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THE EFFECT OF RETURN ON EQUITY ON COMPANY VALUE WITH THE INDEPENDENT BOARD OF COMMISSIONERS AND THE AUDIT COMMITTEE AS MODERATING VARIABLES

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***Abstract**.*
The purpose of this study was to analyze financial performance as measured by Return on Equity (ROE) on firm value as measured by Tobin's Q as well as to analyze the Corporate Governance mechanism as a moderating variable. The aim of this research is to find empirical proof about (a) the influence of financial performance to firm value, (b) the influence of independent commissioners as moderating variable in the relationships between financial performance and firm value, (c) the influence of audit committee as moderating variable in relationships between financial performance and firm value. The sample of this research is mining firms which are listed on the Indonesia Stock Exchange (IDX) over 2008-2011. The research sample are 10 firms with 39 observations. To analyzed the data using software SPSS ver. 16.0.

***Keywords**: ROE, Tobin's Q, Independent Board of Commissioners, Audit Committee.*

INTRODUCTION

Indonesia is one of the developing countries in Asia and even in the world, this is evidenced by the development and growth in various economic sectors. With such a lucrative prospect, companies both from within and outside the country are competing to invest in Indonesia. The company's competition is so competitive, it must be supported by the presentation of good financial statements. Financial statements are one of the benchmarks for a company's financial performance. This financial report shows the company's financial condition and position. The company's financial condition and position can change every period in accordance with the operations that take place in the company. Changes in financial position will affect the company's stock price. The company's stock price reflects the value of a company.

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For public companies (go-public), the indicator of company value is reflected in the stock price. When the stock price of a company has an increasing trend in the long term, it is an indicator that the company's performance is in good condition. The increase in stock prices reflects market confidence in the good prospects of the company concerned in the future.

Research on good corporate governance has increased significantly with the disclosure of large-scale financial scandals involving accountants (such as the Enron and Worldcom Scandals). The presence of good corporate governance in today's rapidly increasing economic development is absolutely necessary, considering that good corporate governance requires good management within an organization. Good corporate governance is a system that is able to provide protection and guarantee rights to stakeholders, including shareholders, lenders, employees, executives, government, customers and other stakeholders. (Naim, 2000 in Hastuti, 2005).

The implementation of good corporate governance is also useful for reducing agency costs, namely costs that must be borne by shareholders due to the delegation of authority to management, besides that it can also reduce the cost of capital as a result of managing the company in a healthy and responsible manner.

The reason researchers research mining and mining service companies is because companies engaged in mining and mining services (such as gold, coal, petroleum and so on). Where mining/commodity stocks are riskier stocks than other stocks. The stock price fluctuation is very high. Which can go down and up quickly. Of course, this drastic fluctuation can affect the selling price of the shares and will also affect the value of the company.

These fluctuations in mining companies have a major influence on the whole series of production process nor modern activity, so that if there is an increase or decrease in price Mining companies of course have a major influence on all economic activities of the life of the world community. Where if the commodity price fluctuations of mining companies are high and if you want to invest long term, you should not play in commodity stocks. This is because the price of these commodities can go down, and of course they can rise again. It all depends on the investors. Can investors take that risk? Where with a higher risk, investors need to get a higher return on these stocks. If investors feel they will not get a high return,higher, avoid those mining/commodity stocks.

LITERATURE REVIEW

Signal Theory (Signalling Theory)

Signal theory suggests how a company should provide signals to users of financial statements. Financial reports are disclosed in an annual report which can be used as a signal by the company when it attracts investors to invest in company shares. This signal is in the form of financial performance information proxied by return on equity (ROE), while corporate governance is the proportion of independent commissioners and the number of members of the audit committee conducted by the company.

The company expects investors to take this information into account. If investors consider this information accompanied by an increase in share purchases, there will be an increase in stock prices (Megawati, 2011). This share price will reflect the Company Value.

Agency Theory (Agency Theory)

Agency theory is a theory that reveals the relationship between the owner (principal) and management (agent). Agency theory assumes that each individual is motivated by his own self-interest, which can lead to conflicts between principals and agents. Owners of capital want increased wealth and prosperity for the owners of capital, while managers also want increased welfare for managers, resulting in a conflict of interest between the owner (investor) and the manager (agent). According to Jensen and Meckling (1976) in Tri and Ferry (2012) defines the agency relationship as a contract between the manager (agent) and the owner (principal) of the company. One or more principals give authority and authority to agents to carry out interests. In a corporation, The so-called principal is the shareholder and the agent is the management who manages the company. Agency theory arises based on the phenomenon of separation between company owners (shareholders/owners) and managers who manage the company.

