The Influence of Internal Factor on Financial Performance and Firm Value: Evidence from Property and Real Estate Companies Listed in Indonesia Stock Exchange

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Abstract: Agency problem often arises because of the separation between the functions of ownership and control within the agency relationship. The relationship between the owner and this managerial influence on strategic decisions that will be taken for example in the case of dividend policy agency problem may arises because of a conflict or difference of interest between principal and agent in a decision making. Therefore, required good corporate governance for improve firm performance. One of the other important decisions faced by financial managers relating to operational activity is funding decisions. The company need funds to finance the operation activity, investment or the other. The company have to make the best combination of capital structure (optimal) in order to avoid the high cost of capital which is may lead to low level of profitability and firm value.

This study aims to analyze the relationship between Corporate Governance, Capital Structure and Dividend Policy on and Firm Value, with Financial Performance as an intervening variable. Population in this study is property and real estate companies listed in the Indonesia Stock Exchange period 2011-2013 represented by the audited company's financial statement and historical data of stock prices in Indonesia Stock Exchange (secondary data). Sampling technique using purposive sampling method. The samples used 18 companies that already fit with the criteia of sampling. Hypothesis testing using Partial Least Square (PLS).

This study finds out that there is no relationship between corporate governance and financial performance. These findings consistent with the Stewardship Theory that the Agency Theory by Jansen and Meckling (1976), cannot be applied in every situation, there are another models of behavior and managerial motivation that comes from psychological or sociological. Furthermore, statistical tests shows that capital structure is positively related with financial performance, this result does not confirm the Pecking Order Theory that is supported by Myers (1987), stating that the debt has a negative impact on financial performance, meaning that the higher the debt progressively the worse the financial performance of the company. As well as the third hypothesis, dividend policy is also positively significant with financial performance. The company's dividend policy would provide information to the market or investors about the company's financial condition. These results support the Signaling Theory by Spence (1973).

The firm value could be achieved if the company can reach the profit targeted .This finding confirm MM Theory stating that affecting firm value is profits and risks business. Hypothesis testing results for financial performance variable negatively significant on firm value. Thus the hypothesis is accepted.

Keywords **:** Corporate Governance, Capital Structure, Dividend Policy, Financial Performance, Firm Value.

Introduction

One of the industries that are considered as an indicator of economic growth of countries is property and real estate sector. Table 1 shows the tax revenue yang related with property and real estate business such as Income Tax, Value Added Tax, Luxury Sales Tax. Besides, this sector also contributing to the Gross Domestic Product (GDP) that is received by the state from year to year. But on the other hand, the rampant property and real estate development feared to be “bubble property”, such as the crisis in the United States and Vietnam at the last 2008. This crisis started from the loss occurring in subprime mortgages which affected the financial sector in the United States. Schreiben (2013) stating that Indonesia was listed as one of the countries experiencing high acceleration of industrial property, in addition to China, India, Russia, and Brazil. Proven with 2012 Indonesia would rank seventh after China, USA, India, Russia, Brazil and England . It can be at hreat to company sustainability and will impact on economic stability for developing countries.

Table 1: Realization of Tax Income According to The Type of Tax, Indonesia, Year 2011-2013 (In Billion Rupiah)

No	Type of Tax	2011	2012	2013
1	Income Tax (Gas and Oil)	73.09	83.46	80.06
2	Income Tax (Non Gas and Oil)	358.02	381.29	416.14
3	Value Added Tax and Luxury Sales Tax	277.80	337.58	360.70
4	Land and Building Tax	29.89	28.96	25.79
5	Excise	77.01	95.02	101.86
6	Other Tax	3.92	4.21	5.06
7	International Trade Tax	54.09	49.65	41.71
	Total	873.82	980.17	1,040.32

Source : Data Processed from pajak.go.id

Table 2 : Percentage Distribution of Gross Domestic Product at Current Market Prices By Industrial Origin, 2000-2013

Industrial Origin	2011	2012	2013
	Total	Total	Total
1. Agriculture, Livestock, Forestry and Fishery	**14.71**	**14.50**	**14.42**
2. Mining and Quarrying	**11.82**	**11.81**	**11.29**
3. Manufacturing Industry	**24.34**	**23.96**	**23.69**
4. Electricity, Gas & Water Supply	**0.75**	**0.76**	**0.77**
5. Construction	**10.16**	**10.26**	**9.98**
6. Trade, Hotel & Restaurants	13.80	13.96	14.32
7. Transport and Communication	**6.62**	**6.67**	**6.99**
8. Finance, Real Estate and Business Services	**7.21**	**7.27**	**7.52**
a. Bank	2.24	2.32	2.48
b. Non-Bank Financial Institutions	0.95	0.97	1.00
c. Services Allied to Finance	0.05	0.06	0.06
d. Real Estate	2.59	2.55	2.56
e. Business Services	1.38	1.38	1.43
9. Services	**10.58**	**10.81**	**11.01**
Gross Domestic Product	**100**	**100**	**100**
Gross Domestic Product Without Oil and Gas	**91.60**	**92.21**	**92.65**

Source : Data Processed from bps.go.id

The company's main goal is to maximize firm value. This goal not only of interest for the shareholders, but will also provide the best benefits for the public (Keown et al. 2004). The value of the companyis usually reflected inthe share price. In most important business decisions, there are two key financial considerations namely risk and return. Each

financial decision presents certain risk and return characteristics, and the combination of these characteristics can increase or decrease a firm's share price. In line with the share price, PER is also one ratio used by investors to assess whether the company was classified as bonafide company or not. Indirectly, by looking at theshare price and earnings ratio of listed companies on the stock price, investors can determine the length ofreturn onthe investmentthat has beeninvested inaany particularstock. In essence, themarket valuationis categorizedas afirmvalueis also affectedby thefinancialperformance ofthe company it self. The better thefinancial conditionof a company,the better the effect in improving firm value.

