

The Determinant of Good Corporate Governance on Firm Value: The Mediation Role of Financial Performance

Rosi Purwanti¹; Hasa Nurrohim Kurniawan Putra^{2*}; Didit Herlianto¹

| Received: 02.10.2025 | Reviewed: 05.10.2025 | Accepted: 26.10.2025 |

Abstract

This study analyzes the effect of Good Corporate Governance (GCG) on firm value, with financial performance as a mediating variable. GCG is measured using the proportion of independent commissioners and the frequency of audit committee meetings. Firm value is proxied by Tobin's Q ratio, while financial performance is proxied by Return on Assets (ROA). The sampling technique employed is purposive sampling. The population consists of 69 companies listed in the LQ45 index on the Indonesia Stock Exchange during the 2020–2024 period, from which 23 companies were selected as the sample. The data used are secondary data obtained from annual and financial reports. Data analysis techniques include multiple linear regression, path analysis, and the Sobel test, with the assistance of IBM SPSS Statistics 26. The results show that the proportion of independent commissioners has a significant positive effect on firm value but does not significantly affect ROA. The frequency of audit committee meetings has a significant negative effect on both ROA and firm value. ROA has a significant positive effect on firm value. ROA does not significantly mediate the relationship between independent commissioners and firm value. However, ROA significantly mediates the relationship between the frequency of audit committee meetings and firm value.

Keywords: Good Corporate Governance, Independent Commissioners, Audit Committee Meeting Frequency, Return on Assets, Firm Value, Tobin's Q, Sobel Test.

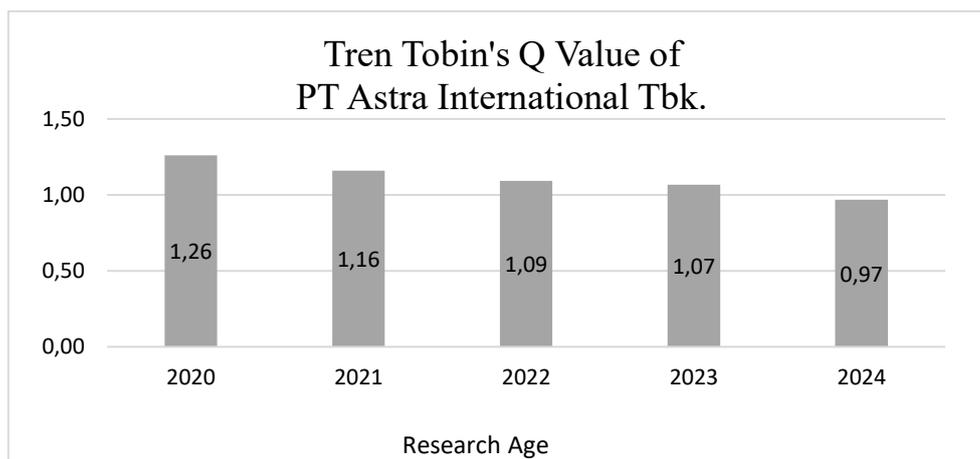
Introduction

Every company seeks to increase shareholder profits by optimizing the company's value. The company's ever-increasing value also contributes to the welfare of its shareholders, in addition to making the company look more prospective, thus attracting investors to invest their capital. According to Yana Fajriah & Jumady (2022), which clearly shows that the value of a company reflects investor confidence in the company's future prospects. The higher the value of the company, the greater the confidence of investors in investing their capital, as stated by Ridwan Nurazi et al. (2020).

One of the benchmarks of a company's value is the Tobin's Q ratio. This ratio provides information and an overview of various events in the company's activities, such as whether there is diversity across divisions in investment decision-making or information about the relationship between management's shareholding and the company's value. Referring to preliminary data taken from companies that are

¹ UPN "Veteran" Yogyakarta

² UPN "Veteran" Yogyakarta, email: hasa.nurrohim@gmail.com. *Corresponding author



Source: www.idx.co.id (Data Processed)

Figure 1. Company Value Trends with Tobin's Q Ratio

members of the LQ45 index, it was found that there was a phenomenon of declining company value measured using Tobin's Q during the research year.

One of the companies that has shown a consistent trend of downward trend in the value of Tobin's Q over the past five years is PT Astra International Tbk. As illustrated in Figure 1, the company's Tobin's Q value has decreased from 1.26 in 2020 to 0.07 in 2024. Interestingly, even though the company's market value has decreased, the company's net profit has actually increased from year to year. This shows that improved financial performance is not necessarily followed by an increase in the company's value. This phenomenon reinforces the suspicion that non-financial factors such as corporate governance (GCG) may have an influence on how the market rates a company.

