



The Influence of Financial Performance on Firm Value with Good Corporate Governance as a Moderating Variable

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ABSTRACT

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This study aims to determine, analyze and test the Influence of Financial Performance on Company Value with Good Corporate Governance as a Moderating Variable Empirical Study on Commercial Banks Listed on the Indonesia Stock Exchange 2019-2023. The Financial Performance includes the Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Return on Assets (ROA). The company value in this study is proxied by PBV (Price to Book Value) The method used in this study is a quantitative method that uses secondary data with documentation studies in the form of financial reports of Conventional Commercial Banks that have been published through the Indonesia Stock Exchange website, namely <http://www.idx.co.id>, the Financial Services Authority <http://www.ojk.go.id>, and the website of the related bank. The population in this study were all Commercial Banks listed on the Indonesia Stock Exchange. The sampling technique in this study used purposive sampling, so that a sample of 30 Banks was obtained. This study uses multiple linear regression analysis and MRA (Moderated Regression Analysis) regression test processed using Statistical Package for Social Science (SPSS) 26. The results of this study indicate that LDR has a significant effect on PBV, CAR has a significant effect on PBV, ROA has a significant effect on PBV, GCG is able to moderate the relationship between LDR and PBV, GCG is unable to moderate the relationship between CAR and PBV, GCG is unable to moderate the relationship between ROA and PBV. In practice, this study is expected to provide information for banks, especially for banking management in determining policies and in making strategies and planning to continue to improve the quality of bank performance, so that it can improve performance assessment and investment potential.

KEYWORDS:

Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), dan Return on Assets (ROA).

INTRODUCTION

The banking sector is one of the financial sectors that plays a vital role in a country's economy. Bank performance can be improved in various ways, including enhancing customer service, increasing operational efficiency, and strengthening risk management, thereby enabling banks to build a positive public image that ultimately affects profitability. Furthermore, companies are established to increase the wealth of their owners or shareholders, or to maximize shareholder wealth by enhancing firm value (Syaiful Imron et al., 2018; Suwarno & Muthmainnah, 2024). Firm value in the

banking sector is an important representation of how the market assesses a bank's growth potential, profitability, and financial resilience. Firm valuation helps stakeholders, particularly investors and management, in making strategic decisions. One of the commonly used approaches to measure firm value is the Price to Book Value (PBV). PBV compares the market price per share with the book value per share, providing an overview of how the market values a company's net assets. A high firm value reflects investor confidence and strong growth potential. One of the main factors influencing firm value is financial performance. Financial performance serves as a determinant of firm value because it indicates how effectively a company manages its assets, liabilities, and capital to generate profit.

Financial performance can be analyzed using various analytical tools, one of which is ratio analysis. Through ratio analysis, banks can predict financial conditions based on financial statements. In this study, the financial ratios used are liquidity ratio, solvency (leverage) ratio, and profitability

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ratio. Previous studies by Aprilia & Wahjudi (2021), Dahlan (2023), Dewi et al. (2022), Hardianti & Latif (2023), Noval et al. (2021), and Rusnawati & Maulana (2020) found that financial performance, proxied by profitability ratio, has a significant effect on firm value. In this research, liquidity ratio is proxied by Loan to Deposit Ratio (LDR), solvency ratio is proxied by Capital Adequacy Ratio (CAR), and profitability ratio is proxied by Return on Assets (ROA). However, contrasting results were found in studies by Cahyaningrum et al. (2023) and Latif & Jasman (2023), which showed that financial performance, measured by ROA, does not affect firm value.

This study uses Good Corporate Governance (GCG) as a moderating variable. The implementation of GCG is considered a significant factor influencing firm value, closely related to trust in the company, fostering healthy competition, and creating a conducive business environment (Dahlan, 2023). This is in line with the findings of Aprilia & Wahjudi (2021), Dahlan (2023), Dewi et al. (2022), and Noval et al. (2021), who argued that GCG is able to moderate the relationship between financial performance, proxied by profitability ratio, and firm value. However, other studies, such as those by Cahyaningrum et al. (2023), Hardianti & Latif (2023), Latif & Jasman (2023), and Rusnawati & Maulana (2020), found that GCG cannot moderate the relationship between financial performance, proxied by profitability ratio, and firm value.

