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by Taufik Taufik

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Do Traditional Accounting and Economic Value Added Mediate The Relationship Between Corporate Governance and Firm Value of Indonesian State-Owned Enterprises?

Taufik[1], Tertiarto Wahyudi[2], Agung Putra Raneo[3], Muizzudin[4], Mohamad Adam[5]*

[1]Faculty of Economics, Sriwijaya University, South Sumatera, Indonesia, [2]Faculty of Economics, Sriwijaya University, South Sumatera, Indonesia, [3]Faculty of Economics, Sriwijaya University, South Sumatera, Indonesia, [4]Faculty of Economics, Sriwijaya University, South Sumatera, Indonesia, [5]Faculty of Economics, Sriwijaya University, South Sumatera, Indonesia.
*Email: mr_adam2406@yahoo.com

ABSTRACT

The purpose of this research was to know whether traditional accounting i.e., return on asset (ROA) and economic value added mediated the relationship between corporate governance and firm value of Indonesian state-owned enterprises at Indonesian stock exchange from 2012 to 2016. The population of this research was 19 of Indonesian state-owned enterprises during 2012-2016. Based on the census of sampling method applied, 19 firms were selected as sample. Path Analysis was conducted to shows its direct and indirect effects of each path. The result showed that both traditional accounting i.e., ROA and economic value added did not mediate the relationship between corporate governance and firm value of Indonesian state-owned enterprises at Indonesian stock exchange during 2012-2016. In other words, corporate governance did not effect indirectly on firm value through both traditional accounting i.e., ROA and economic value added. Another interesting finding was that although economic value added was not as a mediation but it influenced firm value while traditional accounting i.e., ROA had no effect on firm value. This research only focused on Indonesian state-owned enterprises. For further research, it is recommended to include all firms listing at Indonesian stock exchange. The findings have implication for management of Indonesian state-owned enterprises to strengthen corporate governance with respect to transparency accountability, responsibility, independency and fairness to be an influential factors of traditional accounting i.e., ROA and economic value added. The result of this research is important for investors by highlighting the significant relationship between corporate governance on firm value and insignificant relationship between corporate governance to traditional accounting i.e., ROA and economic value added. To best of our knowledge this research is a preliminary attempt contributing to the literature by the use of economic value added as a mediation for the relationship between corporate governance on firm value.

Keywords: Corporate Governance, Traditional Accounting, Economic Value Added, Indonesian State-owned Enterprises, Indonesian Stock Exchange
JEL Classifications: G32, M41, O16

1. INTRODUCTION

The issue of corporate governance continues to be a concern for academics and practitioners because it can give a serious impact on profitability and firm value (Reinganum, 2009). The lack of transparency in corporate management and board oversight are some of the worst examples of corporate governance (Kirkpatrick, 2009). The cases of leading companies in America and Europe such as Global Crossing, Merrill Lynch and Enron Vivendi, Swissair and the financial crisis in Asian countries in 1997, including Indonesia in 1998 witnessed the dumbness of corporate governance and these were due to high concentration of corporate ownership, ineffectiveness of commissioner oversight function, inefficiency and low transparency (Nam and Nam, 2004).

Jensen and Meckling (1976) explained that ownership and control split created asymmetric information between shareholders and managers. This condition can lead to an agency problem which ultimately can affect profitability and firm value. Agency problems can be reduced if the company has good corporate governance

(Jensen, 1986). Gompers et al. (2003); Joh (2003), Rajagopalan and Zhang (2008), Rajab and Handley-Schachler (2009); Love (2011); Lee et al. (2013); Claessens and Yurtoglu (2013) argued that good corporate governance improved firm profitability and value, reduced agency costs and financial distress risks, built trust in investors and stakeholders, lowered capital costs, and minimized asymmetric information.

