CHAPTER I

INTRODUCTION

A. Research Background

The Covid-19 pandemic event in 2020, resulted in the emergence of various policies from the government related to restrictions on the continuity of social life, one of which affects the economic element. The global economic downturn has also affected Indonesia, resulting in a drop in economic performance, and is supported by research. The Indonesian Ministry of Manpower states that based on a survey conducted by the Ministry of Manpower in collaboration with INDEF (Institute for Development of Economics and Finance), the decline in demand, production, and profits generally occurs in MSME companies, which is above 90 percent. Therefore, this results in the firm ending up in a state of loss. Continuous losses will affect the recording of cash income and expenses and will have an impact on the quality of financial statements (Barenbang, 2020).

Related to the quality of financial statements also occurred in the case of falsification of financial statements that took place from 2016-2020 but was only revealed in 2023. According to Rizki and Agarta (2023) reporting through Koran Tempo, it is stated that a case of irregularities or misuse of PT Waskita Beton Precast funds involving eight people, both officials and retired company employees at once. This case of manipulation of financial statements occurred with company officials giving orders as well as approving the disbursement of supply chain financing (SCF) funds using fake supporting documents to be used as payment for company debts caused by disbursement of payments for fictitious work projects to fulfill the suspect's request. As a result of this incident, PT Waskita Beton Precast as a State-Owned Enterprise (BUMN) caused the state to suffer losses of more than Rp 2.5 trillion and damaged the value of the company in the future. The statement indirectly states that a decrease in income will affect the corporate's value.

Corporate value is a representative assessment both for the firm itself in assessing its performance during the current period and from the public side of the firm's condition in general. This is in line with research by Kalbuana (2021), which stated that corporate value is an indicator used by a firm to assess the success rate of the firm from the shares traded and circulating in the market. The importance of good corporate value can be realized by applying Islamic values in every activity, namely not only by speaking the right words but also by behaving appropriately so that, in this case, we are ordered to make financial reports honestly to create true corporate value. As Allah says in Surah Al-Ahzab/33: 70 which reads,

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُوا۟ ٱتَّقُوا۟ ٱللَّهَ وَقُولُوا۟ قَوْلًا سَدِيدًا

Meaning: "O you who believe, fear Allah and speak the truth".

Words are the beginning of an agreement between two parties so that it is decided as a transaction. The importance of starting things right is warned through the verse. It can be concluded that before a transaction occurs, we should agree to an agreement with the right words, without any elements that lead to illegal transactions. Even the preparation of financial reports must be done correctly and will produce good quality financial reports that can be accounted for. Reliable financial reports are useful for investors and potential investors so that they are not mistaken in making decisions to buy, retain, or sell firm shares. One of them can be reviewed by investors from the value of the Firm (Elviani et al., 2020). However, according to Muliati et al. (2021) based on the test results, it was found that financial performance did not affect corporate value. This means that high and low financial performance will not affect the corporate's value. Based on this phenomenon, the authors want to examine several firm variables that can affect corporate value, namely financial architecture, intangible assets, and firm size, which are mediated by financial performance variables.

The first factor is financial architecture. According to Shkolnyk et al. (2020), financial architecture is a system design that enables the study of the firm's financial organization and the methods used in it to adapt to changing conditions in the competitive environment and the capital market. According to Suhadak et al. (2020), it is stated that the variables have significantly influenced the corporate financial architecture, encompassing four dimensions as proposed by Myers states in 1999, ownership structure, capital structure, corporate governance, and board processes. These dimensions are then linked to corporate financial performance. The main characteristic of a firm's performance in firm finance theory is usually that of the allocation of capital structure because it reflects the ratio of debt and equity, which is often used in financing the firm's long-term development (Stepanova & Kazaryan, 2017). According to Widnyana

(2019), the concept of corporate financial architecture can be utilized by owners to make strategic decisions that enhance the structure and position of their shareholdings, funding strength, and modern business governance. The results of the data analysis indicate that financial architecture has a substantial positive impact on corporate value, highlighting the significant influence of financial architecture on corporate value. The findings of this study demonstrate that a firm's financial structure can impact its corporate value through influencing stock returns, leading to an increase in stock prices (Suhadak et al., 2020). The data analysis results indicate a positive correlation between financial architecture and corporate value (Widnyana et al., 2020).

The next factor is the intangible asset variable which means rights, privileges, and benefits of ownership or control (Soraya, 2013). Image and reputation are also intangible assets of the firm that can also contribute to increasing corporate value (Kombih & Suhardianto, 2017). There is a significant positive influence between intangible assets on corporate value (Bahuwa et al., 2020) such as enhanced control over intangible assets directly influences the growth of a corporate's value (Widhiastuti & Latrini, 2015). The findings of this study demonstrate that intangible assets have a beneficial impact on corporate value. By treating intangible assets as additional value within the corporation, the overall worth of the corporation can be enhanced (Widnyana et al., 2020). Intangible assets do not contribute to the formation of corporate value. This study failed to prove that information about intangible assets owned by companies can signal to investors (Kombih & Suhardianto, 2017).

The last factor is the variable of firm size, which could be assessed by examining the level of equity, revenue, and total assets of the firm (Suwardika & Mustanda, 2017). Large-scale companies will find it easier to get investors who want to invest capital and in terms of obtaining credit than small firms, so the larger the size of a firm, the greater the opportunity for the firm to obtain external funding. This is in line with the opinion of Dewi and Ekadjaja (2020) explaining that the size of a firm typically influences investors' evaluation and investment decision-making. However, Nuradawiyah and Susilawati (2020) found that in LQ45 businesses registered on the Indonesia Stock Exchange (IDX) from 2014 to 2018, firm size had a significant and negative impact on corporate value. This implies that larger firms tend to have lower values. A different thing is also said by Tambunan and Prabawani (2018), argued that firm size does not have a major impact on the financial performance of different industrial sectors.

