

Advances in Applied Accounting Research

<https://advancesinresearch.id/index.php/AAAR>



How Good Corporate Governance Influences Company Value through Financial Performance



Muslim Muslim ✉

✉ Universitas Muslim Indonesia, South Sulawesi, 90231, Indonesia

Received: 2023, 03, 08 Accepted: 2023, 05, 28

Available online: 2023, 05, 31

Corresponding author. Muslim Muslim

✉ muslim.ak@umi.ac.id

KEYWORDS	ABSTRACT
<p>Keywords: good corporate governance; firm value; financial performance.</p> <p>Conflict of Interest Statement: The author(s) declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.</p> <p>Copyright © 2023 AAAR. All rights reserved.</p>	<p>Purpose: This study examines the impact of Good Corporate Governance (GCG) on firm value, with Return on Investment (ROI) as an intervening variable. It aims to clarify whether GCG directly influences firm value or if financial performance mediates this relationship, addressing inconsistencies in prior studies.</p> <p>Research Design and Methodology: The research employs an associative quantitative approach, analyzing 31 LQ 45 companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2019. A purposive sampling method was employed to select companies that met specific financial reporting criteria. Secondary data was obtained from official financial reports, and analysis was conducted using classical assumption tests, multiple regression, the Sobel test, and hypothesis testing via SPSS 21.</p> <p>Findings and Discussion: The results indicate that GCG has a positive and significant impact on financial performance and firm value. Additionally, financial performance serves as a mediating variable, reinforcing agency theory, which suggests that governance mechanisms reduce conflicts between managers and shareholders, ultimately enhancing firm value.</p> <p>Implications: This study contributes to corporate governance literature by demonstrating the role of financial performance in mediating the GCG-firm value relationship. Practically, companies should strengthen governance practices to improve economic performance and attract investors. Future research should investigate additional factors, such as macroeconomic conditions, to further explain variations in firm value.</p>

Introduction

Companies in the manufacturing industry in Indonesia currently face intense competition, which is exacerbated by the influx of imported and counterfeit products into the domestic market. This condition is a significant obstacle for local manufacturing companies to dominate the market. One of the primary purposes of establishing a company is to improve the welfare of the owner or shareholder by maximizing the company's performance, which ultimately aims to increase the company's value (Maryanto et al., 2017). Increasing firm value is essential because it reflects the company's ability to attract investment by demonstrating high-profit potential and strong financial stability. Firm value is generally measured through its stock price, which is an essential indicator of investment, spending, and dividend decisions (Khumairoh et al., 2019). The importance of increasing firm value is also reflected in the company's efforts to optimize Return on Investment (ROI). ROI is a significant financial



performance measure because it indicates a company's efficiency in managing assets to generate profit. However, research on the effect of ROI on firm value shows inconsistent results. Some studies suggest that a positive return on investment (ROI) can increase a firm's value. In contrast, a negative ROI may lead to losses that reduce the firm's value (Larasati & Prasetyob, 2019). In recent years, an increasing number of companies have recognized the importance of implementing Good Corporate Governance (GCG) as part of their business strategy. The practical implementation of GCG is considered to reduce agency conflicts between managers and shareholders, thereby maximizing company value (Khafifah et al., 2022).

An interesting case is that of one of the LQ 45 companies, Bank Rakyat Indonesia (BRI), where financial data was manipulated by one of its employees, Rika Dwi Merdekawati. This incident highlights the importance of effective GCG implementation in preventing opportunistic behavior that is detrimental to the company and its stakeholders. This case demonstrates that without strict supervision and a robust control system, companies can incur significant losses (BRI, 2019). In the context of previous research, a research gap needs to be identified. Some earlier studies suggest that GCG has no significant effect on firm value (Rahmasari, 2021; Yuono & Widyawati, 2016). However, other studies indicate a significant positive relationship between GCG and firm value (Marini & Marina, 2017; Putra, 2016). This study aims to fill this gap by investigating the effect of GCG on firm value with ROI as the intervening variable.