*Corporate governance*is an effectiveness mechanism that has the goal of minimizing agency conflicts. With the oversight of good corporate governance mechanisms, it is considered capable of reducing agency problems. Therefore, the attempts of managers' opportunistic behavior and the tendency to hide information for personal gain can lead to the level of corporate disclosure.

The value of the company

Firm value describes how well or badly management manages wealth, this can be seen from the financial performance measurements obtained. A company will try to maximize the value of its company. An increase in company value is usually indicated by an increase in share prices in the market.

Firm value is very important because high corporate value will be followed by high shareholder prosperity (Brigham and Gapenski, 1996 in Tri and Ferry, 2012). The higher the stock price, the higher the company value.

A high company value is the desire of company owners, because a high value indicates the prosperity of shareholders is also high. The wealth of shareholders and companies is represented by the market price of shares which is a reflection of investment decisions, financing (financing), and asset management.

Financial performance

Performance is a description of the level of achievement of the implementation of a company's activities in realizing the goals, objectives, mission and vision of the organization contained in the strategic planning of a company. While financial performance is the work performance that has been achieved by the company in a certain period and is stated in the financial statements of the company concerned (Munawir, 2000). The results of the measurement of performance achievements are used as the basis for management or company managers to improve performance in the next period and serve as the basis for providing rewards and punishments to managers and members of the organization.

Financial ratio analysis is a company performance analysis instrument that explains various financial relationships and indicators aimed at showing changes in past financial conditions or operating performance. Company performance can be measured by financial and non-financial elements.

The financial element used in this research is Return On Equity (ROE). To measure the company's operating performance, profitability ratios are usually used. Profitability ratios measure the company's ability to generate finance at a certain level of sales, assets, and share capital, the ratio that is often used is ROE, which is a financial ratio that serves to measure the company's ability to generate profits with a certain capital. ROE is the company's ability to generate profits with its own capital, so this ROE is called the profitability of its own capital (Sutrisno, 2000:267).

One of the main reasons companies operate is to generate profits that are beneficial to shareholders, the measure used in achieving this reason is the high and low ROE number that has been achieved. The higher the ROE, the higher the company's ability to generate profits for shareholders.

Financial Report Information

Financial reports are accounting reports that produce information. (Warren, Reeve, Fess, 2008: 24). The purpose of financial reports is to provide information about the financial position, performance and cash flows of a company that is useful to most users of financial statements in making economic decisions. (PSAK 1, 2009).

Financial reports can help stakeholders know the company's overall financial condition. Financial statements are not only to be read but also to be understood and understood about the company's current financial position. For investors, financial statements can be used as a basis for investing by looking at how a company is performing.

Company decision makers in considering information are influenced by the decisions to be taken, the methods used by the company, as well as the information and capacity they have. The use of information in financial statements also requires an adequate understanding of the company's business activities. Because by understanding the company's business activities, information will be more useful and easier to understand.

Good Corporate Governance

According to the Cadbury Committee, good corporate governance is the principle that directs and controls companies in order to achieve a balance between the power and authority of the company in givingaccountability to shareholders in particular, and stakeholders in general. Of course this is intended to regulate the authority of directors, managers, shareholders and other parties related to the development of the company.

The aims and objectives of good corporate governance (GCG) are not only for now, but also in the long term to become the main pillar supporting the growth and development of the company as well as being the pillar of victory in the era of global competition.

Principles in Good corporate governance (GCG)

In general, there are five basic principles of good corporate governance, namely:

a) *Transparency*(information disclosure), namely openness in carrying out the decision-making process and openness in presenting material and relevant information about the company;
b) *Accountability*(accountability), namely the clarity of functions, structures, systems, and accountability of the company's organs so that the management of the company is carried out effectively;
c) *Responsibility*(responsibility), namely conformity (compliance) in the management of the company against sound corporate principles and applicable laws and regulations.
d) *Independence*(independence), which is a condition in which the company is managed professionally without conflict of interest and influence/pressure from the management that is not in accordance with applicable laws and regulations and sound corporate principles:
e) *Fairness*(equality and fairness), namely fair and equal treatment in fulfilling stakeholder rights that arise based on agreements and applicable laws and regulations.

