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Does Profitability Mediate the Influence of Corporate Governance on Firm Value?

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Abstract

This study examines the effect of corporate governance on firm value with profitability as an intervening variable. This study uses a sample of banking companies listed on the Indonesia Stock Exchange in 2016-2020. The sampling technique used was the purposive sampling technique. This type of research is quantitative with path analysis using the software Eviews 9. The results of this study indicate that: 1) Independent commissioners and institutional ownership have no significant effect on the profitability variable, while the board of directors, public ownership, and managerial ownership have a significant positive effect on profitability. 2) Profitability has a significant positive effect on firm value. 3) Public ownership and managerial ownership have a significant positive effect on firm value, while independent commissioners, board of directors, and institutional ownership have no significant effect on firm value. 4) Independent commissioners and institutional ownership have no significant effect on firm value through profitability. Meanwhile, the board of directors, public ownership, and managerial ownership positively and significantly affect firm value through profitability.

Keywords: Corporate governance; Profitability; Firm value.

1. Introduction

Corporate governance is a system, process, and practice by which companies are controlled and directed (Purbawangsa *et al.*, 2019). Banks are financial institutions whose operations depend on funds held by customers. Bank institutions collect, manage, and channel funds from customers. Without a bank institution, the economic sector will not develop. Thus, the company management should establish the operational management, and the work systems properly. One way that can be used to assess the work system of a bank is through an assessment of corporate governance. National banks are required to implement corporate governance since Bank Indonesia issued Bank Indonesia Regulation (PBI) Number 8/4/PBI/2006 concerning the Implementation of Corporate Governance for Commercial Banks as amended by PBI Number 8/14/PBI/2006 and Bank Indonesia Circular Letter (SEBI)) Number 9/12/DPNP concerning Implementation of Corporate Governance for Commercial Banks.

The development of the banking world today is quite worrying. Many other mega scandals have been in the spotlight of the Indonesian banking world, including: (1) The Century Bank case, where Rp1.45 trillion of customer funds was appropriated. (2) The FinCen Files case stated that there were odd flows of funds out and into Indonesia through large banks worth US$504.65 million or around Rp. 7.46 trillion.

As stated by the chairman of the Indonesia Institute for corporate directorship, he stated that Indonesia's banking sector is weak in almost all aspects of corporate governance, namely shareholder rights, fair treatment of shareholders, the role of stakeholders, disclosure and transparency, and board responsibilities. According to him, this is still quite worrying because banking is a business entity that manages people's money, so every governance must be completely trustworthy. Implementing sound corporate governance is expected to increase the company's value. The company's value is important because increasing the company's value means increasing shareholders' prosperity. The stock price reflects the investor's assessment of all the wealth owned by the company in the presence of market demand and supply (Ilmi *et al.*, 2017).

Corporate governance is closely related to agency theory. Michael & William (1976) stated that an agency relationship is a contract between one or more people (principal) who employs another person (agent) to delegate some authority and make decisions on behalf of the principal. According to Ilmi et al. (2017), in agency theory, the relationship between agent and principal is challenging to create because of the interests of each conflicting party. Agency theory focuses on the relationship between agents and principals who have the authority to manage the principal's interests and make profitable decisions. Agency theory explains how the probability of

information discrepancies can lead to agency conflicts between managers and external stakeholders (Harun *et al.*, 2020).

The existence of corporate governance is believed to increase investor confidence, and companies that implement corporate governance have more efficient operational performance. Therefore, with good corporate governance or corporate governance, it is expected to get the value of a good company. In addition, by increasing the value of this company, the company's profitability will also increase and can minimize the risk of losses in the future (Hendarto et al., 2021). So it can be said that it is suspected that profitability can mediate the relationship between corporate governance and the value of a banking company. Concerning signal theory, this situation illustrates that a good company value can provide a signal or information to shareholders that reflects a company's condition to benefit investors.

