THE EFFECT OF RETURN ON ASSETS (ROA) AND RETURN ON EQUITY (ROE) ON COMPANY VALUE WITH CAPITAL STRUCTURE AS MODERATING VARIABLES IN BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

Banking is a financial institution that plays a significant role in driving the economy in a country, including collecting and distributing funds from one community to another with credit or in various other forms aimed at improving the standard of living of many people. The object in this study is a company listed on the Indonesia Stock Exchange in the banking sector with a sample selection method using the purposive sampling method with a three-year research period, 2017-2019. The processed data was obtained from the IDX's official website, namely www.idx.co.id which is external data. After tabulating financial ratio data, proceed with the next stage, namely the data analysis process by calculating the PLS Algorithm using smartPLS and then testing the hypothesis. The results showed that the Return on Assets variable had an effect on firm value and its significance had a positive effect. However, even though it has the same profitability ratio, it is different from the Return on Equity variable which has no effect on the issuer's value. And the DER variable cannot moderate the effect of the two profitability ratios on firm value, because the data processed by the researcher found that DER has a direct and significant effect on firm value, which means DER is a predictor variable that can be used as an intervention. variables for future researchers.

Keywords*:* Banking, Profitability, Capital Structure and Firm Value

INTRODUCTION

Banking is one of the financial institutions that play a role in the movement of the economy of a country. According to the rules based on the Law of the Republic of Indonesia Number 10 of 1998, a Bank is a business entity that plays a role in collecting and distributing funds from one community to another in the form of credit or in a form whose purpose is to improve the standard of living of the community. In addition, banks also act as providers of payment traffic and as intermediaries between related parties, so that banking activities or activities have an impact on other sectors (Indonesia, 1998).

The value of the company for the 2017-2019 financial year, especially the banking sector companies, fluctuated and tended to decrease from time to time. This is inseparable from the influencing factors, both internal and external factors, factors originating from internal companies including profitability, capital structure and liquidity.

AGRO (Bank Rakyat Indonesia, Tbk) has a Return on Assets (ROA) in 2017 of 0.86 with a Price Book Value (PBV) of 2.99 and in 2018 Return on Assets increased by 0.02 to 0.88 however Price Book Value decreased by 1.51 to 1.48. Generally, the increase in the Return on Assets ratio is directly proportional to the increase in the value of the issuer, but the opposite happens. BBNI (Bank Negara Indonesia (Persero) Tbk) had a Debt to Equity Ratio (DER) of 6.33 in 2018 with a Price Book Value of 1.47 and in 2019 the company's Debt to Equity Ratio decreased by 0.57 to 5.76. This should be followed by the addition of a better issuer value. However, in reality, Price Book Value decreased by 0.31 to 1.16. BJTM (East Java Regional Development Bank, Tbk) had a Return on Equity (ROE) of 14.83 in 2017 with a Price Book Value (PBV) of 1.35 and in 2018 Return on Equity increased by 0.05 to 14 .88 but Price Book Value did not increase but decreased by 0.07 to 1.48

THEORETICAL BASIS

Signalling Theory

Brigham & Houston (2014: 184) stated that signaling theory is the perspective of shareholders about the company's opportunities to increase value company. Information that will provide a signal for (prospective) creditors which will be useful in making investment decisions. This signal can be a positive signal (good news) or vice versa, namely a negative signal (bad news). A study conducted by Pertiwi (2019) suggests that the publication of financial statements will affect the value of the company, because the report will be shared by various parties in decision making.

