

IMPLICATIONS OF THE LEGAL FORM OF ROE FOR COMPANY MANAGEMENT

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INFO ARTIKEL	ABSTRAK
<p>Diterima: 05 Desember 2025 Direvisi: 25 Desember 2025 Disetujui: 12 Januari 2026 Tersedia Daring: 31 Januari 2026</p> <hr/> <p>Kata Kunci: Bentuk Hukum Perusahaan; Kinerja Keuangan; Manipulasi Laporan Keuangan; Return On Equity; Tata Kelola Perusahaan</p>	<p>Penelitian ini membahas hubungan antara bentuk hukum perusahaan dan penerapan Return on Equity (ROE) sebagai indikator kinerja keuangan dalam pengelolaan perusahaan. Dengan pendekatan yuridis normatif, penelitian ini menunjukkan bahwa bentuk hukum perusahaan sangat memengaruhi penggunaan ROE dalam praktik manajerial dan tata kelola perusahaan yang berkelanjutan. ROE digunakan untuk mengukur efektivitas penggunaan modal sendiri dalam menghasilkan laba, yang menjadi dasar evaluasi profitabilitas dan efisiensi manajerial. Dalam konteks hukum Indonesia, meskipun ROE tidak diatur secara eksplisit dalam peraturan perundang-undangan, penerapannya didukung oleh berbagai regulasi yang menekankan transparansi, akuntabilitas, dan integritas pelaporan keuangan. Studi ini juga menyoroti peran ROE dalam pengambilan keputusan strategis seperti investasi, pembagian dividen, dan ekspansi usaha, serta risiko hukum yang timbul akibat manipulasi ROE.</p>

KEYWORDS	ABSTRACT
<p>Keywords: Corporate Governance; Corporate Legal Form; Financial Performance; Financial Statement Manipulation; Return On Equity</p>	<p><i>This study discusses the relationship between corporate legal form and the application of Return on Equity (ROE) as a financial performance indicator in corporate management. Using a normative legal approach, this study shows that the legal form of a company greatly influences the use of ROE in managerial practices and sustainable corporate governance. ROE is used to measure the effectiveness of equity capital in generating profits, which forms the basis for evaluating profitability and managerial efficiency. In the Indonesian legal context, although ROE is not explicitly regulated in legislation, its application is supported by various regulations that emphasise transparency, accountability, and integrity in financial reporting. This study also highlights the role of ROE in strategic decision-making such as investment, dividend distribution, and business expansion, as well as the legal risks arising from ROE manipulation.</i></p>

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1. Introduction

In a nation's economic development, law plays a highly significant role. Jean Jacques Rousseau, in *A Discourse on Political Economy* (1755), explained the close relationship between law and economics. As quoted by Jimly Asshiddiqie, Rousseau argued that wise and legitimate governance must manage the household for the common interest of all its members, a concept later extended to state governance as a large family unit (Sadi, 2016). The scope of corporate law encompasses Civil Law, particularly Commercial Law, with

portions also falling within Administrative Law, as reflected in regulations outside the Civil Code (KUHPerdata) and the Commercial Code (KUHD) (Lesmana & Yustiawan, 2023). From a business practice standpoint, corporate regulation falls within Civil Law, while from an operational perspective, companies may also be categorized within the scope of Economic Law (Badruzzaman, 2022).

A company can be understood as an organized, ongoing business activity conducted by an individual or entity, encompassing the provision of goods or services intended for sale or exchange with the primary aim of generating profit (Ritonga, 2022). Indonesia's economic growth cannot be separated from the dynamics of business actors, supported by economic policies that increasingly influence political, legal, and business dimensions. In this context, companies play a vital role as a key pillar of modern society (Harjono, 2021). Companies continuously seek strategies to achieve both long-term goals, such as increasing firm value and shareholder welfare, and short-term goals, such as optimizing revenue (Ritonga, 2022).