Signaling theory serves as the theoretical foundation of this study by explaining that company management can convey information to external parties, particularly investors, through signals that reflect the company's condition and prospects. In the banking sector context, financial ratios such as LDR, CAR, and ROA can be important signals that indicate efficiency, financial soundness, and profitability. These indicators affect firm value as proxied by PBV, since investors rely on such information in making investment decisions. The implementation of GCG as a moderating variable further strengthens the signals conveyed by the company.

This study also replicates the research conducted by Dahlan (2023). The similarity lies in using firm value as the dependent variable and financial performance as the independent variable, proxied by profitability and liquidity ratios. The difference, however, is that this study adds solvency ratio as another measure of financial performance and focuses on the banking sector, whereas Dahlan (2023) examined the manufacturing sector. Furthermore, this study reanalyzes and re-examines prior research findings that show inconsistent results using the same variables. Therefore, this research is important to investigate whether LDR, CAR, and ROA affect firm value as proxied by PBV, and how GCG moderates the effect of LDR, CAR, and ROA on PBV in commercial banks listed on the Indonesia Stock Exchange. The results of this study are expected to contribute both

theoretically and practically to the development of financial management and corporate governance literature, as well as serve as a reference for bank management and investors in formulating policies that enhance firm value sustainably.

LITERATURE REVIEW

Signaling Theory

According to Brigham & Houston (2006), signaling theory refers to actions taken by company management to provide cues to investors about how management views the company's prospects. These actions, which serve as signals, are intended to communicate information regarding management's expectations for the company's future. Signaling theory emphasizes the importance of information disclosed by companies to investors, who require complete, relevant, accurate, and timely information as a basis for making investment decisions.

In this study, financial ratios such as Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Return on Assets (ROA) are used as signals to reflect operational efficiency, capital adequacy, and profitability. LDR indicates efficiency in fund allocation to third parties, while CAR shows the extent to which the company can cover potential losses with its capital. Meanwhile, ROA reflects the company's ability to generate profits from its assets. These three ratios provide important signals to investors regarding company performance and prospects, which in turn influence market perceptions of firm value as proxied by Price to Book Value (PBV). In this context, Good Corporate Governance (GCG) acts as a moderating variable that can strengthen the relationship between financial ratios and firm value. Sound GCG enhances transparency, accountability, and investor trust in the signals communicated by management (FCGI, 2021), thereby potentially increasing PBV as a representation of firm market value.

Firm Value

Firm value is crucial as it reflects company performance and influences investor perceptions. According to Brigham & Houston (2006), firm value is defined as market value, since firm value can maximize shareholder wealth when stock prices rise. Management decisions aimed at increasing firm value are reflected in shareholder wealth, primarily through stock price appreciation. In this study, firm value is measured using PBV. According to Brigham & Houston (2014), PBV is the ratio that compares the market price per share with the book value per share, indicating how much investors are willing to pay for each unit of book value.

Loan to Deposit Ratio (LDR)

The liquidity ratio in this study is proxied by Loan to Deposit Ratio (LDR). LDR measures the proportion of loans disbursed compared to third-party deposits and the bank's own capital (Herry, 2019).

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Capital Adequacy Ratio (CAR)

The solvency ratio in this study is proxied by Capital Adequacy Ratio (CAR). CAR is a banking performance ratio that measures the adequacy of a bank's capital to support assets that contain or generate risk, such as credit risk.

Return on Assets (ROA)

The profitability ratio in this study is proxied by Return on Assets (ROA). ROA is a ratio that measures the return generated from the total assets used by the company. It indicates the ability of the company to generate profits from its assets (Kasmir, 2019).

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) in this study is measured using self-assessment with a composite rating score. A lower GCG composite score reflects better bank governance, which provides added value in the eyes of stakeholders. GCG can be defined as a set of systems that regulate and guide companies to create value for stakeholders (Latif & Jasman, 2023).

