Good Corporate Governance (GCG) and Corporate Value : The Mediating Role of Return on Equity in The Banking Sector

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A B S T R A C T

This study is important as it provides insights for investors and stakeholders in understanding how aspects of Good Corporate Governance (GCG) influence firm value, both directly and indirectly, with Return on Equity (ROE) as a mediating variable. The study examines the impact of four GCG aspects on firm value, with ROE serving as the mediating variable. A sample of 13 banking sector companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022 was selected using purposive sampling. To evaluate the mediation effect, panel data regression analysis and the Sobel test were employed. The results of Structural Model I indicate that the board of directors does not have a significant effect on ROE, while institutional ownership, independent commissioners, and managerial ownership show significant impacts. The simultaneous test confirms that the independent variables collectively and significantly influence ROE. The results of Structural Model II reveal that institutional ownership, managerial ownership, and ROE significantly affect firm value (PBV), whereas independent commissioners and the board of directors do not have a significant impact. The simultaneous test further confirms that PBV is significantly influenced by the independent variables collectively. According to the Sobel test results, ROE does not function as a mediating variable in the relationship between the independent variables and PBV.

INTRODUCTION

A comprehensive understanding of a bank's corporate value is essential for investors in evaluating its future profitability prospects and financial stability. The Price-to-Book Value (PBV) serves as a pivotal metric in corporate valuation, indicating the extent to which the market appraises a company's equity relative to its book value (Wald, 1999). Within the banking sector, the Price-to-Book Value (PBV) is shaped by a range of determinants, most notably profitability, operational efficiency, and the effectiveness of risk management practices (Tamarisa et al., 2021). Based on the performance data of conventional banking from 2020 to 2022, the Return on Assets (ROA) increased from 1.59% to 2.45%, while the Operating Expenses to Operating Income ratio (BOPO) declined from 86.58% to 78.7%, indicating improved operational efficiency (OJK RI, 2025). Nevertheless, profitability and Good Corporate Governance (GCG) remain critical determinants of a bank's corporate value. Effective GCG practices can enhance investor confidence and strengthen the institution's stability (Agustina, 2021). Therefore, to examine how good governance can strengthen the linkage between financial performance and corporate value in the banking industry, it is essential to assess the impact of GCG on PBV, with ROA serving as a mediating variable.

Compared to other sectors, the banking industry requires robust corporate governance due to its highly regulated nature, elevated risk profile, and strong reliance on public trust. However, limited research has examined how the four core pillars of Good Corporate Governance (GCG)institutional ownership, managerial ownership, the board of directors, and independent commissioners collectively influence corporate value. Over the years, most studies have focused solely on the direct effects of individual GCG elements on the Price-to-Book Value (PBV), without considering indirect pathways through Return on Equity (ROE). Therefore, it is crucial to investigate the mediating role of ROE in the relationship between these four GCG elements and corporate value, to provide a more comprehensive understanding of the effectiveness of governance in enhancing the value of banking institutions.

The Price-to-Book Value (PBV) reflects the market's assessment of a company's equity relative to its book value, with a higher ratio indicating greater investor optimism regarding the bank's future prospects (Fama & French, 1992). An increase in PBV can be driven by the effective implementation of Good Corporate Governance (GCG), as sound governance enhances transparency, mitigates risks, and strengthens investor confidence (Shleifer & Vishny, 1997); (Fama & Jensen, 1998).

Good Corporate Governance (GCG) is a mechanism for managing and overseeing a company through the roles of management, the board of directors, shareholders, and other stakeholders (Sartawi & Sanad, 2019). According to the Cadbury Committee (1992), to ensure that the rights and obligations of stakeholders are fulfilled, Good Corporate Governance (GCG) also encompasses regulations governing the relationships among shareholders, creditors, and employees (Ahmed, 2015). By enhancing transparency and reducing risk, Good Corporate Governance (GCG) plays a pivotal role in increasing corporate value (Kutubi et al., 2018), By enhancing transparency, reducing risk, and strengthening investor confidence, Good Corporate Governance (GCG) plays a pivotal role in increasing corporate value (Marsella, P. & Pangestuti, D.C, 2023). Companies that implement sound governance and comply with appropriate regulations possess a greater capacity for risk management, thereby fostering sustainability, enhancing productivity, and increasing corporate value (Neuhann & Saidi, 2018).

