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The Effect of Financial Performance on Firm Value, with Good Corporate Governance (GCG) as a Moderating Variable, in Manufacturing Companies

Lita Arianti [1*] Samsudin [2] Lilis Marlina [3]

[1*, 2, 3] Sekolah Tinggi Ilmu Ekonomi Yapis, Dompu, Indonesia
Email: litaarianti02@gmail.com

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ABSTRACT

Purpose: This study aims to examine the effect of financial performance on firm value and evaluate the role of Good Corporate Governance (GCG) as a moderating variable. It hypothesizes that financial performance positively affects firm value, and GCG significantly strengthens this relationship.

Research Method: A quantitative approach with an associative design was employed. The population comprised manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024. Using purposive sampling, 384 valid observations were collected from annual reports. Data were analyzed using Moderated Regression Analysis (MRA) via Stata. Financial performance was proxied by Return on Assets (ROA), firm value by Price to Book Value (PBV), and GCG was measured using a multidimensional Corporate Governance Index (CGI) extracted through Principal Component Analysis (PCA).

Results and Discussion: The empirical results indicate that financial performance (ROA) has a positive and significant effect on firm value (PBV). Furthermore, the interaction test confirmed that CGI significantly moderates and strengthens the positive impact of financial performance on firm value.

Implications: Practically, these findings urge corporate management to strategically synergize profit maximization with robust governance mechanisms to optimize shareholder wealth. Policymakers can use this insight to refine adaptive GCG regulations, while future researchers are encouraged to explore other sectors such as banking or energy.

Originality: This study offers originality by utilizing a composite Corporate Governance Index (CGI) to capture post-pandemic business dynamics, addressing the multidimensionality gaps found in prior research that heavily relied on partial GCG proxies.

Keywords: corporate governance index; financial performance; firm value; manufacturing companies; moderated regression analysis.

1. Introduction

In an era of globalization and increasingly intense business competition, enterprise value has become a key indicator reflecting a company's performance and prospects. Enterprise value not only demonstrates a company's ability to generate profits but also reflects investor confidence in that company. Increasing enterprise value is a long-term goal that every company must achieve, as a high enterprise value brings prosperity to shareholders. In line with this, stock price fluctuations are often used as a benchmark for corporate value in the eyes of investors (Silkfan & Azwir, 2022). Corporate value is an important metric

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that illustrates how successfully a company is achieving its long-term goals. For stakeholders, particularly investors and shareholders, a high corporate value serves as a benchmark for wealth and optimal investment returns. Within the framework of the Indonesian capital market, corporate value can be observed through stock prices traded on the Indonesia Stock Exchange (IDX) (Askiantari & Purwanto, 2024; Riyana & Miftahunnajah, 2026).

Financial performance is one of the key factors influencing a company's value. Strong financial performance reflects the management team's ability to utilize the company's resources efficiently and effectively to achieve profitability. Companies with positive financial performance are typically more attractive to investors because they provide a strong indication of growth potential and the company's capacity to generate profits in the future. Companies with strong financial performance tend to be more attractive to investors, as they send positive signals regarding growth prospects and the company's ability to generate profitable returns in the future. Financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are key considerations for investors in assessing a company's financial health (Aprilia & Wahjudi, 2021). However, the relationship between financial performance and corporate value is not always linear and can be influenced by various contextual factors. One element believed to influence this relationship is the quality of corporate management, or Good Corporate Governance (GCG). GCG is a system that regulates and oversees a company to generate greater value for all stakeholders by applying the principles of transparency, accountability, responsibility, independence, and fairness. Good Corporate Governance (GCG) emerges as a key factor that can either strengthen or weaken the impact of financial performance on corporate value. The application of GCG principles—such as transparency, accountability, responsibility, independence, and fairness—has become increasingly important following numerous cases of financial corruption and the collapse of major corporations, both globally and domestically. A GCG system provides effective assurance to shareholders that their investments will be returned in a fair, timely, and efficient manner, while ensuring that management is oriented toward the company's best interests (Lestari & Zulaikha, 2021).

