The Role Of Return On Asset In Mediating The Relationship Between Good Corporate Governance And Price Book Value In The Industry Of BUMN Companies Listed On The Indonesian Stock Exchange

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Abstract. This research aims to determine the influence of good corporate governance on price to book value, the influence of good corporate governance on return on assets, the influence of return on assets on price to book value, the influence of good corporate governance on price to book value through return on assets. The data in this research is secondary data. This research is a type of quantitative research. Data were analyzed using SPSS version 25 statistical tools and also using the Sobel test calculator for mediation tests. The research results show that the good corporate governance (GCG) variable has no effect and is not significant on price to book value (PBV). The good corporate governance (GCG) variable has no effect on return on assets (ROA). The return on asset (ROA) variable influences the price to book value (PBV) variable. Return on assets (ROA) as an intervening variable is unable to mediate Good Corporate Governance (GCG) on price to book value (PBV).

Keywords: Return On Asset, Good Corporate Governance, Price to Book Value.

1. Introduction

The State-Owned Enterprise (BUMN) industry in Indonesia has a strategic role in driving national economic growth. As entities operating in various sectors, BUMN is expected to be able to optimize its financial performance in order to provide added value for shareholders and the public [5]. One measure used to assess the market value of a company is Price Book Value (PBV). PBV reflects how the market values a company's net assets and has important relevance for investors in making investment decisions [1].

In an effort to increase PBV, the role of Good Corporate Governance (GCG) is crucial. The application of good GCG principles, such as transparency, accountability and responsibility, influences market perception and investor confidence. However, the direct relationship between GCG and PBV is not always significant, so a mediating variable is needed to clarify this influence. One of the relevant variables for measuring company efficiency is Return on Assets (ROA) [12].

M. Nohong et al. (eds.), *Proceedings of the 9th International Conference on Accounting, Management, and Economics 2024 (ICAME 2024)*, Advances in Economics, Business and Management Research 331,
https://doi.org/10.2991/978-94-6463-758-8_140

ROA is a profitability indicator that measures how effectively a company uses its assets to generate profits. In this context, ROA can mediate the relationship between GCG and PBV, where companies with good governance tend to be able to maximize their assets to increase profits, which is ultimately reflected in a higher PBV [1].

This research aims to analyze the role of ROA in mediating the relationship between GCG and PBV in the state-owned company industry listed on the Indonesia Stock Exchange. With a deeper understanding of this relationship, it is hoped that the research results can contribute to the development of financial management theory and assist company managers in making strategic decisions that can increase company value.

2. Literature Review

2.1 Grand Theory

Agency theory was introduced by Jensen [4] with the title "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" (1976) discussing the relationship between principals (owners) and agents (managers). In the context of this research, Good Corporate Governance (GCG) aims to ensure managers act in the interests of shareholders. Return on Assets (ROA) reflects management's performance in managing company assets, and Price Book Value (PBV) describes the company's market value.

2.2 Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a concept used to describe good practices in managing a company or organization. Implementing good GCG can also influence a company's ROA and stock returns by creating an effective and efficient environment for managing company resources [10]. The following is the formula for calculating GCG.

$$Institutional\ Ownership = \frac{Number\ of\ shares\ owned\ by\ institutions}{Number\ of\ shares\ outstanding}$$

2.3 Return on Assets (ROA)

ROA or Return on Assets can help management or investors to see how well the company is able to convert its investment in assets into profits [11]. Then Nawawi [8] explained that Return On Assets (ROA) is the company's ability to gain profits from the assets it owns. The following is the formula for calculating ROA.

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

2.4 Price to book value (PBV)

Price to book value (PBV) is a ratio that compares the market price per share with the book value per share [11]. Then Lestari [6] explains that Price to Book Value (PBV) is a comparison between the market price of stock securities and their book value. The following is the formula for calculating PBV:

$$PBV = \frac{Market\ Value}{Book\ Value}$$

3. Previous Research

3.1 GCG (X) against PBV (Y2)

Pohan [9] research results show that Return on Assets, size of the board of commissioners, and independence of committee members have a positive influence on company value (Price to Book Value). Then Mardhiana [7] the research results show that intellectual capital has a significant positive effect on PBV, and also shows that the higher the GCG, the better and more positive the relationship between intellectual capital and PBV. However [2] revealed the results of their research that institutional ownership has a negative and significant effect on company value as proxied in PBV.

