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Does profitability play a role in mediating the determinants of firm value?

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Abstract

This study aims to examine the role of profitability in mediating the determinants of firm value. The determinants of firm value identified in this study are GCG and CSR. Design/methodology/approach with the population in this study are manufacturing companies listed on the IDX for the period 2019-2023. This study uses unbalanced panel data. By using the Slovin formula, the research sample consists of 290 observations (290 firm-years). The sample was selected randomly using stratified random sampling. Data were analyzed using path analysis. The results show that institutional ownership has a positive effect on profitability, while independent commissioners, audit committees, and CSR do not affect profitability. Furthermore, audit committees and profitability have a positive effect on firm value, while independent commissioners, institutional ownership, and CSR do not affect firm value. Profitability can only mediate the effect of institutional ownership on firm value. Research limitations or implications: The researcher only studied manufacturing companies listed on the IDX, so the results cannot be generalized to all companies listed on the IDX. Practical implications: One of the efforts that can be done by managers to increase the value of the company is by increasing profitability. Increasing institutional ownership is one alternative that can be done by managers to increase profitability.

Keywords: Audit committee, Corporate social responsibility, Independent commissioner, Institutional ownership, Profitability, firm value.

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1. Introduction

Firm value is one of the main indicators in assessing company performance and health [1]. Firm value is the main aspect that investors look at before they decide to invest funds in a company [2-5]. Firm value is important because it can provide in-depth information and insight into the financial condition, growth prospects, and competitiveness of the company that reflects the company's performance, which can influence investor perceptions of the company. This perception can be in the form of increasing or decreasing investment interest, which ultimately has an impact on stock prices, the company's ease in obtaining funding, and long-term financial stability [6]. Firm value can be determined using valuation ratios, such as the price-to-earnings ratio (PER), price-to-book value (PBV), and Tobin's Q [7]. These ratios are used to measure the company's ability to create value for shareholders [8].

Companies that are doing well generally have a PBV ratio above 1, which indicates that the market value of the shares is greater than their book value [9]. Based on the comparison of the PBV ratio, the company's stock market price can be known to be above or below its book value. This condition can be categorized into two: undervalued and overvalued. The stock value is said to be undervalued (intrinsic value is greater than the market price) when the PBV value is below 1, and overvalued (intrinsic value is less than the market price) when the PBV value is above 1 [10]. Facts show that there are several companies that have low firm values, which is a phenomenon that can be used as an indication of problems with firm values in several companies, especially in manufacturing companies [9].

Based on stock index data recorded on the IDX for the 2018-2022 period, there is a phenomenon of manufacturing companies whose firm value is below 1, indicating an undervalued condition of approximately 11.24% [11]. This means that the stock prices of these companies are still lower than their intrinsic value. While manufacturing companies, whose firm value is above 1, are in an overvalued condition of around 15.89% [12]. This means that the stock prices of these companies are still higher than their intrinsic value. The difference in firm value depends on how management manages the company because the goal that management must achieve is not to maximize profits but to maximize shareholder wealth or the maximization of stockholders through maximizing firm value [13]. Therefore, firm value is very important to discuss [14].

Firm value not only reflects financial performance but also reflects reputation and future growth potential [15]. Firm value can be influenced by several factors, including profitability [16], the implementation of good corporate governance (GCG) mechanisms, such as managerial ownership, institutional ownership, audit committee, and independent commissioner, as well as CSR (corporate social responsibility), can influence the firm value [17-20]. The implementation of GCG mechanisms can be measured by the existence of independent commissioners, institutional ownership, managerial ownership, and audit committees [21, 22]. Independent commissioners are considered the highest internal control mechanism, responsible for monitoring the actions of top management. Most research results show a positive relationship between independent commissioners and firm value [23]. The results of research conducted by past research [22-25] show that an independent commissioner has a positive effect on firm value. Overall, it demonstrates that an independent commissioner positively influences firm value.

Apart from the independent commissioner, institutional ownership is also able to influence the firm value [22, 26]. Research result conducted by Wirianata [27] shows that institutional ownership is a factor that influences firm value. The result of Darsani and Sukartha [26] study shows that institutional ownership has a positive effect on firm value. In general, the results of the study demonstrate the influence of institutional ownership on firm value, where higher institutional ownership correlates with a greater potential for increasing firm value.

Furthermore, the audit committee is also a factor that influences the firm value [5]. The audit committee can ensure that the company complies with applicable accounting standards and strengthen transparency in financial reporting [28]. Research result conducted by Valensia and Khairani [29] shows that an active audit committee has an effect on firm value. In general, the results of the study indicate that an effective and active audit committee plays a role in increasing firm value.

Then, corporate social responsibility is increasingly becoming an important issue for economic actors throughout the world, regarding all aspects of corporate activities and their relationships with stakeholders [30]. The practice of social responsibility is known as the triple bottom line, namely, in addition to pursuing profit, companies also pay attention to and are involved in fulfilling the welfare of society (people) and actively contribute to preserving the environment (planet). These elements then synergize to form the concept of sustainable development [31, 32]. The result of the study conducted by Purbawangsa, et al. [5] shows that companies involved in CSR activities have better firm values compared to companies that are not involved in CSR activities. The result of the study conducted by Saniyyah [33] shows that corporate social responsibility has an influence on firm value. In general, the results of the study show that CSR has an influence on firm value.

Next, profitability is important to note to determine whether investment in a company is able to provide returns that are in accordance with the level required by investors [34]. Profitability reflects the company, whether it has the potential for good growth prospects in the future or faces risks [35]. High or low profitability will affect the firm value [22]. Profitability can have a positive impact if the calculation is correct or negative if the calculation is wrong for the company itself [8]. There are several ways to determine a company's profitability, including return on investment (ROI), return on assets (ROA), return on equity (ROE), and net profit margin (NPM) [36]. The results of research conducted by Aurelian, et al. [10] and Kamaliah [25] show that profitability has a positive effect on firm value; the higher the level of company profitability, the higher the firm value. Profitable companies tend to be more stable and have better resilience to market changes, so they can maintain their business continuity in the long term [31].

There have been many previous studies that have tested the influence of GCG, CSR, and profitability on firm value [5, 22, 23, 25, 37-48]. On the other hand, there have been many previous studies that have tested the influence of GCG and CSR on profitability [5, 49-58]. However, from the previous studies mentioned, none have included profitability variables as a mediator of the influence of GCG and CSR on firm value. Based on the mapping, no studies were found that tested the role of profitability in mediating the influence of GCG and CSR on firm value or that tested the influence of GCG and CSR on firm value through profitability or that were mediated by profitability. This illustrates the existence of a research gap in previous studies. Therefore, it is important to conduct further research by making profitability a mediating variable to test the influence of GCG and CSR on firm value. Making profitability a mediating variable is a novel aspect of this study.

The first contribution of this study will provide a comprehensive understanding of the mechanism behind the influence of GCG and CSR on firm value through the role of profitability, especially in the Indonesian manufacturing sector. The main important reason for choosing the manufacturing sector is that it is interesting to study; this is because manufacturing companies have a responsibility to meet the needs of society for manufactured products [59] and manufacturing companies need to strive to increase their firm value [16]. The development of the manufacturing industry in Indonesia from 2000 to 2020 averaged 12.67%, the average workforce growth was 2.4%, the average investment was 9.2%, and the average inflation rate was 8.6% [60]. The manufacturing sector acts as a growth engine because it has the highest productivity growth potential compared to other sectors and is an important factor for the economic growth of developing countries [61]. The contribution of the manufacturing industry sector to Indonesia's GDP in 2022 remains the highest compared to other sectors, accounting for 20.41% [62]. This means that the industry is still struggling amidst the global economic slowdown. It is important to examine agency problems in the Indonesian manufacturing sector because growing industries are often plagued by inertia. Agency problems in these companies are more difficult and complex, and these companies also need guidance on how to motivate and restrain managerial behavior [63].

The second contribution of this study is its sample period, during which data is collected from 2019 onwards. This sample period is significant because it offers a new dataset to explore agency issues within the Indonesian context, as the growing manufacturing industry may encounter various organizational challenges.

The third contribution of this study specifically considers the influence of each GCG component (independent commissioner, institutional ownership, audit committee) and CSR dimensions to see their impact on firm value, which occurs through the role of firm profitability. The rest of this study is divided into five sections. Section 2 consists of the literature review and hypothesis development, section 3 contains the method, while section 4 explains the results of data analysis and discussion. Section 5 consists of conclusions.