Since corporate governance is essential to enhance the companies' performance, it is vital to analyze the effect of corporate governance on a firm's value. Therefore, this study analyzes corporate governance's impact on firm value. The difference between this study and the previous study is that this study extends the previous study by adding profitability as a mediating variable.

This study is structured as follows. After explaining some research background, the following section is Section 2 reviews findings of previous research related to corporate governance and firms' value., Section 3 elaborates on the source, types of data, and method used to test for some hypotheses proposed in this study. Section 4 explains the results and discussion. Section 5 is the conclusion.

2. Literature Review

2.1. Agency Theory and Corporate Management

Various scientific disciplines, including economics, finance, management studies, sociology, psychology, and ethics, are addressing the subject of corporate governance (Kultys, 2016). This study shows how agency theory is widely used to explain phenomena in various fields.

The debate over corporate governance patterns has a long history (Sundaram and Inkpen, 2004). In corporate governance (within the context of the prevalent agency theory), managers are regarded as shareholders' agents (principals). In most cases, corporate governance focuses on reducing agency costs in the relationships between managers and shareholders, significantly restricting managers' autonomy. In contrast, management theory views autonomy as crucial in value creation and firms' development (Kultys, 2016).

Company management is a phenomenon that can be explained by agency theory. Agency theory explains that in modern corporate management, there is a strict separation between the principal as the owner of the company and the agent as the company's manager (Horne, 2020). Because these two parties have different interests, the agent, as the company's manager, sometimes takes a policy contrary to the company's owner. Actions like this benefit company managers but can be detrimental to company owners.

Therefore, it is necessary to have control from the owner of the company to the owner of the company so that every policy taken by the company's management is in line with the interests of the company's owner. In addition, incentives are required to encourage the manager to make decisions for the shareholders' interests. One of the incentives is a share ownership program by company managers known as the Employees' Stock Ownership Plan (ESOP) (Brigham and Houston, 2021).

2.2. The Effect of Independent Commisionairs on Profitability

Independent commissioners oversee the company’s operations as representatives of its stakeholders. An independent commissioner is best positioned to perform the monitoring function to make good corporate governance (Fadillah, 2017). A greater number of independent commissioners can encourage the board to act objectively and protect all company stakeholders (Hardikasari and Pamudji, 2011). Empirical evidence is shown by the results of research conducted by Wulandari (2006) and Widyati (2013), who found that independent commissioners positively affect financial performance. Based on the explanation above, this study proposes the following hypothesis:

H_1 : Independent commissioners have a positive effect on company performance.

2.3. The Effect of The Board of Directors on Profitability

The board of directors has the primary responsibility for managing the company. The more directors are expected to be, the more well-distributed responsibilities for each of the affairs delegated to them. Each director will be specifically responsible for the area that is his responsibility. On the other hand, if the number of directors is limited, it may be that a section director has more than one area of responsibility.

According to past studies, a larger board will have greater experience and awareness, which could im-

prove an organization's profitability (Buniamin *et al.*, 2008). Similarly, a study by Alabdullah *et al.* (2014) shows that one important internal control mechanism is the size of the board of directors and that this mechanism increases the organization's profitability. Empirical evidence shows that the size of the board of directors positively affects profitability (Alabdullah *et al.*, 2021).

H_2 : The board of directors has a positive effect on profitability.

2.4. The Effect of Public Ownership on Profitability

Public ownership is the shares owned by company owners other than the founders. This ownership occurs because the company goes public. Public ownership will also act as a party that monitors the company's management. The greater the proportion of public ownership, the tighter the supervision by outsiders. As a result, company managers will be more careful in carrying out their duties. The company will be more efficient in managing the assets working in it, which will ultimately increase the company's profitability. This is supported by empirical evidence put forward by Ali (2019) and Rahmawati and Handayani (2017), namely that public ownership has a positive effect on profitability.

H_3 : Public ownership has a positive effect on profitability.

