The Influence of Good Corporate Governance and Non-Performing Loans on Company Value with Profitability as an Intervening Variable and Company Size as a Control Variable
(Case Study KBMI 3 and 4 2017-2022 Period)

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Abstract: This research aims to analyze the influence of good corporate governance (GCG) and non-performing loans (NPL) on company value, with profitability serving as an intervening variable and company size as a control variable, at KBMI 3 and 4 banks for the period 2017-2022. The population for this research comprises KBMI 3 and 4 banks, with a total sample of 14 banks. The data analysis method involves panel data regression analysis processed using Eviews 10. The research results indicate that GCG has a significant positive effect on profitability, as proxied by ROA, while NPL has a significant negative effect on profitability. Additionally, GCG shows no effect on company value, as proxied by PBV, but NPL does influence company value. Furthermore, profitability exhibits a significant positive effect on company value. Regarding intervening variables, this research finds that profitability, proxied by ROA, is able to mediate the influence of GCG and NPL on company value. Meanwhile, company size, as a control variable, has no significant effect on company value.

Keywords: Good Corporate Governance, Non Performing Loan, Firm Size, Return on Asset, Price to Book Value.

1. INTRODUCTION

Throughout the period from 2017 to 2022, the banking sector witnessed fluctuations in company value, as indicated by the Price Book Value (PBV). Companies within the banking sub-sector experienced both increases and decreases in value. However, when compared to other financial sub-sectors, the rate of increase and decrease remained relatively stable. This stability can be attributed to consistent sales and share prices within the sector. According to IDX (2022), the share prices of banking stocks experienced fluctuations during the 2017-2022 period, influencing the overall company value.

If the share price rises, the company value also increases, and vice versa. Increasing share prices enhance investors' perception of the company, ultimately raising its value and maximizing wealth. Company values serve as crucial indicators for future prospects and the sustainability of the company. A decline in company value not only impacts the current share price but also reflects a decrease in market confidence regarding the company's performance and future outlook.

To optimize company value, a supervisory system is essential as a control tool within a company, commonly referred to as good corporate governance (GCG). According to Budiartini, Rudy, and Purwanti (2012), one of the causes of companies' vulnerability to economic turmoil in Indonesia is the weak implementation of GCG. Research results from Retno & Priantinah (2012) and Hendrayana & Yasa (2015) indicate a positive effect of good corporate governance on company value. However, Susilo et al. (2018) and Susanti et al. (2019) argue that good corporate governance has no effect on company value.

Furthermore, the banking sector serves as a driver of economic growth and development in a country, aiming to generate profits, primarily from credit provided to customers. Indonesia's lending levels have increased, as indicated by the quarterly growth in new credit in the fourth quarter of 2021, according to the Indonesian banking survey (Bank Indonesia, 2022). Improvements in economic conditions in 2021 have positively impacted credit
growth and repayment rates. The Deposit Insurance Agency (2022) reports a decrease in the gross non-performing loan (NPL) ratio from 3.06% in 2020 to 3.00% in 2021. Additionally, credit risk remains stable with Gross NPL at 3.00% and Net NPL at 0.88% as of December 2021.

Bhattarai (2020) concluded that NPLs influence company value, while Kingu et al. (2018) argued that non-performing loans have no effect on company value. Given the lack of consistency in previous studies, this research will analyze the influence of GCG and NPL on company value, with profitability as an intervening variable and company size as a control variable. The case study focuses on Bank Groups based on Core Capital or KBMI 3 and 4 2017-2022 period.

2. LITERATUR REVIEW AND HYPOTHESES

Agency Theory

According to Jensen and Meckling (1976), agency theory involves a contract between the manager (agent) and the owner (principal). In this contractual relationship, the owner delegates decision-making authority to the manager to ensure its smooth operation. As stated by Brigham and Houston (2010), agency theory encompasses two significant relationships: one between company owners (shareholders) and management or managers (who act on behalf of shareholders), and the other between credit providers (debt holders).

Signaling Theory

Signaling theory was initially proposed by Michel Spence in 1973. In this theory, the sender (source of information) plays a role in providing a signal or information that reflects a company's condition, which is beneficial for the recipient (investor). The investor then considers appropriate actions based on the information signal received. According to Brigham & Houston (2014), signaling theory is a perspective that focuses on how shareholders perceive a company's prospects for increasing its future value. Company management provides this information to shareholders. The purpose of this action is to send a signal to shareholders or investors about the company's management in assessing the company's future prospects, thereby differentiating between high-quality and low-quality companies.