Corporate financial performance results from a series of management decisions. Effectiveness is achieved when management sets appropriate goals, while efficiency refers to the ratio of input to output (Gozali, 2012). Financial performance can be assessed through financial ratios, including Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). Empirical studies show that ROE has a positive and significant influence on firm value, making it a primary consideration for investors (Aryantini & Jumono, 2021; Badruzaman et al., 2022). High profitability indicates strong growth potential and helps companies secure external financing (Ruspandi & Asma, 2014). Consistent earnings growth attracts investors, viewing such performance as a positive indicator of future prospects (Badruzaman et al., 2022).

Although ROE is not directly regulated in Indonesian legislation, its legal basis can be found in related regulations. Law No. 40 of 2007 on Limited Liability Companies, particularly Article 66(1), requires the board of directors to submit an annual report including financial statements with net income and shareholders' equity, the two primary elements in calculating ROE. Furthermore, Government Regulation No. 54 of 2017 on Regional-Owned Enterprises (BUMD) establishes two primary legal forms: Regional Public Companies (Perumda), oriented toward public service while still required to generate profit, and Regional Corporate Companies (Perseroda), explicitly profit-oriented. This legal form affects how ROE is used as a measure of financial performance and managerial efficiency (Hasan, 2025). Government regulation (PP) No. 54 of 2017 also emphasizes professionalism and independence among corporate organs, prerequisites for ROE to be applied validly and without manipulation.

While there is a substantial amount of research on ROE from the viewpoint of financial management, investigations that focus on how corporate legal structure affects the application of ROE within Indonesia's legal context are still quite scarce. Empirical literature confirms a significant regulatory gap, wherein no explicit legal provision governs ROE within Indonesia's corporate legal framework, leaving its application dependent on voluntary disclosure mechanisms and indirect governance, both susceptible to inconsistency (El-Gazzar et al., 2008; Saputra et al., 2025). This research

gap forms the basis of the present study, which aims to analyze how corporate legal form affects ROE application, the legal implications for its transparency and accountability, and the legal risks arising from ROE manipulation. Practically, this study is expected to contribute to the development of corporate governance policy that more explicitly integrates financial indicators such as ROE into Indonesia's regulatory framework.

2. Methods

This study employs a normative legal research approach, examining relevant legislation and legal documents as the basis for analyzing ROE in corporate management. The research is descriptive-analytical, describing and analyzing legal provisions related to ROE as a financial performance indicator. Data sources consist of primary legal materials (laws, government regulations, presidential regulations, OJK regulations, and ministry regulations) and secondary legal materials (academic literature, journals, and corporate law texts). Data were collected through library research, tracing regulations and literature on ROE, corporate governance, and financial reporting. Data analysis was conducted qualitatively through content analysis of relevant regulations and legal theory to understand the relationship between corporate legal form, governance principles, and the use of ROE as a performance indicator and strategic decision-making tool.

3. Results and Discussion

3.1. The Concept of Return on Equity in Investment Management as an Indicator of Profitability and Capital Use Efficiency

The term "company" emerged as part of reforms in commercial law. According to Soekardono, a company is an economic concept that entered the domain of civil law, particularly commercial law. Through Staatsblad 1938 No. 276, the term "company" began to replace older terms such as "trader" and "commercial act." Three Dutch terms subsequently shaped the understanding of company (Multazam et al., 2023):

- a) *Onderneming*, describing a company as a unified operation or activity within a business entity.
- b) *Bedrijf*, emphasizing the economic dimension of a company as an entity aimed at generating profit through business activity.
- c) *Vennootschap*, explaining a company from a legal perspective as a form of enterprise arising from a cooperation agreement among parties or partners.

Beyond these Dutch terms, other scholars offer additional perspectives. Molengraaff defined a company as ongoing, externally oriented actions aimed at generating income through trade, delivery of goods, or agreements which focusing on income-generating activities. Polak took a more commercial approach, arguing that an activity qualifies as a company only when profit and loss are systematically recorded in bookkeeping. Thus, according to Polak, a company's existence is determined by an accounting system that reflects its financial condition (Multazam et al., 2023).