2.5. The Effect of Institutional Ownership on Financial Performance

It is common for public companies to have institutions own some of the shares. The number of shares owned by institutions is usually quite large. As a result, institutional owners can voice the interests of shareholders in making strategic decisions at the general meeting of shareholders. Thus, institutional ownership can act as a party that monitors the company. Therefore, the greater the institutional ownership, the more efficiently the company manages its assets.

Furthermore, institutional ownership acts as a deterrent against waste by management which will further reduce costs and ultimately increase the company's profitability. The positive relationship between institutional ownership and profitability is shown by the results of research conducted by (Sekaredi and Adiwibowo, 2011). Therefore, this study proposes the following hypothesis:

H_4 : Institutional ownership has a positive effect on profitability.

2.6. The Effect of Managerial Ownership on Financial Performance

What is meant by managerial ownership are shares owned by managers as company managers who are also shareholders are expected to act according to the interests of shareholders because they are shareholders as well. Thus, it is expected that the greater the managerial ownership, the better the company's performance, which is indicated by the higher the company's profitability. he existence of a positive relationship between managerial ownership and company performance is shown by a study conducted by Yudha (2015). Similarly, Christiawan and Tarigan (2007) found that companies with managerial ownership have, on average, superior company performance than those without managerial ownership. Based on the explanation above, this study proposes hypotheses as follows:

H_5 : Managerial ownership has a positive effect on profitability.

2.7. The Effect of Profitability on Firm Value

The motivation of an investor to invest in a company by buying shares is profit. Therefore, the higher the profit generated by a company, the greater the investor's interest in the company (Yusup et al., 2022). Thus, it makes sense that companies that record high profits are the target of investors. The higher the company's profitability, the higher the investor demand for the stock. This finding will push up the company's share price. An increase in the company's stock price indicates an increase in the value of the company. Varaiya *et al.* (1987) found that profitability is positively related to firm value. Likewise, Jihadi *et al.* (2021) found the same thing: Profitability positively affects firm value.

H_6 : Profitability has a positive effect on firm value.

2.8. The Effect of Corporate Governance on Company Value Mediated by Profitability

According to Manurung *et al.*, (2019), Corporate Governance is a system that controls and regulates companies expected to increase company value. The application of Corporate Governance is believed to increase the company's value and the profits that shareholders will obtain. Research conducted by Permatasari and Gayatri (2016) states that profitability can moderate corporate governance's effect on company value. The high corporate governance score will increase the company's value, and profitability can

strengthen the positive effect between corporate governance and company value.

H_7 : Profitability can mediate the effect of corporate governance (Independent Commissioner, Board of Directors, Public Ownership, Institutional Ownership, and Managerial Ownership) on firm value.

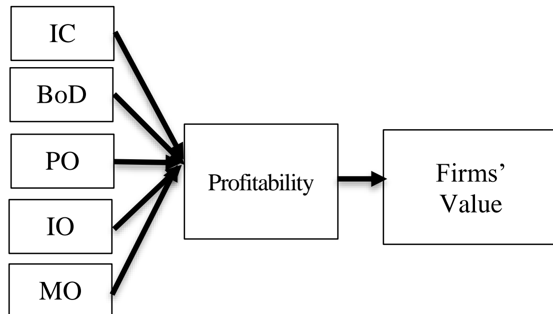

Figure 1. Conceptual Model
Notes:
IC = Independent Commissioner
BoD = Board of Directors
PO = Public Ownership
IO = Institutional Ownership
MO = Managerial Ownership

3. Methods

This research is a type of research using a quantitative design. The type of data used in this study is secondary data in the form of company annual financial reports published on the official website of the Indonesia Stock Exchange (IDX) through the website www.idx.co.id and corporate governance self-assessment reports published by banks and stock price data. Researchers used the technique of Non-Probability ability Sampling with the purposive sampling method. The criteria in question are (1) banking companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period, (2) companies that publish their financial statements consecutively in the 2016-2020 period, (3) banking companies that list the number of shares in the financial statements owned by the directors, commissioners, and the number of shares owned by the company, (4) a company that presents the figures in its annual financial statements in Rupiah and closes its books on December 31. Based on these criteria, the sample used in this study was 20 of the population of 43 companies.