Firm Value

According to Harmono (2017), a company's value is reflected by its performance, which is in turn reflected in its share price. This share price is determined by the interaction of supply and demand in the capital market, representing the public's assessment of the company's performance. In this research, the price-to-book value formula, as outlined by Harmono (2017), is used. This formula is as follows:

\[ PBV = \frac{\text{Market price per share}}{\text{Book value per share}} \]

Good Corporate Governance

According to Fakhruddin (2014), good corporate governance can be interpreted as a system of management and supervision within a company, which encompasses the direction and control of the company. Agoes (2011) states that good corporate governance is a system that regulates the relationships among the Board of Commissioners, Directors, shareholders, and other stakeholders.

Each bank is required to conduct periodic self-assessments by completing the GCG self-assessment workpaper in accordance with the regulations set by BI or OJK. According to POJK No. 3 of 2016, which pertains to the Assessment of the Soundness Level of Commercial Banks, the GCG assessment evaluates the Bank's management regarding to the implementation of GCG principles. The composite value is presented in the following table:
Table 1 Composite Value Good Corporate Governance

<table>
<thead>
<tr>
<th>Composite Predicate</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>1</td>
</tr>
<tr>
<td>Good</td>
<td>2</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
</tr>
<tr>
<td>Low</td>
<td>4</td>
</tr>
<tr>
<td>Poor</td>
<td>5</td>
</tr>
</tbody>
</table>

Non Performing Loan

Bank Indonesia (BI) No. 19/6/PBI/2017 defines the Non-Performing Loan (NPL) ratio as the ratio between the total amount of credit with substandard, doubtful, and bad quality to the total credit. According to Kasmir (2013), Non-Performing Loans (NPL) are problematic or bad credits, which involve obstacles from both the banking side in analyzing them and from the customer who may intentionally or unintentionally fail to make payments on their obligations. The Non-Performing Loan (NPL) formula is as follows:

\[ \text{NPL} = \frac{\text{Total Non performing loans}}{\text{Total Credit Granted}} \times 100\% \]

Profitability

Horne and Wachowicz (2015) state that a higher Return on Assets (ROA) indicates that the company is more productive and effective in using its assets to generate profits. Increasing profits will also lead to a higher rate of return for investors. According to Ross et al (2015), profitability is a measure of how efficiently a company utilizes its assets and manages its operational activities. The formula used to calculate ROA, as per Hanafi (2009), is as follows:

\[ \text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \]

Firm Size

According to W.R. Murhadi (2013), company size is measured by transforming the total assets owned by the company into natural logarithm (Ln). By using Ln total assets, the number of assets with a value of hundreds of billions can be simplified without changing the proportion of the actual number of assets. The company size formula is as follows:

\[ \text{Firm Size} = \ln \text{total assets} \]

The framework for this research can be described as follows:

![Figure 1 Framework Research](image-url)
Hypotheses

1. The Influence of Good Corporate Governance (GCG) on Profitability

A well-implemented corporate governance system, as noted by Dewi et al. (2020), offers effective protection to shareholders and creditors. Companies that adopt good corporate governance practices tend to establish efficient management structures, enhance accountability, and increase transparency. Through the implementation of good corporate governance, companies can experience improvements in various aspects, such as more informed decision-making, better risk allocation, and higher integrity in their operations.

Furthermore, good corporate governance brings several benefits to companies, including increased profitability, as supported by research from Siswanti (2016), Supramono (2021), Bandiyono (2020), and Tjondro & Wilopo (2011), which suggest that good corporate governance (GCG) has a positive impact on profitability.

H1: Good Corporate Governance has a significant positive effect on bank profitability in KBMI 3 and 4 categories

2. The Influence of Non-Performing Loan (NPL) on Profitability

A high level of Non-Performing Loans (NPLs) in a company's credit portfolio can indicate increased credit risk and financial difficulties within the company. NPLs signify that the credit extended is not being repaid according to previously agreed-upon terms, and in some cases, it may not be recoverable at all. This can lead to financial losses and a negative reputation in the eyes of stakeholders due to declining profits and the company's inability to effectively manage credit extended to debtors.