2. Literature Review and Hypothesis Development

2.1. Independent Commissioner and Profitability

In Indonesia, the existence of independent commissioners is regulated by Financial Services Authority [64] concerning the board of directors and the board of commissioners of public companies; it is required that at least 30% of the total commissioners in public companies must be independent commissioners. Independent commissioners are members of the board of commissioners who are not affiliated with other parties in the company and are tasked with supervising management and providing advice to the board of directors in accordance with applicable regulations [65]. Independent commissioners are members of the board of commissioners who do not have any affiliated relationship with major shareholders, members of the board of directors, or other parties that could influence their objectivity in carrying out their supervisory function over the company's management [29]. Their role is important in ensuring that the company is run with transparency and responsibility, and in reducing conflicts of interest between owners and management.

Based on agency theory, an independent commissioner can increase company profitability by reducing agency costs [66]. Independent commissioners can help reduce agency costs by monitoring management and ensuring that management acts in the interests of the owners [67]. Meanwhile, based on stakeholder theory, an independent commissioner can increase company profitability by enhancing stakeholder trust [68]. Independent commissioners can help increase stakeholder trust by ensuring that the company is managed transparently and responsibly [69]. This can increase stakeholder trust, which can ultimately enhance the company's profitability.

Empirical research shows that the presence of an independent commissioner has a positive impact on company profitability. Babalola [70] stated that an independent commissioner has a significant positive influence on profitability. Sondokan, et al. [65] find that a larger number of independent commissioners increases corporate profitability by enhancing effectiveness and preventing agency problems. Valensia and Khairani [29] also find that independent commissioners have a positive influence on firm value because of their role as mediators in conflicts of interest. The result of research conducted by Firmansyah and Surasni [71] shows that the composition of independent commissioners has a significant influence on firm profitability. In general, the results of previous studies indicate that independent commissioners play an important role in maintaining and increasing profitability. Thus, the hypothesis proposed in this study is as follows:

H_1: An Independent commissioner has a positive effect on profitability.

2.2. Institutional Ownership and Profitability

Institutional ownership is the ownership of shares in a company by an institution or organization, such as a pension fund, investment fund, bank, or insurance company [72]. Based on agency theory, institutional ownership can increase a company's profitability by reducing agency costs, which are costs arising from differences in interests between owners and management. Institutional shareholders can play a role in overseeing management, ensuring transparency, and encouraging decision-making that is in line with the interests of the owners, so that agency costs can be reduced. Meanwhile, based on stakeholder theory, institutional ownership can increase a company's profitability by building stakeholder trust. Financial institutions that are committed to good corporate governance can increase transparency and accountability. This strengthens the trust of various company stakeholders.

The effect of institutional ownership on a company's profitability can vary depending on other factors that influence it [73]. Research result conducted by Saniyyah [33] shows that institutional ownership of the company has a role in strengthening the relationship to profitability. The result of the study conducted by Fadrul, et al. [74] shows that institutional ownership has a significant effect on profitability. The result of the study conducted by Darsani and Sukartha [26] shows that institutional ownership has an effect on profitability. Thus, the hypothesis proposed in this study is as follows:

$H_{2:}$ Institutional ownership has a positive effect on profitability

2.3. Audit Committee and Profitability

The audit committee is formed by the board of commissioners, in accordance with OJK Regulation No. 55/POJK.04/2015 concerning the establishment and guidelines for the implementation of the audit committee. The chairman of the audit committee must come from an independent commissioner to ensure objectivity and independence in carrying out its functions [75]. Based on agency theory, the audit committee can increase the company's profitability by reducing agency costs. Agency costs are expenses incurred by the owner to supervise the agent and ensure that the agent acts in accordance with the owner's interests. Meanwhile, based on stakeholder theory, the audit committee can increase the company's profitability by enhancing stakeholder trust. The audit committee can help increase stakeholder trust by ensuring that the company is managed transparently and responsibly. This can lead to increased stakeholder trust, which can ultimately boost the company's profitability.

The result of Widianingsih [73] shows that an independent audit committee can increase company profitability, where companies with an independent audit committee have higher profitability compared to companies with a non-independent audit committee [73]. The Last Supper finds that an active audit committee can increase company profitability, where companies with active audit committees have higher profitability compared to companies with inactive audit committees [76]. Audit committee can increase profitability [5]. Then, Ayu et al. [72] find that an effective audit committee can increase company profitability, where companies with an effective audit committee have higher profitability compared to companies with an ineffective audit committee [72]. Thus, the hypothesis proposed in this study is as follows:

$H_{3:}$ The audit committee has a positive effect on profitability

2.4. Corporate Social Responsibility and Profitability

Corporate Social Responsibility (CSR) is a company's commitment to fulfilling its obligations based on decisions to adopt policies and actions that consider stakeholders and the environment in which the company operates, in accordance with applicable legal provisions [77]. The purpose of corporate social responsibility is not only to comply with applicable laws and regulations but is also expected to provide benefits and utility for parties who have an interest in the company or stakeholders.

Based on agency theory, CSR can increase company profitability by reducing agency costs. CSR can increase investor and shareholder trust, which can reduce agency costs. This decrease in agency costs ultimately has a positive impact on company profitability. Meanwhile, based on stakeholder theory, CSR can increase profitability by increasing stakeholder satisfaction with the company. This is because stakeholders will be more satisfied with companies that are committed to acting responsibly.

The results of the research conducted [20, 25, 78] show that CSR has a positive influence on profitability. This means that CSR with a broader and more sustainable impact will increase the company's profitability. Thus, the hypothesis proposed in this study is as follows:

$H_{4:}$ CSR has a positive effect on profitability

2.5. Independent Commissioner and Firm Value

Independent commissioners are members of the board of commissioners who do not have financial, family, or business relationships with the company's management. They are individuals who do not have business relationships or financial interests with the company, so they are expected to provide objective opinions when making company decisions [79]. Based on agency theory and stakeholder theory, a company is a contract between the owner and the agent, where the agent has the potential to act in his own interests. To reduce this conflict of interest, an independent commissioner acts as an objective supervisor, provides advice to management, and ensures that the company's management is transparent and in accordance with the interests of shareholders. Thus, an independent commissioner can increase the value of the company through more effective supervision.

Research results conducted [5, 80, 81] show that the ability of independent commissioners to carry out supervision will increase along with the increasing number of independent commissioner members. This is seen as a factor that contributes to increasing the value of the company because tighter supervision can increase transparency, reduce conflicts of interest, and ensure that management decisions are in line with the interests of shareholders and other stakeholders. The existence of independent commissioners can make a positive contribution to the value of the company. Based on the theoretical framework that has been presented, the hypothesis proposed in this study is as follows:

$H_{5:}$ Independent commissioner has a positive influence on firm value.

2.6. Institutional Ownership and Firm Value

Institutional ownership plays an important role in increasing the value of a company through better monitoring and governance mechanisms. Institutional ownership is the ownership of shares by financial institutions, such as banks, pension funds, and hedge funds, that have the motivation and ability to oversee the company's management and ensure that the company is managed efficiently and responsibly [73]. Based on agency theory and stakeholder theory, a company can be viewed as a contractual relationship between owners (shareholders) and agents (management). In this relationship, the owner delegates authority to the agent to manage the company. However, the agent has the potential to act in his own interests, which can be detrimental to the owner. An independent commissioner can act as an independent supervisor who can provide advice and input to management, as well as supervise management performance.

Research results conducted [19, 73] show that institutional ownership is one of the factors that influence the value of the company. Supervision carried out on management performance can improve the company performance. Similar results are also obtained in the study conducted [37, 82] which show that institutional ownership has an effect on the firm value. Institutional ownership can also affect the firm's value [7]. Institutional ownership with a large number of shares has the opportunity to collaborate with management to ensure professional management and monitoring of the development of its investment. Therefore, the hypothesis proposed in this study is as follows:

H_6: Institutional ownership has a positive effect on firm value.

2.7. Audit Committee and Firm Value

The audit committee is a committee responsible for overseeing the company's internal and external audit activities, as well as providing advice and recommendations related to internal control and financial reporting. The influence of the audit committee on firm value can improve the quality of the company's internal control, strengthen the independence of external auditors, and enhance the company's transparency and accountability [65]. Based on agency theory, the audit committee is responsible for ensuring that the company operates in accordance with the interests of shareholders through strict supervision, which can increase investor confidence and firm value. Meanwhile, stakeholder theory suggests that the audit committee plays a role in ensuring the transparency and accountability of the company to various stakeholders such as employees, customers, and the community. This transparency can improve the company's reputation and relationships with stakeholders, which have an impact on the firm's value.

