
GOOD CORPORATE GOVERNANCE, FINANCIAL PERFORMANCE, AND FIRM VALUE: EVIDENCE IN INDONESIA

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Diterima: Januari 2026 ; Direvisi: Februari 2026; Dipublikasikan: Maret 2026

ABSTRACT

This study aims to see the influence of good corporate governance and financial performance on the value of companies in Indonesia. Good Corporate governance uses variable institutional ownership and subsequent managerial ownership for financial performance using profitability. This study uses a population, namely all property and real estate sector companies listed on the Indonesia Stock Exchange, with a research period of 3 years, namely 2019 – 2021. The sample selection method used is the purposive sampling method, which uses the criteria of companies that earn profits and have complete data for three consecutive years. The model used in this study is multiple linear regression using Eviews software version 10. The results showed that the institutional ownership and profitability variables did not affect the value of companies in the property and real estate sectors in the study period. Meanwhile, managerial ownership variables are proven to affect the value of property and real estate companies. The more significant the proportion of managerial ownership in a company, the more management will tend to be more active in maximizing the Company's value.

Keywords: Institutional Ownership; Managerial Ownership; Profitability

ABSTRAK

Penelitian ini bertujuan untuk melihat pengaruh tata kelola perusahaan yang baik dan kinerja keuangan terhadap nilai perusahaan di Indonesia. Tata kelola perusahaan yang baik menggunakan variabel kepemilikan institusional dan selanjutnya kepemilikan manajerial untuk kinerja keuangan menggunakan profitabilitas. Penelitian ini menggunakan populasi, yaitu seluruh perusahaan sektor properti dan real estat yang terdaftar di Bursa Efek Indonesia, dengan periode penelitian selama 3 tahun, yaitu 2019 – 2021. Metode pemilihan sampel yang digunakan adalah metode purposive sampling, yang menggunakan kriteria perusahaan yang memperoleh laba dan memiliki data lengkap selama tiga tahun berturut-turut. Model yang digunakan dalam penelitian ini adalah regresi linier berganda menggunakan perangkat lunak Eviews versi 10. Hasil penelitian menunjukkan bahwa variabel kepemilikan institusional dan profitabilitas tidak mempengaruhi nilai perusahaan di sektor properti dan real estat pada periode penelitian. Sementara itu, variabel kepemilikan manajerial terbukti mempengaruhi nilai perusahaan properti dan real estat. Semakin signifikan proporsi kepemilikan manajerial dalam suatu perusahaan, semakin cenderung manajemen akan lebih aktif dalam memaksimalkan nilai perusahaan.

Keywords : Kepemilikan Institusional; Kepemilikan Manajerial; Profitabilitas

INTRODUCTION

The value of the Company for a business entity is significant because the value reflects a Company. One indicator in determining the value of the Company is price to book value (PBV). PBV is a calculation that shows the book value of the Company's shares. Companies that need help managing operational activities properly can reduce their value. The rise and fall of the Company's value can impact investors. A decrease in the value of the Company can make potential investors reluctant to invest in the Company. In contrast, a Company with a good value makes investors interested in investing. One of the exciting sectors is Indonesia's property and Real Estate sector. In the last three years, the PBV value has declined, starting in 2019 at 2.42,

followed by 2020 at 1.58, and 2021 at 0.65. Changes in company value based on PBV value in 2019 to 2021. There is a significant decrease in the value of a company in the company *property and real estate*. From 2019 to 2020, it was 0.35%. In 2021, there was also a decrease of 0.59% from 2020 (IDX, 2023). Declining Company Value can reduce the Company's image, so it is essential to maintain the Company's value by controlling good governance. Good governance will make good financial performance and then financial performance will also increase so that the value of the Company increases (Putri & Trisnaningsih, 2021).

This study uses two variables as corporate governance proxies: institutional ownership and managerial ownership. Equity ownership or major shareholders generally have stronger powers and can discipline management and resolve issues related to ownership. Nevertheless, the position of equity holders can tempt large shareholders to take over from minority investors and eliminate their investments (Wang, 2018). An increase in managerial ownership in the form of shares leads to a rise in managerial wealth against the stock price. Managerial behavior related to the interests of shareholders can encourage managers to work harder and take on risky projects to increase the Company's value (Benson et al., 2020).

The Company's financial performance affects the high or low value. Financial performance has the purpose of providing financial statements that can explain the Company's situation and can be assessed by describing the financial statements issued by the Company using financial analysis tools that are done at a particular time. The good returns obtained by the Company are obtained from better financial performance (B.P. Rahmasari, 2021). Previous research has linked the Company's value with the structure of financial risk and profit leveling, in this case, financial performance, namely Return on Assets (ROA), which still needs to show consistent results between ROA and Company value. The higher profit indicates optimal asset turnover to increase the Company's profit. This can have an impact on increasing the value of the Company (Hidayatullah, 2010). Profitability is an indicator of the Company's performance that can show the Company's ability to earn profits. The investors invest their shares to get a rate of return. The higher the Company's profit, the greater the expected share return so that the Company's value becomes better (Sunarwijaya, 2017).

