

Good Corporate Governance Characteristic, Profitability and Firm Value: Evidence from Indonesia

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Abstract: *This research aims to test the influence of good corporate governance and profitability on the firm value. This research was conducted because of the low GCG implementation in Indonesia. This study used multiple linear regression to test the influence between variables and Sobel tests to determine the mediation effect of profitability. The research was conducted on companies registered in LQ45 for 2015-2019. The data used in the study was 245 data. The results showed that independent commissioners and audit committees had a negative effect, the board of directors had a positive effect, and institutional ownership did not affect profitability. Direct testing of GCG's influence on the firm values showed that independent commissioners had a negative effect, institutional ownership had a positive effect, and the board of directors and audit committee did not affect the firm value. The results also showed that profitability could mediate the influence of GCG on the firm value, except for institutional ownership variables. Further research is expected to increase the number of samples and use different firm measurements. Companies need to improve GCG to increase management transparency so that investors and creditors can make appropriate decisions about the company.*

Keywords: *GCG characteristic, profitability, firm value*

Abstrak: *Penelitian ini bertujuan untuk menguji pengaruh good corporate governance dan profitabilitas terhadap nilai perusahaan. Penelitian ini dilakukan karena masih rendahnya penerapan GCG di Indonesia. Penelitian ini menggunakan regresi linier berganda untuk menguji pengaruh antar variabel dan uji Sobel untuk mengetahui pengaruh mediasi terhadap profitabilitas. Penelitian dilakukan pada perusahaan yang terdaftar di LQ45 untuk tahun 2015-2019. Data yang digunakan dalam penelitian ini sebanyak 245 data. Hasil penelitian menunjukkan bahwa komisaris independen dan komite audit berpengaruh negatif, dewan direksi berpengaruh positif, dan kepemilikan institusional tidak berpengaruh terhadap profitabilitas. Pengujian langsung pengaruh GCG terhadap nilai perusahaan menunjukkan bahwa komisaris independen berpengaruh negatif, kepemilikan institusional berpengaruh positif, dan dewan direksi dan komite audit tidak berpengaruh terhadap nilai perusahaan. Hasil penelitian juga menunjukkan bahwa profitabilitas dapat memediasi pengaruh GCG terhadap nilai perusahaan kecuali variabel*

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kepemilikan institusional. Penelitian selanjutnya diharapkan dapat menambah jumlah sampel dan menggunakan pengukuran yang berbeda dari perusahaan. Perusahaan perlu meningkatkan GCG untuk meningkatkan transparansi manajemen sehingga investor dan kreditor dapat mengambil keputusan yang tepat tentang perusahaan.

Kata kunci: *mekanisme GCG, profitabilitas, nilai perusahaan*

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INTRODUCTION

The culture of efficiency and effectiveness in the era of industrial revolution 4.0 demands intense business competition. Therefore, it takes competitive company management to compete for sustainability. Management could strengthen the firm value to support corporate governance. The firm value is the value that investors use to measure the company's level of interest reflected in the share price (Berzkalne & Zelgalve, 2018; and Anggarwal & Padhan, 2017).

The definition suggests that firm value is one-way management uses it to maximize it by improving shareholder prosperity. Maximizing shareholder prosperity optimizes shareholder returns on investments (Lubis et al., 2017). Increased shareholder prosperity can increase if the share price owned by the company also increases. In addition to investors, the firm value is crucial for management to evaluate the company's performance (Fidhayatin& Dewi, 2012). Performance evaluation can improve corporate governance that affects the companies going concerns. In recent decades, the economic crisis is evidence of the company's difficulties in increasing firm value due to weak governance (Siswanti, 2016). Fidhayatin& Dewi (2012) shows that companies with less good corporate governance can cause difficulties in developing the company's low investor confidence in the capital market.

The challenges of increasing the firm value are (i) improving the efficiency of the company's resource management; and (ii) the creation of a competitive and organized corporate climate (Halimatusadiah & Gunawan, 2014). Therefore, companies must create a good management and control environment. One of the steps that can be done to create such an environment is implementing Good Corporate Governance (GCG). GCG can function when there is good coordination between the inside of the company (Sanchia& Zen, 2015). Optimizing the GCG function can create value-added for stakeholders and become an indicator of firm value. Whether or not the entity's characteristics determine GCG, GCG is often referred to as the GCG characteristic. The characteristics of GCG are mentioned by Perdana and

Raharja (2014) as managerial ownership, institutional ownership, audit committee, comparison of independent commissioners with total commissioners, and quality of external auditors.

The purpose of implementing GCG is to ensure that the management runs well (Kaihatu, 2016) to create an optimal return for shareholders (Amanti, 2011). Amanti (2011) strengthens the implementation of GCG characteristics by associating control of activities to stabilize power and authority of power accountability. Like Amanti (2012), Prabaningrat and Widanaputra (2015) suggest that GCG is a mechanical system that contributes as a controller and company rules to create added value. Good GCG characteristics can support economic stability and growth (Michelberger, 2018) through investment security for both old and new investors (Dwiridotjahjono, 2010).