One of the key financial metrics, Return on Equity (ROE), indicates the extent to which a company can generate profits for its shareholders based on the equity it holds (Jogiyanto, 2017). Several prior studies have revealed that Return on Equity (ROE) plays a significant role in determining the Price-to-Book Value (PBV), with ROE exerting a statistically significant and positive effect on PBV (Raprayogha, 2020). This indicates that a firm's ability to generate profits from its equity enhances its market valuation relative to its book value (Mariana & Suryadi, 2024);((Dewi et al., 2022).

Findings from previous studies have yielded divergent results, as evidenced by research conducted by (Dara Aprilly & Sadikin, 2024), which reported that the PBV of companies in the LQ45 index was not significantly affected by the presence of an Independent Board of Commissioners and managerial ownership. Furthermore, a study conducted by (Novi Erika et al., 2023), found that the performance and corporate value of manufacturing firms were not influenced by either institutional or managerial ownership. This contrasts with the findings of a study conducted by (Ammann et al., 2011) which revealed a strong positive relationship between investor valuation of the firm and corporate governance at the organizational level (Fatoni, 2020).

Studies examining how Good Corporate Governance (GCG) influences the Price-to-Book Value (PBV) often adopt agency theory as the predominant grand theory. Agency theory explains the existence of conflicts of interest between owners (principals) and managers (agents), arising from the separation of ownership and control within a firm (Lesmono & Siregar, 2021). According to agency theory, sound management aims to reduce agency costs and enhance investor confidence in managerial performance. Ultimately, this leads to an increase in the company's market valuation, as reflected in indicators such as the Price-to-Book Value (PBV) ratio. However, evidence from prior research suggests that contextual variables—such as institutional quality, regulatory frameworks, and industry characteristics—may moderate the effect of Good Corporate Governance (GCG) on PBV (Hendrastuti & Harahap, 2023). Good Corporate Governance (GCG) seeks to mitigate conflicts through monitoring mechanisms and incentive structures. Ultimately, this is expected to enhance corporate value, as reflected in the PBV ratio. Empirical findings, however, have been mixed—while some studies report a positive and significant relationship, others find no meaningful effect (Trisnaningsih & Rahmasari, 2022). These divergent findings highlight a research gap that warrants further investigation. To address this gap, the present study introduces Return on Equity (ROE) as a mediating variable to examine whether profitability serves as a pathway linking the implementation of GCG to the enhancement of corporate value. By incorporating profitability as an intermediary factor, this study is expected to provide novel insights into the relationship between GCG and PBV.

Given the inconsistent findings in prior research on the impact of GCG on PBV, this study aims to offer new insights and perspectives on the role of profitability in this relationship. The results are expected not only to enrich the academic literature but also to serve as a valuable reference for investors and policymakers in assessing the importance of sound governance in enhancing both performance and the valuation of banks.

METHOD

This study employs a quantitative approach using secondary data derived from the annual financial reports of banking institutions listed on the Indonesia Stock Exchange (IDX) for the 2020–2022 period. The selection of this period is based on its significance to the national banking industry, as it represents the post–COVID-19 economic recovery phase during which banks faced substantial challenges in improving efficiency, enhancing governance, and adjusting profitability strategies. This context provides a strong and logical foundation for examining the relationship between Good Corporate

Governance (GCG), Return on Equity (ROE), and corporate value (PBV). Thus, the chosen timeframe is not only technically feasible but also strategically relevant to the substance of the research.

The study encompasses all banking companies listed on the IDX, with sample selection conducted through purposive sampling based on the availability of data for four GCG components—institutional ownership (X1), board of directors (X2), independent commissioners (X3), and managerial ownership (X4)—as well as the mediating variable ROE (Z) and the dependent variable corporate value (Y), measured by the PBV ratio. The population comprises 46 banking companies, of which 13 met the criteria to be included as the research sample.

Sample selection was guided by several criteria, including accurate listing on the IDX, availability of annual financial reports for the entire observation period, and completeness of data required for analysis. The sample consists of both conventional and Islamic banks, owned by either the government or the private sector, all listed on the IDX. Data collection was carried out in Indonesia using a documentation method, involving access to corporate sustainability reports and annual reports obtained from official sources (idx.co.id and ojk.go.id).

