

Analysis of The Impact of Corporate Governance on Profitability and Firm Value During The COVID-19 Pandemic

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Abstract

The Purpose of the research: This study aims to analyze the effect of Independent Commissioner s, managerial ownership and audit committees on profitability and firm value in the Indonesian capital market, namely manufacturing companies on the Indonesia Stock Exchange (IDX). This research is expected to provide insight and enrich scientific knowledge about the relationship between corporate governance to profitability and company value, especially during the Covid-19 pandemic. Methodology: This research was conducted using a quantitative approach. The sampling technique used in this research is purposive sampling method. The companies included in the sample of this study are manufacturing companies that are always listed on the IDX from 2020 to 2021. The total sample in this study is 60 companies. The Results: Based on the results of the regression analysis and mediation test, it can be concluded that the variables of Independent Commissioners, managerial ownership, audit committees have no significant effect on profitability and firm value. Profitability is not able to mediate the relationship between Independent Commissioners, managerial ownership and audit committee on firm value. However, profitability has a positive and significant effect on firm value.

Keywords: corporate governance; profitability; firm value

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1. Introduction

The company has a primary objective, which is to maximize the wealth of its shareholders, achieved by maximizing firm value. Currently, companies must also enhance their performance, measured by the level of profitability, to ensure their sustainability. However, the emergence of the Covid-19 virus in Indonesia starting from March 2020 has had a significant impact on companies in the country. Manufacturing companies listed on the Indonesia Stock Exchange (BEI) experienced a decrease in firm value, measured by the Price to Book Value (PBV) ratio. The average PBV decreased from 2.84 in 2019 to 2.36 in 2020 (www.idx.co.id). Furthermore, in 2020, at least 77 manufacturing companies had negative Return on Assets (ROA), indicating potential financial distress (www.idx.co.id). Profitability and firm value have become crucial aspects that require careful attention and further investigation.

Corporate governance represents an internal mechanism within a company that encompasses management and ownership structures, influencing the level of profitability and firm value (Trinh et al., 2015; Eberhart, 2012; Debby et al., 2014; Mishra and Mohanty, 2014; Candradewi and Sedana, 2016; Islami, 2018). This study focuses on three corporate governance variables: Independent Commissioner, Managerial Ownership, and Audit Committee, as factors that can influence profitability and firm value. The Independent Commissioner is an individual appointed based on the General Meeting of Shareholders' provisions, who is not affiliated with the company's management. Managerial ownership represents the proportion of shares held by the company's management. The Audit Committee is an internal organ of the company responsible for examining accounting policies, evaluating internal controls, reviewing external reporting systems, and ensuring compliance with regulations. The implementation of good corporate governance is a structure and process that companies can utilize to enhance performance, business success, and accountability to shareholders. This research aims to analyze the impact of Independent Commissioner, Managerial Ownership, and Audit Committee on profitability and firm value, specifically in manufacturing companies listed on the Indonesian capital market, the Indonesia Stock Exchange (BEI). The findings of this study can be utilized to

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improve companies' ability to maximize profitability and firm value influenced by corporate governance during the Covid-19 pandemic.

In-depth research on the influence of corporate governance on profitability and firm value is still highly needed. There are limited studies that comprehensively analyze and integrate all three factors, including corporate governance, which impact profitability and firm value. The implementation of this research is expected to assist companies listed on the Indonesian capital market in maximizing their profitability and firm value by considering corporate governance factors.

Firm value is defined as the price a potential buyer is willing to pay when acquiring a company (Husnan and Pudjiastuti, 2015). According to Sartono (2015), firm value refers to the selling price of an operating business, where the excess of selling price over liquidation value represents the value of the management organization running the company. Based on these definitions, it can be observed that firm value reflects investors' perception of the company in question. When a company generates prosperity for its shareholders, the public perceives it as having high value, which is reflected in its stock price. The primary objective of a company, according to the theory of the firm, is to enhance the value of the firm or firm value (Salvatore, 2011). According to Brigham and Houston (2011), firm value is of utmost importance because high firm value leads to increased shareholder prosperity. Company owners desire high firm value as it signifies high shareholder prosperity. Brigham and Daves (2018) explain that one method used to measure firm value is the Price to Book Value (PBV) ratio. PBV is a ratio that indicates whether the traded stock price is overvalued or undervalued compared to its book value. PBV illustrates how much the market values a company's book value. The higher the ratio, the more the market believes in the prospects of the company.

Profitability refers to a company's ability to generate earnings during a specific period through its capabilities and resources, such as sales, cash, capital, workforce, and others (Brigham and Daves, 2018). Measuring profitability in a company is beneficial to assess its ability to generate earnings concerning sales, assets, and return on equity. Additionally, according to Kasmir (2016), the objectives of measuring a company's profitability are as follows: 1) Calculating the profit obtained by the company within a specific period; 2) Assessing the profit position of the company in the current year compared to the previous year; 3) Evaluating the profit development over time; 4) Evaluating the net profit after tax in relation to equity. Profitability can be measured using the Return on Assets (ROA) ratio.

Corporate governance is a set of rules that define the relationships between shareholders, managers, creditors, government, employees, and other internal and external stakeholders in terms of their rights and responsibilities, or the system by which a company is directed and controlled (Forum for Corporate Governance in Indonesia / FCGI, 2016). In other words, corporate governance is a system that governs the relationships between shareholders, board of directors, board of commissioners, managers, creditors, government, employees, and all stakeholders in a company. The implementation of good corporate governance is a structure and process used to enhance performance, business success, and accountability to shareholders in the long term, while also considering the interests of other stakeholders, based on legal regulations and ethical values. Corporate governance is an internal mechanism of a company related to management and ownership structure (Trinh et al., 2015). Some important corporate governance variables to consider are Independent Commissioner, Managerial Ownership, and Audit Committee.