The corporate governance is a mechanism that stimulates the self-interested managers to make decision that maximizes the shareholders wealth. The managers are the controller of the firms who make decision on the behalf of owners of the firm. For the manager, Improving financial performance is also a must for the company sustainability. Managers are expected to be successful in dealing with developing corporations' purposes , investmen, managing risk and return and creating value for shareholders. But in fact, the manager often faced a problem related to the owners. The conflict of interest between owners and managers has caused by the separation between the functions of ownership and control. The relationship among the owner and managerial influence on the decision making strategy that will be taken. In the case of dividend policy may arises agency problem because of a conflict or difference of interest between principal and agent in a decision making. Therefore, good corporate governance required for improve firm performance. Good corporate governance in the company are considered necessary in order to achieve the optimal profit and increase firm value. Furthermore, when the financial performance is affected by corporate governance structure, then shareholders need more controls to be performed on managers that aim to increase the consequences of conflict of interest.

The implementation of corporate governance should be run in accordance with the principles of corporate governance as stipulated in the legislation applicable in Indonesia. Companies that apply the principles of corporate governance more considered toi nvestors than companies that do not apply the corporate governance because companies thatapply the principles ofcorporate governanceare considered to bemore transparent, credible, independent, and accountable. Professional commissioner is an important issue that must be owned by every company to create the good corporate governance. Professional commissioner is the commissioner who has the integrity .The main responsibility of the board of commissioners is to monitor managerial performance and achieve the level of reciprocity (return) sufficient for shareholders. On the other hand, the board also must prevent conflicts of interest and balance the various interests in the company. Independent commissioner must not come from shareholders, not part of the board members or members of the board of directors (and Dewi Yonedi 2008 in Sekaredi). Manohar (2001) stating that the influence of board size and composition may have on board involvement in corporate affairs. The size and composition of the board may affect its ability to be an effective monitor and guide. According to Fama and Jensen (1983) independent commissioner is the best position to carry out oversight functions in order to create good corporate governance.

Corporate governance also requires an independent audit committee to standards of good corporate governance. A company's audit committee should annually review the management program to monitor compliance with the code of corporate conduct. The practitioners argue that audit committees are not significant enough to solve conflicts with management. It is generally accepted that for an audit committee to be effective, a majority, if not all members should be independent (Cadbury, 1992) and ideally should have knowledge in accounting, auditing and controling (Cohen, et al. 2000,Seow & Goodwin, 2000).

The dividend payout of firm's is important not only the offers source of cash flow to the shareholders but also information relating to firm's current and future performance. Making the right decision and payment of dividend policy is necessary to maximize firm's value and shareholder value. The company's managers should be based shareholder preferences. Investors prefer to have the company distribute income as cash dividends or to have the company repurchase stock or reinvestment, both of which should result in capital gain. Gordon (1963) and Lintner (1956) in Imran et al., (2013) explained that dividend payments can positively change the performance of the firm.

The company needs funds to finance the company's operations, investments or other interests. One of the most important decisions taken by financial managers related the continuity of operations is a decision funding. The Company may be funded with debt and equity. The composition of the debt and equity is reflected in the structure of capital. manager should be able to raise both sourced from within the company and outside the company efficiently. Financial managers must pay attention to the cost of capital. Cost of capital arising from a funding decision a direct consequence of the funding decision performed by the manager. Capital structure minimizing the cost of capital will

maximize the company's stock price. funding decisions is done carefully not to be raises fixed costs in the form of capital costs high which in turn can result in the low profitability of the company

Previous studies related to the influence of corporate governance capital structure, dividend policy on financial performance and firm value give some inconsistent results and therefore they are inconclusive. Chan and Li (2008) have been conducted the research using independent audit committee as an indicator for corporate governance on ROE for an indicator for firm financial performance, and the results indicate that independent audit committee positive significant influence ROE. The same result from Fulop (2013) is the structure of the Audit Committee is directly correlated to ROE, suggesting that an increase of non-executive members of the Committee will determine an increase in the ROE.

Those findings are in contrast with the result from Rouf (2012) that examined the relationship between four corporate governance mechanisms (board size, board independent director, chief executive officer duality and board audit committee) and value of the firm (performance) measures (return on assets, ROA and return on equity, ROE) and the result is positive significant relationship between ROE and board independent director as well as chief executive officer duality. However, this studi could not provide a significant relationship between the value of the firm (ROA and ROE) and board size and board audit committee. In line, the research conducted by Hsu (2007) found that there is no any relationship between audit committee independence and performance. Another finding is found audit committee independence (ACIND) to be insignificantly related to performance (Yayah, Abdullah, Faudzsiah, and Ebrahim, 2012).

Besides, Abdillah, et al (2015) with population is the company listed as the winner of annual report award for the period 2010-2012 at the IDX with 21 companies sampled for 3 periods with 37 observation data. The results of this study show that, the composition of independent board of commissioners does have a significant negative effect on ROA, disclosure does not have a significant effect on ROA, the composition of independent board of commissioners does not have a significant effect on ROE, disclosure does have a significant negative effect on ROE. Another research that examined the relationship between the independence of the board of directors and earnings management in Indonesia showed inconsistent results. Researchers using data before SK Bapepam-LK and the JSE published (among them, Kusuma and Susanto, 2004; Siregar and Bachtiar, 2004; Herman and Sulistyanto 2005; Siregar and Utama 2005) failed to find a significant relationship. Those inconsistent of the result of research, this study aims to analyze the relationship between Corporate Governance, Capital Structure and Dividend Policy on and Firm Value, with Financial Performance as an intervening variable

Literature Review

Corporate Governance. Agency problem usually exist in companies with dispersed shareholders and the owner can not directly control the company. Shareholders (principals) that spreads prefer to hire someone else or managers (agents) to manage the company, which then raises the relationship principals-agents. Principal-agent relationship gave rise to agency problems (Cheffin 2003: 4). This is considered as the basis of the concept of corporate governance.