The implementation of good corporate governance can strengthen the positive relationship between financial results and corporate value in several ways. First, good governance can reduce conflicts between managers and shareholders by ensuring that managers act in the shareholders' best interests. Second, good corporate governance improves the clarity and quality of financial reports, thereby reducing information asymmetry between management and investors. Third, good governance provides more effective protection for investors—particularly minority shareholders—against potential expropriation or opportunistic actions by management. Consequently, investors will feel more confident that strong financial results truly reflect the company's underlying condition and do not stem from manipulation or dishonest reporting. In addition to implementing GCG—which has the potential to influence corporate value—financial performance also plays a role throughout the process as an intermediary between GCG and corporate value (Astuti & Suhendro, 2024).

Companies in the manufacturing sector were selected as the focus of this study because this sector has a significant impact on the Indonesian economy. Furthermore, the manufacturing sector is characterized by complexities related to ownership structure, asset utilization, and the level of competition, making it an interesting area to analyze how financial performance influences corporate value with GCG as a moderating variable (Hardianti *et al.,* 2023). The study period from 2020 to 2024 was chosen because this period reflects a volatile economic environment. A research gap was also identified regarding the limited scope of CG proxies used in previous studies. Most studies use only one

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or two CG proxies, such as managerial ownership or independent commissioners (Purwanti *et al.,* 2024), even though the concept of CG is multidimensional and encompasses aspects of transparency, accountability, responsibility, independence, and fairness (KNKG, 2019). A study (Rahayu & Sari, 2020) that used a GCG composite index yielded more comprehensive results with a moderation coefficient of 0.384 (p<0.01); however, similar research remains very limited, particularly in Indonesia's manufacturing sector. Furthermore, most previous studies were conducted before the COVID-19 pandemic, whereas post-pandemic business dynamics have fundamentally altered the landscape of financial performance and corporate governance (Amalia *et al.,* 2022; Saiful & Abdul, 2023).

The urgency of this study is further reinforced by empirical evidence in Indonesia's manufacturing sector, which reveals cases of corporate failure resulting from weak corporate governance. The cases of PT Hanson International Tbk (2021) and PT Tiga Pilar Sejahtera Food Tbk (2020), which were delisted due to financial statement manipulation and GCG violations, demonstrate that high financial performance does not guarantee sustainable firm value without the support of quality corporate governance (Financial Services Authority, 2021). Findings by Wijaya *et al.,* (2023) reinforce this argument by demonstrating that companies with high GCG scores were able to maintain firm value despite experiencing a 15–20% decline in financial performance during a crisis period. This indicates that GCG acts as a protective mechanism that mitigates the negative impact of financial performance volatility on firm value.

From a practical perspective, this study is important for the management of manufacturing companies in designing strategies to optimize firm value through synergy between improving financial performance and strengthening governance mechanisms. For regulators and policymakers, this study can provide evidence-based insights for refining CG regulations to be more adaptive to the characteristics of the manufacturing industry. Meanwhile, for investors, the results of this study can inform investment decision-making by taking into account not only financial aspects but also the quality of a company's governance (Latif *et al.,* 2023). Thus, this study is expected to contribute to enriching the financial management literature, particularly regarding corporate governance and firm valuation in the context of emerging markets such as Indonesia.

The remainder of this paper is organized as follows. Section 2 provides a literature review and hypothesis development. Section 3 presents the research method and design. Section 4 provides the results and discussion. Section 5 presents Concluding Remarks and Recommendations.

