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Effect of Capital Structure on Financial Performance with Moderation of Good Corporate Governance (*Empirical Study at BEI Mining Company in Coal Sector Year 2014*)

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ABSTRACT

The capital structure of an enterprise has an important role in the daily operational needs of the company. The selection of the capital structure used by the company should still consider the interests of the interested parties within the company. This is because if the selection of corporate capital structure is less appropriate will result in low rate of return on capital received by the company, so that ultimately will lower the level of corporate profits. The other side mentioned that the inability of companies in optimizing the capital structure will provide losses for the company, thus making the value of the company in the eyes of investors to be less good. The implementation of good corporate governance within the company is expected to provide a filter for corporate managers to remain cautious in making a company decision, so that will keep the profits from the company. The phenomenon of melorotnya performance of mining companies to be one interesting issue to be examined in relation to the capital structure and implementation of good corporate governance that has been done. Based on these.

KEYWORDS: - ***mining, capital structure, good corporate governance, financial performance***.

I. INTRODUCTION

The company is an organization with a specific goal to be achieved in an effort to meet the interests of its members. Success in achieving company goals is an achievement of management. Company performance shows the ability of a company to generate profits or return on the resources invested in it. Return on capital investment is an important indicator of the company's long-term strength. Performance assessment or performance of the company must be measured clearly in order to be used as a basis for decision making either the management or investors. One that can be highlighted to know well and not the performance of management is to conduct an assessment of financial performance.

Veno (2015) argued that performance is the achievement of a goal of a particular activity or work to achieve company objectives as measured by standards. Assessment of the company's performance to know the operational effectiveness of the company. Meanwhile, financial performance is a description of the work achievement that has been achieved by the company in a certain period and has been stated in the financial statements of the company concerned (Munawir, 2010). One way is to measure financial performance by analyzing financial statements using financial ratios one of them is profitability ratios. The profitability ratio is the ratio used as the basis for measuring the efficiency of the asset user.

Company or group of company assets associated with successful sales by the company (Husna and Pudjiastuti, 2006). According to Sartono (2010) profitability is defined as the ability of companies to earn profits in relation to sales, total assets and own capital. The results of the measurement of the achievement of financial performance will ultimately be used by the management as a basis for reward and punishment of the manager.

Companies with a sound management system will provide security and protection of rights for stakeholders, such as the obligation to provide accurate information about the current condition of the company. Profit is a reflection of the performance of the company that describes the company managed well in an efficient and opportunistic so as to provide benefits for certain parties.

The financial performance of a company can be measured by using profitability ratio approach that can be useful for the interest of stakeholders and shareholders. Investor policy to inject capital into the company is more influenced by the ratio of profitability compared with other ratios. Based on this, investors have a belief that the profitability ratio will provide an overview of returns and returns that can be owned by investors from the results of their investment to the company (Ainnurrofiq, 2016). One of profitability ratios often used in financial performance measurement is Return On Assets (ROA). ROA is the ability of a company to use all assets owned to generate profit after tax. The higher the ROA ratio, the more efficient use of company assets or in other words can be said with the same amount of assets can be generated greater profit, and vice versa (Sudana, 2011).

Mining companies that actually have bright prospects in Indonesia are currently experiencing a decline in performance, especially in mining companies engaged in the coal industry. The increasingly severe global economic crisis has caused companies in the mining sector to feel the impact. The existence of the incident forced coal mining companies to lay off their workers. Recorded approximately 125 companies have gone bankrupt and about 5000 workers who depend their lives on this sector affected (Djumena, 2015).

Efforts to minimize the impact of the weakening global economic conditions can be done with the implementation of Good Corporate Governance (GCG) system. However, in practice the system of good corporate governance implemented in most companies go public in Indonesia still not able to control and find a way out of crisis happened. This resulted in the company's performance declining, and in the end the company was unable to optimize the capital structure to the maximum.