2. Literature Review

Citations An Independent Commissioner is a member of the board of commissioners who comes from outside the issuer or public company and meets the requirements as an Independent Commissioner (Regulation of the Financial Services Authority of the Republic of Indonesia Number 33/POJK.02/2014). When a company has a higher proportion of Independent Commissioners, the board of commissioners will be able to oversee and provide advice to management more effectively because Independent Commissioners work professionally (Debby et al., 2014). Jensen and Meckling (1976) explain that the more monitors or supervisors there are in a company, the lower the likelihood of conflict, ultimately reducing agency costs. With a greater number of Independent Commissioners in a company, the monitoring of management policies will be better, leading to improved company performance, as reflected in its profitability. Khan and Awan (2012) concluded in their study that the independence of the board of commissioners has a positive impact on a company's financial performance. Latief et al. (2014) found in their research that Independent Commissioners have a positive influence on profitability, measured by return on assets (ROA).

Hypothesis 1: Independent Commissioner has a positive and significant effect on Profitability.

Managerial ownership refers to the proportion of common shares held by managers who are actively involved in the decision-making process of a company. Managerial ownership is an important issue in agency theory, as highlighted by Jensen and Meckling (1976), who stated that the greater the proportion of management ownership in a company, the more diligently management will strive to meet the interests of shareholders, who are also themselves. This will help improve company performance, as reflected in its level of profitability. Kumai et al. (2014) concluded in their research that managerial ownership has a positive impact on financial performance, measured by the profitability ratio, such as ROA. Furthermore, empirical studies conducted by Amran and Ayoib (2013) and Noviwawan and Septiani (2013) found evidence that managerial ownership has a positive influence on profitability, measured by ROA.

Hypothesis 2: Managerial ownership has a positive and significant effect on Profitability.

The Audit Committee is one of the internal elements of corporate governance. It is a committee formed and accountable to the board of commissioners to assist them in monitoring and ensuring the effectiveness of internal control systems and the implementation of tasks by internal and external auditors (Financial Services Authority Circular Letter No. 16/SEOJK.05/2014). The Audit Committee's role includes assisting the board of commissioners in ensuring the proper implementation of internal control, ensuring the execution of internal and external audits in accordance with applicable auditing standards, and other important tasks. A larger Audit Committee helps improve decision-making effectiveness, increases the number of meetings, and results in more effective oversight (Raghunandan et al., 2001). This will have an impact on improving the company's financial performance, as reflected in its profitability. Mulyadi (2017) concluded in his research that the Audit Committee has a positive influence on profitability.

Hypothesis 3: The Audit Committee has a positive and significant effect on Profitability.

The presence of Independent Commissioners in a company is expected to enhance the role of the board of commissioners, thus promoting good corporate governance. Furthermore, independence within the board of commissioners is crucial in maintaining the necessary integrity to ensure effective oversight functions (Martsila and Meiranto, 2013). According to agency theory (Jensen & Meckling, 1976), Independent Commissioners are considered the highest internal control mechanism responsible for monitoring top management policies. Therefore, an increase in the proportion of Independent Commissioners in a company is expected to enable the board of commissioners to fulfill their supervisory and advisory roles to the management more effectively, thereby providing added value to the company. Research conducted by Raharja (2014) and Thaharah and Asyik (2016) concluded that Independent Commissioners have a positive impact on firm value.

Hypothesis 4: Independent Commissioner has a positive and significant effect on firm value

Managerial ownership is one of the mechanisms of good corporate governance. It is implemented in companies to provide managers with the opportunity to be involved in share ownership, aiming to align the interests of shareholders. By implementing managerial ownership, companies can reduce agency costs. Jensen and Meckling (1976) explained that one of the mechanisms to address agency conflicts is through increasing insider ownership, which aligns the interests of owners and managers. Increasing managerial ownership is expected to facilitate better decision-making in the company and ultimately enhance firm value. Research conducted by Dewi and Abundanti (2019) and Sofyaningsih and Hardaningsih (2011) concluded that managerial ownership has a positive impact on firm value.

Hypothesis 5: Managerial ownership has a positive and significant effect on firm value

The Audit Committee is a committee established by the board of commissioners to perform oversight functions over the management of the company. The existence of an Audit Committee in a company contributes to the establishment of good corporate governance. One of the important tasks of the Audit Committee is to provide independent professional input to the board of commissioners regarding the reports submitted by the management to the board of commissioners. According to agency theory (Jensen & Meckling, 1976), the presence of an Audit Committee in a company is beneficial in reducing agency conflicts, as the Audit Committee is responsible for protecting the interests of shareholders from potential earnings management practices typically conducted by the management. If the effectiveness of the Audit Committee is achieved, the transparency of the company's management accountability can be trusted, thereby enhancing investor confidence. The oversight provided by the Audit Committee is beneficial for achieving company performance and ultimately enhancing firm value. Research conducted by Amaliyah and Herwiyanti (2019) and Thaharah and Asyik (2016) found evidence that the Audit Committee has a positive impact on firm value.

Hypothesis 6: The Audit Committee has a positive and significant effect on Firm value

Profitability is one of the financial performance indicators that measures a company's ability to generate profits or earnings over a specific period through its capabilities and resources (Brigham and Daves, 2018). Profitability can be used as a measure of a company's ability to generate earnings in relation to sales, assets, and equity. When a company is able to increase its profitability, it sends a positive signal to investors that the company has good performance and promising prospects in the future. This increases the demand for the company's stock, thereby impacting the increase in firm value. Empirical research conducted by Sugiarto and Santosa (2017) and Sucuahi and Cambarihan (2016) found empirical evidence that profitability has a positive and significant impact on firm value.