2. Literature Review and Hypothesis Development

2.1 *Agency Theory*

Agency theory is one of the fundamental concepts in accounting and finance, first elaborated in depth by Jensen and Meckling (1976). This theory describes the contractual interaction between the principal (owners or shareholders) and the agent (managers or company executives). An agency situation arises when one or more parties (principals) grant authority to make decisions and manage the company to another party (agent) to act on behalf of the principal (Nila & Rahman, 2021). An agency relationship is a contract between shareholders and the company's managers. Agency theory emerged in response to the phenomenon of separation between company owners (shareholders) and the managers who run the company. Agency theory posits that company management, as agents of the shareholders, will act with full awareness of their own interests rather than as prudent and fair representatives of the

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shareholders. Conflicting interests between the two parties can lead to agency conflicts (Sumanta & Ratnadi, 2026).

Agency theory emerged as a response to the separation of ownership and control in modern companies, particularly public companies. The principal grants authority to the agent to manage the company and make strategic business decisions with the expectation that the agent will act in the principal's best interests—namely, to maximize corporate value and shareholder wealth (Utama *et al.*, 2023). In this study, agency theory is used as a foundation for understanding the significance of GCG in regulating the relationship between financial performance and firm value. Effective GCG can ensure that financial performance reports are accurate and reflect the company's actual situation, and that the achievement of good financial performance is aimed at increasing firm value rather than for the personal gain of managers (Safitri, 2023).

***2.2** Signaling Theory*

The signaling theory developed by Spence (1973) explains how companies send signals to users of financial statements. The signaling theory emphasizes the importance of information disclosed by companies for the investment decisions of external parties. Information is crucial for investors and business practitioners because it provides details, records, or descriptions—whether regarding past, present, or future conditions—that are essential to a company's survival (Muhammad & Aisyah, 2021). Information published as an announcement serves as a signal to investors in their investment decision-making. If such an announcement contains positive news, the market is expected to react as soon as the announcement is received. Signaling theory explains how companies should send signals to users of financial statements. These signals consist of information regarding what management has done to fulfill the owners' objectives (Harlan & Wijaya, 2020). In the context of this study, strong financial performance can serve as a positive signal to investors that the company has a promising future. Similarly, the implementation of sound Good Corporate Governance can signal to investors that the company is well-managed and trustworthy, thereby enhancing the company's value (Virliandita & Sulistyowati, 2024).

***2.3** Financial Performance*

Financial performance refers to a formal process undertaken by a company to evaluate the efficiency and effectiveness of business activities carried out over a specific period. It is a formal assessment that measures a company's success in generating profits, thereby providing insight into the company's prospects, growth, and potential. A company can be considered successful if it meets established standards and objectives (Indawati & Anggraini, 2021). In this study, the measurement indicator for financial performance focuses on a profitability proxy, namely Return on Assets (ROA). ROA is a ratio that measures a company's ability to generate net profit relative to its total assets. ROA indicates how efficiently management utilizes the company's assets to generate profits; this ratio serves as a primary consideration for investors in evaluating management performance (Aprilia & Wahjudi, 2021).

***2.4** Enterprise Value*

A high enterprise value instills confidence in the capital market regarding the company's current situation and prospects. It can be said that the higher the enterprise value, the greater the prosperity for the company's shareholders. A company's financial reporting serves not only as a tool to evaluate

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the work of the accounting department but also as the basis for determining or assessing the company's financial position (Indawati & Anggraini, 2021). The indicator used to measure enterprise value in this study focuses on the Price-to-Book Value (PBV) proxy. PBV is a ratio that compares the market price of a stock to its book value per share. A PBV greater than one indicates that the market values the company higher than its book value, which directly suggests the creation of value for shareholders (Hardianti *et al.,* 2023).

2.5 *Good Corporate Governance*

Good Corporate Governance is a system that regulates and controls a company to increase value for all stakeholders. According to the Forum for Corporate Governance in Indonesia (FCGI), GCG is a set of regulations governing the relationships between shareholders, company management, creditors, the government, employees, and other internal and external stakeholders (Bakti *et al.,* 2024). Conceptually, in the literature on corporate governance, GCG is built upon various mechanisms such as managerial ownership, which aligns the interests of managers (Astuti & Suhendro, 2024); institutional ownership, which serves as external oversight (Latif *et al.,* 2023); an independent board of commissioners that ensures objectivity (Bakti *et al.,* 2024); and an audit committee that safeguards the integrity of reporting (Hardianti *et al.,* 2023). However, given that the concept of GCG is multidimensional, the measurement of GCG in this study is integrated into a composite index known as the Corporate Governance Index (CGI). The use of this index aligns with research (Rahayu & Sari, 2020) which shows that index-based CG measurements provide more comprehensive analytical results in assessing the overall quality of governance compared to the use of separate proxies.