Researches on the influence of corporate governance on firm profitability and value have been done by previous researchers, but there are still differences in findings. For example Ratih (2011) stated that corporate governance had no effect on return on assets (ROA), however Sayidah (2007), Isnanta (2008) stated that corporate governance gave positive effect to ROA. Durnev and Kim (2005) used CLSA survey data where the results of his research showed that corporate governance had a positive effect on firm value. Steen (2005) proved that ownership, board and stakeholder structure affected firm value. Black et al. (2006) examined the implications of corporate governance quality in South Korea under the market value of the company using ordinary least squares, two-stage least squares (2SLS) and three-2SLS (3SLS). The results concluded that corporate governance quality had an impact on the value of 525 companies in South Korea. Siallagan and Machfoedz (2006) indicated that corporate governance affected the value of the company. Da Silveira et al. (2009) used a panel of 823 corporate observations in Brazil and the results of the study proved that the governance quality of firm value measured with Tobin's Q had a positive effect. Chien (2014) proved that board size had a positive effect on firm value. Sayla (2013) examined the relationship between corporate governance as measured by anti-takeover provisions with firm value using meta-analysis. The results of his research indicated that corporate governance and market value of firm performance measured by Tobin's Q and market to book value are key moderators of this relationship. Che Haat et al. (2008) showed different research results where corporate governance as measured by the independence of the board of commissioners, cross-directorship of the board, managerial ownership had no significant and negative correlation to firm value. The same research was done by Sulaiman, M.K.H. (2014) who examined the impact of corporate governance of the company in the UK on firm value. The results showed that there was no influence of corporate governance on firm value. Amrinder (2017) conducted a study to see the role of corporate governance in the form of audit committee independence against firm value. The results showed that there was a negative relationship between the audit committee independence against firm value. Nguyen et al. (2016) proved that board size had little effect on firm value.

Previous research has focused more on the direct influence of corporate governance on profitability and firm value, but few researchers used traditional accounting measured by ROA and economic value added as a mediation between corporate governance to firm value. This present research tries to fill the previous research gap by using mediation not only traditional accounting measured by ROA but also economic value added which has never been done by previous researchers. The usage of traditional accounting i.e., ROA and economic value added as a mediation to the relation between corporate governance and firm value because investors sometimes decide to buy or sell firms' stocks based on the information not only from corporate governance practice but also traditional accounting i.e., ROA and economic value added. The interesting thing is that corporate governance will be able to influence traditional accounting i.e., ROA and economic value added of the firm. In addition, traditional accounting and economic value added were employed in this research because both of these approaches have difference in determining profitability of company. Traditional accounting approach only pay attention to cost of debt without considering cost of equity while economic value added considers both cost of debt and cost of equity (Stewart, 1991) and (Stern, 1993). If economic value added of the firm is positive means that the company has been able to create value and thus the company is able to gain profit beyond the cost of debt or cost of equity of the company. The use of these two different mediation variables will add to the results of a literature review.

This research attempts to explore the phenomena of corporate governance of Indonesian state-owned enterprises which have become a concern lately. Firstly, conflicts of interest are often indicated between the management and the majority shareholders and other stakeholders. The managers of the companies that are actually government persons involved in a political party or persons who are an extension of the Indonesian government. Secondly, firm value of Indonesian state-owned enterprises declined from 2012 to 2016. Thirdly, according to Indonesian Corruption Watch that the acts of corruption and financial manipulation are very large in the Indonesian state-owned enterprises (Irawan, 2012). Fourthly, based on information released by the minister of state-owned enterprises that 13 Indonesian state-owned companies suffered losses in 2017. Looking at these phenomena, it would be necessary to conduct further studies to see how the direct and indirect effect of corporate governance on firm value with the mediation of traditional accounting measured by ROA and economic value added at Indonesian state-owned enterprises from 2012 to 2016 which have not been conducted by the previous researchers.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Conflicts of interest between management and the owner of the company is indicated as the trigger for the emergence of agency problems. Agency theory (Jensen and Meckling, 1976) has explained the cause of a conflict of interest between management and the owners. According to this theory, ownership and control splits generated asymmetric information between shareholders and managers. Asymmetric information will lead to moral hazard that can increase agency cost. Agency cost illustrates the risks arising from the personal interest of managers to engage in activities that can increase uncertainty of future cash flows (Jensen, 1986). Agency problems can be minimized with corporate governance because it is able to monitor and supervise managers to act on the interests of shareholders. Luo and Salterio (2014), Nuswandari (2009), Rajab and Handley-Schachler (2009), Love (2011) stated that firm was able to operate efficiently and increased firm value if the firm had good corporate governance. Stewardship theory states that human beings are essentially trustworthy, capable of acting with full responsibility, having integrity and honesty towards others. This is what is implied in the fiduciary relationships desired by shareholders. In other words, stewardship theory views managers as trustworthy parties to act best for shareholders and stakeholder interests.