Triagustina et al (2014) in their research stated that issuers who have relatively stable profits indicate that the performance of a company is quite good in generating profits. How much profitability is generated by a banking company will affect the company through an increase in stock prices and have an impact on the value of the company, therefore banks are required to be able to maintain the consistency of their financial performance in obtaining maximum profits in order to increase the value of the company or at least the value of the company in a stable condition (Triagustina et al., 2014)

RESEARCH METHODS

This research is associative research that aims to see the relationship between two or more variables on firm value. This study was conducted to determine the extent of the influence of profitability on the dependent variable, namely firm value in banking sector companies listed on the Indonesia Stock Exchange with a capital structure seen from the Debt to Equity Ratio as a moderating variable for the 2017-2019 period. The data collection technique used by the researcher is a data collection technique through document study. The method used to process and analyze the data is descriptive statistics and Partial Least Square

According to Ghozali (2008), Partial Least Square is a very powerful analytical method with a free distribution approach (not based on assumptions). The steps taken are to make a model of the algorithm pls then bootstrap and do not require a normality test in the test. In addition, PLS does not require the required minimum number of samples. The method used by researchers in conducting data analysis in this study is the PLS (Partial Least Square) statistical analysis method. And sampling is based on the following criteria:

1. Companies or issuers of the banking sub-sector listed on the IDX in that period
2. Banking companies that have positive profits in the 2017-2019 period.
3. Banking companies that have positive equity in the 2017-2019 period.

So that a sample of 24 companies was obtained with a research period starting from 2017 to 2019, and the amount of data studied was 72 data.

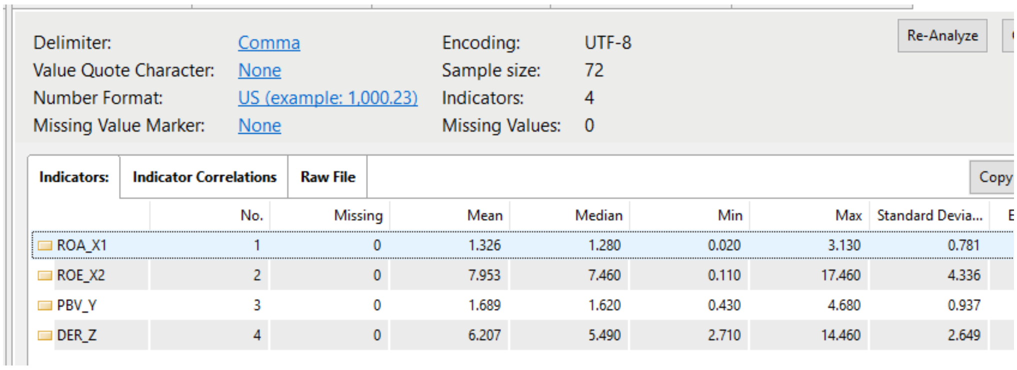
RESEARCH RESULT

The steps taken are tabulating financial ratios and then processing them using smartpls. In this study, the variables used are financial ratio data with the type of ratio scale and are secondary data types from the IDX and or the issuer's site.

Data Description

Based on the data for each of these variables, a descriptive analysis was tested using SmartPLS 3.0 so that the following results were obtained:

Picture 1. Research Descriptive Statistics



Delimiter: Comma | Encoding: UTF-8
Value Quote Character: None | Sample size: 72
Number Format: US (example: 1,000.23) | Indicators: 4
Missing Value Marker: None | Missing Values: 0

Re-Analyze

Indicators: | Indicator Correlations | Raw File | Copy

	No.	Missing	Mean	Median	Min	Max	Standard Devia...
ROA_X1	1	0	1.326	1.280	0.020	3.130	0.781
ROE_X2	2	0	7.953	7.460	0.110	17.460	4.336
PBV_Y	3	0	1.689	1.620	0.430	4.680	0.937
DER_Z	4	0	6.207	5.490	2.710	14.460	2.649

Based on the figure, we can obtain statistical data, namely the smallest to the largest data, the mean and the standard deviation of each of the variables studied. The first is the profitability variable, namely (X_1) Return on Assets with a sample of 72 data, with the lowest value of 0.020 at Bank Sinar Mas, Tbk in 2019 and in the position of obtaining the highest value of 3,130 at issuer BCA, Tbk in 2018 while the mean value is 1.326 with a standard deviation worth 0.781. The Return on Equity (X_2) variable has the same number of samples as the variables studied, which are 72 data, with the lowest value of 0.110 at Bank Sinar Mas, Tbk in 2018 and the largest value of 17,460 at issuers BRI (Persero) Tbk in 2018 while the mean value is 7,953 and has a standard deviation of 4,336.

