Effect of Profitability, Investment Opportunity Set and Good Corporate Governance on Company Value

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ABSTRACT: The purpose of this study is to determine the effect of profitability, investment opportunity set and good corporate governance on firm value. This research is conducted at manufacturing companies in the consumer goods industry sector on the Indonesia Stock Exchange 2017-2019. The population in this study amounted to 45 companies with a sample of 31 for three years of observation, namely 2017-2019, resulting in 93 observational data. The sampling technique used in this study is purposive sampling and is analyzed using multiple linear regression. This research succeeds in supporting the existence of a signal theory but cannot support the existence of agency theory. In addition, this research can also help interested parties to utilize financial and non-financial information in the form of company performance appraisal as well as consideration in determining investment decisions. The results obtained based on the data analysis conducted show that the profitability and investment opportunity set have a positive effect on firm value. Meanwhile, good corporate governance as proxied by the independent board of commissioners and the audit committee has no effect on firm value.

Keywords - Company Value, Profitability, Investment Opportunity Set, Good Corporate Governance

I. INTRODUCTION

Global economic dynamics play a major role in the economic growth experienced by Indonesia. Good global economic growth will also affect the state of the domestic economy. On the contrary, the existence of a global economic situation that is not conducive to one of the causes of the high economic uncertainty experienced by Indonesia, both from all sectors. The emergence of trade tensions that occurred between the United States (US) and China and spread to several other large countries colored the world economy in 2019. The existence of geopolitical issues also affects economic uncertainty which has an impact on slowing economic growth in both developed and developing countries which only stepped on 1.7 percent and 3.7 percent in 2019 which experienced a slowdown compared to 2018 which reached 2.2 percent and 4.5 percent. So that the percentage decline that occurred was developed countries by 0.5 percent and developing countries by 0.8 percent. This situation has also triggered a slowdown in foreign capital flows to developing countries such as Indonesia. The existence of the volatility of world capital flows and economic digitization also contributed to the decline in Indonesia's export performance, which was at 0.87 percent from 6.55 percent previously.

The growth rate of the Indonesian economy during the last three years, namely the 2017-2019 period. Based on the data on Indonesia's economic growth, we can see that the Indonesian economy has experienced significant fluctuations over the past three years as a result of the dynamics of the global economy. Economic growth, which previously experienced an increase in growth of 5.17 percent in 2018, has decreased in 2019 to 5.02 percent. Most of the corporate sectors experienced a major impact due to these conditions, one of which was the decline in the company's share price. The consumer goods industry sector is one of the sectors of manufacturing companies that has experienced a decline in share prices in the last few years. On the official website of the Indonesia Stock Exchange, it shows that there has been a decline in the stock price index experienced by manufacturing companies in the consumer goods industry during the last three years. Throughout 2019 the stock price index stepped on a figure of -20.10 percent which previously in 2018 was -10.20 percent. This shows a decline in the share price index of the consumer goods industry sector by -9.9 percent. The occurrence of this event will indirectly affect the value of the company because investors will see the company's stock price.

The average value of companies in the consumer goods industry listed on the Indonesia Stock Exchange which is measured using the Tobin's Q ratio. In line with the stock price index of the consumer goods industry sector, the average company value has also decreased over the past three years. Although based on the average this sector is considered to have decreased, based on company value data, there are several companies that are
still resilient with an increase in company value in 2019. Calculations made using the Tobin’s Q ratio show that there are still several companies that have experienced an increase in corporate value in 2019. This sector is a sector that has a large market share because it provides primary needs. This sector is considered to have good prospects, besides it also requires large funds to support its production process (Valensia & Khairani, 2019). The existence of this event is a phenomenon that attracts the attention of researchers to conduct research related to company value and the factors that participate in influencing this situation. Maximizing company value is a long-term goal that a company has in addition to maximizing profit as a short-term goal. Every company has a goal to increase income for the welfare of shareholders (Kurniaty et al., 2018). Therefore, it is very important to maximize the value of the company and ensure the welfare of shareholders. In line with the increasingly growing global economic conditions, companies are required to ensure long-term impact in determining business strategies so as to convince investors to invest through their corporate value.