HYPOTHESIS DEVELOPMENT

The Effect of Loan to Deposit Ratio (LDR) on Firm Value

LDR measures the ratio of loans disbursed to third-party deposits and the bank's own capital (Herry, 2019). A higher LDR reflects greater intermediation efficiency, which can potentially increase interest income. However, excessively high LDR may lead to liquidity risks, indicating that the bank is overly aggressive in lending, which could threaten financial stability. Bank Indonesia's standard for LDR, based on Regulation No. 6/10/PBI/2004, is 85%–100%. Within this range, LDR reflects optimal lending capacity, thereby enhancing profitability and firm value.

H1: Loan to Deposit Ratio (LDR) has an effect on firm value.

The Effect of Capital Adequacy Ratio (CAR) on Firm Value

CAR measures the adequacy of bank capital to support risk-bearing assets such as loans. A higher CAR indicates stronger capital adequacy, which helps maintain bank soundness and minimize risks, thereby improving financial performance. Bank Indonesia's standard CAR, based on Regulation No. 6/10/PBI/2004, is 8%. A good CAR strengthens investor confidence in the bank and enhances firm value.

H2: Capital Adequacy Ratio (CAR) has an effect on firm value.

The Effect of Return on Assets (ROA) on Firm Value

ROA shows the company's ability to generate profits from its assets (Kasmir, 2019). A higher ROA indicates greater profitability and efficiency in asset utilization. ROA reflects managerial success in controlling expenses and optimizing assets relative to revenue (N. A. Dewi & Gustiyana, 2020). Previous studies (Aprilia & Wahjudi, 2021; Dahlan, 2023; Dewi et al., 2022; Hardianti & Latif, 2023; Noval et al., 2021;

Rusnawati & Maulana, 2020) confirm that profitability ratios significantly affect firm value. Thus, higher ROA improves financial performance, firm reputation, and investor perception.

H3: Return on Assets (ROA) has an effect on firm value.

Good Corporate Governance (GCG) as a Moderating Variable

GCG in this study is measured using self-assessment with a composite rating. In line with OJK Circular Letter No. 13/SEOJK.03/2017, GCG ratings are classified into five levels, where a lower composite score reflects better governance. Previous findings (Brown & Caylor, 2004; Latif & Jasman, 2023) show that good governance enhances profitability, lowers risk, and increases stock returns. GCG is expected to strengthen the relationship between liquidity (LDR), solvency (CAR), and profitability (ROA) with firm value.

H4: GCG moderates the relationship between LDR and firm value.

H5: GCG moderates the relationship between CAR and firm value.

H6: GCG moderates the relationship between ROA and firm value.

RESEARCH METHOD

The method employed in this study is a quantitative approach using secondary data obtained through documentation studies in the form of financial reports of conventional commercial banks published on the Indonesia Stock Exchange website (<http://www.idx.co.id>), the Financial Services Authority (<http://www.ojk.go.id>), and the respective banks' official websites. The population of this study consists of all commercial banks listed on the Indonesia Stock Exchange. The sampling technique used is purposive sampling, resulting in a sample of 30 banks.

The analytical techniques applied include multiple linear regression analysis and Moderated Regression Analysis (MRA), as well as classical assumption tests consisting of normality test, multicollinearity test, heteroscedasticity test, autocorrelation test, and hypothesis testing, which includes the F-test, coefficient of determination (R^2), and t-test. Data analysis was performed using the Statistical Package for Social Sciences (SPSS) version 26.

Operational Definition of Variables

Dependent Variable (Y)

Firm value in this study is measured using the Price to Book Value (PBV) ratio, one of the market ratios used to evaluate whether a stock is overvalued or undervalued. PBV is calculated by comparing the market price per share with the book value per share. Mathematically, PBV is expressed as follows:

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$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

where:

$$\text{Book Value per Share} = \frac{\text{Total Equity}}{\text{Number of Shares Outstanding}}$$

Independent Variables (X)

The independent variables in this study consist of liquidity ratio, solvency ratio, and profitability ratio.