2.6 *Financial Performance and Firm Value*

Financial performance has a close and significant relationship with firm value. According to signaling theory, strong financial performance serves as a positive signal to investors that the company is managed efficiently and has promising growth prospects for the future. When a company can generate high profitability (measured by ROA), the market responds by assigning a higher valuation to the company's stock, thereby increasing its enterprise value (PBV). Conversely, poor financial performance sends a negative signal to the market, leading to a decline in enterprise value. These findings are consistent with the studies by Aprilia & Wahjudi (2021) and Hardianti *et al.,* (2023), which consistently demonstrate a positive and significant effect of financial performance on firm value among manufacturing companies in Indonesia.
H1: *Financial Performance (ROA) has a positive and significant effect on Firm Value (PBV).*

2.7 *The Role of Good Corporate Governance as a Moderating Variable*

Good Corporate Governance (GCG) is hypothesized to strengthen or weaken the relationship between financial performance and firm value. Within the framework of agency theory, GCG functions as a control mechanism that ensures good financial performance truly reflects the company's fundamental conditions, rather than being the result of accounting manipulation or opportunistic management actions. Implementing strong and integrated governance—reflected by a high Corporate Governance Index (CGI)—will enhance investor confidence that financial performance reports are reliable, thereby strengthening the positive impact of financial performance on firm value (Astuti & Suhendro, 2024). Conversely, without adequate support from GCG, even high financial performance may not necessarily

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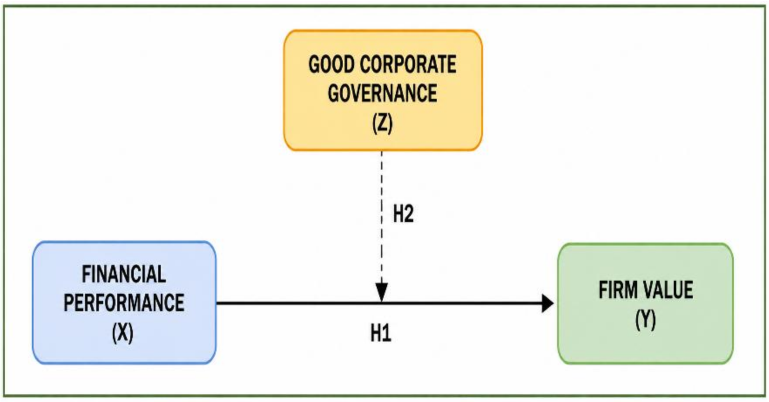
translate proportionally into an increase in firm value due to concerns about manipulation. This confirms that GCG is a crucial moderating variable that determines the consistency of the relationship between financial performance and firm value in the long term (Latif *et al.,* 2023).

H2: *Good Corporate Governance (CGI) moderates (strengthens) the relationship between Financial Performance (ROA) and Enterprise Value (PBV).*

Figure 1. Conceptual Framework



3. Research Method

This study employs a quantitative approach using an associative research design to empirically determine the relationships among variables (Marisa & Kurniawanto, 2025). This approach was chosen to analyze the effect of financial performance on firm value, which is theoretically grounded in Signaling Theory (Spence, 1973), with Good Corporate Governance (GCG) serving as a moderating variable based on the Agency Theory perspective (Jensen & Meckling, 1976). The data analyzed statistically consists of secondary data in the form of figures sourced from annual financial reports (annual reports). All data, including income statements, balance sheets, cash flow statements, and corporate governance disclosures, were accessed indirectly through the official IDX website (www.idx.co.id) and the official websites of the respective companies during the observation period.