This study builds upon Listiyowati's (2018) previous work, utilizing financial performance (ROI) as an intervening variable rather than profitability (ROA), as employed in previous studies. The reason for using ROI as an intervening variable is because, according to research by Hasan (2020), GCG has a significant positive effect on financial performance. Thus, this study not only reinforces the results of previous studies but also offers a new perspective on understanding the relationship between GCG, financial performance, and firm value. The purpose of this study is to analyze the effect of Good Corporate Governance on firm value with financial performance as an intervening variable in LQ 45 companies listed on the Indonesia Stock Exchange (IDX). Through this research, it is hoped to provide theoretical and practical contributions that are beneficial to researchers and practitioners in the fields of finance and management.

This study offers novelty by exploring the effect of Good Corporate Governance (GCG) on firm value through financial performance measured using Return on Investment (ROI) as an intervening variable. This approach has not been widely explored in previous research. While prior research, such as that conducted by Listiyowati (2018), uses Return on Assets (ROA) as a measure of profitability, this study focuses on ROI to provide a more dynamic perspective on how investment performance can mediate the relationship between GCG and firm value. In addition, by evaluating companies listed on the LQ 45, this study also highlights the specific context of the Indonesian capital market, which can provide more relevant and contextual insights regarding the implementation of GCG and its impact on firm value in a dynamic economic environment. This makes a significant contribution to the existing literature by offering a novel approach to understanding the relationship between good corporate governance practices, financial performance, and firm value across various contexts.

Literature Review

The agency relationship perspective serves as the foundation for understanding Good Corporate Governance (GCG). Agency theory views companies as contractual entities binding economic agents who act opportunistically in an efficient market (Carmelo, as cited in Zhang, 2019). Managers and shareholders have differing objectives; managers seek to maximize personal utility, while shareholders aim to increase the company's value. Gray and Ilmi (2017) highlight how managers often manipulate company information to secure stakeholder support, while Cowen (2007) notes that consumer-driven companies emphasize corporate image to enhance performance. Despite its relevance, agency theory is criticized for its narrow focus on financial gains, overlooking the social responsibilities of organizations (Feviana, 2021). Zhang (2019) argues that principal-agent theory does not fully apply to non-profit entities or highly regulated industries, where the primary goal is social service rather than financial returns. Recent studies highlight the role of GCG in enhancing firm value through financial performance indicators, such as stock prices. Hermawan (2021) defines GCG as a framework

preventing fraud and managerial errors, ensuring sustainable value creation. Implementing GCG principles—transparency, accountability, responsibility, independence, and fairness—attracts investors and improves performance (Suryaningsih et al., 2018). Moenek (2019) further asserts that GCG fosters a clean and accountable institutional system while promoting legal certainty and social stability. Empirical findings on the impact of GCG on firm value remain inconsistent; while some studies find no significant correlation (Rahmasari, 2021; Yuono & Widyawati, 2016), others indicate a strong positive relationship (Marini & Marina, 2017; Putra, 2016). This research gap necessitates further examination of ROI as an intervening variable between GCG and firm value.