Some previous researchers supported that corporate governance can increase firm value. Braga-Alves and Shastri (2011) undertook the construction of composite index (NM6) by combining six proxies of corporate governance practice. The results showed that the higher the score of the governance index the higher the firm value. The results of Suhartati et al. (2011) suggested that corporate governance as measured by the number of independent commissioners had a positive effect on the value of the company. Daniel (2014) examined the impact of corporate governance on corporate value. This research applied dynamic multiple linear regression models, which were calculated based on generalized method of moments (System GMM) system. The results proved that corporate governance had a positive impact on corporate value. Rakesh (2017), examined the relationship between corporate governance variables consisting of boards of directors and ownership structures of firm value with Tobin's Q and ROA on the National Stock Exchange. The results showed that the corporate governance variables gave more influence on firm value measured by Tobin's Q compared with accounting performance as measured by ROA. Ammann et al. (2011) examined comprehensively the effect of corporate governance on firm value on 6663 companies in 22 developed countries from 2004 to 2007 using 66 governance attributes. The results show that there is a strong correlation between corporate governance on firm value. Similar results were conducted by (Hu et al., 2010) on firms in China where the results of their research indicated a close and close relationship between corporate governance and firm value. Lei and Song (2012) and Black and Kim (2012) tested the influence of corporate governance attributes in the form of audit committee and independent directors on firm value. The research results proved that audit committee and independent directors contributed positively on firm value. Based on the theory and empirical study, the hypothesis of this study is:

H_1: Corporate governance of Indonesian state-owned enterprises has a direct effect on firm value.

Agency theory has described the relationship between manager (agent) and the shareholders (Jensen and Meckling, 1976). Problems will occur if the shareholders did not know what the manager had done. Separation of management and ownership of this company can lead to asymmetric information and conflicts of interest between managers and owners (agency problem). The agency problem can be divided into two categories. First, adverse selection occurs when a manager fails to provide his or her abilities. Second, moral hazard and it takes place when the manager neglects responsibility or acts for his or her own interests or against the interests of shareholders. If agency problem is unable to be controlled then it will cause agency cost and finally gives impact on firm profitability. Corporate governance is needed to overcome this condition. Managers cannot act on their own interests if the company has a corporate governance mechanism. The purpose of corporate governance mechanism is to reduce agency costs arising from asymmetric information so that the company can achieve high profitability with the approach of economic value added and traditional accounting as measured by ROA. Companies that implement good corporate governance mechanisms can operate efficiently and ultimately increase profitability (Nuswandari, 2009). Previous research supported that corporate governance can give effect to profitability of the firm with the approach of economic value added and traditional accounting. Adeusi et al. (2013) proved that corporate governance has a positive effect on profitability measured by ROAs. Maryanti and Tjahjadi (2013) concluded that corporate governance affects the profitability of the company.

The increasing or decreasing of firm value was clearly explained in signaling theory. It states that investors will act to buy or sell shares of a company according to the company's fundamental information (Brealey et al., 2009). If the company gives bad news then the investor will make a sale of the shares of the company and *vice versa*. Traditional accounting i.e., ROA, return on equity, return on investment, net profit margin and economic value added approach are the fundamental information of firm. If company can give high profitability level, the investors will purchase the shares of the company and increases firm value.

