

Influence of financial architecture, intangible assets

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Influence of financial architecture, intangible assets on financial performance and corporate value in the Indonesian capital market

Indonesian
capital market

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Abstract

Purpose – This study aims to analyze and explain the effect of financial architecture (with three dimensions: ownership structure, capital structure and corporate governance) and intangible assets on performance financial and corporate value in the Indonesian capital market.

Design/methodology/approach – This research was conducted on nonfinancial sector companies that 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 were 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) and intangible assets on financial performance and corporate value using path analysis was performed.

Findings – The results of this study have provided findings that follow the research model that has been built (1) This research has been able to provide a theoretical model of the influence of financial architecture (with dimensions of ownership structure, capital structure and corporate governance), intangible assets, board processes financial performance and company value in the Indonesian capital market. (2) To develop a theoretical model about the effect of corporate governance on financial performance in accordance with the two-tier system adopted by Indonesia. (3) An empirical study of the concept of financial architecture put forward by Myers (1999).

Originality/value – This research update lies in the research variable, which determines one value of the financial architecture variable comprehensively, combines the financial architecture variable and intangible assets to then be tested for its effect on company value and the use of the financial process variable as a board process as an intervening variable.

Keywords Financial architecture, Intangible assets, Financial performance, Corporate value, Capital market

Paper type Research paper

1. Introduction

This research raised the phenomenon that occurred in the Indonesian capital market. The Indonesian capital market in 2015 was still lagging, 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 investors and issuers in Indonesia occurred due to: (1) Lack of understanding on stock investment instruments, (2) Shares have a large risk in the eyes of the Indonesian people, (3) Indonesian people think that this type of investment instrument is for rich people and (4) 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). Muliawan (2013) stated that to increase the competitiveness of the capital market what needs to be done is education for the community.

Ivashkovskaya and Stepanova (2011) states that in exploring its performance, companies are required to do the design in all components of financial design. Myers (1999), financial



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architecture consists of several things such as capital structure, ownership structure, control through corporate governance, corporate incentives and board processes.

The phenomenon of the importance of the corporate'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 and (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) the 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, so the financial architecture variable is obtained.

Based on Table 1 above, this study is aimed to take a research about the gaps between them.

The last dimensions or components of a corporate's financial architecture following Myers's concept (1999) are corporate governance and board process. Following the law, limited liability corporate (PT) is a corporate 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 corporate activities. Some concepts of corporate governance, among others, proposed by Shleifer and Vishny (1997) stated that corporate governance is related to ways or mechanisms to convince capital owners to obtain returns that are by investments that have been invested. Prowson (1999) argued corporate governance is aimed 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 corporate (managers, owners and creditors) will behave because basically they have different interests. Managers should maximize the welfare of shareholders, but on the other hand, managers also have an interest in maximizing their welfare. The situation shows that the management and shareholders of the corporate have a different interest. Unification of the interests of these parties often creates a problem which is commonly called as agency conflict.

As a supplier of capital, the corporate owner can transfer authority over the management of the corporate to the manager/management. Then shareholders are also subject to managers in terms of corporate management. 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 corporate but also the interests of the executives. This will certainly harm the corporate. In other words, management has an agenda of interests and goals

| Indonesian capital market | | | | |
|---|--|--|---|---|
| Support Ownership structure Significantly positive influence Toward financial performance and corporate value | | Does not support ownership structure Significantly positive influence Toward financial performance and corporate value | | |
| No | Researcher | Conclusion | Researcher | Conclusion |
| 1. | Zakaria <i>et al.</i> (2014); Elvin and Hamid (2015) | Concentrated ownership significantly affects ROA positively | Fauzi and Locke (2012) | Concentrated ownership significantly affects ROA negatively |
| 2. | Elvin and Hamid (2015) | Concentrated ownership significantly affects ROE positively | Ma and Tian (2009); Pathirawasm and Wickremashinge (2012); Aymen (2014) | Concentrated ownership does not affect ROA |
| 3. | Hess <i>et al.</i> (2010); Liang <i>et al.</i> (2011); Elvin and Hamid (2015); Meca <i>et al.</i> (2011) | Concentrated ownership positively significant on Tobin's Q | Vintilla and Gherghina (2014) | Concentrated ownership does not affect Tobin's Q |
| 4. | Lappalainen and Niskanen (2009); Ongore <i>et al.</i> (2011); Zakaria <i>et al.</i> (2014); Elvin and Hamid (2015) | Managerial ownership significantly affects ROA positively | Ongore <i>et al.</i> (2011); Quang and Xin (2014) | Managerial ownership does not affect ROA |
| 5. | Ongore <i>et al.</i> (2011); Gugung <i>et al.</i> (2014) | Managerial ownership significantly affects ROE positively | Ongore <i>et al.</i> (2011); Quang and Xin (2014) | Managerial ownership has no effect on ROE |
| Source(s): Online paper taken from the internet | | | | |

Table 1.
Research gap

that are different from the interests and objectives of the owner. If the corporate'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 corporate 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 to the corporate'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 costs. Good corporate governance is said to reduce monitoring costs due to increased supervision and transparency (or a decrease in information asymmetry).

Board of commissioners has a task to supervise the activities of the corporate managed by management and supporting the implementation of corporate governance. There must be an independent commissioner in the structure of the board of commissioners so that supervision is more independent and objective. The boarding process describes how the board of commissioners carries out control mechanisms, for example through the board of

commissioners meetings. The board of commissioners' meeting is conducted by the board of commissioners to make joint decisions regarding corporate policies made and carried out 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.

Based on several studies on the effect of ownership structure with corporate value and financial performance, there is a difference results in defining the corporate governance and board process impacts on corporate value and financial performance. From the differences, researchers can take research about the gaps.

This study seeks to examine the financial architecture variable in the dynamic moving stock market comprehensively, and then analyze its influence within corporate value and financial performance.

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

- (1) In addition to conducting a partial analysis, this research also conducts a comprehensive analysis, while other studies only conduct a partial analysis. Judging from the meaning of the financial architecture that is integrated financial system design, it becomes appropriate if the financial architecture is comprehensively analyzed so that one value of financial architecture which is a combination of three dimensions will be obtained.
- (2) In this study, specifically for corporate governance variables, it is separated from the boarding process so that the board process variable is used as an intervening variable. The reasons for the separation of corporate governance and the boarding process are adapted to the two-tier system adopted by Indonesia. In a two-tier system in Indonesia, there is a separation between management and supervisors where the board of commissioners (supervisors) on behalf of the owner oversees the operations of the corporate managed by the board of directors. In this study, governance is a management activity carried out by a management, while a board process is a supervisory activity carried out by a board of commissioners. Good governance can be achieved with good supervision which will produce good financial performance. Thus the researcher places the board process as an intervening variable that links corporate governance and financial performance.
- (3) The use of financial architecture variables and intangible assets as independent variables.

