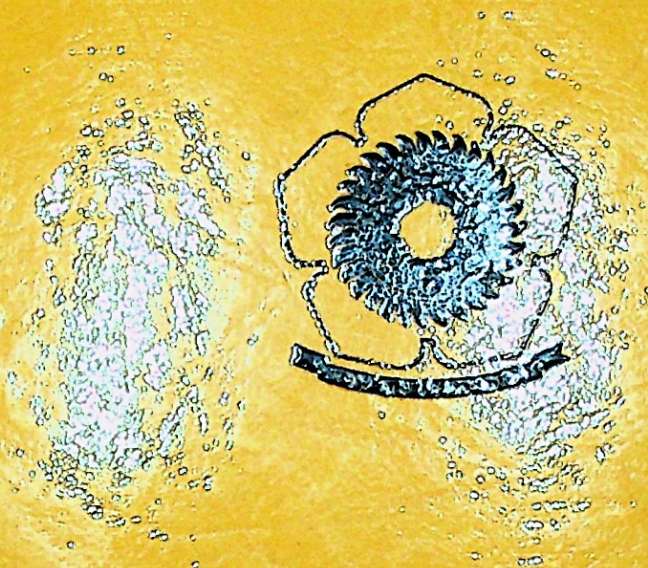


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**"THE EFFECT OF FINANCIAL AND NON-FINANCIAL VARIABLES TO FIRM  
PERFORMANCES: COMPARISON BETWEEN  
INDONESIA AND THAILAND"**



**Thesis by:**

**TIEN NORMA HABSARI**

**01111003007**

**Accounting**

**Proposed as one of the requirements to achieve Economic Bachelor Degree**

**MINISTRY OF EDUCATION AND CULTURE  
UNIVERSITY OF SRIWIJAYA  
FACULTY OF ECONOMICS**

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**2015**

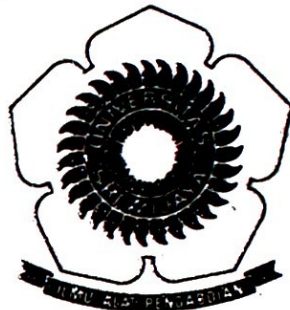
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UNIVERSITY OF SRIWIJAYA  
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### **MOTTO**

**Fighting is enjoyed on you, and it is an object of dislike to you; and it may be that you dislike a thing while it is a good for you, and it may be that you love a thing while it is evil for you, and Allah knows, while you do not know (QS. Al-**

**Baqarah 2: 216)**

**Surely with difficulty is ease (QS. Al-Insyirah 96: 5)**

**Education is the ability to listen to almost anything without losing your temper  
or your self-confidence**

**-Robert Frost-**

**Education is not preparation for life; education is life itself**

**-John Dewey-**

**Education is the movement from darkness to light**

**-Allan Bloom-**

**I dedicate this little masterpiece to:**

**Papa and Mama who have raised me with an abundance of love**

**Always pray for my best, give guidance me and support**

**Both morally and materially to me,**

**My beloved brothers and sister.**

## **ACKNOWLEDGEMENT**

Praise and thank to Allah SWT because of the graces finally Author can finish her research and thesis entitled *The Effect of Financial and Non-Financial Variables to Firm Performances: Comparison Between Indonesia and Thailand*. The author is fully aware, without the guidance of the various parties, this thesis will not be completed properly. Therefore, on this occasion the author would like to express sincere thanks to the:

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The writer is well aware that in writing this undergraduate thesis is far from perfection terms of both technical and scientific, that is all of the capabilities and limitations resulting from researcher's knowledge. Therefore, the writer really allows all readers to give their suggestion which can improve its content in order to be made as one of the good examples for further undergraduate thesis.

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Praises be to Allah for His grace, so that the writer could successfully complete the undergraduate thesis entitled "The Effect of Financial and Non-Financial Variables to Firm Performances: Comparison Between Indonesia and Thailand". This undergraduate thesis is submitted to fulfill one of the requirements to achieve Economic Bachelor Degree in Sriwijaya University. This undergraduate thesis examines the effect of Return on Equity (ROE), Earnings per Share (EPS), Market Value Added (MVA), Earnings Quality (EQ), Institutional Ownership (IO), Independent Commissioner (IC), Audit Committee (AC), and Corporate Social Responsibility (CSR) to Firm Performance.

This undergraduate thesis divided into 5 chapters; therefore, it would be easier for readers to understand the whole information. The first chapter discussed about the background, problem, objective and benefits of research. In the second chapters, all related theories, literature reviews, previous researches, theoretical framework, and hypotheses that were used as basis for evaluating research problem in this study are described. In the third chapter, the readers will find the methodology used in this research. The fourth chapter consists of the results of data analysis relating to the object of research. The last chapter concludes everything from the whole research and provided recommendation as inputs for further researcher.