The population in this study comprises all manufacturing companies listed on the IDX, which are divided into three main subsectors: basic and chemical industries, miscellaneous industries, and consumer goods industries. The sample was selected using the purposive sampling technique, which involves selecting a sample based on specific criteria to ensure alignment with the assumptions regarding agent and principal behavior in Agency Theory (Jensen & Meckling, 1976). These criteria include: (1) manufacturing companies consistently listed on the IDX throughout the study period; (2) companies that publish complete financial statements and annual reports; (3) companies that use the Rupiah as their currency; (4) not having been delisted; and (5) possessing complete data regarding financial performance proxies through Return on Assets (ROA) as a reflection of the company's performance signals (Brigham & Houston, 2019), firm value proxies through Price to Book Value (PBV), and corporate governance components required for the construction of a governance index that serves as a tool to mitigate agency conflicts.

The data analysis technique used is panel data regression with a Moderated Regression Analysis (MRA) approach using the Stata data processing software. The MRA approach is used because,

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theoretically, oversight through corporate governance mechanisms is projected to reduce agency costs, thereby strengthening the positive impact of financial performance signals on increasing firm value (Eisenhardt, 2013). To avoid bias and obtain a multidimensional measure of GCG, this study uses the Corporate Governance Index (CGI), which was constructed through Principal Component Analysis (PCA) of various governance mechanisms.

The analysis began with the selection of estimation models (Chow, Hausman, and Lagrange Multiplier) to determine the best model (Common, Fixed, or Random Effect Model), followed by tests of classical assumptions such as multicollinearity. Hypothesis testing was conducted at a significance level (α) of 5% using two equation models:

Direct effect model:

$$PBV = \alpha + \beta\ ROA + \varepsilon \qquad (1)$$

Second model to test the role of GCG as a moderating variable:

$$PBV = \alpha + \beta\ ROA + \beta 2\ CGI + \beta 3\ (ROA \times CGI) + \varepsilon \qquad (2)$$

If the interaction coefficient (β3) is positive and statistically significant, then GCG is empirically proven to act as a moderating variable (strengthening) the relationship in accordance with the theoretical framework established (Ghozali, 2021).

Table 1. Variables and Measurements

Variable	Indicators	Measurement	Primary References
Financial Performance (X)	Return on Assets (ROA)	Measures a company's ability to generate net income from its total assets.	(Aprilia & Wahjudi, 2021)
Enterprise Value (Y)	Price-to-Book Value (PBV)	A ratio that compares a stock's market price to its book value per share.	(Hardianti *et al.*, 2023)
Good Corporate Governance / Moderating Variable (Z)	Corporate Governance Index (CGI)	A composite index that reflects the quality of a company's corporate governance, constructed and standardized using the statistical method of Principal Component Analysis (PCA) from various components of corporate governance oversight mechanisms.	(Rahayu & Sari, 2020)

Source: *Previous Research (2026)*

4. Results and Discussion

4.1 Analysis Results

The subjects of this study include manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the observation period from 2020 to 2024, comprising the basic industries and chemicals, miscellaneous industries, and consumer goods sub-sectors. The data sample was selected using a purposive sampling technique, which required companies to be consistently listed on the IDX, not to have been delisted, to use the Rupiah as their currency, and to publish financial statements and annual reports regularly. Based on screening against criteria for the completeness of fundamental data—including financial performance proxies (ROA), enterprise value proxies (PBV), and details of the components that make up the corporate governance index (CGI)—this study obtained a total of 384 valid data observations for statistical analysis.