Corporate legal form not only determines institutional structure but also shapes organizational culture and working environment, which significantly influence organizational performance (Yosep et al., 2024). In its long-term endeavors, a company

continually seeks to maintain competitive advantage to increase firm value. Achieving optimal firm value can be realized through the application of financial management functions, where each financial decision interrelates and directly affects firm value. Normatively, the objective of financial decision-making is to maximize firm value or increase shareholder welfare. Firm value reflects the price a buyer would pay if the company were sold; the higher that value, the greater the welfare of the company's owners (Gunardi et al., 2023).

Financial performance is an analytical process aimed at assessing the extent to which a company has conducted its activities in accordance with sound financial principles. This assessment is generally conducted through financial ratio analysis, including profitability ratios, which measure a company's ability to generate profit through sales, asset utilization, and effective capital deployment (Hidayat et al., 2021). Profitability reflects a company's capacity to generate profit from its capital. This concept is important as an indicator of operational efficiency, since efficiency can only be assessed by comparing profit earned against the assets or capital used to generate it. The primary objective of a company is to achieve maximum profit (Gunardi et al., 2023).

Profitability is the net result of various corporate policies and decisions. To survive, a company must operate profitably. Owners and management continuously seek to increase earnings, understanding profitability's fundamental importance to business continuity. For the company, profitability serves as an evaluation tool for assessing management effectiveness, with earnings as a critical component for ensuring corporate survival (Gunardi et al., 2023). According to Weston and Copeland, profitability ratios assess management effectiveness by examining the rate of return from sales and investment. Sutrisno defines them as tools for measuring profit magnitude, while Kasmir regards them as indicators of a company's capacity to generate profit, reflecting management effectiveness through profit generated from sales and investment activities (Gunardi et al., 2023).

According to Kasmir, ROE is a profitability ratio used to assess how well a company generates profit. Also known as return on equity or capital rentability, ROE measures management's success in creating profit for shareholders, helping to assess profit earned, evaluate financial performance, and measure the rate of return on investments (Batubara & Purnama, 2018). According to Harmono, profitability reflects a company's fundamental performance through operational efficiency and effectiveness in generating profit. Brigham and Houston emphasize that one of the most important accounting ratios is net income to common shareholders' equity, known as ROE, which assesses a company's capacity to generate profit from its own equity and indicates the return shareholders receive per unit of currency invested (Batubara & Purnama, 2018).

ROE is a ratio used to assess the extent to which equity generates profit for all shareholders, both common and preferred. The higher the ROE, the greater the company's capacity to generate returns for investors. Profit generated by the company can increase share prices, positively impacting overall firm value. The company's profit-generating capacity is seen as a positive signal by investors, encouraging them to purchase the company's shares. Earnings information is also used by capital market participants in

trading decisions. In short, ROE demonstrates that a company effectively manages invested capital and delivers returns to investors (Hidayat et al., 2021).

Investors review companies using financial ratios as tools to evaluate investment feasibility, since such ratios reflect firm value. When investors seek to know the potential return on a prospective investment, profitability ratios, particularly ROE, serve as the primary indicator. ROE measures a company's effectiveness in generating returns for investors. The larger the investment, the more it reflects the company's capacity to deliver value on that capital (Wulandari & Widyawati, 2020). The choice of corporate legal form has fundamental implications for governance structure and accountability mechanisms. Even in non-profit contexts such as social and religious organizations, the chosen form directly determines how governance is conducted and how accountability is ensured (Salito et al., 2023). This aligns with findings that in commercial contexts, corporate legal form (e.g., Limited Liability Company, Perumda, Perseroda) creates different accountability frameworks, with direct implications for financial reporting transparency and the reliability of ROE as an indicator.

3.2. Legal Implications for ROE Transparency and Accountability

The legal implications for ROE transparency and accountability are heavily influenced by financial reporting regulations and beneficial ownership disclosure requirements. In Indonesia, Ministry of Law and Human Rights Regulation (Permenkumham) No. 2 of 2025 on Verification and Supervision of Corporate Beneficial Owners requires every legal entity to report who directly or indirectly controls the company. This obligation aims to strengthen transparency, prevent illegal financial practices such as money laundering and tax evasion, and increase investor confidence in corporate governance.

