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Analysis of Financial Health and Company Performance: a Comparative Study between Foreign and Non-Foreign Ownership Structures

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ABSTRACT : The company's performance reflects the company's productivity and ability to generate profits based on the management of its assets. The existence of an assessment of the company's financial health to predict the bankruptcy of the company can affect the company's performance in the future. The purpose of this study was to determine the effect of the company's financial health on company performance between companies with foreign and non-foreign ownership structures listed on the Indonesia Stock Exchange in 2018-2019. The number of samples taken was 131 companies using the purposive sampling method. Data collection was carried out by non-participant observation method and analyzed using simple linear regression. Based on the analysis, the financial health of companies with foreign ownership structures has a positive effect on company performance and companies with non-foreign ownership structures have the same effect. This shows that both companies with foreign ownership structures and non-foreign ownership have no different effects.

KEYWORDS: *financial health, company performance, Altman Z-Score*

I. INTRODUCTION

The state of the economy in Indonesia has increasingly developed since the initiation of the ASEAN Economic Community (AEC), which has led to wider access to corporate marketing opportunities with the presence of free markets (Muflihah, 2017). Indonesia is also one of the pioneer and founder countries of the ASEAN Free Trade Area (AFTA). The purpose of establishing AFTA is to form a free trade area to increase the competitiveness of regional economies by making ASEAN a world production base, attracting more foreign direct investment (FDI), and increasing trade between ASEAN member countries (intra- ASEAN Trade). These developments require companies to always make improvements in the assessment of financial conditions to increase the efficiency and effectiveness of the company to obtain optimal profits.

In carrying out its operational activities, a company is very vulnerable to opportunities for financial distress if the company is unable to maintain its performance. When financial distress cannot be overcome by the company, the company has a greater chance of going bankrupt(Laitinen & Suvas, 2016). Therefore, the company's ability to predict its financial condition in the future is also needed to minimize the risk of bankruptcy from the company (Muhani & Yuliantini, 2019). In addition, efforts in the sustainability of a company also depend on its financial health. The level of the financial health of the company is important for companies to increase efficiency in running their business so that the ability to earn profits can be increased and to avoid potential bankruptcies(Manuel et al., 2016).

The financial health of a company tends to be associated with an assessment of the possibility of financial distress in a company. Financial distress is a condition in which a company experiences financial difficulties or liquidation that must be faced before bankruptcy occurs(Mselmi et al., 2017). Financial distress is defined as a company's inability to meet its current financial obligations (Oz & Yelkenci, 2017). The Altman Z-Score modification method is the most accurate method for analyzing financial distress in bad or good economic conditions (Nirmalasari, 2018). The company's performance reflects the company's productivity and ability to generate profits based on the management of its assets. Company performance is measured by financial ratios that are analyzed through the company's financial statements. The existence of an analysis of the company's financial statements is an effective tool in assessing information related to the company's financial position and future strategies that will be carried out based on that information. Financial analysis is a tool that can help management to make decisions and plan and control them (Kim-soon et al., 2020). When a company has information about future financial stability, a company can adopt a financial decision approach and can be used as a reference in market competition (Kliestik et al., 2020). The ability of a company to be able to compete is largely determined by the company's performance itself. This is because measuring company performance through financial ratios can provide an overview of the company's prospects (Agustini & Wirawati, 2019). The company's performance can not only be affected by the company's control, but also by the composition of the majority of non-controlling shareholders.

One of the benchmarks that can be used to determine the status of the company is the company's ownership structure which can be divided into two, namely foreign and non-foreign ownership. A company with a foreign ownership structure is a company where most of its shares are owned by foreign investors, while a company with a non-foreign ownership structure is a company where most of its shares are owned by domestic investors. The ownership structure is believed to have the ability to influence the sustainability of the company and affect company performance (Nilayanti & Suaryana, 2019). In addition, majority ownership by foreign companies plays an important role in monitoring and influencing management to work in the right way to increase the company's wealth (Yudadibrata & Soenarno, 2016). Generally, majority shareholders often use their power of control for their interests without prioritizing minority shareholders (Zhou et al., 2020)

