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The Role of Financial Performance as a Mediator Between Good Corporate Governance and Firm Value

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Abstract

This study examines and analyzes the effect of good corporate governance on the value of banking companies with financial performance as an intervening variable listed on the Indonesia Stock Exchange. The population in this study is the entire banking industry listed on the Indonesia Stock Exchange. The sampling technique used was the purposive sampling technique, namely the determination of the sample based on specific criteria. Based on the established standards, the number of samples obtained is 11 companies. The source of this research data is secondary data, in the form of annual reports of companies and good corporate governance (GCG) for the period 2018–2020, which were obtained through the official websites of the Indonesia Stock Exchange (IDX) and the official websites of the various companies that were the research sample. The data collection technique is done by documentation. The data obtained will be analyzed by descriptive statistical analysis and using the Partial Least Square (PLS) approach. The results showed that good corporate governance negatively and significantly affects firm value. Meanwhile, good corporate governance positively and substantially affects financial performance. Meanwhile, economic performance has a positive and significant effect on firm value; good corporate governance has a positive and significant effect on firm value through financial performance.

Keywords: Good Corporate Governance, Firm Value, Financial Performance.

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Introduction

Problems in business regarding Good Corporate Governance (GCG) concern the economy and businesspeople. In recent years, many companies have increasingly realized the importance of implementing Good Corporate Governance (GCG) programs as part of their business strategy. This is a factor that can affect the value of the firm. Corporate Governance problems arise because

of the firm's separation between ownership and control. This separation is based on Agency Theory, in which, in this case, management tends to increase personal profits rather than firm goals (Hassan & Halbouni, 2013). The weak implementation of corporate governance is the main trigger for various financial scandals in the firm's business. Many people are starting to think that implementing corporate governance is necessary in the business world as a barometer of a firm's accountability. The implementation of good corporate governance has become an issue that has attracted the attention of economists and businesspeople in Indonesia since the financial crisis that hit Asia in 1997-1998 (Ulum, 2018). Allegations of insider trading on shares of PT Bank Central Asia in 2001, the disclosure of the mark-up case of overstated financial statements of PT Kimia Farma, the collapse of large companies such as Enron and Worldcom in 2002 as well as the issue of the subprime mortgage crisis in the United States in 2008 implies the importance of current implementation of good corporate governance (Manossoh, 2016).

These cases prove that corporate governance implementation is still weak because the practice of manipulating financial statements is still being carried out. Therefore, it is necessary to have a mechanism to minimize or even eliminate earnings management actions taken by the firm. One of these mechanisms is to implement good corporate governance practices. If earnings management can be suppressed, then the firm managers or management will continuously try to improve the firm's performance. For this reason, the role of the Independent Commissioner and the Audit Committee is undoubtedly essential in determining the continuity of the firm (Adeusi et al., 2013). In this study, the corporate governance mechanism that will be studied consists of the size of the board of commissioners and the audit committee. This study chose this mechanism because the Board of Commissioners and the Audit Committee have a vital and strategic role in maintaining the credibility of the process of preparing financial statements as well as creating an adequate corporate supervision system and implementing good corporate governance. When the functions of the board of commissioners and audit committee are running effectively, the control over the firm will be better so that management runs the firm to achieve firm goals, not for personal gain. Thus, management will honestly manage the firm, which will ultimately improve the firm's financial performance (Utami & Yusniar, 2020).

Along with the development of existing banking management, the function of the bank becomes more expansive and has a central role in economic and business development; trust is the main factor in allocating funds to the bank. This study chose banking companies because banks have different characteristics from other companies. One of the characteristics that distinguish banking companies from other companies is banking as a mediated institution in the financial sector. If banking companies fail to carry out their activities as intermediary institutions, they will be affected in other economic sectors (Sari & Khuzaini, 2022). GCG can align the interests of management with firm owners, so that management will work more effectively and efficiently in generating profits for the firm. This will also improve the quality of financial reports so that public confidence in financial reports to measure firm performance will also increase. On the other hand, increasing profitability and public trust can increase the firm's value. The higher the firm's value, the more prosperous the owner is. Thus, the implementation of GCG can improve performance, but also the value of the firm (Kumari & Pattanayak, 2017). Good performance will have a positive effect on the compensation they receive, and vice versa, bad performance will have a negative effect. Corporate governance is a concept proposed to improve firm performance through supervision or monitoring management performance and ensuring management accountability to