A good company value is a positive signal for corporate investors (Damayanthi, 2019). Previous researchers have conducted many studies related to the factors that influence firm value and have yielded different results. The inconsistencies in the results of these studies prompted researchers to conduct research related to firm value with independent variables and different observation periods. In addition, this study focuses on financial and non-financial factors that can affect firm value. The value of the company provides an overview of the sustainability of the company in the future (Wijaya & Wirawati, 2019). Good information will be disclosed by the company to increase company value (Yanto, 2018). In addition, the increasing demand for shares has an impact on the company's stock price which affects the value of the company (Rini & Mimba, 2018). Share price means the price that potential investors are willing to pay if they wish to own the company's shares (Yastini & Mertha, 2015). The company value seen from the share price is an important indicator in assessing the welfare of owners and shareholders (Leksono & Vhalery, 2018). In this study using the measurement with Tobins’Q because it can describe the fundamental aspects of the company and market share. The value of the company has a big influence on companies that are publicly listed because companies that have open status are required to always produce maximum performance for the sake of shareholders (Hartanti et al., 2019). Company performance can be used as an important factor in assessing a company (Kebon & Suryanawa, 2017).

Profitability can explain the company's value (Zuhroh, 2019). The level of company profitability can be measured using the Return on Assets (ROA) ratio which functions to measure the rate of return on capital or investment invested in a business (Mawati et al., 2017). It is very important to know the level of profitability for investors and potential investors so that they can make the right investment decisions according to their objectives. Profitability has a positive effect on firm value according to Gamayuni (2015), Ulfa & Asyik, (2018), Valensia & Khairani, (2019), Khorompis & Wirajaya, (2017), Mawati et al., (2017), Hartanti et al., (2019), Wijaya & Wirawati, (2019). Meanwhile, different results found that profitability has a negative effect on firm value according to Djashan, (2019), Yastini & Mertha, (2015). Different results also found that profitability has no effect on firm value in the research conducted by Asyik & Thaharah, (2016), Sondakh, (2019), Nuswandari et al., (2019), Putri, (2017).

Apart from profitability, the Investment Opportunity Set is also one of the factors that can affect company value (Khuzaaini et al., 2017). IOS or investment opportunity set represents the growth of a company because it is an important component regarding market value. IOS is an investment choice that can be made for the future. The increasing wealth of the company tends to bring a positive direction for the company's development and is seen as a good signal for investors. A company that continues to develop will have an impact on the long-term prospects seen by investors so that it can have an effect on the increase in demand and share prices that occur and have an impact on the value of the company. IOS has a positive influence on firm value according to Rini & Mimba, (2018), Suartawan & Yasa, (2016) Dharmawan & Riza, (2019). In contrast to these results, according to Kebon & Suryanawa, (2017) stated that IOS has no influence on firm value. In addition to financial information that needs to be considered, it is very important to know the resources that manage the running of a company. Good Corporate Governance or good corporate governance is a company internal control mechanism (Widianingsih, 2018). Through good corporate governance, it is hoped that the company can achieve maximum performance and always pay attention to the interests of the shareholders. Therefore, it is necessary to implement strong principles of Good Corporate Governance in it.

The principles of Good Corporate Governance are transparency, namely in maintaining the objectivity and relevance of information provided to shareholders. Second, accountability, namely accountability for performance in a transparent and fair manner. Third, responsibility, namely accountability to society and the environment and compliance with applicable laws. Fourth, independence, namely in an effort to facilitate the implementation of Good Corporate Governance, the company can be managed independently to avoid dominating each other in a company. And the fifth is the existence of fairness or equality in running the company so that it can always pay attention to the interests of the parties involved in the company such as shareholders and company management. The existence of good governance and a company is one of the
important information that investors need to know(Ullah et al., 2017). The existence of conflicts of interest that arise often occurs due to lack of supervision. The separation of functions between company management control and investor ownership is the core of agency relationships in a business.