Several studies have been conducted regarding the influence of GCG on company value. Research conducted by Manurung (2022) is in line with research conducted by Febiantoro & Khuzaini (2022) Where managerial ownership does not significantly influence the value of the Company. Research conducted by Fatoni & Sulhan (2020) is in line with research conducted by Oktaryani et al. (2017), where GCG has a significant effect on company value. Research conducted by Sari & Khuzaini (2022) is in line with research conducted by Hendra et al. (2022), where financial performance can mediate GCG against company value—likewise related to the variable of profitability to the value of the Company. The results of the study stated that profitability influences the Company's value (Sulistyawati & Dwi, 2023; Sunarwijaya, 2017; Syamsudin et al., 2020). Meanwhile, other studies find different results, namely profitability does not affect the value of the Company (Damaianti, 2020; Palupi & Hendiarto, 2018; Prasetyo et al., 2020).

This study aims to determine how the influence of corporate governance, in this case, institutional ownership and managerial ownership, as well as the influence of profitability as illustrated by ROA on the value of the Company in Companies listed on the Indonesia Stock Exchange from 2019 to 2021 in the Property and Real Estate Sector.

LITERATURE REVIEW

Company Value

Company value is the thought of the value *Market* Because high stock prices provide security to shareholders. The purpose of operational activities in the Company is to maximize company value. Another word for maximizing is increasing the stock price, which benefits shareholders (Suhara & Susilowati, 2022).

The value of the Company has several calculations that can be done. One of the things in question is *Price To Book Value* (PBV), where PBV itself is the share price divided by book value per share. PBV is a variable that investors consider to determine which stocks they want to buy. A stock market value greater than its book value explains that this ratio works well in a company. The higher the ratio, it means that the market is confident in the performance of the Company. Besides being trusted by investors with a high PBV value, the market is also more confident in the Company's prospects and the welfare of the Company's shareholders, and the Company's value will increase (Sanusi et al., 2022).

Good Corporate Governance

GCG is a component that regulates and controls the Company to produce good value for all *stakeholders*. GCG is the way and form used to run the Company, aiming to maximize shareholder value for the long term and consistently pay attention to the wishes of *stakeholders* (Bakri et al., 2020).

According to Sari & Khuzaini (2022), GCG can be measured using managerial and institutional ownership indicators. Managerial ownership is the condition that the manager holds the right to the Company's shares. This situation can be interpreted by the percentage of share ownership by the manager. Institutional ownership is the ownership of shares in legal entities, governments, foreign institutions, financial institutions, and other institutions. However, in Indonesia, the ownership structure only focuses on institutions.

Profitability

According to Sari & Khuzaini (2022), financial performance is used as a benchmark to show a company's success in achieving short-term profits when managing a business. Financial performance analyzes how far the Company performs and uses good and correct financial implementation rules. Company performance describes a company's financial condition, which is analyzed using financial ratios that can be seen whether or not the financial condition of a company describes performance at a certain time. Thus, resources must be used optimally for environmental changes (Bakri et al., 2020). The indicator used in measuring financial performance is the *return on assets* (ROA), obtained by comparing net income after tax with total activities. All can get profits through the total of all assets in the Company (Nabilah & Rialdy, 2022).

The variables used in GCG are managerial ownership and institutional ownership. According to Nabilah & Rialdy (2022), managerial ownership is a manager who owns shares and shareholders of the Company. This information is then described in the Company's financial statements. Meanwhile, institutional ownership is shares or ownership owned and controlled by the government, incorporated institutions, foreign institutions, trust funds, and other institutions registered at the end of the year. According to Oktaryani et al. (Oktaryani et al., 2017) GCG will increase the Company's value. GCG is good if management can manage the Company well to convey a positive signal to investors to invest in their shares. The increase in company shares results in the Company's value. Previous research has found a significant influence between corporate governance and corporate values (Ahmed & Iwasaki, 2021; Atawnah et al., 2024; Prasetyo et al., 2020; Soedaryono, Bambang, 2013; Triyuwono et al., 2020) So that the following hypothesis can be formulated:

H1: Institutional ownership affects the value of the Company.

H2: Managerial ownership affects the value of the Company.