stakeholders based on the regulatory framework (Ajili & Bouri, 2018). This study focuses on the firm's performance as measured by the ratio of Return on Assets (ROA) and earnings per share (EPS). Fawaid (2017) says that ROA is a profitability ratio that is often used which describes the extent to which the firm's ability to generate profits with all assets owned by the firm, and EPS is one of the essential components that must be considered in the firm's analysis which shows the amount of firm net income that is ready to be distributed. For all shareholders of the firm. Sunardi (2019) explained that factors influence the firm's value, including business size, leverage, profitability, dividend policy, corporate social responsibility, and GCG. This study measures firm value by PBV (Price Book Value). PBV is used as a proxy because its existence is essential for investors to determine investment strategies in the capital market. PBV can show the firm's ability to create value relative to the amount of capital invested.

Tests on the effect of GCG on financial performance and firm value have been conducted before. However, the results of these studies are still inconsistent. As (Wati, 2012) and (Maryanti & Fithri, 2017) state that GCG can affect financial performance, while research results (Ferial et al., 2016) prove otherwise. Meanwhile, research (Agustina, 2013; Prastuti & Budiasih, 2015) show that the GCG rating can directly affect the firm's value. This is contrary to the results of research (Rachman et al., 2015; Ratih, 2011). This study will re-examine the effect of GCG on financial performance and firm value. Applying corporate governance principles in the business world is necessary for carrying out the business activities of existing companies so that companies can continue to compete and survive in an increasingly competitive global market competition to achieve their goals. From the differences in the results of these studies, the researchers are interested in re-testing by combining the GCG variable on the projected firm value with PBV by making financial performance an intervening variable proxied by ROA and EPS.

Agency theory describes the relationship between the principal and the agent, where the principal is the party who gives the mandate to the agent. The principal delegates decision-making responsibilities to the agent where the rights and obligations of both parties are described in a mutually beneficial employment agreement. The "human" model that underlies agency theory is that rational actors are individuals who maximize their utility (Moezaque & Daito, 2020). Both agent and principal in agency theory aim to get as much utility as possible with the least possible expenditure. Signal theory explains that companies are urged to provide financial statement information to external parties. The firm's urge to provide information is because of information asymmetry between the firm and external parties. External parties then assess the firm as a function of different signaling mechanisms. Lack of information from outsiders about the firm causes them to protect themselves by charging low prices for the firm, and it is another possibility that uninformed external parties will have the same perception about the value of all companies. This view will harm companies with better conditions because external parties will rate the firm lower than it should and vice versa (Maryanto et al., 2017).

Corporate governance is a set of regulations that regulate the relationship between shareholders, firm managers, creditors, the government, employees, and other internal and external stakeholders relating to their rights and obligations; in other words, a system that regulates and controls strategic direction. and the performance of a firm (Oktaryani et al., 2017). Every firm must ensure that the principles of GCG are applied to every aspect of the business and at all levels of the firm. The principles of GCG, namely transparency, accountability, responsibility, independence, fairness, and equality, are needed to achieve the firm's business sustainability

(sustainability) by paying attention to stakeholders. According to Irham (2012), financial performance is an analysis carried out to see the extent to which a firm has carried out its finances properly and correctly and is a description of the financial condition of a firm that is analyzed with financial analysis tools so that it can be seen the good and bad financial conditions that reflect performance in a certain period. Firm value is a specific condition that has been achieved by a firm as an illustration of public trust in the firm after going through a process of activities for several years, namely since the firm was founded until now. People judge by being willing to buy firm shares at a specific price according to their perceptions and beliefs. Increasing the firm's value is an achievement of the owners' wishes because, with the increase in the firm's value, the owners' welfare will also increase. Firm value is significant because the high Firm Value will be followed by high shareholder prosperity (Amini, 2020).