The process of increasing the value of a company gives rise to an agreement between one or more people who act as principals and authorize other parties called agents to perform a service and make decisions on behalf of the principal, this is commonly called Agent Theory (Jensen and Meckling, 1976). Jensen and Meckling (1976) argue that the party who evaluates an information is called the principal, while the agent is the party who carries out management activities and makes decisions. In other words, the shareholders give the authority to the management to make decisions and manage the company in order to make profits. The separation of management is expected to allow shareholders to get as much profit as possible at the minimum possible cost when the management manages the company.

However, this agency relationship can potentially cause a conflict of interest between the management and the shareholders. Conflicts that usually occur because the management has other goals and interests that are not in line with the company's previously agreed goals, so that it can incur costs that will harm the company and will affect the decline in the company's value. The occurrence of these conflicts is the background for the need for good company management to overcome agency conflicts. Jensen and Meckling (1976) argue that the interests of the agent must be in line with the company in order for agency conflicts to be resolved. To deal with these conflicts, companies can implement Good Corporate Governance. Good Corporate Governance is a set of regulations that govern the relationship between shareholders, company management, creditors, government, employees, and other

internal and external stakeholders related to their rights and obligations, or in other words a system that regulates and controls the company (FCGI, 2001).

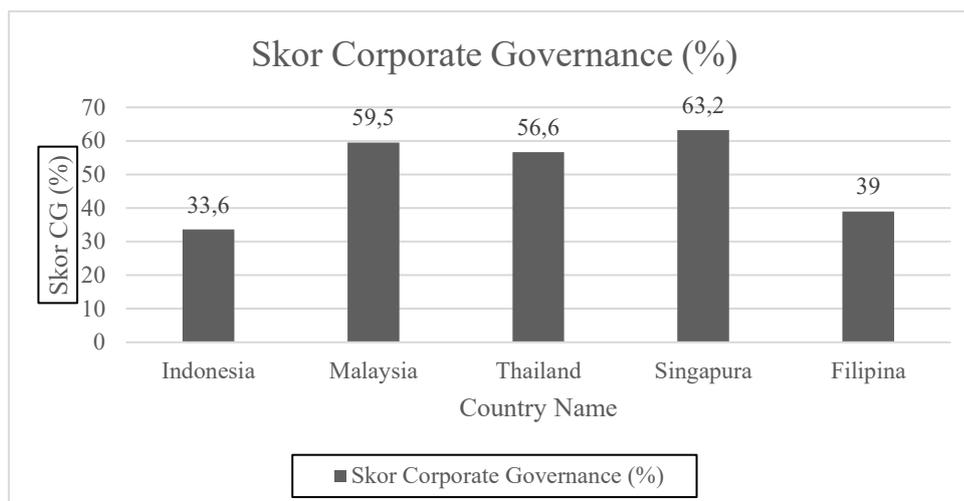
In addition to being useful for increasing investor trust in the company, Good Corporate Governance is also useful for realizing mechanisms and control tools that can create a system of fair profit and wealth distribution for shareholders, as well as increase efficiency for the company. Good Corporate Governance plays an important role in ensuring that capital market and banking players are managed based on the principles of fairness, transparency, accountability, responsibility, and independence to gain investor trust (OJK, 2014). Improving corporate governance is expected to improve the performance of public companies.

By implementing good governance, companies will run their businesses effectively and efficiently. The consistent implementation of Good Corporate Governance will strengthen the company's competitive position, maximize company value, and manage resources and risks more efficiently and effectively. In the end, GCG will strengthen the trust of shareholders and stakeholders, so that it can operate and grow sustainably. Every organization must be faced with various managerial problems, both large and small, on a regular basis. Managers are required to make the right decisions as a form of their responsibility in carrying out organizational functions (Sekaran and Bougie, 2016). Increasing a company's value is one of the main goals in corporate financial management, as it not only reflects the wealth of shareholders, but also shows the extent to which the company is able to create sustainable performance.

Increasing awareness of sustainability practices has encouraged the emergence of movements that emphasize the importance of environmental, social, and governance aspects. As such, companies are increasingly committed to socially responsible and sustainable practices, and are actively engaged in these efforts. The company's responsibility is in line with the company's objectives, which are to obtain profits that prioritize the interests of shareholders. Therefore, to create a balance between various stakeholders (stakeholders), a system that can direct and control the company is needed, namely Good Corporate Governance (GCG). GCG, which is believed to be able to increase transparency, accountability, and investor trust, can increase company value (Wahidahwati & Ardini, 2021).

In the concept of Good Corporate Governance (GCG), there are several policies, regulations, and agencies that are able to influence the direction, operation, and supervision of a company (Imtizal and Dian, 2021: 2). Good Corporate Governance is a key factor in overcoming crises from a non-financial perspective because in assessing the performance of a company this is one of the considerations in investing. Companies that compete in the global market must be able to implement Good Corporate Governance well. The implementation of Good Corporate Governance is expected to increase the company's profitability. Investors tend to choose companies with good implementation of Good Corporate Governance because they allow for more guaranteed sustainability and growth. The increase in the company's value will affect the welfare of shareholders. In addition, the high value of the company will make investors interested in investing in the company.

