

THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FIRM VALUE WITH PROFITABILITY AS A MEDIATING VARIABLE

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Abstract

This study aims to determine the effect of Good Corporate Governance on firm value, with profitability acting as a mediating variable, among banking companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The study employs a quantitative approach using secondary data obtained from annual and sustainability reports. A purposive sampling technique was used based on specific criteria, resulting in a sample of 46 banking companies and a total of 184 observations. Data analysis was conducted using multiple linear regression and the Sobel test—via SPSS version 26 software—to examine the mediating effect. The results indicate that Good Corporate Governance has a significant negative effect on firm value, while profitability has a significant positive effect on firm value. Furthermore, profitability does not mediate the effect of Good Corporate Governance on firm value.

Keywords: Green Finance, Good Corporate Governance, Profitability, Company Value.

A. INTRODUCTION

The 2019–2021 Coronavirus disease (COVID-19) pandemic led to a reduction in carbon emissions and improved air quality. However, little is known about how the pandemic influenced the "low-carbon" energy transition; furthermore, the 2022 war in Ukraine which escalated into a full-scale conflict not only caused immense human suffering but also triggered widespread economic disruption with impacts extending far beyond the borders of the two nations (Latifah, 2025). According to Statistics Indonesia (BPS), Indonesia's GDP grew at a rate of only 3.69% in 2021 (BPS, 2022). This situation underscores the importance of the banking sector as a key pillar of the economy, playing a vital role in credit distribution and supporting sustainable growth. As

the primary provider of credit, the banking sector is vulnerable to this risk due to rising Non-Performing Loans (NPLs) stemming from a decline in borrowers' repayment capacity as reported by the Financial Services Authority (OJK) (Indonesian Banking Statistics/OJK, December 2023). A company's value serves as a key parameter for gauging investor interest; often, this value is linked to investor perceptions regarding the company's achievements and success (Darniaty et al., 2023). The Indonesia Stock Exchange (IDX) serves as a trading venue for publicly listed companies, enabling investors to assess a company's value. High share prices reflect a high corporate value, which indicates a favorable level of investor prosperity (Permatasari & Musmini, 2023). To sustain the growth of corporate value, companies are required to look beyond mere profitability. They must consider aspects beyond the tangible when seeking to enhance their value in a sustainable manner (Adelina & Raza, 2021).

Banking plays a crucial role in driving economic development through financial intermediation activities specifically, mobilizing funds from the public and redistributing them to productive sectors (Baharudin, 2023). Regarding firm value proxied by Tobin's Q in banking companies from 2020 to 2024, fluctuations in Tobin's Q values are evident. In 2020, the average Tobin's Q value stood at 1.50, before rising sharply in 2021 to reaching 2.19. This change indicates that, during that period, investors viewed the prospects of banking companies positively. However, in 2022, the Tobin's Q value experienced a sharp decline. This suggests a weakening in investor perception regarding the long-term performance of the banking sector—potentially reflecting rising investment risks, intensifying competition, and the impact of global economic conditions and tighter financial policies. These fluctuations indicate that the value of banking companies in Indonesia remains unstable, despite the sector's crucial role in supporting development and sustainable finance (Lindawati, 2026).

One effective method for monitoring corporate managers with the aim of enhancing firm value is the implementation of good corporate governance (GCG). GCG refers to the procedures and practices adopted by a company to improve performance through the oversight of management's own actions (Gusriandari et al., 2022). In the banking sector, the implementation of