Capital structure is the ratio between the total debt with the company's capital. The higher Debt to Equity Ratio (DER) indicates the total debt (short-term or long-term) is greater when compared with the profits of the company, so that it can have an impact on the burden of the company to the external or creditor (Robert Ang, 1997). Another explanation is mentioned that the capital structure is the composition of common stock, preferred sanctuary, and such classes, retained earnings, and long-term debt maintained by the unity of business in financing the asset (Fahmi, 2011). Factors affecting the capital structure include: (1) the interest rate that affects the type of capital used in the use of shares or bonds; (2) earning stability because it will determine the company in the use of fixed debt; (3) the composition of assets; (4) asset risk; (5) the amount of capital required by the company; (6) changing capital

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market conditions; (7) the nature of management that determines the firm's courage in the use of debt to meet the needs of the enterprise; And (8) the size of the company.

In the related theory mentioned that the company will prefer retained earnings in order to finance the company's funding needs. Thus, the proportion of the company's capital structure will be small and will make profitability (return on assests) becomes larger. Vice versa if the composition of the capital structure the higher the company's burden will be greater and make profitability (return on assests) becomes smaller.

The definition of Good corporate governance can be defined as corporate governance. Good Corporate Governance (GCG) is a system to control and direct the company well. The ideal structure in corporate governance seeks to establish the rights and obligations of the parties that play a role in the company so as to create added value for the company (Bukhori, 2012). The National Committee on Governance Policy (KNKG) suggests the function of good corporate governance implementation for the company, among others: (1) encouraging the achievement of sustainable management within the company based on transparency, accountability, responsibility, independence and fairness and equality; (2) to encourage the empowerment of functions and in dependence of each structure within the company, namely board of commissioners, board of directors, audit committee; (3) Encouraging the shareholders, members of the board of commissioners and members of the board of directors in decision-making based on high moral values and compliance with laws and regulations; (4) Encourage awareness and responsibility.

Social company to the public and environmental sustainability around the company; (5) Optimizing company value; (6) Increase the competitiveness of companies both nationally and internationally. One component of good corporate governance is an audit committee established by the board of commissioners to assist with the implementation of the work in auditing the overall performance of the company. The existence of the audit committee will streamline the assessment in the implementation of GCG as it uses independence, transparency and disclosure, accoutability, responsibility, and fairness.

The theoretical review suggests that good corporate governance (GCG) is related to agency theory based on the separation of functions from company owners and managers (Jensen & Meckling, 1976). Good corporate governance is very important to be applied to achieve the objectives of the company and as a control over various decisions of the company that will ultimately provide good performance and benefit the parties interested in the company.

Results from previous studies by Okiro et al (2015) conclude that capital structure and corporate governance have a significant positive effect on the financial performance of companies listed on the East African Securities Exchange. Putri (2006) in his research concluded the implementation of GCG can affect the performance of companies that can support the achievement of corporate goals. Robert Ang (1997) suggests that if DER ratios higher DER then it will show the composition of total debt becomes greater than the total capital itself, thus causing the greater the burden of the company to external parties that adversely affect the financial performance of a company. Other results in the research Rahmadini et al (2017) mentioned that corporate governance simultaneously has a significant influence on financial performance, but partially specific for audit committee projection did not have a significant effect on the financial performance of manufacturing companies miscellaneous industry sector listed in the Stock Exchange Indonesia (BEI). Meanwhile, Ainurrofiq (2016) in his research concludes that the capital structure and the existence of the audit committee do not have a significant influence on financial performance on goods and consumption companies listed on the BEI period 2012-2014.