II. HYPHOTHESIS DEVELOPMENT

The theory that underlies this research is agency theory, which is a theory that explains the difference in interests or conflicts of interest between the manager (agent) and the shareholder (principal). The existence of these differences can lead to information asymmetry in which one party has more information than the other party. In addition, another problem that can arise is moral hazard which describes a situation where information asymmetry will increase the incentives of one party to take undue risks. The occurrence of this moral hazard can hinder the efficiency of the company's operations as a whole

The existence of separate ownership based on status or ownership structure allows for agency conflicts between managers and shareholders. Company policies reflect decisions made by shareholders, managers, and potential shareholders. The majority shareholder has the right to control and monitor the company's operations. The majority shareholder also has the power to pressure management to improve company performance. Large and concentrated investors have large economic incentives as well as influence and power to maximize company performance (Juanda, 2018). In this study, the share ownership structure is divided into two, namely foreign and non-foreign ownership. The existence of an assessment of the company's financial health in predicting bankruptcy in the company is very important for the sustainability of the company. Company performance is a measure of the level of success of management in managing the company's financial resources, especially in investment management as an effort to create value for shareholders (Pithaloka & Irwanto, 2016). This research is in the form of observations on the financial health of the company to predict bankruptcy which will affect the company's performance in the future. This study examines the company's financial health variable where relatively few previous studies have linked the company's financial health with company performance.

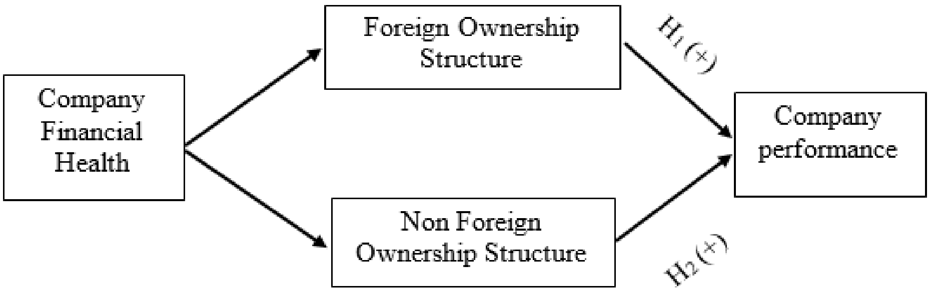

Fig. 1 Conceptual framework

The Altman Z-score modification method is the most accurate in analyzing financial distress when the economy is bad or good (Nirmalasari, 2018). The Altman Z-score modification method has a high level of accuracy so that the observations obtained can describe the actual situation. The existence of an analysis of the company's financial health is useful for anticipating the risk of bankruptcy that occurs in the future. The state of the company's financial health will also affect the performance of the company. The company's performance reflects the overall situation related to the company's development and the results or achievements resulting from the company's operational activities in utilizing its resources. The existence of company performance measurement is very important for the sustainability of the company. Pathak & Foo (2016) found that there is a statistically positive relationship between company performance as measured by the Return on Equity (ROE) ratio and financial health as measured by the Altman Z-Score(Babatunde et al., 2017)

H1: The financial health of companies with foreign ownership structures has a positive effect on company performance

Foreign ownership has a positive effect on company performance, with the increasing number of foreign parties investing their share capital in the company, it will improve the performance of the companies whose shares are invested, there are differences in ROA and there are no differences in NPM and ROE in companies with foreign and non-foreign ownership structures (Ulfiyati et al., 2017).

H2: The financial health of companies with non-foreign ownership structures has a positive effect on company performance.

III. RESEARCH METHODS

3.1 Research Design

This study uses a quantitative approach with the form of associative research with the type of causality which aims to examine and explain the effect of financial health as measured by the Altman Z-Score on company performance as measured by the Return on Equity (ROE) ratio between companies with foreign and non-foreign ownership structures. This research was conducted at companies listed on the Indonesia Stock Exchange (IDX) in 2018-2019. The population in this study are all companies listed on the Indonesia Stock Exchange in 2018-2019, amounting to 663 companies. The sampling method is non-probability sampling with purposive sampling. Then 131 companies were obtained as research samples with an observation period of two years, namely 2018-2019 so that the number of observations obtained was 262. The data collection method used in this study was the non-participant observation method. The data analysis technique used in this research is linear regression analysis.