The essence of corporate governance is improving company performance through supervision or monitoring of management performance and management accountability to other stakeholders, based on a framework of rules and regulations.

Independent Commissioner

The structure of Good corporate governance (GCG) in Indonesia separates the board of commissioners from the board of directors. The board of commissioners may consist of commissioners who are not from affiliated parties known as independent commissioners and affiliated commissioners (KNKG, 2006).

Affiliated (non-independent) commissioners are parties who have business and familial relationships with the controlling shareholders, other members of the board of directors and commissioners, as well as with the company itself.

Independent commissioners are parties who have no affiliation with the company. According to KNKG (2006), the selection of independent commissioners must take into account the opinion of minority shareholders which can be channeled through the nomination and remuneration committee.

Audit Committee

According to Kep.29/PM/2004, an audit committee is a committee formed by the board of commissioners to help carry out its duties and functions. For companies that have an audit committee, in determining the external auditor, they must consider the opinion of the committee submitted to the Board of Commissioners (KNKG, 2006).

In general, the responsibilities of the audit committee cover three areas, namely:

a) Financial Reporting, is to ensure that the financial reports prepared by management have provided a true picture of the financial condition, results of operations, and long term plans and commitments;
b) Corporate governance is to ensure that the company has been carried out in accordance with applicable laws and regulations, conducts its business ethically, carries out effective supervision of conflicts of interest andfraud committed by company employees,
c) Company control (Corporate Control). The audit committee's responsibilities for company supervision include understanding of problems and matters that have the potential to contain risks and the internal control system as well as monitoring the supervisory process carried out by the internal auditors.

The scope of the internal audit must include examining and assessing the adequacy and effectiveness of the internal control system.

The Relationship between Financial Performance and Firm Value

Financial performance will determine the high and low stock prices in the capital market. This means that the value of the company is also determined by the company's financial performance, if the company's financial performance shows good prospects, then the shares will be of interest to investors and the price will increase (Harianto and Sudomo, 2001 in Yuanita, 2010).

Different results were presented by Yuanita (2010) in her research that Return On Equity (ROE) had a significant positive effect on firm value. It can be concluded that through these financial ratios it can be seen how successful the company's management is in managing its assets and capital to maximize the value of the company.

The Proportion of Independent Commissioners and the Influence of Financial Performance on Company Value

The inconsistent results of research on the effect of ROA on firm value indicate that there are other factors that also interact (Suranta and Pratana, 2004 in Yuniasih and Wirakusuma, 2007).

*Good corporate governance*requires good corporate governance. Good corporate governance describes how management businesses manage their assets and capital well in order to attract investors. The management of a company's assets and capital can be seen from the existing financial performance. If the management is carried out properly, it will automatically increase the value of the company.

The greater the proportion of independent commissioners, the more objective the ability of the board of commissioners to make decisions. This objective decision-making can affect the company's stock price so that it will also have an impact on increasing the value of the company.

Number of Audit Committees and Effect of Financial Performance on Company Value

Based on Kep. 29/PM/2004, the audit committee is a committee formed by the board of commissioners to help carry out its duties and functions. According to KNKG (2006), one of the duties of the audit committee is to ensure that the company's internal control structure is carried out properly. The existence of an audit committee has an effect on firm value. Membership of the audit committee regulated by Bapepam and the Indonesia Stock Exchange, stated that the audit committee owned by the company consists of a minimum of three people, of which at least 1 (one) person comes from an independent commissioner and 2 (two) other members come from outside issuers or public companies. Implementation of the number of audit committees that meet the standards will increase the value of the company.