Agency Theory. Agency theory talks about the conflict caused of different interests in the same assets. This means most importantly the conflicts between shareholders and managers. Institute corporate governance in Malaysia, namely the Finance Committee on Corporate Governance (FCCG), defines corporate governance as a process and structure used to direct and manage the business and activities of the company toward increased growth in the business and corporate accountability (Effendi, 2009). Jensen and Meckling (1976), defines the agency relationship as a contract in which principals involve agent to perform certain services on their behalf for some decision-making authority to the agents. Principals may deter deviation of agents by setting appropriate incentives for agents and by providing monitoring costs designed to limit the habit of deviant activity by agents and to ensure that the agent will not take certain actions that would jeopardize the principal.

Stewardship Theory. according to the Raharjo (2007) Stewardship theory assumes a strong relationship between an organization's success by the satisfaction of the owner. Steward will protect and maximize the wealth of the organization with company performance, so that the utility function to be maximized. The crucial assumption of stewardship is the manager straighten purpose consistent with the objectives of the owner. However, it does not mean steward does not have a priority need..” Raharjo’s State (as cited in Donaldson & Davis, 1989, 1991) Teori Stewardship mempunyai akar psikologi dan sosiologi yang didesain untuk menjelaskan situasi dimana manajer sebagai steward dan bertindak sesuai kepentingan pemilik.

Capital Structure. From all the important aspect of financial decision, the capital structure decision is one of the most vital since the profitability as a reflector of firm's financial performance is directly influenced by such decision. Proper care and pay attention need to be given while determining the capital structure decision Capital structure refers to the way a firm is financing its assets through a combination of equity and debt (Titman and Wessels, 1988). According to Devic and Krstic (2001) "Capital structure is expressed as ratio of long term liabilities to the sum of long term liabilities and firms equity". From Gitman (1991), "capital structure is the mix of long term debt and equity maintained by the firm".

According to Myers (1984) "capital structure is subject to influence growth opportunities due to the problem of lack of investments". Further more, from those definitions can conclude that capital structure is define as the mix or combination between debt and equity that the firm uses in its operational activity to optimize the performance of firm and to stockholder wealth.

In the capital structure literature, there are several of theories that support the capital structure, namely the Trade-off Theory and Pecking Order Theory. Pecking order theory states that companies prioritize their sources of financing – at first they prefer to use internal funds, then to borrow, and at last to issue equity as the last choice. Consequently there is no clear target debt-equity mix (Myers and Majluf, 1984). Trade-off theory argues that company chooses debt and equity mix by balancing the benefits and costs of debt. If company increases its leverage, the tax benefits of debt increase, as well. At the same time, the costs of debt also rise (Kraus and Litzenberger, 1973).

Pecking Order Theory. The capital structure theory was introduced by Myers and Majluf (1984) known as the Packing Order Theory. This theory reveals that firms in determining its funding policy will pay attention to the cost incurred for each funding source options. This theory is based on the asymmetry of information between company management and shareholders in determining the investment policy and dividend distribution.

There exist asymmetric information theories that there is a certain pecking order or hierarchy of firm preferences with respect to the financing of their investments. This "pecking order" theory suggests that firms will initially rely on internally generated funds, i.e., undistributed earnings, where there is no existence of information asymmetry; they will then turn to debt if additional funds are needed, and finally they will issue equity to cover any remaining capital requirements (Myers, 1984).

According to Myers (1984), Pecking Order Theory States that " firm with a high level of profitability is precisely the level of debt is low, due to the high profitability companies have abundant internal funds". Myers (1984) preferred the company of internal capital funding, i.e. funds that come from cash flow, profit retained and depreciation. Pecking Order Theory assumes that the company aims to maximize the shareholders's welfare. The company strives to publish the first securities from internal, retained earning, then low-risk debt and equity last (Myers, 1984; Myers and Majluf, 1984). Pecking Order Theory predicts that external funding is based on internal funding deficit (Sham-Sunder and Myers, 1999).

In pecking order theory there is no optimal capital structure. Specifically, company has its own preference (a hierarchy) in the use of funds. According to pecking order theory as quoted by Smart, Megginson, and Gitman (2004: 458-459), there are scenarios sequences (a hierarchy) in choosing funding sources, at first they prefer to use internal funds, then to borrow, and at last to issue equity as the last choice. In fact, there are enterprises that uses funds for the needs of investments is without following the scenario of the order (hierarchy) mentioned by the pecking order theory. Research conducted by Singh and Hamid (1992) and Singh (1995) States that "corporations in developing countries prefer to issue equity rather than debt in financing the company".

Modigliani & Miller Theory (MM Theory). Modigliani & Miller (1958) published the leverage irrelevant theory, stated that in perfect market, leverage has no impact on financial performance. Some researches support to this theory are Aggarwal and samwick (1999), Chen and Ho (2000), Chen and Steiner (2000), Mishra, et al (2001), Andres et al (2005), Amidu (2007), Garay and Gonzalez (2008), Ye and Yuan (2008), and Florackis et al (2009). MM theory (1963) with the tax assumptions stated that the imperfect competition markets use debt will be able to increase the financial performance of a company because interest paid is able to reduce the tax. Some researchers who support the research are Miguel et al (2004), Byun et al. (2007), and Chen, et al (2008). MM theory further said that value of the company with debts is higher than that of the company without debt.