Hypothesis 7: Profitability has a positive and significant effect on firm value

The presence of an Independent Commissioner in a company helps the board of commissioners to oversee and provide advice to the management more effectively because Independent Commissioners work professionally (Debby et al., 2014). Jensen and Meckling (1976) explained that the more monitors there are in a company, the lower the likelihood of conflict, which is beneficial in reducing agency costs. Therefore, with an increasing number of Independent Commissioners in a company, the monitoring of management policies will be better, leading to improved company performance, as reflected in its profitability. When a company is able to increase its profitability, it sends a positive signal to investors that the company has good prospects in the future, thereby enhancing firm value. Previous studies have found that Independent Commissioners have a positive impact on profitability (Khan and Awan, 2012; Latief et al., 2014). Additionally, empirical research has also found that profitability has a positive influence on firm value (Sugiarto and Santosa, 2017; Sucuahi and Cambarihan, 2016). Based on the elaboration of several empirical studies, it can be hypothesized that profitability also plays a mediating role in this research. The Independent Commissioner variable can affect profitability, and profitability can influence firm value. Therefore, a conceptual framework can be built where profitability mediates the relationship between Independent Commissioner and firm value.

Hypothesis 8: Profitability is able to mediate the relationship between the Independent Commissioner and Firm value

The implementation of managerial ownership in a company is beneficial in providing managers with the opportunity to be involved in share ownership, aiming to align the interests of shareholders and thus reducing agency costs. Managerial ownership is an important issue in agency theory (Jensen and Meckling, 1976), which states that the greater the proportion of management ownership in a company, the more diligently management will strive to meet the interests of shareholders, who are also themselves. This helps improve company performance, as reflected in its profitability. An increase in profitability in a company sends a positive signal to investors about the company's prospects in the future, ultimately enhancing firm value. Research conducted by Amran and Ayoib (2013) and Noviawan and Septiani (2013) found evidence that managerial ownership has a positive impact on profitability, measured by ROA. Additionally, empirical research has also found that profitability has a positive influence on firm value (Sugiarto and Santosa, 2017; Sucuahi and Cambarihan, 2016). Based on the elaboration of several empirical studies, it can be hypothesized that profitability also plays a mediating role in this research. The Managerial ownership variable can affect profitability, and profitability can influence firm value. Therefore, a conceptual framework can be built where profitability mediates the relationship between Managerial ownership and firm value.

Hypothesis 9: Profitability is able to mediate the relationship between Managerial Ownership and Firm value

The implementation of managerial ownership in a company is beneficial in providing managers with the opportunity to be involved in share ownership, aiming to align the interests of shareholders and thus reducing agency costs. Managerial ownership is an important issue in agency theory (Jensen and Meckling, 1976), which states that the greater the proportion of management ownership in a company, the more diligently management will strive to meet the interests of shareholders, who are also themselves. This helps improve company performance, as reflected in its profitability. An increase in profitability in a company sends a positive signal to investors about the company's prospects in the future, ultimately enhancing firm value. Research conducted by Amran and Ayoib (2013) and Noviawan and Septiani (2013) found evidence that managerial ownership has a positive impact on profitability, measured by ROA. Additionally, empirical research has also found that profitability has a positive influence on firm value (Sugiarto and Santosa, 2017; Sucuahi and Cambarihan, 2016). Based on the elaboration of several empirical studies, it can be hypothesized that profitability also plays a mediating role in this research. The Managerial ownership variable can affect profitability, and profitability can influence firm value. Therefore, a conceptual framework can be built where profitability mediates the relationship between Managerial ownership and firm value.

Hypothesis 10: Profitability is able to mediate the relationship between the Audit Committee and Firm value

3. Research Method and Materials

The research employs a causality design to establish the relationship between the causes and effects of several variables. This study is designed to ascertain the influence of Independent Commissioner, Managerial ownership, and Audit Committee on profitability and firm value. The research object is the firm value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the years 2020-2021. Profitability and firm value are the dependent variables in this study, whereas Independent Commissioner, Managerial ownership, and Audit Committee are the independent variables. The research design can be observed in Figure 1.

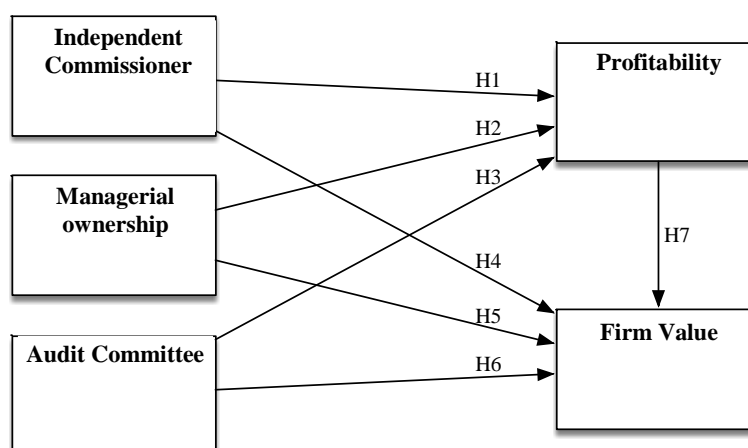


Figure 1. Research Design

3.1. Research Location

This research was conducted in the Indonesian capital market, specifically focusing on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2020 to 2021. This location was chosen because the Indonesia Stock Exchange is the only stock exchange in Indonesia, and all companies listed in Indonesia go through the Indonesia Stock Exchange.

3.2. Data Source Determination

All data used in this research are quantitative in nature, consisting of numerical values. Secondary data refers to data that has been collected by certain parties for purposes other than the current study (Saunders, 2016). This study utilizes secondary data, where all the required data such as Independent Commissioner, Managerial ownership, Audit Committee, profitability, and firm value can be obtained from the annual financial reports of each company, publicly available on the website of the Indonesia Stock Exchange.

3.3. Population and Research Sample

The aim of this research is to examine the influence of corporate governance on profitability and firm value in manufacturing companies listed on the Indonesia Stock Exchange. Therefore, the population of this study comprises all manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021, totaling 182 companies. The sampling technique employed in this research is purposive sampling method. Purposive sampling method involves selecting samples based on predetermined criteria set by the researcher. The sample selection criteria for this study include manufacturing companies consistently listed on the Indonesia Stock Exchange during the period from 2020 to 2021, possessing Managerial ownership, and having no negative profit and negative PBV. A total of 60 companies met these sample criteria.