The researcher uses path analysis and the Sobel test to test the intervening variables. The dependent variable in this research is firm value. The independent variable in this study is corporate governance which consists of (1) Independent Commissioners, (2) a Board of Directors, (3) Public Ownership, (4) Institutional Ownership, and (5) Managerial Ownership. Meanwhile, the intervening variable is profitability by using the ROE ratio.

4. Results

4.1. Selection of Regression Models

Panel data regression is carried out using the Common Effect Model, Fixed Effect Model, and Random Effect Model. In this panel data regression step, the best regression model will be selected for a study. This selection depends on the assumptions used by the researcher to produce good research results.

4.1.1. Selection of The Best Regression Model for ROE Variable

The choice of first model is the Chow test. The probability value of the cow test was 0.0000. It can be concluded that the Chow test suggests to uses a fixed effect model. The selection of the next test is the Hausman test. In the Hausman test, the probability value is 0.5995, which suggests that the best regression model is a random effect model. The last test to select the proper model is the Lagrange multiplier test. The Breusch-pagan value of the Lagrange multiplier is 0.0000, and it can be concluded that the best regression model is the random effect model.

Based on 3 test results, namely the Chow test, the Hausman test, and the Lagrange multiplier test, the model chosen in this study is a random effect model. Because the selected model is a random effect model, which includes the GLS model, it is not necessary to test the classical assumptions on this model because the GLS model is already robust or resistant to classical assumption problems.

4.1.2. Selection of the Best Regression Model for PBV Variables

The choice of first model is the Chow test. After the Chow test, the p-value was obtained at 0.0000. lIt can be concluded that the Chow test uses a fixed effect model. The selection of the following test is the Hausman test. In the Hausman test, the probability value is obtained. of 7.273 or greater than 0.10, then the regression model used is the random effect model. The choice of the last model is the Lagrange multiplier test, and the probability value is obtained. Breusch-pagan is 0.0000. It can be concluded that the regression model used is to choose a random effect model.

Based on the results of the three tests above (Chow, Hausman, and Lagrange multiplier tests), the model chosen in this study is a random effect model. Furthermore, because the selected model is a random

effect model that includes the GLS model, it is not necessary to test the classical assumptions on this model because the GLS model is already robust or resistant to classical assumption problems.

4.1.3. PBV Variable Regression Test

The results of statistical testing for the PBV variable using a random effect model with coefficient variance model: white cross-section are presented in the Table 1.

Table 1. Model Random Effect with Coefficient Covariance Method: White Cross Section

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.473388	0.422572	1.120255	0.2657
IC	0.086405	0.234341	0.368715	0.7132
BoD	0.303723	0.197810	1.535433	0.1283
PO	0.274058	0.151597	1.807802	0.0741
IO	-0.004469	0.252660	-0.017687	0.9859
MO	0.065554	0.009219	7.110661	0.0000
ROE	0.036296	0.007273	4.990678	0.0000

Source: Data Processed Researcher, 2022

From the Random Effect Model table with Coefficient Covariance Method: White Cross Section, the following results can be obtained: (1) The IC variable has no significant effect on the PBV variable due to the probability value being 0.7132. 2) The BoD variable has no significant effect on the PBV as the probability value is 0.1283. 3) The PO variable significantly positively affects PBV because the probability value is 0.0741. 4) The IO variable has no significant effect on PBV because the probability value is 0.9859. 5) MO variable has a significant positive effect on PBV due to the probability value being 0.0000. (6) ROE variable has a significant positive effect on PBV due to the probability value being 0.0000.