Pioh (2018) said that GCG itself is the primary goal of increasing the value of shares in the long term while still paying attention to the interests of other stakeholders; this is by the decision of the Minister of SOEs No. 117/M-MBU/2002, which aims to increase and realize shareholder value and increase interest investors to buy the shares of the BUMN in question. GCG guidelines are a reference for companies by performing GCG to optimize the firm's value for shareholders while still paying attention to other stakeholders. Applying the principle of corporate governance in the business world is necessary to carry out business activities for existing companies to continue to compete and survive in an increasingly competitive global market competition to achieve their goals. By the theoretical study, it was concluded that there was an influence of GCG on firm value. This theory is supported by the results of research (Siagian et al., 2013), which results that GCG has a positive effect on firm value. This finding shows that companies implementing good corporate governance have higher Firm Values. However, it is different from research (Rachman et al., 2015) that good corporate governance (GCG) has no significant effect on firm value (Price Book Value/PBV).

H1: Good Corporate Governance has a positive effect on firm value

Agency theory emphasizes the importance of firm owners handing over firm management to experts/professionals (agents) who understand running their daily business better. It is intended that the firm owner obtain the maximum possible profit at the most efficient cost possible by managing the firm with professional personnel. Where professionals serve the benefit of the firm, so, in this case, they act as agents of shareholders. The bigger the firm is managed to earn, the greater the profit. Meanwhile, shareholders are tasked with supervising and monitoring the firm's running and ensuring that they work for the firm's benefit (Azzahra & Wibowo, 2019). Following the theoretical study, it is found that there is an influence of GCG on financial performance as proxied by EPS. So that the more consistent or continuous GCG implementation is, the higher the EPS given and indicates a better level of welfare for shareholders. Moreover, this is following the results of research (Permata et al., 2012), which states that GCG affects EPS partially.

According to Hidayat (2021), the implementation of GCG principles can increase investor and public confidence, and in the management of SOE assets, GCG can improve SOE performance because of better ROA. Siagian (2013) states that the implementation of GCG can maximize profits by handing over the management of the firm to experts/professionals (agents) who are more understanding of running the day-to-day business, and shareholders are tasked with

supervising and monitoring the running of the firm and ensuring that they work for the benefit of the firm. Firm (agency theory). Ratih (2011) states that Return on Assets (ROA) describes asset turnover measured from sales. The bigger this ratio, the better, and this means that assets can be turned around faster and make a profit. So, it can be concluded that the relationship between GCG and ROA is directly proportional. The better or consistently the implementation of GCG, the better the performance of a firm and the better the ROA (profit) generated. Following the theoretical study, it was found that there was an effect of GCG on financial performance as proxied by ROA. So that the more consistent or continuous GCG implementation is, the higher the ROA, so that the resulting profit is maximized; this follows the results of previous research conducted by (Khumairoh et al., 2014), showing that the quality of GCG has a positive effect on ROA.

H2: Good Corporate Governance has a positive effect on firm performance

Earning Per Share (EPS) is the result of net income obtained by the firm (Net Income) divided by the number of outstanding shares (Shares outstanding) (Fawaid, 2017). The higher the Earning Per Share, the higher the profit earned by the firm. When investors evaluate the performance of a firm, it is not enough just to know whether a firm's income has increased or decreased, investors also need to pay attention to how changes in income affect their investment. In accordance with the theoretical study, it was found that there was an effect of EPS on firm value as proxied by PBV. So, the higher the EPS generated, the higher the value of the firm. Increasing EPS can show the firm's prospects in the future (Bagya et al., 2016). This is in accordance with the results of previous studies which state that either simultaneously or partially debt to equity ratio, earnings per share and net profit margin have a significant effect on firm value (Irayanti & Tumbel, 2014). Hanggraeni (2015) in his book suggests that stock prices make companies with high ROA tend to have high stock prices relative to their book value and vice versa. Then when the firm tries to increase ROA then this will increase its share price as well. The increasing share price reflects the good value of the firm for investors. In accordance with the theoretical study, it was found that there was an effect of ROA on firm value as proxied by PBV. So the higher the profit generated, the higher the value of the firm. This is in line with previous research (Anthony & Nanik, 2015) showing that ROA has a significant effect on firm value.