3.2 Operational definition of the variable

3.2.1 Company Performance

The company's performance describes the overall state of the company's development during a certain period of time as well as the results or achievements resulting from the company's operational activities in utilizing its resources. In this study, company performance is measured by the profitability ratio, which is the ratio used to measure the company's ability to generate profits (profitability) which include sales, assets, and certain share capital. In calculating the profitability ratio using Return on Net Worth or Return on Equity. Return on Net Worth or Return on Equity Ratio, which is a ratio used to measure the rate of return on its own capital or measure the company's ability to generate profits based on certain share capital. This ratio is a measure of the level of profit from the shareholder's point of view.

Return on Equity = (Net income) / (Own capital) × 100

3.2.2 Company Financial Health

The financial health of the company is an important thing to observe considering that the company's activities are very dependent on the company's financial condition. The existence of an assessment of the company's financial health can be a consideration for managers in making decisions in the future. In this study, the Altman Z-Score method is used to measure the company's financial health. The Altman Z-Score model is generally used in analyzing companies experiencing financial distress so that it can be seen if the company is experiencing or is likely to experience financial difficulties. The Altman Z-Score equation model (Altman et al., 2017)which is applied is as follows:

Z" = 3,25 + 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4

X_1 = Working Capital / Total Assets

X_2 = Retained Earning / Total Assets

X_3 = Earning Before Interest & Tax (EBIT) / Total Assets

X_4 = Market Capitalisation / Total Liabilities

X_5 = Sales / Total Assets

IV. RESULTS AND DISCUSSION

Testing data in this study using simple linear regression analysis techniques. Simple linear regression analysis is used to determine the direction and magnitude of the influence of the company's financial health as measured by the Altman Z-Score method on company performance as measured by Return on Equity (ROE) between companies with foreign and non-foreign ownership structures listed on the Indonesia Stock Exchange. years 2018-2019. The results of simple linear regression in this study can be seen in Table 1

Table 1. Results of Simple Linear Regression Analysis

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,013	0,021		-0,594	0,555
Financial Health of Foreign Ownership Structure	0,008	0,003	0,389	2,804	0,007
R Square : 0,152					
(Constant)	0,005	0,012		0,410	0,682
Financial Health of Non-Foreign Ownership Structure	0,007	0,001	0,326	5,046	0,000
R Square : 0,106					

Companies with foreign ownership structures have a lower constant value, namely -0.013 than companies with non-foreign ownership structures, namely 0.005 so that if the independent variable (company financial health) does not have a constant contribution to the dependent variable (company performance), then the company performance value (Y) in companies with non-foreign ownership structure is greater than companies with the foreign ownership structure. In addition, companies with foreign and non-foreign ownership structures have a positive regression coefficient value, but the regression coefficient value for companies with non-foreign ownership structures is lower by 0.007 than companies with foreign ownership structures of 0.008 so that if there is an increase in the company's financial health (X) by 1%, the increase in company performance (Y) in companies with foreign ownership is greater than companies with non-foreign ownership structures.

The coefficient of determination (R Square) obtained is 0.152 or 15.2% and implies that the influence of the independent variable (company financial health) on the dependent variable (company performance) is 0.152 or 15.2% for companies that have foreign ownership structures, while the remaining 0.848 or 84.8% is explained by other factors that are not included in the model or are not used in this study. The coefficient of determination (R Square) obtained is 0.106 or 10.6% and implies that the influence of the independent variable (company's financial health) on the dependent variable (company performance) is 0.106 or 10.6% for companies that have non-ownership structures. foreign, while the remaining 0.894 or 89.4% is explained by other factors that are not included in the model or are not used in this study.