The decrease in profits can have a direct impact on the profitability that the bank can achieve. The higher the NPL value in the company's credit portfolio, the lower the resulting profitability. This description aligns with research findings from Bhattarai (2021), Baasi (2018), Rusnaini et al. (2019), and Fanesha and Hendrian (2021), all of which suggest that NPLs have a negative effect on profitability, particularly in terms of Return on Assets (ROA).

H2: Non-performing loans have a significant negative effect on bank profitability in KBMI 3 and 4 categories

3. The Influence of Good Corporate Governance (GCG) on Firm Value

Companies with a high Good Corporate Governance (GCG) score send a positive signal to stakeholders. Stakeholders perceive such companies as being more attentive to their interests, and this has a direct impact on increasing the company's value (Dewi, et al. 2020).

The implementation of GCG plays a pivotal role in decision-making within an organization or company. By applying GCG principles, decisions tend to promote efficiency within the corporate environment, and this can significantly influence the company's value. The more effectively GCG is implemented in a company, the higher the company's value is likely to be. This is consistent with the findings of research conducted by Saputri and Supramono (2021), Bandiyono (2020), Yuliusman and Kusuma (2020), and Pudjonggo and Yulianti (2022), all of which affirm the positive impact of GCG on a company's value.

H3: Good Corporate Governance has a significant positive effect on the company value of banks in KBMI 3 and 4 categories

4. The Influence of Non-Performing Loan (NPL) on Firm Value

The Pecking Order Theory posits that companies typically prefer to avoid external financing whenever possible. A high number of problem loans in a company can be indicative of financial issues, which can make it more challenging to secure external financing and may adversely affect the company's value (Myers and Majluf, 1984).
Non-Performing Loans (NPL) are an indicator of elevated credit risk and can disrupt a company's financial performance. They can also erode investors' confidence in assessing the company's future prospects. There exists a negative relationship between the level of NPL and company value, as measured by the Price-to-Book Value (PBV) ratio. In other words, the higher the NPL level, the lower the company's value. This is consistent with the research findings of Fatima (2020), Suyitno (2017), Latief (2022), and Tjahjadi and Munandar (2022), all of which demonstrate that non-performing loans (NPL) have a negative impact on company value.

H4: Non-Performing Loans have a significant negative effect on bank company value in KBMI 3 and 4 categories

5. The Influence of Profitability on Firm Value

According to signaling theory in the realm of finance and investment, Return on Assets (ROA) serves as an indicator that companies can use to convey signals to investors and other stakeholders regarding the quality of their performance. ROA, a measure of profitability, quantifies how effectively a company can generate profits based on its asset base. When a company is profitable, it positively impacts the company's overall value. The higher the profit earned, the more the company's value increases. This, in turn, can lead to an upsurge in share prices, generating greater investor interest in the company.

An increase in ROA signifies good performance and the company's ability to generate profits. This, in turn, enhances the perception of the company's value and encourages an increase in the Price-to-Book Value (PBV). This observation is consistent with research conducted by Suyitno (2017), Chen & Chen (2011), Wijaya and Sedana (2015), and Atiningsih and Izzaty (2021), all of which highlight the positive effect of profitability on company value.

H5: Probability has a significant positive effect on bank company value in KBMI 3 and 4 categories

6. The Influence of Good Corporate Governance (GCG) on Firm Value through Profitability

The implementation of good Corporate Governance (GCG) practices can enhance transparency, efficiency, and company risk management, leading to increased profitability. High profitability signifies stable financial performance and sends a positive signal to investors regarding the company's future prospects, ultimately contributing to an increase in the Price-to-Book Value (PBV).

Research conducted by Tjondro and Wilopo (2011) has demonstrated that GCG has a positive impact on profitability. Good company value can be influenced by increased profitability. When a company generates higher profits, investors tend to view it more favorably in comparison to companies with lower profit margins. This phenomenon aligns with research conducted by Chen (2011), which supports the idea that profitability has a positive effect on company value. Furthermore, research conducted by Fatoni and Sulhan (2020) and Budirahro (2021) suggests that Return on Assets (ROA) can mediate the influence of GCG on company value.

H6: Profitability mediates the effect of Good Corporate Governance on the company value of banks in KBMI 3 and 4 categories

7. The Influence of Non-Performing Loan (NPL) on Firm Value through Profitability

A high Non-Performing Loan (NPL) level can signify greater credit risk, which, in turn, affects profitability and the company's financial stability. Reducing credit risk through effective management to decrease NPLs can lead to an increase in profitability and provide a positive signal to investors about the company's future prospects, indirectly influencing the company's value. Therefore, a low NPL value can have a positive impact on company value, as measured by the Price-to-Book Value (PBV) ratio, indirectly through profitability.