Previous research supported that traditional accounting i.e., ROA, return on equity, return on investment, net profit margin and economic value added gave an effect to firm value. Martini et al. (2014) stated that there was a positive relationship between profitability and firm value. Ayuningtias (2013) also concluded that profitability had a significant positive effect on firm value, Irala (2007) examined whether economic value added had a better predictor compared with traditional accounting such as earnings per share, return on equity in 1000 sample companies. The results showed that economic value added was better in predicting firm value than traditional accounting approach. Satish and Sharma (2011), examined the effect of financial performance with traditional accounting and economic value added approach. The result indicated that economic value added and traditional accounting gave positive influence on firm value, but economic value added gave more contribution to firm value than traditional accounting. Lehn and Makhija (1997) examined the relationship of six indicators of financial performance to stock returns. The results showed that economic value added was very effective in measuring the performance. Misra and Kanwal (2007) research suggested that traditional accounting had a weakness in measuring company performance because it was vulnerable to accounting distortions. The results proved that economic value added was most significant in explaining firm value compared with performance measurement based on accounting measurement. Although many researchers supported economic value added was more superior than traditional accounting but some researchers rejected it. Ali (2008); Lee and Kim (2009) did not support that economic value added was more superior than traditional accounting in measuring the company's financial performance. Apart from those differences, the measurement of financial performance with the economic value added approach is still used in the financial management literature and practice. Based on the theoretical and empirical studies above, the hypotheses of this study are:

H_2: The relationship between corporate governance and firm value of Indonesian state-owned enterprises is mediated by return on investment.
H_3: The relationship between corporate governance and firm value of Indonesian state-owned enterprises is mediated by economic value added.

3. DATA AND METHODOLOGY

Secondary data consisting of corporate governance attributes, ROA, economic value added and firm value derived from annual financial statements of Indonesian State-Owned Enterprises and official website of Indonesia Stock Exchange from 2012 to 2016 were employed in this study. The population in this study are 19 firms of Indonesian State-Owned Enterprises at Indonesian stock exchange from 2012 to 2016. Census sampling method was used in this research.

The corporate governance is a set of relationships between the management, shareholders of the company and other stakeholders (KNKG, 2006). This study only adopted five from seven corporate governance attributes from Credit Lyonnais Securities Asia (CLSA) (2001). The corporate governance attributes employed are transparency (10 items) accountability (8 items) responsibility, (6 items) independency (8 items) and fairness (10 items). Measurement of corporate governance use the corporate governance index that refers to research conducted by Hamid and Mostafa (2014). The identification of items of any attributes of corporate governance is derived from the annual financial statements of Indonesian State-Owned Enterprises from 2012 to 2016 and other relevant reports. If the company provides information publicly on items of any attributes of corporate governance, then it is given a score of 1, whereas if it does not provide information openly on the items of each attributes of corporate governance, it will be given a score of 0. The corporate governance index is calculated by sum up the results of all scores of the items of the corporate governance attributes and then it was divided with total of the 42 items of corporate governance score.

Firm value is a measure of the company's management success in past operations and future prospects to convince shareholders. The firm value can be measured by price to book value, which is the ratio between stock price and book value per share (Brigham and Gapenski, 2006. p. 631). The firm value can provide maximum shareholder benefits if the company's stock price increases. The higher the stock price, the higher shareholder wealth. Company value is expressed in the following equation:
PBV = Share price/book value/share

ROA is used to measure the effectiveness of the company in generating profits by utilizing its assets (Brealey et al., 2009). Profitability is measured by comparing earnings after tax with total assets.