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Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
PBV	384	3.009	9.597	-0.537	147.068
ROA	367	0.056	0.096	-0.696	0.557
CGI	384	0.000	1.108	-4.234	4.588

Source: *Data Processed Using Stata (2026)*

Based on Table 2, the distribution of financial variable data shows quite extreme variation among the companies in the sample. The price-to-book ratio (PBV) has a mean of 3.009 with a standard deviation of 9.597; the high standard deviation and the range of values (–0.537 to 147.068) indicate a very wide disparity in company valuations. Meanwhile, financial performance (ROA) recorded an average of 0.056, meaning that, in general, companies were able to generate a net profit of 5.6% of total assets. Nevertheless, the presence of a minimum value of -0.696 indicates that some of the companies in the sample incurred significant losses during the observation period.

As for the moderating variable, the Corporate Governance Index (CGI), extracted using the Principal Component Analysis (PCA) method, has a mean of 0.000 with a standard deviation of 1.108, confirming that the corporate governance index is well-standardized (centered on zero). The data distribution also shows that the CGI variable has sufficient variation and is highly suitable for further analysis within a regression model.

Table 3. Results of the Pearson Correlation Test

Variable	PBV	ROA	CGI
PBV	1.000		
ROA	0.328	1.000	
CGI	0.066	-0.050	1,000

Source: *Data Processed Using Stata (2026)*

Based on Table 3, the results of the Pearson correlation test show that profitability (ROA) has a positive relationship with firm value (PBV) of 0.328, indicating that an increase in profit is associated with a rise in firm value. Meanwhile, the Corporate Governance Index (CGI) variable shows a relatively low positive correlation with PBV, at 0.066. This low initial correlation coefficient confirms that the role of corporate governance in firm value cannot be fully concluded through a simple linear relationship, thereby further reinforcing the need for further testing via regression analysis to obtain a more comprehensive and accurate picture of the effects and moderating factors.

Table 4. Results of the Multicollinearity Test

Variable	VIF	Tolerance
CGI	1.00	0.997
ROA	1.00	0.997
Mean VIF	1.00	-

Source: *Data Processed Using Stata (2026)*

Based on Table 4, the multicollinearity test results show that the variables in the model have a Variance Inflation Factor (VIF) value of 1.00 and a tolerance value of 0.997. The VIF value, which is well below the maximum threshold of 10, supported by a tolerance value close to 1 and greater than 0.10,

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confirms that this research model is completely free of multicollinearity. Thus, there are no disruptive correlations among the independent variables, meaning this model meets the requirements of the classical assumption tests and is highly suitable for proceeding to the regression analysis stage.

Table 5. Results of the Regression and Moderation Tests for the Corporate Governance Index

Variable	Model 1 (PBV)	t-stat	Sig.	Model 2 (PBV)	t-stat	Sig.
ROA	33.414	6.63	0.000	35.058	11.93	0.000
CGI	-	-	-	0.660	25.98	0.000
ROA × CGI	-	-	-	15.754	6.12	0.000
Constant	1.227	2.19	0.029	1.217	3.74	0.000

Source: *Data Processed Using Stata (2026)*

Based on Table 5 in Model 1, the test results show that profitability (ROA) has a positive and significant effect on firm value (PBV), with a coefficient of 33.414 and a significance level of 0.000. This finding demonstrates that higher profitability is associated with greater appreciation of firm value in the eyes of investors. This confirms that high profit performance sends a positive signal to the market regarding a firm's ability to create economic value. In this first-stage test, the ROA variable alone explains 10.8% of the variation in firm value.

In the moderation test results in Model 2, the ROA variable continued to show a consistent positive effect (coefficient 35.058; sig. 0.000), accompanied by an independent effect from the Corporate Governance Index (CGI), which was also positive (coefficient 0.660; sig. 0.000). The primary focus of this test lies on the interaction term (ROA × CGI), which recorded a positive coefficient of 15.754 with a significance level of 0.000. These empirical results unequivocally demonstrate that the Corporate Governance Index acts as a valid moderating variable in the research model.