The writer is well aware that in writing this undergraduate thesis is far from perfection terms of both technical and scientific, that is all of the capabilities and limitations resulting from researcher's knowledge. Therefore, the writer really allows all readers to give their suggestion which can improve its content in order to be made as one of the good examples for further undergraduate thesis.

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**THE EFFECT OF FINANCIAL AND NON-FINANCIAL  
VARIABLES TO FIRM PERFORMANCES: COMPARISON  
BETWEEN INDONESIA AND THAILAND**

**Tien Norma Habsari**

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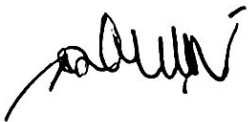
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## ABSTRACT

### **THE EFFECT OF FINANCIAL AND NON-FINANCIAL VARIABLES TO FIRM PERFORMANCES: COMPARISON BETWEEN INDONESIA AND THAILAND**

By:

Tien Norma Habsari  
Mukhtaruddin, S.E., M.si., Ak  
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The capital markets have an important influence in supporting the economy of a country. Especially for investors, the capital market is a vehicle to invest their funds. So, the investor should know about firm performance to determine the prospect of companies. The purpose of this research is to test the effect of financial and non-financial variables to firm performances between Indonesia and Thailand

The observation used in this study is manufacturing companies from several sectors. There are automotive, industrial material & machinery, plastic & packaging, pulp & paper, chemical, and steel that listed on Indonesia Stock Exchange and Stock Exchange of Thailand during 2011 - 2013. By combining 3 years research, there are 55 Indonesian companies and 50 Thailand companies that meet predetermined criteria.

This study uses Return on Equity, Earnings per Share, Market Value Added as financial variables and Earnings Quality, Institutional Ownership, Independent Commissioner, Audit Committee, Corporate Social Responsibility as non-financial variables. Test results show that both financial and non-financial variables can effect to firm performance

***Key words: Return on Equity, Earnings per Share, Market Value Added, Earnings Quality, Institutional Ownership, Independent Commissioner, Audit Committee, Corporate Social Responsibility, and Firm Performance***

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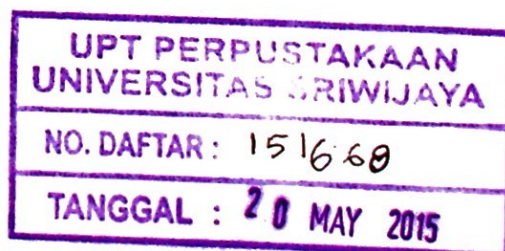
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# **CHAPTER I**

## **INTRODUCTION**

### **1.1. Background**

The capital markets have an important influence in supporting the economy of a country. Especially for investors, the capital market is a vehicle to invest their funds. So, the investor should know about firm performance to determine the prospect of companies. Investors invest their funds in the stock market is not only aim in the short term but also aims to earn income in the long run. Revenue desired by the shareholders is the dividend yield and capital gains.

Dividend yield is used to measure the amount of dividends per share to share price in the form of a percentage. The greater the dividend yield, investors will be more interested in buying the stock (Ang, 1997). On the other hand, the higher price indicates that the stock market is also increasingly in demand by investors due to the higher share price would result in a capital gain greater. Capital gain is the difference between the market price of the current period and that of the prior period. Dividend yield and the capital gain is the total return to be received by the investors in the long term (Ang, 1997).

Fundamental analysis influenced by the financial variables is one indicator of company's financial performance. There are Traditional financial

performance and modern financial performance. Traditional financial performance such as return on equity and earnings per share are really important and usually the center of attention of investors. Financial analysis also include an analysis of the company's competitive advantage position, liquidity of assets primarily related to the company's financial ability to meet the obligations of the company in the period short, the level of leverage and the composition on shareholder's equity, and growth of the company's sales operations based on financial statements historically. Here is after known financial variables and other measures that associated with the market model.

However, developments in science so rapidly and the demands of the world market economy encouraged the experts to find and develop other measurement tools are more accurate in measuring the company's performance. It is also driven by the insistence of investors and financiers in order to have a reference that can be accounted for more accuracy in allocating funds. Therefore, in 1989, Stern Steward Consultant Management Service in the United States introduced the concept of Economic Value Added (EVA) and Market Value Added (MVA) as a measurement of modern financial performance and the market to overcome the shortcomings of traditional financial performance because according to Dodd and Chen (1996) that EVA and MVA have performance measure in the belief that the company's EVA correlate between performance management with stock returns. Moreover

compared with other performance measurements such as Return on Capital (ROC), Return on Equity (ROE), Earning per Share (EPS), cash flow growth, and Economic Value Added (EVA) have systematically higher correlation in creating value for our shareholders.