3.4. Operational Definitions of Variables

The following are the definitions of all the variables used in this study:

Independent Commissioner (KI) is the proportion of the number of Independent Commissioners compared to the total number of commissioners within the company. This proportion is measured by dividing the number of Independent Commissioners by the total number of commissioners in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021. The scale of this data is ratio data.

Managerial ownership (KM) is the proportion of the number of shares held by the management within the company compared to the total number of shares. Managerial ownership is measured by dividing the number of shares held by the board of directors and commissioners by the total number of shares in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021. The scale of this data is ratio data.

Audit Committee (KA) is the number of members in the Audit Committee of each company. This variable is measured by counting the number of Audit Committee members in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021. The scale of this data is nominal data, and the unit is individuals.

Profitability (ROA) in this study is a ratio that indicates a company's ability to generate net profit. The profitability ratio used is return on assets, obtained by dividing net profit by total assets in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021. The unit is a ratio, and the scale of this data is ratio data.

$$\text{Return on Assets} = (\text{Net Profit}) / (\text{Total Assets}) \quad (1)$$

Firm value (PBV) shows how much a company can create relative firm value compared to the amount of invested capital. Firm value can be measured using PBV (price-to-book value), which is a market ratio used to measure the performance of the stock market price against its book value in manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2021. This variable is measured using the following formula, and the scale of this data is ratio data:

$$\text{PBV} = (\text{Stock Price Per Share}) / (\text{Book Value Per Share}) \quad (2)$$

3.5. Data Analysis Techniques

The first data analysis conducted in this study is descriptive statistics. Descriptive statistics is a method used to describe or depict the collected data (Sugiyono, 2017). Descriptive statistics in this research will calculate the mean, standard deviation, and percentage of the sample data for all variables with ratio and nominal data, such as Independent Commissioner, Managerial ownership, Audit Committee, Profitability, and Firm value.

The second data analysis conducted in this study is inferential analysis. Inferential analysis is used to test the hypotheses formulated in this research. The inferential analysis technique used in this study is multiple linear regression analysis, conducted using the SPSS software. Multiple linear regression analysis is an appropriate technique to examine the influence of independent variables on the dependent variables in the empirical research model. The multiple linear regression equation model is the most suitable model for analyzing the empirical research model in this study, as it involves three independent variables and two dependent variables. Furthermore, this research employs path analysis as a data analysis method. Path analysis is used to determine whether independent variables have a direct or indirect impact on the dependent variable. Regression analysis is used to assess the influence of each independent variable on its corresponding dependent variable. The multiple linear regression equation for the empirical model in this research can be represented by the following equation:

Model:

$$\text{ROA} = b_{11}\text{KI} + b_{12}\text{KM} + b_{13}\text{KA} + \varepsilon_1 \quad (3)$$

$$\text{PBV} = b_{21}\text{KI} + b_{22}\text{KM} + b_{23}\text{KA} + b_{24}\text{ROA} + \varepsilon_2 \quad (4)$$

Model equation 1 is used to explain the influence of KI, KM, and ROA. Model equation 2 is used to explain the influence of KI, KM, KA, and ROA on PBV.

Path analysis for testing mediation can be examined with the following explanations:

- If X is significant in relation to Y1 and the hypothesis is accepted, and Y1 is significant in relation to Y2 and the hypothesis is accepted, and X is significant in relation to Y2 and the hypothesis is accepted, then Y1 is a partial mediation variable.
- If X is significant in relation to Y1 and the hypothesis is accepted, and Y1 is significant in relation to Y2 and the hypothesis is accepted, while X is not significant in relation to Y2, then Y1 is a full mediation variable.
- If X is not significant in relation to Y1, and Y1 is significant in relation to Y2 and the hypothesis is accepted, then Y1 is not a mediation variable.

This research utilizes secondary data, and to determine the accuracy of the model, testing of several classical assumptions used in this study needs to be conducted. The classical assumption tests include testing for normality,

multicollinearity, autocorrelation, and heteroscedasticity (Gujarati, 2011). The normality test aims to determine whether the disturbance or residual variables in the regression model have a normal distribution. The multicollinearity test is conducted to examine whether there is correlation among the independent variables in the regression model. The autocorrelation test is conducted to examine whether there is correlation among the disturbance errors at time period t with the disturbance errors at time period $t-1$ in the linear regression model. The heteroscedasticity test is used to examine whether there is inequality of variances of the residuals between different observations in the regression model.

4. Results and Discussion

Descriptive statistical analysis was carried out to provide an overview or description of the research variables consisting of Independent Commissioner (KI), Managerial Ownership (KM), Audit Committee (KA), Profitability (ROA) and Firm value (PBV) through the mean value (mean), maximum value, minimum value and standard deviation. Full descriptive statistics can be seen in Table 1.

Table 1. Research Variable Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
PBV	120	0.24009	8.84008	1.90413	1.79848
KI	120	0.25000	0.66667	0.41476	0.09239
KM	120	0.00000	0.73918	0.11994	0.19480
KA	120	2.00000	5.00000	3.03333	0.28795
ROA	120	0.00041	0.36362	0.06296	0.06211

Source: processed secondary data

Table 1 shows that the number of data points used in this study amounts to 120 data points obtained from a sample size of 60 companies during the period of 2020-2021. The Firm value (PBV) variable has a minimum value of 0.24009, which is observed in Indonesia Fibreboard Industry Tbk in 2021, and a maximum value of 8.84008, which is observed in Indospring Tbk in 2020. These results also indicate that the average value of the PBV variable is 1.90413, with a standard deviation of 1.79848.

The Profitability (ROA) variable has a minimum value of 0.00041, observed in Garudafood Putra Putri Jaya Tbk in 2020, and a maximum value of 0.36362, observed in Communication Cable Systems Indonesia Tbk in 2021. These results also indicate that the average value of the ROA variable is 0.06296, with a standard deviation of 0.06211.