The use of profitability as a mediating variable highlights that credit risk management can indeed have a positive influence on company value. This aligns with research conducted by Baasi (2018), which suggests that NPLs have a negative impact on profitability (ROA), and research by Sabrin et al. (2016), which demonstrates that profitability (ROA) has a positive effect on company value.
H7: Profitability mediates the effect of Non-Performing Loans on the company value of banks in KBMI 3 and 4 categories.

8. The Influence of Firm Size on Firm Value

A larger company size typically reflects stability, operational scale, and greater growth potential. Company size is indicative of a company's growth; a larger company size often corresponds to substantial growth. This, in turn, is expected to have a positive impact on company value because the market is often willing to pay a premium for larger-scale enterprises. A favorable response from investors can indirectly influence and enhance the company's value.

According to Ayuba et al. (2019), Astuti et al. (2022), and Natsir and Yusbardini (2019), firm size has a positive effect on company value. In this research, company size serves as a control variable, ensuring that the influence of the independent variable on the dependent variable remains unaffected by external factors that were not included in the study, in line with the principles of research design (Sugiyono, 2018). Therefore, company size is used as a control variable for assessing company value.

H8: Firm size has a positive effect on the company value of banks in KBMI 3 and 4 categories.

3. RESEARCH METHOD

The population for this research comprises banking subsector companies from 2017 to 2021, totaling 17 companies. The sampling method employed in this study is purposive sampling, a non-random technique, and the sample used consists of 14 companies.

This research falls under the category of causal research, and the research approach is quantitative. Secondary data is utilized, primarily sourced from company annual reports available on the Indonesia Stock Exchange (www.idx.co.id) and company websites. Additional data relevant to this study was gathered through library research, internet sources, as well as previous research such as journals, theses, dissertations and other related studies that can support and complement this research.

4. RESULT AND DISCUSSION

4.1 Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide a comprehensive overview of the variables used in this research. Descriptive statistics encompass measures such as the mean (average), extreme values (maximum and minimum), and standard deviation. The descriptive statistical analysis for each variable is presented in Table 2:

1. The average score for good corporate governance is 1,800, with a minimum score of 2 achieved by banks such as BRI, BCA, BNI, HSBC, Bank Mega, Bank CIMB Niaga, Bank Danamon, Bank Permata, Bank Maybank Indonesia, Bank Jabar, BTN, BTPN, UOB, Bank Panin, and BSI in the 2017-2022 ranking. Meanwhile, Bank Mandiri and Bank OCBC NISP received the maximum score of 1, indicating excellent rankings during the 2017-2022 period. The standard deviation value is 0.375, which is smaller than the average value, suggesting smaller data variation for the GCG variable.

2. The average value of non-performing loans is 2,635, with a minimum value of 0.800% recorded by BTPN in 2019. The highest non-performing loan value is 4,970%, reported by BRIS in 2018. The standard deviation value is 0.978, which is smaller than the average value, indicating smaller data variation for the NPL variable.

3. The average company size is 428,811 trillion. The lowest value, 31,543 trillion, was recorded by Bank Syariah Indonesia in 2017, while the highest firm size value is 1,992 trillion, reported by Bank Mandiri in 2022. The standard deviation value is 480,792 billion, greater than the average value, suggesting more significant data variations for the firm size variable.

4. The average profitability value is 1.920, with the lowest ROA value being 0.13% for Bank Danamon in
2017, and the highest value being 4.22% for Bank Mega in 2021. The standard deviation value is 0.984, smaller than the average value, indicating smaller data variation for the ROA variable.

5. The average company value is 1,439, with the lowest PBV value being 0.22 for Bank Mandiri in 2021, and the highest PBV value being 5.04 for Bank Syariah Mandiri in 2020. The standard deviation value is 1,112, smaller than the average value, signifying smaller data variation for the PBV variable.

