Financial Performance As A Determinant Of Firm Value: The Moderating Influence Of Good Corporate Governance In Indonesian LQ45 Companies

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ABSTRACT

This study aims to analyze the effect of financial performance on firm value, with Good Corporate Governance (GCG) as a moderating variable. This research is quantitative in nature. The population in this study consists of companies listed in the LQ45 Index of the Indonesia Stock Exchange (IDX), totaling 45 companies. The sample selection was conducted using the purposive sampling method, resulting in 19 companies that met the sampling criteria. The research method used is panel data regression analysis, with data processing performed using Eviews 12. The data collection technique employed in this study is document analysis, which involves gathering data from literature reviews and the annual reports of LQ45 companies for the 2020-2023 period. The data source used in this research is secondary data. The results indicate that ROA and ROE have a significant effect on firm value, as measured by Tobin's Q. Additionally, GCG, measured by institutional ownership, is proven to moderate the relationship between ROA and firm value but does not moderate the relationship between ROE and firm value. These findings highlight the importance of implementing GCG in enhancing firm value, particularly in the context of the Indonesian capital market. This research is expected to contribute to academic literature, and future researchers are encouraged to expand their insights for reference in subsequent studies.

INTRODUCTION

Companies in Indonesia have evolved in line with business advancements in the ASEAN Economic Community (AEC) era. To remain stable and competitive, companies must maximize their performance. The primary goals of a company are to generate profits, sustain growth, enhance shareholder welfare, and optimize firm value through stock prices. Firm value is reflected in stock prices, which indicate that its growth is influenced by operational performance. Financial statements present financial performance, which is crucial for attracting investments and increasing firm value.

To attract investors, financial performance must be improved, as it signifies an increase in firm value. Positive financial performance attracts investors and has the potential to drive stock prices higher. Research in Indonesia has found that Good Corporate Governance (GCG) acts as a moderating variable influencing the relationship between financial performance and firm value, fostering trust and a healthy business environment. GCG also contributes to sustainable economic growth. A company's ability to attract investments is affected by its value, which reflects future expectations and stakeholder confidence. Business value represents a company's performance and influences investors' perceptions of stock value. The higher the firm value, the more secure investors feel in investing, potentially leading to higher dividends. To enhance business value, companies need effective management.

Table 1. Financial Performance Data: ROA, ROE, Institutional Ownership (KI), And Tobin's Q

No.	Code	Company Name	Year	ROA	ROE	KI	Tobins'Q
1	ANTM	Aneka Tambang Tbk	2020	0,13	0,06	0,650	1,87
			2021	0,16	0,09	0,650	2,01
			2022	0,33	0,16	0,650	1,71
			2023	0,15	0,10	0,650	1,23
2	ASII	Astra International Tbk	2020	0,05	0,10	0,501	1,19
			2021	0,07	0,12	0,501	1,04
			2022	0,22	0,17	0,501	1,56
			2023	0,10	0,18	0,501	0,95
3	BBCA	Bank Central Asia Tbk	2020	0,03	0,15	0,549	0,98
			2021	0,03	0,15	0,110	1,56
			2022	0,03	0,18	0,549	1,63
			2023	0,03	0,20	0,549	1,65

Source: www.idx.co.id

Table 1 provides financial performance data from three companies: Aneka Tambang Tbk (ANTM), Astra International Tbk (ASII), and Bank Central Asia Tbk (BBCA) for the 2020–2023 period. Four key metrics are included: Return on Assets (ROA), Return on Equity (ROE), Institutional Ownership (KI), and Tobin's Q. ANTM exhibited significant fluctuations in ROA and ROE, while ASII and BBCA showed more stable trends. BBCA demonstrated consistent performance with an increasing Tobin's Q, whereas ANTM and ASII experienced a decline in firm value. Institutional Ownership remained stable across all companies. Other factors, such as Good Corporate Governance (GCG), may be necessary to further understand the relationship between financial performance and firm value. Good Corporate Governance (GCG) plays a crucial role in enhancing firm value and financial performance. Effective GCG improves transparency, accountability, and fairness in corporate management, which in turn increases market and investor confidence. GCG also helps companies comply with regulations, protect stakeholder rights, and achieve long-term profitability. Companies with strong GCG tend to have higher trust levels and create a favorable operating environment. Furthermore, GCG should be integrated into business strategies to balance financial and market indicators.