This study builds upon the research carried out by Widnyana et al. (2020). Prior studies have identified several independent variables, including financial architecture, corporate governance, capital structure, ownership structure, as well as intangible assets. These characteristics are considered to have an impact on financial performance, which in turn acts as a mediating variable. The difference between this research and previous research is to combine the variables of ownership, capital structure, and corporate governance into one unit in financial architecture and then adds an independent variable, namely firm size, because the results of previous research still have many differences between Abbas et al. (2020) and Dewi and Ekadjaja (2020) which state that it has a positive effect, Meanwhile, according to Nuradawiyah and Susilawati (2020), it has a negative effect, even according to Tambunan and Prabawani (2018), it has no effect at all. However, the mediating variable still uses the same variable, namely financial performance.

The influence of the first factor, namely the financial architecture variable on the value of the firm with the financial performance variable as a mediating variable. According to Widnyana (2019), it is stated that investors can utilize the concept of corporate financial architecture to assess investment direction. The findings of data analysis indicate that financial architecture has a substantial and positive impact on financial performance, demonstrating its significant influence. The next factor is the intangible asset variable which according to Widnyana et al. (2020), the data analysis results indicate that intangible assets have a considerable impact on corporate value by means of mediating variables related to financial performance, while Kurniawan and Mertha (2016) stated that based on the interpretation of the results of path analysis, it shows that there is no indirect influence that occurs between the research and development intensity variable and intangible assets on corporate value through firm’s financial performance. Meanwhile, the last factor is the variable firm size which Gunadi et al. (2020) stated that the financial performance contributes to a crucial role in mediating the impact of the size of a firm on its value.

The object of observation used by previous researchers was nonfinancial sector companies that were registered in the Indonesian Capital Market, namely the Indonesia Stock Exchange (IDX) in 2015, while for this study, the object used is the same as the previous research object. However, this research focuses on manufacturing companies that register on the IDX starting in 2020 to 2022. This research is conducted on a smaller scope so that the research process can take place carefully and in detail so that it is expected to produce quality research. The Head of the Fiscal Policy Agency mentioned that the manufacturing sector remaining in the expansion zone shows the resilience of the Indonesian economy amid global turmoil and the manufacturing slowdown that occurred in various countries. Therefore, this research tries to observe the factors that make the manufacturing company still able to maintain its corporate value (Fiskal, 2023).

Based on the inconsistent research results, further research has been conducted regarding the effect of ownership structure, corporate governance financial architecture, intangible assets, and firm size on corporate value with the intervening variable of financial statements in manufacturing companies listed on the IDX in 2020-2022. Thus, this research is entitled "The Influence of Financial Architecture, Intangible Assets, and Firm Size on Financial Performance and Corporate Value in Indonesian Capital Market (An Empirical Study on Consumer Goods Companies Listed in Indonesia Stock Exchange In 2020-2022)".

B. Research Problem Limitation

The problem limitation of this research is that the research period is only carried out in three periods, namely in 2020-2022, and only focuses on manufacturing businesses, and the focus is on those that are officially listed on the Indonesia Stock Exchange (IDX).

C. Research Problem

Based on the background of the problems described above, the following problem formulation can be formulated:

1. Does financial architecture have a positive effect on financial performance?
2. Do intangible assets have a positive effect on financial performance?
3. Does firm size have a positive effect on financial performance?
4. Does financial performance have a positive effect on corporate value?
5. Does financial architecture have a positive effect on corporate value?
6. Do intangible assets have a positive effect on corporate value?
7. Does firm size have a positive effect on corporate value?
8. Does financial performance mediate the relationship between firm size and corporate value?
9. Does financial performance mediate the relationship between intangible assets and corporate value?
10. Does financial performance mediate the relationship between financial architecture and corporate value?

D. Research Objectives

The purposes of this research are:

1. To empirically test the positive or negative effect of financial architecture on financial performance.
2. To empirically test the positive or negative effect of intangible assets on financial performance.
3. To empirically test the positive or negative effect of firm size on financial performance.
4. To empirically test the positive or negative effect of financial performance on corporate value.
5. To empirically test the positive or negative effect of financial architecture on corporate value.
6. To empirically test the positive or negative effect of intangible assets on corporate value.
7. To empirically test the positive or negative effect of firm size on corporate value.
8. To empirically test the positive or negative effect of financial architecture on corporate value through the mediating variable of financial performance.
9. To empirically test the positive or negative effect of intangible assets on corporate value through the mediating variable of financial performance.
10. To empirically test the positive or negative effect of firm size on corporate value through the mediating variable of financial performance.

E. Research Benefits

The benefits that researchers expect from this research are as follows:

1. Theoretical Benefits

This study examines and produces relationships between variables that are included with an understanding of the basic concepts of variables, research directions, and research frameworks so that they can contribute to the development of science for parties who need this research as a form of support in encouraging minds to be more critical. And can be one of the literature studies that see the level of consistency or not the results of research related to the firm's components that can affect the quality of financial statements and corporate value.

2. Practical Benefits

a. For the Firm

This research can be used as a view and input for the firm, especially the most interested parties, to be able to calculate and or process the firm's components properly, which will determine the value of the firm so that it can be a reference to further improve the quality of financial statements which in turn will be a reference for investors in determining their investment policies.

b. For Investors

This research can be used as a reference in calculating the value of the firm so that it can consider decision-making in investing in a firm, specially manufacturing companies listed on the IDX.

c. For Future Research

This research is also expected to provide new knowledge and can be used as a reference for further researchers in conducting research on the influence of the firm's components on financial performance and corporate value.