Based on the differences with the previous researchers, it can be concluded that the renewal of this study lies in the research variables, namely the determination of one value of the financial architecture variable comprehensively, the use of financial architecture variables and intangible assets to be tested for its effect on corporate value and the board process variable into an intervening variable. Based on the background description, there are various theoretical and empirical phenomena and debates regarding this research.

2. Literature review

2.1 Corporate financial performance, financial architecture, and corporate value

Ivashkovskaya and Stepanova (2011) give information that the ownership structure not affecting corporate value. Board independence variable (corporate governance) positively influences and is significant on corporate value.

Capital structure with DAR variable as proxy turns out to negatively affect corporate value. In addition, [Kokoreva and Stepanova \(2013\)](#) in her study said that the concentration of ownership and managerial ownership as a variable that represents the ownership structure did not have a significant effect on corporate value. Capital structure with DER variable as a proxy has a statistically positive effect on corporate value with a note that the corporate value has a proxy variable Q Tobin. While the board size variable (corporate governance) has a negative and significant effect on corporate value.

The results of a study conducted by [Ivashkovskaya et al. \(2013\)](#) showed that capital structure and ownership structure negatively affects the corporate's value in practice, while corporate governance did not affect corporate value.

Based on the theory and the results of previous studies, the hypotheses in this study are:

- (1) Corporate financial architecture positively affects on corporate value.

[Keown et al. \(2004, p. 470\)](#) states that the value of the corporate is the market value of the debt securities and corporate equity in circulation. Corporate value is the investor's perception of the corporate's success in managing resources. Research [Ivashkovskaya and Stepanova \(2011\)](#) show that managerial ownership as variable for ownership structure and concentration of ownership does not affect the value of the corporate. Independence of the board as variable for corporate governance positively affects corporate value. Capital structure with a DAR proxy negatively affects corporate value.

- (2) Corporate financial architecture positively affects corporate value through the mediating variable of financial performance.

Financial performance can be approached with financial ratio analysis, which is a measure to see the corporate's ability to generate profits. There are several financial performance measurement ratios obtained from several literatures, namely; (1) Return on assets (ROA) is measured from operating income or **earnings before interest and taxes (EBIT) of total assets**. The greater ROA shows the better corporate performance because the rate of return on investment (return) is greater; (2) Return on equity (ROE) is measured by comparing the amount of net income or profit after tax (EAT) to equity. The higher ROE shows the more efficient the corporate is in using its own capital to generate investor profits that are planted in the corporate ([Van Horne and Wachowicz, 2005](#)); (3) Return on investment (ROI) is the ratio between net income and total assets owned by the corporate. The higher ROI shows that the higher rate of return (net profit) on investment of all assets invested; (4) Return on capital employed (ROCE) is a comparison between net income and working capital owned by a corporate. The higher the ROCE produced by a corporate means that the corporate more effectively manages its working capital to produce the corporate's operating profit. Variable of financial architecture related to financial performance and corporate value ([Ivashkovskaya and Stepanova \(2011\)](#); [Ivashkovskaya et al. \(2013\)](#); and [Kokoreva and Stepanova \(2013\)](#)).

- (3) Corporate financial architecture positively affects financial performance.

The ownership structure is believed to have the ability to influence the running of the corporate which in turn can affect the corporate's performance and corporate value. Some studies examine the effect of ownership concentration on financial performance and corporate value, such as [Zakaria et al. \(2014\)](#); [Hess et al. \(2010\)](#); [Meca et al. \(2011\)](#); [Fauzi and Locke \(2012\)](#); [Pathirawasm and Wickremashinge \(2012\)](#); [Aymen \(2014\)](#); [Vintilla and Gherghina \(2014\)](#). For example, the research by [Mujahid et al. \(2014\)](#) shows that capital structure with DER proxy positively affects financial performance with ROE and ROA proxy. Corporate governance and board processes are the activities of managing and monitoring the corporate. The separation of management and

supervision tasks is a form of internal control in order to achieve good corporate governance to improve the corporate's financial performance.

2.2 Ownership structure, financial performance and corporate value

The ownership structure describes the role of shareholders or corporate owners in overseeing their corporate. Ownership structure is believed to have the ability to influence the course of the corporate which can later affect corporate value and corporate performance.

Some studies examine the effect of concentration of ownership on corporate value and corporate performance, such as [Hess et al. \(2010\)](#); [Zakaria et al. \(2014\)](#); [Fauzi and Locke \(2012\)](#); [Meca et al. \(2011\)](#); [Pathirawasam and Wickremasinghe \(2012\)](#); [Aymen \(2014\)](#); [Vintilla and Gherghina \(2014\)](#). The results of the study of [Zakaria et al. \(2014\)](#) showed that ownership concentration positively affecting 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 positively affecting corporate value. Similar to studies conducted by [Meca et al. \(2011\)](#) found that ownership concentration positively affecting corporate value. Studies conducted by [Fauzi and Locke \(2012\)](#); [Pathirawasam and Wickremasinghe \(2012\)](#) 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. [Pathirawasam and Wickremasinghe \(2012\)](#) conducted research on 102 companies listed on the Colombo Stock Exchange (CSE) Srilanka from 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.

[Liang et al. \(2011\)](#) showed that managerial ownership positively affects corporate value with Tobin's Q proxy. Then, [Zakaria et al. \(2014\)](#) showed that managerial ownership positively affects financial performance with ROA proxy. From the results of the study conducted by [Gugung et al. \(2014\)](#), it showed that managerial ownership positively affects 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 corporate's financial performance.

Based on statement all above, the hypotheses:

- (1) Ownership structure positively affects corporate value.