The LQ45 Index on the Indonesia Stock Exchange (IDX) includes 45 companies with the highest liquidity and market capitalization. This study explores the relationship between financial performance, GCG, and firm value. Previous research has shown that financial performance has a positive effect on firm value, although some studies have reported contradictory results. GCG as a moderating variable has shown mixed findings, with some studies indicating no significant influence.

LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling (1976), Agency Theory examines the relationship between the principal (owner) and the agent (manager) appointed to act on behalf of the principal. Conflicts of interest may arise when the agent does not act in alignment with the principal's objectives. Agency Theory suggests that agents should act in the best interest of their clients and lead the company with professional knowledge, wisdom, sincerity, and fairness.

However, in practice, agency problems arise due to differences in interests between shareholders as company owners and management as agents. Business owners are primarily concerned with maximizing their returns on invested funds, while management is also interested in obtaining capital compensation from business owners. Specifically, Agency Theory discusses agency relationships in which one party (the principal) delegates its responsibilities to another party (the agent) (Cahyaningrum et al., 2023).

Financial Performance

Financial performance is an analysis that ensures the proper and accurate implementation of financial regulations to assess the extent to which a company has adhered to these rules. A company's performance is evaluated using financial analysis tools to illustrate its financial condition, allowing stakeholders to determine whether the company's financial state is strong or weak, which in turn reflects its financial performance. Profitability ratios are used to measure a company's financial performance. These ratios indicate how liquidity, asset management, and debt management influence operating profits (Cahyaningrum et al., 2023). In this study, financial performance is measured as an independent variable using Return on Assets (ROA) and Return on Equity (ROE) as proxies.

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a system and structure for managing a company with the objective of enhancing shareholder value (Krisnando & Sakti, 2019). Companies that implement GCG are crucial in increasing firm value to remain competitive and attract potential shareholders, as they are perceived to minimize decision-making risks to enhance firm value.

One of the internal company components that applies corporate governance principles and influences firm value growth is management, which holds company shares and is responsible for meeting the company's interests. Effective corporate governance principles are implemented within management, making them shareholders in the company. Evaluating a company's performance becomes more straightforward when there is significant share ownership from an economic perspective, reducing opportunistic behavior and earnings management (Wulandari & Widyawati, 2019). In this study, GCG is measured using institutional ownership as a moderating variable.

Firm Value

Firm value represents the level achieved by a company through its activities over the years, from its establishment to the present. The public evaluates a company by its willingness to purchase its shares at a certain price. Increasing firm value is a significant achievement aligned

with the owners' interests, as higher firm value also improves their overall welfare. As agents entrusted by company owners, managers are responsible for running the business (Cahyaningrum et al., 2023). In this study, firm value is measured using Tobin's Q as a proxy.

METHODS

This study adopts a quantitative approach with panel data regression as the analysis method. The research sample consists of 19 companies listed in the LQ45 Index of the Indonesia Stock Exchange (IDX) during the 2020-2023 period, selected using the purposive sampling method. Data processing is conducted using EViews 12 software to ensure the accuracy of the regression model used.

The data used in this study comes from annual reports obtained from the Indonesia Stock Exchange and financial reports published by each company in the LQ45 Index. These data are then processed using statistical methods to examine the relationships between the variables analyzed.The analysis includes descriptive statistical tests, classical assumption tests, and panel data regression analysis. The selection of the regression model is based on the results of the Chow test, Hausman test, and Lagrange Multiplier test. The coefficient of determination (R-squared) is used to measure model fit, while hypothesis testing is conducted using t-statistics and F-statistics tests.

RESULTS

Descriptive Statistical Analysis

Descriptive statistics provide an overview or description of the data by presenting the minimum value, maximum value, mean (average), and standard deviation of each research variable. The results of the descriptive analysis using EViews 12 can be seen in the following table:

Table 1 Descriptive Statistics Results

	Tobins'Q	ROA	ROE	KI
Mean	1,988170	0,080433	0,205817	0,890936
Median	1,349146	0,053465	0,134066	0,611078
Maximum	14,74907	0,348851	1,450882	2,999697
Minimum	0,642113	0,001066	0,018545	0,109884
Std. Dev.	2,257150	0,084921	0,290169	0,666923
Skewness	3,920119	1,558395	3,600296	1,892110
Kurtosis	19,08512	4,805558	14,99685	5,120327
Jarque-Bera	1013,968	41,08566	619,9473	59,58433
Probability	0,000000	0,000000	0,000000	0,000000
Sum	151,1009	6,112923	15,64211	67,71111
Sum Sq. Dev.	382,1046	0,540867	6,314847	33,35896
Observations	76	76	76	76

Source: EViews 12 Output, Processed by Researcher, 2024

1. Mean (Average)
   The average Tobin's Q is 1.988170, indicating that, on average, the market values companies higher than their assets, as the value exceeds 1. The average ROA is 0.080433 (approximately 8%), suggesting that the average net profit of companies is around 8% of total assets. The average ROE is 0.205817 (approximately 20.58%), showing that companies, on average, achieve a return of 20.58% on equity. The average Institutional Ownership (KI) is 0.890936, suggesting that institutional ownership plays a significant role in these companies.