The financial performance variables used in this study are *Return on Asset* (ROA). The better the financial performance, the better the financial statements because it has good information for its users. If the Company's financial performance increases, potential investors will see and then invest more capital, and then the stock price becomes high, increasing the Company's value (Putra & Wirawati, 2020). This aligns with the signal theory that a high stock price can increase the Company's profitability, resulting in greater available profits for shareholders. So this can signal to the public that the Company is not easy to go bankrupt, and eventually, the Company's value can increase (Febiantoro & Khuzaini, 2022). The results of the study stated that profitability influences the Company's value (Sulistiyawati & Dwi, 2023; Sunarwijaya, 2017; Syamsudin et al., 2020). The hypotheses formulated in this study are as follows:

H3: Profitability affects the value of the Company.

Based on the explanation above, the research framework can be described as follows:

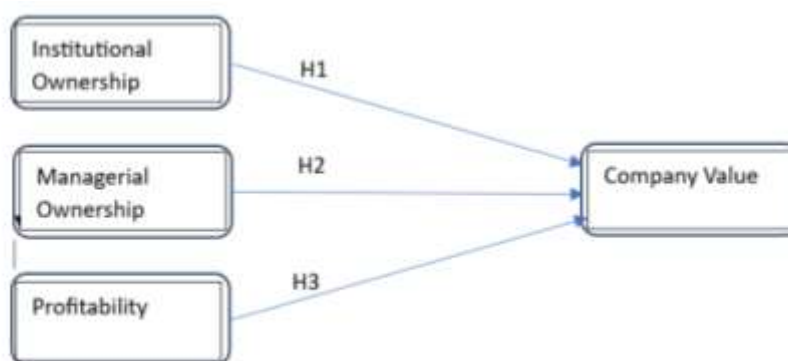


Figure 1. Research Framework

Table 1. Variable Operational Definition

No	Variable	Definisi	Measurement Proxy
1.	Company Value	How the public and investors view the growth and development of the Company to date and for the future.	$PBV = \frac{\text{Stock Price per share}}{\text{Book Value per share}} \times 100\%$
			Source : Manurung (2022)
2.	GCG	Managerial ownership is the management of the Company that owns the Company's shares. Institutional ownership is an institution or other institution outside the Company that owns company shares	$KM = \frac{\text{Managerial share ownership}}{\text{Outstanding share}} \times 100\%$ $KI = \frac{\text{Institutional share ownership}}{\text{Outstanding share}} \times 100\%$
			Source : Manurung (2022)
3.	Financial Performance	Achievement of an enterprise has activities in a certain period.	$ROA = \frac{\text{Earning after tax}}{\text{Total Asset}} \times 100\%$
			Source : Manurung (2022)

RESEARCH METHOD

This research is a quantitative research using secondary data. According to Sugiyono (2018), the population is a general domain composed of subjects or objects that exhibit specific properties and characteristics to study and make conclusions. The population in this study is the Company *Property and Real Estate* listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. Next, sample selection using *purposive sampling* is how to take samples by considering certain circumstances. The sample selection criteria include: Company *Property and Real Estate* which is listed and publishes financial statements on the Indonesia Stock Exchange (IDX) in the 2019-2021 period, and has complete data on GCG (Managerial Ownership and Institutional Ownership), Company Value (PBV), and Financial Performance (ROA) in the 2019-2021 period. The operational definition of variables used in this study is presented in Table 1.

RESULT AND DISCUSSION

Descriptive statistics describes the profile of sample data before utilizing statistical analysis techniques that aim to test hypotheses. This study used samples of *the purposive sampling method*. So that the sample results are obtained as follows.

Table 2 Purposive Sampling Results

No	Sample Criteria	Sum
1.	Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) within the 2019-2021 period.	39
2.	Property and Real Estate companies that did not complete financial statements consecutively in 2019-2021.	(17)
	Total Sample	22
	Total Observations	66

Source: Data processing, 2023

This study used testing with Eviews 10 software. Before testing the regression model with panel data, it is necessary to test to select the best model in research. The tests used include the Chow, Hausman, and Lagrange Multiplier Test. Furthermore, the results of these tests in this study are shown in Table 3.

Table 3. Best Model Testing

	Chow Test	Hausman Test	Lagrange Multiplier Test
Prob	0.000	0.5963	0.000

Source: Data processing, 2023

Based on table 3, it can be seen that the probability value using the Chow test shows a value of 0.000. The results show a value below 0.05, which means that between the Common Effect Model and Fixed Effect Model, this study chose the best model, namely the Fixed Effect Model. The next step is to test again with the Hausman Test to compare with the Random Effect Model. It can be seen in Table 3 that the probability value is 0.5963, which means above 0.05. It means that the best model is the Random Effect Model.