[Myers \(1999\)](#) suggested the ownership structure in the corporate's financial architecture can be seen from the concentration of ownership. The concentration of ownership is divided into two forms: (1) Concentrated ownership, namely ownership of shares is said to be concentrated if most shares are owned by a small number of individuals or groups, so that there are shareholders who have a relatively dominant share (majority) compared to others (minority). [Bae et al. \(2003\)](#) states, concentrated ownership is one of the characteristics of control based models. The characteristics of this corporate are often found in developing countries (such as Indonesia, Korea) and continental European; (2) Dispersed ownership, which is said to be spread, if share ownership spreads relatively evenly, no one owns a very large number of shares compared to others. The separation between corporate management and corporate ownership is one of the characteristics of modern corporate management. Agency theory is of the view that the corporate owner (principal) surrenders the management of the corporate to the manager/professional staff (agents) who are more understanding in doing business, so that the corporate gets the maximum profit and then increases the value of the corporate. Sometimes differences in interests between corporate

owners (shareholders) and corporate managers (managers) result in conflicts that are commonly referred to as agency conflicts. [Jensen and Meckling \(1976\)](#) argue the importance of a mechanism that is applied to protect the interests of the owner due to agency problems that will hamper the corporate's activities. If conflicts continue to occur and are not controlled, the corporate's image in the eyes of investors will decline, eventually the value of the corporate will also decline.

- (2) The ownership structure positively affects corporate value through the mediating variable of financial performance.

[Jensen and Meckling \(1976\)](#), institutional ownership replaces managerial ownership in controlling agency cost. The greater the ownership by the institution, the greater the voice power and the encouragement of institutions to oversee management, consequently will provide a greater impetus to optimize financial performance and corporate value.

- (3) Ownership structure positively affects financial performance.

[Jensen and Meckling \(1976\)](#) state that concentrated ownership can minimize agency problems that arise from the separation of functions between ownership and control. [Roche \(2005\)](#) argues that companies with concentrated ownership have several advantages, including the majority shareholder (insider) has the power and incentives to supervise management more closely, so as to minimize the emergence of mismanagement and fraud. Having significant share ownership will have control rights, insiders tend to maintain their investment in the corporate for a long period of time. As a result insiders tend to support decisions that will improve corporate performance in the long run. Several studies show that the effect of ownership structure on corporate value is significant. [Elvin and Hamid \(2015\)](#); [Zakaria et al. \(2014\)](#) tells that concentrated ownership positive affects financial performance with the ROA proxy.

2.3 Capital structure, financial performance and corporate value

Capital structure is a very important problem for every corporate capital structure directly affecting the corporate'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) said that DAR as proxy for capital structure positively affects corporate value. DER as proxy for capital structure also positively affects financial performance with ROE proxy and ROA proxy ([Mujahid et al., 2014](#)) showed that.

A study conducted by [Quang and Xin \(2014\)](#) showed that capital structure with DAR proxy negatively affects financial performance with ROA proxy and ROE proxy. Studies conducted by [Ayman \(2014\)](#); [Moradi et al. \(2012\)](#) 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 negatively affects 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 negatively affects financial performance.

Based on statements above, the hypotheses:

- (1) Capital structure positively affects corporate value.

Theory of [Modigliani and Miller \(MM\) \(1963\)](#) with tax states that capital structure positively affects corporate value. Increasing the use of debt in the capital structure will increase the value of the corporate. This is due to the fact that taxes provide benefits in funding from debt. The benefits of using debt are derived from the burden of debt interest costs that can be calculated as a cost

element that reduces the amount of taxable profit. With a smaller corporate tax, the profits derived by the corporate from the use of debt are greater.

- (2) Capital structure positively affects corporate value through financial performance mediating variables.

In agency theory, the existence of debt causes supervision to become tighter because it involves the creditor as an interested party in the progress of the corporate because the creditor is the creditor. The existence of a creditor reduces agency problems that occur between the principal and the agent because before the corporate has debt there are only two interests, namely the interests of the principal and the interests of the agent, but after having the debt there are three interests namely the principal, agent and creditor. To convince creditors, the corporate is demanded to have good performance. If the corporate succeeds in convincing creditors, the corporate's value will rise because it is known to have a good image.

- (3) Capital structure positively affects financial performance.

A planned capital structure will make the corporate more careful in managing finances; therefore good performance is needed here so that the modal structure can be maintained. [Christi and Ali \(2013\)](#); [Mujahid et al. \(2014\)](#); [Negasa \(2016\)](#), said that capital structure with a DAR proxy positively affects financial performance with a ROA proxy.

2.4 Corporate governance, board process, financial performance and corporate value

Corporate governance and board processes 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 corporate. Separation of management and supervision tasks is a form of internal control in order to achieve good corporate governance to improve the corporate's financial performance.

A study conducted by [Ma and Tian \(2009\)](#) showed that corporate governance as measured by board size positively affects financial performance. Studies conducted by [Moradi et al. \(2012\)](#); [Fauzi and Locke \(2012\)](#) indicated that corporate governance positively affects corporate value with Tobin's Q proxy and financial performance with ROA proxy. [Rashid et al. \(2010\)](#) research indicated that corporate governance positively affects corporate value, but did not affect financial performance. The results of a study conducted by [Vafeas \(1999\)](#) showed that the boarding process with commissioners meeting proxy had a significant effect on financial performance with ROA proxy. [Elvin and Hamid's research \(2015\)](#) found that the boarding process with commissioners meeting proxy positively affects corporate value with Tobin's Q proxy and EPS proxy.

A study conducted by [Chatterjee \(2011\)](#), corporate governance as measured by board size negatively affects corporate value, while corporate governance measured by the board's independence did not affect corporate value. [Azeez's research \(2015\)](#) found that the boarding process with commissioners' independence proxy not affecting financial performance with ROA proxy and corporate value with EPS proxy. While the results of research by [Rashid et al. \(2010\)](#) showed that the boarding process with commissioners' independence proxy negatively affects corporate value.

Based on statements above, the hypotheses:

- (1) Corporate governance positively affects corporate value.

Various thoughts about corporate governance were developed by relying on agency theory where management is carried out in full compliance with various applicable rules and

regulations, so that the corporate's activities run well, so that the corporate's value also increases. Research by [Issahq and Bolpin \(2009\)](#); [Rashid et al. \(2010\)](#); [Fauzi and Locke \(2012\)](#); [Moradi et al. \(2012\)](#) resulted in corporate governance with a proxy for the size of the board positively affecting the value of the corporate with Tobin's Q proxy.

- (2) Corporate governance positively affects corporate value through the mediating variable of financial performance.
- (3) Corporate governance positively affects financial performance through intervening variables in the board process.