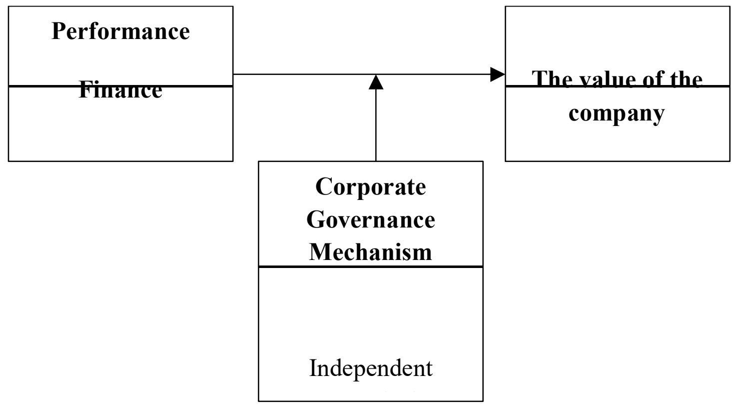

Figure 1. CONCEPTUAL FRAMEWORK

Companies that have competence in the fileds of marketing, manufacturing and innovation can make its as a sourch to achieve competitive advantage (Daengs GS, et al. 2020:1419).

To find out the results of the data, the technique of data analysis is also use to test to the hypotheses put forward by the researchers, because the analysis of the data collected to determine of the effect of the independent variables on the related variables is use multiple linear statistical tests. (Enny Istanti, et al, 2020:113).

The research design is a plan to determine the resources and data that will be used to be processed in order to answer the research question. (Asep Iwa Soemantri, 2020:5).

Time management skills can facilitate the implementation of the work and plans outlined. (Rina Dewi, et al. 2020:14)

Standard of the company demands regarding the results or output produced are intended to develop the company. (Istanti, Enny, 2021:560).

When collecting data sources, researchers collect data sources in the form of raw data. The survey method is a primary data collection method using written questions (Kumala Dewi, Indri et all, 2022: 29).

Data analysis in the study was carried out through descriptive analysis method, which is defined as an attempt to collect and compile data, then an analysis of the data is carried out, while the data collected is in the form of words. (Kasih Prihantoro, Budi Pramono et all, 2021: 198).

RESEARCH METHODS

This research is a deductive research that aims to test hypotheses through theory validation or testing the application of theory in certain circumstances. Meanwhile based on the type of data, this research is a type of archival research which is research on written facts (documents) or in the form of data archives.

Based on the formulation of the problem and the hypothesis developed, the variables used in this study are the dependent variable (dependent variable) which is firm value as measured by Tobin's q and the independent variable (independent variable) is financial performance as measured by the proxy Return on Equity, and moderating variables namely the independent board of commissioners and the audit committee.

Operational Definition and Variable Measurement

This operational definition is intended to explain the variables used in this study.

Dependent variable (Dependent variable)

The value of the company

The operational definition of the related variable in this study is Firm Value measured by Tobin's. The value of the company can be seen in terms of financial statement analysis in the form of financial ratios and in terms of changes in stock prices.

Tobin's Q is calculated by the formula, as follows:

$$Tobin's\ Q = \frac{\left[\left(clo\sin g\ \ price\ x\ Jumlah\ lembar\ saham\ beredar\right) + Debt\right]}{EBV + Debt}$$

Information :

Q = The value of the company

Closing Price = End of year closing price

Debt = Total Liability

EBV = Book value of total assets

Independent variable (Independent variable)

Financial performance

*Return On Equity*is the ratio between net income and total capital. The greater the ROE, the more productive the company's performance will be, so that it will increase investor confidence to invest in the company. This ratio shows how big the percentage of net profit earned from each sale. The greater this ratio, the better the company's ability to earn high profits.

This variable can be measured using the formula:

$$\text{ROE}\left(\text{Return On Equity}\right)=\frac{\text{Laba bersih setelah pajak}}{\text{Total Modal}}\text{ x }100\%$$

Moderating Variables

Independent Board of Commissioners

The structure of Good corporate governance (GCG) in Indonesia separates the board of commissioners from the board of directors. The board of commissioners may consist of commissioners who are not from affiliated parties known as independent commissioners and affiliated commissioners (KNKG, 2006). Affiliated (non-independent) commissioners are parties who have business and family relationships with controlling shareholders, other members of the board of directors and commissioners, as well as with the company itself. Independent commissioners are parties who have no affiliation with the company.

Independent Board of Commissioners is measured by the percentage of independent commissioners and the number of commissioners in the company.

$$\text{KI}=\frac{\text{Komisaris Independen}}{\text{Total Dewan Komisaris}}\text{ x }100\%$$

Audit Committee

The audit committee is a committee formed by the board of commissioners to assist in carrying out its duties and functions. For companies that have an audit committee, in determining the external auditor, they must consider the opinion of the committee submitted to the Board of Commissioners (KNKG, 2006).