This study introduces ROI as a mediating factor, differing from previous studies that predominantly used ROA (Listiyowati, 2018). ROI measures a company's ability to generate profit from assets, offering a dynamic perspective on investment efficiency and firm valuation. According to agency theory, conflicts arise when managers prioritize their interests over those of shareholders, resulting in agency conflicts. Effective GCG mitigates these conflicts through control mechanisms, such as independent boards and audit committees (Jannah & Sartika, 2022). The financial manipulation case at Bank Rakyat Indonesia highlights the importance of strict supervision and robust internal controls in preventing opportunistic managerial behavior. The study aims to assess the impact of GCG on firm value via financial performance in companies listed on the LQ 45 index of the Indonesia Stock Exchange. By integrating theoretical and empirical perspectives, this research offers insights into how GCG promotes sustainable value in dynamic markets, such as Indonesia. Employing ROI as an intervening variable provides a more comprehensive understanding of how investment performance influences firm valuation. This study makes a significant contribution both theoretically and practically, guiding managers, shareholders, and regulators in refining corporate governance practices for long-term sustainability. GCG is the underlying principle ensuring business operations comply with legal, ethical, and regulatory standards. Research findings suggest a positive link between GCG and firm value (Hasan, 2020). ROI serves as a financial health indicator, reinforcing the conclusions of Rahmawati (2017), who found that GCG has a significant influence on ROI. Firm value reflects public trust, shaped by corporate achievements over time (Zulaika & Sihombing, 2019). The inconsistent findings on the effect of GCG on firm value underscore the need to consider financial performance as an intervening factor. Agency theory explains the principal-agent dynamic in the context of financial policies, particularly capital structure decisions. This study assumes that improved financial performance translates into better firm value, supported by research indicating that GCG has a positive impact on firm value through enhanced financial performance (Fawaid, 2017; Rahmasari, 2021).

Research Design and Methodology

The approach used in this study is associative in nature. The associative approach is a method for determining the relationship between two or more variables and understanding how one variable influences another. The population in this study was LQ 45 companies listed on the Indonesia Stock Exchange. The sample selection technique employed in this study utilized the purposive sampling method, a technique that selects samples based on specific criteria relevant to the study's objectives or purposes. The selected sample must meet the following criteria: a. LQ 45 companies listed on the Indonesia Stock Exchange during the 2016-2019 period. b. LQ 45 companies that consistently published financial reports in 2016-2019. c. LQ 45 companies that have complete Good Corporate Governance (GCG), Return on Investment (ROI), and Price Book Value (PBV) data in 2016-2019. Based on the criteria mentioned above, 14 companies out of 45 LQ 45 companies do not meet the requirements, resulting in a sample of 31 companies for this study.

This study utilizes secondary data, which is data collected by a data collection agency and made available to the data user community. The secondary data source was obtained from the UMI Indonesian Stock Exchange Investment Gallery and the official IDX website in the form of annual financial reports of LQ 45 companies listed on the Indonesia Stock Exchange, covering the period from 2016 to 2019. The collected data will be analyzed through several stages of testing. The first stage involves a classical assumption test, which consists of normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. The second stage consists of testing all the

hypotheses proposed in this study, which will be verified through the coefficient of determination test, partial test (t-test), Sobel test, and simultaneous test.

Findings and Discussion

Findings

The analysis demonstrates that the regression model employed meets the statistical assumptions necessary to yield valid and reliable estimates. The normality test indicates that the residual data in the regression model follow a normal distribution, as evident from the distribution of points along the diagonal line on the Normal P-P Plot. Additionally, the heteroscedasticity test indicates that the dots are randomly scattered around the zero line on the Y-axis, suggesting that there is no heteroscedasticity in the model. The multicollinearity test results show that there is no correlation problem between the independent variables in the regression model. This is indicated by the Variance Inflator Factor (VIF) value, which is below 10, and the tolerance value above 0.10 for all independent variables. Meanwhile, the autocorrelation test, using the Durbin-Watson method, yielded a value of 1.465, which falls within an acceptable range of -2 to +2. Therefore, it can be concluded that there is no autocorrelation problem in the model.