Panel data regression analysis was employed to evaluate the direct relationships among the research variables. Three primary approaches are commonly applied in panel data regression: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The selection of the most appropriate model was determined using the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test (Baltagi, 2021). After identifying the optimal model, classical assumption tests were conducted prior to performing panel data regression analysis. The regression analysis was then carried out to evaluate how managerial ownership, the board of directors, independent commissioners, and institutional ownership influence corporate value, with Return on Equity (ROE) serving as a mediating variable. The Sobel test was employed to examine the mediating role of ROE in the relationship between GCG components and corporate value. Data analysis was conducted using EViews 12 and Microsoft Excel to ensure accuracy and relevance in explaining the interrelationships among the variables under investigation.

The primary objective of this study is to examine how Good Corporate Governance (GCG) affects corporate value, as proxied by the Price-to-Book Value (PBV), with Return on Equity (ROE) serving as a mediating variable. Based on this objective, several research hypotheses are formulated. The study not only investigates the direct relationship between GCG and PBV but also explores the indirect relationship through financial performance. First, it is hypothesized that GCG has a significant effect on ROE. Second, GCG is expected to have a direct effect on PBV. Third, it is hypothesized that ROE mediates the relationship between GCG and PBV.

RESULT & DISCUSSION

This study reveals the impact of Good Corporate Governance (GCG) on corporate value, with Return on Equity (ROE) serving as a mediating variable. The analysis was conducted using two structural models. The first model examined the effects of four GCG components institutional ownership, board of directors, independent commissioners, and managerial ownership on ROE. The second model analyzed the influence of GCG elements and ROE on corporate value, as measured by the PBV ratio. Prior to this, model selection tests were performed to determine the most appropriate panel data regression model (Baltagi, 2021).

Table 1. Model Selection for Structural Model I

Test	Result	Decision
Uji Chouw	Prob. > 0,05	CEM
	Prob. < 0,05	FEM
	Prob < 0,05 = 0.0000	**Fixed Effect Model (FEM)**
Hausman Test	Prob. > 0,05	REM
	Prob. < 0,05	FEM
	Prob > 0,05 = 0.0732	**Random Effect Model (REM)**
Lagrange Multiplier Test	Prob. > 0,05	CEM
	Prob. < 0,05	REM
	Prob < 0,05 = 0.0403	**Random Effect Model (REM)**

Source: Processed data, 2025

The model selection tests for Structural Model I indicated that the Random Effect Model (REM) would be employed for the panel data regression analysis. Prior to conducting the regression, classical

assumption tests were performed, including tests for normality, multicollinearity, and heteroskedasticity (Nachrowi & Hardius Usman, 2006).

Table 2. Classical Assumption Tests for Structural Model I

Test	Result	Decision
Normality (Jarque–Bera)	Prob. Jarque-Bera 0.000002 < 0.05	Not normally distributed
	Prob. Jarque-Bera 0.559227 > 0.05	Outlier Data (Normally Distributed)
Multicollinearity	Correlation Coefficient X1, X2, X3, dan X4 < 0,85	Free from multicollinearity
Heteroskedasticity	The residual plot < or > 500 dan -500.	The residual variance is constant (passes the heteroskedasticity test)

Source: Processed data, 2025

Based on the classical assumption tests for Structural Model I, the model selection process was continued for Structural Model II, and the Random Effect Model (REM) was deemed appropriate for panel data regression analysis in Structural Model I (Baltagi, 2021).

Table 3. Model Selection for Structural Model II

Test	Result	Decision
Chouw Test	Prob. > 0,05	CEM
	Prob. < 0,05	FEM
	Prob < 0,05 = 0,0047	**Model FEM**
Hausman Test	Prob. > 0,05	REM
	Prob. < 0,05	FEM
	Prob > 0,05 = 0,2377	**Model REM**
Lagrange Multiplier Test	Prob. > 0,05	CEM
	Prob. < 0,05	REM
	Prob > 0,05 = 0,6088	**Model CEM**

Source: Processed data, 2025

The model selection tests for Structural Model II indicated that the Common Effect Model (CEM) was the most suitable for panel data regression analysis. Prior to conducting the regression, classical assumption tests were performed, including tests for multicollinearity and heteroskedasticity (Nachrowi & Hardius Usman, 2006).