The low implementation of GCG in Indonesia is a signal that the improvement of GCG is vital to be done. GCG improvement will provide six benefits to the company, improvement of internal organizational factors, increased investor and public trust, increase awareness of the company's management and stakeholders on the importance of GCGs, mapping of strategic issues and input in policymaking, indicators or quality standards in the form of public recognition and the realization of commitment, responsibility, and efforts to encourage management to implement GCG (Mutamimah&Phradiansah, 2014).

Utami (2011) mentioned that GCG affects the firm value. Similar to Utami (2011), Utomo (2014) mentioned that indicators of GCG variables, namely institutional ownership and audit quality, affect financial performance, while the board of commissioners (especially independent commissioners) and audit committees have no significant effect on financial performance. This result shows that the better corporate governance, the higher investor confidence in the company to increase its value. Permatasari (2016) found the influence of profitability to moderate the influence of GCG on the firm value. The results reveal that profitability can moderate the influence of GCG on firm value. The higher the GCG score, the more effective management is in increasing the company's profitability. High profitability leads to a high firm value. Profitability reinforces the positive influence of GCG and the firm value.

Aspects of profitability as one way to measure financial performance (Wibowo and Aisjah, 2014) are very important in maximizing the company's market value through maximizing the stock market price (Wibowo and Aisjah, 2014). High levels of profitability can increase the firm value because it reduces the risk of future losses for the company. (Suryaningtyas and Rohman, 2019). The company's high level of profitability makes investors interested in investing in the company because the high level of profitability leads to a high return on shares. The higher the demand for the company's shares, the higher the share price of the company in the capital market because the higher the share price, the higher the firm value. Thus, profitability is expected to mediate GCG's relationship to the firm value.

Inconsistent research on the influence of GCG characteristics and

corporate profitability on the firm value becomes a gap to conducting further research on the role of GCG implementation on the profitability of the company and its impact on the firm value. This study aimed to determine the effect of GCG on firm value as management transparency. This research is important because GCG in Indonesia is an interesting phenomenon to be further reviewed. This research is a development of Suryaningtyas and Rohman's research (2019) by detailing the measurement of GCG variables in four measurements, namely independent commissioners, institutional ownership, board of directors, and audit committee. These four measurements were chosen because of inconsistent results in affecting firm value. After all, the better corporate governance in Indonesia, the easier it is for investors to trust financial statements and invest in companies.

LITERATURE REVIEW

Characteristics of GCG

Siswanti (2016) mentioned that internal mechanisms are a way to control the company by using internal structures and processes such as the General Meeting of Shareholders (GMS), the composition of the commissioners, the composition of the board of directors, and meetings with the board of directors. External mechanisms influence companies and use internal corporate mechanisms such as control by companies and control by the market (Siswanti, 2016). In this study, the characteristics of GCG are independent commissioners, institutional ownership, board of directors, and audit committees.

Independent Commissioner

As the culmination of the company's internal management system, the Board of Commissioners has a role in supervisory activities. The monitoring function performed by the board of commissioners is influenced by the number or size of the board of commissioners (Hermuningsih, 2012). The Board of Commissioners may perform its duties independently or by delegating its authority to the committee responsible to the board of commissioners. The Board of Commissioners should monitor the effectiveness of good corporate management practices implemented by the Company (Perdana and Raharja, 2014).

Institutional Ownership

Institutional ownership is the ownership of shares of companies by financial institutions such as insurance companies, banks, pension funds, and other non-bank financial institutions. In general, institutional investors are sizable shareholders while having significant funding. Companies with considerable funding are less likely to risk bankruptcy, so the amount of corporate funding will increase public confidence in the company (Siswanti, 2016).

Board of Directors

The company's management function by the board of directors includes five main tasks; the management function, risk management includes drafting

and implementing the company's risk management system, internal control includes the preparation and implementation of the company's internal control system; communication includes ensuring smooth communication between the company and stakeholders, and social responsibility (Siswanti, 2016).

Audit Committee

A high level of independence provides two essential benefits, a high level of supervision and a low level of financial report fraud (Utami, 2011). The Audit Committee is tasked with assisting the Board of Commissioners to ensure that financial reports are presented relatively under generally accepted accounting principles, the company's internal control structure is carried out correctly, the implementation of internal and external audits is carried out under applicable audit standards, and further follow-up audit findings are carried out by management (Wicaksono and Raharja, 2014).

Profitability

Profitability is the ability to generate profit during a specific period using assets or capital, both overall capital and own capital (Siswanti, 2016; Hermuningsih, 2012; Perdana and Raharja, 2014). Profitability concerns the efficiency of companies using capital, both their capital and foreign capital. The company's profitability influences the investor's policy to invest in the framework of business expansion. On the contrary, if the level of profitability is low, it will cause the investor to withdraw his funds. As for the company, profitability can be used to evaluate the effectiveness of the company's management (Siswanti, 2016).

Firm Value

Utami and Prasetyono (2016) mentioned that the company's primary purpose is to maximize its value. The definition of maximizing value is to consider the influence of time on the value of money, considering the various risks to the company's revenue flow and the quality of future cash flows that may vary (Utami, 2011). The purpose of maximizing the firm value is to improve shareholders' welfare (Hermuningsih, 2012). According to Siswanti (2016), the firm value is a price that is willing to be paid by prospective buyers if the company is sold. The firm value describes how well or poorly management manages its wealth, which can be seen from the measurement of financial performance obtained. A company will strive to maximize the value of its company. The increase in the firm value is usually characterized by a rise in the share price in the market (Perdana and Raharja, 2014).