Table 2. Descriptive Statistical Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG</td>
<td>4.000</td>
<td>5.000</td>
<td>4.167</td>
<td>0.375</td>
</tr>
<tr>
<td>NPL</td>
<td>0.8000</td>
<td>4.970</td>
<td>2.635</td>
<td>0.978</td>
</tr>
<tr>
<td>SIZE</td>
<td>31.543</td>
<td>1,992.544</td>
<td>428.811</td>
<td>480.792</td>
</tr>
<tr>
<td>ROA</td>
<td>0.130</td>
<td>4.220</td>
<td>1.920</td>
<td>0.984</td>
</tr>
<tr>
<td>PBV</td>
<td>0.220</td>
<td>5.040</td>
<td>1.439</td>
<td>1.112</td>
</tr>
</tbody>
</table>

4.2 Classic Assumption Test

The normality of residuals is assessed using the Jarque-Bera (J-B) test. For equations 1 and 2, the J-B statistic yields probability values of 0.849497 and 0.134673, respectively, surpassing the significance level of 0.05. Consequently, it can be inferred that the data follows a normal distribution. The multicollinearity test indicates no issues between variables as the Variance Inflation Factor (VIF) is < 10.

The Durbin-Watson test is employed for autocorrelation assessment, revealing values of 2.267743 and 2.366584 for equations 1 and 2. As these values fall between 1 and 3, it is concluded that there are no signs of high autocorrelation in the residuals. The heteroscedasticity test, utilizing the Arch test, yields probability values of 0.5399 and 0.8513 for equations 1 and 2. Since these values exceed 0.05, it can be inferred that heteroscedasticity is not present.

4.3 Hypotheses Test

4.3.1 The influence of good corporate governance (X1) and non-performing loans (X2) on profitability (Z)

Table 3. Results of Regression Model 1

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Koefisien</th>
<th>t-Statistik</th>
<th>Probabilitas</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG</td>
<td>8.269014</td>
<td>2.815919</td>
<td>0.0059</td>
</tr>
<tr>
<td>NPL</td>
<td>-3.420310</td>
<td>3.043099</td>
<td>0.0030</td>
</tr>
<tr>
<td>C</td>
<td>-42.19013</td>
<td>-3.193228</td>
<td>0.0019</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.125924</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.108266</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>7.131239</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistic)</td>
<td>0.001278</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 2, the first panel data regression equation is:

\[ \text{ROA} = 8.269\text{GCG} – 3.420\text{NPL} \]

The regression coefficient for GCG is 8.269, with a probability of 0.0059, which is less than 0.05. This indicates a
positive and statistically significant influence of GCG on ROA. In practical terms, a one-unit increase in GCG is associated with an 8.269% increase in ROA, assuming the other variables remain constant.

Similarly, the regression coefficient for NPL is -3.420, with a probability of 0.0030, also less than 0.05. This signifies a negative and statistically significant impact of NPL on ROA. Specifically, a 1% increase in NPL is associated with a 3.420% decrease in ROA, assuming the other variables remain constant.

**The Influence of Good Corporate Governance on Profitability:**

Based on Table 2, the probability is 0.0059, which is less than 0.05. Therefore, it can be concluded that good corporate governance has a significant effect on profitability.

**The Effect of Non-Performing Loans on Profitability:**

Based on Table 2, the probability is 0.0030, which is also less than 0.05. Thus, it can be concluded that non-performing loans have a significant effect on profitability.

**4.3.2 The influence of good corporate governance (X1) and non-performing loans (X2) on company value (Y) with profitability (Z) as an intervening variable**

**Table 4. Results of Regression Model 2**

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Koefisien</th>
<th>t-Statistik</th>
<th>Probabilitas</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG</td>
<td>4.484651</td>
<td>4.003342</td>
<td>0.2654</td>
</tr>
<tr>
<td>NPL</td>
<td>-3.029642</td>
<td>1.406253</td>
<td>0.0337</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.487945</td>
<td>1.536113</td>
<td>0.7514</td>
</tr>
<tr>
<td>ROA</td>
<td>0.352120</td>
<td>0.120082</td>
<td>0.0042</td>
</tr>
<tr>
<td>C</td>
<td>-43.73789</td>
<td>46.93370</td>
<td>0.3537</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.181585</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.147836</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>5.380449</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistic)</td>
<td>0.000590</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 3, the first panel data regression equation is:

\[
PBV = 4.484 \text{GCG} - 3.029 \text{NPL} + 0.487 \text{SIZE} + 0.352 \text{ROA}
\]

Here are the interpretations of the regression coefficients:

The regression coefficient for GCG is 4.484, with a probability of 0.2654, indicating an insignificant positive influence on PBV. In practical terms, a one-unit increase in GCG corresponds to a 4.484% increase in PBV, assuming other variables remain constant. Similarly, the regression coefficient for NPL is -3.029, with a probability of 0.0337, suggesting a significant negative impact on PBV. Specifically, a 1% increase in NPL is associated with a 3.029% decrease in PBV, assuming other variables remain constant.