This can be seen in The Asian Corporate Governance Association (ACGA) and CLSA Limited (2021) which release CG Watch, a regional report on Corporate Governance in Asia-Pacific published every two years. The report presented in this study is a market ranking survey report conducted independently by ACGA on CG macro quality in 12 ACGA member countries in Asia-Pacific.



Sumber: CG watch 2020

Figure 2. Comparison of Corporate Governance Scores

According to data from CG Watch 2020: Future Promise, Indonesia received a Corporate Governance (CG) score of 33.6%, the lowest among the ASEAN countries surveyed. This score placed Indonesia 12th out of 12 countries analyzed in the report. The findings indicate significant challenges in the implementation of good corporate governance in Indonesia, including weak corporate transparency, low investor engagement, and ongoing financial scandals that have undermined public trust. The comparison chart highlights the urgent need for corporate governance reform and improvement in Indonesia to remain competitive among other ASEAN countries.

The report also emphasizes that corporate governance reform is ongoing, and updates are continuously being introduced. These findings lead to the conclusion that the implementation of Good Corporate Governance in Indonesia remains insufficient and requires significant improvement compared to other ACGA member countries. One of the key issues is the lack of awareness that effective corporate governance can significantly enhance firm value. Annual financial statements serve as indicators of a company's financial health and its efficiency in managing both internal and external funds over a certain period. The sustainability of a firm greatly impacts investor confidence. The presence of investors can enhance a company's financial performance. One method to evaluate financial performance is through financial ratios, which reflect changes in a company's financial condition and its ability to manage assets in order to increase firm value.

Firm value reflects investors' perceptions of how well a company manages its resources. The more investors purchase a company's shares, the more its stock price will increase, thus raising the firm's value. The fluctuations in stock price are a key indicator of firm value from the investor's perspective. Measuring financial performance is essential to determine whether the results align with the company's strategic plans. Improved financial performance indicates that the company is on track to achieve its organizational objectives. Management can evaluate a company's financial performance and assess operational effectiveness in optimizing available resources through the Return on Assets (ROA) indicator. ROA is one of the profitability ratios that reflects a company's ability to generate profit by maximizing its asset utilization. A higher ROA indicates that the company is more efficient and

effective in managing its resources to achieve optimal profitability (Nurazi et al., 2020).

In this study, ROA is used as an indicator to measure financial performance because it effectively reflects a company's efficiency in utilizing its assets to generate profits. The effectiveness of total asset utilization in operational activities is reflected in ROA, making this ratio relevant for evaluating financial performance in the context of corporate governance. Several prior studies have also used ROA as a proxy to assess financial performance. Kusumaa and Nuswantara (2021) found that ROA serves as an indicator reflecting the extent to which Good Corporate Governance (GCG) practices contribute to profit generation. Similarly, Indrawan and Sedana (2021) used ROA to examine the impact of GCG on financial performance and, subsequently, on firm value. Furthermore, Wahyudi, Muawanah, and Setia (2021) demonstrated that ROA functions as a mediating variable in the relationship between corporate governance and firm value, suggesting that operational efficiency plays a crucial intermediary role in shaping market perception. A high ROA indicates that a company operates efficiently and successfully generates profit from its asset investments. This condition sends a positive signal to investors and can drive stock price increases, which in turn raises the firm's value. Thus, ROA not only functions as an internal efficiency metric but also serves as an external perception factor influencing company performance.

However, prior research on this topic has yielded mixed results. For instance, Ferriswara et al. (2022) found that GCG had no significant effect on firm value. Meanwhile, a study by Nurazi et al. (2020) showed that corporate governance and capital structure influence firm value through the mediation of financial performance. These findings highlight the role of financial performance as an effective monitoring mechanism that can significantly enhance firm value. Reliable sources of information play a crucial role in assisting investors in monitoring stock price movements on the Indonesia Stock Exchange (IDX), where companies with strong market reputations are often constituents of the LQ45 index. This index has a strong influence on the overall performance of the IDX Composite Index (IHSG). The LQ45 index is reviewed and adjusted every six months by the IDX's research and development division, consisting of 45 stocks from companies with the highest liquidity and largest market capitalization (Ovami & Nasution, 2020). According to the IDX Stock Index Guidebook, the selection is based on several criteria, including liquidity assessment and market capitalization considerations.

A company's stock price in the capital market is the result of public (shareholders') assessments of its performance. The higher the firm's value, the greater the potential wealth received by shareholders. Firm value is a key indicator in evaluating business performance and is commonly measured using Tobin's Q. Previous research, such as by Kusumaa & Nuswantara (2021), found that institutional ownership significantly contributes to the increase in firm value. However, the relationship between GCG and firm value is often indirect, with financial performance acting as a mediating variable. Nurazi et al. (2020) argue that the role of financial performance as a mediator is grounded in the belief that enhanced financial results are positively recognized by the market, ultimately increasing firm value. Therefore, it is important to investigate whether GCG has a significant effect on firm value through financial performance as a mediating variable.