H3: Earning Per Share (EPS) has a positive effect on Firm Value

According to Adeusi (2013), implementing GCG principles can provide benefits such as good firm performance because ROA is good as well as EPS so that the level of investor and public confidence increases. The better or more consistently the implementation of GCG is carried out, the better the performance of a firm and the better ROA & EPS resulting from the implementation of GCG will reduce unhealthy business practices, encourage management to work more effectively and efficiently to reduce capital costs and increase opportunities to achieve business goals. More profit. The better the profitability growth (ROA and EPS) means that the firm's prospects in the future are better, meaning that the firm's value in the eyes of investors will be better because the proportion of dividend distribution will be more significant. This is an attraction for investors. If the firm's ability to generate profits increases, the stock price will also increase (Bagya et al., 2016). This contradicts the results of previous research

(Khumairoh et al., 2014), which showed that Return on Assets, Return on Equity, and Net Profit Margin was not proven to function as intervening variables.

H4: Good Corporate Governance has a positive effect on firm value with financial performance as an intervening variable

Research Design and Method

This type of research is quantitative research. The population in this study is the entire banking industry listed on the Indonesia Stock Exchange. The purposive sampling will determine the sample to be studied in this study. According to Sugiyono (2013), purposive sampling is a technique to determine research samples with specific considerations to make the data obtained later biased and more representative. The sampling criteria are 1. Banking companies listed on the Indonesia Stock Exchange 2018-2020. 2. Banking companies that publish financial reports for 2018-2020. 3. Banking companies that experienced profits during 2018-2020. Based on the sampling criteria mentioned above, the number of samples is obtained, as shown in table 1.

Table 1. Research Sample

No	Bank Code	Bank Name
1	AGRO	Bank Rakyat Indonesia Agroniaga Tbk
2	AGRS	PT Bank Agris Tbk
3	BBCA	Bank Central Asia Tbk
4	BBKP	Bank Bukopin Tbk
5	BBMD	PT Bank Mestika Dharma Tbk
6	BBNI	Bank Negara Indonesia Tbk
7	BBRI	Bank Rakyat Indonesia (Persero) Tbk
8	BBTN	Bank Tabungan Negara (Persero) Tbk
9	BDMN	Bank Danamon Indonesia Tbk
10	BJTM	Bank Pembangunan Daerah Jawa Timur Tbk
11	BMRI	Bank Mandiri (Persero) Tbk

The source of this research data is secondary data, in the form of annual reports of companies and good corporate governance (GCG) for the period 2018-2020, which were obtained through the official website of the Indonesia Stock Exchange (IDX) and the official websites of the various companies that were the research sample. The data collection technique used in conducting this research is documentation; namely, data collection is done by making copies or duplicating data from previous studies. Data analysis used the Partial Least Square (PLS) approach in this study. PLS is a component-based or variance-based structural equation model (SEM). PLS uses a 3-stage literacy process, and each stage generates an estimate. The first stage produces weight estimates, the second stage produces estimates for the inner and outer models, and the third stage produces estimates of means and locations (Ghozali, 2013).

Results and Discussion

Statistical Result

The results of descriptive statistics obtained as many as 33 observational data derived from the multiplication between the research period, namely for three years from 2018 - 2020, with the

number of sample companies as many as 11. The results of the analysis are presented in table 2.

Table 3. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Board of Commissioners	33	3.00	9.00	5.8788	1.91634
Audit Committee	33	2.00	6.00	4.0000	1.29904
ROA	33	0.09	3.05	1.7267	0.92958
EPS	33	0.75	982.67	301.9282	326.80494
PBV	33	0.63	4.33	1.7818	1.05808
Valid N (listwise)	33				

Table 2 describes the results of descriptive statistics on the variables in this study, including a. The minimum score for the Board of Commissioners is three, and the maximum value is 9. The average value of 5.8788 indicates that the Board of Commissioners strongly influences. The standard deviation of the Board of Commissioners is 1.91634. b. The minimum score for the Audit Committee is two, and the maximum value is 6. The average value of 4 indicates that the Audit Committee has a reasonably high influence. The Audit Committee's standard deviation is 1.29904. c. The minimum value of Return on Assets (ROA) is 0.09, and the maximum is 3.05. The average value of 1.7267 indicates that the Return on Assets (ROA) has a reasonably high effect. The standard deviation of Return on Assets (ROA) is 0.92958. d. The minimum earnings per Share (EPS) value is 0.75, and the maximum is 982.67. The average value of 301.9282 indicates that Earning per Share (EPS) has a high enough effect. The standard deviation of Earning per Share (EPS) is 326,80494. e. The minimum PBV value is 0.63, and the maximum PBV value is 4.33. The average value of 1.7818 indicates that PBV has a high enough effect. The standard deviation of the PBV is 1.05808.