The effect of corporate governance as measured by the size of directors (UKD), the board of directors meetings (RAD) and board compensation (KOD) on financial performance and corporate value have been conducted in several studies. For Indonesia which adheres to a two-tier system, where the management functions are carried out by separate directors and the supervisory functions are carried out by commissioners. The corporate's performance will be good if corporate governance by the directors and the supervisory role or the boarding process by the commissioners goes well.

2.5 Financial performance and corporate value

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

Research conducted by [Ramezani et al. \(2004\)](#) showed that financial performance with ROE proxy positively affects corporate value. [Chen and Chen \(2011\)](#) researched 302 electronic industry companies and 345 other industries listed on the stock exchange in Taiwan between 2005 and 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 positively affects corporate value. [Sudiyatno et al. \(2012\)](#) stated that profitability as an indicator of corporate financial performance as measured by ROE positively affecting on corporate value.

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

Based on statements above, the hypotheses:

- (1) Financial performance positively affecting corporate value.

[Brigham and Houston \(2007\)](#), corporate profitability is the corporate's ability to generate profits from investments that are invested in a certain period. High profitability shows good financial performance and prospects of the corporate so that investors will respond positively, which in turn will cause the corporate's value to increase ([Sujono and Soebiantoro, 2007](#)). Research by [Ramezani et al. \(2004\)](#) show the effect of financial performance with ROE proxy positively affecting corporate value.

2.6 Intangible assets, financial performance, and corporate value

[Skinner \(1993\)](#); [Agrawal and Knoeber \(1996\)](#), provide results that R&D expenditure positively affects corporate's market value. Furthermore, [Connolly and Hirschey's \(1984\)](#) in his study proved a positive correlation between R&D expenditures for corporate value. [Irawati and Sudana \(2009\)](#) propose the premise that intangible assets together with tangible

assets are a unit that: (1) determines the value of the corporate and (2) influences the corporate's financial performance. This is supported by [Pamela Megna and Marc Klock \(1993\)](#) who proves that intangible capital has contributed to Tobin's Q value, but cannot explain it fully because there are other factors that explain it. The book to market ratio can estimate returns because this ratio is a good proxy for intangible assets. The value of intangible assets is more volatile than the value of tangible assets. This change increases the difference between book value and market value. R&D spending affects the corporate's market value also affects the corporate's performance which is reflected in revenue and returns ([Sougiannis, 1994](#)). Under IAS 38, R&D expenditure can be calculated as an expense or an asset. This choice will affect financial performance, but the effect is difficult to estimate because this expenditure increases information asymmetry between shareholders and managers.

- (1) Intangible assets positively affecting financial performance;

Financial performance has a very important role for the corporate itself as well as for stakeholders who have a variety of interests. Good financial performance means the corporate has successfully utilized all of its resources well so as to produce profits for the corporate. Therefore, the management of intangible assets by the corporate can create added value that is useful in improving the corporate's financial performance.

- (2) Intangible assets positively affecting corporate value;

Managing intangible assets as added value in the corporate will increase the value of the corporate, and that can also affect the corporate's performance.

- (3) Intangible assets positively affecting corporate value through the mediating variable of financial performance;

In this study, will be tested to see how intangible assets indirectly affect the value of the corporate. If intangible assets cause an increase in financial performance and an increase in financial performance also causes an increase in corporate value, then through financial performance will increase the effect of intangible assets (see [Figure 1](#)).

Based on the literature description above, the research model:

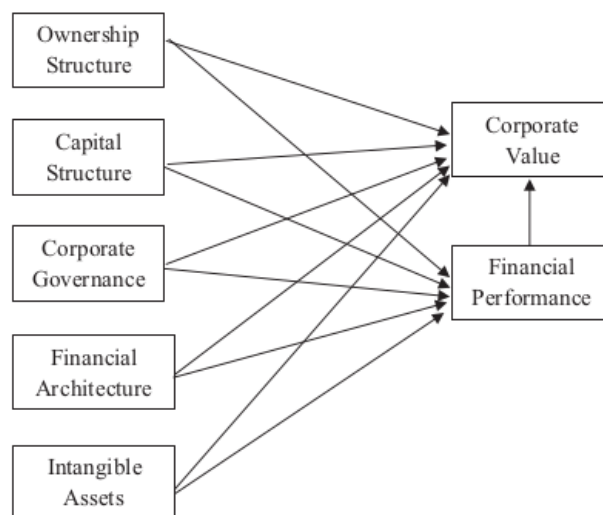


Figure 1.
Research model

3. Methodology

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 nonfinancial sector companies listed on the Indonesia Stock Exchange (IDX) in 2015. The sample in this study was selected using nonprobability sampling. With a total sample of 319 companies this study was analyzed using 3 stages namely descriptive statistics, then continued with testing classic assumptions as in regression analysis and the last is to test hypotheses using path analysis. All data analysis processes utilize SPSS V.23 software.

This research was conducted on nonfinancial sector companies which were registered in the Indonesian capital market in 2015. This study used quantitative data. Secondary data sources were used in this research; the sources of data were in the form of annual financial statements of companies listed on the IDX. Secondary data were obtained from the Indonesian capital market directory (ICMD) and the official website of IDX at <https://www.idx.co.id>.

The variables in this study consisted of:

- (1) Independent variables were financial architecture, ownership structure, capital structure and corporate governance.
- (2) Dependent variable was corporate value.
- (3) Intervening variable was the board process.
- (4) Mediating variable in this study was financial performance.

The operational definition of the research variable is as follows.

- (1) Financial architecture (X)

The value of financial architecture is the combined value of several variables calculated using the composite index/composite index (Walsh, 2012, p. 43). The value of financial architecture uses a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Financial architecture : } IK_{AK} = a. SK + b. BC + c. TK_PD. \quad (1)$$

Information

- (1) IK_{AK} : Composite index of financial architecture;
- (2) SK: Value of ownership structure;
- (3) SM: Value of capital structure;
- (4) TK_PD: Value of corporate governance and board processes;
- (5) a, b, c: Weight of each variable.

The steps to calculate the composite index, as follows:

- (1) Determination of the weight of each variable;

The weight calculation is done by proportionally calculating the correlation weights for each variable using a matrix.

- (2) Determination of the value of each variable;

To determine the value of each variable is carried out through the formula of each variable.

- (2) Ownership structure (X1);

Share ownership structure reflects the proportion of ownership in corporate, owner rights, distribution of power and influence among shareholders of nonfinancial sector companies listed on the capital market in Indonesia (BEI) in 2015. In this study, ownership structure variables use proxies derived from several literatures and empirical studies, but still adjusted to the research needs.