The Independent Commissioner (KI) variable has a minimum value of 0.25, observed in Indal Aluminium Industry Tbk in 2021, and a maximum value of 0.66667, observed in Sariguna Primatirta Tbk, Hartadinata Abadi Tbk, and Indonesia Fibreboard Industry Tbk in 2021. These results also indicate that the average value of the KI variable is 0.41476, with a standard deviation of 0.09239.

The Managerial ownership (KM) variable has a minimum value of 0.00001, observed in Betonjaya Manunggal Tbk in 2021. The maximum value is 0.73918, observed in Sariguna Primatirta Tbk and Central Proteina Prima Tbk in 2020. These results also indicate that the average value of the KM variable is 0.11994, with a standard deviation of 0.19480.

The Audit Committee (KA) variable has a minimum value of 2, observed in Alkindo Naratama Tbk and Alakasa Industrindo Tbk in 2021. The maximum value is 5, observed in Barito Pasific Tbk in 2021. These results also indicate that the average value of the KA variable is 3.03333, with a standard deviation of 0.28795.

4.1. Testing the Strength and Suitability of Equation Models

The testing of strength and suitability of the model is conducted on the empirical model. Considering that the research model in this dissertation is outlined in two regression equation models, the empirical model testing is carried out in two stages. The first stage of empirical model testing is conducted on the variables KI, KM, and KA predicted to influence ROA. The second stage of testing is conducted on the variables KI, KM, KA, and ROA predicted to influence PBV.

The testing of strength and suitability of the research model encompasses the results of testing the Equation Model 1 and Equation Model 2. The testing of Equation Model 1 presents the results of testing the influence of variables KI,

KM, and KA on ROA. The testing of Equation Model 2 presents the results of testing the influence of variables KI, KM, KA, and ROA on PBV.

The testing results of the research model will also present the status of ROA as a mediating variable. ROA acts as a mediating variable between the variables KI, KM, and KA in influencing PBV.

The empirical model of this research is described in two regression equation models, and the testing is conducted in a step-by-step manner using multiple regression analysis. Testing with regression analysis requires several conditions to be fulfilled in order to achieve model fitness (goodness of fit). These conditions include the normality of errors (residuals) and the fulfillment of classical assumptions. Therefore, a good regression model requires the dependent variable and independent variables to be normally distributed or approach normality, and it should be free from classical assumptions such as multicollinearity, heteroscedasticity, and autocorrelation (Ghozali, 2011).

4.2. *Testing the Strength and Suitability of Equation Model 1*

The Equation Model 1 in this study is as follows:

$$ROA = b11KI + b12KM + b13PDB + \epsilon1$$

This equation consists of one dependent variable, Profitability (ROA), and three independent variables, Independent Commissioner (KI), Managerial ownership (KM), and Audit Committee (KA).

(1) Testing for Normality of Errors (Residuals)

The normality test aims to examine the extent to which the distribution of sample data corresponds to a normal distribution (Hair et al., 2014). In regression models, the t-test and F-test statistics assume that the residual values follow a normal distribution (Gujarati, 2011). The normality test in this study was conducted using the Kolmogorov-Smirnov (K-S) method. The results of the normality test in Table 2 show an asymptotic significance value (2-tailed) of 0.200 (p>0.05). This indicates the presence of a normal distribution in the data, allowing the data to be used for further regression analysis.

(2) Testing Classical Assumptions

Testing the classical assumptions is conducted to examine multicollinearity, heteroscedasticity, and autocorrelation. These tests are performed to meet the assumptions required in the technique of linear regression analysis or Ordinary Least Square (OLS). The results of testing the classical assumptions: multicollinearity, heteroscedasticity, and autocorrelation can be seen in Table 3.

Table 2. Results of Normality Test Model Equation 1

One-Sample Kolmogorov-Smirnov Test		
	N	Unstandardized Residual 120
Normal Parameters ^{a,b}		Mean 0.000
		Std. Deviation 1.095
Most Extreme Differences		Absolute 0.076
		Positive 0.048
		Negative -0.076
Test Statistic		0.076
Asymp. Sig. (2-tailed)		.083c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Table 3. Results of Testing the Classical Assumption Model Equation 1

Independent Variable	Multicollinearity (VIF)	Heteroscedasticity	Autocorrelation (DW-test)
Independent Commissioner (KI)	1,007	t = 1,200 ; sig = 0,233	1,870
Managerial ownership (KM)	1,011	t = 0,288; sig = 0,774	1,870
Audit Committee (KA)	1,011	t = 0,497; sig = 0,620	1,870

a. Multicollinearity Testing

The presence or absence of multicollinearity in the regression equation is examined using the Variance Inflation Factor (VIF) test. If the VIF values are less than 10, it indicates that there is no issue of multicollinearity among the independent variables (Ghozali, 2011). The testing results of VIF yield VIF values for all independent variables that are smaller than 10, indicating that all independent variables are free from multicollinearity issues. The multicollinearity testing results in Table 3 show that the VIF values for each independent variable are less than 10 ($VIF < 10$), thus it can be concluded that all independent variables included in the regression model are free from multicollinearity issues.

b. Heteroscedasticity Testing

The presence or absence of heteroscedasticity in the regression equation is examined using the Glejser test. This test is conducted to examine the relationship between the independent variables and the residuals. If the independent variables regressed against the absolute value of the residuals are not statistically significant ($sig-t > 0.05$), it indicates that the regression model is free from heteroscedasticity issues (Ghozali, 2011). The heteroscedasticity testing results presented in Table 3 show that all independent variables included in the regression model are not statistically significant ($sig > 0.05$) in influencing the residuals, indicating that the regression model is free from heteroscedasticity issues.

c. Autocorrelation Testing

The presence or absence of autocorrelation in the regression model is examined using the Durbin-Watson test. The values of dL, dU, 4-dU, and 4-dL for a sample size of 120 with $\alpha = 0.05$ are 1.668 (dL), 1.736 (dU), 2.264 (4-dU), and 2.332 (4-dL). Therefore, if the Durbin-Watson value falls between dU and 4-dU or 1.736 and 2.264, the regression model is free from autocorrelation (Ghozali, 2011). The autocorrelation testing results using the Durbin-Watson test, as presented in Table 3, indicate a DW-test value of 1.870, which means that the regression model is free from autocorrelation.