Dividend Policy . Making the right decision and payment of dividend policy is necessary to maximize firm's value and shareholder value. The company's managers should be based shareholder preferences. Investors prefer to have the company distribute income as cash dividends or to have the company repurchase stock or reinvestment, both of which should result in capital gain. Pandey (1999) in Ashamu (2012) stated firmly that Dividend policy is a decision by the financial manager whether the firm should distribute all profit or retain them or to distribute a portion and retain the balance. Dividend policy is an important aspect of corporate finance and dividends are major cash outlays for many corporations. Dividend payout ratio (DPR) represents the dividend policy because of the essential a decisive portion of profits to be distributed to shareholders, and which will be retained as part of retained earnings (Miller and Modigliani, 1961 in Saxena, 1995).

Signaling Theory . Spence (1973) developed a signaling theory to explain the problems of information gaps in the labor market. Signal theory to discuss the urge companies to provide information to external parties. The impetus is caused due to the asymmetry of information between management and external parties. To reduce the asymmetry of information that companies must disclose information. Information is an important element for investors and businessmen because the information is essentially presenting the information, record or good overview of the state of the past, present and future circumstances for the survival of a company and how the market effect. One of them is information about the distribution of shares to shareholders, at the time the information was announced and all market participants have received such information, market participants beforehand interpret and analyze that information as signals (good news) or the signal is bad (bad news).Actually, There is no general agreement whether dividends should or should not be paid but according to the signaling theory, "Firms that pay dividends seem to maintain a relatively stable dividend, either in terms of a constant or growing dividend payout or in terms of a constant or growing dividend per share. And when firms change their dividend either increasing or reducing (cutting) the dividend the price of the firm's shares seems to be affected." (Fabozi and Peterson, 2003: 559).

Materials and Methods

Mugo (2009) said "A research population is a group of individuals, persons, objects, or items from which samples are taken for measurement". Populations used in this research are 43 property and real estate companies which have been listed in Indonesia Stock Exchange (IDX) since 2011 until 2013. The sampling technique used in this research is a non-random sampling, with the purposive sampling technique based. the criteria on sample selection consideration are described as follows ; Property and real estate companies listed in the IDX are constantly registered during 2011-2013, Property and real estate companies listed in the IDX in 2011-2013 which published financial statement using date December 31th as the end of annual accounting period, Property and real estate companies listed in the IDX in 2011-2013 which record profit constantly and Property and real estate companies listed in the IDX in 2011-2013 which share the dividend at least 2 years during 2012-2013. Based on the considerations, it can be identified as much as 18 companies which is fit to those criterias.

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Table 3 : The Sample List

No	Name of Company
1	PT Agung Podomoro Land Tbk. (APLN)
2	PT Alam Sutra Realty Tbk. (ASRI)
3	PT Bekasi Fajar Industrial Estate Tbk. (BEST)
4	PT Bumi Serpong Damai Tbk. (BSDE)
6	PT Ciputra Development Tbk. (CTRA)
6	PT Ciputra Property Tbk. (CTRP)
7	PT Ciputra Surya Tbk. (CTRA)
8	PT Intiland Development Tbk. (DILD)
9	PT Gowa Makassar Tourism Development Tbk. (GMTD)
No	Name of Company
11	PT Jaya Real Property Tbk. (JRPT)
12	PT Lippo Karawaci Tbk. (LPKR)
13	PT Metropolitan Kentjana Tbk. (MKPI)
14	PT Metropolitan Land Tbk. (MTLA)
15	PT Plaza Indonesia realty Tbk. (PLIN)
16	PT Pudjiadi Prestige Tbk. (PUDP)
17	PT Pakuwon Jati Tbk. (PWON)
18	PT Summarecon Agung Tbk. (SMRA)

Source: Secondary Data Processed

The purpose of this study is to investigate and explain the influence of three independent variables: The first variable represents corporate governance (CG), the second variable is Capital Structure (X_2) and the third variable is Dividend Policy (X_3). Dependent variable is Firm Value (Z_1), as well as intervening variable is Financial Performance (Y_1). The Operationalization of variable shown in table 2. The type of research in this study is explanatory research, which is describes the relationship between variables and test the hypotheses that have been in previous formulations. The hypothesis testing in this study is using Partial Least Squares (PLS) analysis. PLS is a specific problem in the data, such as small sample size, the missing data (missing values) and multi co-linearity (Jogiyanto, 2009). Partial Least Square (PLS) will be used to test the research model. The PLS is used to test the research model because the research model in this research is structural with formative and reflective indicators. According to Henseler (2009) PLS have several advantages: 1) PLS path modeling can be used when distribution is highly skewed, 2) PLS path modeling can be used to estimate relationship among latent variables with several indicators, 3) PLS can handle both formative and reflective measurement models, 4) PLS can be used in either small or large data. Research model in this research is structural with formative and reflective arrow for the relation of indicators on latent variable.

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Table 4 : The Operationalization of Variable

No	Variable	Indicator	Source	Measurement
1	Corporate Governance (X_1)	Independent Audit Committee ($X_{1.1}$)	Coleman (2007) Reddy *et al*.,(2010) Kumar (2001)	The number of Independent Audit Committee The Total number of Audt Committee
		Independent Commissioner ($X_{1.2}$)	Coleman (2007) Reddy *et al*.,(2010) Susy and Tri (2013) Eberhart (2012) Hoque et al (2012) Pandya (2011) Ferrer and Reynald (2012) Kumar (2001)	The number of Independent Commissioner The Total number of the Board of Commissioner
		Institutional Ownership ($X_{1.3}$)	Coleman (2007) Reddy *et al*.,(2010)	The number of Institutional Share The Total number of outstanding share
		Managerial Ownership ($X_{1.4}$)	Coleman (2007) Reddy *et al*.,(2010 Faccio and Lasfer (1999) Demsetz and Villalonga (2001)	The number of BOD and BOC share The total number of share
2	Capital Structure (X_2)	Debt Ratio ($X_{2.1}$)	Fabozzi and Peterson (2003) Brigham and Houston (2006) Arthur Et Al (2010) Chinaemerem and Anthony (2012) Zeitun dan Tian (2007) Ebaid (2009), Coleman (2007).	Total Debt Total Asset
		Long Term Debt to Equity ($X_{2.2}$)	Bokpin (2009)	Long Term Debt Total Equity
3	Dividend Policy (X_3)	Dividend Payout Ratio ($X_{3.1}$)	Peerden (2011) Murhadi (2013)	Dividend per Share Earning per Share
		Dividend Per Share ($X_{3.2}$)		Total Distribute Profit The Number of Outstanding Shares
4	Financial Performance (Y_1)	Return on Equity ($Y_{1.1}$)	Fridson and Alvarez (2002) Fabozzi and Peterson (2003) Chinaemerem and Anthony (2012)	Net Profit After Taxes Total Equity
		Net Profit Margin ($Y_{1.2}$)	Zeitun dan Tian (2007)	Net Profit After Taxes Total Revenue