Based on the description of the background and the results of previous studies will be conducted a wider pangaruh study on the capital structure of the company with the title "Effect of Capital Structure on Financial Performance with Moderation of Good Corporate Governance (Empirical Study at Coal Mining Company of 2014)

II. MATERIALS AND ANALYSIS METHODS

Conceptual framework

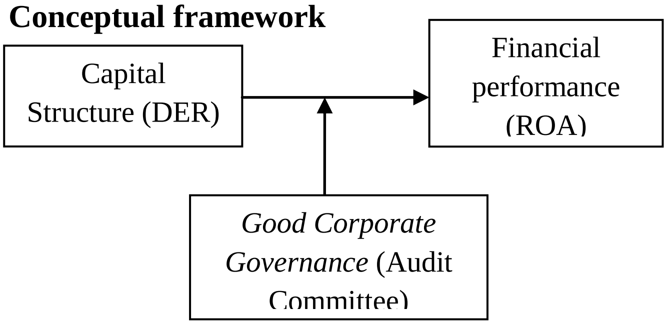

Figure 1: Research Framework

The occurrence of separation of ownership in a company on the implementation of good corporate governance, will trigger the emergence of agency costs. Whereas in essence, the agency cost of ownership is similar to the lost value of a professional manager who is more concerned with his or her own interests to maximize profits when compared to firm value. Given the good implementation of good corporate governance and the selection of capital structures is likely to help minimize agency costs and improve the level of corporate profits. Based on these reviews, the research hypothesis to be proven is:

H1: The capital structure has a significant influence on the company's financial performance.

H2: The audit committee can strengthen the relationship between the capital structure and the company's financial performance.

Research Approach

This study uses quantitative causality approach to prove the influence of variables on other variables by testing the research hypothesis and a thorough explanation of the relationship between variables that occur.

Population and Sample Research

Population is the overall data of concern in a scope and time of research (Arikunto, 2010). Meanwhile, the sample is a partial or representative of the population studied (Arikunto, 2010). The population in this study are all mining companies listed in Indonesia Stock Exchange (BEI) in 2014. While the sample of this study is a mining company in the coal mining sector listed on the Indonesia Stock Exchange (BEI) in 2014 taken with data collection techniques purposive sampling .

Measurement of Research Variables

The dependent variable in this study is the company's financial performance proxies by Return On Assets (ROA) which is a comparison of net profit after tax with total assets of the company. The formula of return on assets is as follows:

$$\boxed{ROA = \frac{EAT}{\sum \text{asset}} \times 100\%}$$

The independent variable in this study is the capital structure proxied by the Debt Equity Ratio (DER) which is the ratio of the total debt of the company with the capital owned by the company. The formula of the debt equity ratio is as follows:

$$\text{Debt–Equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

The moderation variable in this study is the audit committee (KA) measured by the large number of audit committees within the company.

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Data Analysis Technique

The method of analysis in this study using moderating regression analysis to determine the effect of independent variables and moderation variables on the dependent variable. Modeling model of moderated regression will be tested classical assumptions to ensure that model estimation is the best and not biased. The classical assumption test consists of: 1) Normality Test, 2) Multicoliniearity Test, 3) Heteroskedasticity Test, and 4) Autocorrelation Test. After the classical assumption test is met then tested the hypothesis that tests dependent dependent variables with one independent variable and moderation variable (Ghozali, 2012). Hypothesis testing using t test with the provision if the significance value of the test t <0.05 then concluded there is a significant influence between the independent variable and the moderation variable to the dependent variable.

III. RESULTS AND DISCUSSION

Descriptive Statistics

Description of research variables was conducted to present the data briefly to convey information on general description of capital structure, Good Corporate Governance (GCG), and financial performance in mining companies. The capital structure in this study is proxied by Debt to Equity Ratio (DER), then Good Corporate Governance (GCG) variable is proxied by the number of audit committees, while the financial performance is proxied in Return On Assets (ROA). The following is the description of the three variables.

Table 1. Description of Research Variables

	Minimum	*Maximum*	*Mean*	*Std. Deviation*
Return On Asset	-14,3	15,3	0,89	8,16
Debt to Equity Ratio	-43,3	8,85	-1,65	10,1
Komite Audit	2	4	2,95	0,38

Source: Data Processed

Table 1 shows that the lowest Return On Asset (ROA) in 2014 is at Borneo Lumbung Energi & Metal Tbk. Of -14.3 percent, while the highest ROA is Indo Tambangraya Megah Tbk. By 15.3 percent. The average ROA in 2014 is 0.89 percent with a standard deviation of 8.16 percent. It shows that mining companies have a low average ROA with a high diversity of inter-company ROA values.