Tabel 4. Classical Assumption Tests for Structural Model II

Test	Hasil	Keputusan
Multicollinearity	Correlation Coefficient X1, X2, X3, dan X4 < 0,85	Free from multicollinearity
Heteroskedasticity	Prob. ABS(RESID) X1= 0,1177, X3 = 0,3076, dan Z = 0,1235 > 0,05	The residual variance is constant (passes the heteroskedasticity test)
	Prob. X2 = 0,0472, X4 = 0,0479 < 0,05	Fails the heteroskedasticity test
	Log (X2) = 0,1222, Log (X4) = 0,5334 > 0,05	After applying a logarithmic data transformation, the model passes the heteroskedasticity test, indicating that the residual variance is constant

Source: Processed data, 2025

Based on the results of the classical assumption tests for Structural Model II, panel data regression analysis can be performed using the Common Effect Model (CEM).

Table 5. Hypothesis Testing for Structural Model I

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.451168	4.990214	1.493156	0.1458
X1	-15.10520	5.748145	-2.627840	0.0134
X2	-0.265441	0.411613	-0.644879	0.5239
X3	31.27762	9.611549	3.254170	0.0028
X4	-0.896733	0.318475	-2.815706	0.0085

Source: Processed data, 2025

At the 5% significance level, the hypothesis testing results for Structural Model I indicate a significant negative effect of institutional ownership on Return on Equity (ROE), with a coefficient of –15.1052, a t-statistic of –2.6278, and a probability value of 0.0134. In contrast, the board of directors does not exert a significant effect on ROE, with a coefficient of –0.2654, a t-statistic of –0.6449, and a probability value of 0.5239. Meanwhile, independent commissioners demonstrate a significant positive effect on ROE (coefficient = 31.2776; t-statistic = 3.2542; p-value = 0.0028), whereas managerial ownership shows a significant negative effect on ROE (coefficient = –0.8967; t-statistic = –2.8157; p-value = 0.0085). These results suggest that institutional ownership, independent commissioners, and managerial ownership significantly influence ROE, while the board of directors does not appear to have a significant impact.

Table 6. Simultaneous Hypothesis Testing for Structural Model I

R-squared	0.491257
Adjusted R-squared	0.423425
F-statistic	7.242222
Prob(F-statistic)	0.000331

Source: Processed data, 2025

The adjusted R-squared value of 0.4234 indicates that the independent variables in the model explain 42.34% of the variation in the dependent variable, while the remaining variation is influenced by factors outside the model. Furthermore, there is evidence that the independent and dependent variables significantly influence one another, as reflected by an F-statistic of 7.2422 with a probability value of 0.000331, which is below the 0.05 significance level. Therefore, the regression model employed is not only valid but also demonstrates strong predictive power.

Table 7. Hypothesis Testing for Structural Model II

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29.68028	5.865003	5.060574	0.0000
X1	-12.01720	5.263296	-2.283207	0.0290
X2	-0.442214	0.434434	-1.017909	0.3161
X3	-15.07027	11.67698	-1.290597	0.2058
X4	-1.269591	0.385796	-3.290833	0.0024
Z	-0.378989	0.137455	-2.757180	0.0094

Source: Processed data, 2025

At the 5% significance level, institutional ownership exerts a significant negative effect on corporate value (PBV), with a coefficient of –12.0172, a t-statistic of –2.2832, and a probability value of 0.0290. In contrast, the board of directors and independent commissioners do not have a significant impact on PBV, with probability values of 0.3161 and 0.2058, respectively. Conversely, managerial ownership and ROE both exert significant effects on PBV, with coefficients of –1.2696 (t-statistic = –3.2908; p-value = 0.0024) and –0.3789 (t-statistic = –2.7572; p-value = 0.0094), respectively. These results suggest that institutional ownership, managerial ownership, and ROE significantly influence PBV, while the board of directors and independent commissioners do not appear to have a significant effect.

Table 8. Simultaneous Hypothesis Testing for Structural Model II

R-squared	0.452308
Adjusted R-squared	0.369324
F-statistic	5.450564
Prob(F-statistic)	0.000919

Source: Processed data, 2025

The adjusted R-squared value of 0.3693 indicates that 36.93% of the variation in the dependent variable can be explained by the independent variables in the model, while the remaining variation is influenced by factors outside the model. Furthermore, there is evidence that the independent and dependent variables significantly influence each other, as indicated by an F-statistic of 5.4506 with a

probability value of 0.000919, which is lower than the 0.05 significance level. Therefore, the regression model employed is not only appropriate but also demonstrates good predictive capability.