(1) Concentrated ownership (X1.1);

Concentrated ownership is expressed through the number of corporate shares owned by the majority shareholder compared to the total number of shares outstanding in the corporate under study. The value of concentrated ownership is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Concentrated ownership} = \frac{\text{Number of shares owned by majority shareholders}}{\text{The total number of corporate shares outstanding}} \quad (2)$$

(2) Managerial ownership (X1.2);

Managerial ownership is revealed through the number of corporate shares owned by its management, namely the board of commissioners and the board of directors compared to the total number of shares outstanding in the corporate under study. Managerial ownership value is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Managerial ownership} = \frac{\text{Number of shares owned by the board of commissioners and board of directors}}{\text{The total number of corporate shares outstanding}} \quad (3)$$

(3) Institutional ownership (X1.3);

Institutional ownership is revealed through the number of corporate shares owned by the institution, namely a domestic limited liability corporate (PT) compared to the total number of shares outstanding in the corporate under study. The value of institutional ownership is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Institutional ownership} = \frac{\text{Number of shares owned by the institution}}{\text{The total number of corporate shares outstanding}} \quad (4)$$

(4) Foreign ownership (X1.4);

Foreign ownership is revealed through the number of shares of companies owned by foreigners, namely individuals and foreign business entities, compared to the total number of shares outstanding in the corporate under study. The value of foreign ownership is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Foreign ownership} = \frac{\text{Number of shares owned by foreigners}}{\text{The total number of corporate shares outstanding}} \quad (5)$$

(5) Family ownership (X1.5);

Family ownership is revealed through the number of corporate shares owned by the family, namely individual shareholders who still have family relations compared to the total number of shares outstanding in the corporate under study. The greater the number of shares owned by family members, indicating that family ownership is getting bigger. The value of family ownership is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Family ownership} = \frac{\text{The number of shares owned by the family}}{\text{The total number of corporate shares outstanding}} \quad (6)$$

(6) Public ownership (X1.6);

Public ownership is revealed through the number of shares of companies owned by the public. The greater the number of shares owned by the public, indicating that greater public ownership. The value of public ownership is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Public ownership} = \frac{\text{Number of shares owned by the public}}{\text{The total number of corporate shares outstanding}} \quad (7)$$

(3) Capital structure (X2);

The capital structure reflects the proportion of debt, equity and assets owned by nonfinancial sector companies that listed on the BEI in 2015. One of the tasks of the financial manager is to determine funding policies, in this case the capital structure. In this research, there are several proxies of capital structure derived from literature and empirical studies, but still adjusted to the needs of research.

(1) Debt to asset ratio (X2.1);

Debt to asset ratio is the ratio between total debts to total assets owned by the corporate under study. Mathematically the calculation is formulated as follows:

$$\text{Debt to asset ratio (DAR)} = \frac{\text{Total debt}}{\text{Total assets}} = \frac{\text{Total debt}}{\text{Total debt} + \text{equity}} \quad (8)$$

(2) Debt to equity ratio (X2.2);

Debt to equity ratio is the ratio of the ratio between total debts with equity in the corporate under study. Debt to equity ratio (DER) value is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Debt to equity ratio} = \frac{\text{Total debt}}{\text{Total equity}} \quad (9)$$

(3) Long-term debt to asset ratio (X2.3);

Long-term debt to asset ratio is the ratio of the ratio between long-term debts to total assets in the corporate under study. Mathematically the calculation is formulated as follows.

$$\text{Long - term debt to asset ratio} = \frac{\text{Long - term debt}}{\text{total assets}} = \frac{\text{Long - term debt}}{\text{debt} + \text{equity}} \quad (10)$$

(4) Long Term Debt to Equity Ratio (X2.4);

Long-term debt to equity ratio is the ratio of the ratio of long-term debt to equity in the corporate studied. Mathematically the calculation is formulated as follows:

$$\text{Long - term debt to equity ratio} = \frac{\text{Long - term debt}}{\text{equity}} \quad (11)$$

(3) Corporate governance (X3);

Corporate governance is an activity related to the management and supervision of the corporate, which involves the board of directors (BOD). Most BOD intended in overseas research refers to a one-tier system, where BOD has the functions of managing and supervising management performance. While Indonesia adheres to a two-tier system, where there is a separation between directors as management and commissioners as supervisors. The responsibility for managing the corporate is held by the director, while the commissioner is responsible for overseeing the corporate.

In this study the board is related to corporate governance variables, while the supervisor is related to the board process variable. This study uses a proxy for corporate governance derived from several researches and empirical, but still adjusted to the research needs.

(1) Board of directors size (X3.1);

The size of directors is the number of directors who actively participate in the management of the corporate. The number of directors involved makes the management of the corporate not dominated by a handful of people. The value of the size of the directors is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Size of directors (UKD)} = \text{Natural algorithm number of directors} \quad (12)$$

(2) Directors' meeting (X3.2);

Corporate governance can be done by looking at the frequency of board of directors meetings. The presence of the director at a meeting is a form of director involvement in decision-making. Directors' meetings are measured using the frequency/number of meetings conducted by directors related to corporate operations. The value of the board of directors meetings is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Board of directors meeting (RAD)} = \frac{\text{Natural logarithm of the number}}{\text{of board meetings in a year}} \quad (13)$$

(3) Board compensation (X3.3);

Board compensation means the provision of attractive incentives for board members based on the quality of the board and the ability of the corporate. Provision of increasingly attractive incentives encourages the morale of board members. The value of the board compensation is a racial scale. Mathematically the calculation is formulated as follows:

$$\text{Board compensation (KOD)} = \frac{\text{Natural logarithm of the amount of compensation received by board members in a year}}{\text{}} \quad (14)$$

(4) Board process (X4)

As explained above, this research is adapted to the situation in Indonesia which adopts a two-tier system, where there is a separation between directors as management and commissioners as supervisors. The board process variable is the commissioner's activity in overseeing the work of directors in managing the corporate. Some of this research uses proxy of the board process derived from literature and empirical, but still adjusted to the research needs.