Research result of Kamaliah [25] shows that the existence of an effective and independent audit committee can have a positive impact on firm value [25]. The study result of Kuo, et al. [83] shows that the existence of an effective audit committee can increase the firm value [83]. The result of the study conducted by Primatama and Kawedar [77] shows that the existence of an independent and effective audit committee can increase the firm value [77]. Therefore, the hypothesis proposed in this study is as follows:

$H_{7:}$ The audit committee has a positive effect on firm value.

2.8. Corporate Social Responsibility and Firm Value

The concept of corporate social responsibility (CSR) states that companies have responsibilities to consumers, employees, shareholders, communities, and the environment in all aspects of their operations. Business decisions are not only based on financial factors such as profits or dividends but also consider social and environmental consequences [9].

Based on agency theory, CSR can increase the value of the company by reducing the conflict of interest between owners and agents. CSR increases investor and shareholder confidence because it reflects management's commitment to act responsibly. Meanwhile, stakeholder theory suggests that CSR creates value for stakeholders, increasing customer satisfaction, corporate reputation, and access to resources. CSR also plays a role in reducing corporate risk, including protecting against lawsuits and the impact of a bad reputation. CSR contributes to increasing firm value.

Research result of Purbawangsa, et al. [5] shows that CSR has a positive effect on firm value [5]. The study result of Hadi & Udin shows that CSR is one of the factors that affect the value of the company [84]. Companies with high CSR are companies that have strong corporate values. Companies with high levels of CSR tend to have greater firm values. Therefore, the hypothesis proposed in this study is as follows:

H_8: CSR has a positive effect on firm value

2.9. Profitability and Firm Value

Profitability is the ability of a company to generate profits from its operational activities within a certain period of time. Profitability reflects the efficiency of a company in managing resources to gain profits [72]. Profitability describes the company's ability to generate profits. The profit obtained reflects the level of net profit that the company is able to achieve in running its operations [85]. Based on agency theory, profitability increases the value of the company by reducing agency costs because agents are more motivated to act in the interests of the owners without close supervision. High profitability increases investor confidence and encourages management to continue improving company performance. In stakeholder theory, profitability increases stakeholder satisfaction, including shareholders, employees, customers, and communities. High profitability allows companies to provide greater benefits, such as dividends, employee welfare, product quality, and social contributions.

Profitability is one of the important factors in determining the value of a company. The higher the level of profitability of a company, the greater the company's value will increase [86]. The higher the profitability of the company, the higher the value of the company [56]. Research result of Rochmatullah, et al. [87] shows that profitability has a significant positive effect on firm value [87]. This is because high profitability reflects healthy financial performance and the company's ability to survive and grow in the long term. Thus, the hypothesis proposed in this study is as follows:

H_9: Profitability has a positive effect on firm value

2.10. Independent Commissioner, Profitability, and Firm Value

The existence of an independent commissioner in a company can increase the firm value through various mechanisms [29]. Based on agency theory, an independent commissioner can reduce agency problems by independently supervising management, which can improve operational efficiency and reduce corporate risk, thereby contributing to increased profitability. According to stakeholder theory, an independent commissioner can increase corporate profitability by enhancing stakeholder trust. High profitability can, in turn, increase firm value by boosting investor and customer trust.

Profitability acts as a mediating variable in the relationship between independent commissioners and firm value. In other words, independent commissioners not only contribute directly to increasing firm value but also indirectly through increasing profitability, which ultimately enhances firm value. Profitability serves as a mediating variable in the relationship between independent commissioners and firm value [88]. This means that an independent commissioner not only directly increases the value of the company but also increases its profitability, which ultimately enhances the company's value.

Several studies have shown that the presence of an independent commissioner can increase profitability, which has a positive impact on firm value [89]. Increasing profitability can increase the firm value [90]. The study result of Widianingsih [73] shows that an independent commissioner has a positive effect on firm value. The result of the study conducted by Ayu, et al. [72] shows that an independent commissioner has a positive effect on profitability [72]. Thus, the hypothesis proposed in this study is as follows:

H_{10}: Profitability mediates the influence of the independent commissioner on firm value

2.11. Institutional Ownership, Profitability, and Firm Value

Institutional ownership is part of the good corporate governance (GCG) mechanism that plays a role in overseeing the performance of company management. High institutional ownership can increase efficiency in the use of company assets and prevent waste by management [91]. In addition, institutional ownership can also increase the profitability of the company by encouraging management to make more optimal decisions in the interests of shareholders [93]. Increased profitability, in turn, contributes to increasing the value of the company.

Based on agency theory, institutional ownership increases firm value by strengthening management oversight, increasing operational effectiveness, and profitability through reducing agency costs and improving performance. Meanwhile, based on stakeholder theory, institutional ownership increases profitability by building stakeholder trust, increasing efficiency, and encouraging innovation, which ultimately contributes to increasing firm value. Thus, profitability acts as a mediating variable in the relationship between institutional ownership and firm value, where institutional ownership not only has a direct impact on firm value but also indirectly increases profitability.

Research results of Saniyyah show that institutional ownership has a positive effect on profitability, where companies with high institutional ownership have higher profitability [33]. The result of the study conducted by Valensia and Khairani [29] shows that institutional ownership has a positive effect on firm value, where companies with high institutional ownership have higher firm value compared to companies with low institutional ownership [29]. Institutional ownership can increase firm value [82]. Therefore, the hypothesis proposed in this study is as follows:

H_{11}: Profitability mediates the effect of institutional ownership on firm value.

2.12. Audit Committee, Profitability, and Firm Value

The audit committee is a committee formed by the board of commissioners to carry out the task of supervising the management of the company [64]. Based on the Financial Services Authority (OJK) Regulation No. 55/POJK.04/2015 concerning the establishment and guidelines for the implementation of the audit committee, the chairman of the audit committee must come from an independent commissioner to ensure objectivity and independence in carrying out its functions [64]. The existence of an audit committee is very important in company management. The audit committee is tasked with overseeing accounting issues, financial reports, internal control systems, and independent auditors [65]. Based on agency theory, the audit committee can increase the company's profitability by reducing agency costs, improving management performance, and reducing company risk. Higher profitability will increase the firm value because it demonstrates operational efficiency and enhances investor confidence. Meanwhile, from a stakeholder theory perspective, the audit committee plays a role in increasing transparency and accountability, which can strengthen stakeholder trust and improve operational efficiency and innovation. Increased profitability resulting from the effectiveness of the audit committee will have a positive impact on the firm value.

Research results of show that the audit committee has an effect on firm value [29, 73, 92]. The results of the study conducted show that the audit committee has an effect on profitability [85, 93-95]. This indicates that the existence and good performance of the audit committee not only directly increase the value of the company but also affect the company's profitability, which can ultimately contribute to increasing the company's value. Thus, profitability acts as a mediating variable in the relationship between the audit committee and firm value. This means that the audit committee not only has a direct effect on the value of the company but also influences it through increasing profitability. Therefore, the hypothesis proposed in this study is as follows:

$H_{12:}$ Profitability mediates the influence of the audit committee on firm value

2.13. Corporate Social Responsibility, Profitability, and Firm Value

The implementation of corporate social responsibility (CSR) is a form of corporate responsibility aimed at addressing social and environmental impacts to promote sustainable growth. Effective CSR can enhance the company's value by attracting investor interest [96]. In addition, the more investors invest, the higher the profitability of the company. Companies with high profitability tend to be more active in disclosing CSR, which ultimately increases the value of the company [42]. Based on agency theory, CSR can increase profitability by lowering agency costs and reducing corporate risk. Meanwhile, according to stakeholder theory, CSR increases profitability by increasing stakeholder satisfaction. Thus, CSR is not only a social obligation but also a factor that influences profitability, which then mediates its relationship with firm value.

Research result show that CSR has an effect on profitability [5, 19, 97, 98]. The results show that CSR has an effect on firm value [25, 99]. This finding indicates that CSR not only has a direct impact on firm value but can also increase profitability, which ultimately contributes to increasing firm value. In other words, profitability can act as a mediator in the relationship between CSR and firm value. Therefore, the hypothesis proposed in this study is as follows:

H_{13}: Profitability mediates the effect of csr on firm value

3. Research Methodology

3.1. Sample and Data Collection

The population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, totaling 1,061 companies. The research sample was determined using the Slovin formula [100] so that 290 companies were randomly selected using the stratified random sampling method based on three industrial strata: basic and chemical industries, various industries, and consumer goods industries. This study uses secondary data obtained from the annual reports of manufacturing companies on the IDX without direct intervention. The analysis was conducted by reviewing the financial report documentation using unbalanced panel data [101].