Furthermore, the last test is the Lagrange Multiplier Test. The results show a probability value of 0.000, which is less than 0.05, which means that the best model in this study uses a **Random Effect Model**. The regression results using the Random Effect Model are shown in table 4 as follows:

Table 4. Random Effect Model Test Results

Dependent Variable: PBV
 Method: Panel EGLS (Cross-section random effects)
 Date: 12/22/23 Time: 13:07
 Sample: 2019 2021
 Periods included: 3
 Cross-sections included: 22
 Total panel (balanced) observations: 66
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.169898	2.109102	-0.080555	0.9361
KI	0.011574	0.030168	0.383640	0.7026
KM	0.086742	0.027469	3.157856	0.0025
ROA	-0.026382	0.067960	-0.388205	0.6992

Effects Specification		S.D.	Rho
Cross-section random		1.739386	0.5683
Idiosyncratic random		1.515950	0.4317

Weighted Statistics			
Root MSE	1.456037	R-squared	0.219887
Mean dependent var	0.705221	Adjusted R-squared	0.182139
S.D. dependent var	1.661150	S.E. of regression	1.502272
Sum squared resid	139.9230	F-statistic	5.825208
Durbin-Watson stat	1.152143	Prob(F-statistic)	0.001425

Unweighted Statistics			
R-squared	0.390374	Mean dependent var	1.568939
Sum squared resid	311.6252	Durbin-Watson stat	0.517325

Based on the test results above, we can see the significance of the F test of 0.001425 below 0.05, which means that the model in this study is accepted. The Adjusted R-squared value of 0.1821 means that the independent variable in this study can affect the dependent variable by 18.21%. At the same time, other factors are influenced by other variables not used in this study. The significance results found that the variables of institutional ownership have a significance value of 0.7026 and profitability with an ROA indicator of 0.6992 above 0.05, which means that Hypothesis 1 and Hypothesis 3 are rejected. Institutional Ownership and Profitability do not affect the Corporate Value of the Property and Real Estate Sector. As for the Managerial Ownership variable, there is a significance value of 0.0025 below 0.05, which means that Hypothesis 2 is accepted. Managerial ownership positively affected the company value of property and real estate companies in the research period.

The regression equation is shown as follows:

$$Y = -0.1699 + 0.0116KI + 0.0867KM - 0.0264ROA + \varepsilon$$

The Effect of GCG on Corporate Value

Based on the test results in table 4, GCG variables represented by Institutional Ownership and Managerial Ownership have different influences on property and real estate companies in 2019-2021. Institutional ownership does not affect the value of the Company, while managerial ownership has a positive effect on the value of the Company. This study's results align with the signal theory, where high GCG can give investors positive signals to invest their company shares. Increasing company shares will increase the Company's value (Octaryani et al., 2017).

The existence of management ownership is a shareholder of management who actively participates in the decision-making of a company. If the proportion of managerial ownership in a company, the management will tend to be more active in maximizing the value of the Company (Purwaningrum & Haryati, 2022). The results of this study support previous research which stated that GCG has a positive and significant effect on company value (Ahmed & Iwasaki, 2021; Atawnah et al., 2024; Prasetyo et al., 2020; Soedaryono, Bambang, 2013; Triyuwono et al., 2020; Purwaningrum & Haryati, 2022; Hasan & Mildawati, 2020; Fatoni & Sulhan, 2020).

The Effect of Profitability on Company Value

Based on table 4, profitability through ROA does not affect the value of the Company. This can be interpreted that the property and real estate sector companies in 2019 to 2021 do not affect the value of the Company. So, ROA cannot signal to investors the value of property and real estate sector companies listed on the IDX. It is because the profitability data structure in the property and real estate sector for the 2019-2021 period has experienced considerable fluctuations, so it cannot describe the Company's value. Large profits do not necessarily guarantee that the Company is rentable, and a decrease in profitability does not necessarily reflect the Company's ineffectiveness in managing company assets. The results of this study support previous research which also states that profitability does not influence the value of the Company (Damaianti, 2020; Palupi & Hendiarto, 2018; Prasetyo et al., 2020).

CONCLUSION

GCG is measured using institutional ownership and managerial ownership variables. The results show that institutional ownership does not affect the value of the Company. In contrast, managerial ownership affects the company's value in *property* and *real estate* companies during the 2019-2021 period. It proves that high GCG can provide positive signals for investors and make them invest their company shares. In the end, increased investment will increase the Company's shares, which will increase the Company's value.

Furthermore, financial performance using profitability indicators in this study cannot affect the value of companies in *property* and *real estate companies* during the 2019-2021 period. This is because fluctuations in the value of ROA in *property* and *real estate companies* in the study period experienced significant volatility. These fluctuations do not make either positive or negative signals for investors because an increase in ROA does not necessarily indicate that the Company's performance is effective, and a decrease does not mean that the Company is not effective in managing assets. This proves that even if financial performance increases or decreases, it will not affect the value of the Company. Further research can explore other GCG variable indicators, such as Using other GCG variables not used in this study, such as audit committee, independent board of commissioners, board of directors, and audit quality.

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