4.1.4. Path Test

4.1.4.1. Model 1

The first path model test with the dependent variable ROE uses a random effect model with a coefficient covariance method: white cross-section is presented in the Table 2.

Table 2. Model Random Effect: White Cross Section

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-9.272955	1.792186	-5.174104	0.0000
IC	0.188090	0.828740	0.226959	0.8210
BoD	2.722413	0.600561	4.533115	0.0000
PO	0.777097	0.246526	3.152187	0.0022
IO	0.852594	1.392492	0.612279	0.5419
MO	0.122505	0.037085	3.303317	0.0014

Source: Data Processed Researcher, 2022

Based on the Model Random Effect: White Cross Section table, the regression equation in this study is as follows:

ROE = -9.272955 + 0.188090 (IC) + 2.722413 (BOD)
+ 0.777097 (PO) + 0.852594 (IO) + 0.122505 (MO)

From the equation, it can be concluded as follows: the contribution of the influence of the IC variable on ROE is 0.188090 or 18.80%, the contribution of the influence of the BoD variable on ROE is 2.722413 or 272.24%, the contribution of the influence of the PO variable to ROE is 0, 777097 or 77.7%, the contribution of the influence of the IO variable to the ROE of 0.852594 or 85.25% and the contribution of the influence of the MO variable to the ROE of 0.122502 or 12.25%.

4.1.4.2 Model 2

The first path test model with the dependent variable PBV using a random effect model with a coefficient covariance method: white cross-section, is presented in the Table 3.

Table 3. Path Test: White Cross Section

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.473388	0.422572	1.120255	0.2657
IC	0.086405	0.234341	0.368715	0.7132
BoD	0.303723	0.197810	1.535433	0.1283
PO	0.274058	0.151597	1.807802	0.0741
IO	-0.004469	0.252660	-0.017687	0.9859
MO	0.065554	0.009219	7.110661	0.0000
ROE	0.036296	0.007273	4.990678	0.0000

Source: Data Processed Researcher, 2022

Based on the Path Test: White Cross Section table, the regression equation in this study is as follows:

PBV = 0.473388 + 0.086405 (IC) + 0.303723 (BoD)
+ 0.274058 (PO) - 0.004469 (IO) + 0.065554 (MO) + 0.0362969 (ROE)

From the equation, it can be summarized as follows: the influence of IC on PBV is 0.086405 or 8.605%, the influence of BoD on PBV is 0.303723 (30.37%), the influence of PO on PBV is 0.274058 (27.405%), the contribution of IO variable on PBV is 0.004469 or 0.4469%, and contribution of MO to PBV is 0.065554 or 6.5554%.

4.1.5. Sobel Test

The Sobel test was conducted to test the intervening variables. In this study, the researcher used the online Sobel calculator by Preacher (2018) on the

website http://quantpsy.org/sobel/sobel.htm. Based on the tests conducted through the online Sobel calculator, the test results are shown in Table 4.

Table 4. Sobel Test Results

Variable	Z	Z Mutlak	Result
IC → ROE → PBV	0,22672466	1,96	Not Supported
BoD → ROE → PBV	3,35547702	1,96	Supported
PO → ROE → PBV	2,66507294	1,96	Supported
IO → ROE → PBV	0,60772249	1,96	Not Supported
MO → ROE → PBV	2,75456966	1,96	Supported

Source: Processed Data

4.2. Regression Test

4.2.1. ROE Variable Regression Test

The results of statistical testing for the ROE variable using a random effect model with coefficient variance model: white cross-section are presented in the following Table 5.