Effect of GCG on Profitability and Its Implications on Firm Value Effect of Independent Commissioner on Profitability

GCG practice requires independent commissioners in the company who are expected to encourage and create independence and objectivity in the company. The term independent on independent commissioners indicates

their existence as representatives of independent (minority) shareholders and represents investors' interests (Suryaningtyas and Rohman: 2019). Suryaningtyas and Rohman (2019) showed that independent commissioners affect profitability because supervision conducted by independent commissioners leads to efficiency and effectiveness in management. Furthermore, Wicaksono and Raharja (2014) stated that independent commissioners are tasked and collectively responsible for supervising and advising the board of directors and ensuring that the company implements GCG. Besides, Utomo and Rahardjo (2014) mentioned that independent commissioners could provide supervision on preparing quality financial statements or possibly avoid cheating financial statements so that managers are more likely to lead better performance. However, commissioners should not participate in operational decision-making (Wicaksana and Raharja, 2014).

H1: Independent commissioners affect profitability

Effect of Institutional Ownership on Profitability

The ownership structure can be a supervisory mechanism to improve the company's financial performance (Siswanti, 2016). Thus, the higher the financial performance, the higher the firm value/profit price ratio (Cahyanti and Isbanah, 2019). Similar to the research, Rimardhani, Hidayat and Dwiatmanto (2016), Putra and Nuzula (2017), Utomo and Rahardjo (2014) also confirmed the positive influence of institutional ownership on profitability.

H2: Institutional Ownership affects profitability

Effect of the Board of Directors on Profitability

Rimardhani, Hidayat, and Dwiatmanto (2016) stated that the company's management depends on the performance and policies of the board of directors. The duties and responsibilities of each member of the board of directors are interrelated and binding and they are the responsibility of fellow members of the board of directors in the company (Rimardhani, 2016). Increasing the size and diversity of the board of directors benefits the company, guarantees relationships with outside parties, and ensures the availability of resources (Wicaksono and Raharja: 2014). Increased oversight of the board of directors will increase profitability. The results of the study are under the research of Perdana &Raharja (2014), Rimardhani, Hidayat, and Dwiatmanto (2016), Wilar, Mangantar and Tulung (2018), as well as (Wicaksono and Raharja: 2014), which showed that the board of directors positively influenced the profitability of the company.

H3: Board of directors affects profitability

Effect of the Audit Committee on Profitability

The existence of the audit committee is expected to create added value for the company (Hermuningsih, 2012). One of the critical roles of the audit committee is to maintain the credibility of the process of preparing financial statements, such as maintaining the creation of an adequate corporate supervision system and the implementation of GCG (Suryaningtyas and

Rohman, 2019). As mentioned in agency theory, the lack of oversight can cause companies to take actions contrary to investors' interests. With the audit committee's function effectively and efficiently, control over the company will be much better, resulting in agency conflicts between principal and agent can be minimized, thus improving the company's profitability.

H4: Audit committees affect profitability

Effect of Independent Commissioners on Firm Values

The existence of independent commissioners is expected to increase the role of the board of commissioners in creating GCGs in the company. If it turns out that investors are willing to pay more, then the market value of companies that implement GCG will also be higher than companies that do not implement or disclose GCG practices (Rachmawati and Triatmoko, 2007)

Gwenda and Juniarti (2013) showed that independent commissioners significantly impacted the firm value. The higher the proportion of independent commissioners in the company, it is expected that the empowerment of this board of commissioners can perform supervisory duties and provide advice to directors effectively.

H5: Independent commissioner affects firm values.

The Effect of Institutional Ownership on Firm Values

Siswanti (2016) found that institutional ownership positively affects the firm value. Similarly, Rachmawati&Triatmoko (2007) stated that institutional ownership positively influences the firm value. Chen, Blenman & Chen (2008) stated that the increase in the number of institutional holdings promotes the company's strong performance. Hermuningsih (2012) shows that the firm value will increase if the institution's owner can be a reasonably effective monitoring tool.

H6: Institutional ownership affects the firm value

Influence of the Board of Directors on The Firm Values

The board of directors leads to decreased interest between investors and management due to the supervisory functions. This will lower the agency costs that appear in the company's management to support the theory agency. The more the number of boards of directors with different backgrounds, the more management tends to have better management knowledge for shareholders to increase the firm value (Yuniasih, Ni Wayan; Wirakusuma, 2009). Suryaningtyas and Rohman (2019) show that managerial ownership positively affects firm value.

H7: The board of directors affects the firm value

Effect of Audit Committee on Firm Value

Indrawati & Aisjah (2017) stated that the audit committee significantly impacts the firm value. This indicates that the existence of the audit committee is a factor in appreciating the firm value. Mutamimah & Phradiansah (2014) also found a relationship between the audit committee

and the firm value because the audit committee improved performance and supervision more optimally. Mutamimah & Phradiansah (2014) revealed that the Audit Committee requires all companies registered with IDX to have an audit committee.

H8: Audit committee affects the firm value.