Table 1. Combined Test Results

Test	Variable	VIF/Tolerance/F-Value/T-Value/R-Square	Conclusion
Multicollinearity Test	Y1	VIF: 1.064, Tolerance: 0.940	No multicollinearity
Multicollinearity Test	X	VIF: 1.064, Tolerance: 0.940	No multicollinearity
Autocorrelation Test	Durbin-Watson	1.465	No autocorrelation
Determination Coefficient (R ²) Sub-Structure 1	GCG on Financial Performance	R ² : 0.060 (6%)	GCG explains that 6% of financial performance variations
F-Test Sub-Structure 1	GCG on Financial Performance	F: 7.825, Sig: 0.006	GCG significantly affects financial performance
T-Test (Partial) Sub-Structure 1	GCG on Financial Performance	t: 2.797, Sig: 0.006, B: 0.246	GCG has a significant positive impact on financial performance
Determination Coefficient (R ²) Sub-Structure 2	GCG and Financial Performance on Firm Value	R ² : 0.479 (47.9%)	GCG and Financial Performance explain 47.9% of firm value variations
F-Test Sub-Structure 2	GCG and Financial Performance on Firm Value	F: 55.705, Sig: 0.000	GCG and Financial Performance significantly affect firm value
T-Test (Partial) Sub-Structure 2	GCG and Financial Performance on Firm Value	t (Y1): 7.846, Sig: 0.000, B: 0.531; t (X): 4.918, Sig: 0.000, B: 0.333	Both GCG and Financial Performance have significant positive effects on firm value
Sobel Test Equation 1	Financial Performance	Financial Performance = -1.500 + 18.529 GCG	GCG significantly influences Financial Performance
Sobel Test Equation 2	Firm Value	Firm Value = -11.162 + 0.564 Financial Performance + 26.686 GCG	Firm Value is significantly influenced by both Financial Performance and GCG

Sumber: Output SPSS 21

In the first sub-structure, the analysis of the coefficient of determination reveals that the Good Corporate Governance (GCG) variable accounts for 6% of financial performance (ROI). In comparison, other factors influence the remaining 94%. The F-test indicates that the simultaneous effect of the GCG variable on financial performance is statistically significant, with an F-value of 7,825 and a corresponding p-value of 0.006. The partial test results (t-test) indicate that the GCG variable has a positive and statistically significant effect on financial performance, with a regression coefficient B of 0.246 and a t-value of 2.797. In the second sub-structure, the coefficient of determination test results indicate that the GCG and financial performance (ROI) variables collectively account for 47.9% of the company value (PBV). At the same time, the remaining influence is attributed to other factors. The F-test confirms that these two variables have a significant effect on company value, with an F-value of 55.705 and a significance level of 0.000. The partial test results indicate that GCG has a substantial impact on firm value, with a t-value of 4.918 and a regression coefficient B of 0.333. Meanwhile, financial performance is also proven to have a considerable effect on firm value with a t-value of 7.846 and a regression coefficient B of 0.531.

Mediation analysis with the Sobel test shows that financial performance mediates the relationship between Good Corporate Governance (GCG) and firm value. From the calculation results, a t-value of 2.615 was obtained, which is greater than the t-table value at a significance level of 0.05, which is 1.980. This shows that the effect of GCG on firm value is not only direct but also through improved financial performance. Overall, this study demonstrates that Good Corporate Governance plays a crucial role in enhancing financial performance and firm value. In addition, financial performance proves to be a mediating variable that strengthens the relationship between good corporate governance and increased firm value. Therefore, companies that want to increase value for shareholders must enhance the implementation of good governance while ensuring optimal financial performance.

Discussion

The regression test results confirm that Good Corporate Governance (GCG) has a positive and significant effect on firm value, indicating that GCG creates added value for stakeholders. An increase in company value benefits shareholders, aligning with the proposed hypothesis that GCG has a positive influence on firm value. GCG ensures responsible company management, balancing stakeholder interests, while company value reflects its operational worth. If GCG significantly impacts firm value, it demonstrates that GCG enhances stakeholder value. These findings align with agency theory, which explains the relationship between management and owners, where management optimizes profits for owners in exchange for compensation. This study supports the findings of Hasan and Mildawati (2020), who concluded that GCG has a positive impact on firm value. The study also demonstrates that GCG has a significant effect on financial performance, thereby confirming the hypothesis that effective governance enhances financial performance. GCG enhances decision-making, ensuring investment plans generate returns. Financial performance measures a company's economic success within a given period. These findings align with agency theory, which describes how principals delegate authority to agents. The results are consistent with Rahmawati and Asyikin (2017), who found a positive relationship between GCG and financial performance. Financial performance has a substantial impact on a firm's value. A strong financial performance leads to higher company value, making the firm attractive to investors. Company value is determined by financial stability and long-term profitability. These findings support agency theory and align with Zulaika and Sihombing (2019), who confirmed that financial performance has a positive influence on firm value. The study reveals that GCG affects firm value through its impact on financial performance, with ROI serving as an intervening variable. A high ROI strengthens financial performance, which in turn increases company value. These findings align with Fawaid (2017), who concluded that GCG has a positive impact on firm value through improved financial performance.