Based on the aforementioned phenomena, emerging issues, and research gaps, this study aims to offer a renewed perspective by examining "The Effect of Good Corporate

Governance on Firm Value with Financial Performance as a Mediating Variable in LQ45 Companies for the Period 2020–2024.”

Literature Review

Firm Value

One alternative used in valuing a company is to use Tobin's Q. This ratio was developed by James Tobin (1967). The value of a company is measured using Tobin's Q ratio, which is a comparison between the market value of the company and the replacement value of its assets. This ratio was chosen because it is considered to be more able to reflect the market's assessment of the company's future prospects. Tobin's Q ratio > 1 indicates that the market values a company higher than the cost of replacing its assets, so it can be a positive signal to investors regarding the company's performance and prospects (Kyere & Ausloos, 2021: 1877).

The use of Tobin's Q as an indicator of corporate value has also been applied in various previous studies, such as those conducted by Imtizar & Nuswantara (2021), Wahidahwati & Ardini (2021), Nur Fadjrih Asyik et al. (2024), and Ridwan Nurazi et al. (2020), all of which use Tobin's Q as a dependent variable to measure how Good Corporate Governance, financial performance, or CSR affect company value. Thus, Tobin's Q is seen as relevant and valid both empirically and theoretically to be used in this study as an indicator of company value.

Good Corporate Governance

Good Corporate Governance (GCG) is a mechanism designed to regulate and control companies in order to create transparency, accountability, and protection of the interests of stakeholders. The implementation of GCG is believed to be able to improve the decision-making structure in the company, as well as increase the efficiency and value of the company in the eyes of investors. Another study by Wahidahwati and Ardini (2021) shows that although Corporate Social Responsibility (CSR) also affects company value, the internal influence of GCG mechanisms remains stronger in creating this value. Thus, the application of GCG principles in the corporate structure is important, not only to increase market transparency and confidence, but also to encourage the achievement of optimal corporate value in a sustainable manner. *Good Corporate Governance* plays an important role in ensuring that capital market and banking players are managed based on the principles of fairness, transparency, accountability, responsibility, and independence to gain investor trust (OJK, 2014). The mechanism of *Good Corporate Governance* used in the study is as follows:

Independent Board of Commissioners

The National Committee for Governance Policy (KNKG, 2006) defines an independent board of commissioners as a member of the board of commissioners who has no affiliation with the majority shareholder, other members of the board of commissioners, the board of directors, and is free from business relationships or other relationships that could affect the ability of independent commissioners to act independently or act only in the interests of the company. Wahyudi *et al.* (2021) stated that the existence of more independent board of commissioners and diverse scientific backgrounds can strengthen the supervisory function of the company's performance. This increasingly effective supervision contributes to improving the

quality of the profits generated. A larger proportion of independent board of commissioners is considered to be able to carry out the supervisory function optimally, so that it can limit the space for management to move in carrying out profit management practices. Therefore, the existence of independent commissioners in a company will make the company's management work better and effectively, so it can provide added value for the company.

Frequency of Audit Committee Meetings

The frequency of audit committee meetings is an important indicator in assessing the effectiveness of a company's internal oversight role. The more often the audit committee holds meetings, the higher the intensity of supervision of financial reporting, risk management, audit processes, and the implementation of Good Corporate Governance (GCG) principles. According to Kyere and Ausloos (2021: 1877), the number of audit committee meetings reflects the level of involvement and seriousness of the committee in carrying out the company's supervisory functions. Regular meetings can be a forum to discuss strategic issues and ensure that the reporting and internal control processes run in accordance with the set standards. Thus, the high frequency of audit committee meetings is expected to improve the quality of corporate governance and provide confidence to shareholders that the company is managed in an accountable and transparent manner.

Agency Theory

An agency relationship is a contract between the principal and the agent where the principal delegates authority to the agent (manager) to carry out the company's operations in accordance with the agreed employment contract (Jensen and Meckling, 1976). Therefore, management as an agent has more extensive information about the company than the owner of the company (principal), so there is a conflict of interest between the agent and the principal. Agency Theory is a place where contracts between various parties meet that have the potential to cause conflicts of interest.

The implementation of good corporate governance aims to convince investors that the manager will provide them with benefits. This means that managers will not steal, embezzle, and will invest in profitable projects related to funds or capital that investors have invested, thereby reducing agency costs. In this case, the principal gives authority and prioritizes the interests of managing the company's profits, such as carrying out tax avoidance measures to reduce the burden. For example, by not submitting financial statements in accordance with the actual reality to get a personal bonus. Managers can do profit management to mislead the owner about the company's economic performance" (Nardi Sunardi, 2019).