The ratio of Debt to Equity Ratio (DER) in 2014 was the lowest recorded in Berau Coal Energy Tbk. Of -43.3 percent, while the highest DER value is in the company Delta Dunia Makmur Tbk. By 8.85 percent. The average DER in 2014 is -1.65 percent with a standard deviation of 10.1 percent. This shows that mining companies have a small average DER with a high diversity of inter-company DER values.

The number of audit committees is at least 2 persons, namely in Borneo Lumbung Energi & Metal Tbk. And Samindo Resources Tbk. While the number of audit committee at most is 4 people in the company Bumi Resources Minerals Tbk. Average number of audit committees in each mining company as many as 3 people with a diversity of audit committees amounted to 0.38. This indicates that mining companies have an average number of audit committees quite a lot with a very small diversity of inter-firm audit committees.

Estimation of Regression Model

To know the influence of capital structure and moderation of audit committee to company financial performance, moderating regression analysis will be done. The following is the estimation result of the moderating regression model.

Linear regression with moderate variables of the audit committee will certainly lead to a very high correlation among independent variables, since the audit committee moderation variables are

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obtained through multiplication of DER variables and audit committees. Ghozali (2012) argued that to overcome the problem of multicollinearity in regression model moderating with interaction can be done by regressing the standardization value (Z Score) of each research variable. The following is the result of multiple linear regression analysis between capital structure variables (DER), audit committee (KA), and moderation audit committee with ROA.

Table 2. Moderating Regression Analysis Result

Variabel	Koefisien	t	*Sig.*
(Constant)	0,050	0,271	0,790
Debt to Equity Ratio	0,572	2,637	0,017
Komite Audit	0,208	0,977	0,342
Moderasi komite audit	-2,858	-3,052	0,007
F hitung	3,743 (*Sig.* 0,031)		
R-*square*	0,398 (39,8 %)		

Source: Data Processed

Based on table 2 above, can be formed multiple linear regression model between DER, audit committee and moderation audit committee with ROA as follows:

$$ROA = 0,050 + 0,572\ DER + 0,208\ KA – 2,858\ MD + e$$

Equation of regression model above generated R-square equal to 0,398 which mean that diversity of Return On Asset (ROA) can be explained by capital structure (DER), Audit Committee (KA), and audit moderation moderation variable 39,8% and the rest 60, 2% is influenced by other variables outside the regression model.

In the simultaneous test (F test) obtained value of F arithmetic equal to 3,743 more than F table (3,304) and sig value. 0.031 <α = 0.05 indicating that the DER variable, Audit Committee, and moderate variables of the audit committee used in the study have been consistent in predicting the financial performance of the coal sector mining company (ROA) listed in the Indonesia Stock Exchange for the period of 2014 .

Partial test (t test) to prove the research hypothesis obtained a decision that the DER variable and audit committee moderation variables have sig value. Of 0.017 and 0.007 <α = 0.05 which states that the DER variable has a significant positive effect on return on assets (ROA). Meanwhile, for the interaction variable between DER and and moderate variable audit committee individually has a significant influence on Return On Assets (ROA).

Testing Classic Assumption Test

Classic assumption tests include normality test, autocorrelation, multicolinearity, and heteroscedasticity. In the normality test with Kolmogorov Smirnov yield value Z Kolmogorov-Smirnov of 0.973 with asymp value. Sig. (2-tailed) of 0.300 which is greater than the significance level (α) of 0.05 which means that the assumption of normality has been met. Then for the autocorrelation test with Durbin Watson obtained Durbin Watson value of 2.144 is between dU = 1.6694 and 4-dU = 2,3306 which states that assumption non autocorrelation has been fulfilled.