(3) Model Fit Testing

The goodness of fit of the model is assessed by examining the value of R-squared. The R-squared value explains the ability of the independent variables to influence the dependent variable. Meanwhile, the significance of F-test indicates the level of significance of the combined (simultaneous) influence of the independent variables on the dependent variable.

The testing results using SPSS software show an R-squared value of 0.008 and an F-value of 0.695 with a significance level of 0.557. Therefore, the independent variables, Independent Commissioner (KI), Managerial ownership (KM), and Audit Committee (KA), included in the regression model have the ability to explain 0.8% of the variation in Profitability (ROA), while the remaining 99.2% is explained by other factors not included in the regression model. The F-test results indicate that the independent variables in this equation do not have a significant simultaneous influence on the dependent variable, as the significance value of 0.557 is greater than 0.05.

Table 4. R-Square Calculation Results and Significance F Equation 1

Model	R	R Square	Adjusted R Square		
1	.133a	0.018	0.008		
ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.566	3	0.855	0.695	.557b
1 Residual	142.719	116	1.230		
Total	145.285	119			

a. Dependent Variable: ROA

b. Predictors: (Constant), KA, KM, KI

4.3. Testing the Strength and Suitability of Equation Model 2

The Equation Model 2 in this study is as follows: $PBV = b11KI + b12KM + b13KA + b14ROA + \epsilon_2$. This equation consists of one dependent variable, Firm value (PBV), and four independent variables, Independent Commissioner (KI), Managerial ownership (KM), Audit Committee (KA), and Profitability (ROA).

(1) Testing for Normality of Errors (Residuals)

The normality test aims to examine the extent to which the distribution of sample data corresponds to a normal distribution (Hair et al., 2014). In regression models, the t-test and F-test statistics assume that the residual values follow a normal distribution (Gujarati, 2011). The normality test in this study was conducted using the Kolmogorov-Smirnov (K-S) method. The results of the normality test in Table 5 show an asymptotic significance value (2-tailed) of 0.200 ($p > 0.05$). This indicates the presence of a normal distribution in the data, allowing the data to be used for further regression analysis.

Table 5. Equation 2 Model Normality Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
	N	120
Normal Parameters ^{a,b}	Mean	0.000
	Std. Deviation	0.772
Most Extreme Differences	Absolute	0.057
	Positive	0.057
	Negative	-0.039
Test Statistic		0.057
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. Based on 10000 sampled tables with starting seed 624387341.

(2) Classical Assumption Testing

Classical assumption testing is done by testing multicollinearity, heteroscedasticity and autocorrelation. This test was carried out to meet the assumption requirements specified in the linear regression analysis technique or Ordinary Least Square (OLS). The results of testing the classical assumptions: multicollinearity, heteroscedasticity and autocorrelation can be seen in Table 6.

Table 6. Results of Testing the Classical Assumption Model Equation 2

Independent Variable	Multicollinearity (VIF)	Heteroscedasticity	Autocorrelation (DW-test)
Independent Commissioner (KI)	1.013	t = 1.661; sig= 0.100	2.226
Managerial ownership (KM)	1.011	t = -1.478; sig=0.142	2.226
Audit Committee (KA)	1.021	t = -0.872; sig= 0.385	2.226
Profitability (ROA)	1.018	t = 0.193; sig= 0.847	2.226

a. Multicollinearity Testing

The presence or absence of multicollinearity in the regression equation is examined using the Variance Inflation Factor (VIF) test. If the VIF values are less than 10, it indicates that there is no issue of multicollinearity among the independent variables (Ghozali, 2011). The testing results of VIF yield VIF values for all independent variables that are smaller than 10, indicating that all independent variables are free from multicollinearity issues. The multicollinearity testing results in Table 6 show that the VIF values for each independent variable are less than 10 ($VIF < 10$), thus it can be concluded that all independent variables included in the regression model are free from multicollinearity issues.

b. Heteroscedasticity Testing

The presence or absence of heteroscedasticity in the regression equation is examined using the Glejser test. This test is conducted to examine the relationship between the independent variables and the residuals. If the independent

variables regressed against the absolute value of the residuals are not statistically significant ($\text{sig-t} > 0.05$), it indicates that the regression model is free from heteroscedasticity issues (Ghozali, 2011). The heteroscedasticity testing results presented in Table 6 show that all independent variables included in the regression model are not statistically significant ($\text{sig} > 0.05$) in influencing the residuals, indicating that the regression model is free from heteroscedasticity issues.

c. Autocorrelation Testing

The presence or absence of autocorrelation in the regression model is examined using the Durbin-Watson test. The values of dL, dU, 4-dU, and 4-dL for a sample size of 120 with $\alpha = 0.05$ are 1.651 (dL), 1.754 (dU), 2.246 (4-dU), and 2.349 (4-dL). Therefore, if the Durbin-Watson value falls between dU and 4-dU or 1.754 and 2.246, the regression model is free from autocorrelation (Ghozali, 2011). The autocorrelation testing results using the Durbin-Watson test, as presented in Table 6, indicate a DW-test value of 2.226, which means that the regression model is free from autocorrelation.

(3) Model Fit Testing

The goodness of fit of the model is assessed by examining the values of R-squared and the significance of F-test. The R-squared value explains the ability of the independent variables to influence the dependent variable, while the significance of the F-test explains the level of significance of the simultaneous influence of the independent variables on the dependent variable.