Based on the principles of Good Corporate Governance, the indicators used in this study are proxied by the number of Independent Commissioners and the presence of the Audit Committee in the company. The independent board of commissioners and the audit committee are part of the internal mechanism of Good Corporate Governance, which in carrying out their duties is always guided by these principles so that it is expected to create good corporate governance and support the success of a company. The perspective on corporate governance is highly dependent on the paradigm of shareholders and stakeholders(Kurniaty et al., 2018)

An independent board of commissioners can monitor company activities (Yanto, 2018). The existence of an independent board of commissioners in the company is considered to be able to provide advice and objectively. The independent board of commissioners plays a major role in the implementation of the Good Corporate Governance system. The greater the number of independent boards of commissioners in the company, the greater the opportunities created for the directors in creating the expected company value. The independent board of commissioners has a positive effect on firm value according toAsyik & Thaharah, (2016), Kurnia & Wirasedana, (2018), Damayanthi, (2019), Onasis, (2016), Valensia & Khairani, (2019). A different result is found which states that the independent board of commissioners has a negative effect on firm value in the research conducted byLeksono & Vhalery, (2018), Hartoyo, (2016), Arifin, (2017). There is also another result which states that there is no influence between the independent board of commissioners on firm value in the research conducted by Gosal et al., (2018), Widianingsih, (2018), Prastuti & Budiasih, (2015), Yanto, (2018).

The role of the audit committee in the company also participates in the internal monitoring process. Audit committees help create transparency, compliance and effective internal controls. In practice, the audit committee improves the quality of financial reports by helping the board of commissioners. The audit committee has a supervisory function with the aim of minimizing the occurrence of biased information generated in the financial statements. Biased information can usually lead to conflicts within a company. With the existence of an audit committee, the information asymmetry that occurs can be minimized and investors have high confidence in the credibility of the company's reports. The audit committee has a positive influence on firm value according to research conducted by Widianingsih, (2018), Damayanthi, (2019), Syafitri et al., (2016)Onasis, (2016). Meanwhile, different results state that the audit committee has a negative effect on firm value according to Leksono & Vhalery, (2018). In addition, there are also results which state that there is no influence between the audit committee on the company value according to Kurnia & Wirasedana, (2018), Gosal et al., (2018), Christiani & Herawaty, (2019)

II. HYPOTHESIS DEVELOPMENT

Based on signal theory, information about the company is something that need to be known by parties who need information such as shareholders. Information provided to interested parties, company performance in the form of profitability is important information to know. Profitability is the rate of return on capital as well as the strength of the company(Hartanti et al., 2019). The company's profitability can be measured by the Return On Assets (ROA) ratio to determine the efficiency of using assets. The higher the ratio of Return on Assets (ROA) owned by the company, it reflects that the company's performance is good, the company value is also getting better which will affect the perception of investors in making investment decisions. (Mawati et al., 2017), Ulfa & Asyik, (2018), Valensia & Khairani, (2019), Putra & Sedana, (2019), Leksono & Vhalery, (2018), Hartanti et al., (2019), Zuhroh, (2019), Damayanthi, (2019), Khuzaini et al., (2017)found that there is a positive effect of profitability on firm value.

H₁: Profitability has a positive effect on firm value.

Based on signal theory, one of the important information investors need to know is the investment opportunities they have. A high and promising IOS will send positive signals to investors and vice versa. Large investment opportunities provide an opportunity for companies to choose investments that will be profitable(Kebon & Suryanawa, 2017). IOS provides a broader picture of the company's value, which is the goal of the company depending on the company's future expenses. Rini & Mimba, (2018), Hamidah & Umdiana, (2017), Khuzaini et al., (2017)stated that the Investment Opportunity Set has a positive effect on company value. H₂: The Investment Opportunity Set has a positive effect on firm value

Based on agency theory, the independent board of commissioners has a function to minimize agency conflicts in companies that involve directors and shareholders. One way to create good corporate governance is through the function of this independent board of commissioners. The objective of the independent board of commissioners is to create equal interests from both the company management and shareholders. The number
of independent commissioners will affect the value of the company. The more the number of independent boards of commissioners, the better the company value will be because management performance is supervised. Kurnia & Wirasedana, (2018), Damayanthi, (2019) Valensia & Khairani, (2019), Dewi et al. (2019) Handriani & Robiyanto (2018) Ing Malelak et al. (2020) Unda et al. (2019) Indriastuti et al. (2020) found that the independent board of commissioners has a positive effect on firm value.

H₃: The independent board of commissioners has a positive effect on firm value.