In relation to ROE, this regulation is significant because ROE depends on the accuracy of earnings and equity data. When financial reporting and ownership structures are open and accountable, ROE reflects the company's true financial condition. Conversely, if beneficial ownership information is concealed or financial statements are manipulated, ROE becomes misleading. Corporate ownership structure significantly influences financial reporting quality, with broader institutional and public ownership reducing the risk of financial restatements (Rustiarini et al., 2025). Hence, this regulation not only reinforces good corporate governance principles but also ensures that ROE is used appropriately as a tool for evaluating management effectiveness and business sustainability.

Permenkumham No. 2 of 2025 constitutes an important legal foundation for promoting transparency and accountability in corporate financial management, including in relation to ROE. Although ROE is not explicitly mentioned, the regulation's beneficial ownership provisions significantly affect the reliability of financial statements. Article 1 defines a beneficial owner as an individual who directly or indirectly controls a corporation. Article 2 requires every corporation to identify and report such beneficial owners. Article 3 specifies criteria, including individuals holding at least 25% of shares, those with authority to appoint or dismiss directors or commissioners, or those who directly or indirectly benefit from the company.

These provisions directly affect financial management because transparent ownership structures enhance the credibility of financial statements. ROE, as a measure of management efficiency in generating profit from equity, depends heavily on accurate financial data. Transparent beneficial ownership disclosure ensures that reported ROE reflects the company's true financial condition, whereas concealed or manipulated ownership distorts ROE. Voluntary disclosure mechanisms grounded in good governance improve the value relevance of financial information, but their effectiveness depends on consistency and standardization supported by an adequate regulatory framework (El-Gazzar et al., 2008; Wang & Hussainey, 2013). Thus, Permenkumham No. 2 of 2025 reinforces good corporate governance principles and supports the use of ROE as a valid measure of managerial performance and corporate sustainability.

Beyond Permenkumham No. 2 of 2025, several other regulations further strengthen transparency and accountability in corporate ownership. Permenkumham No. 15 of 2019 on Procedures for Implementing the Principle of Recognizing Corporate Beneficial Owners requires corporations to identify and record beneficial owners, including individuals holding at least 25% of shares or having influence over strategic decision-making. Articles 15 and 16 govern supervisory mechanisms and administrative sanctions for non-compliance. Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering also contributes significantly. Articles 17 and 18 require financial institutions to apply the Know Your Customer (KYC) principle and verify the identity of beneficial owners of corporate clients, maintaining the integrity of financial statements used to calculate indicators such as ROE.

OJK Regulation No. 17/POJK.04/2020 on Material Transactions and Changes in Business Activities requires public companies to disclose detailed ownership information, including beneficial owners, in annual reports. This ensures that financial data used in ROE calculations are compiled transparently. Independent commissioners and effective audit committees correlate positively with ROE while deterring earnings management, demonstrating that strong governance determines ROE's validity as a performance indicator (Handriani & Robiyanto, 2018). Collectively, these regulations require companies to maintain clear and transparent ownership structures, ensuring that financial indicators such as ROE can be validly used to assess management effectiveness and business sustainability.

The legal implications for ROE transparency and accountability are closely tied to beneficial ownership disclosure and accurate financial reporting. Regulations such as Permenkumham No. 2 of 2025, Permenkumham No. 15 of 2019, Law No. 8 of 2010, and POJK No. 17/POJK.04/2020 form a mutually reinforcing legal framework ensuring that corporate ownership structures are verifiably transparent and accountable. Legally, beneficial ownership disclosure under Articles 1–3 of Permenkumham No. 2 of 2025 and Articles 2–3 of Permenkumham No. 15 of 2019 aims to identify individuals controlling a company, whether directly or indirectly. These provisions reinforce ownership transparency, which is the foundation for producing valid financial statements. For ROE as an indicator of management efficiency in generating profit from equity, the accuracy of

earnings and capital structure data depends heavily on openness of ownership information.

Furthermore, Articles 17 and 18 of Law No. 8 of 2010 require financial institutions to apply KYC and verify beneficial owner identities, preserving the integrity of financial statements used for ROE calculations. POJK No. 17/POJK.04/2020 strengthens the obligation of public companies to disclose detailed ownership information in annual reports, directly supporting management accountability.