		Return on Asset ($Y_{1.3}$)	Brealy and Meyers (2003) Fabozzi and Peterson (2003) Cho dan Pucik (2005)	Net Profit After Taxes / Total Assets
5	Firm Value (Z_1)	P/Book Value ($Z_{1.1}$)	Fridson and Alvarez (2002) Fabozzi and Peterson (2003) Chinaemerem and Anthony (2012) Norton (2003)	
		Price Earning Ratio ($Z_{1.2}$)	Fridson and Alvarez (2002) Fabozzi and Peterson (2003) Chinaemerem and Anthony (2012) Norton, (2003) Kravchenko dan Yusupova (2005) Zeitun dan Tian (2007).	Price Earning / Earning Per Share
		Closing Price ($Z_{1.3}$)	Norton, (2003) Patell (1976).	Share Price

Source: Secondary Data Processed

The formative arrow because the characteristic of indicators are composite and the indicators do not have same domain (Hair *et al*., 2011). In addition, Hair *et al*. (2011) stated that formative arrow in Partial Least Square means the indicators are a group that simultaneously formed the value of latent variable. While the reflective arrow because the indicators have same domain and those indicators are reflection of the latent variable. The droping one indicator in reflective indicator will not change meaning of latent variable. The outer model of PLS explains the relationship among indicators and latent variable. There are several parameters to determine the kind of outer model. Table 5 describes several parameters that can be used to determine the outer model of PLS.

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Table 5 : The Parameters to Determine the Outer Model of PLS

Parameters	Formative	Revlective
Characteristic of indicators	Composite	Common factor (same domain)
The measurement model assumed	Multiple regression method	Single regression method
The error term	In the construct	In the indicators
Do the indicators can be interchangeable?	Indicators cannot be interchangeable due to indicators have different domain or meaning.	Indicators can be interchangeable due to indicators have same domain or meaning.
Are indicators forming or manifesting?	Indicators are forming the construct	Indicators are manifesting the construt.
The arrow for the relationship of indicator to latent variable	The arrow flow from the indicators to latent variable	The arrow flow from the latent variable to indicators.

Source: Hair *et al*. (2011) and Sarstedt *et al.* (2014)**.**

The equations of outer model in this research is divided into two kinds there are formative indicators and reflective indicators. The equations are reported below:

1) Reflective Indicators:

$X_1 = \lambda X_1 \xi 1 + \delta 1$ (equation 1)
$X_2 = \lambda X_2 \xi 1 + \delta 2$ (equation 2)
$X_3 = \lambda X_3 \xi 1 + \delta 3$ (equation 3)
$X_4 = \lambda X_4 \xi 1 + \delta 4$ (equation 4)

Where (X) is indicator for the exogenous latent variable (ξ). While (λ) in this case is simple regression coeficient that connected among latent variable and its indicators. The residual which is simbolized by (δ) can be interpretated as error measurement.

2) Formative Indicators:

$\xi 1CS = \lambda X2.1 + \lambda X2.2 + \delta 1$ (equation 5)
$\xi 2DP = \lambda X3.1 + \lambda X3.2 + \varepsilon 1$ (equation 6)
$\eta 1FP = \lambda Y1.1 + \lambda Y1.2 + \lambda Y1.3 + \varepsilon 1$ (equation 7)
$\eta 2FV = \lambda Z1.1 + \lambda Z1.2 + \lambda Z1.3 + \varepsilon 1$ (equation 8)

Where (ξ) is exogenous latent variable, (η) is endogenous latent variable, λX is loading factor for exogenous latent variable, λY is loading factor for endogenous latent variable, (δ) is measurement errors for indicators of exogenous variable, and (ε) is measurement errors for indicators of endogenous variable. Hair et al. (2011) stated that in the structural model, the indicators should be valid or significant to measure the construct. If any indicator is not valid, then the indicator should be dropped out from the model.

The relationship between latent variables can be seen on inner relations of PLS. The equation models for inner relation are reported as follow:

$\eta 1 = \gamma 1 \xi GCG + \gamma 2 \xi CS + \gamma 3 \xi DP + \delta 1$ (equation 9)
$\eta 2 = \beta 1\ \eta 1 + \delta 2$ (equation 10)

Where η is endogenous latent variables, ξ is exogenous latent variables, β is coefficient the impact of endogenous variable on endogenous variable, and δ is vector of residual variables.

The inner and outer models provide specifications which be followed by estimation of weight relation in PLS algorithm. Values for each case the latent variables in PLS were estimated as follows:

$\xi b = \Sigma_{kb} w_{kb} x_{kb}$ (equation 11)
$\eta i = \Sigma_{ki} w_{ki} y_{ki}$ (equation 12)

Where the Wkb and Wki are k weight that be used to form estimation the latent variables of ξb and ηi. Estimation of latent variable is a linear aggregate of indicators that weight values obtained by PLS estimation procedures. According to Hair et al. (2011) the evaluation of structural model in PLS is evaluated with used Q^2 value (predictive relevance). The equation for the calculation of the Q^2 is showed in equation 8.