Effect of Profitability on Firm Value

Cahyani and Isbanah (2019) mentioned that profitability significantly impacts the firm value. The projected financial performance by return on assets (ROA) significantly impacts the firm value (Lubis, Sinaga & Sasongko, 2017; Mufidah and Purnamasari, 2018; and Utami, 2011). The company's profitability is under signalling theory because the high profitability will determine the investor's confidence to make investments based on the amount of return earned on the company's total assets.

According to Putri & Ibrahim (2017) and Limbong & Chabachib (2016), a high level of profitability reflects the optimal performance in managing the company's wealth, making the firm value higher and the higher the level of investor confidence. The high level of investor confidence makes the firm value higher.

H9: Profitability affects the firm value.

Influence of Independent Commissioners on Firm Value Through Profitability

The independent commissioner is responsible for ensuring that the company is well run (Putri & Ibrahim, 2017). As a result, the level of prosperity of the shareholders was achieved by Suryaningtyas and Rohman (2019). It is expected that financial statements reported by management can be accounted for and far from biased management interests to maximize their welfare. Some of these reasons make the existence of an independent commissioner significantly impact the firm value through the achievement of profitability.

H10: Profitability moderates the relationship between independent commissioners and firm value.

Effect of Institutional Ownership on Firm Value Through Profitability

Management performance regulated by shareholders will minimize fraud in a company to improve financial performance. The increasing financial performance will increase the firm value (Siswanti, 2016). Thus, the higher the financial performance, the higher the firm value/profit price ratio (Cahyanti and Isbanah, 2019). Hermuningsih (2012) found the ownership structure can be a control mechanism on principal-agent issues, so profitability levels tend to increase.

H11: Profitability moderates the relationship between Institutional ownership and firm value.

Effect of the Board of Directors on Firm Values Through Profitability

The profitability ratio shows the overall effectiveness of operations performed by the company, and profitability is used to assess the company's growth and performance (Suryaningtyas and Rohman companies: 2019). The

increase in the number of boards of directors increases profitability, impacting the company's increasing value. Perdana &Raharja (2014) showed that the board of directors positively affects the firm value.

H12: Profitability moderates the relationship between the board of directors and firm value.

Effect of Audit Committee on Firm Value Through Profitability

Hermuningsih (2012) found those audit committees simultaneously affect the firm value. The audit committee is a condition that must be met when the company has to go public. The audit committee is essential to prevent moral hazard behaviour from managers in reporting the company's quality that can later impact the firm value. The existence of the audit committee is expected to create added value for the

company (Hermuningsih, 2012). One of the critical roles of the audit committee is to maintain the credibility of preparing financial statements, such as maintaining the creation of an adequate corporate supervision system and the implementation of GCG (Suryaningtyas and Rohman, 2019). As mentioned in agency theory, the lack of oversight can cause companies to take actions contrary to investors' interests. With the audit committee's effective and efficient control over the company will be much better. Agency conflicts between principal and agent can be minimized to improve the company's performance, ultimately increasing the added firm value.

H13: Profitability moderates the relationship between the audit committee and firm value

METHOD

This research was quantitative research conducted on companies registered in LQ45 during 2015-2019, and information about the company's share price is available. Based on the criteria, the amount of data used in this study is 245 data.

Research Variables

Independent Variables

An independent variable in this study was the Characteristics of GCG. GCG indicators in this study are independent commissioner, institutional ownership, board of directors, and audit committee (Utami, 2011). An independent commissioner is a member of the board of commissioners who is independent and regardless of the influence of various parties who have interests in the company (Siswanti, 2016). Institutional ownership is the shareholding of foreign, local, or domestic institutions. These institutions can be engaged in finance as well as non-financial (Siswanti, 2016). Independent commissioners are measured from the percentage of independent commissioners to the total number of board members. The formulation is as follows:

$$\frac{\text{Number of Independent Commissioners}}{\text{Number of Commissioners}} \times 100\%$$

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The percentage of ownership of institutional measures institutional ownership. The formulation is as follows:

$$\frac{\text{Institutional ShareHolding}}{\text{Total Shares Outstanding}} \times 100\%$$

The Board of Directors is the number of board directors owned by the company.

The audit committee is at least three people from independent commissioners and parties outside the issuer (Utami, 2011). The audit committee variables are measured by the number of members of the audit committee in the company. The formulation is as follows:

$$\frac{\text{Minimum Number of Audit Committee Members}}{\text{Number of Members of the Company's Audit Committee}}$$

Dependent Variables

The dependent variable studied in this study is the firm value (Y) of the firm value, which is the value used by investors to measure the magnitude of corporate interest reflected in the share price (Berzkalne&Zelgalve, 2018; and Anggarwal & Padhan, 2017). One of the alternatives used to look at the firm value in this study was adopted from Tobin's method. Although relatively long (in 1967), the method is still the primary reference of similar research. The firm value measurement in the study used Tobin's Q concept to show the current financial market estimate of the return on each rupiah (monetary nominal) of incremental investment (Anggawarwal & Padhan, 2017). Suppose the Q ratio is above the value of 1 (one). In that case, it indicates that investing in one asset can generate a profit that provides a higher value than investment expenditures, thus stimulating new investments. However, if the Q Ratio is below 1 (one), then investments made in assets become unattractive. Dependent variables measured by Q Ratio are a more specific measure of management's effectiveness in utilizing the company's economic resources. Berzkalne & Zelgalve (2018) shows that Q Ratio can be applied to each company. The research question found that some companies can maintain a Q Ratio more significant than 1 (one). This variable is given the symbol Q, with the calculation of the formula as follows:

$$Q = \frac{(EMV + D)}{(EBV + D)}$$

- Q : Firm value
- EMV : Equity Market Value (EMV=Closing Price x Number of Shares Outstanding)
- D : Book Value of Total Debt
- EBV : Book Value of Total Equity