Firm Performance

Return on Assets (ROA) is one of the profitability ratios. In the analysis of financial statements, this ratio is most often highlighted, as it is able to show the success of the company in making profits. ROA is able to measure the company's ability to generate profits in the past to be projected in the future. The assets in question are the entire company's assets, obtained from the company's own capital or from foreign capital that the company has converted into the company's assets used for the survival of the company.

According to Kyere (2021), *Return on Assets (ROA)* is the main indicator that reflects the efficiency of the company in utilizing its total assets to generate profits. In the context of manufacturing companies, which have significant fixed asset structures, ROA becomes very important to illustrate how effective management is in managing its productive resources. Furthermore, Kyere (2021) emphasized that ROA not only functions as a measure of financial performance, but can also act as a mediating variable that links good *corporate governance* and *sustainability* practices to increasing company value. This means that the positive impact of GCG and sustainability practices on company value can be strengthened if the company is able to produce solid financial performance, which is reflected in the increase in ROA. In other words, ROA is a connecting tool that bridges the gap between good Corporate Governance and Sustainability Reports and an increase in the company's market valuation, as measured through Tobin's Q.

Hypotheses

The implementation of Good Corporate Governance (GCG) can increase investor confidence, improve the company's management system, and create transparency and accountability in financial reporting. This directly or indirectly has a positive impact on increasing the company's value. Research conducted by Kusumaa and Nuswantara (2021) shows that institutional ownership as one of the components of GCG has a significant effect on company value. Similar results were also found by Ridwan Nurazi et al. (2020) which proved that GCG, especially institutional ownership, can increase company value, both directly and through financial performance as a mediating variable. In addition, Fajriah and Jumady (2022) and Wahyudi et al. (2021) also show that GCG shown through the existence of independent commissioners and audit committees has a positive influence on company value. Suryati and Sutrisna (2023) even emphasized that GCG not only affects the company's value, but also strengthens the company's financial performance, which ultimately increases the company's attractiveness in the eyes of investors.

H1: The independent Board of Commissioners has an effect on the value of the company (Tobin's Q).

In the context of agency theory, the conflict between management and shareholders is caused by a mismatch of interests, so an effective supervisory mechanism is needed. One form of such supervision is through an audit committee that actively carries out its functions. The frequency of audit committee meetings is an important indicator to assess the extent to which the audit committee is carrying out its role in overseeing the financial reporting process, internal controls, and general corporate governance practices.

According to Kyere and Ausloos (2021), the frequency of audit committee meetings plays an important role in strengthening corporate governance and has an impact on financial performance. Optimal financial performance will have a positive influence on the company's value. The research proves that good governance mechanisms, including the intensity of audit committee meetings, can improve the effectiveness of oversight and minimize information asymmetry between management and investors. Thus, the more frequent audit committee meetings are held, the greater the potential for the committee to detect and address governance issues in a timely manner. This ultimately sends a positive signal to investors and encourages an increase in the value of the company.

H2: The frequency of audit committee meetings affects the company's value (Tobin's Q).

Financial performance reflects the final results of a company's operational activities in a given period, which is generally measured using financial indicators such as Return on Assets (ROA). Evaluation of financial performance is carried out by comparing the results in the current period with the previous period, or against the targets that have been set in the company's budget. This assessment is important as a basis for strategic decision-making related to the efficiency and effectiveness of the company's use of resources. According to Imam Wahyudi et al. (2021), financial performance plays an important role as an important medium that bridges the influence of Good Corporate Governance on company value.

The better the company's financial performance, the greater the confidence investors have in the company's future prospects, which will ultimately have an impact on increasing the company's value. Kyere and Ausloos (2021) also stated that the implementation of good corporate governance is able to increase operational efficiency and have an impact on more optimal financial performance. Thus, the achievement of positive financial performance not only reflects the ability to generate profits, but also becomes an important indicator in assessing the competitiveness and continuity of the company's business in the future.

H3: Financial Performance (ROA) affects the company's value (Tobin's Q).

Financial performance is a company's ability to manage and control the resources it has. In a study conducted by Fajriah et.al, (2022) stated that a company's financial performance can be measured through profitability ratios such as Return on Assets (ROA), Return on Equity (ROE), Asset Turnover (ATO), and Growth in Revenue (GR), which reflects the company's ability to generate profits through the use of available resources. ROA is specifically used to assess management's efficiency in managing a company's assets. The higher the ROA value, the better the company's financial performance, which can ultimately increase the company's value.