Next, test first-order confirmatory factor analysis. Second order construct testing will go through II levels; first, the analysis is carried out from the latent construct dimensions to the indicators.

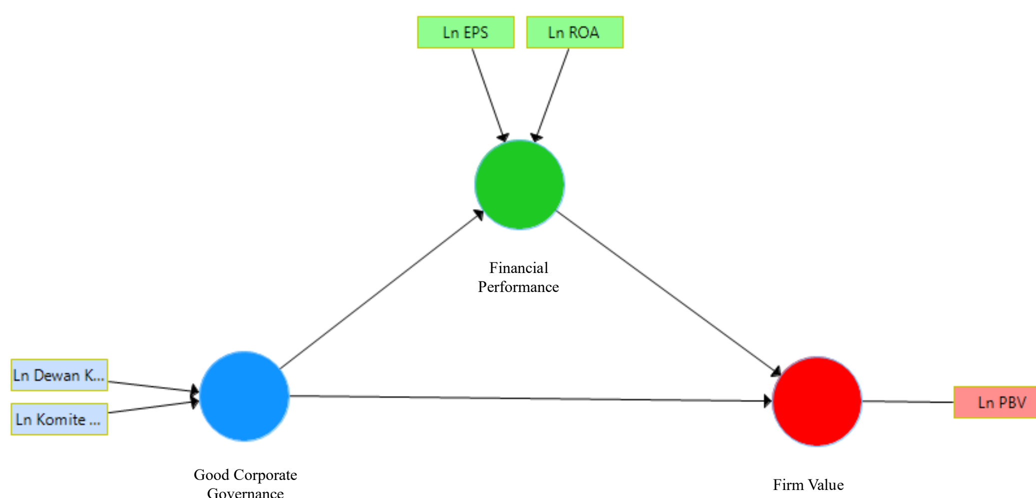

Figure 1. First Order Confirmatory Factor Analysis

From Figure 1, the first order of the construct of Good Corporate Governance is measured

by the indicators of the Board of Commissioners and the Audit Committee. First order Financial Performance construct is measured by using ROA and EPS indicators. Moreover, the first-order construct of Firm Value is measured by the PBV indicator. Next, test the outer model. The measurement criteria are used in the data analysis technique using Smart PLS to assess the model. Evaluation of the outer model with formative indicators uses substantive content, namely by comparing the magnitude of the weight and seeing the significance of the size of the weight.

Table 3. Outer Weights Test for Good Corporate Governance Variables

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Ln Board of Commissioners -> Good Corporate Governance	0.798	0.796	0.179	4.465	0.000
Ln Audit Committee -> Good Corporate Governance	0.580	0.315	0.192	2.453	0.003

Table 3 shows the results of the estimated calculation of the outer weights test using PLS for the Good Corporate Governance variable indicator. The table shows that the board of commissioners and the audit committee, which are formative indicators, have a P value < 0.05. All construct indicators are valid as a measurement ratio for the variable Good Corporate Governance.

Table 4. Outer Weights Test for Financial Performance Variables

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Ln ROA -> Financial performance	-0.529	-0.373	0.271	2.276	0.017
Ln EPS -> Financial performance	1.100	1.066	0.312	3.525	0.000

Table 4 shows the estimation results of the outer weights test calculation using PLS for financial performance variable indicators. The table shows that the board of ROA and EPS, which are formative indicators, have a P value <0.05, which means that all construct indicators are valid as a ratio for measuring Financial Performance variables.