$Q^2 = 1 - (1 - R_1^2)(1 - R_2^2)(1 - R_3^2)(1 - R_4^2)$ (equation 13)

The research model in PLS was evaluated by outer models and inner models. Testing the significance both outer model and inner models were conducted by bootstrapping procedure. Outer model is a measurement model to assess the validity and reliability. If outer loading is equal or greater than 0,5 so that the indicator is valid, or the indicator has t-statistic greater than 1.96, the indicator is valid or significant at the significance level of 5% (Hair et al., 2011). In inner models, if t-statistic value is greater than 1.96, it means the relationship between latent variable is significant at the significance level of 5%.

Results and Discussion

The summary of the main descriptive statistic is reported in Table 6.

Table 6 : Summary of the main descriptive statistic

	N	Minimum	Maximum	Mean	Std. Deviation
IAC	54	0	1	0,3709	0,17915
ICS	54	0,2	0,75	0,4181	0,13005
IOW	54	0,07	0,96	0,6098	0,22238
MOW	54	0	0,31	0,0267	0,07413
DR	54	0,16	0,74	0,4581	0,1404
LDTE	54	0,1	2,27	0,5526	0,40334
DPR	54	5,03	372,15	38,0713	63,75263
DPS	54	1,45	205	27,2124	40,42035
ROE	54	0,02	0,3	0,1472	0,07115
NPM	54	0,02	0,56	0,2839	0,10986
ROA	54	0,01	0,22	0,0748	0,04124
BV	54	3,2	8	6,0024	1,08375
PER	54	1,04	70,96	14,4331	12,19319
CP	54	4,61	9,16	6,5911	0,93357
Valid N (listwise)	54				

Notes

1) The sample is the “company sector in the period of 2011-2013
2) IAC : Independent Audit Committee
   ICS : Independent Commissioner
   IOW : Institutional Ownership
   MOW : Managerial Ownership
   DR : Debt Ratio
   LDTE : Long Term Debt to Total Equity
   DPR : Dividend Payout Ratio
   DPS : Dividend Per Share
   ROE : Return on Equity

NPM : Net Profit Margin
ROA : Return on Assets
BV : Book Value
PER : Price to Earning Ratio
CP : Closing Price

The empirical results with PLS estimations can be presented in 3 steps. The first step, we provided the outer model of PLS for overall model is reported in Figure 1. The second step, we provided the outer model of PLS after model fit is reported in Figure 2. The third step, we provided the inner model of PLS to evaluate the relationship between latent variables. The inner model of PLS is reported in Table 7.

Evaluation of the Outer Model. The evaluation of outer model in PLS aim to find out the indicators which valid and significant to measure latent variables. Outer model is a measurement model to assess the validity and reliability of the model. As showen in figure 1 there are two indicators significant to measure GCG variable. The two indicators that were Independent Audit Committee (IAC) and Independent Commissioner (ICS) that have outer loading 0,66 and 0,783 respectively. The positive value means that the increase of GCG will reflect on the increase of IAC and ICS. In this case, IAC and ICS are reflection of GCG because the relationship among those indicators on latent variable is reflective. Two indicators of GCG had eliminated from the model there were Institutional Ownership (IOW) and Managerial Ownership (MOW). These indicators were dropped from the model because the outer loading lower than 0,5 there were -0,47 and 0,18 respectively.

Capital structure consisted of two indicators there were debt ratio and long term debt to total equity. However, the only one indicator that valid to measure capital structure variable. According to figure 1, debt ratio was valid to measure capital structure. Debt ratio has outer loading 1,11 means that the increase of debt ratio will be followed by the increase of capital structure variable. In formative model, the latent variable is formed by the indicators. One indicator of capital structure was dropped from the model that was long term debt to total equity because the outer loading was -0,176. The negative value means that the increase of long term debt to total equity will be followed by the decrease of capital structure variable, vice versa.

Dividend policy consisted of two indicators there were dividend payout ratio (DPR) and dividend per share (DPS). As showen in figure 1, there only DPR which valid to measure dividend policy variable. DPR has outer loading 1,03, means that the increase of DPR will be followed by the increase of dividend policy variable. DPS in this case was not valid to measure dividend policy variable because the outer loading was only -0,185. The negative value means that the increase of DPS will be followed by the decrease of dividend policy variable, vice versa.

Financial performance consisted of three indicators. However, after testing on PLS there only one indicator was valid to measure financial performance variable. Two indicators were not valid to measure financial performance are net Profit Margin (NPM) and Return on Assets (ROA) which have outer loading 0,177 and -1,442 respectively. Then these indicators was dropped from the model because it does not meet with the criteria of PLS. The only Return on Equity (ROE) that valid to measure financial performance variable. ROE has outer loading 1,59. The positive value here means that the increase of ROE will be followed by the increase of financial performance variable. After model fit, ROE become the single indicator of financial performance.

Firm value consisted of three indicators there were Book Value (BV), Price to Earning Ratio (PER), and Closing Price (CP). After running in PLS, the only PER which valid to measure firm value variable. PER has outer loading 0,773 means that the increase of PER will be followed by the increase of firm value. The other variable there were BV and CP not valid to measure firm value because the outer loading were -0,219 and -0,620 respectively. The negative value means that the increase of BV and CP will be followed by the decrease of firm value, vice versa. Then, the indicators that not valid to measure firm value variable should be dropped from the model.