Several previous studies have shown that return on assets (ROA) has a positive and significant influence on company value, and can act as a mediating variable in the relationship between Good Corporate Governance (GCG) and company value. Research by Ridwan Nurazi et al. (2020) shows that the influence of GCG and capital structure on company value is mediated by financial performance. Oktawiandari and Sutrisna (2023) also found that financial performance is able to mediate the influence of GCG on company value significantly. The same thing was conveyed by Yana Fajriah and Edy Jumady (2022), who stated that ROA has a significant effect on company value, as well as mediating the relationship between GCG and company value. Dwi Suhartini et al. (2024) also strengthened this argument by showing that ROA mediates the influence of sustainability reporting and GCG on company value. Based on these findings, this study uses the Sobel Test method to test the significance of the role of ROA mediation in the relationship between Good Corporate Governance and corporate value.

H4: The ROA mediates the influence of independent commissioners on the value of the company (Tobin's Q).

H5: ROA mediates the influence of audit committee meeting frequency on the company's value (Tobin's Q).

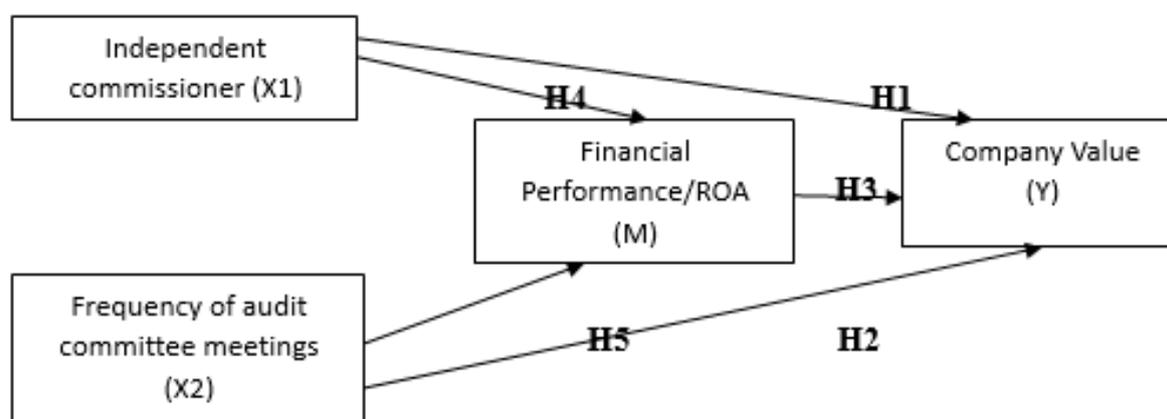


Figure 3. Research Model

Methods

Sampling and Procedures

In this study, the sampling technique used is non-probability sampling. The *purposive sampling* method is used to obtain a representative sample according to the specified criteria, either because there is only one, or in accordance with several criteria set by the researcher (Sekaran and Bougie, 2016: 248). Based on the selection of samples that have been carried out from 69 populations, the number of company samples in this study is 23 samples. The period in this study is 5 years, namely from 2020 to 2024. So that sample data was obtained in a total of 115 sample data.

Measures

Company Value (Y)

One of the measures used to measure the company's value is using the Tobins' Q ratio. This ratio was developed by James Tobins' Q (1967). This ratio can provide good information because it explains various phenomena in decision-making, such as the occurrence of *cross-section differences* in investment decision-making, diversification, the relationship between shareholding, management, and company value. According to Wahidahwati and Lilis Ardini, (2021: 956), the following is Tobin's Q formula.

Q = Company Value

EMV = Equity Market Value (stock price at the end of the year of closure x number of shares outstanding at the end of the year).

EBV = Equity Book Value (total company assets - total corporate liabilities).

D = total book value

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

Financial Performance (Z)

ROA provides an indication of how well a company's assets are being used to generate profits. ROA is calculated by dividing a company's annual revenue by its total assets (M. Kyere and M. Ausloos, 2021: 1878).

$$ROA = \frac{\text{Net Income}}{\text{Total Aset}} \times 100$$

Corporate Governance (X)

In this study, GCG is defined through the proxy of independent commissioners and the frequency of audit committee meetings. This refers to the findings of Nur Fadrih Asyik et al. (2024), which show that not all GCG components such as managerial ownership and audit committee size have a significant influence on company value. Therefore, the selection of proxies is focused on elements that are more relevant to the context of Indonesian companies and data availability. *Good Corporate Governance* (variable X) which is proxied with independent commissioners and the frequency of audit committee meetings, using the following formula:

Independent Commissioner (X1)

An independent commissioner is a member of the board of commissioners who does not have an affiliation with the controlling shareholders, directors, or other parties that can affect their objectivity in supervising management. The presence of independent commissioners aims to improve the quality of corporate governance and reduce potential conflicts of interest in decision-making. According to Kyere and Ausloos (2021: 1877), independent commissioners are measured by using the proportion of independent commissioners to the total number of members of the board of commissioners.

$$KI = \frac{\text{Number of Independent Board of Commissioners}}{\text{Number of Board of Commissioners in Company}} \times 100\%$$

Frequency of Audit Committee Meetings (X2)