Return on asset = Earnings after tax/Total asset

According to Stewart (1991), Stern (1993) economic value added is an approach in calculating the financial performance of profit by considering all the cost of capital of the company, both cost of debt and cost of equity. The measurement of economic value added (EVA) through several steps:
First: The calculation of NOPAT (net operating after tax)

Formula: NOPAT = Profit (loss) on business - tax

Second: The calculation of invested capital

Formula: Invested capital = (Total Debt + equity) – Short-term debt

Third: The calculation of WACC (Weighted Average Cost Of Capital)

Formula: WACC = [(D × rd) (1-tax) + (E x re)]

D = Portion of debt E = Portion of equity

rd = cost of debt re = cost of equity

Fourth: The calculation of capital-charges

Formula: Capital charges = WACC × invested capital

Fifth: The calculation of economic-value-added (EVA)

Formula: EVA = NOPAT - Capital charges

Technique analysis used is path analysis to know mediation effect. This research uses 2 models. Model 1 looks at the direct and indirect effects of corporate governance on firm value with the mediation of ROAs. Model 2 looks at the direct and indirect effects of corporate governance on firm value with the mediation of economic value added. The research method used is Causal Step method.

Research Model I:

The structural equation 1: $M = \alpha_1 + \beta_1 X + \varepsilon_1$

The structural equation 2: $Y = \alpha_2 + \beta_2 X + \beta_3 M + \varepsilon_2$

Research Model 2:

The structural equation 1: $Z = \alpha_3 + \beta_4 X + \varepsilon_3$

The structural equation 2: $Y = \alpha_4 + \beta_5 X + \beta_6 Z + \varepsilon_4$

Description: Y = Firm Value

M = Traditional accounting i.e., return on asset

Z = Economic value added

X = Corporate Governance

B_1, β_2, β_3, β_4, B_5, β_6 = Coefficients

$\alpha_1, \alpha_2, \alpha_3\ \alpha_4$ = Constants

$\varepsilon_1\ \varepsilon_2, \varepsilon_3, \varepsilon_4$ = Residual error

Classical assumption consisting of multicollinearity, heteroskedasticity and autocorrelation are applied before doing multiple linear regression analysis.

4. RESEARCH FINDINGS AND DISCUSSION

Based on the result of classical test, Model 1 and Model 2 are free from the case of multicollinearity, heteroskedasticity and autocorrelation. The regression result of Equation 1 of Model 1 on Table 1 shows that corporate governance does not effect return and asset. Table 2 shows the regression result of Equation 2 of Model 1. It proves that corporate governance significantly effects directly on firm value so the Hypothesis 1 is accepted.

Based on the criteria of mediation effect which states that mediation effect takes place if the value of coefficient of the relationship between corporate governance on firm value is smaller than the coefficient value of multiplication between the coefficient of corporate governance on ROA to the coefficient of ROA on firm value. The regression results of Equation 1 and Equation 2 of Model 1 mention that the coefficient of direct effect of corporate governance on firm value is greater than the coefficient of indirect effect of corporate governance on firm value with the mediation of ROA. The result proves that the Hypothesis 2 is rejected. Figure 1 illustrates direct and indirect effect of corporate governance on firm value with the mediation of ROAs. The coefficient value of direct effect of corporate governance on firm value is 0.085 while the coefficient value of indirect effect of corporate governance on firm value with the mediation of ROA is 0.00765 (0.043 × 0.178). Because the coefficient value of direct effect is higher than the coefficient value of indirect effect, ROA does not mediate the relationship between corporate governance on firm value of Indonesian state-owned enterprises at Indonesian stock exchange in 2012-2016.

The result regression of Equation 1 on Model 2 is shown on Table 3. It indicates that the corporate governance does not affect the economic value added. The result of equation 1 of Model 2 on Table 4 shows that corporate governance significantly effects directly on firm value so the Hypothesis 1 is accepted.