The positive direction of this interaction coefficient confirms that good corporate governance strengthens the influence of profitability on firm value. In other words, highly profitable companies supported by robust governance mechanisms will receive a significantly higher valuation from investors compared to companies that rely solely on high profits without being balanced by strong governance. This crucial role of GCG is also confirmed by a very dramatic increase in the R2 value—from 10.8% in the main model to 70.1% after the governance component and its interaction were included in the equation.

4.2 Discussion

4.2.1 The Effect of Financial Performance on Firm Value

The results of the statistical tests for Model 1 in Table 5 provide solid evidence that financial performance, proxied by Return on Assets (ROA), has a positive and significant effect on firm value (PBV). A regression coefficient of 33.414 with a significance level of 0.000 ($p < 0.05$) convincingly confirms that the first hypothesis (H1) is accepted. This finding indicates that a manufacturing company's essential ability to maximize asset utility to generate net profit will be met with a direct and enthusiastic response from the capital market through higher stock valuation. The rationale behind this result is fully in line with the study's initial expectations, where a high ROA metric reflects how efficiently management utilizes the company's assets to generate profits. This reinforces the view of Indawati & Anggraini (2021), who state that achieving strong financial performance serves as a measure of a

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company's success in demonstrating its prospects, growth, and potential in the eyes of investors. Thus, robust financial factors are proven to still play a crucial role as the primary foundation in the stock pricing process on the exchange.

Furthermore, these findings provide strong empirical support for the Signaling Theory proposed by Spence (1973), while also reinforcing the arguments of Harlan & Wijaya (2020) and Virliandita & Sulistyowati (2024) regarding the role of financial reporting as a signal. From this theoretical perspective, information regarding a company's return on assets (ROA) is not merely a historical record but becomes a credible positive signal of the company's prospects. This signal transparently represents current operational efficiency, demonstrating what management has achieved to fulfill the expectations of the company's owners. When management consistently reports superior profitability levels, the information asymmetry gap between the company's internal stakeholders and the public market narrows significantly. In response to these positive signals, market participants react rationally by valuing the stock—as measured by the PBV ratio—well above the book value of the company's underlying assets, as a form of recognition of the company's unique capacity to generate sustainable wealth.

The consistency of these research results strongly confirms and expands upon the findings of previous studies, particularly those by Aprilia & Wahjudi (2021) and Hardianti *et al.,* (2023). Both of these reference studies have demonstrated that financial performance consistently emerges as a central determinant in driving up firm value, particularly in Indonesia's manufacturing sector, which exhibits complex characteristics regarding asset utilization and the level of competition. Confirmation of these findings becomes increasingly important when viewed within the context of post-pandemic economic dynamics (Amalia *et al.,* 2022). Amid a challenging and fundamentally transformed business landscape, a solid and proven financial foundation remains the foremost rational and objective benchmark relied upon by the market. Ultimately, measurable improvements in profitability are an essential long-term strategy for companies to achieve their primary objective: ensuring and maximizing shareholder wealth.

***4.2.2** The Role of Good Corporate Governance in Moderating the Relationship Between Financial Performance and Firm Value*

In testing the second hypothesis summarized in Model 2 of Table 5, the results of the statistical analysis provide absolute confirmation that the Corporate Governance Index (CGI) validly acts as a moderating variable that strengthens the influence of profitability (ROA) on firm value (PBV). This positive interaction is empirically represented by the coefficient of the ROA × CGI variable, which is 15.754 with a probability of significance of 0.000. The most striking empirical evidence from this test is the extremely dramatic increase in the model's explanatory power (R^2), rising from just 10.8% in the main model to 70.1% after the governance element was integrated into the equation. This exponential leap underscores how essential the composite governance index is in amplifying corporate valuation in the capital market. Therefore, the second hypothesis (H2) is convincingly accepted, proving that manufacturing companies with high profit margins supported by a solid governance foundation will receive far greater valuation sentiment and market appreciation compared to companies that rely solely on profitability. This finding also reinforces the argument put forth by Lestari & Zulaikha (2021), who assert that an effectively functioning GCG system provides shareholders with a rational guarantee of a fair return on their investment, ultimately increasing corporate value.