The audit committee is a company device formed by the board of commissioners to carry out the supervisory function of the implementation of audits, the application of Good Corporate Governance principles, the preparation of financial statements, and the management of corporate risks. The existence of an audit committee is expected to strengthen the supervisory function of the board of commissioners. Then to encourage optimal management performance improvement. According to Kyere and Ausloos (2021: 1877), the frequency of audit committee meetings is measured based on the number of meetings held by the audit committee in a fiscal year, as a reflection of the intensity and effectiveness of the supervision carried out on the company's management.

$$RKA = \text{number of meetings held by the audit committee in one fiscal year}$$

Data Analysis

This study employs two main analytical methods: multiple linear regression and path analysis, to examine the effect of Good Corporate Governance (GCG) on firm value with Return on Assets (ROA) as a mediating variable. To test the mediation model, path analysis was performed using two structural equations that represent the direct and indirect relationships among variables.

$$Z = p_1X + \varepsilon_1$$

$$Y = p_2X + p_3Z + \varepsilon_2$$

The Sobel test was conducted to verify the significance of the mediating effect. In addition, model validity was evaluated using the total coefficient of determination (R^2 total), and the trimming technique was applied to remove insignificant paths, aiming for a more parsimonious model.

Result and Discussion

This study aims to analyze the influence of Good Corporate Governance (GCG), which is proxied through independent commissioners (GCG1_KI) and the frequency of audit committee meetings (GCG2_RKA), on the company's value (Tobin's Q), both directly and indirectly through Return on Assets (ROA) as a mediation variable.

The Direct Influence of GCG on ROA

Based on the results of the first regression with ROA as a dependent variable, it was obtained that:

GCG1_KI had a positive effect on ROA with a coefficient of 11.198 and a significance value of 0.058. Since the significance value > 0.05 , this effect is not significant at the 95% confidence level.

GCG2_RKA had a negative effect on ROA with a coefficient of -0.182 and a significance value of 0.002. This shows that the frequency of audit committee meetings has a significant negative effect on ROA.

The Direct Influence of GCG and ROA on Company Value

In the second regression model with Tobin's Q as the dependent variable, it was obtained:

GCG1_KI had a significant positive influence on Tobin's Q (coefficient of 6.752, sig. < 0.001).

GCG2_RKA had a significant negative influence on Tobin's Q (coefficient -0.031 , sig. $= 0.003$).

ROA also had a significant positive effect on Tobin's Q (coefficient of 0.112, sig. < 0.001).

These results show that both GCG and ROA contribute to the increase (or decrease) of a company's value directly.

The Indirect Influence of GCG on Company Value through ROA (Sobel Test).

To find out whether ROA mediates the relationship between GCG and company value, the Sobel test is carried out as follows:

GCG1_KI → ROA → Tobin's Q: The z-value is 1.846 with a significance of 0.065, so the ROA is not proven to significantly mediate the relationship between independent commissioners to the value of the company.

GCG2_RKA → ROA → Tobin's Q: The z-value is -2.932 with a significance of 0.003, so that ROA proves to be a significant mediating variable between the frequency of audit committee meetings and the company's value.

Independent commissioners do not have a significant effect on financial performance (ROA), but have a positive and significant effect on the value of the company (Tobin's Q). The frequency of audit committee meetings has a negative and significant effect on ROA and Tobin's Q. ROA has a positive and significant effect on the company's value, so it acts as a mediating variable. The ROA significantly mediates the influence of the frequency of audit committee meetings on the company's value, but only weakly mediates the relationship between the independent commissioner and the company's value.

Conclusion

Independent commissioners (GCG1_KI) have a significant positive effect on the company's value (Tobin's Q), but do not have a significant effect on financial performance (ROA). This indicates that the existence of independent commissioners can improve market perception of corporate governance, although it does not directly increase profitability. The frequency of audit committee meetings (GCG2_RKA) has a significant negative effect on the ROA and the company's value. These findings show that excessively high meeting intensity does not necessarily reflect the effectiveness of supervision, and can even lead to inefficiencies that adversely affect profitability and market perception. ROA has a significant positive effect on the company's value. This means that the higher the company's profitability, the higher the market value reflected in Tobin's Q. This confirms the role of financial performance as an important factor in investor assessment. ROA does not significantly mediate the influence of independent commissioners on the value of the company. Thus, the influence of independent commissioners on the value of the company occurs directly, not through the financial performance channel. ROA mediates significantly the relationship between the frequency of audit committee meetings and the company's values. This shows that the negative impact of audit meeting frequency on the company's value occurs through a decline in financial performance. In other words, ROA is an important pathway in explaining the effects of not directly from the GCG mechanism to the company's value.