The legal implication is that companies failing to comply with these provisions may face administrative sanctions, loss of investor confidence, and greater legal risk. Non-compliance with transparency principles can distort ROE measurement, ultimately harming shareholders and other stakeholders. Therefore, these regulations function not only as supervisory tools but also as the legal foundation for ensuring that ROE is validly used for performance evaluation and sustainable corporate governance. Court decisions in Indonesian cases of share manipulation and corruption confirm that weak regulation and governance oversight directly create opportunities for financial information distortion that harms investors (Chevalier et al., 2025), underscoring the urgency of a stronger legal framework to ensure the integrity of ROE reporting.

3.3. The Influence of ROE on Managerial Decisions and Business Strategy in Investment, Dividend Distribution, and Business Expansion Under Applicable Regulations

ROE plays an important role in influencing managerial decisions and corporate business strategies, particularly regarding investment, dividend distribution, and business expansion. Although ROE is not explicitly mentioned in Indonesian legislation, the underlying principles of its application are reflected in several regulations. In the context of investment, ROE is used as an indicator of equity utilization efficiency in generating profit. This aligns with Law No. 25 of 2007 on Investment, particularly Article 3(1), which emphasizes the principles of efficiency, openness, and accountability in investment activities. ROE helps management assess the feasibility of an investment based on its potential return on capital.

The principles underlying ROE use are also reflected in Presidential Regulation No. 10 of 2021 on Business Sectors for Investment. Article 2(1) states that all business sectors are in principle open for investment, except those declared closed or reserved for the central government, giving companies room to expand into various sectors where ROE can serve as a tool for assessing investment feasibility. The regulation also governs priority business sectors eligible for incentives, making ROE an important indicator for evaluating the effectiveness and efficiency of investment in those sectors. Companies can use ROE to assess the feasibility of entering priority sectors that offer high returns, consistent with the efficiency principles embedded in the regulation.

Regarding dividend policy, ROE is a primary consideration in determining whether earnings will be distributed to shareholders or reinvested. This is reflected in Law No. 40 of 2007 on Limited Liability Companies, Article 71(1), which states that net profit after tax may be distributed as dividends based on a GMS decision. High ROE typically

encourages dividend distribution, indicating strong financial performance and managerial efficiency. Research on companies conducting Initial Public Offerings (IPOs) in Indonesia found that dividend policy is influenced by corporate life cycle, with profitability including ROE being a primary determinant of earnings distribution decisions (Mai & Setiawan, 2021). This finding aligns with Article 71 of Law No. 40 of 2007, which places dividend distribution authority with the GMS based on corporate financial condition.

In the context of dividend distribution and strategic changes in business activities, POJK No. 17/POJK.04/2020 on Material Transactions and Changes in Business Activities requires public companies to disclose detailed financial information in annual reports and public disclosures, including earnings and equity data used in ROE calculations. Although ROE is not directly mentioned, these data are part of the mandatory disclosure. This strengthens management accountability and ensures that business decisions such as dividend distribution and business expansion are based on valid and transparent financial indicators.

In business expansion strategy, ROE is used to assess a company's readiness to extend its operations. Companies with high ROE tend to have greater financial capacity for expansion, whether through opening new branches, increasing production capacity, or pursuing acquisitions. This is consistent with Article 4 of Law No. 25 of 2007, which encourages investment to expand business and enhance national competitiveness. In Indonesian state-owned enterprises, good governance has been shown to play a more critical role than in private companies in influencing ROE and share returns, given the influence of government in ownership structures (Markonah & Riwayati, 2024). This finding is relevant to the context of Persero and Perumda under PP No. 54 of 2017, where corporate legal form directly determines how ROE is used as a managerial evaluation tool within business expansion strategy. Thus, ROE constitutes a valid and strategic measure for supporting managerial decision-making oriented toward corporate growth and sustainability, aligned with applicable legal principles in Indonesia.