2. Median
   The median Tobin's Q is 1.349146, reflecting the average distribution of Tobin's Q values. The median ROA is 0.053465 (approximately 5.35%), indicating that half of the sampled companies have an ROA below 5.35%. The median ROE is 0.134066 (approximately 13.41%), which is lower than the average, suggesting that most companies have a lower-than-average ROE. The median Institutional Ownership (KI) is 0.611078, showing a lower-than-average institutional ownership level.

3. Maximum and Minimum Values
   Tobin's Q: The maximum value is 14.74907, while the minimum is 0.642113, indicating significant variations among companies. ROA: The maximum value is 0.348851 (approximately 34.89%), showing that some companies achieve very high profitability, while the minimum is 0.001066, indicating extremely low profitability. ROE: The maximum value is 1.450882 (approximately 145.09%), reflecting very high returns in some companies, while the minimum is 0.018545 (approximately 1.85%). Institutional Ownership (KI): The maximum value is 2.999697, suggesting a high institutional ownership percentage, whereas the minimum is 0.109884, showing companies with very low institutional ownership.

4. Standard Deviation (Std. Dev.)
   Tobin's Q: The standard deviation is 2.257150, indicating substantial variation among companies. ROA: The standard deviation is 0.084921 (approximately 8.49%), showing a moderate variation in net profit relative to total assets. ROE: The standard deviation is 0.290169 (approximately 29.02%), indicating a higher variation in ROE across companies. Institutional Ownership (KI): The standard deviation is 0.666923, suggesting significant differences in institutional ownership levels among companies.

Panel Data Regression Model
    There are three approaches used in panel data regression: Common/Polled Effects, Fixed Effects, and Random Effects (Brooks, 2008, in Sihombing, 2021). The results of the panel data analysis are presented below:

Common/ Polled Effects
Table 2. Common Effect Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,878379	0,237111	3,704506	0,0004
ROA	-1,784235	1,990679	-0,896295	0,3731
ROE	7,421902	0,561880	13,20905	0,0000
KI	-0,307825	0,174634	-1,762683	0,0822
R-squared	0,832423	Mean dependent var		1,988170
Adjusted R-squared	0,825440	S.D. dependent var		2,257150
S.E. of regression	0,943045	Akaike info criterion		2,771790
Sum squared resid	64,03202	Schwarz criterion		2,894460
Log likelihood	-101,3280	Hannan-Quinn criter.		2,820815
F-statistic	119,2176	Durbin-Watson stat		0,895691
Prob(F-statistic)	0,000000			

Source: EViews 12 Output, Processed by Researcher,2024

Fixed Effects
Table 3 Fixed Effect Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1,880383	1,147707	1,638383	0,1072
ROA	2,113686	3,476753	0,607948	0,5458
ROE	0,916081	2,542478	0,360310	0,7200
KI	-0,281468	1,173889	-0,239774	0,1072
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0,935491	Mean dependent var		1,988170
Adjusted R-squared	0,910404	S.D. dependent var		2,257150
S.E. of regression	0,675622	Akaike info criterion		2,290832
Sum squared resid	24,64912	Schwarz criterion		2,965518
Log likelihood	-65,05163	Hannan-Quinn criter.		2,560469
F-statistic	37,29022	Durbin-Watson stat		2,155643
Prob(F-statistic)	0,000000			

Source: EViews 12 Output, Processed by Researcher, 2024

Random Effects
Table 4. Random Effect Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,985406	0,345031	2,855992	0,0056
ROA	-2,297215	2,297960	-0,999676	0,3208
ROE	7,127763	0,804492	8,859960	0,0000
Effects Specification				
			S.D.	Rho
Cross-section random			0,692537	0,5124
Idiosyncratic random			0,675622	0,4876
Weighted Statistics				
R-squared	0,628946	Mean dependent var		0,871636
Adjusted R-squared	0,613485	S.D. dependent var		1,119892
S.E. of regression	0,696240	Sum squared resid		34,90202
F-statistic	40,68061	Durbin-Watson stat		1,619630
Prob(F-statistic)	0,000000			
Unweighted Statistics				
R-squared	0,829581	Mean dependent var		1,988170
Sum squared resid	65,11789	Durbin-Watson stat		0,868093