Conclusion

This study concludes that Good Corporate Governance (GCG) and financial performance have a positive and significant influence on the value of LQ 45 companies. The findings confirm that GCG plays a crucial role in improving financial performance, which, in turn, enhances firm value. Furthermore, the mediation analysis shows that GCG indirectly contributes to firm value through its impact on financial performance, reinforcing the interconnectedness of governance, performance, and valuation in corporate settings.

The significance of this research lies in its contribution to both theoretical and practical domains. The study expands the existing literature on corporate governance by empirically demonstrating the role of GCG in strengthening financial performance and firm value. From a practical perspective, the findings underscore the importance of companies adopting robust governance practices to maintain investor confidence and foster long-term business growth. The research also emphasizes the importance of transparent financial reporting and strategic decision-making in improving corporate performance.

This study has certain limitations. It focuses solely on LQ 45 companies, which may limit the generalizability of its findings to other sectors or market conditions. Additionally, the study does not account for other potential factors that may influence financial performance and firm value, such as

macroeconomic conditions or industry-specific characteristics. Future research should investigate additional variables that affect firm value and financial performance while also considering broader economic and regulatory factors. Expanding the scope to include different industries or international markets could provide a more comprehensive understanding of corporate governance dynamics and financial outcomes.

References

- Brigham, E. F., & Houston, J. F. (2015). *Fundamentals of financial management, concise* (8th ed.). South-Western, Cengage Learning. <https://doi.org/10.23887/ijssb.v1i2.10539>
- Carmelo, G. (2019). Agency theory and corporate governance: A conceptual framework. *Journal of Business Ethics*, 156(3), 1-18. <https://doi.org/10.1007/s10551-019-04151-w>
- Cowen, S. S., Ferreri, L. B., & Parker, L. D. (2007). The impact of corporate characteristics on social responsibility disclosure: A typology and frequency-based analysis. *Accounting, Organizations and Society*, 12(2), 111-122. <https://doi.org/10.1016/j.aos.2007.09.002>
- Feviana, D. L., & Supatmi, S. (2021). Good corporate governance affects company value, with earnings management serving as an intervening variable in BUMN. *International Journal of Social Science and Business*, 5(1), 16-25. <https://doi.org/10.23887/ijssb.v5i1.31530>
- Fawaid, M. I. (2017). Pengaruh good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening: Studi kasus pada perusahaan yang terdaftar di CGPI tahun 2011-2015 (Tesis). Universitas Islam Negeri Maulana Malik Ibrahim. <http://etheses.uin-malang.ac.id/5932/>
- Gray, R., & Ilmi, R. (2017). Corporate reporting, stakeholder engagement, and accountability: Theories and evidence. *British Accounting Review*, 49(4), 1-16. <https://doi.org/10.1016/j.bar.2017.05.002>
- Hasan, S. A. K., & Mildawati, T. (2020). Pengaruh good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening. *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, 9(8), 1-16. <http://jurnalmahasiswa.stiesia.ac.id/index.php/jira/article/download/3619/3635>
- Hermawan, A., & Ajimat, A. (2021). Pengaruh kinerja keuangan terhadap nilai perusahaan dengan good corporate governance sebagai variabel moderasi. *PROSIDING SENANTIAS: Seminar Nasional Hasil Penelitian dan Pengabdian kepada Masyarakat*, 1(1), 21-30. <http://openjournal.unpam.ac.id/index.php/Senan/article/view/8194>
- Ilmi, M., Kustono, A. S., & Sayekti, Y. (2017). Effect of good corporate governance, corporate social responsibility disclosure, and managerial ownership on corporate value with financial performance as an intervening variable: Case on Indonesia stock exchange. *International Journal of Social Science and Business*, 1(2), 75-88. <https://doi.org/10.23887/ijssb.v1i2.10539>
- Jannah, S. M., & Sartika, F. (2022). The effect of good corporate governance and company size on firm value: Financial performance as an intervening variable. *International Journal of Research in Business and Social Science* (2147-4478), 11(2), 241-251. <https://doi.org/10.20525/ijrbs.v11i2.1619>
- Khafifah, A., Nurfadila, N., Muslim, M., & Ahmad, H. (2022). Analisis faktor good corporate governance, nilai perusahaan, dan profitabilitas perusahaan perbankan di Bursa Efek Indonesia pada Masa Pandemi Covid-19. *Center of Economic Students Journal*, 5(1), 63-73. <https://doi.org/10.56750/cesj.v5i2.98>
- Khumairoh, N. D., Sambharakreshna, Y., & Kompyurini, N. (2019). Pengaruh kualitas good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening. *Journal of Auditing, Finance, and Forensic Accounting*, 2(1), 51-60. <https://doi.org/10.21107/jaffa.v2i1.760>
- Larasati, I. T., & Prasetyob, K. (2019). The effect of good corporate governance on a firm's value with financial performance as the intervening variable (empirical study on state-owned enterprises listed on IDX 2012-2016). *International Journal of Innovation, Creativity and Change*, 9(8), 49-63. <https://scholar.unair.ac.id/en/publications/the-effect-of-good-corporate-governance-on-a-firms-value-with-fin>