3.2. Measurement of Variables

The variables and their measurements are presented in Table 1.

Table 1.
Variable measurement.

No.	Variables	Measurement	Scale	Source
1	GCG (CoI, OeI, CoA) Independent Variable	CoI = Number of Independent Commissioners / Number of Board Commissioners $OeI = \frac{\text{number of institutional share}}{\text{number of share outstanding}}$ CoA = Number of meetings in one year	Ratio	Sondokan, et al. [65]
2	CSR (CSR) Independent Variable	Index = Sum of disclosure scores / Sum of maximum scores	Ratio	Firmansyah and Surasni [71]
3	Profitability (Pro) Variable Mediation	$ROE = \frac{\text{Net Profit}}{\text{Total equity}}$	Ratio	Kasmir [102]
4.	Firm value (ViF) Dependent Variable	$PBV = \frac{\text{Market price per share}}{\text{Book value per share}}$	Ratio	Brigham and Daves [103]

3.3. Analysis Model

Using path analysis techniques to test the influence the variables studied, including mediating variables [104]. By using the PLS (Partial Least Squares) program, this study applies panel data modeling to test the effect of each independent variable on the dependent variable with a significance level of $\alpha = 0.05$ at a 95% confidence level. The null hypothesis is rejected if the value of $\rho i \leq 0.05$, indicating a significant effect. Mediation Test, using the " Causal Step " method from Baron and Kenny [105] to test the role of profitability as a mediator, if the path coefficient is significant and the path coefficient in equation 3 is smaller than in equation 1, then mediation is present. Full mediation occurs if the path coefficient in equation 3 equals zero, while partial mediation occurs if it is not equal to zero. Hypotheses 1-4 examine the effect of independent commissioner, institutional ownership, audit committee, and CSR on profitability. Hypotheses 5-9 analyze the effect of these variables on firm value. Hypotheses 10-13 investigate the role of profitability in mediating the effect of GCG and CSR on firm value.

Next, testing how much influence is partially exerted by squaring the value of ρ_{i} or (ρ_i^2). The test is conducted using a path analysis model that employs the rho symbol (ρ) to denote the path coefficient. The path analysis equation model used in this study is formulated as follows:

Sub Structure 1

$$Pro = \rho_{ProCoI}CoI + \rho_{ProOeI}OeI + \rho_{ProCoA}CoA + \rho_{ProCSR}CSR + \rho_{Pro\varepsilon_1}\varepsilon 1 \quad (1)$$

Sub Structure 2

$$ViF = \rho_{ViFCoI}CoI + \rho_{ViFOeI}OeI + \rho_{ViFCoA}CoA + \rho_{ViFCSR}CSR + \rho_{ViFPro}Pro + p_{ViF\varepsilon_2}\varepsilon 2 \quad (2)$$

$$\text{Equation 1: } ViF = \rho_{ViFCoI}CoI + \rho_{ViFOeI}OeI + \rho_{ViFCoA}CoA + \rho_{ViFCSR}CSR + \rho_{ViF\varepsilon_3}\varepsilon 3 \quad (3)$$

$$\text{Equation 2: } Pro = \rho_{ProCoI}CoI + \rho_{ProOeI}OeI + \rho_{ProCoA}CoA + \rho_{ProCSR}CSR + \rho_{Pro\varepsilon_1}\varepsilon 1 \quad (4)$$

$$\text{Equation 3: } ViF = \rho_{ViFCoI}CoI + \rho_{ViFOeI}OeI + \rho_{ViFCoA}CoA + \rho_{ViFCSR}CSR + \rho_{ViFPro}Pro + \rho_{ViF\varepsilon_2}\varepsilon 2 \quad (5)$$

Description:

ViF = Firm Value, Pro = Profitability, CoI = Independent Commissioner, OeI = Institutional Ownership, CoA = Audit Committee, CSR = CSR.

ρ_{ProCoI}, ρ_{ProOeI}, ρ_{ProCoA}, ρ_{ProCSR} are path coefficients that describe the influence between independent variables (CoI, OeI, CoA, and CSR) with intervening variables (Pro). ρ_{ViFCoI}, ρ_{ViFOeI}, ρ_{ViFCoA}, ρ_{ViFCSR} are path coefficients that describe the influence between independent variables (CoI, OeI, CoA, and CSR) and intervening variables (Pro) on dependent variables (ViF). ρ_{Pro} ε_1 is a path coefficient that describes the relationship between other variables outside the model (ε_1) with the mediating variable (Pro). ρ_{ViF} ε_2 is a path coefficient that describes the influence of other variables outside the model (ε_2) on the dependent variable (ViF).

4. Results and Discussion

Descriptive statistics of the variables used can be seen in Table 2.

Table 2.
Descriptive statistics.

	Mean	Standard deviation	Min.	Max.
Independent Commissioner (CoI)	0.402	0.093	0.220	0.750
Institutional Ownership (OeI)	0.676	0.249	0.156	0.997
Audit Committee (CoA)	5.190	2.185	1.000	12.000
Corporate Social Responsibility (CSR)	0.634	0.154	0.130	1.000
Profitability (Pro)	0.262	0.418	0.010	2.771
Firm value (ViF)	1.347	0.963	0.029	3.912

Based on Table 2, Independent commissioner variable (CoI) has an average value of 0.402 with a standard deviation of 0.093. Institutional ownership variable (OeI) has an average value of 0.676 with a standard deviation of 0.249. Audit committee variable (CoA) has an average value of 5.190 with a standard deviation of 2.185. Corporate social responsibility (CSR) variable has an average value of 0.634 with a standard deviation of 0.154. Profitability variable (Pro) has an average value of 0.262 with a standard deviation of 0.418. Firm value variable (ViF) has an average value of 1.347 with a standard deviation of 0.963.

4.1. Hypothesis Test Results

This study examines the role of profitability in mediating the influence of GCG and CSR on firm value in manufacturing companies on the IDX from 2019 to 2023.

4.1.1. Testing the Influence of Independent Variables (CoI, OeI, CoA, and CSR) on the Dependent Variable (ViF).

The results of testing the influence of independent variables (CoI, OeI, CoA, and CSR) on the dependent variable (ViF) are presented in Table 3 and Figure 1.

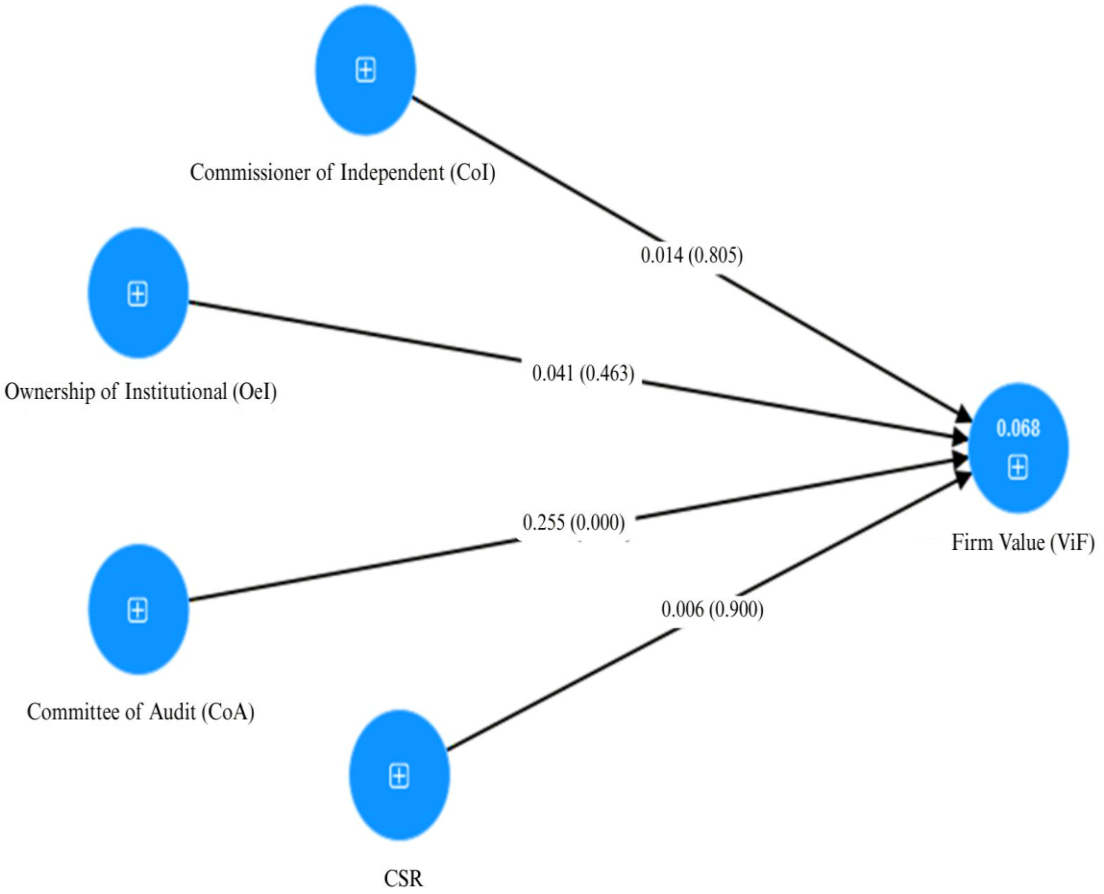

Figure 1.
Diagram of the first regression equation (the effect of CoI, OeI, CoA, and CSR on ViF).