Table 4 also shows the regression result of Equation 2 on Model 2. The result proves that the coefficient of direct effect of corporate governance on firm value is greater than the coefficient of indirect effect of corporate governance on firm value with the mediation of economic value added so the Hypothesis 3 is rejected. Figure 2 illustrates direct and indirect effect of corporate governance on firm value with the mediation of economic value added. The coefficient value of direct effect of corporate governance on firm value is 0.094 while the coefficient value of indirect effect of corporate governance on firm value with the mediation of economic value added is - 0.00185 (0.010 × (−0.185). Because the coefficient value of direct effect is higher than the coefficient value of indirect effect, economic value added does not mediate the relationship between corporate governance on firm value of Indonesian state-owned enterprises at Indonesian stock exchange in 2012-2016.

The results of this study indicate that corporate governance of Indonesian state-owned enterprises at Indonesia stock exchanges in 2012-2016 provides confidence to investors which relates to the principle of corporate governance (i.e., transparency, accountability, responsibility, independency and fairness). This condition provides a positive signal to investors that ultimately encourage investors to act toward the positive price of the company's stock. Investors do not perceive the conflict of interest of the company's management although it is argued that Indonesian state-owned enterprises are more susceptible to external interventions that would offset corporate governance mechanisms. Investors are responding positively to the implementation of corporate governance mechanisms although there is still a poor perception of the implementation of corporate governance mechanisms of Indonesian state-owned enterprises due to the frequent power and intervention of political party forces. This condition is reinforced by a fairly high corporate governance index mechanism of Indonesian state-owned enterprises with an

Figure 1: Direct and indirect effect of corporate governance on firm value with the mediation of ROAs

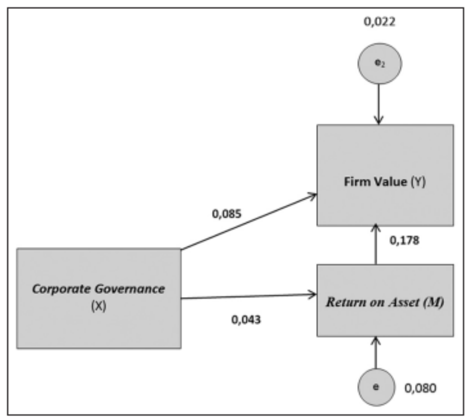

Figure 2: Direct and indirect effect of corporate governance on firm value with the mediation of economic value added

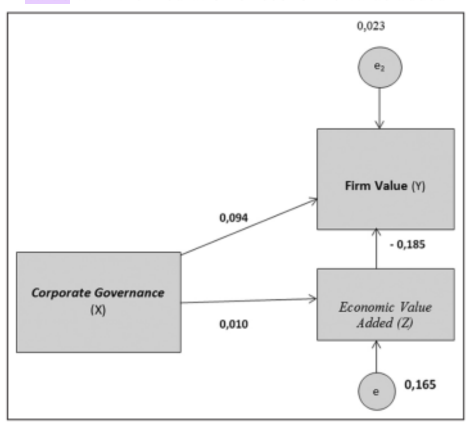

Table 1: Summary statistics of corporate governance on ROA regression result

Coefficients[a]					
Model	Unstandardized coefficients		Standardized coefficients	t	Significant
	B	Standard error	Beta		
1					
(Constant)	−0.877	2.498		−0.351	0.726
GCG	0.043	0.029	0.153	1.496	0.138

[a]Dependent variable: ROA. ROA: Return on asset

Table 2: Summary statistics of corporate governance and ROA to firm value regression result

Coefficients[a]					
Model	Unstandardized coefficients		Standardized coefficients	t	Significant
	B	Standard error	Beta		
1					
(Constant)	−5.646	1.928		−2.929	0.004
GCG	0.085	0.022	0.358	3.777	0.000
ROA	0.178	0.080	0.210	2.224	0.029

[a]Dependent variable: PBV. ROA: Return on asset

Table 3: Summary statistics of corporate governance on firm value regression result

Coefficients[a]					
Model	Unstandardized coefficients		Standardized coefficients	t	Significant
	B	Standard error	Beta		
1					
(Constant)	4.996	1.234		4.048	0.000
GCG	0.010	0.014	0.073	0.701	0.485

[a]Dependent variable: EVA

Table 4: Summary statistics of corporate governance and ROA to firm value regression result