Table 5. Outer Weights Test for Firm Value Variables

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Ln PBV -> Nilai Perusahaan	1.000	1.000	0.000		0.000

Table 5 shows the estimation results of the outer weights test calculation using PLS for the indicator of the Firm Value variable. The table shows that the PBV board, a formative indicator, has a P value <0.05, which means that all construct indicators are valid as a ratio for measuring

the Firm Value variable. Next, test the structural model or inner model. Innermodel (inner relation, structural model, and substantive theory) describes the relationship between latent variables based on substantive theory. The structural model was evaluated using R-square for the latent dependent variable. Assessing the model with PLS begins by looking at the R-square for each latent dependent variable.

Table 6. R-Square Construct Variable

	R Square
Financial performance	0.601
Firm Value	0.229

Table 6 shows that the R-Square value for the financial performance variable and the firm value are 0.601 and 0.229, respectively, which means that they are included in the moderate and weak categories. The R-square value of Financial Performance of 0.601 or 60.1% indicates that the financial performance variable can be explained by the Good Corporate Governance variable of 60.1%. The remaining 39.9% can be explained by other variables not included in this study. The R-square value of the firm value of 0.229 or 22.9% indicates that the variable value of the firm can be explained by the variables of Good Corporate Governance and Financial Performance of 22.9%, while the remaining 77.1% can be explained by other variables not found in the study. This.

Testing the proposed hypothesis is done by testing the structural model (inner model) by looking at the path coefficients, which show the parameter coefficients and the value of the statistical significance of t. The significance of the estimated parameters can provide information about the relationship between research variables. The limit for rejecting and accepting the hypothesis proposed above is sig P Values < 0.05. Table 7 presents the estimated output for testing the structural model.

Table 7. Hypothesis Testing based on Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Good Corporate Governance -> Financial Performance	0.775	0.784	0.103	7.521	0.000
Good Corporate Governance -> Firm Value	-0.614	-0.579	0.315	1.949	0.026
Financial Performance -> Firm Value	0.756	0.736	0.350	2.161	0.016

Table 7 shows that the first hypothesis states a positive and significant effect between good corporate governance and firm value. The good corporate governance variable has a significant level of 0.026, which is smaller than 0.05. The parameter coefficient value of -0.614 indicates that the effect on the dependent variable is negative. The second hypothesis states a positive and significant influence between good corporate governance and financial performance. The good corporate governance variable has a significant level of 0.000, which is smaller than 0.05. The parameter coefficient value of 0.775 indicates that the effect given is positive on the

dependent variable. The third hypothesis states a positive and significant effect between financial performance and firm value. The financial performance variable has a significant level of 0.016, which is smaller than 0.05. The parameter coefficient value of 0.756 indicates that the effect given is positive on the dependent variable.

Table 8. Hypothesis Testing based on Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)	P Values
Good Corporate Governance -> Financial Performance					
Good Corporate Governance -> Firm Value	0.586	0.580	0.310	1.891	0.030
Financial Performance -> Firm Value					

The results of testing the fourth hypothesis in table 8 state a positive and significant influence between Good Corporate Governance and firm value through financial performance. The Good Corporate Governance variable has a significant level of 0.030, which is smaller than 0.05. The parameter coefficient value of 0.586 indicates that the effect given is positive on the dependent variable. This means that H4 is accepted, so it can be said that Good Corporate Governance has a positive and significant effect on firm value through financial performance. This indicates that the financial performance variable is an intervening variable between Good Corporate Governance and firm value.

Discussion

The results showed that good corporate governance negatively and significantly affects firm value. The higher the good corporate governance, the lower the firm's value. This is because, with the increasing number of members of the board of commissioners, this agency will experience difficulties in carrying out its role, including difficulties in communicating and coordinating between members of the board of commissioners and the audit committee. So that it will give a signal to investors that there is information asymmetry within the firm. Signal theory explains why companies have the urge to provide financial statement information to external parties. The firm urges to provide information because there is information asymmetry between the firm and outsiders. After all, the firm knows more about the firm and its prospects than outsiders. Lack of information to outsiders about the firm causes them to protect themselves by charging low prices for the firm. This study's results align with research (Hidayat et al., 2021) which found that good corporate governance has no effect on firm value.