Table 5. Random Effect Model: White Cross Section

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-9.272955	1.792186	-5.174104	0.0000
IC	0.188090	0.828740	0.226959	0.8210
BoD	2.722413	0.600561	4.533115	0.0000
PO	0.777097	0.246526	3.152187	0.0022
IO	0.852594	1.392492	0.612279	0.5419
MO	0.122505	0.037085	3.303317	0.0014

Source: Processed Data

From the Random Effect Model table with Coefficient Covariance Method: White Cross Section, the following results can be obtained: (1) The IC variable has no significant effect on the ROE variable due to the probability value being 0.8210. (2) The BoD variable has a significant positive effect on the ROE variable due to the probability value being 0.0000. (3) The PO variable significantly positively affects ROE because the probability value is 0.0022. (4) the IO variable has no significant effect on ROE; This is due to the probability value being 0.5419 (5) MO variable has a significant positive effect on ROE because the probability value is 0.0014.

5. Discussion

5.1. The Effect of Corporate Governance on Profitability in Banking Companies

IC variable does not affect company profitability. This is presumably because the commissioners have not been able to carry out their responsibilities independently, the supervision carried out is not running efficiently and the strategic decisions and plans taken by the commissioners are not right. If these things are not carried out optimally, then the company's profitability will move in a negative direction. In addition, the commissioners have not been able to avoid the risks that the company may experience, so the company's profitability does not increase. The results of this study are supported by research conducted by (Anjani and Yadnya, 2017).

The IO variable does not affect the company's profitability. These results indicate that the incentives owned by institutional shareholders to monitor the company minimize conflicts, and the role in monitoring decision-making is not going well. This result has a negative impact or decreases the company's profitability. This study contradicts the results of research conducted by (Budiandriani, 2021). Still, this study's results align with research conducted by (Wiranata and Nugrahanti, 2013), which states that institutional ownership is not proven to affect company profitability.

The variable BoD (Board of Directors) positively affects the company's profitability. These results indicate that the board of directors can make decisions on bank operational activities properly, carry out bank management and implementation of management properly, and ensure that risk management has been implemented to increase company profitability. These results align with research conducted by Azmy *et al.* (2019), which states that the Board of Directors (BoD) significantly influences ROA & ROE.

PO variable has a positive effect on company profitability. This positive influence shows that the public is also monitoring the company well. The choice of investors to invest in the targeted company is correct so that the proportion of shares owned by the public can increase the company's profitability. This research is in line with research conducted by Budiandriani (2021).

The MO variable positively affects the company's profitability, indicating that the manager, who owns shares, has managed the company well. Managers have high motivation and professional performance in managing the company to run well because they have

shares in a company, so it impacts company profitability. This study's results align with research conducted by Budiandriani (2021).

5.2. The Effect of Profitability on Firm Value in Banking Companies

Profitability (ROE) has a significant positive effect on firm value (PBV). This positive influence shows a positive signal by investors to invest their capital in shares. In signal theory, profitability is related to improving the company's prospects and increasing the demand for shares. The results of this study are supported by research conducted (Mai, 2017), (Budiandriani, 2021), and Ekasari and Noegroho (2020). ROE will be positive for investors who can increase the company's value. The higher this ratio, the greater the company can cover investors' investments. With this, the company can finance investments from internal sources (retained earnings), which results in information on profitability that will provide a positive value and increase the company's value (Ekasari and Noegroho, 2020; Hendarto et al., 2021).

Profitability is the level of profit that the company can achieve. The greater the profit, the greater the company's ability to distribute dividends. As a result, the company's value will improve. High profits indicate the company's prospects to increase demand for shares. Furthermore, the company's value will also increase with increasing share demand. This phenomenon shows that a company's profitability level is a form of incentive to increase the company's value (Marantika, 2013).

5.3. The Effect of Corporate Governance on Company Value in Banking Companies

Variables IC, BoD and IO have no significant effect on PBV (firm value). These results indicate that the proportion of independent commissioners in a company does not guarantee that the company's performance is increasing and that there is no fraud in the company's financial reporting. In addition, supervision carried out by independent commissioners cannot prevent managers' behavior in optimizing their interests, so the company's target of increasing company value cannot be achieved due to differences in interests (Veronica, 2013).