Source: EViews 12 Output, Processed by Researcher, 2024

Panel Data Regression Model Selection

According to (Nengsih & Martaliah, 2021), the selection of the best model in panel data regression for testing the three models—Common Effect, Fixed Effect, and Random Effect—is conducted using the following three tests:

Chow Test
Table 5. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	4,793222	(18,54)	0,0000
Cross-section Chi-square	72,552799	18	0,0000

Source: EViews 12 Output, Processed by Researcher, 2024

The basis for decision-making in the Chow Test for selecting the regression model is determined by the probability value of the cross-section chi-square. If the probability of the cross-section chi-square is greater than 0.05, the common effect model is chosen. Conversely, if the probability of the cross-section chi-square is less than 0.05, the fixed effect model is selected. Based on the Chow Test results in Table 5, the probability of the cross-section chi-square is 0.0000, which is smaller than 0.05, indicating that the fixed effect model is better than the common effect model.

Hausman Test
Table 6. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7,461515	3	0,0586

Source: EViews 12 Output, Processed by Researcher, 2024

The basis for decision-making in the Hausman Test is determined by the probability value of the cross-section random. If the probability of the cross-section random is less than 0.05, the fixed effect model is selected. Conversely, if the probability of the cross-section random is greater than 0.05, the random effect model is chosen. Based on the statistical test results in Table 6, the probability of the cross-section random is 0.0586, which is greater than 0.05, indicating that the random effect model is better than the fixed effect model.

Lagrange Multiplier Test
Table 7. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
		Test Hypotheses	
	Cross-section	Time	Both
Breusch-Pagan	19,24873	1,259886	20,50861
	(0,0000)	(0,2617)	(0,0000)

Source: EViews 12 Output, Processed by Researcher, 2024

The LM test is not conducted if the Chow Test and Hausman Test indicate that the most appropriate model is the fixed effect model. Based on the results of the Chow Test and Hausman Test, this study uses the Fixed Effect Model.

Classical Assumption Test

The classical assumption tests used in linear regression with the Ordinary Least Squares (OLS) approach include tests for linearity, autocorrelation, heteroscedasticity, multicollinearity, and normality. However, not all classical assumption tests need to be conducted for every linear regression model using the OLS approach. Therefore, this study only applies multicollinearity and heteroscedasticity tests.

Multicollinearity Test

The multicollinearity test aims to examine whether there is a correlation between independent variables in the regression model.

Table 8. Multicollinearity Test Results

	KI	ROA	ROE	Tobins'Q
KI	1,000000	0,648925	0,908291	-0,102913
ROA	0,648925	1,000000	0,725125	-0,265986
ROE	0,908291	0,725125	1,000000	-0,031248
C	-0,102913	-0,265986	-0,031248	1,000000

Source: EViews 12 Output, Processed by Researcher (2024)

To determine the presence or absence of multicollinearity in the regression model, a correlation test between independent variables is conducted by examining the correlation matrix values. If the correlation matrix value is greater than 0.9, the data is affected by multicollinearity. However, if the correlation matrix value is less than 0.9, the data is not affected by multicollinearity. In Table 8 it is observed that the correlation matrix value for ROE x KI is above 0.9**,** indicating the presence of multicollinearity in these variables. This occurs because the actual data for ROE and KI in some companies significantly differ from others. To address this issue, possible solutions include transforming the data or removing outlier data**.** Data transformation is recommended as it helps adjust the values; however, it alters the original values of the variables. In this study, data transformation is constrained because the transformation process must not include negative values   (-).

Heteroscedasticity Test

The heteroscedasticity test aims to examine whether there is a correlation between independent variables in the regression model.