The Effect of the Financial Health of the Company with Foreign Ownership Structure on Company Performance

Based on the research results, the Sig. t is 0.007 with a beta coefficient value of 0.008 so that the Sig. t of 0.007 means that the significant value of the financial health of companies with foreign ownership structures is lower than the significant level of 0.05, so it can be concluded that the financial health of companies with foreign ownership structures has a statistically significant positive effect on company performance. This is because the sustainability of a company and its efforts to improve company performance depend on the company's financial health condition. Based on agency theory, information asymmetry occurs due to differences in the information held by the manager (agent) and shareholders (principal) due to a conflict of interest between the two parties(Bendickson et al., 2016). Managers (agents) tend to want to get high incentives by conveying insufficient information to shareholders (principals) while shareholders (principals) who tend to want companies to earn high profits so that they can get high dividends to cause obstacles to information transparency among both parties. a situation where information asymmetry would increase the incentives of one party to take undue risks. The existence of obstacles to the transparency of information triggers moral hazard which can hinder the efficiency of the company's operations as a whole (Parker et al., 2018)

The results of this study support the agency theory which states that there is a majority shareholder (principal) who can suppress or limit the power of the manager (agent) who can be opportunistic and prioritize their own interests so that the company can maximize its efforts in improving company performance. In this case, the majority shareholder is foreign ownership or is not an Indonesian citizen. An assessment of the possibility of company bankruptcy based on the financial health of the company will provide an overview of the company regarding the status or condition of the company's financial management which can be used as a reference for information to improve or improve the company's health in maintaining the sustainability of the company(Brîndescu-olariu, 2016). Companies that have good financial health will be able to improve the company's performance because the company has been able to manage their finances to the maximum so that the higher the company's financial health value, the higher the company's performance, while the lower the company's financial health, the lower the company's performance(Foo & Pathak, 2019).

The Effect of Financial Health of Companies with Non-Foreign Ownership Structure on Company Performance

Based on the research results, the Sig. t is 0.000 with a beta coefficient value of 0.007 so that the Sig. t of 0.000 means that the significant value of the financial health of companies with non-foreign ownership structures is lower than the real level of 0.05, so it can be concluded that the financial health of companies with non-foreign ownership structures has a statistically significant positive effect on company performance. The higher the value of the company's financial health, the higher the company's performance, while the lower the company's financial health, the lower the company's performance, in this case the status or structure of share ownership, namely the structure of non-foreign ownership. The financial difficulties experienced by companies listed on the Indonesia Stock Exchange cannot be separated from the influence of the share ownership structure because share ownership will help unify interests between managers and shareholders(Saini, 2018). The existence of information asymmetry that can occur between the manager (agent) and shareholders (principal) will hinder the company's efforts to improve its performance so that the results of this study are in accordance with agency theory which states that there is a majority shareholder (principal) who can suppress or limit the power they have can be opportunistic and prioritize their own interests so that the company can maximize its efforts in improving company performance. In this case the majority shareholder is non-foreign or domestic ownership(Farwis & Azeez, 2019)

V. CONCLUSION

5.1 Conclusion

The financial health of companies with foreign ownership structures has a positive effect on company performance, which means that the higher the financial health of companies with foreign ownership structures, the higher the company's performance will be. The financial health of companies with non-foreign ownership structures has a positive effect on company performance, which means that the higher the financial health of companies with non-foreign ownership structures, the higher the company's performance.

5.2 Further Research

For further research, it is hoped that further research can be carried out in the form of a comparative study of the effect of the company's financial health on company performance by comparing one country to another and conducting research using other variables in detecting company performance or by using different status or ownership structures such as government ownership, institutions ownership, and others. There are limitations or weaknesses in measuring financial health in financial sector companies using the Altman Z-Score method for determining the working capital of the company which is one of the components in the Altman Z-Score method. For further research or financial sector companies, it is better to use the results of the measurement of the company's financial health using the Altman Z-Score method only as an assumption considering that the determination of working capital will affect the results of the calculation of financial health which is obtained as a whole which results in a reduced level of accuracy.

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