Based on agency theory, an audit committee was formed with the aim of assisting the independent board of commissioners in producing financial reports so as to avoid information asymmetry. To be able to increase the value of the company, the resulting financial statements must be of high quality so that it requires the role of the audit committee in it. With the existence of an audit committee, the submission of financial reports to interested parties can be done properly (Valensia & Khairani, 2019). Widianingsih, (2018), Damayanthi, (2019), Onasis, (2016) Ali & Amir (2018) Larasati & Prasetyob (2019) stated in his research that the audit committee had a positive effect on firm value.

H₄: The audit committee has a positive effect on firm value

III. METHODS

This study examines the variables of profitability, investment opportunity set and good corporate governance on the value of manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange in 2017-2019. The approach used in this research is an associative quantitative approach. This research was conducted at manufacturing companies in the consumer goods industry which were listed on the Indonesia Stock Exchange in 2017-2019 by accessing the official website, namely www.idx.co.id. This research was conducted from 2017 to 2019 based on data on Indonesia's economic growth which experienced an increase in 2018 and decreased again in 2019. This situation occurred due to unfavorable global economic conditions that had an impact on fluctuations in Indonesia's economic growth influence share price. In addition, there was a decline in the stock price index of the consumer goods industry listed on the Indonesia Stock Exchange in 2017-2019 which also affected the value of the company. The research object in this study is the company value of manufacturing companies in the consumer goods industry which are listed on the Indonesia Stock Exchange in 2017-2019. The independent variables in this study are profitability, investment opportunity set and good corporate governance as proxied by the independent board of commissioners and the audit committee. The dependent variable in this study is firm value.

The population in this study were all manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange in 2017-2019 as many as 45 companies. The method of determining the sample in this study is non-probability sampling with purposive sampling technique. Purposive sampling technique is a sampling technique with several considerations made. The criteria used in selecting the sample in this study are as follows: Manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange during the observation period, namely 2017-2019; Companies that publish financial reports and annual reports during the observation period consistently; Companies that did not experience losses during the 2017-2019 observation year; Companies that have complete data related to research variables.

Based on these criteria, a sample of 31 manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2017-2019 was obtained with the number of observations, namely 93 observational data for 3 years of observation. The data collection method in this study is the non-participant observation method. Quantitative data used in the form of Torbin's Q ratio to measure firm value, Profitability (ROA), Investment Opportunity Set (MBVE), number of independent commissioners and number of audit committees owned by the company. The data source in this study is secondary data obtained from financial reports and company annual reports obtained on the Indonesia Stock Exchange and the 2019 Indonesian Economic Development Report obtained through the official website of Bank Indonesia. The data analysis technique used is multiple linear analysis

IV. RESULTS AND DISCUSSION

Profitability in this study is seen from the level of ROA, the company has an average profitability value of 0.08648 with a minimum value of 0.014 and a maximum value of 0.242. The average value of profitability as seen from the ROA level tends to approach the maximum value, which means that the sample average has financial performance in generating a high return on total assets. The standard deviation value of 0.052225 is lower than the average value which means that there is a low level of variation in ROA data or there is no large difference in data from one another.

IOS in this study is measured by the level of MBVE (Market to Book Value Equity) which has an
average value of 2.56599 with a minimum value of 0.295 and a maximum value of 8.535. The average value of IOS tends to be close to the maximum value which means that the set level of investment opportunities in the company is high. The standard deviation of 1.902498 is lower than the average value which indicates that there is a low level of variation in the data regarding the investment opportunity set in the company or there is no large difference in the data from one another. Good Corporate Governance in this study, which is proxied by an independent board of commissioners, is measured by the level of proportion of the independent board of commissioners on the number of commissioners in the company which has an average value of 0.40417 with a minimum value of 0.285 and a maximum value of 0.600. The average value tends to approach the maximum value, which means that the role of the independent board of commissioners has a big role in the company. The standard deviation value is 0.078995 which is lower than the average value which indicates that the level of variation in the data on the proportion of the number of independent commissioners is low or there is no big difference between the data from one another.

