between both variables is positive. It means that the high the Company's Size (shown by the high sales and the low asset), will cause the high Company's Value (the high PBV, SR, and TQ).

- [7] The results of direct effect testing between Capital Structure and Company's Value shows that the coefficient value *inner weight* is 0.285, with T-statistic value by 4.715, and p-value by 0.000. Since T-statistic value > 1.96, and p-value < 0.05, it is suggested that there is direct effect between Capital Structure and Company's Value. Considering the positive coefficient value of *inner weight*, it is indicated that the correlation between both variables is positive. It means that the high the Capital Structure (shown by the high Debt to Total Asset and Debt to Equity Ratio) will cause the high the Company's Value (the high PBV, SR, and TQ).
- [8] Based on the results of direct effect testing between Good Corporate Governance and Company's Value, the obtained coefficient value of *inner weight* is by-0.025, with T-statistic value by 0.567, and p-value by 0.571. Since T-statistic value< 1.96, and p-value > 0.05, it is suggested that there is no direct effect that is significant between Good Corporate Governance and Company's Value.
- [9] The results of direct effect testing between Sales Growth and Company's Value shows that the coefficient value of *inner weight* was 0.292, with the value of T-statistic by 8.829, and p-value by 0.000. Since T-statistic value > 1.96, and p-value < 0.05, it is suggested that there is direct effect that is significant between Sales Growth and Company's Value. Considering the positive coefficient value of *inner weight*, it is indicated that the correlation between both variables is positive. It means that the high the Sales Growth (shown by the high Growth Sales) will cause the high Company's Value (the high PBV, SR, and TQ).
- [10] The results of direct effect testing between Liquidity and Company's Value shows that the coefficient value of *inner weight* is -0.056, with T-statistic value by 2.423, and p-value by 0.015. Since T-statistic value> 1.96, and p-value < 0.05, it is suggested that there is direct effect that is significant between Liquidity and Company's Value. The negative coefficient value of *inner weight* indicates that the correlation between both variables is negative. It means that Liquidity (shown by the high CR) will cause the low Company's Value (the high PBV, SR, and TQ).
- [11] The results of direct effect testing between Financial Performance and Company's Value show that the coefficient value of *inner weight* is 0.155, with T-statistic value by 2.437, and p-value by 0.015. Since T-statistic value > 1.96, and p-value < 0.05, it is suggested that there is direct effect that is significant between Financial Performance and Company's Value. The positive coefficient value of *inner weight* is indicates a positive correlation between both variables. It means that the high Financial Performance (the high ROA, ROE, and NPM) will cause the high Company's Value (the high PBV, SR, and TQ).

Table 3: Results of Inner Model: Indirect Effect

Indirect Effect	Direct Effect Coefficient		Indirect Effect Coefficient	Result
Company's Size →Financial Performance →Company's value	Company's Size →Financial Performance (0.379*)	Financial Performance →Company's value (0.155*)	0.059	Significant
Capital Structure →Financial Performance →Company's value	Capital Structure →Financial Performance (0.219*)	Financial Performance →Company's value (0.155*)	0.034	Significant
Good Corporate Governance →Financial Performance →Company's value	Good Corporate Governance →Financial Performance (-0.119)	Financial Performance →Company's value (0.155*)	-0.018	Insignificant
Sales Growth →Financial Performance →Company's value	Sales Growth →Financial Performance (0.248*)	Financial Performance →Company's value (0.155*)	0.038	Significant
Liquidity →Financial Performance →Company's value	Liquidity →Financial Performance (-0.038)	Financial Performance →Company's value (0.155*)	-0.006	Insignificant

Beside the direct effect testing, there is indirect effect in PLS. Indirect effects are the results of multiplication of 2 (two) direct effects. Indirect effects are significant if both direct forming effects are significant. The results of indirect effect are presented in Table 3, which shows that there are 8 indirect effects. The complete results are explained as follows.

- [1] Based on the results of indirect effect between Company's Size toward Company's Value through Financial Performance, the obtained coefficient value of indirect effect is 0.059. Since the direct effects of both Company's Size to Financial Performance (0.379) and Financial Performance to Company's Value (0.155) are significant, it can be concluded that there is indirect effect that is significant between Company's Size to Company's Value through Financial Performance. The positive coefficient value shows positive correlation. The higher the Company's Size, the higher the Company's Value will be, if the Financial Performance is getting higher.
- [2] Based on the result of indirect effect between Capital Structure to Company's Value through Financial Performance, the obtained coefficient value of the indirect effect is 0.034. Since the direct effect of Capital structure to Financial Performance (0.219) and Financial Performance to Company's value (0.155) both significant, it can be concluded that there is indirect effect that is significant between Capital Structure to Company's value through Financial performance. Positive coefficient value shows positive correlation. The higher the Capital Structure, the higher the Company's value will be, if the Financial Performance is getting higher.
- [3] Based on the results of indirect effect between Good Corporate Governance to Company's Value through Financial Performance, the obtained coefficient value of the indirect effect is -0.018. Due to the insignificant result of one of Good Corporate Governance to Financial Performance (-0.119) and Financial Performance to Company's value (0.155), it can be concluded that there is no direct effect that is significant between Good Corporate Governance to Company's value through Financial performance.
- [4] Based on the results of indirect effect between Sales Growth to Company's Value through Financial Performance, it is obtained that indirect effect is 0.038. Due to the direct significant effect of Sales Growth to Financial Performance (0.248) and Financial Performance to the Company's value (0.155), there is indirect effect that is significant between Sales Growth to Company's Value through Financial Performance. The positive coefficient value shows positive correlation. The higher Sales Growth, the higher Company's Value will be, if the Financial Performance is getting higher.
- [5] Based on the results of indirect effect between Liquidity to Company's Value through Financial Performance, it is obtained that the coefficient value of indirect effect is -0.006. Due to insignificant result of one of the direct effects of Liquidity to Financial Performance (-0.038) and Financial Performance to Company's Value (0.155), it is suggested that there is no indirect effect that is significant between Liquidity to Company's value through Financial Performance.

VI. CONCLUSION

Based on the results of PLS analysis, it is shown that: Financial Performance is influenced by the Company's Size, Capital Structure, Sales Growth. On the other hand, Financial Performance is not significantly affected by Good Corporate Governance and Liquidity. Then the Company's Value is significantly influenced by the Company's Size, Capital Structure, Sales Growth, Liquidity, and Financial Performance. While there was no significant direct effect between Good Corporate Governance and Company's Value. It means that the property sector still becomes the target for investors to allocate the portfolio of investment. The prices of property that keep on increasing and are supported by the increasing demand are the main attraction for investors to invest in property sector.

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