Equation 1: ViF = ρ_{ViFCoI}CoI + ρ_{ViFOeI}OeI + ρ_{ViFCoA}CoA + ρ_{ViFCSR}CSR + $\rho_{ViF}\varepsilon_3\varepsilon3$ (3)

Table 3.
Results of testing the influence of independent variables on dependent variables.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Independent Commissioner (CoI) -> firm value (ViF)	0.014	0.012	0.058	0.247	0.805
Institutional Ownership (OeI) -> firm value (ViF)	0.041	0.043	0.056	0.733	0.463
Audit Committee (CoA) -> firm value (ViF)	0.255	0.252	0.069	3.692	0.000
CSR -> firm value (ViF)	0.006	0.007	0.052	0.125	0.900

Based on Table 3, the first regression equation can be formulated to demonstrate the influence of independent variables (CoI, OeI, CoA, and CSR) on the dependent variable (ViF). The results of the equation are: ViF = 0.014CoI + 0.041OeI + 0.255CoA + 0.006CSR. The path coefficient values for CoI (independent commissioner), OeI (institutional ownership), CoA (audit committee), and CSR (corporate social responsibility) are 0.014, 0.041, 0.255, and 0.006, respectively, with P-values of 0.805, 0.463, 0.000, and 0.900. Among these variables, only CoA (audit committee) has a P-value less than 0.05, specifically 0.000, indicating statistical significance. The other three variables, CoI (independent commissioner), OeI (institutional ownership), and CSR (corporate social responsibility), have P-values greater than 0.05, suggesting that their coefficients are not statistically significant. These findings imply that only the audit committee significantly influences the dependent variable ViF, while the effects of the other variables are not statistically significant.

Thus, it can be stated that only the audit committee variable (CoA) has an influence on the firm value. The audit committee variable (CoA) significantly influences the firm value (ViF) with a path coefficient of 0.255 and a t-statistic of 3.692, which is greater than 1.96, or a p-value of 0.000, which is less than 0.05. Meanwhile, other variables, namely independent commissioners (CoI), institutional ownership (OeI), and corporate social responsibility (CSR), do not significantly influence the firm value (ViF), as their p-values are greater than 0.05.

The influence of independent commissioners on firm value has a positive effect (0.014), but this influence is not statistically significant. The T-statistic value (0.247) and the P-value (0.805) are both much greater than 0.05. These results indicate that the null hypothesis (H05) cannot be rejected, meaning that independent commissioners do not have a significant influence on firm value.

Although an independent commissioner is expected to provide objective supervision and increase transparency [81], in the context of this study, the contribution of an independent commissioner to firm value is not proven to be significant. This is due to the lack of an active role of the independent commissioner in strategic decision-making or the presence of other factors that are more dominant in influencing firm value.

In the context of agency theory, an independent commissioner is expected to minimize conflicts of interest between management and shareholders by providing independent and objective supervision. However, these results indicate that an independent commissioner may not have played an effective role in increasing firm value. It is possible that an independent commissioner does not have enough influence in decision-making or that the quality of supervision provided is less than optimal.

The effect of institutional ownership on firm value has a positive coefficient of 0.041, but this is not statistically significant. The T-statistic value (0.733) and the P-value (0.463) are both greater than 0.05. Therefore, the null hypothesis (H06) cannot be rejected, indicating that institutional ownership does not have a significant effect on firm value.

This finding is contrary to several previous studies that show that institutional ownership can increase firm value through tighter monitoring of management [73, 82]. However, this insignificance reflects that even though institutional investors hold large shares, their influence on increasing firm value may be limited by interactions with other factors such as corporate strategy or market conditions.

Based on agency theory, institutional ownership is expected to increase monitoring of management because institutional owners have better ability and resources to monitor the company. However, the insignificance of this result may mean that institutions may not fully utilize their ability to influence management or their influence is limited.

The influence of the audit committee on firm value has a significant positive effect (0.255) with a high T-statistic (3.692) and a P-value (0.000) smaller than 0.05. The alternative hypothesis (Ha7) is accepted, indicating that the audit committee has a significant impact on firm value. This finding aligns with previous studies showing that an effective audit committee can enhance firm value through increased transparency, improved internal control quality, and greater management accountability [29, 83]. This result aligns with the expectation that the existence of a well-functioning audit committee can reduce inefficiency and increase investor confidence.

Based on agency theory, the importance of strong oversight in minimizing agency costs is emphasized. An effective audit committee can increase transparency and reduce potential conflicts of interest between management and shareholders, which ultimately increases the value of the company.

The influence of CSR on firm value has a positive coefficient value (0.006), but this influence is not statistically significant, with a T-statistic of 0.125 and a P-value of 0.900, both much greater than 0.05. The null hypothesis (H08) cannot be rejected, which indicates that CSR does not have a significant influence on firm value.

This result contradicts previous studies that show that CSR can increase firm value by improving company image and improving stakeholder relations [5, 84]. In the context of this study, the impact of CSR on firm value may take longer to be observed, or the company may not have implemented CSR programs effectively, so their impact on firm value has not been felt.

According to agency theory, CSR can be seen as an agency cost if a company diverts resources to social activities that do not directly increase shareholder value. These results indicate that CSR, in the context of this company, has not been viewed as a strategic tool to improve financial performance or maximize shareholder value.

The effect of profitability on firm value has a significant positive effect (0.189), with a T-statistic (4.563) and a P-value (0.000) less than 0.05. The alternative hypothesis (Ha9) is accepted, which means that profitability has a significant effect on firm value. These results are in accordance with previous studies showing that more profitable companies tend to have higher firm value because the profits generated indicate the company's ability to provide good returns for shareholders [56, 86]. High profitability reflects good financial prospects and is attractive to investors, thereby increasing the company's value.

Based on agency theory, the relationship between management and shareholders is often filled with agency problems, where management can make decisions that are not in line with the interests of the principal. High profitability indicates that management has succeeded in managing the company efficiently and generating profits, which reduces the potential for conflicts of interest between management and shareholders.

4.1.2. Testing the Influence of Independent Variables (CoI, OeI, CoA, and CSR) on the Mediating Variable (Pro).

The results of testing the influence of independent variables (CoI, OeI, CoA, and CSR) on the mediating variable (Pro) are presented in Table 4.