The commissioners and directors cannot manage the company professionally without conflicts from outside interests and carry out their functions with full responsibility. As a result, the board of directors has not been able to provide effective and efficient performance concerning the financial preparation and reporting process, resulting in decreased performance which will negatively impact the company's value. The results of this study are supported by research conducted by Veronica (2013), which states that independent commissioners do not significantly affect firm value. Meanwhile, in institutional ownership, the proportion of shares owned by institutions has not been able to increase the company's value, even though, according to Michael and William (1976), institutional ownership is the primary mechanism in corporate governance to help agency probability. In addition, Marantika (2013) states that the relationship between ownership and firm value is due to their incentives, so they tend to align their interests with outside owners by increasing their share ownership if the firm value from investment increases.

PO and MO variables have a significant positive effect on PBV. This finding shows that managerial ownership can increase firm value. Managerial ownership can help the integration between the interests of management and shareholders, and this is because shareholders and management are outside parties of the company who have the same goal, so that with this they can reduce agency conflicts and ultimately increase the value of the company (Dewi and Abundanti, 2019). Managers who have opportunities in institutional ownership should increase their motivation and productivity. This findig will increase the performance of a company which can increase the value of shares in the market to increase (Marantika, 2013). This study's results align with research conducted by (Dewi and Abundanti, 2019).

5.4. The Effect of Corporate Governance on Firm Value with Profitability as an Intervening Variable

The BoD variable has a significant positive effect on firm value through ROE. The percentage of the board of directors owned by the company affects the value of the company. This influence is caused because the board of directors controls the company and provides the best decisions that can increase the company's profitability, which also impacts company value. PO variable has a significant positive effect on firm value through ROE. The proportion of public ownership can have a positive influence, so it has an impact on the value of the company.

MO variable has a significant positive effect on firm value through ROE. This is because the level of share ownership owned by managers influences the value of the company caused by the high profitability of a company. This research is supported by Yanto (2018), who found that manager ownership affects firms' value.

IC variable has no significant effect on firm value through ROE. This result means that profitability as a

moderating variable does not significantly affect firm value. The level of profitability associated with independent commissioners does not have a significant role in the value of a company. Another factor that causes this is the independent commissioner; the company internally has not synergized concerning corporate governance through profitability (Ekasari and Noegroho, 2020). This study's results align with Yanto (2018) research, which states that independent commissioners moderated by profitability affect firm value.

IO variable has no significant effect on firm value through ROE. The results of this study are not in line with research conducted by Yanto (2018), which states that institutional ownership moderated by profitability affects firm value. Firm value has not been able to become an effective monitoring tool for institutional shareholders to increase firm value. Profitability as an intervening variable has not been able to show that the company will increase the achievement of company value.

6. Conclusions

Based on the tests that have been carried out, it can be concluded that: (1) IC and IO variables have no significant effect on ROE, (2) BoD, PO, and MO variables have a positive effect on ROE, (3) Profitability has a significant positive effect on firm value (4) IC, BoD, and IO variables have no significant effect on PBV, (5) PO and MO variables have a positive effect on PBV, (6) BoD, PO and MO variables have a positive effect on firm value through ROE, (7) IC variables and IO does not have a positive effect on firm value through ROE.

This research implies that banking companies should consider the board of directors and public and managerial ownership. These three variables have a positive influence on firm value through profitability. This is to provide the latest knowledge about the effect of implementing corporate governance in a company. Especially the effect on the value of the company. From the findings in this study, it is hoped that investors will also be able to make the best decisions to benefit investors in investing their capital into a company. With the importance of the three elements of corporate governance, business people or companies should consider corporate governance because it plays a vital role in carrying out the company's strategy for the future. In this study, the independent commissioner and institutional ownership variables do not affect firm value through profitability. Nevertheless, it is hoped that independent commissioners and institutional owners will decide on the best solution to increase the company's value.

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