Coefficients[a]					
Model	Unstandardized coefficients		Standardized coefficients	t	Significant
	B	Standard error	Beta		
1					
(Constant)	−4.877	2.130		−2.289	0.024
GCG	0.094	0.023	0.398	4.158	0.000
EVA	−0.185	0.165	−0.107	−1.122	0.265

[a]Dependent variable: PBV. ROA: Return on asset

average index of 86.92%. The high value of the index reflects the high effort of the company to meet the corporate governance mechanism criteria. The research Hypothesis 1 which states that corporate governance mechanisms affect the firm value of Indonesian state-owned enterprises at Indonesian stock exchange is accepted.

The results support the signaling theory that states that investors will give a positive response if they get good news from the company concerned. On the other hand, this study responds that agency problems are not indicated to occur in Indonesian state-owned enterprises of the period 2012-2016 as evidenced by the positive influence of corporate governance on firm value. The results of research support the results of research conducted by Rajab and Handley-Schachler (2009), Love (2011) which states if corporate governance is good then the company can operate efficiently which in turn give positive effect to firm value. Nevertheless, the results of this study contradict Che Haat et al. (2008) which say that corporate governance measured by the independence of the board of commissioners, cross-directorship of the board, managerial ownership have no significant effect and negatively correlated to firm value. The same is done by Sulaiman (2014) who examines the impact of corporate governance of the company in the UK on the value of the firm.

The fundamental factor of the company should be the attention of the managers especially relates to the profitability because corporate governance of Indonesian state-owned enterprises of the period 2012-2016 did not effect to ROAs. This result gives an indication that the role of corporate governance is not optimal even though the corporate governance index is quite high. In several principles of corporate governance mechanisms related to transparency include disclosure of financial targets such as ROAs and return on equity has not been done by the company. This is quite important because by setting the target ROA and return on equity, then the management has a clear goal in operating the company. Another aspect of corporate governance must be an attention of managers is a policy of optimal capital structure. If the company can find the optimal capital structure policy then the company can operate efficiently in the use of funds which finally will increase corporate profits. This study did not support the results of previous research done by Isnanta (2008), Sami (2011) which stated that corporate governance gave a positive effect on profitability, however the results of this study were in line with the research result of Sayidah (2007) which concluded that there was no influence of corporate governance on firm profitability.

The results of the research also shows that corporate governance has a direct effect on firm value, It means that investors are responding positively to the implementation of corporate governance at Indonesian state-owned enterprises although there is an indication that intervention of political party to Indonesian state-owned enterprises is very strong.

The role of mediation ROA on the relationship between corporate governance mechanism on the firm value of Indonesian state-owned enterprises at Indonesian stock exchange.does not occur because the coefficient of direct influence is greater than the coefficient of indirect effect through ROAs. Based on the results of this study, Hypothesis 2 which states that the ROA is mediate corporate governance mechanism on the firm value of Indonesian state-owned enterprises at Indonesian stock exchange period 2012-2016 is rejected. ROAs that are not mediated on the relationship between corporate governance mechanisms against corporate value does not occur because corporate governance mechanisms are still not optimal in relation to company operations. Efficiency should be of concern in relation to improve the role of corporate governance mechanisms in increasing ROAs significantly. Nevertheless, although ROAs does not mediate corporate governance mechanisms against corporate value, traditional accounting approaches in the form of ROAs provide a positive and significant effect on firm value. Investors are still considering the traditional accounting approach of ROAs in making purchasing decisions of shares of Indonesian state-owned companies at Indonesian stock exchange for the period 2012-2016. According to signaling theory, the positive effect of ROA on firm value is a signal that investors think that the ROAs generated by the company is significant enough to provide an increase in profits for investors.