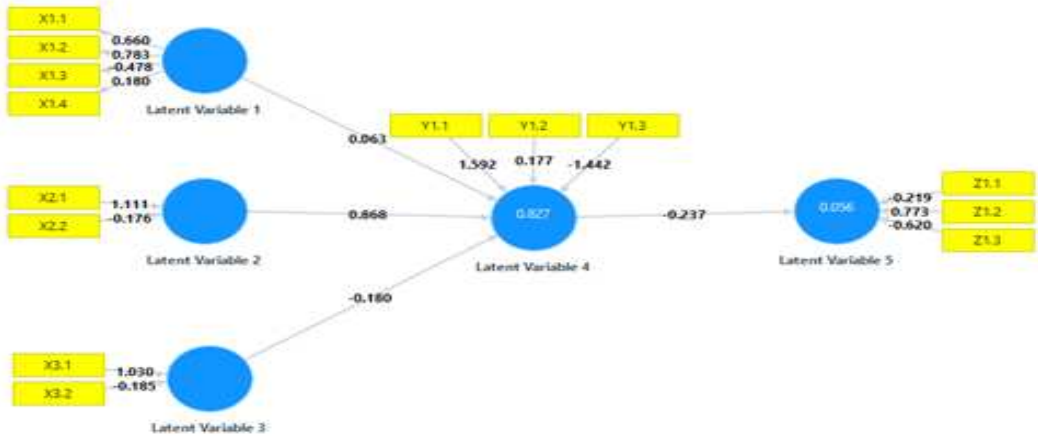

Figure 1 The Outer Model of PLS

Structural model in PLS was evaluated using Q^2 value. The R^2 value for endogenous variables in this study consisted of financial performance with R_1^2 0.827 and firm value with R_2^2 0.056. The Q^2 predictive relevance was calculated according to equation 8. The value of Q^2 was 0.8367. The value of Q^2 is same as total R^2 in path analysis. The R^2 value in this model was 83.67%, it indicates that the model can explained 83.67%, while 16.33% was explained by the others variables that were not included in this research.

Evaluation The Inner Model of PLS. The relationship between each variable can be evaluated in inner model of PLS. Inner model of PLS is the relationship among latent variables. The independent variable has significant effect on dependent variable if t -value greater than 1.96 (at the significance level of 5%). The inner model of PLS was reported in Table 5 and Figure 2.

Table 7 : The Inner Model of PLS

	Original Sample	Sample Mean	SE	t-value
CG -> FP	0,138	0,12	0,146	0,944
CS -> FP	0,36	0,357	0,128	2,822
DP -> FP	-0,375	-0,362	0,087	4,3
FP -> FV	-0,273	-0,299	0,1	2,723

Notes: t-value is greater than 1.96, its means the relation between latent variables is significant at the significance level of 5%.

CG : Corporate Governance
CS : Capital Structure
DP : Dividend Policy
FP : Firm Performance
FV : Firm Value

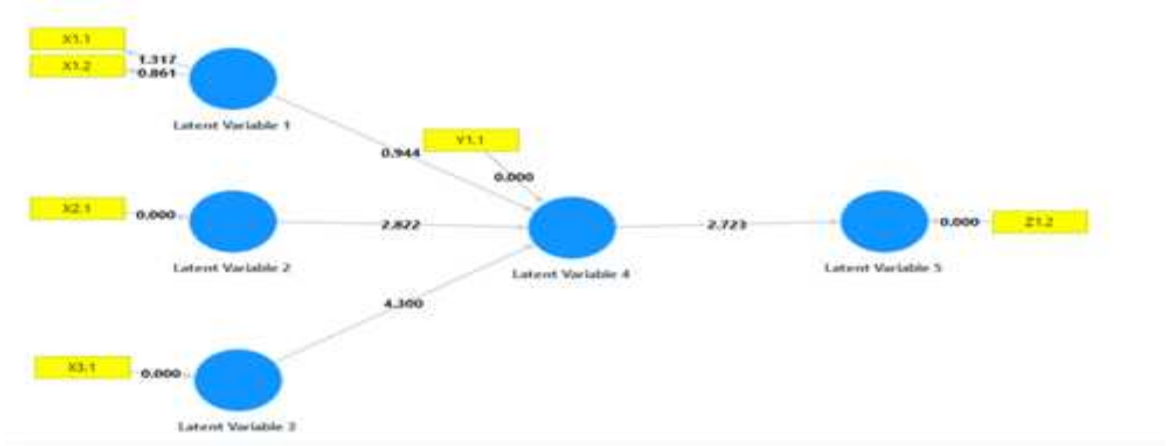

Figure 2. The PLS estimation after model fitting

H1 : Good corporate governance affect positively on financial performance

Based on table 7 and figure 2 can be evaluated that corporate governance had a positif and non-significant effect on financial performance. The path coefficient was 0,138 and t-value 0,944 (at the significance level of 5%). The positive value of path coefficient means that the increase in good corporate governance variable will be followed by the increase of financial performance. Increasing financial performance in this case is caused by the implementation of good corporate governance.

There were four indicators used to measure corporate governance variable. Those indicators consisted of independent audit committee, independent commissioner, institutional ownership, and managerial ownership. Institutional ownership and managerial ownership were not good indicators to measure good corporate governance variable. The good indicators of good corporate governance consisted of independent audit committee and independent commissioner. These indicators have outer loading greater than 0,5. According to Hair *et al*. (2011) stated that if there any indicators not valid and reliable to measure a latent variable, thus the indicators should be eliminated from the model.