GCG is crucial because the industry relies on trust. The Financial Services Authority (OJK) mandates that all banks adopt GCG principles to foster transparency, accountability, and fairness in corporate management. Effective GCG implementation is expected to mitigate conflicts of interest between management and shareholders, enhance the quality of oversight, and strengthen investor confidence in the company (Kristanto et al., 2023). In this study, good corporate governance is proxied by the size of the independent board of commissioners. An independent commissioner is an individual who has no direct ties to management, other members of the board of commissioners, or shareholders, and maintains no business affiliations that could compromise their neutrality in performing duties for the company's benefit (Azhari & Kusumaningsih, 2025). Independent commissioners play a pivotal role as objective overseers of corporate operations, ensuring that all management decisions align with the principles of good corporate governance (Rajak et al., 2026). On the other hand, profitability serves as a key indicator of the extent to which a company generates profit from its operational activities (Cahyaningrum & Ahmadi, 2024). Companies with high profitability tend to be more attractive to investors, as they are perceived to offer superior investment returns; meanwhile, Indonesian Banking Statistics from the Financial Services Authority (OJK) indicate that the performance of the Indonesian banking sector underwent changes during the 2020–2024 period. Research by various academics examining the relationship between good corporate governance (GCG) and firm value reveals significant commonalities. For instance, Yabela et al. (2026) found that the implementation of sound GCG principles mitigates agency conflicts and sustainably enhances firm value. Similarly, Jannah and Sartika (2022) defined good corporate governance as the processes and structures employed by corporate bodies to boost company success and accountability. In contrast, Rahmawati and Mulyani (2026) reported a negative trend, noting that interest rate fluctuations and global economic uncertainty between 2022 and 2024 prompted investors to adopt a more passive stance. This study offers novelty by examining the impact of Good Corporate Governance on firm value with profitability serving as a mediating variable among banking companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The use of profitability as a mediating variable is

expected to provide a more comprehensive understanding of the mechanisms through which these two variables influence the enhancement of firm value, particularly in the post-pandemic era, which is characterized by the accelerated implementation of sustainable finance in Indonesia.

Literature Review

Teori Stakeholder

Stakeholder theory, as articulated by Freeman (1984), posits that a company is accountable not only to shareholders but also to all interested parties—such as employees, consumers, the government, and the community. This is not merely a normative theory; rather, it seeks to understand and manage stakeholder interests in a way that fosters the company's long-term viability. Disclosing both financial and non-financial information can maximize stakeholder support; therefore, it is crucial for companies to address the expectations and interests of all stakeholders in order to achieve their objectives (Tariyu, 2025).

Company Value

Company value represents the price at which a company is sold to investors interested in purchasing it or investing capital in it. It is the company's market value reflected in its share price and signifies the company's success in generating shareholder wealth and attracting increased investment (Jayati et al., 2021).

Good Corporate Governance

The Cadbury Committee, quoted by FCGI (2003), defining corporate governance as a set of regulations governing the interactions among various parties including shareholders, lenders, corporate management, employees, the government, and all internal and external stakeholders regarding their respective rights and responsibilities. This can also be referred to as the system that manages and controls the company. (Sudrajat, 2023).

Profitability

Profitability is a ratio used to evaluate an organization's financial returns, playing a crucial role in the company's long-term survival. Furthermore, it serves as a comprehensive assessment of

a company's capacity to generate revenue through the optimal utilization of available resources (Kencana & Nariman, 2025).

Hypothesis

The Influence of Good Corporate Governance on Company Value

Good Corporate Governance (GCG) mechanisms serve as oversight instruments ensuring that entities adhere to existing regulatory frameworks, with a key indicator being the presence of an effectively functioning Independent Board of Commissioners. This perspective is fundamental. This is consistent with previous research by Yabela *et al.* (2026) and Jannah & Sartika (2022). However, previous research also showed contradictory results. Research conducted by Rahmawati & Mulyani (2026) and Putri & Trisnaningsih (2024) stated that Good Corporate Governance has no significant effect on firm value. Based on previous theory and research, the following hypothesis can be formulated:

H1: Good Corporate Governance Affects Company Value

The Influence of Profitability on Company Value

Financial institutions, such as banks and credit institutions, often use NIM as a tool to analyze investment options. This allows them to manage their loan portfolio efficiently and profitably (Perdana & Riwayati, 2024). This is in line with research by Cahyaningrum & Ahmadi (2024) and Pardede (2024) which states that NIM significantly influences company value, high NIM shows efficiency, but excessive increases can erode public support. However, previous research also shows contradictory results. Research conducted by. Research conducted by Sari *et al.*, (2026) shows that Net Interest Margin (NIM) does not have a big influence on company value. Based on previous theory and research, the following hypothesis can be formulated:

H2: Profitability influences company value

Profitability mediates the effect of Good Corporate Governance on firm value

The better the financial performance demonstrated by a company, the higher the level of investor confidence in the company's ability to create economic value (Setiawan & Muliawati, 2024). Strategies to increase stock market value are often implemented with direct management

involvement in company ownership. Meanwhile, a company's ability to generate profits serves as a way to link institutional control to company value. In this case, financial data is a primary factor in assessing a company's condition and performance (Putri & Trisnarningsih, 2021). This is consistent with previous research by Jannah & Sartika (2022), which stated that profitability mediates GCG on company value. Conversely, Putri & Triningsih stated that profitability does not mediate GCG on company value. Based on previous theory and research, the following hypothesis can be formulated:

H3: Profitability mediates good corporate governance on company value.