(1) Commissioner meeting (X4.1);

The board process can be done by looking at the frequency of the board meeting. The presence of the commissioners at the meeting is a form of the involvement of the commissioners in the control process. Mathematically the calculation is formulated as follows:

$$\text{Board of commissioners' meeting} = \frac{\text{Natural logarithm of the number of meetings commissioner in a year}}{\text{}} \quad (15)$$

(2) Independence of commissioners (X4.2);

A good board process needs an independent commissioner. An independent commissioner is a professional who has no family relations with the owner and management of the corporate. The existence of independent commissioners is expected to be more accountable and independent oversight. Commissioner independence is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Independence of commissioners} = \frac{\text{Number of independent commissioners}}{\text{The total number of commissioners}} \quad (16)$$

(5) Financial performance (Y1);

In this study, the financial performance of nonfinancial sector companies listed on the IDX in 2015 was calculated using financial performance proxies derived from several literature and empirical studies, but still adjusted to the research needs. Financial performance in this study acts as a mediating variable.

(1) Return on assets (Y1.1)

Return on assets is a comparison between earnings before interest and taxes (EBIT) or operating income with total assets owned by the corporate (Marr, 2012, p. 49). The value of return on assets is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Return on assets} = \frac{\text{EBIT (earnings before interest and tax)}}{\text{Total assets}} \quad (17)$$

(2) Return on equity (Y1.2);

Return on equity is a comparison between net income and equity owned by a corporate (Marr, 2012, p. 53). The value of return on equity is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Equity}} \quad (18)$$

(3) Return on investment (Y1.3);

Return on investment is the ratio between net income and total assets owned by the corporate (Mireku *et al.*, 2014). The value of return on investment is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Return on investment} = \frac{\text{Net income}}{\text{Total assets}} \quad (19)$$

(4) Return on capital employed (Y1.4);

Return on capital employed (ROCE) is a comparison between net income and working capital owned by a corporate (Marr, 2012, p. 45). The value of return on employed capital is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Return on capital employed} = \frac{\text{Net income}}{\text{Working capital}} \quad (20)$$

(6) Corporate value (Y2);

Corporate value shows a management performance in managing corporate assets. Fama (1978) states the value of a corporate will be reflected in the market price of its shares. In this study was calculated using all corporate value proxies derived from the literature and empirical studies, but still adjusted to the research needs.

(1) Tobin's Q (Y2.1);

Tobin's Q (TBQ) is a comparison between the market value of total assets and the total book value of total assets owned by the corporate. Mathematically the calculation is formulated as follows:

$$\text{Tobin's Q} = \frac{\text{Total assets}_{(\text{market value})}}{\text{Total assets}_{(\text{book value})}} = \frac{\text{Debt} + \text{equity}_{(\text{market value})}}{\text{Debt} + \text{equity}_{(\text{book value})}} \quad (21)$$

(2) Price earning ratio (Y2.2);

Price earning ratio (PER) is the ratio between the price per share with earnings per share (Marr, 2012, p. 76). Mathematically the calculation is formulated as follows:

$$\text{Price earning ratio} = \frac{\text{Price per share}}{\text{Earnings per share}} \quad (22)$$

(3) Price book value (Y2.3);

Price book value (PBV) is the ratio between the price per share and the book value per share. Price book value is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Price book value} = \frac{\text{Price per share}}{\text{Book value per share}} \quad (23)$$

(4) Earning per share (Y2.4);

Earning per share (EPS) is a comparison between net income and the number of shares outstanding. Earning per share value is a ratio scale. Mathematically the calculation is formulated as follows:

$$\text{Earning per share} = \frac{\text{Earning per share}}{\text{Number of shares outstanding}} \quad (24)$$

(7) Intangible assets (X5)

In PSAK No. 19 (Revised, 2010), intangible assets are nonmonetary assets that can be identified without physical form. According to [Kieso et al. \(2007, pp. 586–589\)](#), intangible assets are “privileges, advantages and competitive advantages that are resulting from ownership of long-term assets that do not have physical form. Evidence of ownership of intangible assets can be in the form of contractual agreements or licenses or other documents”.

4. Research results

(1) Direct Effects;

Based on [Table 2](#), we can said that:

- H1.* Ownership structure negatively affects corporate value because the standardized coefficient β is negative (−0.066).
- H3.* Ownership structure positively affects financial performance because the standardized coefficient β is positive (0.236).
- H4.* Capital structure negatively affects corporate value because the standardized coefficient β is negative (−0.012).
- H6.* Capital structure positively affects financial performance because the standardized coefficient β is positive (0.022).
- H7.* Corporate governance positively affects corporate value because the standardized coefficient β is positive (0.093)
- H8.* Corporate governance positively affects financial performance because the standardized coefficient β is positive (0.089).
- H11.* Financial performance positively affects corporate value because the standardized coefficient β is positive (0.283).

| Hypothesis notation | Path | Standardized Coefficients β | Significance | Conclusion (+/−, ≤ 0.05) |
|---------------------|---------|-----------------------------------|--------------|--------------------------------|
| H1 | OS → CV | −0.006 | 0.909 | No effect |
| H3 | OS → FP | 0.236 | 0.000 | Positively significant |
| H4 | CS → CV | −0.012 | 0.826 | No effect |
| H6 | CS → FP | 0.022 | 0.690 | No effect |
| H7 | CG → CV | 0.093 | 0.041 | Positively significant |
| H8 | CG → FP | 0.089 | 0.114 | No effect |
| H11 | FP → CV | 0.283 | 0.000 | Positively significant |
| H13 | FA → CV | 0.245 | 0.000 | Positively significant |
| H14 | FA → FP | 0.817 | 0.000 | Positively significant |
| H15 | IA → FP | 0.341 | 0.000 | Positively significant |
| H16 | IA → CV | 0.279 | 0.000 | Positively significant |

Source(s): Data processed

Table 2.
Direct effects of
independent variables
on dependent variables

H13. Financial architecture positively affects corporate value because the standardized coefficient β is positive (0.245).

H14. Financial architecture positively affects financial performance because the standardized coefficient β is positive (0.817).

H15. Intangible assets positively affect financial performance (0.341).

H16. Intangible assets positively affect corporate value (0.279).

(1) Indirect Effects

Based on Table 3:

H2. Ownership structure positively affects corporate value through mediating variable of financial performance because the coefficient of Sobel's Z is positive (0.324).

H5. Capital structure positively affects corporate value through mediating variable of financial performance because the coefficient of Sobel's Z is positive (0.402).

H8. Corporate governance positively affects corporate value through mediating variable of financial performance because the coefficient of Sobel's Z is positive (1.512).

H9. Corporate governance positively affects financial performance through the intervening variable of board process because the coefficient of Sobel's Z is positive (1.971).

H13. Financial architecture positively affects corporate value through mediating variable of financial performance because the coefficient of Sobel's Z is positive (4.980).