The Price to Book Value variable has the same number of samples as much as 72, with the lowest data value of 0.430 at Bank Bumi Arta, Tbk, in 2018 and the highest value of 4,680 at Bank Central Asia, Tbk in 2018 while the overall average value of 1.689 with a standard deviation of 0.937 obtained. Meanwhile, the moderating variable, namely the capital structure variable, has a minimum value of 2,710 at Bank Danamon Indonesia, Tbk in 2019 and a maximum value of 14,460 at Bank Bukopin, with an average DER value of 6,207 with a standard deviation of 2,649.

Analysis of Model Structure (inner model)

Evaluation of the inner model can be done with 3 analyzes, namely by looking at R^2, Q^2, and F^2.

R-Square Analysis

The results of data processing using SmartPLS by researchers obtained an R-Square Adjusted Value at the firm value of 0.343. This value is interpreted as the ability of ROA, ROE and DER to affect firm value by 34.3% and the rest cannot be explained. This value can be classified into the moderate category.

Q^2 Analysis or Model Virtue Test (Goodness of Fit)

In order for the Q-Square (Q^2) value to match the criteria, the q-square value must be positive or exceed zero in value. This is because, if the -Square (Q^2) value is less than zero, the predictive relevance value is considered poor and the model does not meet the criteria in the Q^2 calculation. In this study, it has a good Goodness of Fit. The Q-Square calculation formula is as follows:

Q-Square = 1-(1-R^2)
Where, R = 0.389, Q-Square = 1-(1-0.3892) = 0.1532

F-Square Analysis

F^2 for effect size (f-square) is a measure used to see the relative impact of the variables that influence it or the variables it influences. The effect of ROE on the issuer's value has f^2 of 0.111 and is included in the moderate or medium category while the Return on Equity variable has f^2 of 0.041 which is in weak or small category

Path Coefcients

Picture 2. Path Coefficients

Path Coefficients

Mean, STDEV, T-Values, P-V... | Confidence Intervals | Confidence Intervals Bias C... | Samples | Copy to Clipboard: | Excel Format

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O/...	P Values
DERModROA-->PBV -> Price to Book Value (Y)	-0.149	-0.104	0.305	0.488	0.626
DERModROE-->PBV -> Price to Book Value (Y)	0.236	0.198	0.225	1.049	0.295
Debt to Equity Ratio (Z) -> Price to Book Value (Y)	0.812	0.844	0.338	2.406	0.016
Return on Assets (X_1) -> Price to Book Value (Y)	1.210	1.254	0.539	2.244	0.025
Return on Equity (X_2) -> Price to Book Value (Y)	-0.608	-0.660	0.437	1.392	0.165

From the results of data processing carried out by researchers, the output is obtained in the form of a path coefficient table image. From the table we can see, there are two variables that have a significant effect in this study, namely the ROA and DER variables so that a structural equation model can be made as follows:

PBV = 1.21 ROA + 0.812 DER

Profitability ratio namely ROA, has a significant positive effect of 1.21% on firm value. The higher the increase in profitability obtained by the company in terms of Return on Assets, the value of the company will also increase, because an increase in ROA will provide a good signal for investors to participate in the form of investment. It can also be seen that the capital structure with the DER proxy has a positive effect on the value of the company, this is Contrary to the previous theory statement, which states that the use of large debts has a bad effect or seems to have poor performance on the value of an issuer where the greater the DER ratio. This will give a negative signal to investors. In general, the capital structure of financial institutions such as banks is fundamentally different from non-financial companies, this is due to differences in business characteristics and operational activities.

According to Siringoringo (2012), banks must have a buffer in accordance with the provisions or rules of the minimum core capital provider, in this case the Central Bank, in order to be able to protect depositors' funds (Siringoringo, 2012). The allocation of large funds in bank lending requires substantial financing, because otherwise it will disrupt the bank's liquidity, especially if the company is going to expand it requires a large additional capital.