Table 9. Sobel Test

Mediating Relationship	*t* Statistic	*t* Table (α = 0,05)	Decission
X1 → Z → Y	0,41	1,96	The null hypothesis (H_0) is not rejected
X2 → Z → Y	1,35	1,96	The null hypothesis (H_0) is not rejected
X3 → Z → Y	0,32	1,96	The null hypothesis (H_0) is not rejected
X4 → Z → Y	1,47	1,96	The null hypothesis (H_0) is not rejected

Source: Processed data, 2025

Based on the Sobel test results at the 5% significance level, ROE was found to be unable to mediate the relationship between all independent variables (X) and PBV. This finding is supported by the fact that each corresponding t-statistic value is less than 1.96.

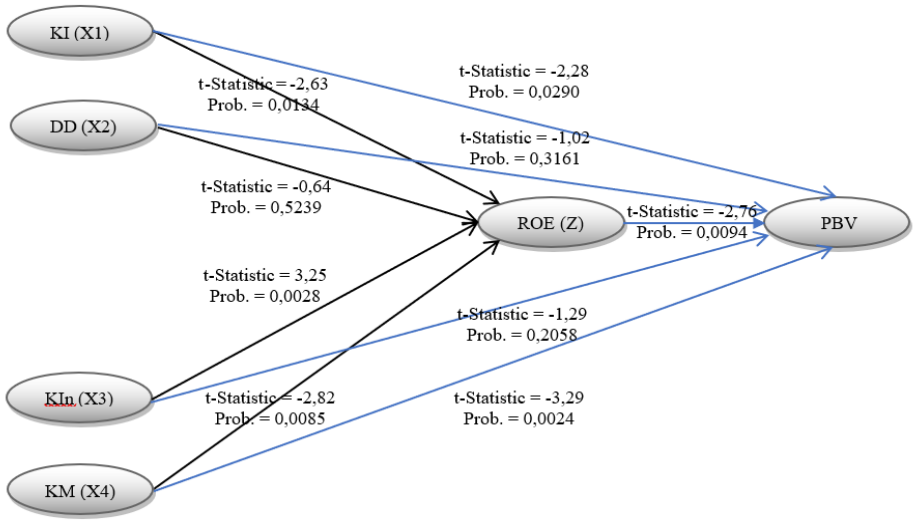

Figure 1. Structural Model

The hypothesis testing results for Structural Model I reveal that Return on Equity (ROE) is significantly and negatively affected by institutional ownership (Sartawi & Sanad, 2019) (Sitanggang, 2021). This finding is consistent with agency theory, which posits that institutional ownership can lead to agency problems when institutional investors are overly focused on short-term interests and insufficiently engaged in managerial oversight (Jensen & Meckling, 1976). Furthermore, these results may also indicate that high levels of institutional ownership in a firm tend to be associated with more conservative investment risk-taking, which in turn can lead to lower profitability (Shleifer & Vishny, 1997). The ability of institutional investors to more effectively monitor managerial activities can reduce earnings management practices, thereby ensuring that financial statements more accurately reflect the firm's actual condition (Immanuel & Hasnawati, 2022). In this context, institutional investors tend to promote more conservative and transparent accounting policies. Such conservatism is also reflected in investment decision-making, whereby firms with high institutional ownership are more likely to avoid excessive risk-taking. While this approach can enhance the reliability of financial reporting, excessive caution in investment may limit growth opportunities, ultimately leading to lower profitability. Therefore, it is important for firms to engage external auditors, as their involvement can foster and contribute to improved corporate governance. This study aligns with previous research indicating that institutional ownership particularly when characterized by active monitoring and long-term orientation favors corporate accounting conservatism (Widiatmoko & Indarti, 2024). Furthermore, these findings support the view that institutions, as external stakeholders, encourage firms to produce conservative financial reports. This approach enables companies to avoid aggressive investments, which may, in turn, reduce profitability (Hajawiyah et al., 2020).

Conversely, the board of directors has not been able to exert a significant effect on ROE. This finding is consistent with previous evidence indicating that the board of directors does not have a significant impact on ROE (Apriliana & Zulfikar, 2024). This finding is related to stewardship theory (Davis et al., 1997), that the presence of a board of directors does not necessarily have a direct impact on a company's financial performance, as numerous factors may influence this relationship (Fama & Jensen, 1998). Despite the fact that the board of directors is responsible for the company's long-term viability, its effectiveness in improving financial performance is not always immediately apparent, as it tends to focus more on long-term strategic decision-making. A large board size may lead to differences of opinion that slow down decision-making processes and hinder coordination (Apriliana & Zulfikar, 2024). Such conditions may hinder the board's ability to perform its control function effectively in enhancing profitability. Therefore, the effectiveness of the board of directors largely depends on other factors, such as independence, experience, and the extent of their involvement in corporate management. These findings are consistent with previous studies showing that board independence and engagement (e.g., meeting frequency) are critical for improving profitability, aligning with the conclusion that board effectiveness is not merely a matter of structural presence but rather depends on participation and quality (Kumar & Zattoni, 2018).