B. METHOD

This study uses a quantitative method utilizing secondary data obtained through documentation techniques, namely annual financial reports and sustainability reports of banking companies for the 2021-2024 period from the official IDX website (www.idx.co.id). The research objects are banking companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period. The population analyzed in this study is all 47 companies listed on the IDX. Sample selection was carried out using a purposive sampling method, considering several characteristics relevant to the research objectives. The sample selection criteria include: (1) Banking companies that completely report annual financial reports (AR) and sustainability reports consecutively for the period 2021 – 2024. (2) Banking companies that publish complete data related to the variables used in the study such as Size of the Independent Board of Commissioners, Net Interest Margin (NIM) and Company Value for the period 2021 – 2024.

Research Instruments

Table 1. Research Instruments

No	Variabel	Measurement or Formula	Skala
1.	Company Value (Y)	Tobin's Q $= \frac{\text{Market Value of Equity} + \text{Total Debt}}{\text{Total Assets}}$	Rasio

Source : (Lindawati, 2026)

2.	<i>Good Corporate Governance</i> (X2)	Size of the Independent Board of Commissioners $= \frac{\text{Number of Independent Commissioners}}{\text{Number of Members of the Board of Commissioners}}$ Source : (Firyatulloh, 2025)	Rasio
3.	Profitability (Z)	<i>Net Interest Margin</i> $NIM = \frac{\text{Net Interest Income}}{\text{Average Net Assets}} \times 100$ Source : Bank Indonesia (2004)	Rasio

Source : SPSS result, processes data (2026)

C. RESULTS AND DISCUSSIONS

Statistik Deskriptive

Table 2. Results of Descriptive Statistical Analysis Test

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Company Value	184	.03	9.46	1.2563	1.14335
GCG	184	.00	100.00	58.0841	13.41295
Profitability	184	.69	24.38	5.2020	3.32061
Valid N (listwise)					

Source : SPSS result, processes data (2026)

Based on table 2, the N value shows the amount of data used in the study, which is 184. The company value variable has a mean value of 1.2563 with a minimum value of 0.03, a maximum value of 7.31, and a standard deviation of 1.14335, the green finance variable has a mean value of 0.5797 with a minimum value of 0.17, a maximum value of 1.00, and a standard deviation of 0.19712, the good corporate governance variable has a mean value of 58.0841 with a minimum value of 0.00, a maximum value of 100.00, and a standard deviation of 13.41295, the profitability variable has a mean value of 5.2020 with a minimum value of 0.69, a maximum value of 24.38, and a standard deviation of 3.32061.

Classical Assumption Tests

Based on the evaluation of the classical assumptions, the research model meets all necessary requirements for further analysis. The normality test confirms that the data are normally distributed, while the multicollinearity test shows no strong relationship between the independent variables. The heteroscedasticity test indicates constant residual variance, and the autocorrelation

test shows no correlation among residuals. Therefore, all fundamental regression assumptions have been fulfilled, indicating that the model is of good quality and produces unbiased, consistent, and efficient parameter estimates, allowing hypothesis testing and interpretation of the relationships between variables to proceed reliably without violating the regression assumptions.

Multiple Linier Regression Test

Multiple linear regression tests are used to analyze the linear influence between 2 or more independent variables on 1 dependent variable.