Table 9. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,46701	0,18481	2,52705	0,0137
ROA	1,24687	1,35704	0,91881	0,3613
ROE	1,01985	0,43451	2,34715	0,217
KI	-0,1544	0,14174	-1,0892	0,2797

Source: EViews 12 Output, Processed by Researcher (2024)

The heteroscedasticity test in this study uses the Glejser Test. The Glejser Test is conducted by regressing the independent variables with the absolute residual values. If the probability value between the independent variables and the absolute residual is greater than 0.05**,** then heteroscedasticity does not occur. As shown in Table 9**,** all probability values of the independent variables are above 0.05**,** indicating that heteroscedasticity is not present**.**

Multiple Linear Regression / Panel Data Regression

The multiple linear regression / panel data regression analysis in this study uses the Fixed Effect Model, based on the model selection results from the Chow Test and Hausman Test. After performing regression analysis using EViews 12, the obtained results are as follows:

Table 10. Panel Data Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,985406	0,345031	2,855992	0,0056
ROA	-2,297215	2,297960	-0,999676	0,3208
ROE	7,127763	0,270031	8,859960	0,0000
KI	-0,313693	1,333580	-1,161695	0,2492

Source: EViews 12 Output, Processed by Researcher, 2024

Based on Table 10 above, the multiple linear regression equation can be formulated as follows:

$$Y = 0{,}985 - 2{,}297ROA + 7{,}128ROE - 0{,}313KI$$

From the multiple linear regression equation above, the interpretation is as follows:
1. The constant value c (in EViews 12) or a (in standard linear regression formulas) is 0.985 and is positive. A positive sign indicates a direct relationship between the independent and dependent variables. This means that if all independent variables (ROA, ROE, and KI) are 0% or do not change, the company's value will be 0.985**.**
2. The regression coefficient for the ROA (X1) variable is -2.297 and is negative. A negative sign indicates an inverse relationship between the independent and dependent variables. This means that if ROA increases by 1%**,** the company's value will decrease by 2.297, assuming other independent variables remain constant.
3. The regression coefficient for the ROE (X2) variable is 7.128 and is positive. A positive sign indicates a direct relationship between the independent and dependent variables. This means that if ROE increases by 1%**,** the company's value will increase by 7.128, assuming other independent variables remain constant.
4. The regression coefficient for the KI (Z) variable is -0.313 and is negative. A negative sign indicates an inverse relationship between the independent and dependent variables. This means that if KI increases by 1%**,** the company's value will decrease by 0.313, assuming other independent variables remain constant.

Multiple Regression Analysis (MRA)
Table 11. Multiple Regression Analysis (MRA) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1,087362	0,453915	2,395519	0,0193
ROA	-31,37958	13,25685	-2,367047	0,0207
ROE	10,17070	3,494452	2,910528	0,0048
KI	-0,224890	0,471013	-0,477460	0,6345
ROA_KI	48,08959	21,39795	2,247393	0,0278
ROE_KI	-6,760958	4,812447	-1,404890	0,1645

Source: EViews 12 Output, Processed by Researcher, 2024

Y= C - 31,3379 + 10,17 - 0,2248 + 48,089 – 6,760

Based on Table 11, the probability value for the ROA*KI variable is 0.0278**,** which is less than 0.05**,** meaning that the interaction between ROA and KI has a significant effect on the

dependent variable. Therefore, it can be concluded that KI is able to moderate the effect of ROA on Firm Value. Meanwhile, the probability value for ROE*KI is 0.1645, which is greater than 0.05, meaning that the interaction between ROE and KI does not have a significant effect on the dependent variable. Thus, it can be concluded that KI is not able to moderate the effect of ROE on Firm Value.

Coefficient of Determination Test

This analysis is used to measure the extent to which the independent variables influence the dependent variable. The coefficient of determination is denoted as R^2 or the squared partial determination coefficient **(**Sugiyono, 2018**).** Many researchers recommend using the adjusted R^2 value to evaluate the best regression model **(**Ghozali, 2018**).** The results of the Coefficient of Determination Test are as follows:

Table 12. Coefficient of Determination Test Results

R-squared	0,628946	Mean dependent var	0,871636
Adjusted R-squared	0,613485	S.D. dependent var	1,119892
S.E. of regression	0,696240	Akaike info criterion	34,90202
F-statistic	40,68061	Durbin-Watson stat	1,619630
Prob(F-statistic)	0,000000		

Source: EViews 12 Output, Processed by Researcher (2024)

Coefficient of Determination Test

Based on the results of the coefficient of determination test in Table 12, the Adjusted R-Squared (R^2) value obtained is 0.6134. This indicates that the independent variables (ROA, ROE, KI, and Tobin's Q) in this study explain 61.34% of the variance in the dependent variable (Tobin's Q disclosure), while the remaining 38.66% **(**1 - 0.6134) is explained by other variables not included in this study.

