

ABSTRACT

This study aims to determine the effect of quality costs on the company's financial performance. This research is the development of research conducted by Abulaila et al. (2019) in Jordan which has different places, samples, research indicators, and analytical methods. The research sample consisted of 16 automotive and electronics companies listed on the Indonesia Stock Exchange with companies for which all data were available in 2015-2019. This study uses the analysis method Partial Least Square (PLS) with the support of the SmartPLS 3 statistical program.

The result showed that the prevention costs had a positive and significant effect on ROI and EPS but an insignificant effect on Tobin's Q. The appraisal costs had a negative and significant effect on EPS but an insignificant effect on ROI and Tobin's Q. The internal failure costs had a negative and significant effect on ROI and EPS but an insignificant effect on Tobin's Q. The external failure costs had a negative and significant effect on EPS but insignificant effect on ROI and Tobin's Q. Leverage as a control variable has no effect on ROI, EPS, and Tobin's Q. Inventory turnover as a control variable has a significant effect on EPS and Tobin's Q but has no significant effect on ROI.

The results of this study provide several recommendations for companies to pay attention to prevention costs and appraisal costs because they have a positive effect on financial performance. In addition, companies invest more costs for prevention and appraisal activities in reducing internal failure costs and external failure costs arising from not meeting quality specifications.

Keywords: *Quality cost, financial performance, automotive and electronics companies*