The SIZE regression coefficient is 0.487, with a probability of 0.7514, indicating an insignificant positive influence on PBV. A one-unit increase in SIZE results in a 0.487% increase in PBV, assuming other variables remain constant. The ROA regression coefficient is 0.352, with a probability of 0.0042, suggesting a significant positive influence on PBV. A 1% increase in ROA corresponds to a 0.352% increase in PBV, assuming other variables...
remained constant.

**The Influence of Good Corporate Governance on Company Value:**

Based on Table 2, the probability is 0.2654, which is greater than 0.05. Therefore, it can be concluded that good corporate governance has no significant effect on company value.

**The Effect of Non-Performing Loans on Company Value:**

Based on Table 2, the probability is 0.0337, which is less than 0.05. This leads to the conclusion that non-performing loans have significant effect on company value.

**The Influence of Company Size on Company Value:**

Based on Table 2, the probability is 0.7514, which is greater than 0.05. Thus, it can be concluded that company size has no significant effect on company value.

**The Influence of Profitability on Company Value:**

Based on Table 2, the probability is 0.0042, which is less than 0.05. This indicates that profitability has a significant effect on company value.

4.3.3 Predictive Relevance (Q²)

The model feasibility test was conducted by calculating the predictive relevance value (Q²) to assess the relevance of the independent variable to the dependent variable. The obtained Q² value is 0.240096, and this value is greater than 0. This leads to the conclusion that the regression equation has relevant and acceptable predictive capabilities, making it suitable for explaining cases or phenomena in this research. The Q² value falls within the range of 0.15 ≤ Q² < 0.35, indicating that the independent variable is moderately predictive in constructing the dependent variable.

4.3.4 Sobel Test

**Table 4. Results of Sobel Test**

<table>
<thead>
<tr>
<th>Path</th>
<th>Indirect Influence</th>
<th>Z sobel</th>
<th>Z table (Z = 1.96)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCG → ROA → PBV</td>
<td>8.269014 x 0.352120 = 2.91168521</td>
<td>2.03106363</td>
<td>Higher</td>
</tr>
<tr>
<td>NPL → ROA → PBV</td>
<td>3.420310 x 0.352120 = 1.204359557</td>
<td>2.11154518</td>
<td>Higher</td>
</tr>
</tbody>
</table>

Based on the results of the Sobel test presented in Table 4, it can be concluded that:

- The indirect influence of GCG (X₁) on PBV (Y) through ROA (Z) is significant. The Z Sobel value for this indirect effect is 2.03106363, which is greater than the critical value of 1.96.

- The indirect effect of NPL (X₂) on PBV (Y) through ROA (Z) is also significant. The Z Sobel value for this indirect effect is 2.11154518, which is greater than the critical value of 1.96.

These results indicate that ROA (Z) significantly mediates the influence of both GCG (X₁) and NPL (X₂) on PBV (Y).
4.4 Discussion

4.4.1 The Influence of Good Corporate Governance on Profitability

Based on the research findings, Good Corporate Governance (GCG) demonstrates a positive impact on profitability within KBMI 3 and 4 for the period 2017-2022. The GCG variable exhibits a positive correlation, implying that an increase in GCG value is associated with an increase in company profits. This relationship is attributed to the GCG value's ability to reflect the bank's health condition, directly influencing profitability. The maintenance or improvement of GCG values over the years enhances stakeholder trust, contributing to sustained profitability.

These results align with the research hypothesis, affirming the positive impact of GCG on profitability. The implementation of GCG practices can positively influence a company's financial performance by fostering improved risk management and strategic decision-making. The research indicates that the projected GCG, with an average composite value, signifies a very good health level. This suggests effective and efficient GCG practices, showcasing the company's competence in risk management and its ability to anticipate opportunities and threats, consequently influencing the likelihood of a rise in Return on Assets (ROA). These findings are consistent with prior research conducted by Saputri and Supramono (2021), Siswanti (2016), Ghalib (2018), and Navy and Iramani (2018), all supporting the notion that Good Corporate Governance has a positive and significant effect on profitability.