Table 7. R-Square Results and Significance F Equation 2

Model	R	R Square	Adjusted R Square			
1	.431 ^a	0.186	0.158			
ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	16.208	4	4.052	6.569	.000b
	Residual	70.940	115	0.617		
	Total	87.148	119			

a. Dependent Variable: PBV

b. Predictors: (Constant), ROA, KM, KA, KI

The testing results using SPSS software show an R-squared value of 0.158 and an F-value of 6.569 with a significance level of 0.000. Therefore, the independent variables, Independent Commissioner (KI), Managerial ownership (KM), Audit Committee (KA), and Profitability (ROA), included in the regression model have the ability to explain 15.8% of the variation in Firm value (PBV), while the remaining 84.2% is explained by other factors not included in the regression model. The regression model used is in accordance with empirical evidence and meets the model fit at a significance level less than 1% ($\text{sig. } 0.000$). The calculation results of R-squared and the significance of F can be seen in Table 7. This indicates that the independent variables in this equation can simultaneously influence the dependent variable.

4.4. Multiple Regression Testing

(1) Regression Testing for Equation 1

Table 8. Summary of Regression Testing Results of the Empirical Model Equation 1

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-2.000	1.331		-1.503	0.136
	KI	0.503	0.614	0.076	0.818	0.415
	KM	0.099	0.401	0.023	0.247	0.805
	KA	-1.255	1.166	-0.100	-1.077	0.284

a. Dependent Variable: ROA

Regression Equation 1 consists of the independent variables Independent Commissioner (KI), Managerial ownership (KM), and Audit Committee (KA), and the dependent variable Profitability (ROA). The equation can be written as follows:

$$ROA = b_{11}KI + b_{12}KM + b_{13}KA + \varepsilon_1.$$

The regression testing is conducted using multiple regression and the SPSS software is used. A summary of the regression testing results for Equation 1 can be seen in Table 4.8. Based on Table 8, the regression equation can be written as follows: $ROA = 0.076KI + 0.023KM - 0.100KA$. However, these three variables are not statistically significant in influencing profitability.

(2) Regression Testing for Equation 2

Regression Equation 2 consists of the independent variables Inflation (INF), Gross Domestic Product (PDB), and Profitability (ROA), and the dependent variable Firm value (PBV). The equation can be written as follows:

$$PBV = a_1 + b_{11}INF + b_{12}PDB + b_{13}ROA + \varepsilon_2$$

The regression testing is conducted using multiple regression, and SPSS 21 software is utilized. A summary of the regression testing results for Equation 2 can be seen in Table 4.9 below.

Based on Table 9, the regression equation can be written as follows: $PBV = 0.285INF - 0.019PDB + 1.092ROA$. The variables INF, PDB, and ROA do not have a significant influence on PBV as their significance values exceed 0.05. The coefficient of Profitability (ROA) is 0.421 (positive), indicating that Profitability has a positive effect on Firm value (PBV). Statistically, Profitability has a significant positive influence on Firm value at a 1% level of significance.

Table 9. Summary of Regression Testing Results of the Empirical Model Equation 2

Model	Coefficients ^a			t	Sig.	
	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta			
(Constant)	-0.003	0.952		-0.004	0.997	
1	KI	0.285	0.436	0.055	0.652	0.515
	KM	-0.019	0.284	-0.006	-0.067	0.947
	KA	1.092	0.830	0.112	1.316	0.191
	ROA	0.326	0.066	0.421	4.961	0.000

a. Dependent Variable: PBV

4.5. Mediation Testing

Mediation testing is conducted to examine whether a variable plays a role as a mediator, mediating the relationship between independent variables and the dependent variable (Ghozali, 2011). Path analysis is used to test the influence of the mediating variable. Path analysis is an extension of multiple regression analysis to estimate the causal relationships between variables (causal model) based on predetermined theories (Ghozali, 2011).

Mediation testing is conducted on the empirical model of the study, where there is one mediating variable, namely the use of derivative products. The results of this testing will indicate whether the independent variables in the model have a direct or indirect influence on the dependent variable. The magnitude of the influence of each independent variable on the dependent variable is indicated by the p-value that represents the path and the path coefficient. The path coefficient is calculated based on the structural equation, which is the hypothesized regression equation. In this empirical model, there are two regression equations.

The empirical model in this study consists of two hypothesized regression equations, as follows:

$$\text{Equation 1: } ROA = b_{11}KI + b_{12}KM + b_{13}KA + \varepsilon_1.$$

$$\text{Equation 2: } PBV = a_1 + b_{11}INF + b_{12}PDB + b_{13}ROA + \varepsilon_2.$$

Equation 1 consists of three independent variables: KI, KM, and KA, and one dependent variable: ROA. The result of the regression analysis for Equation 1 is:

$$ROA = 0.076KI + 0.023KM - 0.100KA.$$

Based on the regression analysis results, it can be concluded that these three variables do not have a significant influence on profitability.

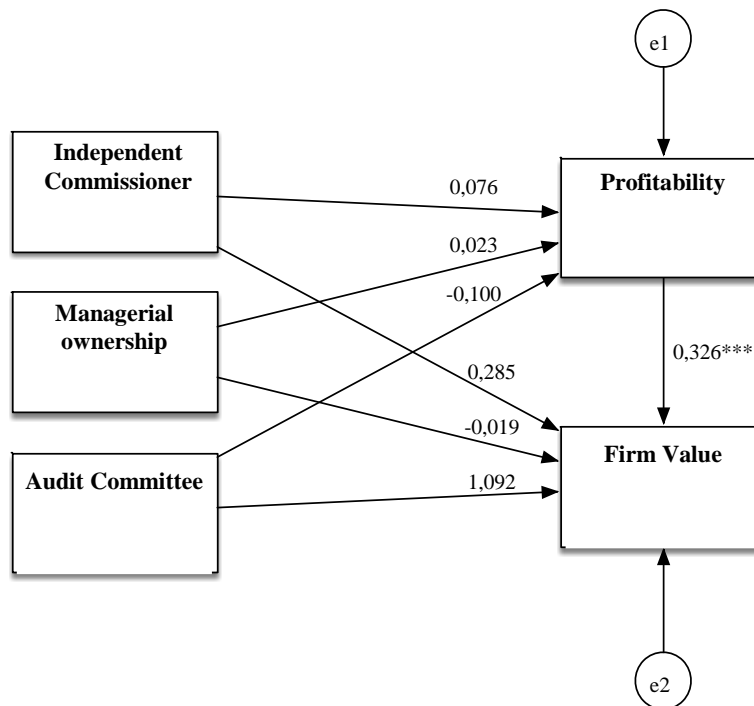
Equation 2 consists of three independent variables: KI, KM, KA, and ROA, and one dependent variable: Firm value (PBV). The result of the regression analysis for Equation 2 is:

$$PBV = 0.285KI - 0.019KM + 1.092KA + 0.326ROA.$$

Based on the regression analysis results, it can be concluded that Independent Commissioner (KI), Managerial ownership (KM), and Audit Committee (KA) do not have a significant influence on Firm value (PBV). However, Profitability (ROA) has a positive and significant effect on Firm value (PBV).