Liquidity Ratio

The liquidity ratio is proxied by the Loan to Deposit Ratio (LDR). LDR measures the proportion of loans disbursed compared to third-party deposits and equity capital (Herry, 2019). According to Bank Indonesia Regulation No. 6/10/PBI/2004, the standard LDR range is 85%–100%. The formula is as follows:

$$LDR = \frac{\text{Total Loans}}{\text{Total Deposits} + \text{Equity Capital}} \times 100\%$$

Solvency Ratio

The solvency ratio is proxied by the Capital Adequacy Ratio (CAR). CAR measures the adequacy of a bank’s capital to support assets that contain or generate risk, such as loans. According to Bank Indonesia Regulation No. 6/10/PBI/2004, the minimum CAR standard is 8%. The formula is as follows:

$$CAR = \frac{\text{Bank Capital}}{\text{Risk-Weighted Assets}} \times 100\%$$

Profitability Ratio

The profitability ratio is proxied by Return on Assets (ROA). ROA reflects the company’s ability to generate profit from its total assets (Kasmir, 2019). According to Bank Indonesia Regulation No. 6/10/PBI/2004, the standard ROA range is 0.5%–1.25%. The formula is as follows:

$$ROA = \frac{\text{Net Income Before Tax}}{\text{Total Assets}} \times 100\%$$

Moderating Variable (Z)

The moderating variable is one that has a contingent effect on the relationship between the independent and dependent variables (Sekaran & Bougie, 2017). In this study, the moderating variable is Good Corporate Governance (GCG), proxied by the GCG indicator measured through self-assessment with a composite rating score. Based on OJK Circular Letter No. 13/SEOJK.03/2017, GCG ratings are classified into five categories, as presented below:

Table 1. GCG Rating Matrix

Rating Description

1	Very good
2	Good
3	Fair
4	Poor
5	Very poor

Source: OJK Circular Letter No. 13/SEOJK.03/2017 (processed data)

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2: Descriptive Statistics Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
LDR (X1)	95	39.33	113.50	77.8640	15.37271
CAR (X2)	95	10.78	43.84	23.6151	6.37164
ROA (X3)	95	-2.42	4.22	1.2845	1.27255
GCG (Z)	95	1.00	3.00	1.9789	0.29096
PBV (Y)	95	0.31	4.70	1.3820	1.08747

Source: SPSS Output version 26

Table 2 presents the descriptive statistics of the sample commercial banks. The variables analyzed include the independent variables LDR, CAR, and ROA; the moderating variable GCG; and the dependent variable PBV. The results indicate that from 95 observations, LDR ranges between 39.33 and 113.50, with a mean of 77.8640 and a standard deviation of 15.37271. CAR has a minimum value of 10.78 and a maximum of 43.84, with a mean of 23.6151 and a standard deviation of 6.37164. ROA ranges between -2.42 and 4.22, with a mean of 1.2845 (1.28%) and a standard deviation of 1.27255. GCG values range from 1.00 to 3.00, with a mean of 1.9789 and a standard deviation of 0.29096. PBV values range between 0.31 and 4.70, with a mean of 1.3820 and a standard deviation of 1.08747, indicating that most banks are perceived positively by investors.

Classical Assumption Tests

Normality Test

The normality test was conducted using the one-sample Kolmogorov-Smirnov test, with the decision rule based on the significance value (Asymp. Sig. 2-tailed). If the significance value is greater than 0.05, the data are normally distributed. Otherwise, if the value is less than 0.05, the data are not normally distributed.

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Table 3: Normality Test Results (Before Outlier Removal)

N	Test Statistic	Asymp. Sig. (2-tailed)
150	0.170	0.000c

Source: SPSS Output version 26

Table 3 shows that with 150 observations, the significance value is 0.000, which is less than 0.05. This indicates that the data are not normally distributed due to the presence of outliers. After removing 55 outlier data points, the final dataset consists of 95 observations.

Table 4: Normality Test Results (After Outlier Removal)

N	Test Statistic	Asymp. Sig. (2-tailed)
95	0.066	0.200c,d

Source: SPSS Output version 26

Table 4 indicates a significance value of 0.200, which is greater than 0.05, meaning the data are normally distributed.

Multicollinearity Test

Multicollinearity is tested using tolerance and Variance Inflation Factor (VIF) values. If tolerance > 0.10 and VIF < 10, there is no multicollinearity.

Table 5: Multicollinearity Test Results

Variable	Tolerance	VIF
LDR (X1)	0.936	1.068
CAR (X2)	0.947	1.056
ROA (X3)	0.890	1.124
GCG (Z)	0.866	1.155

Source: SPSS Output version 26

All independent variables meet the criteria, confirming that the regression model is free from multicollinearity.