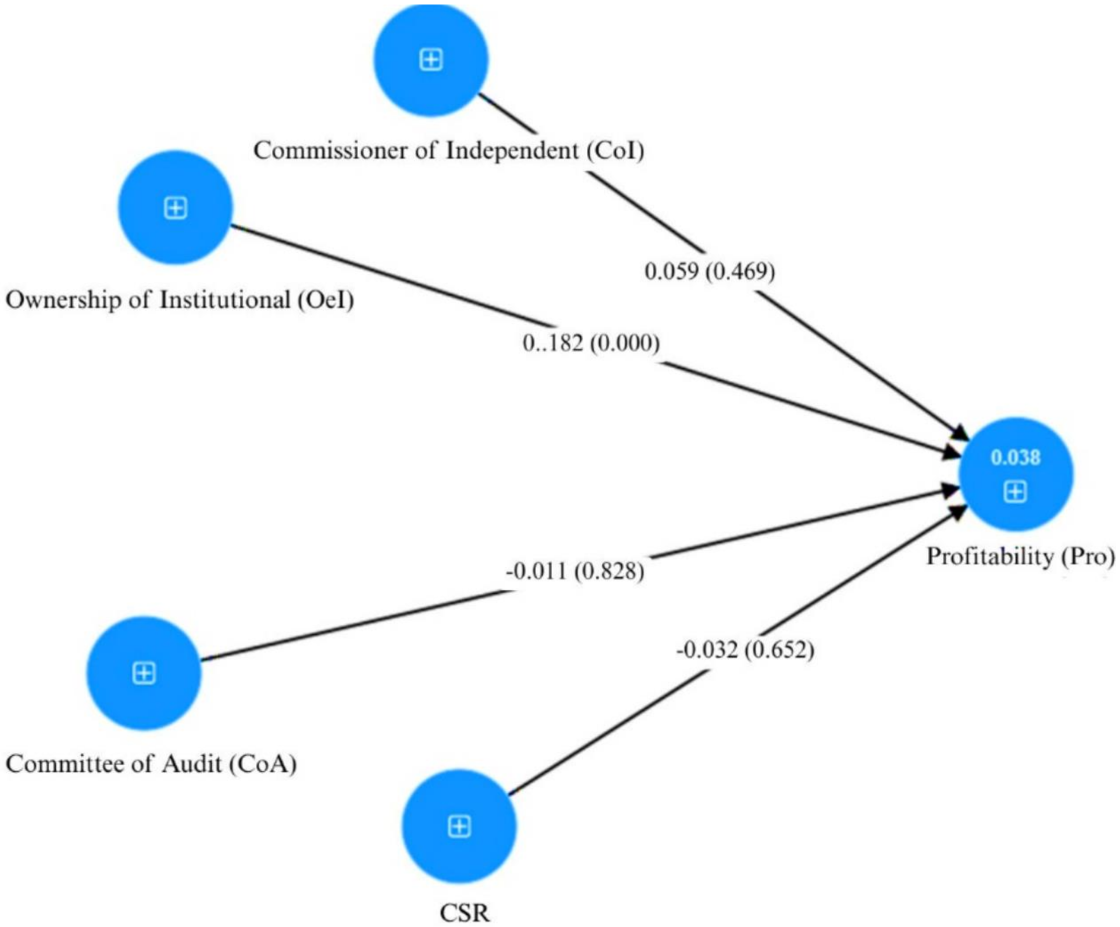

Figure 2.
Second Regression Equation Diagram (The Effect of CoI, OeI, CoA, and CSR on Pro).

$$\text{Equation 2: Pro} = \rho_{ProCoI}\text{CoI} + \rho_{ProOeI}\text{OeI} + \rho_{ProCoA}\text{CoA} + \rho_{ProCSR}\text{CSR} + \rho_{Pro\varepsilon_1}\varepsilon 1 \quad (4)$$

Table 4.
Results of testing the influence of independent variables on mediating variable.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Independent Commissioner (CoI) -> Profitability (Pro)	0.059	0.058	0.081	0.724	0.469
Institutional Ownership (OeI) -> Profitability (Pro)	0.182	0.182	0.039	4.676	0.000
Audit Committee (CoA) -> Profitability (Pro)	-0.011	-0.011	0.053	0.218	0.828
CSR -> Profitability (Pro)	-0.032	-0.034	0.071	0.451	0.652

Based on Table 4, a second regression equation can be prepared that shows the influence of independent variables (CoI, OeI, CoA, and CSR) on the mediation variable (Pro). The results of the second equation are as follows: Pro = 0.059CoI + 0.182OeI - 0.011CoA - 0.032CSR. Table 4 shows that the path coefficient values of CoI (independent commissioner), OeI (institutional ownership), CoA (audit committee), and CSR (corporate social responsibility) are 0.059, 0.182, -0.011, and -0.034, respectively, with P-values of 0.469, 0.000, 0.828, and 0.652, respectively. Of the four variables, only one variable has a P-value smaller than 0.05, namely OeI (institutional ownership) with a P-value of 0.000, while the other three variables, CoI (independent commissioner), CoA (audit committee), and CSR (corporate social responsibility), have P-values greater than 0.05. These results indicate that only the coefficient value of institutional ownership is significant, while the coefficient values of the other three variables are not significant.

Thus, it can be stated that only the institutional ownership variable (OeI) has an influence on profitability. The coefficient value, which is positive, indicates that institutional ownership has a positive effect on profitability. The institutional ownership variable (OeI) significantly affects profitability (Pro) with a path coefficient of 0.182 and a t-statistic of 4.676, which is greater than 1.96, or a p-value of 0.000, which is less than 0.05. While other variables, namely independent commissioner (CoI), audit committee (CoA), and corporate social responsibility (CSR), do not significantly affect profitability (Pro) with a p-value greater than 0.05.

The effect of an independent commissioner on profitability is not statistically significant ($p > 0.05$). This indicates that this variable does not contribute significantly to profitability. Therefore, the null hypothesis (H01) is not rejected, which suggests that an independent commissioner does not have a significant effect on profitability.

Although several empirical studies show that independent commissioners have an important role in increasing company profitability by improving supervision and preventing agency problems [29, 65], the results of this study do not find significant evidence to support the hypothesis. Although independent commissioners should reduce conflicts of interest and improve corporate efficiency, this result indicates that the supervisory role has not been fully effective in improving corporate profitability.

Agency theory emphasizes the importance of the role of independent monitoring to reduce agency problems between owners and management. This can be due to the lack of authority or expertise of independent commissioners to influence management policies that are directly related to profitability, or because their role is more dominant in governance aspects than in direct financial performance.

The effect of institutional ownership (OeI) on profitability (Pro) is positive and significant ($p < 0.05$). This indicates that institutional ownership significantly affects the company's profitability. Therefore, the null hypothesis (H02) is rejected, which means that institutional ownership has a significant effect on profitability.

This result aligns with previous studies indicating that institutional ownership can enhance company profitability because institutional investors tend to conduct stricter supervision and are focused on the company's long-term performance [33, 74]. Institutional ownership that significantly affects profitability reflects the ability of institutional investors to encourage management to run the company more efficiently and improve performance.

Based on agency theory, institutional ownership is considered one of the mechanisms for monitoring management. Financial institutions tend to have resources and incentives to monitor management performance more effectively than individual shareholders. Therefore, they can minimize opportunistic management behavior that has the potential to reduce corporate profitability. This result supports agency theory, where institutional ownership is effective in improving corporate financial performance by monitoring management actions.

The effect of the audit committee on profitability is not significant ($p > 0.05$). This indicates that the audit committee does not contribute significantly to the company's profitability. The null hypothesis (H03) is not rejected, which means that the audit committee does not have a significant effect on profitability.

This result is contrary to previous studies that show that an effective audit committee can increase company profitability by improving the quality of supervision and financial reporting [5, 72]. However, the insignificant role of the audit committee indicates that in the companies studied, it has not functioned optimally or effectively in directly influencing profitability.

Based on agency theory, the audit committee functions as one of the monitoring mechanisms that aim to ensure that the company's financial statements and operations are transparent and accountable. However, this result indicates that the existence of a more active audit committee does not necessarily have an impact on the company's profitability. This is because the audit committee's focus is more on fulfilling compliance and governance, rather than on increasing direct profitability.

The effect of CSR on profitability is negative and insignificant ($p > 0.05$). This indicates that CSR does not have a significant effect on company profitability. The null hypothesis (H04) is not rejected, so CSR does not have a significant effect on company profitability.

Although various studies have found that CSR can provide benefits for profitability by improving corporate image and stakeholder relations [25, 78], this result does not find a significant effect. The insignificant effect reflects that implementing CSR requires quite a large cost, while the benefits have not been seen in the short term. This could also be due to differences in CSR implementation across various companies.

Based on agency theory, management engages in CSR activities as a tool to enhance personal reputation or other interests that are not always aligned with shareholders' interests in achieving maximum profitability. Therefore, if CSR is not designed and implemented with the aim of improving long-term performance, CSR can become an expenditure that does not produce a direct impact on profitability, as shown by this result.

4.1.3. Testing the Influence of Independent Variables (CoI, OeI, CoA, and CSR) and Mediating Variables (Pro) on the Dependent Variable (ViF).