As for the detection of cases multicollinearity and heteroskedastisitas are as follows.

Table 3. Multicolinearity and Heteroscedasticity Detection Results

Variabel	Multikolinearitas		Heteroskedastisitas	
	Tolerance	VIF	t hitung	*Sig.*
Debt to Equity Ratio	0,753	1,328	0,787	0,442
Audit Committee	0,779	1,284	0,762	0,456
Moderate audit committee	0,616	1,622	-0,636	0,533

Source: Data Processed

The detection of multicollinearity through tolerance and VIF values presented in table 3

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resulted in that for DER variables, audit committees and moderation audit committees had tolerance values of 0.753, 0.779 and 0.616 over 0.1 and VIF values of 1.328, 1.284 and 1.622 less than 10 Which shows that in the three variables are not detected the existence of multicollinearity cases.

Then for heteroskedastisitas test used Glejser test obtained through regression between independent variable with its residual absolute value. In table 3 note that the value of sig. Of DER variables, audit committee, and audit committee moderation of 0.442, 0.456 and 0.533 more than the significance level (α) of 0.05. It shows that identical residual variance makes the assumption of non heteroscedasticity fulfilled.

Discussion

The Effect of Capital Structure (DER) on Financial Performance (ROA)

Based on the results of regression estimation in Table 2, it is found that DER has a positive and significant influence on ROA. It shows that the higher Debt to Equity Ratio (DER) company, will increase the value of Return On Assets (ROA) company. This is in line with Binangkit's (2014) research which states that DER has a positive and significant influence because companies tend to use debt as a source of funding when compared to the equity that makes the company's performance better. It is very influential on the increase in the value of ROA, because the company always not only accumulate debt but make the debt as something more useful for the company one of them is for the source of funding.

The influence of the Audit Committee on Return On Assets (ROA)

Based on the results of regression analysis in the previous chapter, it is found that audit committee has positive but not significant influence on ROA. It shows that the increasing number of audit committees in a company, not necessarily increase the value of Return On Assets (ROA) company. This is in line with the Lestari research (2015) which states that the audit committee has no influence on the financial performance of the company, because not yet the maximum system of corporate supervision of the audit committee. The problem of lack of communication is also one of the obstacles, because the audit committee is new to the company.

Influence of Moderate Variables Audit Committee on Relationship Between Capital Structure (DER) with Financial Performance (ROA)

Based on the results of regression analysis in the previous chapter, it is found that the audit committee moderation variables have a negative and significant influence on ROA. It shows that the moderate variable of the audit committee in the regression model weakens the Debt to Equity Ratio (DER) relationship with Return On Assets (ROA). Based on statements from KAU (Anti-Debt Coalition) Indonesia ranks fourth in developing countries with the largest amount of debt. The cause of the problem is the non-optimal GCG implementation and the many cases of corruption, collusion and nepotism reflected in the bad corporate governance system resulted in a decrease in the company's financial performance and loss. (Puspitawati, 2013).

IV CONCLUSIONS AND RECOMMENDA-TIONS.

The main discussion in this study is to know the impact of Good Corporate Governance (GCG) proxied in the number of audit committees on the relationship between capital structure proxied in Debt to Equity Ratio (DER) with the financial performance proxyed in Return On Assets (ROA) Mining listed on the Stock Exchange in 2014. The results concluded that the capital structure (DER) has a significant positive effect on corporate financial performance (ROA) and audit committee (KA) has a positive influence but not significant to the company's financial performance (ROA).

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Meanwhile, the existence of interaction variable between capital structure (DER) and audit committee (KA) which is a moderating variable is concluded to weaken the relationship between capital structure (DER) and sample company's financial performance (ROA). Based on the results of this study, the suggestion that can be given to the mining company is always make improvements to corporate governance in order to improve the financial performance of the company which will impact on the decrease of capital structure (DER).

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