Measuring the company's financial performance with the approach of economic value added assumes that the company in determining the cost of capital not only considers the cost of debt capital but also the cost of equity. Much debate remains about the superiority of the traditional accounting approach of ROAs with an economic value added approach in the measurement of financial performance. This study looks at the role of corporate governance in influencing financial performance with the approach of economic value added. The results prove that the corporate governance does not affect the economic value added of state-owned enterprises at Indonesian stock exchange period 2012-2016.

Implementation of corporate governance mechanism that does not have an impact on economic value added can be caused by economic value added not yet considered by company management. Another factor of management is more familiar using the traditional accounting approach in the form of ROAs in measuring financial performance compared with the approach of economic value added is relatively more complex. Many of companies in Indonesia apply pecking order theory approach to meet the funding. According to this theory that the company firstly gets funding through internal company that is earnings, then debt and the last new equity. This condition encourages companies to consider the cost of debt because the firm debt is higher than firm equity in meeting their company's funding. On average, the composition of debt of Indonesian state-owned enterprises at Indonesian stock exchanges for the period 2012-2016 is 85% debt and: 15% equity. This condition can cause the role of corporate governance mechanism does not consider the approach of economic value added. The results of this study is contrary to research conducted by Sayidah (2007).

The Hypothesis 3 which states that corporate governance mechanism gives an indirect effect to the firm value with the mediation of economic value added is rejected. In other words, economic value added does not mediate the corporate governance on firm value of Indonesian state-owned enterprises at Indonesian stock exchange. These results of this study can provide an indication that investors are less consider the cost of equity capital in determining the decision to buy or sell shares of the company so that the economic value added approach does not have an impact on the decision of investors in buying or selling shares of Indonesian state-owned enterprises at Indonesian stock exchange Indonesia period 2012-2016. This condition illustrates that the purchase or sale of shares that can increase and decrease the value of the firm is not caused by the economic value added of the firm.

Another thing that causes economic value added does not mediate the corporate governance mechanism to firm value of Indonesian state-owned enterprises is that investors assume that the cost of equity capital has been covered on dividends paid by the firm and capital gains. In addition, investors will also have difficulty in doing the calculation of economic value. Management of companies is still unable to provide information so that it can complicate investors in getting information relating to economic value added of the firm.

5. CONCLUSIONS AND IMPLICATIONS

Using a sample of 19 Indonesian state-owned enterprises at Indonesian stock exchange from 2012 to 2016, this research objective is to know whether economic value added and traditional accounting (i.e., ROA) have direct and indirect effects to the relationship between corporate governance mechanism and firm value of Indonesian state owned enterprises The following conclusions and policy recommendations may be summarized as follows:

- Corporate governance mechanism directly affects firm value of Indonesian state-owned enterprises at Indonesian stock exchanges for the period 2012-2016. This condition illustrates that investors judge that corporate governance mechanism at Indonesian state owned is good so that it encourage investors to buy shares of the company so that increase firm value However, corporate management should improve further in the application of attributes on the implementation of corporate governance mechanism so that it is expected to have a higher positive impact on firm value of Indonesian state-owned enterprises in the future.

- Corporate governance mechanisms have no effect on economic value added and traditional accounting (i.e., ROAs) in Indonesian state-owned enterprises at Indonesia stock exchanges for the period 2012-2016. These results indicate the need for development of corporate governance mechanisms of the company. Company management should pay attention to the cost structure not only the cost of debt capital but also the cost of equity capital in the company's funding. that may have an impact on the economic value added and traditional accounting (i.e., ROAs) of Indonesian state-owned enterprises. In addition, the implementation of such practices should be further controlled by the management and shareholders of the firm.
- Economic value added and traditional accounting i.e., ROAs do not mediate corporate governance mechanisms on the value of companies in Indonesian state-owned enterprises at Indonesia stock exchange period 2012-2016. This result gives an indication that the role of corporate governance mechanism is not optimal yet corporate governance index value is quite high. Companies should increase commitment to boost corporate profitability through disclosure of financial targets such as ROAs in corporate governance mechanisms. Company management should provide economic value added report so that investor can use the information in making decision to buy or sell stocks of the firm.

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