The right capital structure must be able to combine the balance of the trade of between the benefits or returns and the risks or costs faced so as to maximize the value of the company. Therefore, we can mean that having a large debt for an issuer is not always bad, additional debt will be allowed if the benefits or the rate of return on the debt used are still more optimal in order to be able to bear the company's operational costs, or a direct example, the interest expense in the company. debt used. Because if there is no large debt without being followed by a maximum return, it will show poor performance and have an impact on the value of an issuer.

Based on the results of the data test conducted by the researcher, one hypothesis was obtained that met the criteria, namely the t-statistic value of 2.244 which was greater than 1.96 and the P-value was 0.025 which was smaller than 0.05. This can be seen in the hypothesis of the effect of the ROA variable on the value of an issuer, which means that the hypothesis H_1 is accepted while hypotheses two, three and four are rejected because the t-statistics and P-values do not meet the criteria.

DISCUSSION

Based on the tests that have been carried out, the following research results were obtained:

1. Effect of Return on Assets (ROA) on firm value

ROA is a ratio to measure the level of profit or the company's ability to earn profits with a number of assets owned by the issuer. The results of data processing show that ROA has a positive influence, which means that the greater the ROA, the higher the value of the company or the maximum because high profits will provide guarantees and good prospects for companies using information such as investors to invest in certain issuers. This is because high profits tend to be followed by a high rate of return (dividends) to be obtained by investors, and if the value of the company's shares in the market is high, of course it will have a good impact on the value of the company.

This research is in line with previous research conducted by (Athifah, 2021), (Haryanto et al., 2019), (Nilai et al., 2013), (Fajaria, 2018), (Santoso et al., 2018), (Ekasari et al., 2020), (Ganar & Sekuritas, 2018) dan (Sholahuddin et al., 2020) which state that ROA is influential, but Contrary to (Dan et al., 2014), dan (Ekonomi & Pamulang, 2018) which states otherwise that ROA has no effect on firm value. The results of this study are also in line with the Signaling theory which states that an organization or company must provide a positive signal through publication or issue of financial statements with good performance, so a high ROA indicates that the company's performance in using company assets is getting better. The more effective management or an issuer is in empowering its assets, it will encourage an increase in stock prices in the company due to incoming investment and the value of the company will also increase.

2. Effect of Return on Equity (ROE) on firm value

ROE is one of the profitability ratios that can be used to measure the amount of net income for the current year compared to Total Equity. The results showed that the company's management did not succeed in improving financial performance in optimizing the value of an issuer through increasing profits from time to time. It can be seen that the ROE value tends to be small and not optimal.

From the data that has been processed by researchers, the Return on Equity value in banking companies in 2017-2019 tends to fluctuate and the value is still lower than expected by shareholders and the average ROE value of banks is still smaller than the ideal expected from the banking industry or still below the bank's capital reserve is 13%, which means that management performance is still not optimal in improving financial performance, so the Return on Equity in this study has no effect on the value of an issuer.

The results of this study are in line with the results of previous research conducted by (Ekonomi & Pamulang, 2018) which states that ROE has no effect on firm value. And this is certainly not in line with the signaling theory which states that companies must provide a positive signal through published financial reports and contrary to research conducted by (Purwanti, 2020),(Sholahuddin et al., 2020) dan (Abor, 2005). which states otherwise that ROE affects the value of an issuer.

3. Capital structure moderates Return on Assets (ROA) to firm value

DER is the ratio between debt and equity or the proportion of the use of own or foreign capital in financing the company's operations. The use of capital sourced from large debts has a high financial risk, in this case the debt burden of large interest, especially if it is not balanced with high profitability. In banking, if there is bad credit, of course, it will also reduce the value of the bank itself. Because we have to bear the interest from the loans disbursed.