4.4.2 The Influence of Non Performing Loan on Profitability

The research findings indicate that Non-Performing Loans (NPL) have a negative effect on the profitability of Bank KBMI 3 and 4 during the 2017-2022 period. This suggests that as the value of non-performing loans decreases, profitability, as proxied by return on assets (ROA), increases. In this context, a credit is considered problematic if it meets the credit collectibility criteria of 2% to 4% (Taswan, 2010). The NPL variable in this research experiences fluctuations from year to year, but the overall average value is 1.286%. This average suggests that the company's condition, as measured by the NPL ratio, is in a healthy position.

One of the contributing factors to the company's stable profits is the relatively low NPL level. High NPLs can lead to reduced profits and operational losses, which, in turn, impact the overall decline in profits. These research results align with the research hypothesis that posited NPL as having a negative effect on profitability. According to the data in this research, an increase in NPL during the study period resulted in a decrease in ROA. This decrease can be attributed to the higher credit distribution from year to year, with most of the credit channeled into working capital loans, investment loans, consumption loans, and export-import financing. These findings are consistent with prior research conducted by Fatima (2020), Rusnaini, Hamirun, and Ariyanto (2019), Baasi (2018), and Bhattarai (2020), all of which confirm that non-performing loans have a negative effect on profitability.

4.4.3 The Influence of Good Corporate Governance on Company Value

Good Corporate Governance (GCG) does not have a significant effect on the company value of Bank KBMI 3 and 4 during the 2017-2022 period. The research findings suggest that GCG disclosure alone does not significantly influence investors' investment decisions. While GCG disclosures can provide insights into a company's health, investors appear to pay less attention to these disclosures when evaluating the company. It could be argued that GCG disclosures using composite value indicators do not send strong signals to investors in their assessments.

This indicates that investors' perception of a company's value is influenced by a broader and more complex set of dynamics beyond the mere implementation of GCG. The research results do not align with the hypothesis proposed in this research, which posited that GCG has a positive effect on company value. These results are in line with previous research conducted by Susilo, Sulastri, and Isnurhadi (2018) and Susanti, Wafirotin, and Hartono (2019), both of which concluded that Good Corporate Governance has no significant impact on company value.
4.4.3 The Influence of Non Performing Loan on Company Value

Non-Performing Loans (NPLs) exert an influence on the company value of Banks KBMI 3 and 4 during the 2017-2022 period. This underscores that an increase in NPL acquisition results in a decrease in company value. The average NPL level across the entire research sample stands at 2.64%, indicating a healthy position. However, caution is warranted as some companies approach or even exceed a 5% NPL level, warranting vigilance from both companies and investors.

This highlights the significance of investors' attention to NPL levels in the investment decision-making process. A high NPL level indicates inefficiency in a company's credit risk management, subsequently impacting the decline in the company's value in the eyes of investors. The research findings align with the study's hypothesis, stating that NPLs have a negative effect on company value. These results are consistent with research conducted by Ikhsan and Jumono (2022), Fatima (2020), Suyitno (2017), Latief (2022), and Tjahjadi & Munandar (2022), all asserting that non-performing loans have a negative effect on company value.

4.4.4 The Influence of Profitability on Company Value

Profitability has a positive influence on the company value of Bank KBMI 3 and 4 during the 2017-2022 period. The return on assets (ROA) variable used in this research indicates a healthy position, signifying the company's stability. This aligns with signaling theory, which suggests that companies capable of consistently increasing profits year after year send positive signals to investors. As a result, investors become more interested in investing in such companies, anticipating future profits.

Signaling theory underscores the role of information in reducing uncertainty and risk in investment decision-making. A high ROA can indicate a company's ability to consistently generate profits, thereby reducing investment risk. This, in turn, influences investors' perceptions of risk and encourages them to pay a higher premium for the company's shares, ultimately raising PBV. Investors tend to assign higher valuations to companies with a strong financial track record, as reflected in a higher PBV. A high ROA suggests the company's potential to generate sustainable profits in the long term, making investors more inclined to consider it a valuable investment. The results of this research are consistent with previous studies conducted by Kartorahardjo and Yulianti (2022), Li-Ju Chen and Shun-Yu Chen (2011), Haquei (2021), and Irwanto and Edward (2023), all of which found that profitability has a positive influence on company value.