H17. Intangible assets positively affect corporate value through the mediating variable of financial performance.

4.1 The effect of ownership structure on financial performance and corporate value

4.1.1 Ownership structure does not affect corporate value. The data analysis indicated that ownership structure did not affect corporate value. This is supported by the results of the analysis which states the significance value >0.05 . This result is contrary to the hypothesis proposed, or there is a rejection of the hypothesis which states that ownership structure positively significant 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 corporate'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

| Hypothesis notation | Path | Coefficient Sobel's Z | Significance | Conclusion (+/- , ≤ 0.05) |
|---------------------|--------------------------------------|-------------------------|--------------|---------------------------------|
| H2 | OS \rightarrow FP \rightarrow CV | 0.324 | 0.001 | Positively significant |
| H5 | CS \rightarrow FP \rightarrow CV | 0.402 | 0.688 | No effect |
| H8 | CG \rightarrow FP \rightarrow CV | 1,512 | 0.131 | No effect |
| H9 | CG \rightarrow BP \rightarrow FP | 1,971 | 0.049 | Positively significant |
| H13 | FA \rightarrow FP \rightarrow CV | 4,980 | 0.000 | Positively significant |
| H17 | IA \rightarrow FP \rightarrow CV | 3.312 | 0.001 | Positively significant |

Table 3.
Indirect effects of
independent variables
on dependent variables

Source(s): Data Processed

determining their investments, they also consider the ability of shareholders to control their companies as seen from the percentage of share ownership. This is in line with studies conducted by [Vintilla and Gherghina \(2014\)](#), that ownership structure not affecting 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.

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 corporate 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 positively affecting corporate value. The results of research conducted by [Elvin and Hamid \(2015\)](#) found that ownership structure with institutional ownership proxy positively affecting corporate value with Tobin's Q proxy.

4.1.2 Ownership structure positively affects corporate value through mediating variable of financial performance. The results of data analysis showed that ownership structure positively affects corporate value through mediating variable of financial performance. This is supported by the results of the analysis which states the significance value < 0.05 . 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 did not affect. 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 corporate, even though investors do not see who and how large the share ownership is.

This is in line with the results of this research. [Navissi with Naiker \(2006\)](#) found that ownership structure with institutional ownership proxy did not affect corporate value with Tobin's Q proxy, but ownership structure positively affecting 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 positively affects financial performance. The results of data analysis showed that ownership structure positively affects financial performance. This is supported by the results of the analysis which states the significance value < 0.05 . These results are in accordance with the hypothesis proposed, or there is acceptance of the hypothesis which states that ownership structure positively affects 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 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 [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 positively affecting 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 positively affecting 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 positively affecting ROA. While research conducted by [Barontini and Caprio \(2005\)](#) found that ownership structure with family ownership proxy positively affecting 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 is supported by the results of the analysis which states the significance value >0.05 . This result is contrary to the hypothesis proposed, or there is a rejection of the hypothesis which states that the capital structure positively affects corporate value.

In this study, the use of debt was 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 corporate 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. \(2011\)](#); [Phung 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 is supported by the results of the analysis which states the significance value >0.05 . This result is contrary to the hypothesis proposed, or there is a rejection of the hypothesis which states that the capital structure positively affects 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 [Phung 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 did not affect financial performance. This is supported by the results of the analysis which states the significance value >0.05 . This result is contrary to the hypothesis proposed, or there is a rejection of the hypothesis which states that the capital structure positively affecting financial performance. This study is in line with the research of [Leon \(2013\)](#); [Phung 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 and Ali \(2013\)](#) 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 positively affects corporate value.* The results of data analysis showed that corporate governance positively affects corporate value. This is supported by the results of the analysis which states the significance value <0.05 . The results of this study are following the hypothesis proposed, or there is acceptance of the hypothesis which states that corporate governance positively affects corporate value.

The results of this study are in line with the results of studies conducted by [Issahq and Bopkin \(2009\)](#); [Rashid et al. \(2010\)](#); [Fauzi and Locke \(2012\)](#); [Moradi et al. \(2012\)](#), who stated that corporate governance with board size proxy positively affects corporate value with Tobin's Q proxy. Elvin and Ahmad's (2015) research found that corporate governance with board compensation proxy positively affects 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 the mediating variable of financial performance. This is supported by the results of the analysis which states the significance value > 0.05 . The results of this study are in contrast with the hypothesis proposed, or there is a rejection of the hypothesis which states that corporate governance positively affects corporate value through the 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 positively affects 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 positively affects corporate value with Tobin's Q proxy, but harmed financial performance with ROA proxy.

4.3.3 *Corporate governance positively affects financial performance through intervening variable of board process.* The results of data analysis showed that corporate governance positively affects financial performance through the intervening variable of the boarding process. This is supported by the results of the analysis which states the significance value <0.05 . The results of this study are following the hypothesis proposed, or there is acceptance of the hypothesis which states that corporate governance positively affecting financial performance through the intervening variable of the boarding process.

The results of this study are following the management system of the corporate (limited liability corporate/PT) in Indonesia which adheres to the two-tier system, namely the separation between the management of the corporate (directors) and supervisors (commissioners), but the commissioners cannot appoint and dismiss directors. Good supervision reflects good corporate governance, increasing financial performance. In this case, the boarding 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 boarding process with commissioners meeting proxy positively affects financial performance with ROA proxy. Ma and Tian's research (2009) found that the boarding process with commissioners' independence proxy positively affects the corporate performance with ROI proxy. Furthermore, the results of [Sungu et al. \(2014\)](#) showed that the boarding process with commissioners' independence proxy positively affects financial performance with ROA proxy. While [Elvin and Hamid's research \(2015\)](#) found that the boarding process with commissioners' independence proxy positively affects 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. This is supported by the results of the analysis which states the significance value >0.05 . The results

of this study contradict the proposed hypothesis or there is a rejection of the hypothesis which states that corporate governance positively affects financial performance.

The results of this study are in line with the results of studies conducted by [Rashid et al. \(2010\)](#); [Ghabayen \(2011\)](#), 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

4.4.1 Financial performance positively affects corporate value. The results of data analysis showed that financial performance positively affects corporate value. This is supported by the results of the analysis which states the significance value <0.05 . The results of this study are in accordance with the hypothesis proposed, or there is acceptance of the hypothesis which states that financial performance positively affects corporate value.