Good corporate governance variable has a positive and significant effect on financial performance, proxied through Return on Assets (ROA) and Earning Per Share (EPS). The greater the good corporate governance, the higher the financial performance. The larger the board of commissioners and the audit committee, the higher the financial performance. A large number of commissioners and audit committees will allow for the specialization of duties and powers. Greater task specialization and authority will result in better monitoring and financial performance. The role of the board of commissioners and the audit committee in a firm is more emphasized in

the monitoring function of implementing the board of directors' policies. The commissioner's role is expected to minimize agency problems between the board of directors and shareholders. Therefore, the board of commissioners should be able to oversee the performance of the board of directors so that the resulting performance is in the interests of shareholders (Sari & Khuzaini, 2022). This study's results align with research (Azzahra & Wibowo, 2019) which found that good corporate governance has a significant effect on financial performance.

Financial performance variables proxied through Return on Assets (ROA) and Earning Per Share (EPS) have a positive and significant effect on firm value. The greater the financial performance, the higher the value of the firm. When earnings before interest and taxes increase and total assets fall, the ROA will increase; the more significant the ROA, the greater the level of profit the firm achieves. This shows that management can use the firm's total assets properly (current and fixed assets) and, in the end, will attract many investors to invest in the firm, thereby increasing the firm's stock price. The number of outstanding shares caused this increase and the decrease. The significant influence shows that Earning Per Share (EPS) The higher the profit obtained by the firm means, the higher Earning per Share (EPS) obtained by the firm. The greater the Earnings per Share (EPS) means that shareholders will get a large proportion of the return in the form of dividends on the shares they own. The results of this study are in line with research (Pioh et al., 2018) which found that financial performance proxied through Return on Assets (ROA) and Earning Per Share (EPS) had a positive and significant effect on firm value.

EPS is an important consideration for investors when buying shares. EPS describes the amount of money earned for each share. Investors like companies with high EPS or continue to increase because this indicates that the firm can make good use of the funds they have to generate profits for the firm. If profits increase, the earnings obtained by investors will also increase so that investors will be interested in buying shares of the firm, which will then result in an increase in stock prices and increase the firm's value. This study is in line with research conducted by (Pioh et al., 2018) which found that financial performance proxied through Return on Assets (ROA) and Earning Per Share (EPS) had a positive and significant effect on firm value. So, the higher the EPS generated, the higher the firm's value. Increasing EPS can show the firm's prospects in the future (Bagya et al., 2016).

Good corporate governance positively and significantly affects firm value through financial performance. The higher the good corporate governance, the higher the firm's value through financial performance. The implementation of GCG principles can provide benefits such as good firm performance because ROA is good as well as EPS so that the level of investor and public confidence increases. The better or more consistently the implementation of GCG is carried out, the better the performance of a firm and the better ROA & EPS resulting from the implementation of GCG will reduce unhealthy business practices, encourage management to work more effectively and efficiently to reduce capital costs and increase opportunities to achieve business goals. More profit. The better the profitability growth (ROA & EPS) means that the firm's prospects in the future are better, meaning the better the value of the firm in the eyes of investors because the proportion of dividend distribution will be more significant. This is an attraction for investors. This study is in line with research conducted by (Ferial et al., 2016) which states that if the firm's ability to generate profits increases, the stock price will also increase. Moreover, in line with research (Amini, 2020), financial performance is an intervening variable for the effect of good corporate governance on firm value. However, this study contradicts the results of research

conducted by (Ratih, 2011), which showed that the results of the indirect effect of CGPI on firm value (NP) with two intervening variables (NPM and ROA) did not find a causal relationship that showed a significant effect.

Conclusions

Good corporate governance variable has a negative and significant effect on firm value. Good corporate governance has a positive and significant effect on financial performance. Meanwhile, financial performance has a positive and significant effect on firm value. Moreover, good corporate governance positively and significantly affects firm value through financial performance. For investors, if you want to invest, try to get information as early as possible so that there is no asymmetric information in making investment decisions. The firm should be interested parties that can improve its performance well so that the firm can get a more excellent value so that investors are interested in investing their capital. Companies should disclose information about their financial statements so that investors can easily access the information needed so as not to cause harm to investors and the firm itself. This study only uses banking companies listed on the Indonesia Stock Exchange; it is hoped that future researchers can use companies with different sectors.

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