4.4.5 The Influence of Good Corporate Governance on Company Value through Profitability

Profitability plays a mediating role in the relationship between good corporate governance and the value of KBMI Bank Companies 3 and 4 during the 2017-2022 period. The GCG variables demonstrate a positive impact on profitability and, subsequently, on company value. Effective and efficient implementation of GCG principles can boost customer trust in the banking sector, ultimately resulting in increased company profits (Darmawan et al., 2018).

The proper execution of GCG practices is a contributing factor to enhanced profitability, which, in turn, positively affects share prices and provides investors with a basis for evaluating the company. The bank's composite score, which maintains an average rating in the "Good" range, significantly influences the company's profitability and, consequently, enhances its overall value. This implies that a company should not solely focus on implementing sound GCG practices for the purpose of increasing market valuation but should also strive to elevate its operational profitability, serving as a key driver for enhanced company value, as indicated by Price-to-Book Value (PBV). Profitability can effectively mediate the relationship between good corporate governance and company value. The findings of this research align with previous studies conducted by Budiraharjo (2021), Ekasari and Nugroho (2020).
4.4.6 The Influence of Non Performing Loan on Company Value through Profitability

Profitability serves as a mediator in the relationship between non-performing loans (NPL) and the value of KBMI Bank Companies 3 and 4 over the period from 2017 to 2022. In this research, the NPL variable negatively affects company profitability, and it significantly influences company value. The NPL ratio is an important factor for investors when deciding to invest in the banking sector. High NPLs can tarnish a company’s image and reputation, raising concerns among customers, investors, and business partners and potentially impacting business relationships. A damaged image and reputation can have long-term negative consequences on company value.

The NPL ratio in this study remains below 5%, indicating that the position of bad debts is still manageable. However, it must be monitored closely to prevent disruptions to the company's performance, which can lead to decreased profits and increased costs due to resource allocation for addressing problematic loans. The mediating role of profitability implies that the negative influence of NPL on PBV is, in part, explained by its negative impact on ROA. These research findings are consistent with previous studies conducted by Ikhsan and Jumono (2022) and Patwary & Tasneem (2019).

4.4.7 The Influence of Firm Size on Company Value

The study finds that the company size, as represented by total assets, does not impact the company value of KBMI 3 and 4 banks during the 2017-2022 period. Regardless of their size, companies, both large and small, have an equal opportunity to achieve competitive company value. This suggests that banks need not necessarily be very large to enhance their company value. Contrary to the research hypothesis asserting a significant positive effect of company size on company value, the study results indicate otherwise.

In this research, the size of the company does not seem to influence investors significantly or attract substantial attention in the investment decision-making process. This lack of attention may be attributed to the observation that the company’s value, whether good or bad, is not strongly influenced by the total sales made by the company. These findings align with previous research conducted by Saputri and Supramono (2021), Mahardikari (2021), and Putri (2020), all suggesting that company size has no significant effect on company value.

5. CONCLUSION

5.1 Conclusion

Based on the results and discussion above, it can be concluded as follow:

1. Good corporate governance (GCG) has a significant positive effect on the probability of KBMI 3 and 4 banks
2. Non-performing loans (NPL) have a significant negative effect on the probability of KBMI 3 and 4 banks
3. Good corporate governance GCG) has no effect on the company value of KBMI 3 and 4 banks
4. Non-performing loans (NPL) have a negative effect on the company value of KBMI 3 and 4 banks
5. Profitability has a significant positive effect on the company value of KBMI 3 and 4 banks
6. Profitability is able to mediate the influence of good corporate governance (GCG) on the company value of KBMI 3 and 4 banks.
7. Profitability is able to mediate the effect of non-performance loans (NPL) on the company value of KBMI 3 and 4 banks.
8. Company size has no effect on the company value of KBMI 3 and 4 banks

5.2 Implications and Limitations

Future researchers are encouraged to explore additional variables that were not included in this study, given that 86% of the variables investigated here were influenced by other factors. Potential areas for expansion could involve variables related to green economy, liquidity, leverage, sales growth, and capital structure. Banking sector companies are required to maintain NPL and GCG values to maintain ROA and PBV, optimize assets owned by maximizing credit distribution but remain careful so that the NPL ratio remains under control. Furthermore,
conducting research over a more recent time frame can provide valuable insights and contribute to the broader advancement of knowledge in the field of Financial Management.

6. REFERENCES