Hypothesis Testing

1. T-test

   According to Ghozali (2018)**,** the t-test is used to determine the individual influence of independent variables on the dependent variable. The decision-making criteria in the t-test are based on the t-statistic value and its significance probability**:** If probability > Sig (α = 0.05) or t_calculated < t_table, then H_0 is accepted and H_1 is rejected (no significant effect). If probability < Sig (α = 0.05) or t_calculated > t_table, then H_0 is rejected and H_1 is accepted (significant effect). The t-table value in this study is 1.99299. The results of the t-test are presented in Table 4.15, with the following explanation:

2. ROA (X_1) and Firm Value (Y)

   The t-statistic (t_calculated) for ROA is **-**0.99968**,** with a probability of 0.3731. Since 0.3731 > 0.05, the independent variable does not significantly affect the dependent variable, meaning that H_0 is accepted and H_1 is rejected. Therefore, it can be concluded that ROA does not significantly influence Firm Value**.**

3. ROE (X_2) and Firm Value (Y)

   The t-statistic (t_calculated) for ROE is 8.859960, with a probability of 0.0000. Since 0.0000 < 0.05, the independent variable significantly affects the dependent variable, meaning that H_0 is rejected and H_1 is accepted**.** Therefore, ROE has a positive and significant effect on Firm Value, indicating that the higher the ROE, the higher the Firm Value**.**

4. Institutional Ownership (Z) and Firm Value (Y)

   The t-statistic (t_calculated) for Institutional Ownership is -1.16169**,** with a probability of 0.2492. Since 0.2492 > 0.05, the independent variable does not significantly affect the

dependent variable, meaning that H_0 is accepted and H_1 is rejected. Therefore, it can be concluded that Institutional Ownership does not significantly influence Firm Value.

DISCUSSION

This study explores several key aspects of how financial factors influence firm value. The findings indicate that Return on Assets (ROA) does not have a significant effect on firm value. This could be due to factors such as investor focus on other indicators, unstable market conditions, or information asymmetry.

On the other hand, Return on Equity (ROE) significantly affects firm value, suggesting that the higher the net income relative to equity, the higher the firm value.

Regarding Institutional Ownership, Good Corporate Governance (GCG) was tested as a moderating variable in the relationship between ROA and Firm Value. The results show that GCG significantly moderates the effect of ROA on Firm Value, meaning that good corporate governance can enhance firm value even if ROA alone does not directly influence it.

The findings support the theory that strong financial performance increases firm value. Additionally, the study suggests that firms with better governance structures attract more investors. However, the different moderating effects of GCG on ROA and ROE imply that institutional ownership is more effective in strengthening the impact of ROA on firm value than ROE. This could be due to investors' different perceptions of asset-based and equity-based profitability ratios.

Furthermore, the study confirms that institutional ownership, as part of Good Corporate Governance (GCG), plays a crucial role in enhancing firm value by improving asset efficiency. Investors tend to view companies with high institutional ownership as more stable and well-governed, sending a positive signal to the market regarding financial and risk management oversight. Despite ROE also influencing firm value, the study finds that GCG does not significantly moderate its effect. This suggests that investors may prioritize asset-based profitability indicators over equity-based ones when assessing corporate performance.

Thus, firms should adopt strategies to enhance investor confidence not only through profitability but also through broader governance improvements, such as financial reporting transparency and stronger internal control structures.

CONCLUSION

This study finds that ROA and ROE have a positive impact on firm value, with GCG moderating the relationship between ROA and firm value but not ROE. These findings emphasize the importance of corporate governance implementation in boosting investor confidence and firm value. Additionally, firms with stronger financial performance tend to achieve higher market valuation. Implementing Good Corporate Governance (GCG) effectively can strengthen the positive impact of financial performance on firm value, particularly through improved transparency and accountability. Investors are more inclined to invest in companies with strong governance, as it reflects responsible management and better risk control.

This study also highlights that enhancing firm value is not solely dependent on financial performance but also on the adoption of solid corporate governance principles. Companies should continuously improve GCG practices to enhance investment appeal and ensure long-term business sustainability.

LIMITATIONS

This study has several limitations:

1. Sample Selection Bias: The study focuses only on companies listed in the LQ45 index, meaning that the results may not represent all firms listed on the Indonesia Stock Exchange (IDX)**.**
2. Limited Measurement of Good Corporate Governance (GCG**)**: GCG is measured only through institutional ownership, while other key factors such as board independence and audit committee structure are not analyzed.
3. Potential Data Bias**:** The study relies on published annual reports, which may contain biases or not fully reflect the company's actual condition.

Future research is recommended to expand the sample and consider additional variables to provide a more comprehensive understanding of the relationship between financial performance and firm value**.**

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