Good Corporate Governance, which is proxied by the audit committee in this study, is measured from the number of audit committees in the company which has an average value of 3.06173 with a minimum value of 3.000 and a maximum value of 4.000. The average value tends to be close to the minimum value, which indicates that the sample in this study has a lower level of audit committee. The standard deviation value of 0.242161 is lower than the average value which means that there is low data variation related to the number of audit committee data or there is no large difference in data from one data to another. Firm value in this study is measured by the Torbins'Q level which has an average of 2.07242 with a minimum value of 0.435 and a maximum value of 5.856. The average value tends to approach the maximum value, which means that most of the sample companies have good firm values. The standard deviation value is 1.297397 which is lower than the average value, which means that there is low data variation or there is no large difference between one data and another.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
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<th>Sig.</th>
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<td>Std. Error</td>
<td>Beta</td>
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<td>KA</td>
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Source: Data processed, 2020

Torbins’Q = 0.128 + 0.017ROA + 1.538MBVE – 0.002DKI + 0.001KA

A constant value of 0.128 means that if profitability (X1), investment opportunity set (X2) and Good Corporate Governance are proxied by the independent board of commissioners (X3) and the audit committee (X4) or all independent variables are constant, then the Firm Value (Y) will be tend to be positive 0.128. The profitability regression coefficient value of 0.017 means that if the profitability increases by 1 unit with the assumption that the other variables are constant, then the company value will increase by 0.017 units. The regression coefficient value of the investment opportunity set is 1.538, meaning that if the investment opportunity set increases by 1 unit with the assumption that other variables are constant, then the firm value will increase by 1.538 units. The regression coefficient value for the independent board of commissioners is -0.002, which means that if the independent board of commissioners increases by 1 unit with the assumption that the other variables are constant, then the company value will decrease by -0.002 units. The coefficient value of the audit committee is 0.001, which means that if the audit committee increases by 1 unit with the assumption that the other variables are constant, the company value will increase by 0.001 units. The value of Adjusted R2 is 0.950, which means that 95 percent of the independent variables, namely Profitability, Investment Opportunity Set, and Good Corporate Governance, are proxied by the Independent Board of Commissioners and the Audit Committee which explains the variation in the dependent variable, namely firm value. The remaining 5 percent is explained by other variables outside the independent variables.

The results of the analysis obtained show that the profitability regression coefficient of 0.017 has a positive value with a significance level of 0.000 less than 0.05, which means that profitability has a positive effect on firm value. These results are in line with the research hypothesis so that it can be said that H1 is accepted. These results mean that the higher the company's profitability, the higher the firm's value. The results of this study successfully support the existence of a signal theory which states that information about financial performance is important information for interested parties to know. Information on the company's financial
performance can also be used as a basis for making investment decisions by potential investors. The higher the Return On Assets (ROA) owned by the company reflects that the company's performance is good and the company's value is also getting better (Mawati et al., 2017). A high ROA level reflects the effectiveness of the company in generating net income on the assets owned by the company. Information related to the company's financial performance in the form of profitability is also a reference for investors in making investment decisions. The better the profitability growth of the company, the better it will be in the eyes of potential investors and shareholders because the company is considered more profitable so that investors are willing to pay for company shares according to their quality and accept company value. The results of this study are in line with research conducted by Valensia & Khairani, (2019), Ulfa & Asyik, (2018), Putra & Sedana, (2019), Leksono & Vhalery, (2018), Damayanti, (2019)

The investment opportunity set regression coefficient of 1.538 has a positive value with a significance level of 0.000, less than 0.05. The results of this study are in line with the research hypothesis, namely that the investment opportunity set has a positive effect on firm value so that H2 is accepted. This result means that companies that experience an increase in wealth or assets tend to make a lot of investments which trigger positive corporate development. The results of this study support the existence of signal theory because the developments that occur can be seen by investors as a good signal for the company's future growth. A good investor's view has an impact on the amount of demand for company shares and will affect the increase in the company's stock price. An increasing share price reflects the company's value has also increased. The existence of positive signals shared by the company is in line with well-responded investment opportunities so that the volume of the company's share purchases increases. This has an effect on company value because stock prices are an indicator of company value. The results of this study are in line with research conducted by Rini & Mimba, (2018), Suartawan & Yasa, (2016), Dharmawan & Riza, (2019)