If the results of the regression analysis for Equation 1 and Equation 2 are included in the empirical model of the study, path analysis can be conducted, as depicted in Figure 2. Based on the results of the path analysis in Figure 2, it can be analyzed whether Profitability (ROA) acts as a mediating variable or not. Path analysis is conducted using the following steps:

- Examine the significance values (sig-t) and hypothesis acceptance of each variable, KI, KM, and KA, in relation to ROA, as well as the significance value (sig-t) and hypothesis testing of ROA in relation to PBV.
- If the statistical test results indicate significance and the hypotheses are accepted for each variable, KI, KM, and KA, in relation to ROA, as well as for ROA in relation to PBV, then ROA can be considered a mediating variable.
- For the mediating variable, if the product of the beta coefficient values of INF and PDB with ROA is greater than the beta coefficient value of ROA with PBV, it indicates that ROA acts as a mediating variable with a more efficient indirect effect. Conversely, if the direct effect is greater than the indirect effect, it implies that the direct effect is more efficient than the indirect effect.



*10% significance level
 **5% significance level
 ***1% significance level

Figure 2. Empirical Model Path Analysis

The results of the path analysis as shown in Figure 2 can be interpreted as shown in Table 10.

The research findings reveal several insights on how certain factors within an organization or company influence two important metrics, Return on Assets (ROA) and Price to Book Value (PBV).

- Independent Commissioner (KI): The study shows that Independent Commissioner does not have a significant

influence on ROA and PBV. This implies that, based on the data used in this research, the presence or number of Independent Commissioners in a company does not directly impact financial performance (as measured through ROA) or the market value relative to the book value of the company (as measured through PBV).

- b) Managerial ownership (KM): The research findings indicate that Managerial ownership also does not have a significant influence on ROA and PBV. This means that the proportion of shares owned by the company's management (or individuals directly involved in the company's management) does not have a significant impact on the company's financial performance or its market value relative to its book value.
- c) Audit Committee (KA): The study reveals that the Audit Committee does not have a significant influence on ROA and PBV. This indicates that, based on the data in this research, the presence or effectiveness of an Audit Committee in a company does not directly affect the company's financial performance or its market value relative to its book value.
- d) Profitability (ROA): In contrast to the other factors, the research findings demonstrate that Profitability (as measured by ROA) has a significant influence on PBV. This means that the level of profit generated by the company relative to its total assets (ROA) has a significant impact on the company's market value relative to its book value. This is logical as more profitable companies tend to have higher market values.

Table 10. Interpretation of Empirical Model Path Analysis

Variables	Information	Profitability (ROA)	Firm value (PBV)
Independent Commissioner (KI)	Has no significant effect on ROA and PBV	No effect	No effect
Managerial ownership (KM)	Has no significant effect on ROA and PBV	No effect	No effect
Audit Committee (KA)	Has no significant effect on ROA and PBV	No effect	No effect
Profitability (ROA)	Significant effect on PBV	-	Direct influence

This research demonstrates the lack of significant influence of Independent Commissioner (KI) on Return on Assets (ROA) and Price to Book Value (PBV). Although Independent Commissioners play a crucial role in maintaining integrity and corporate governance, their presence or number does not directly impact financial performance or market value of the company. ROA, which reflects the efficiency of the company in generating profits, and PBV, which reflects market perception of firm value compared to its book value, may be influenced by other factors such as operational strategies and market conditions.

Similarly, the research findings show no significant influence of Managerial ownership (KM) on ROA and PBV. Although ownership of shares by company management reflects their commitment, the proportion of shares held by management does not directly affect financial performance or market value of the company. Other factors such as business strategies, market conditions, and operational efficiency may have a more significant impact on financial performance and market value of the company.

The same holds true for the research findings regarding Audit Committee (KA). While the Audit Committee plays a vital role in ensuring transparency and accountability in the company, its presence and effectiveness may not directly impact financial performance or market value of the company. Factors such as operational efficiency, business strategies, and market conditions may have a more significant influence on financial performance and market value of the company.

On the other hand, the research findings show a significant influence of Profitability, measured through ROA, on PBV. In other words, the level of profitability relative to total assets generated by a company has a significant impact on market perception of firm value. A company that can generate high profits tends to attract investor interest and enhances market perception of firm value. Thus, a high market value is reflected in the PBV ratio, which represents market value relative to book value. High profitability reflects growth potential and attractive investment opportunities, which in turn can enhance the overall market value of the company.

5. Conclusion

The objective of this research is to analyze the influence of corporate governance on profitability and firm value in manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period of 2020-2021. Based on the current findings of the research, it can be concluded that a total of 60 companies can be used as samples in this study. The results of the goodness of fit and model strength tests in this research indicate that the regression model used is excellent as it fits the data. Based on the regression analysis and mediation tests, it can be concluded that Independent Commissioner, Managerial ownership, and Audit Committee variables do not have a significant impact on the profitability of manufacturing companies in BEI during the Covid-19 pandemic. Furthermore, it was found that Independent Commissioner, Managerial ownership, and Audit Committee variables also do not have a significant influence on firm value. However, profitability was found to have a significant impact on the firm value of manufacturing companies in BEI during the Covid-19 pandemic.

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