The results of testing the influence of independent variables (CoI, OeI, CoA, and CSR) through the mediating variable (Pro) on the dependent variable (ViF) are presented in Table 5.

$$\text{Equation 3: } ViF=\rho_{ViFCoI}CoI+\rho_{ViFOeI}OeI+\rho_{ViFCoA}CoA+\rho_{ViFCSR}CSR+\rho_{ViFPro}Pro+\rho_{ViF}\varepsilon_2\varepsilon2 \qquad (5)$$

Table 5.
Results of testing the influence of independent variables and mediating variables on the dependent variable.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Independent Commissioner (CoI) -> Firm value (ViF)	0.003	0.003	0.059	0.056	0.955
Institutional Ownership (OeI) -> Firm value (ViF)	0.007	0.008	0.055	0.122	0.903
Audit Committee (CoA) -> Firm value (ViF)	0.257	0.255	0.068	3.784	0.000
CSR -> Firm value (ViF)	0.013	0.015	0.050	0.251	0.802
Profitability (Pro) -> Firm value (ViF)	0.189	0.189	0.056	3.355	0.001

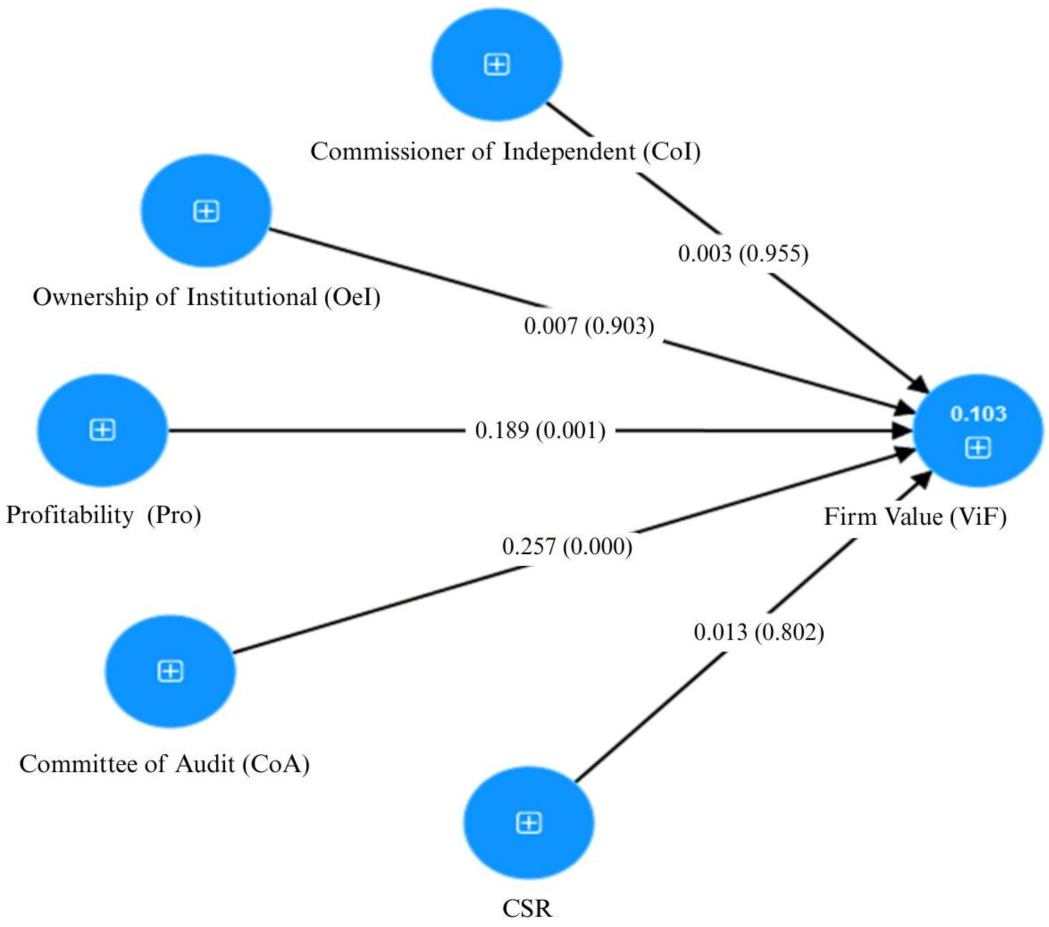

Figure 3.
Third Regression Equation Diagram (The Effect of CoI, OeI, CoA, and CSR and Pro on ViF).

Based on Table 5, the third regression equation can be compiled which shows the influence of independent variables (CoI, OeI, CoA, and CSR) through the mediating variable (Pro) on the dependent variable (ViF). The results of the third equation are as follows: ViF = 0.003CoI + 0.007OeI - 0.257CoA + 0.013CSR + 0.189Pro. Table 5 shows that the path coefficient values of CoI (independent commissioner), OeI (institutional ownership), CoA (audit committee), and CSR (corporate social responsibility) and Pro (profitability) are 0.003, 0.007, 0.257, 0.013, 0.189, respectively, with P-values of 0.955, 0.903, 0.000, 0.802, 0.001, respectively. Based on testing on the third equation, it can be seen that the audit committee variable (CoA) with a path coefficient of 0.257 and a P-value of 0.000, is significant. The other variables show different levels of significance, with CoA being the most influential in this context <0.05 and profitability (Pro) with a path coefficient of 0.189, p-value 0.001, < 0.05, significantly affects the firm value (ViF). While other variables, namely independent commissioner (CoI), institutional ownership (OeI), and corporate social responsibility (CSR), do not significantly affect the firm value (ViF) with a p-value > 0.05. These results indicate that the audit committee coefficient value (CoA) and the profitability coefficient value (Pro) are significant, while the coefficient values of the other three variables (independent commissioner, institutional ownership, and CSR) are not significant.

Thus, it can be stated that only the audit committee variable (CoA) and the profitability variable (Pro) have an influence on the firm value. The positive coefficient values indicate that the audit committee and profitability have a positive influence on the firm value.

4.2. Mediation Test Results

To test whether profitability acts as a mediator, the "Causal Step" method introduced by Baron and Kenny [105]. To test mediation in the Causal Step method, the path coefficients of three different regression equations are compared. The first regression equation tests the effect of independent variables (CoI, OeI, CoA, and CSR) on the dependent variable (ViF). The second regression equation tests the effect of independent variables (CoI, OeI, CoA, and CSR) on the mediating/intervening variable (Pro). Furthermore, the third regression equation tests the effect of independent variables (CoI, OeI, CoA, and CSR) and mediating variables (Pro) on the dependent variable (ViF). The three equations are shown below.

Equation 1: $ViF = \rho_{ViFCoI}CoI + \rho_{ViFOeI}OeI + \rho_{ViFCoA}CoA + \rho_{ViFCSR}CSR + \rho_{ViF\varepsilon_3}\varepsilon 3$ (3)

Equation 2: $Pro = \rho_{ProCoI}CoI + \rho_{ProOeI}OeI + \rho_{ProCoA}CoA + \rho_{ProCSR}CSR + \rho_{Pro\varepsilon_1}\varepsilon 1$ (4)

Equation 3: $ViF=\rho_{ViFCoI}CoI+\rho_{ViFOeI}OeI+\rho_{ViFCoA}CoA+\rho_{ViFCSR}CSR+\rho_{ViFPro}Pro+\rho_{ViF\varepsilon_2}\varepsilon 2$ (5)

Hypothesis testing of indirect effects, then in this study the Baron and Kenny [105]. Mediation occurs when the path coefficient value in Equation 2 must be significant. Then, the path coefficient value of the mediating variable (ρ_{ViFPro}) in Equation 3 must be significant. Furthermore, the path coefficient value in Equation 3 must be smaller than the path coefficient value in Equation 1. To determine whether full mediation or partial mediation occurs, the path coefficient value in Equation 3 is done by looking at the path coefficient value in Equation 3. If the path analysis value in Equation 3 is smaller than the path coefficient value in Equation 1 and the path coefficient value in Equation 3 is equal to zero, then full mediation occurs. However, if the path coefficient value in Equation 3 is not equal to zero, then partial mediation occurs.

Based on the research results, the results of Equation 1 are: ViF = 0.014CoI + 0.041OeI + 0.255CoA + 0.006CSR. The results of the first equation show the influence of independent variables (CoI, OeI, CoA, and CSR) on the dependent variable (ViF). The results of Equation 2 are: pro = 0.059CoI + 0.182OeI - 0.011CoA - 0.032CSR. The results of the second equation show the influence of independent variables (CoI, OeI, CoA, and CSR) on the mediating variable (Pro). The results of equation III are: ViF = 0.003CoI + 0.007OeI - 0.257CoA + 0.013CSR + 0.189Pro. The results of the third equation show the influence of the independent variables (CoI, OeI, CoA, and CSR) through the mediating variable (Pro) on the dependent variable (ViF).