The regression coefficient of -0.002 has a negative value with a significance level of 0.224 greater than 0.05. The results of this study are not in line with the research hypothesis which states that the independent board of commissioners has a positive effect on firm value so that H3 is rejected. The results of this study cannot support the existence of agency theory which states that the existence of an independent board of commissioners as part of the implementation of good corporate governance can assist in carrying out the supervisory function in good corporate governance practices as an effort to prevent and narrow the opportunities for behavior that arise. from the difference in interests between the principal and agent in the company. The role of the independent board of commissioners in the company is also a signal that is shared regarding the company's non-financial information to interested parties regarding good corporate governance. The independent board of commissioners has the function of monitoring the company's management activities. In addition, the independent board of commissioners also provides views and suggestions objectively to the company's management. This research is in line with the research conducted by Widianingsih, (2018), Syafitri et al., (2016), Yanto, (2018).Gosal et al., (2018)which states that the independent board of commissioners has no effect on firm value. The proportion of independent commissioners in the company cannot guarantee that there is a conflict of interest that occurs between the principal and the agent. The greater the number of independent board of commissioners in the company does not mean that the company can avoid conflicts of interest because it is directly proportional to the risks that must be faced which have the potential to create opportunities for different interests. The composition of the independent board of commissioners in the sample in this study is mostly at the minimum limit of the number of independent commissioners, which is 30% of the total number of commissioners. This is considered inefficient in supervising management because it has not been able to perform optimally in suppressing differences in interests. If seen based on the average proportion of independent commissioners in the company, it has not been able to dominate every policy taken by company management so that the existence of an independent board of commissioners has no effect in decision making and has no effect on firm value.

The fourth hypothesis (H4) states that the audit committee has no effect on firm value. The results of the regression coefficient analysis of 0.001 have a positive value with a significance level of 0.480 greater than 0.05. The results of this study are not in line with the research hypothesis which states that the audit committee has a positive effect on firm value so that H4 is rejected. The results of this study do not support the agency theory which states that minimizing the occurrence of conflicts of interest can be done through good corporate governance practices or good corporate governance as reflected in the number of audit committees owned by the company. In addition, the existence of the audit committee as one of the non-financial factors that plays a role in achieving the company's goals provides an overview of the implementation of good corporate governance by providing information or signals to interested parties. The audit committee has a function in carrying out internal control of the company, especially in producing quality financial reports. This is because the audit committee is a resource that has the ability to analyze the credibility of financial statements as a source of information for investors in assessing whether a company is eligible for investment.
Khairani, (2019) stated that there is no influence between the audit committee on firm value. The existence of an audit committee within a company does not determine that conflicts of interest can be minimized due to opportunistic behavior in the financial reporting process. Most of the samples in this study have a minimum number of audit committees, namely 3 people in a company who also doubles as an independent board of commissioners in the company. The role of the audit committee is still not optimal in the supervisory process in producing financial reports, resulting in the emergence of accountability that is of doubtful credibility and lack of transparency by company management to interested parties such as shareholders or potential investors. This raises doubts and decreases the level of trust in the company. Investors will tend to have more confidence in the results of external audits on the company's financial statements so that the number of audit committees has no effect on decision making. The existence of an audit committee is not a factor that is taken into account in determining company value.

V. CONCLUSION

Based on the test results, it can be seen that profitability has a positive effect on firm value; The investment opportunity set has a positive effect on firm value; independent board of commissioners has no effect on firm value; The audit committee has no effect on firm value. For the company, it is hoped that in the future it can pay more attention to corporate financial and non-financial information. Financial information such as financial performance (profitability) and investment opportunity sets as well as non-financial information such as the proportion of independent commissioners and audit committees included in annual reports and financial reports in order to provide an accurate picture of the company's condition for interested parties. Investors are expected to be able to use financial and non-financial information presented by the company such as financial performance (profitability) and investment opportunity sets as well as the proportion of independent boards of commissioners and audit committees included in annual reports and financial reports as wisely as possible in determining investment decisions in companies. For future researchers, it is hoped that research can further develop such as extending the research period. In addition, this research is expected to be a reference if there are researchers who wish to conduct similar research with this research.

REFERENCES