Intervening Variables

The intervening variable in this study is the level of profitability (Z), which explains how the company's ability to create profit from sales and investment (Hermuningsih, 2012). Profitability is defined as the rate of return earned based on investment activities. The higher the company's profitability level, the higher the firm value. The measure of profitability is ROA which is a measurement of wealth allocation by not looking at the origin of the source of funding. The intervening variable in this study is the level of profitability (Z) measured by ROA, which is the measurement of w origin of the source of funding. The higher the ROA, the more meaningful the use of assets by the company. The formulation of ROA in the study is as follows:

$$\frac{\text{Net profit for the Year}}{\text{Total Assets}} \times 100\%$$

Control Variables

Variable control in this study is characteristic of the company that is the total assets owned by the company at a specific time (Andawasatya et al.: 2017: and Rahmawati, Topowijono and Sulasmiyati, 2015), the age of the company listed in IDX (Hariyanto and Juniarti, 2014), DER compares the amount of the company's debt and the total equities of the company (Rahmawati, Topowijono and Sulasmiyati, 2015), and the level of sales that prove the company existence and sustainability (Hariyanto and Juniarti, 2014). The measurement of total assets is Ln, the total number of assets. This is done to avoid overly distant value differences between these variables and other variables. The company's age is measured by calculating the length of time the company is registered with IDX. DER measures the capital structure. The DER formula in this study is:

$$\frac{\text{Total Liabilities}}{\text{Total Equities}}$$

The level of sales measures the company's growth. The formulation of the sales growth rate in this study is as follows:

$$G = \frac{S1 - S0}{S0} \times 100\%$$

- G = Growth Sales Rate
S1 = Total Current Sales
S0 = Total Sales for Last Period

RESULTS AND DISCUSSION**Table 1. Description of Research Objects**

Variable	Mean	Std. Deviation	Minimum	Maximum
(Independent Commissioner, X1)	0.43	0.12	0.20	0.80
(Institutional Ownership, X2)	62.54	13.85	23.00	96.00
(Board of Directors, X3)	6.15	2.24	2.00	13.00
(Audit Committee, X4)	3.44	0.88	2.00	7.00
(Company Size, X5)	1083291450600	23144826012536	47926500000	12342000
(Company Age, X6)	16.78	8.91	1.00	37.00
(Capital Structure, X7)	2.05	2.45	-3.17	13.54
(Company Growth, X8)	77.60	1085.74	-51.00	16998.00
(Profitability, Z)	6.29	9.56	-24.48	46.66
(Firm value, Y)	2.48	3.49	0.09	23.92

Descriptive analysis is used to describe the characteristics of research variables. In table 1, the average variable of independent commissioners is 0.43 with a standard deviation of 0.12. the minimum value of independent commissioners is 0.20, and a maximum of 0.80. average variable institutional ownership of 0.43 with a standard deviation of 0.12. the average variable of the board of directors is 6.15, with a standard deviation of 2.24. the average variable of the audit committee amounted to 3.44 with a standard deviation of 0.88 average variable sizes of the company of Rp 108,329,145,060,000 with a standard deviation of Rp 231,448,260,125,362. The average variable age of the company is 16.78 years, with a standard deviation of 8.91. The average variable capital structure is 2.05 years with a standard deviation of 2.45. The average variable growth of the company is 77.60 years, with a standard deviation of 1085.74. The average variable profitability is 6.29 years, with a standard deviation of 9.56. Moreover, The average variable firm value is 2.48 years with a standard deviation of 3.49.

Correlation calculations between free variables are used to identify cases of multicollinearity in independent variables. Among independent variables, it is expected that no correlation is too significant or above 0.75, indicating a multicollinearity problem (Brooks, 2008).

Table 2. Correlation between Free Variables

Variable	(Independent Commissioner, X1)	(Institutional Ownership, X2)	(Board of Directors, X3)	(Audit Committee, X4)
(Independent Commissioner, X1)	1			
(Institutional Ownership, X2)	-0.081	1		
(Board of Directors, X3)	0.308	0.100	1	
(Audit Committee, X4)	0.330	-0.023	0.372	1

Based on table 2, it can be known that the fundamental correlation between independent variables is less than 0.75. The results confirm that all independent variables do not have a strong relationship, so multicollinearity cases do not occur in modeling.