Table 3. Multiple Linear Regression Test Results

Coefficients ^a								
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.742	.143		12.171	.000		
	GCG	-.454	.036	-.856	-12.717	.000	.457	2.186
	Profitabilitas	.059	.022	.159	2.691	.008	.594	1.684
a. Dependent Variable: Company Value								

SPSS results, processed data (2026)

Based on table 3, it shows that the constant value (α) of the regression equation above is 1.742, indicating that when all independent variables are 0, the company's value will be 1.742. The good corporate governance variable has a regression coefficient value of -0.454, indicating that every 1% increase in good corporate governance causes a decrease in company value of 0.454. the profitability variable has a mean value of 5.2020 with a minimum value of 0.69, a maximum value of 24.38, and a standard deviation of 3.32061.

Hypothesis Testing

Partial t-test

The t-test is a test conducted to determine whether there is an influence of each independent variable (Good Corporate Governance) on the dependent variable (Company Value) and the mediating variable (Profitability).

Table 4. Partial t-Test Results

Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.742	.143		12.171	.000
	GCG	-.454	.036	-.856	-12.717	.000
	Profitability	.059	.022	.159	2.691	.008
a. Dependent Variable: Company Value						

Source: SPSS results, processed data (2026)

Based on Table 4, the results show that Good Corporate Governance has a negative and significant effect on company value (H1 Accepted). while Profitability has a positive and significant effect on company value (H2 Accepted).

Sobel Test

Table 5. Sobel Test Results

Jalur	t-statistik	p-value
X1- > Y -> Z	1.26158877	0.2070968

Source: SPSS results, processed data (2026)

Based on Table 5, Profitability (Y) mediates Good Corporate Governance (X2) towards company value (Y) with a t-statistic value of 1.261 < t table 1.96 with a significance value of 0.207 > 0.05, so Profitability cannot mediate Good Corporate Governance (X2) towards company value (Y) (H3 is rejected).

Discussions

The research results indicate that Good Corporate Governance (GCG) has a significant negative effect on firm value with a significance level of 0.000 < 0.05, a regression coefficient of -0.454, and a t-statistic of -12.717 thereby leading to the acceptance of H2. This negative relationship suggests that increasing the proportion of independent commissioners does not necessarily enhance firm value, particularly when overly stringent oversight adds procedural layers and slows down strategic decision-making. Therefore, the quality of GCG implementation is a

more important factor than the size of the board of commissioners. This finding aligns with research by Yabela et al. (2026) and Jannah & Sartika (2022).

The results of the study indicate that profitability has a positive and significant effect on firm value, thus H3 is accepted. In accordance with Stakeholder Theory, companies capable of generating high profits will receive greater support from stakeholders because they are perceived as being able to manage resources effectively and efficiently. Profitability, proxied by Net Interest Margin (NIM), reflects a bank's ability to generate net interest income, thus providing a positive signal regarding the company's future growth prospects. These research findings align with those of Cahyaningrum & Ahmadi (2024) and Rahmawati & Mulyani (2026).

The Sobel test results indicate that profitability is unable to mediate the effect of Good Corporate Governance on Firm Value, thus rejecting H5. Based on Stakeholder Theory, GCG implementation aims to increase transparency, accountability, and investor confidence. However, GCG implementation plays a greater role in strengthening oversight and risk control than directly increasing profitability. In the banking sector, profitability is more influenced by the ability to generate interest income, manage non-performing loans, maintain operational efficiency, and manage productive assets. These research findings align with those of Putri & Trisnaningsih (2021) and Jannah & Sartika (2022).

D. CONCLUSIONS

These findings indicate that good corporate governance also has a negative and significant effect on firm value. Furthermore, profitability, as proxied by Net Interest Margin (NIM), has a positive and significant effect on firm value. This study also found a negative correlation, with profitability unable to mediate the influence of good corporate governance on firm value. Based on Stakeholder Theory, the implementation of gcg stakeholder support and firm value. However, the benefits have not been fully felt by investors because they focus more on short-term financial performance than on sustainability benefits. Likewise, an increase in a company's ability to

generate profits reflects effective resource management, thus increasing investor confidence and company value.

E. SUGGESTIONS

Future researchers could extend and build upon this study to capture evolving phenomena by incorporating a broader range of variables and lengthening the period of field observation. Utilizing baseline data from diverse sectors would be instrumental in addressing gaps in previous findings. Researchers might also include additional mediating or moderating variables to examine whether the indirect relationship between growth and firm value becomes significant through other variables.

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