This paper use also non-financial variables such as corporate governance and corporate social responsibility. Earnings quality, institutional ownership, independent commissioner and audit committee are proxy of corporate governance. Corporate governance mechanism aims to ensure and oversee the passage of governance systems in an organization (Walsh and Schward, 1990 cited by Arifin, 2005).

Recently, International Organization for Standardization (ISO) which adopted to determine corporate social responsibility is an international body as leading developer of international standards organization that was founded in 1947 with 154 states of member – has formulated a standard that is called ISO 26000: Guidance Standard on Social Responsibility that was released on November, 1<sup>st</sup> 2010. The scope of ISO 26000 will spur companies in the world, including Indonesia, to conduct programs of social responsibility correctly. It is designed to be used by all types of organizations, whether for profit or non-profit company. Additionally, the good governance of company is currently in main concern.

Some researchers claimed that there was no relationship between corporate governance mechanism and disclosure of corporate social responsibility to firm performance. Amri (2011) said that managerial ownership as a proxy of corporate governance had no significant effect on firm value. Windah and Andono (2013) concluded that there was no significant effect between corporate governance variables on financial performance that was measured by ROA and Tobin's Q. It is in line with the results of research conducted by Debby et al. (2013) indicated that good corporate governance did not affect firm value. Asmaranti (2011) concluded that disclosure of corporate social responsibility had no positive effect on firm value that was measured by cumulative abnormal return.

Since the previous studies provide mixed evidence, this study is aim to investigate the ability of both financial and non-financial variables to explain firm performance. This research focuses on manufacturing companies with the consideration that the manufacturing and non-manufacturing sectors have different sensitivities to changes in economic conditions (Tuasikal, 2002). Specifically, non-manufacturing sectors, e.g. financial and property sectors have relatively large changes to market changes. Companies that have a higher sensitivity to the market indicated that the company has a higher market risk (Harianto and Sudono, 1998 cited by Tuasikal, 2002). Thus before dropping the choice of which one to buy stocks, investors factor which industry has good



prospect in the future. In addition, over the span of years 2011-2013, the manufacturing sector has grown very rapidly.

The contributions of this research are as follows. First, this paper uses not only the traditional financial variables but also includes the modern financial variable, MVA for instance. Second, the non-financial variables such as Corporate Governance and Corporate Social Responsibility are considered in this paper. Third, this paper applies the most updated data, from 2011 to 2013, which could provide additional information to existing line of empirical results. And last, this paper provides comparative evidence between Indonesian and Thailand perspective.

## **1.2 Research Problem**

From the background of research that has been described above, the problem statement is: (In Indonesia and Thailand)

1. Whether financial variables could be able to explain the firm performance?
2. Whether non-financial variables could be able to explain the firm performance?
3. Whether both financial and non-financial variables could be able to explain the firm performance?

### **1.3 Research Objective**

1. To analyze the effect of Return on Equity (ROE) to firm performance (In Indonesia and Thailand)
2. To analyze the effect of Earnings per Share (EPS) to firm performance (In Indonesia and Thailand)
3. To analyze the effect of Market Value Added (MVA) effect to firm performance (In Indonesia and Thailand)
4. To analyze the effect of Earnings Quality (EQ) effect to firm performance (In Indonesia and Thailand)
5. To analyze the effect of Institutional Ownership (IO) effect to firm performance (In Indonesia and Thailand)
6. To analyze the effect of Independent Commissioner (IC) effect to firm performance (In Indonesia and Thailand)
7. To analyze the effect of Audit Committee (AC) effect to firm performance (In Indonesia and Thailand)
8. To analyze Corporate Social Responsibility (CSR) effect to firm performance (In Indonesia and Thailand)

#### **1.4 Research Benefits**

This research expected to give benefits, namely:

1. For writer

To improve knowledge about the effect of financial and non-financial variables to firm performance.

2. For Investor

To Determine which one the best between financial and non-financial variables can influence investor's decisions to buy stock from company

3. For the Company

To maximize the level of prosperity of the company's owners or shareholders, determine the amount of remuneration, determine the stock price, as well as assess the performance of the company to predict the state of the company in the future for our shareholders and prospective shareholders.

4. For education

To increase the reader's knowledge, especially about financial and non-financial variables and to contribute to the development of related theory with fundamental analysis.

5. For the next researchers

The result of this research can also used as a reference and source of information for further research who want to do more research in accordance with the subject matter covered in this study.

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