Table 3. Test Results Direct Testing

Variabel	Z (ROA)				Y (Tobins Q)			
	Model 1		Model 2		Model 1		Model 2	
	B	SE	B	SE	B	SE	B	SE
Independent Variable								
(Indep. Commissioner, X1)	-17.	5	-13.638	5.2	-3.*	1.4	-3.829	1.3
(Institusional Ownership, X2)	0.0	0.0	0.018	0.0	0.0	0.0	0.040	0.0
(Board of Directors, X3)	1.0	0.3	1.333	0.3	0.0	0.0	0.360	0.0
(Audit Committee, X4)	-1.9	0.7	-0.790	0.7	0.2	0.2	0.277	0.1
Control Variable								
(Company Size, X5)			-1.811	0.5			-0.929	0.1
(Company Age, X6)			0.261	0.0			0.048	0.0
(Capital Structure, X7)			-0.031	0.3			0.296	0.0
(Company Growth, X8)			-0.0001	0.00			0.000	0.0
(Profitability, Z)					0.25	0.0	0.227	0.016
(Constant)	13.	3.8	57.55	15.	-1.4	1.0	24.533	4.018
N	245		245		245		245	
R-squared	10.8%		19.8%		55.5%		63.3%	

* p< 0.05

The results of hypothesis testing through multiple linear regression modelling are obtained in table 3. Hypothesis testing is done by involving control variables and without control variables. The results of hypothesis testing are presented in the following explanation. On the variable influence model of Independent Commissioners, Institutional Ownership, Board of Directors, and Audit Committee, by involving control variables, Company Size, and Company Age variables can significantly control the influence of independent variables in research on profitability. In contrast, capital structure variables and company growth cannot significantly control independent variables in research on profitability.

Independent Commissioners have a negative influence on profitability ($p < 0.05$). The regression coefficient of -17,543 (without control) and -13,638 (with control) means that if the Independent Commissioner increases by 1 unit, it will decrease profitability by 17,543 if the control variable is ignored or 13,638 if the control variable is considered. Institutional ownership has no significant effect on profitability ($p > 0.05$). The board of directors positively influences profitability ($p < 0.05$). The result of the regression coefficient of 1,080 (without control) and 1,333 (with control) means that if the Board of Directors increases by 1 unit, it will increase profitability by 1,080 if the control variable is ignored or 1,333 if the control variable is considered.

When control variables are ignored, the audit committee negatively influences profitability ($p < 0.05$). Audit committees have no significant influence on profitability ($p < 0.05$) when control variables are considered ($p > 0.05$). The regression coefficient of -1,981 (without control) and -0.790 (with control) means that if the audit committee increases by 1 unit, it will decrease profitability by 1,981 if the control variable is ignored 0.790 if the control variable is considered.

The variable influence model of independent commissioners, institutional ownership, board of directors, and audit committees on the firm value by involving control variables, company size variables, company age, capital structure, and profitability can control independent variables in research the firm value significantly. In contrast, the company's growth variables cannot significantly control the influence of independent variables in research on the firm value.

Independent commissioners negatively influence the firm value ($p < 0.05$). The regression coefficient of -3,305 (without control) and -3,829 (with control) means that if the independent commissioner increases by 1 unit, it will decrease its value by 3,305 if it is ignored or 3,829 if the control variable is considered. Institutional ownership positively influences the firm value ($p < 0.05$). The regression coefficient of 0.037 (without control) and 0.040 (with control) means that if institutional ownership increases by 1 unit, it will increase the firm value by 0.037 if the control variable is ignored or 0.040 if the control variable is considered.

The board of directors has no significant influence on the firm value ($p > 0.05$) if control variables are ignored. Meanwhile, when control variables are considered, the Board of Directors positively influences the firm value ($p < 0.05$). The regression coefficient of 0.009 (without control) and 0.360 (with control) means that if the Board of Directors increases by 1 unit, it will increase

its value by 0.009 if the control variable is ignored 0.360 control variable is considered. The audit committee does not significantly influence the firm value ($p > 0.05$).

Indirect Testing

The mediation test of variable profitability on the influence of GCG on the firm value is conducted with a Sobel test. Table 4 shows the results of the Sobel test.

Table 4. Sobel Test Results With Control Variable

Exogen Variable	Mediator	Endogen Variable	Z Sobel	p-value	Conclusion
(Independent Commissioner, X1)			-2.561	0.010	Significant
(Institutional Ownership, X2)			0.439	0.661	Not significant
(Board of Directors, X3)			3.886	0.000	Significant
(Audit Committee, X4)	(Profitability, Z)	(Firm value, Y)	-1.023	0.306	Not significant
(Company Size, X5)			-3.192	0.001	Significant
(Company Age, X6)			3.656	0.000	Significant
(Capital Structure, X7)			-0.102	0.919	Not significant
(Company Growth, X8)			-0.098	0.922	Not Significant

Table 5. Sobel Test Result Without Control Variable

Exogen Variable	Mediator	Endogen Variable	Z Sobel	p-value	Conclusion
(Independent Commissioner, X1)			-3.312	0.001	Significant
(Institutional Ownership, X2)	(Profitability, Z)	(Firm value, Y)	0.209	0.834	Not Significant
(Board of Directors, X3)			3.623	0.000	Significant
(Audit Committee, X4)			-2.641	0.008	Significant