The existence of the audit committee in the company is measured by the percentage of the audit committee and the number of audit committees in the company.

$$KA = \frac{\text{Komite Audit Independen}}{\text{Total Komite Audit}} \text{ x } 100\%$$

Population, Sample, and Sampling Technique

The population that will be used in this study are various mining companies listed on the Indonesia Stock Exchange, while the sample in this study were 40 companies listed on the Indonesia Stock Exchange from 2008 to 2011. The sample was determined by purposive sampling that met the qualifications as objects. research that has been determined by the researcher to be relevant to the research objectives, with the following criteria:

a. Various mining companies that have gone public were listed on the IDX from 2008 to 2011.
b. Complete financial statements of the company are available for the period 2008-2011, both physically and on the websitewww.idx.co.idor on the website of each company.
c. The sample companies did not experience delisting during the observation period.
d. Have complete financial data related to research variables.

ANALYSIS AND DISCUSSION

Analysis of the data used in this study is descriptive analysis and statistical analysis as well as testing the hypothesis of the research variables and discussion.

Descriptive analysis is an analysis that provides an overview or explanation of a data used in a study. The descriptive analysis used in this research is descriptive of each research variable. This descriptive variable aims to identify and describe in detail the value of each variable used. The variables used in this study consist of independent variables, dependent variables and moderating variables.

The independent variable in this study is financial performance by proxy, namely ROE, while the dependent variable in this study is firm value measured by Tobin's Q, as well as moderating variables, namely the independent board of commissioners and the audit committee.

The value of the company

Based on the graph of firm value, it can be seen that the independent variable has a value range from 0.53 to 9.33. The lowest score was owned by PT Aneka Tambang in 2011, and the highest score was owned by Perusahaan Gas Negara Tbk in 2009. Companies that were above the average were 16 companies or 41.03%, while those below the average were 23. company or 58.97%.

The average value of Tobins Q is 1.8677 and the standard deviation is 1.65490. According to Professor James Tobin (1967) Tobins Q which is worth more than 1 means that the company generates earnings with a return rate that is in accordance with the acquisition price of its assets (Herawaty, 2008).

Return On Equity

Based on the Return On Equity graph, it is known that the ROE variable of the sample companies obtained an average of 23.6408. And has a value range from 1.04 to 53.09. The highest value was owned by Perusahaan Gas Negara in 2009, while the lowest value was owned by Bayan Resources in 2008.

The sample companies that have ROE values above the average are 19 companies or 47.5% and as many as 24 companies or 52.5% have ROE values below the average. A low ROE ratio can mean that the productivity of the company is still low, while a high ROE ratio means that the company's performance is more productive, so that it will increase investor confidence to invest in the company.

Effect of ROE on Firm Value with Independent Board of Commissioners and Audit Committee as moderating variables

The resulting regression equation is as follows:

Tobin's Q = 0.324 + 0.65 (ROE) + e

The results of the t test above can be seen that the regression coefficient ROE (Xi) is 4.211 with a significance level of 0.000 less than 5% (sig < 5%) then H1 is accepted which means that financial performance (X1) partially has a significant effect on firm value (Y). The value of the regression coefficient on the financial performance variable is positive, which means that financial performance has a significant positive effect on firm value, so that the 1st hypothesis "There is an influence between ROE on the value of various mining companies listed on the Indonesia Stock Exchange in 2008-2011", is tested the truth.

The moderating regression coefficient between financial performance and the Independent Board of Commissioners (X2) on firm value is -0.556 with a significant level of 0.582 more than 5% (sig > 5%) which means that the interaction between financial performance and the Independent Board of Commissioners (X2) partially does not have a significant effect on firm value (Y), so the second hypothesis "The number of independent commissioners affects the relationship between ROE and the value of various mining companies listed on the Indonesia Stock Exchange in 2008-2011." unverified, because the Independent Board of Commissioners does not contribute to the influence of financial performance on company value.

While the moderating regression coefficient between financial performance and the Audit Committee (X3) to the firm value is 1.012 with a significant level of 0.318 more than 5% (sig > 5%) which means that the interaction between financial performance and the Audit Committee (X3) partially has no effect. significant effect on firm value (Y), so that the third hypothesis "The number of independent commissioners affects the ROE relationship with the value of various mining companies listed on the Indonesia Stock Exchange in 2008-2011" is also not verified, because the Audit Committee does not contribute to the influence of financial performance on the value of the company.