Limitation

This study has several limitations. First, the scope of Good Corporate Governance (GCG) is limited to two indicators. Proportion of independent commissioners and frequency of audit committee meetings, which may not fully capture the complexity and effectiveness of governance practices. Second, the analysis focuses on companies listed in the LQ45 index within the 2020–2024 period, which may limit the

generalizability of the findings to other sectors or timeframes. Lastly, the statistical approach is restricted to multiple regression and path analysis; more advanced methods such as Structural Equation Modeling (SEM) or longitudinal panel data analysis could provide deeper insights into causal relationships.

Management Implication

From a practical perspective, companies should not merely fulfill the formal requirements of GCG, such as appointing independent commissioners or increasing the frequency of audit committee meetings. Instead, emphasis should be placed on the substantive effectiveness of governance functions to drive financial performance (ROA) and, ultimately, enhance firm value in a consistent and sustainable manner.

For investors, the findings highlight the importance of assessing qualitative aspects of corporate governance. For example, a higher frequency of audit committee meetings does not necessarily indicate effective oversight. Excessive meetings may reflect inefficiencies that negatively affect profitability. Therefore, investor evaluations should focus on the quality rather than quantity of governance activities.

Future researchers are encouraged to broaden the scope of variables influencing firm value by incorporating factors such as leverage, firm size, ownership structure, and auditor reputation. Moreover, the use of alternative analytical approaches, such as SEM or panel data with longer time horizons, may yield a more holistic and robust understanding of the interrelationships among variables.

References

- Asyik, N. F., Kusumaa, I. G. A. A., & Andini, R. (2024). The Effect of Good Corporate Governance and Corporate Social Responsibility on Firm Value with Financial Performance as Mediation. *Jurnal Ilmiah XYZ*, 7(1), 77–88.
- Ferriswara, D., Kartika, D., & Prasetyo, A. (2022). The Influence of Good Corporate Governance on Firm Value: Evidence from Indonesia. *Jurnal Akuntansi Multiparadigma*, 13(3), 521–534.
- Fajriah, Y., & Jumady, E. (2022). Pengaruh Good Corporate Governance terhadap Nilai Perusahaan dengan Kinerja Keuangan sebagai Variabel Mediasi. *Jurnal Riset Akuntansi dan Bisnis*, 22(1), 101–113.
- FCGI. (2001). *Corporate Governance: Tata Kelola Perusahaan yang Baik*. Jakarta: Forum for Corporate Governance in Indonesia.
- Imtizal, M., & Dian, S. (2021). Good Corporate Governance Practices in Indonesian Public Firms: A Case Study Approach. *Jurnal Manajemen dan Bisnis*, 18(2), 1–15.
- Indrawan, I. M. A., & Sedana, I. B. P. (2021). The Effect of Good Corporate Governance on Firm Value Through Financial Performance as a Mediation Variable. *American Journal of Humanities and Social Sciences Research*, 5(8), 289–297.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360.
- Kyere, M., & Ausloos, M. (2021). Corporate Governance and Firm Performance in Africa: A Panel Data Perspective. *Journal of Risk and Financial Management*, 14(4), 1877–1888. <https://doi.org/10.3390/jrfm14040187>

- Nurazi, R., Haryanto, E., & Yuliza, L. (2020). The Effect of Good Corporate Governance, Capital Structure, and Company Size on Company Value with Financial Performance as a Mediation Variable. *Jurnal Dinamika Akuntansi*, 12(2), 124–140.
- OJK. (2014). Roadmap Tata Kelola Perusahaan Indonesia. Otoritas Jasa Keuangan. Retrieved from <https://www.ojk.go.id>
- Ovami, S. L., & Nasution, E. M. (2020). The Impact of Corporate Governance on Financial Performance and Firm Value in LQ45 Companies. *Jurnal Ilmu Manajemen*, 8(3), 399–412.
- Sekaran, U., & Bougie, R. (2016). *Research Methods for Business: A Skill-Building Approach* (7th ed.). John Wiley & Sons.
- Suhartini, D., Yuliana, A., & Sari, M. (2024). Sustainability Reporting, Good Corporate Governance and Financial Performance Toward Firm Value. *Journal of Accounting Research and Innovation*, 10(1), 67–79.
- Suryati, I., & Sutrisna, I. B. P. (2023). Effect of Good Corporate Governance on Financial Performance and Firm Value. *International Journal of Business and Management Invention*, 12(1), 45–54.
- Wahidahwati, L., & Ardini, L. (2021). The Role of Corporate Social Responsibility and Good Corporate Governance in Enhancing Firm Value. *Jurnal Akuntansi dan Keuangan Indonesia*, 18(2), 951–963.
- Wahyudi, I., Muawanah, U., & Setia, K. A. (2021). The Mediating Role of Financial Performance in the Relationship Between Corporate Governance and Firm Value. *Jurnal Keuangan dan Perbankan*, 25(1), 121–135.
- Yana, F., & Jumady, E. (2022). Investor Confidence and Company Value: A Study on GCG Implementation in Indonesia. *Jurnal Ekonomi dan Keuangan*, 19(1), 75–83.

\