Meanwhile, independent commissioners are found to have a significant positive effect on ROE. This finding is consistent with previous studies demonstrating that independent commissioners can significantly influence a company's profitability (Maulana, 2020); (Fadillah, 2017). These results support monitoring theory, which posits that the presence of independent commissioners can provide significant oversight of management, thereby reducing agency conflicts and enhancing the operational efficiency of the firm (Shleifer & Vishny, 1997). The role of independent commissioners in effective oversight can curb earnings management practices by enhancing corporate transparency and accountability (Immanuel & Hasnawati, 2022). A greater number of independent commissioners strengthens the oversight mechanisms in place, thereby minimizing the potential for financial statement manipulation. Such stringent monitoring not only enhances corporate governance but also promotes healthier, sustainability-oriented managerial policies. Consequently, independent commissioners who perform their roles optimally can foster a more transparent business environment, ultimately contributing to increased corporate profitability.

Furthermore, managerial ownership is found to have a significant negative effect on ROE (Jihan et al., 2023). CEO duality undermines the effectiveness of board independence and adversely affects firm performance (Akbar et al., 2019). This finding contradicts the Alignment Hypothesis, which posits that higher managerial ownership encourages managers to prioritize the interests of shareholders (Morck et al., 1988). However, this negative result can be explained by the entrenchment effect, whereby managers with substantial ownership stakes tend to feel more secure in their positions and are thus less motivated to improve the company's performance (Demsetz, 1983). The entrenchment effect suggests that managers with substantial ownership stakes tend to feel more secure in their positions, thereby becoming less motivated to improve the company's performance. On the other hand, higher managerial ownership reduces the likelihood of earnings management, as managers have a vested interest in ensuring that the firm generates sustainable profits for themselves and other shareholders. Thus, while managerial ownership may mitigate earnings management, the entrenchment effect can still hinder efforts to enhance the company's overall performance.

The hypothesis testing results for Structural Model II indicate that both institutional ownership and managerial ownership have a significant negative effect on corporate value. This finding is consistent with previous studies showing that institutional ownership has a significant impact on corporate value (Nurhalisah & Trisnaningsih, 2024) ;(Nuryono et al., 2019) ; (Nurhayadi et al., 2021). This finding suggests that high institutional ownership may restrict managerial flexibility and hinder corporate innovation (Shleifer & Vishny, 1997). Consistent with previous research, high managerial ownership may trigger the entrenchment effect, wherein managers tend to prioritize personal interests over enhancing shareholder value (Morck et al., 1988). This study demonstrates that high levels of institutional ownership and managerial ownership can have a negative impact on corporate value. Dominant institutional ownership tends to restrict managerial flexibility and hinder innovation, whereas substantial managerial ownership may trigger the entrenchment effect, whereby managers become more oriented toward personal interests rather than enhancing shareholder value.

Meanwhile, the board of directors and independent commissioners have not been able to exert a significant effect on corporate value. This finding is consistent with previous evidence indicating that the board of directors and commissioners do not have a significant impact on corporate value

(Nurhalisah & Trisnaningsih, 2024); (Nuryono et al., 2019). This finding is in line with monitoring theory, which explains that the ability of the board of directors and independent commissioners to enhance corporate value is influenced by the company's governance structure and internal policies (Fama & Jensen, 1998). A reduction in board size is associated with increased profitability, a higher market-to-book ratio, and greater opportunities for directors to serve on board committees. The performance impact is more pronounced when directors are located farther from the company's headquarters (Hauser, 2018). The insignificant effect of the board of directors and independent commissioners on corporate value suggests that the effectiveness of their oversight depends on the governance structure and internal policies in place. This indicates that the mere presence of the board of directors and independent commissioners is insufficient to enhance corporate value; rather, it requires the support of robust governance mechanisms and the implementation of effective policies.