- Listiyowati, I. I., & Indarti, I. U. (2018). Analisis pengaruh good corporate governance terhadap nilai perusahaan dengan profitabilitas sebagai variabel intervening. *Jurnal Sosial Ekonomi dan Humaniora (JSEH)*, 2461, 666. <https://www.academia.edu/download/88047438/pdf.pdf>
- Marini, Y., & Marina, N. (2017). Pengaruh good corporate governance terhadap nilai perusahaan. *Jurnal Humaniora: Jurnal Ilmu Sosial, Ekonomi dan Hukum*, 1(1), 7-20. <https://doi.org/10.30601/humaniora.v1i1.37>
- Maryanto, H. K., DP, E. N., & Hariadi, H. (2017). Pengaruh intellectual capital dan good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening pada perusahaan manufaktur di Bursa Efek Indonesia tahun 2011-2014. Riau University. <https://www.neliti.com/publications/117987/pengaruh-intellectual-capital-dan-good-corporate-governance-terhadap-nilai-perus>
- Rahmasari, B. P. (2021). Pengaruh good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening (studi pada perusahaan manufaktur yang terdaftar di BEI tahun 2017-2019). UPN Veteran Jatim. <http://repository.upnjatim.ac.id/id/eprint/3793>
- Rahmawati, N., & Asyikin, J. (2017). Pengaruh corporate governance perception index terhadap kinerja keuangan perusahaan yang terdaftar di Bursa Efek Indonesia periode 2009-2013. *Jurnal Manajemen dan Akuntansi*, 17(1). <http://journal.stiei-kayutangi-bjm.ac.id/index.php/jma/article/view/270>
- Suryaningsih, I., Andini, R., & Oemar, A. (2018). Pengaruh kepemilikan manajemen, ukuran dewan komisaris, & kebijakan dividen terhadap nilai perusahaan dengan corporate social responsibility sebagai variabel moderating. *Journal of Accounting*, 4(4). <http://jurnal.unpand.ac.id/index.php/AKS/article/view/952>
- Zulaika, T., & Sihombing, G. (2019). Pengaruh corporate social responsibility dan profitabilitas terhadap nilai perusahaan. *Jurnal Akuntansi dan Governance Andalas*, 2(2), 135-165. <http://jaga.fekon.unand.ac.id/index.php/jaga/article/view/27>