Heteroscedasticity Test

The Park test was used to detect heteroscedasticity.

Table 6: Heteroscedasticity Test Results

Variable	Sig.	Conclusion
LDR (X1)	0.420	No heteroscedasticity
CAR (X2)	0.086	No heteroscedasticity
ROA (X3)	0.334	No heteroscedasticity
GCG (Z)	0.527	No heteroscedasticity

Source: SPSS Output version 26

All significance values exceed 0.05, indicating no heteroscedasticity.

Autocorrelation Test

The Durbin-Watson (DW) test was used.

Table 7: Autocorrelation Test Results (Before Correction)

| Durbin-Watson | 1.394 |

Source: SPSS Output version 26

Since DW = 1.394 < DU (1.7546), autocorrelation exists. After correction using the Cochrane-Orcutt method:

Table 8: Autocorrelation Test Results (After Correction)

| Durbin-Watson | 1.941 |

Source: SPSS Output version 26

With DW = 1.941, the model shows no autocorrelation.

Multiple Linear Regression Analysis

Table 9: Multiple Regression Results

Variable	B	Std. Error	Beta	t	Sig.
Constant	2.079	0.623		3.337	0.001
LDR (X1)	-0.024	0.006	-0.343	-4.030	0.000
CAR (X2)	0.029	0.015	0.171	2.008	0.048
ROA (X3)	0.389	0.072	0.456	5.373	0.000

Source: SPSS Output version 26

Regression Equation:

$$Y = 2.079 - 0.024X_1 + 0.029X_2 + 0.389X_3$$

Interpretation:

Constant (2.079): PBV remains at 2.079 when X1, X2, and X3 = 0.

LDR (X1): Negative effect (-0.024) on PBV.

CAR (X2): Positive effect (0.029) on PBV.

ROA (X3): Strong positive effect (0.389) on PBV.

Moderated Regression Analysis (MRA)

Table 10: Moderation Test Results

Variable	B	Std. Error	Beta	t	Sig.
Constant	8.332	7.260		1.148	0.254
LDR (X1)	-0.128	0.052	-1.813	-2.454	0.016
CAR (X2)	-0.103	0.345	-0.602	-0.298	0.767
ROA (X3)	2.557	1.312	2.992	1.949	0.055
GCG (Z)	-3.285	3.588	-0.879	-0.916	0.362
GCG*LDR (Z)	0.054	0.026	1.687	2.058	0.043
GCG*CAR (Z)	0.068	0.172	0.847	0.392	0.696
GCG*ROA (Z)	-1.110	0.659	-2.468	-1.685	0.096

Source: SPSS Output version 26

Equation:

$$Y = 8.332 - 0.128X_1 - 0.103X_2 + 2.557X_3 - 3.285Z + 0.054(Z * X_1) + 0.068(Z * X_2) - 1.110(Z * X_3)$$

Interpretation:

GCG moderates LDR → PBV (significant, p=0.043).

GCG does not moderate CAR → PBV (p=0.696).

GCG does not moderate ROA → PBV (p=0.096).

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Hypothesis Testing

Coefficient of Determination (R²)

Table 11: Model Summary

R	R ²	Adjusted R ²	Std. Error
0.603	0.364	0.343	0.88156

Source: SPSS Output version 26

Interpretation:

R = 0.603 → strong correlation (60.3%).

R² = 0.364 → 36.4% of PBV is explained by LDR, CAR, and ROA; 63.6% by other factors.

Adjusted R² = 0.343 → 34.3% variation in PBV explained by model.

F-Test (Model Feasibility)

Table 12: ANOVA Results

F	Sig.	Conclusion
17.346	0.000	Model is feasible

Source: SPSS Output version 26

Interpretation: LDR, CAR, and ROA jointly affect PBV significantly.

t-Test (Partial Hypotheses)

H1: LDR → PBV (significant, p=0.000).  Accepted.

H2: CAR → PBV (significant, p=0.048).  Accepted.

H3: ROA → PBV (significant, p=0.000).  Accepted.

H4: GCG moderates LDR → PBV (p=0.043).  Accepted.