According to table 7 can be concluded that corporate governance has a positif effect on financial performance. Its means that when the company implemented the concept of good corporate governance, in particular company has independent audit committee and independent commissioner, it will able to increase the financial performance. The implementation of GCG principal can be a guarantee for the investor that management of the firm will running the business well. The role of independent audit committee and independent commissioner as a controller of firm management and make sure that firm management conducted a business such criterias. In addition, company which impemented the princips of corporate governance consistenly, the financial performance will increase because there is a transparency, accountabilily, responsibility. This finding support research conducted by Wild (1994), Bebchuk and Ferrel (2004) found that corporate governance has a positif effect on financial performance. This finding is also consistent with the research was conducted by Coleman (2007), found that the Audit Committee is another mechanism of internal governance that impact to improve the quality of financial management and performance of the firm. However, very few empirical studies have been done on the impact of the audit committee of firm performance. However this finding was not support research conducted by Bauer *et al*, (2004) which found that there was a negative relationship among corporate governance standards and financial performance of the firm.

H2 : capital structure affect positively on financial performance

Based on table 7 and figure 2 can be evaluated that capital structure had a positif and significant effect on financial performance. The path coefficient was 0,36 and t-value 2,82 (at the significance level of 5%). The positive value of path coefficient means that the increase capital structure variable will be followed by the increase of financial performance. There were two indicators used to measure capital structure variable there are debt ratio and

long term debt to total equity. However the only one indicator which valid and reliable to measure capital structure variable that was debt ratio.

Capital structure has a positive and significant effect on financial performance. Its means that the increase of capital structure will be followed by the increasing financial performance. Company which has high debt will make the financial performance become better. Its caused by all business opportunity can be financed by the firm, in particular external financial source such as the debt. A firm that cannot finance the business opportunity, so that that firm cannot optimalized the profit. The most high debt means that company has strong capability to finance all business opportunity, for internal funding and a good liqudity, a good dividend paying ability.

This result does not confirm the pecking order theory that is supported by Myers (1987), stating that the debt has a negative impact on financial performance, meaning that the higher the debt progressively worse the financial performance of the company, otherwise the lower the company's debt, then it can be said that the company's financial performance was good. Results of this study supports the theory of MM with taxes that affect the value of the capital structure of the company, what is expressed by MM explaining that high debt usage will be able to increase the value of the company.

This finding support researchs conducted by Chen *et al*. (2006), Luo and Haciya (2005), Driffield *et al*.(2007), and Setiabudi and Agustia (2012) who found that capital structure had a positive impact on financial performance. The function of the debt can be a leverage to increase the profit through optimalization business opportunity.

H3 : dividend policy affect significantly on financial performance

Based on table 7 and figure 2 can be evaluated that dividend policy had a negative and significant effect on financial performance. The path coefficient was -0,375 and t-value 4,3 (at the significance level of 5%). The negative value of path coefficient means that the increase dividend policy variable will be followed by the decrease of financial performance. There were two indicators used to measure dividend policy variable there are dividend payout ratio and dividend per share. However the only one indicator which valid and reliable to measure capital structure variable that was dividend payout ratio. While dividend per share was not good enough to measure dividend policy variable. Thus, according to the criterias in PLS its indicators should be dropped out from the model.

Dividend policy has a negative and significant effect on financial performance. The negative value means that the most high dividen that be divided into the shareholders, its make the financial performance will be decreased. The decreasing financial performance due to company does not have a good enough financial resources to be invested into the new project or company expansion. In addition, company which divided high dividend to shareholders implied that company doesn't has a business opportunity in the future. In other word this company has been in a mature position in case of business life cycle. This finding doesn't support research conducted by Ajanthan (2003) who found that dividend policy affect positively and significantly to financial performance.

H4 : financial performance affect significantly on firm value

Based on table 7 and figure 2 can be evaluated that financial performance had a negative and significant effect on firm value. The path coefficient was -0,273 and t-value 2,723 (at the significance level of 5%). The negative value of path coefficient means that the increase financial performance variable will be followed by the decrease of firm value. There were three indicators used to measure financial performance variable there are return on equity, net profit margin, and return on assets. However the only one indicator which valid and reliable to measure financial performance variable that was return on equity. While net profit margin and return on equity were not good enough to measure financial performance variable. Related to firm value, there only one indicator that valid and reliable to measure firm value that was price to earning ratio. While book value and closing price were not good enough to measure firm value variable. According to the criterias in PLS the indicators which not valid and reliable to measure its latent variable should be dropped from the main model.

Price to Earning Ratio (PER) is one of the most important indicator in capital market. PER can be defined as a ratio which reflect how rate of return a company to its share price. PER can be said as a psicological value for the investor, where firm that has smaller PER is more attractive than firm which has higher value of PER. The smaller PER is caused by the earning per share which relatively high compared to its share price, so that the rate of return is better and the pay back period is more shortly. The smaller PER is one of the main consideration by the investor to invest their money in capital market. So that is why financial performance has a negative relation to firm value which measured by PER as the main indicator.

Conclusions

This research demonstrate that :

- Corporate Governance insignificant on company's Financial Performance in Property and Real Estate sector, in other words that the corporate governance practices that have been implemented in the company's property and real estate does not affect the company's return on equity. Agency Theory by Jansen and Meckling (1976), cannot be applied in every situation, there are another managerial models of behavior and motivation that comes from psychological or sociological.
- Capital structure has a positive and significant effect on financial performance in Property and Real Estate sector. Its means that the increase is of capital structure will be Followed by the increasing financial performance. Company has high debt will make the financial performance Become better. This result does not confirm the Pecking Order Theory that is supported by Myers (1987), Stating that the debt has a negative impact on financial performance, meaning that the higher the debt progressively the worse the financial performance of the company.
- Dividend policy has a negative and significant effect on financial performance. The negative value means that the most high dividends that be divided into the shareholders, it's make the financial performance will be Decreased. The decreasing financial performance due to company does not have a good enough financial resources to be invested into the new project or company expansion Reviews These results support the Signaling Theory by Spence (1973)
- The firm value could be Achieved if the company can reach the targeted profit . This finding confirm MM Theory Stating that firm value is affecting profits and business risks. Hypothesis testing results for financial performance negatively significant variables on firm value.

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