Discussion

Independent Commissioner's Effect on Profitability

GCG practice requires an independent commissioner in a company that is expected to encourage and create independence and objectivity in the company. The term independent on independent commissioners indicates their existence as representatives of independent (minority) shareholders and represents investors' interests (Suryaningtyas and Rohman: 2019). This study found the negative influence of independent commissioners on profitability, such as Rimardhani, Hidayat, and Dwiatmanto (2016). A more significant proportion of independent commissioners come from outside the company with diverse expertise and experience, which decreases independent commissioners' ability in supervisory activities due to low coordination, communication, and decision-making (Rimardhani, Hidayat, and Dwiatmanto; 2016). Besides, the role of independent commissioners who should be independent by putting aside personal or management interests and acting only for the company's benefit has not been carried out correctly (Rimardhani, Hidayat, and Dwiatmanto, 2016: Tertius and Christiawan (2015). The company merely fulfils its obligations and does not optimize independent commissioners' role as management performance supervisors in managing the company (Agustina et al., 2014). Furthermore, Tertius and Christiawan (2015) mentioned that supervision of the company is not only carried out by independent commissioners but also by other interested parties in the company. Therefore, the existence of independent commissioners is precisely an inefficiency in management.

Institutional Ownership Effect on Profitability

Higher institutional ownership than managerial ownership allows the institution to supervise the company better (Putra & Nuzula, 2017). The results of his study did not succeed in finding the effect of institutional ownership on profitability. The results of this study are different from the results of research Siswanti (2016), Cahyanti and Isbanah (2019), Hermuningsih (2012), Rimardhani, Hidayat and Dwiatmanto (2016), Putra and Nuzula (2017), and Utomo and Rahardjo (2014) which stated that the ownership structure could be a supervisory mechanism to improve the company's financial performance. Its improved performance led to an increase in the firm value. The difference in the results of this study shows that institutional ownership is not a means of supervision for the company. Otherwise, institutional ownership causes too high entity intervention in management, causing management difficulties in decision-making.

The Board of Directors' Effect on Profitability

The results of this study found a positive influence of the board of directors on profitability. The results of this study are similar to the results of research conducted by Isbanah (2015), Christiawan and Tertius (2015), and Putra and Nuzula (2017), which stated that the existence of the board of directors influenced management decision-making. Increasing the size and diversity of the board of directors provides benefits for the company and guarantees due to the creation of relationships with outside parties and

ensures the availability of resources (Wicaksono and Raharja: 2014). Increased oversight of the board of directors will increase profitability. The results of this study follow the research of Perdana &Raharja (2014), Rimardhani, Hidayat, and Dwiatmanto (2016), (Tulung et al., 2018), as well as (Wicaksono and Raharja: 2014), which showed that the board of directors had a positive effect on the profitability of the company.

The Audit Committee Effect on Profitability

The audit committee was formed to conduct optimal supervision of the company. The results of this study are similar to the research results of Putra and Nuzula (2017), Wicaksono and Raharja (2014), Rimardhani, Hidayat, and Dwiatmanto (2016), Utomo and Raharjo (2014), and Aprinita (2016), which stated that the existence of audit committees is only to meet regulatory obligations. Furthermore, Putra and Nuzula (2017) stated that the existence of the audit committee does not improve the internal supervisory and control functions that should be the obligation of the audit committee. In different language, Utomo and Raharjo (2014) mentioned that the audit committee's role in helping the board of commissioners is ineffective, leading to a low supervisory function to the board of directors performance.

Aprinita (2016) highlights the limitations of the audit committee's duties and authority which causes the audit committee to affect profitability negatively. The task of the audit committee is to assist the board of commissioners in ensuring the fairness of financial statements, the implementation of internal controls, the implementation of internal and external audits adequately, and ensuring the follow-up of audit findings (Utomo and Raharjo, 2014). Nevertheless, the company's final policy is under the authority of the board of directors, so the improvement of the company's financial performance is also influenced by operational policies taken and carried out by the board of directors (Aprinita, 2016).

Independent Commissioners' Effect on Firm Values

The results of empirical analysis show that independent commissioners negatively affect the firm value. The results of this study are similar to Gwenda and Juniarti (2013) and Perdana and Raharja (2014), which showed that the independent board of commissioners negatively influenced the firm value. The higher the proportion of independent commissioners in the company, it is expected that the empowerment of this board of commissioners can perform supervisory duties and provide advice to directors effectively.

Institutional Ownership Effect on Firm Values

Hypothetical test results show that institutional ownership positively affects the firm value. The results of this study are similar to the research results of Siswanti (2016), Rachmawati&Triatmoko (2007), Chen, Blenman &Chen (2008), Suryaningtyas and Rohman (2019), and Hermuningsih (2012) showed that the firm value would increase following the increase in institutional ownership because institutional ownership can be a reasonably

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effective monitoring tool.

The Board of Directors' Effect on The Firm Values

The results showed that the board of directors positively influenced the firm value. The results of this study are similar to the results of Yuniasih and Wirakusuma research (2009), which stated that the larger the number of the board of directors, the management tends to try more vigorously for the interests of shareholders to increase the firm value because of the supervisory function carried out by management. Besides, the results are similar to Perdana and Raharja (2014), which showed that the board of directors positively influenced the firm value because the board of directors encouraged management to improve the company's performance. The company's improved performance will increase the firm value (Siswanti, 2016).