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Conceptually, this finding is highly rational and provides strong validation of the Agency Theory proposed by Jensen & Meckling (1976). Within the dynamics of the agency framework—characterized by conflicts of interest between owners (principals) and managers (agents)—implementing proactive and integrated corporate governance serves as a vital control mechanism. In line with studies by Safitri (2023) and Utama *et al.,* (2023), good corporate governance has proven effective in reducing agency costs and ensuring that high financial performance is aimed at increasing corporate value, rather than the personal gain of managers. Furthermore, a rigorous GCG system ensures that high published ROA metrics reflect the company's true and reliable underlying economic conditions, rather than merely being the result of accounting engineering or short-term bookkeeping manipulation. As a result of this transparency, investor confidence is significantly amplified; investors feel their investments are safe from the risk of expropriation and are therefore rationally willing to pay a much higher stock price premium for companies that have proven to be transparent and accountable.

The consistency of these moderation test results successfully addresses the expectations of prior financial management literature in a more comprehensive and incisive manner. These findings fully support the research by Astuti & Suhendro (2024) and Latif *et al.,* (2023), which similarly affirm that the effectiveness of corporate governance mechanisms is a prerequisite for the consistency of converting financial performance into firm value over the long term. Furthermore, the significance of this moderation aligns with the argument by Wijaya *et al.,* (2023), who demonstrated that GCG plays a crucial role as a powerful protective mechanism for investors in mitigating the negative impacts of financial performance volatility in the Indonesian capital market. From a methodological perspective, integrating CGI in this study strongly supports the validity of the claims made by Rahayu & Sari (2020). This composite index construction has proven to be far superior in capturing the complexity of management oversight in a comprehensive and multidimensional manner, while also addressing the gaps in previous research that were often biased due to reliance on highly partial governance proxies. Furthermore, this composite approach is highly relevant for accommodating the dynamics of fundamental changes in the post-pandemic business landscape, as emphasized in the studies by Amalia *et al.,* (2022) and Saiful & Abdul (2023).

5. Concluding Remarks and Recommendation

This study is motivated by the importance of firm value as an indicator of long-term success and investor confidence, which is strongly influenced by financial fundamentals and the quality of corporate governance. This study aims to examine the effect of financial performance (ROA) on firm value (PBV), with Good Corporate Governance (CGI) serving as a moderating variable, using a quantitative associative approach based on 384 observations from manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2024 period, selected via purposive sampling. Based on the results of the Moderated Regression Analysis (MRA), this study concludes that financial performance has a positive and significant effect on firm value, and that GCG effectively moderates and strengthens this relationship. Theoretically, these findings reinforce Signaling Theory and Agency Theory by demonstrating that profit generation serves as a positive signal to the market, while robust GCG functions as an essential control mechanism to minimize agency conflicts.

From a practical and policy perspective, these findings guide corporate management to align profit generation with governance mechanisms to maximize stock valuation, validate CG criteria for

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investor decision-making, and provide an evidence-based foundation for authorities to refine industry regulations. The originality of this research is highlighted by the use of a multidimensional CGI composite index to capture post-pandemic business phenomena, addressing a gap in previous research that relied solely on partial proxies.

Although it presents comprehensive findings, this study is limited to the manufacturing sector from 2020 to 2024, which has unique structural and asset characteristics; therefore, generalizations to other sectors must be made with caution. As a foundation for further research, future researchers are encouraged to expand the sample to other sectors, such as banking or energy, and to explore the inclusion of additional variables and macroeconomic factors to enrich the corporate value determination model.

Statement of Use of Generative AI

During the preparation of this work, the author used generative artificial intelligence tools to support the scientific writing process. Grammarly was used to check grammar, refine writing style, and improve clarity in scientific writing. All interpretations, analyses, and conclusions presented in this study are the sole responsibility of the author.

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Corresponding author
Lita Arianti can be contacted at: litaarianti02@gmail.com