In addition, Return on Equity (ROE) has a significant negative effect on PBV. This finding suggests that a company's profitability does not necessarily guarantee its stock value. Study (Avishadewi & Sulastiningsih, 2021) found that ROE has a negative effect on stock returns. Stock return is an important metric for evaluating a company's performance. The results indicate that an increase in corporate value is not always reflected by high profitability levels, particularly when investors believe that the profits are unsustainable or generated through high-risk business strategies (Damodaran, 2012). Return on Equity (ROE) contributes a significant negative effect on Price-to-Book Value (PBV). This indicates that an increase in profitability does not necessarily align with an increase in corporate value, as investors also take into account other factors such as business risk and the sustainability of earnings.

The fact that ROE does not play a significant mediating role suggests that the elements of GCG have a more direct impact on corporate value than through profitability (Jensen & Meckling, 1976). Previous studies have shown that the effect of GCG on the corporate value of state-owned enterprises (SOEs) cannot be offset by profitability (ROA)(Fatoni, 2020). In signaling theory, ROE should serve as a positive indicator for investors; however, if high profitability does not reflect business sustainability, ROE will not significantly enhance PBV (Spence, 1973); (Damodaran, 2012).

Furthermore, based on agency theory, a suboptimal ownership structure can exacerbate conflicts of interest, hindering the enhancement of corporate value even when ROE is high (Shleifer & Vishny, 1997). In monitoring theory, the effectiveness of the board of directors and independent commissioners can enhance profitability; however, if corporate policies place greater emphasis on operational stability rather than expansion, high ROE does not necessarily translate directly into an increase in PBV (Fama & Jensen, 1998). This demonstrates that, beyond high levels of corporate profitability, aspects such as strategic policies, ownership structure, and the effectiveness of oversight are more critical to firm value. Moreover, if investors perceive profitability as not reflecting business sustainability or long-term growth, ROE will not significantly mediate the relationship between corporate governance and corporate value.

Effective Good Corporate Governance (GCG) does not influence corporate value through profitability, as governance decisions are more affected by investors' tax sensitivity and unrealized capital gains (Dimmock et al., 2018). In addition, the variability of the capital gains lock-in effect suggests that the influence of governance is more closely related to investors' tax interests than to improvements in corporate profitability.

The results indicate that ROE does not mediate the effect of the four components of Good Corporate Governance (GCG) on Price-to-Book Value (PBV). This suggests that, as part of a highly regulated financial sector, the banking industry exhibits a unique pattern. Compared to manufacturing or trading industries that rely on operational efficiency to enhance market value, the banking sector places greater emphasis on stability, regulatory compliance, and the trust of investors and customers. In such circumstances, certain elements of GCG, such as independent commissioners, may improve profitability (ROE), but this does not necessarily translate into an increase in the company's market value. Research conducted by Peni & Vähämaa, (2012) supports the findings of this study, which reveal that the implementation of GCG in the banking sector does not necessarily lead to an increase in banks' market value; indeed, during financial crises, banks with the best governance practices have shown lower stock returns despite strong profitability. These results reinforce the notion that investors in the banking industry consider sustainability, risk management, and the overall governance reputation in addition to short-term gains. Consequently, in the complex and long-term–oriented context of banking, ROE has yet to serve as a critical link between the implementation of GCG and the enhancement of corporate value (PBV).

CONCLUSION

The results of Structural Model I indicate that institutional ownership and managerial ownership have a significant negative effect on ROE, while independent commissioners exert a significant positive effect. In contrast, the board of directors shows no significant impact on ROE. Meanwhile, the results of Structural Model II reveal that institutional ownership, managerial ownership, and Return on Equity (ROE) have significant negative effects on corporate value, whereas the board of directors and independent commissioners do not demonstrate a significant effect. This study further shows that ROE does not serve as a mediating variable in the relationship between institutional ownership, the board of directors, independent commissioners, and managerial ownership with corporate value.

This research has several limitations. First, the sample is limited to 13 banking companies listed on the IDX for the 2020–2023 period, which may restrict the generalizability of the findings. Second, the GCG variables used do not encompass other factors such as financial transparency and audit committees. Third, ROE was not found to mediate the examined relationships, suggesting that future studies should explore alternative mediating variables such as business risk or dividend policy. Fourth, the relatively short research period may have been influenced by external factors such as the COVID-19 pandemic. Finally, the analytical method employed may not fully capture the complex relationships among variables, indicating that alternative approaches such as Structural Equation Modeling (SEM) or the Generalized Method of Moments (GMM) could yield more comprehensive results.

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