Based on the three equations referring to Table 3, Table 4, and Table 5, it can be explained that equation I (see Table 3) functions as an initial model used to evaluate the influence of independent variables on the dependent variable. The results show that only the audit committee coefficient value is significant, while the coefficient values of the other three variables (independent commissioner, institutional ownership, and CSR) are not significant. Equation II (see Table 4) functions as a model used to evaluate the influence of independent variables on intervening variables. The results show that only the institutional ownership coefficient value is significant, while the coefficient values of the other three variables (independent commissioner, audit committee, and CSR) are not significant. Equation III (see Table 5) functions as a model used to determine the influence of independent variables and mediating variables on dependent variables. The results show that the audit committee coefficient value (CoA) and the profitability coefficient value (Pro) are significant, while the coefficient values of the other three variables (independent commissioners, institutional ownership, and CSR) are not significant. Furthermore, the results of the third equation show that the profitability variable (Pro) has a significant effect on firm value (ViF) with a p-value of 0.001 < 0.05. The path coefficient value of the influence of institutional ownership (OeI) on firm value (ViF) in equation 3 is 0.007, which is smaller than the influence of institutional ownership (OeI) on firm value (ViF) in equation 1, which is 0.041, so profitability (Pro) plays a significant role in mediating the indirect influence of institutional ownership (OeI) on firm value (ViF).

Thus, based on the path coefficient, the influence of institutional ownership (OeI) on firm value (ViF) in equation 3 is 0.007, which is smaller than the influence of institutional ownership (OeI) on firm value (ViF) in equation 1, which is 0.041. Other variables, including independent commissioners (CoI), audit committee (CoA), and corporate social responsibility (CSR), do not have an indirect influence on firm value (ViF) through the mediation of profitability (Pro) because, in equation II, these three variables do not have a significant direct effect on profitability (Pro) with a p-value > 0.05.

Referring to equation III and equation I above, it can be explained as follows:

The influence of independent commissioners on firm value, mediated by profitability, shows that the independent commissioner (CoI) in equation I has a P-value of 0.805, which is much greater than 0.05. In equation III, the T-statistic is 0.056, and the P-value is 0.955. Referring to the causal step method developed by Baron and Kenny [105] the first requirement stating that there is mediation is not met. Thus, the independent commissioner does not affect firm value, either directly or through profitability. This result rejects the alternative hypothesis (Ha10), that profitability does not mediate the influence of independent commissioners on firm value. Although several studies by Babatunde and Akeju [90] and Ayu et al. [72] show that an independent commissioner can drive profitability through effective supervision. In the context of this study, an independent commissioner does not show any influence, either directly or through profitability, on firm value [72, 90].

Based on agency theory, independent commissioners act as supervisors who ensure that management acts in accordance with the interests of shareholders. However, in this study, the supervisory role was not strong enough to significantly affect profitability or firm value. This shows that in the companies studied, independent commissioners do not have an effective influence on increasing firm value.

The effect of institutional ownership on firm value, mediated by profitability, shows that institutional ownership (OeI) has a significant effect on firm value (ViF) with a p-value < 0.05, and a path coefficient of 0.041 in equation 1. However, when profitability (Pro) is included as a mediating variable in equation 3, the path coefficient for the direct influence of institutional ownership on firm value decreases to 0.007. Referring to the causal step method developed by Baron and Kenny [105] the first requirement to state that mediation has been met [105]. The next requirement, mediation occurs if the coefficient value in equation III is smaller than the coefficient value in equation I. Then the profitability variable (Pro) is classified as a partial mediation. This shows that profitability acts as a partial mediator because the direct effect of OeI on ViF is reduced but still significant. The alternative hypothesis (Ha11) is not rejected, indicating that profitability mediates the effect of institutional ownership on firm value. This result is in accordance with previous research by Saniyyah [33] Valensia and Khairani [29] showing a positive influence of institutional ownership on profitability [29, 33]. This result indicates that institutional ownership contributes significantly to firm value through profitability.

In the context of agency theory, institutional ownership can reduce agency conflicts through tighter monitoring of management. In line with this, this result indicates that monitoring by institutional owners successfully increases firm value, both directly and through profitability.

The influence of the audit committee on firm value mediated by profitability shows that profitability does not act as a significant mediator. This can be seen from the results in equation II, where the audit committee does not significantly affect profitability (p-value > 0.05). Although in equations I and III, the audit committee coefficient values show significant results, in equation II, the coefficient value shows insignificant results. Referring to the causal step method developed by Baron and Kenny [105] the first requirement stating the existence of mediation is not met [105]. Thus, profitability does not mediate the effect between the audit committee and firm value, so the alternative hypothesis (Ha12) is rejected. This means that the effect of the audit committee on firm value occurs directly, without going through increased profitability. Although there is no mediation, these results still support agency theory, which emphasizes the importance of effective supervision in reducing agency conflicts. These findings indicate that the direct role of an independent and competent audit committee is able to increase investor confidence through transparent financial reporting, which impacts increasing firm value. However, the absence of a mediation path through profitability indicates that the audit committee does not significantly improve profitability. This is different from several previous findings, Widianingsih [73] and Sondokan et al. [65], which stated that the audit committee can also increase company profitability [65, 73]. Thus, only some of the findings are in line with previous theories and literature.

The effect of CSR on firm value mediated by profitability shows that CSR in equation I, with a T-statistic of 0.125 and a P-value of 0.900, is much greater than 0.05. In equation III, the T-statistic is 0.251, and the P-value is 0.802. Referring to the causal step method developed by Baron and Kenny [105] the first requirement stating the existence of mediation is not met [105]. Thus, the CSR variable does not have an indirect effect on firm value (ViF) through profitability mediation (Pro) because, in equation II, this variable does not have a direct effect on profitability (Pro) with a p-value > 0.05. The alternative hypothesis (Ha13) is rejected, indicating that profitability does not mediate the effect of CSR on firm value. Although several studies by Astuti, et al. [19] and Kamaliah [25] state that CSR can have a positive impact on profitability and firm value [19, 25] this result indicates that in the context of this study, CSR has not shown a significant impact on profitability and firm value.

Based on an agency theory perspective, CSR can be viewed as a tool to reduce conflict between management and shareholders because it focuses on long-term value. However, in this study, CSR was not proven to have a significant effect on profitability and/or firm value because the company has not prioritized CSR programs optimally to increase firm value.

5. Conclusions

Institutional ownership has a significant positive effect on profitability. While independent commissioners, the audit committee, and corporate social responsibility do not affect profitability, institutional ownership, the audit committee, and profitability directly influence firm value. Conversely, independent commissioners and corporate social responsibility do not directly impact firm value. Profitability partially mediates the effect of institutional ownership on firm value; however, it does not mediate the effects of independent commissioners, the audit committee, and corporate social responsibility on firm value. Research limitations include the focus on manufacturing companies listed on the Indonesia Stock Exchange, which restricts the generalizability of the results to all listed companies. The model used does not encompass all variables influencing GCG, CSR, profitability, and firm value. Variables such as innovation, brand reputation, or customer satisfaction are not included but may be relevant. Further research should consider a broader industrial sector to enhance the applicability of the findings. Additionally, future studies should explore other factors affecting profitability and firm value, as numerous variables may explain variations in these areas.

The practical implications of these significant findings are that the results of the study indicate the audit committee has a positive and significant influence on firm value. The finding that the audit committee has a positive and significant influence on firm value underscores the importance of strengthening the function and structure of the audit committee within the company. Therefore, companies need to ensure that the audit committee comprises competent, independent, and active members and has adequate access to information to carry out effective supervision of the company's financial reporting and compliance. This strengthening can enhance investor and stakeholder trust, thereby encouraging an increase in firm value. The role of profitability as a partial mediator of the influence of institutional ownership on firm value is also noteworthy. The finding of a partial mediation role of profitability in the influence of institutional ownership and firm value implies that institutional investors have a tangible impact on driving the efficiency and financial performance of the company. Consequently, companies are advised to increase the involvement of institutional shareholders in strategic decision-making processes and managerial supervision. Additionally, strategies aimed at improving profitability should be prioritized, as they have proven to be a significant pathway to increasing firm value.

The influence of institutional ownership on profitability. The results show a significant influence of institutional ownership on profitability. Significant institutional ownership of profitability confirms the role of institutional investors as effective monitoring agents. The implication is that companies must pay attention to the ownership structure and encourage the active involvement of institutional investors in monitoring and evaluating management performance so that the company's profitability is maintained and increased.

Acronyms:
CoI: Commissioner of Independent
OeI: Ownership of Institutional
CoA: Committee of Audit
CSR: Corporate Social Responsibility
Pro: Profitability
ViF: Firm Value

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