Good financial performance at the issuer is a signal for investors to be interested in investing in the corporate. With the number of investors investing in the corporate experience an increase, there will be an increase in the corporate'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 positively affecting corporate value with EPS proxy. [Sudiyatno et al. \(2012\)](#) obtained that financial performance with ROA proxy positively affecting corporate value with Tobin's Q proxy. The results of [Chen and Chen's research \(2011\)](#) showed that financial performance with ROA proxy positively affecting corporate value with PER proxy. [Chatterjee's research \(2011\)](#) explained that financial performance with ROCE proxy positively affecting 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 positively affects corporate value. The results of data analysis showed that financial architecture positively affects corporate value, meaning that the value of financial architecture significantly affects corporate value. This is supported by the results of the analysis which states the significance value <0.05 . The results of this study are in accordance with the hypothesis proposed or there is acceptance of the hypothesis which states that financial architecture positively affecting corporate value. Financial architecture that has three dimensions, namely ownership structure, capital structure and 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 positively affects corporate value with Tobin's Q proxy. Studies conducted by [Isshaq and Bopkin \(2009\)](#); [Kokoreva and Stepanova \(2013\)](#) found that financial architecture seen from the dimension of capital structure and corporate governance positively affects 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 positively affects corporate value with Tobin's Q proxy.

4.5.2 Financial architecture positively affects corporate value through mediating variable of financial performance. The results of data analysis showed that financial architecture positively affects 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. This is supported by the results of the analysis which states the significance value <0.05 .

[Ivashkovskaya and Stepanova \(2011\)](#) argued that the corporate's goals can be achieved by improving the corporate'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 positively affects corporate value with Tobin's Q proxy and also financial performance with ROA proxy.

4.5.3 Financial architecture positively affects financial performance. The results of data analysis showed that financial architecture positively affects financial performance, meaning that the financial architecture significantly influenced financial performance. This is supported by the results of the analysis which states the significance value <0.05 . The results of this study are in accordance with the opinion of [Ivashkovskaya and Stepanova \(2011\)](#) that in exploring its performance, a corporate must build all components of a corporate's financial design, namely financial architecture. [Daraghma and Alsinawi \(2010\)](#) stated that financial architecture seen from the dimension of ownership structure variable positively affecting financial performance. Research by [Ivashkovskaya et al. \(2013\)](#) obtained the results that financial architecture seen from the dimension of ownership structure positively affecting financial performance with ROE proxy. Research conducted by [Moradi et al. \(2012\)](#) showed that financial architecture seen from the dimension of ownership structure positively affecting financial performance with ROA proxy.

4.6 The effect of intangible assets on financial performance and corporate value

4.6.1 Intangible assets positively affect financial performance. The results explain that intangible assets (X) positively affects ROA (the dimension of financial performance), this is supported by the results of the analysis which states the significance value <0.05 . These results support research conducted by [Ulum et al. \(2008\)](#) and [Gamayuni \(2015\)](#) which proves that intellectual capital positively affects corporate performance as represented by ROA. This means that the higher the intangible assets, the higher the ability of capital invested in overall assets to generate profits for the corporate owner.

4.6.2 Intangible assets positively affect corporate value. This study's output show that intangible assets positively affects corporate value, this is supported by the results of the analysis which states the significance value <0.05 .

4.6.3 Intangible assets positively affect corporate value through the mediating variable of financial performance. The results of data analysis showed that intangible assets significantly affects 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 intangible assets on corporate value, this is supported by the results of the analysis which states the significance value <0.05 . The results of this study are in line with the results of research conducted by [Gamayuni \(2015\)](#) that there is a positive significant effect between intangible assets and corporate value through ROA (dimension of financial performance). Therefore, efforts that can be made to increase the value of a corporate must increase intangible assets followed by efforts to increase ROA. In this case, the ROA variable functions as an intermediary or intermediary variable.

5. Research implications

From the results, we found out that follow the research model that has been built so that the following theoretical implications can be proposed: (1) Theoretically, this research has been able to provide a theoretical model of the influence of financial architecture (with dimensions of capital structure, corporate governance and ownership structure), intangible assets, financial performance process board and corporate value in the Indonesian capital market. The results of this theoretical model explain that financial architecture and its dimensions directly affect financial performance. On the other hand, the financial architecture and its dimensions indirectly affect the value of the corporate through financial performance. Intangible assets directly affect

the value of the corporate, as well as the indirect effect of utilizing financial performance as a mediating/intervening variable. (2) This study can also develop a theoretical model of how corporate governance affecting financial performance following a two-tier system adopted by Indonesia. The results of this theoretical model explain that good corporate governance involves oversight of the board of commissioners or is called the boarding process in the activities carried out by directors. Corporate governance does not have a direct effect on financial performance, so the involvement of the board process acts as an intervening variable on the influence of corporate governance on financial performance. (3) This research has been able to develop an empirical study of the concept of financial architecture proposed by Myers (1999) that identifies a corporate's financial architecture into a comprehensive value or a combination of all dimensions of financial architecture. (4) The results of this study provide an empirical contribution to the influence of comprehensive financial architecture on financial performance and corporate value in the Indonesian capital market. (5) With a long period of research for one year, this study has shortcomings including not yet detailed analysis for each sector of the corporate, and no further research has been done on the meaning of a comprehensive value of financial architecture so it is recommended for further researchers to consider adding to the research period for more than one years so that the results can be more complete, it is necessary to consider conducting a more detailed analysis for each sector of the corporate, need to consider further researching the financial architecture comprehensively.

Based on the findings in this study, the practical implications that can be stated are as follows: (1) The concept of corporate financial architecture can be used by management in managing and improving the corporate's financial performance. This is related to management's tasks in the form of accountability to the owner of the corporate, allocation of usage and the optimal proportion of funding and good corporate governance. (2) The concept of corporate financial architecture can be used by owners in making strategic decisions to strengthen the structure and position of their share ownership, the strength of funding and more modern business governance. (3) The concept of corporate financial architecture 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 overseeing corporate management. (4) The involvement of commissioners in supervision (board process) shows good corporate governance. It is clear from the results of the study that the boarding process has a positive contribution to improving the corporate's financial performance. (5) Providing advice and recommendations (1) investors need to understand the quality of the issuer through the concept of the corporate's financial architecture and remain guided by the corporate's fundamental performance in assessing the issuer's stock price and (2) corporate owners, management and commissioners of listed companies in the Indonesian capital market needs to be involved together in implementing good corporate governance (good corporate governance) to improve the corporate's financial performance and need to work together to avoid conflict agency, which can reduce corporate performance.

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