H5: GCG moderates CAR → PBV (p=0.696).  Rejected.

H6: GCG moderates ROA → PBV (p=0.096).  Rejected.

The Effect of LDR on Firm Value as Proxied by PBV

Hypothesis 1 in this study states that LDR affects firm value as proxied by PBV. The hypothesis testing results presented in Table 5.8 show a significance value of 0.000, which is smaller than 0.05. Therefore, the first hypothesis is accepted, meaning that the LDR variable influences PBV in commercial banks listed on the IDX during the 2019–2023 period.

The Effect of CAR on Firm Value as Proxied by PBV

Hypothesis 2 in this study states that CAR affects firm value as proxied by PBV. The hypothesis testing results presented in Table 5.8 show a significance value of 0.048, which is smaller than 0.05. Therefore, the second hypothesis is accepted, meaning that the CAR variable influences PBV in commercial banks listed on the IDX during the 2019–2023 period.

The Effect of ROA on Firm Value as Proxied by PBV

Hypothesis 3 in this study states that ROA affects firm value as proxied by PBV. The hypothesis testing results presented in Table 5.8 show a significance value of 0.000, which is smaller than 0.05. Therefore, the third hypothesis is accepted, meaning that the ROA variable influences PBV in

commercial banks listed on the IDX during the 2019–2023 period.

GCG Moderates the Relationship Between LDR and PBV

Hypothesis 4 in this study states that GCG moderates the relationship between LDR and firm value as proxied by PBV. The hypothesis testing results presented in Table 5.9 show a significance value of 0.043, which is smaller than 0.05. Therefore, the fourth hypothesis is accepted, meaning that GCG moderates the effect of LDR on PBV in commercial banks listed on the IDX during the 2019–2023 period.

GCG Moderates the Relationship Between CAR and PBV

Hypothesis 5 in this study states that GCG moderates the relationship between CAR and firm value as proxied by PBV. The hypothesis testing results presented in Table 5.9 show a significance value of 0.696, which is greater than 0.05. Therefore, the fifth hypothesis is rejected, meaning that GCG does not moderate the effect of CAR on PBV in commercial banks listed on the IDX during the 2019–2023 period.

GCG Moderates the Relationship Between ROA and PBV

Hypothesis 6 in this study states that GCG moderates the relationship between ROA and firm value as proxied by PBV. The hypothesis testing results presented in Table 5.9 show a significance value of 0.096, which is greater than 0.05. Therefore, the sixth hypothesis is rejected, meaning that GCG does not moderate the effect of ROA on PBV in commercial banks listed on the IDX during the 2019–2023 period.

CONCLUSION

Based on the results of the study, it can be concluded that each variable exerts a different influence on firm value as proxied by PBV.

Loan to Deposit Ratio (LDR) has a significant effect on PBV. This finding indicates that a bank's ability to manage liquidity, particularly in channeling third-party funds into loans, is an important factor considered by investors in assessing the performance and prospects of commercial banks.

Capital Adequacy Ratio (CAR) also shows a significant effect on PBV. This result reflects that an adequate level of capital sufficiency increases market confidence in the stability and sustainability of the bank's operations, which in turn positively impacts firm value.

Return on Assets (ROA), as an indicator of efficiency and profitability, is proven to significantly influence PBV. The higher the ROA, the greater the bank's ability to generate profits from its assets, which ultimately enhances firm value in the eyes of investors.

Good Corporate Governance (GCG) is found to moderate the relationship between LDR and PBV. This suggests that the implementation of sound corporate governance principles strengthens the effect of LDR on firm value, with the assumption that liquidity management conducted under good governance will enhance efficiency and investor confidence.

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Conversely, GCG is not proven to moderate the relationship between CAR and PBV or between ROA and PBV. This indicates that, in the context of the observed commercial banks, the quality of governance has not provided a sufficiently strong contribution in reinforcing or weakening the effect of capital adequacy and profitability on firm value.

RECOMMENDATIONS

For future research, it is recommended to broaden the scope of the study in terms of both sample size and observation period. In addition, incorporating other variables such as firm size, Non-Performing Loans (NPL), interest rates, inflation, and other macroeconomic factors could provide a more comprehensive understanding of the determinants of firm value in commercial banks

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