Based on the data obtained by the researcher, DER has a direct influence on firm value and the effect is positive. However, in this research, capital structure is actually a moderating variable, not a predictor or intervening variable. In the banking sector, of course, one of the sources of funding comes from debt, namely customer savings or deposits. The funds are then distributed to parties in need such as debtors, companies and so on so that the bank can earn income or the value of the Net Interest Margin obtained by the company is good or not.

If the debt, in this case the customer's funds, is small, the funds to be distributed are also small, which means that the profitability is also small. If the income earned is small, the funds used to pay for operational costs such as salaries for employees, directors and others may not be sufficient. The greater the debt obtained through customer funds, the possibility of profitability generated is also greater with a record of good fund management, for example, LDR is well controlled, NPL is low. This is required because the use of large debts contains risks and the burden of debt interest is also large. The results of this study are in line with research conducted by (Per et al., 2016), (Suastini et al., 2016) and Contrary to the results of research conducted by (Ilmu et al., 2015), (Wijaya & Pancawati, 2019).

In the banking industry, in addition to the profitability factor, which is reflected by ROA and ROE, risk management is no less important, because if it is not handled properly then a problem occurs, it could have a very fatal impact or even a systemic and influential impact. against other banks. For example, there is an issue circulating in the community that makes customers withdraw (Rush) and the amount is large, the company's liquidity will automatically deteriorate. So it requires good and proper management. For that, instead of just looking at the DER, which explains the risk of debt to capital, it would be better if we look further at debt management in this case customer funds, so that even though debt is large but managed well, the profits generated are still able to cover the interest expense incurred. borne as a result of debt financing on loans disbursed. So that the DER variable in this case cannot moderate the influence of the two variables, namely ROA and ROE on firm value.

This research is in line with the results of research conducted by previous researchers (Per et al., 2016) which states that the Debt to Equity Ratio cannot moderate the effect of earnings with the Return on Equity proxy on firm value. research conducted by (Wijaya & Pancawati, 2019). However, after being traced back in this case the Debt-to-Equity Ratio variable only has the potential as a moderating variable.

CONCLUSION

The researcher concludes that the effect of profitability is not fully in line with the theory and its effect on increasing the value of an issuer. Even if viewed from the profitability ratio, the results are also possible to be different. In this study ROA has an effect on firm value, but in terms of the ROE ratio has no effect on firm value and capital structure is not able to moderate the effect of profitability on firm value, because from the results of the study, the capital structure proxied in DER is a predictor variable in banking companies for the 2017-2019 period.

SUGGESTION

The first is suggestions and recommendations for parties or investors who want to participate in equity participation or invest in banking companies to better consider the factors tested in this study. The factor in question is Return on Assets, a company that has a maximum ROA value will be able to increase its company value and provide good prospects for investors. The management ability of an issuer in managing a good capital structure and allocating existing funds and minimizing the existence of idle loans or on the other hand controlling non-performing loans is also something that needs to be considered.

Companies or issuers are advised to report more actual financial data in order to be able to provide accountability for all parties who use financial information. The company is also expected to maximize the value of an issuer through increasing ROA in order to provide good performance by streamlining costs and increasing the realization of quality loans and to maximize capital structure, this can be done by maximizing capital utilization so that existing funds can be allocated properly and able to control and suppress non-performing credit levels.

For further researchers can expand the field of research, period and other variables that influence. The expansion of the field of research that will be used as a wider sample so that the results are more able to provide an overview of all companies that have gone public in Indonesia. The next one increases the observation period to be studied to be longer for example five years or even more, or even changes the proxy of the research variable, for example for the proxy for firm value not only PBV but can be Tobins Q and others. In addition, the results of this study indicate that DER is a predictor variable or has a direct influence on its PBV (Company Value), so that for future researchers DER can be used as an independent variable or even as an intervening variable and not as a moderating variable. As well as prioritizing the factors to be tested such as LDR, NPL, NIM etc. in the research, because in the banking industry, good risk management is also an equally important factor and not only profitability is a priority.

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