The Effect of Financial Performance on Company Value

Through the results of hypothesis testing that has been done, it can be seen that partially financial performance has a significant positive effect on firm value. This shows that the higher the financial performance, the more likely there will be an increase in the value of the company and conversely the lower the financial performance, the value of the company will also decrease.

After conducting a partial test of ROE on firm value, it is known that ROE has an effect on firm value this researchstrengthen the signal theory which is the grand theory of this research. Signal theory states that a good company will provide clear and very useful signals for investment, credit and other decisions. The signal given can be in the form of good news or bad news. This indicates the company's ability to generate profits that can be obtained by shareholders and provides a good indicator to determine the company's ability to provide returns according to the level required by investors.

This study supports these results consistent with research conducted by Yuanita Handoko (2010) that ROE has an influence on firm value.

Based on the results of the study, it can be concluded that when the level of profit in financial performance achieved by the company is getting better, it will have a positive effect in increasing the value of the company, meaning that the higher the financial performance as measured by Return On Equity (ROE). the more productive, the greater this ratio, the better the company's ability to earn high profits. This will further increase the company's attractiveness to investors. The increase in the attractiveness of the company makes the company more attractive to investors, because the level of profit will be even greater. Therefore, Return on Equity is one of the factors that affect the value of the company.

***Good corporate governance*as Moderating Variable**

From the results of hypothesis testing that has been done, it can be seen that partially the interaction between financial performance and good corporate governance (Independent Board of Commissioners and Audit Committee) has no significant effect on firm value.

Judging from the regression equation obtained, it shows that good corporate governance has no influence on the relationship between financial performance and firm value. According to Tarmizi Achmad (2010) The board that oversees management is influenced by the composition, independence and size of the board.

This result may be due to the very limited access of the Independent Board of Commissioners in conducting supervision to company information. This is because they do not participate in the company's operational activities, so that the number of Independent Commissioners has not been able to improve the company's performance or ROE or increase Company Value.

While the results that are not much different are also shown in the interaction between financial performance and the audit committee. The results of this study are consistent with the research conducted by Abdul Kharis and Djoko Suhardjanto (2010). Good corporate governance does not regulate the number of members of the Audit Committee in a company but must be adjusted to the complexity of the company while still paying attention to effectiveness in decision making.

For companies whose shares are listed on the stock exchange, state companies, regional companies, companies that collect and manage public funds, companies whose products or services are used by the wider community, and companies that have a broad impact on environmental sustainability. The Audit Committee is chaired by an Independent Commissioner and its members may consist of Commissioners and or professional actors from outside the company. One of the members has accounting and/or finance background and skills.

This might happen because the audit committee that is required to be formed by the board of commissioners is only for the purpose of complying with Bapepam Decisions. So the number of Audit Committee has no effect on company performance and its relation to Company Value.

CONCLUSION

This research was conducted with the aim of knowing whether firm value is affected by financial performance. As well as examining whether the GCG mechanism influences financial performance on firm value. Theoretically, the higher the financial performance, the higher the value of the company. This will further increase the attractiveness of the company to investors, thereby attracting investors to invest in the company. Based on the analysis of the results of the research that has been done, the following conclusions can be drawn:

There is an Influence of Financial Performance on Firm Value. This can be seen from the value of the regression coefficient for ROE of 4.211 and has a positive sign at a significance level of 0.000 less than 5% (sig < 5%).

The number of Independent Commissioners is not able to moderate the relationship between Financial Performance and Company Value. This is shown by the results of regression calculations using the Moderated Regression Analysis (MRA) test which has a t-value of -0.556 with a significance level of 0.582 (> 0.05).

The number of Independent Commissioners is not able to moderate the relationship between Financial Performance and Company Value. This is shown by the results of regression calculations using the Moderated Regression Analysis (MRA) test which has a t-value of 1.012 with a significance level of 0.318 (> 0.05).

Based on the description of the test results, it can be concluded that the independent variable financial performance has an influence on the dependent variable firm value related to signal theory where mining & mining service companies are able to provide signals to investors by showing what percentage of net profit is obtained from each sale. The greater the ROE ratio, the better the company's ability to obtain high-quality and persistent or stable profits every year so that the company is able to pay its short-term debt.

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