Audit Committee Effect on Firm Value

The results showed a positive influence of audit committee variables on the firm value. The results of this study are following the results of Indrawati & Aisjah (2017), Mutamimah & Phradiansah (2014), which mentions that the audit committee positively affects the firm value because supervision by the audit committee becomes one way to reduce the cost that arises in the management of the company as stated in agency theory.

Mutamimah & Phradiansah (2014) confirmed that the audit committee requires that all companies registered with IDX have an audit committee. The audit committee assists the board of commissioners by providing independent professional opinions to improve the quality of work and reduce irregularities in the company's management. An audit committee's existence is expected to improve the company's quality of profit and value.

Profitability Effect on Firm Value

The results showed that profitability had no significant effect on the firm value. The results of this study, in contrast to the research results of Cahyani and Isbanah (2019), Utami (2011), Lubis, Sinaga & Sasongko (2017), Putri & Ibrahim (2017), and Limbong & Chabachib (2016), mentioned that profitability has a significant impact on the firm value. An increase follows the high ROA value in the firm value, so the company needs to pay attention and continue to increase the ROA by floating the prospect of activities to increase profit. Besides, profitability is a company's ability to generate profit at sales, assets, and capital in shares. The high level of profitability reflects the optimal performance in managing the company's wealth, making the firm value higher and the higher the level of investor confidence. The high level of investor confidence makes the firm value higher. The difference in the results of this study shows that companies with good GCG cause investors not to make profitability the only tool to determine investment decisions.

Effect of Independent Commissioners on Firm Value Through Profitability

The results showed that the existence of independent commissioners through profitability affects the firm value. The independent commissioner is responsible for ensuring that the company is well run (Putri & Ibrahim, 2017).

Thus, when the company is well run, investors are interested in investing in the company, assuming that the company will perform well. This reflection can be seen in the profitability generated, which ultimately increases the firm value. As a result, the level of prosperity of shareholders was achieved (Suryaningtyas and Rohman: 2019). This is under agency theory because independent commissioners in the board of commissioners have an essential role in overseeing reliable reports. It is expected that financial statements reported by management can be accounted for and far from biased management interests to maximize their welfare.

The results of this study are similar to Suryaningtyas and Rohman (2019), which mention that the independence of independent commissioners shows their existence as representatives of independent shareholders (minorities) and represents the interests of investors. This result also reinforces that in Indonesia, the existence of a board of commissioners is not only to fulfil the obligation for the company to be considered to implement GCG practices. However, it is evidence of the implementation of GCG by optimizing the functions of independent commissioners.

Effect of Institutional Ownership on Firm Value Through Profitability

The results showed that profitability could not mediate the relationship between institutional ownership and corporate value. The results of this study are different from the results of the research of Siswanti (2016), Cahyanti and Isbanah (2019), and Hermuningsih (2012), which stated that the ownership structure could be a control mechanism on principal-agent issues so that the level of profitability tends to increase. Increased profitability is focused on increasing the firm value. The difference in the results of this study with previous research is due to companies with good GCG supervisory functions carried out by many parties, not just institutional shareholders.

Effect of the Board of Directors on The Firm Value Through Profitability

The results showed that variable profitability could mediate the board's relationship to the firm value. The results of this study are similar to the research of Suryaningtyas and Rohman (2019) and Perdana and Raharja (2014), which mentions that profitability is a way to assess the success of the company's growth and performance related to the firm value. Increased managerial ownership will increase profitability, impacting on the increasing firm value. The larger the number of boards of directors, the more active management tends to increase the company's profit because of the supervision carried out by the board of directors who have different backgrounds.

Effect of Audit Committee on Firm Value Through Profitability

This study shows that the mediation of profitability on the influence of the audit committee on the firm value is different from the existence of control variables. Hermuningsih (2012) and Suryaningtyas and Rohman (2019) mentioned that the existence of the audit committee could create added value

for the company because one of the crucial roles of the audit committee is to maintain the credibility of the process of preparing financial statements such as maintaining the creation of an adequate corporate supervision system and the implementation of GCG. The lack of oversight can cause companies to take actions contrary to investors' interests, as mentioned in agency theory. With the audit committee's function effectively and efficiently, control over the company will be much better, resulting in minimized agency conflicts between principal and agent, thus improving the company's performance, which will ultimately increase the firm value.

CONCLUSION

This research aims to test the direct influence of good corporate governance (independent commissioners, institutional ownership, board of directors, and audit committees) and profitability on the firm value. Besides, this study also aims to test the indirect influence of good corporate governance on the firm value through profitability. The test results conclude that independent commissioners and audit committees had a negative effect on profitability, the board of directors positively affects profitability, and institutional ownership does not affect profitability. Direct testing of GCG's influence on the firm values showed that independent commissioners had a negative effect, institutional ownership had a positive effect, and the board of directors and audit committee did not affect the firm value. The study results also showed that profitability could mediate the influence of GCG on the firm value, except for institutional ownership variables. The effect of GCG variable mediation is different from the existence of control variables, especially on audit committee variables. Further research is expected to increase the number of samples, and for further research, other proxies such as Price to Book Value (PBV) can be used to measure firm value. Companies need to improve GCG to increase management transparency so that investors and creditors can make appropriate decisions about the company.

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