Government Regulation No. 5 of 2021 on Risk-Based Business Licensing also governs business risk classification and licensing simplification. ROE can serve as an internal analytical tool for assessing potential return on equity in sector-specific expansion, supporting risk management and business efficiency principles. Although ROE is not explicitly mentioned in its provisions, the efficiency and risk management principles underpinning this regulation are highly relevant to ROE as an internal evaluation tool for determining expansion direction and strategic decision-making.

3.4. Legal Consequences of ROE Manipulation in Corporate Financial Reporting

ROE is an important financial indicator but is vulnerable to manipulation through inaccurate financial reporting. ROE manipulation, such as earnings inflation or concealment of equity, can mislead investors and stakeholders and may constitute a legal violation. In Indonesia, this is governed by OJK Regulation No. 15 of 2024 on the Integrity of Bank Financial Reporting. Article 3 prohibits corporate parties, including directors and commissioners, from presenting financial statements that do not reflect actual conditions.

Article 4 requires companies to have an internal control system ensuring accuracy and compliance with financial reporting standards.

External oversight by OJK plays an important role in preventing and addressing financial statement manipulation. Additionally, financial statement manipulation may be subject to criminal sanctions under the Criminal Code (KUHP) and Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering, if conducted to conceal proceeds of crime or mislead the public. Thus, ROE manipulation is not merely a business ethics violation but also a serious legal offense. ROE manipulation is typically carried out through financial statement engineering, such as earnings inflation, deferred expense recognition, or unjustified equity reduction, to artificially increase ROE. A study using the modified Beneish M-score on Indonesian manufacturing companies identified earnings management practices based on the fraud triangle, wherein manipulation affecting ROE is most likely to occur in companies under high performance pressure with weak internal oversight (Narsa et al., 2023). This finding reinforces the urgency of OJK oversight as governed by POJK No. 15 of 2024 and POJK No. 16 of 2023.

Legally, financial statement manipulation is governed by POJK No. 15 of 2024 on the Integrity of Bank Financial Reporting. Article 3 states that directors, commissioners, sharia supervisory boards, and executive officers are prohibited from taking actions that cause financial information or statements not to reflect actual conditions, including data manipulation and violations of accounting standards and OJK provisions. This confirms that any manipulation affecting indicators such as ROE constitutes a violation of financial reporting integrity. Audit committees that are broader in composition, independent, and equipped with financial expertise have been shown to effectively detect and prevent earnings management, thereby preserving the integrity of financial statements used for ROE calculations (Eriandani et al., 2020). The use of external auditors from major public accounting firms and longer audit tenures also correlates with reduced manipulation risk (Guedhami et al., 2014), providing an additional oversight layer that synergizes with OJK's investigative authority under POJK No. 16 of 2023.

Article 4 of POJK No. 15 of 2024 further requires banks to develop internal control policies and procedures for financial reporting, including prohibitions on all internal parties from engaging in activities that could materially misrepresent actual conditions. Transaction recording procedures must comply with accounting standards and OJK provisions to ensure transparency and accuracy. Beyond internal controls, external oversight by OJK is critical in detecting and addressing ROE manipulation. OJK holds investigative authority under POJK No. 16 of 2023 on Investigation of Criminal Acts in the Financial Services Sector, enabling OJK to follow up on reports or complaints regarding alleged violations, including financial statement manipulation. Thus, ROE manipulation is not solely a business ethics matter but also a legal violation subject to administrative and criminal sanctions. Regulations such as POJK No. 15 of 2024 and POJK No. 16 of 2023 serve as important instruments for maintaining financial system integrity and ensuring that ROE is used validly and responsibly in business decision-making.

4. Conclusion

ROE is an important indicator for assessing the effectiveness and efficiency of corporate capital management, directly influenced by corporate legal form and institutional structure. Within the Indonesian legal context, although ROE is not explicitly mentioned in legislation, its application is supported by various regulations emphasizing transparency, accountability, and financial reporting integrity. ROE also shapes the direction of investment policy, dividend distribution, and business expansion, making it a strategic management tool. However, the potential for ROE manipulation through inaccurate financial reporting poses serious legal risks, requiring strict oversight and regulatory compliance to ensure that ROE is used validly and responsibly in supporting sustainable corporate governance.

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