3.2 GCG (X) against ROA (Y1)

Hoque [3] in their research results show that public ownership and the frequency of audit committee meetings are positively and significantly related to return on assets (ROA), return on equity (ROE) and Tobin's Q. In contrast to Wardani [13] which shows findings indicating that managerial ownership does not have significant implications for return on assets, institutional ownership does not have significant implications for return on assets. Then what was found by Ratnaningtyas [10] explained the results of their research that good corporate governance positively influences Return on Assets (ROA) in restaurant companies.

3.3 ROA (Y1) to PBV (Y2)

Rosmegawati [11] revealed the results of their research that Return on Assets (ROA) has a positive and significant effect on Price Book Value (PBV) in property and real estate companies, indicating that better asset management leads to higher PBV. Likewise, Nawawi [8] explained in his research results that Return on Assets (ROA) significantly influences Price to Book Value (PBV), indicating higher profitability leads to higher market valuation of state-owned banks. Indonesia. The same thing was also found by Lestari [6] that Return on Assets (ROA) has a significant influence on Price to Book Value (PBV) in the textile and garment industry on the IDX during 2020-2022.

4. Conceptual framework and hypotheses

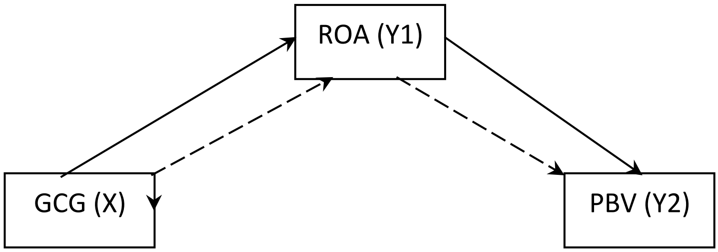

Fig. 1, Conceptual framework

Hypothesis development

H1: It is suspected that GCG has a positive and significant effect on PBV

H2: It is suspected that GCG has a positive and significant effect on ROA

H3: ROA is suspected to have a positive and significant effect on PBV

H4: It is suspected that GCG has a positive and significant influence on PBV through ROA

5. Research Methods

5.1 Population and Sample

The population in this study are all state-owned companies listed on the Indonesian Stock Exchange. The criteria used to determine the sample are:

1. State-owned companies listed on the Indonesia Stock Exchange for the period 2017 – 2023
2. State-owned companies that have audited financial data and a complete ownership structure for the period 2017 – 2023
3. BUMN companies included in the LQ 45 companies on the Indonesian Stock Exchange 2017 – 2023
4. Companies with the availability of data needed for research

5.2 Data types and sources

The type of data used in this research is secondary data. The data source in this research is financial report data obtained on the Indonesian Stock Exchange (IDX) website.

5.3 Data Analysis Methods

To analyze the research problem, SPSS version 25 was used and a Sobel calculator was used to test the effect of mediation. The data processing techniques used in this research are:

1. R Square (R^2) test to provide information about how well the regression model explains the data. then the t test (Partial), This test is used to determine the strength of the influence of the independent variable (X) individually on the

dependent variable (Y). The t test is carried out by comparing the significance values of variables with a significance level of 0.05.

2. The Sobel test is carried out using a Sobel calculator to test the indirect effect of the independent variable (X) on the dependent variable (Y2) through the intervening variable (Y1).

6. Results and Discussion

6.1 R^2 test results t test and calculations using a Sobel calculator

1. Test results for the Corporate Good Governance (GCG) variable and the Return on Assets (ROA) variable on Price to Book Value (PBV)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,470[a]	,221	,195	6,15204

a. Predictors: (Constant), Y1.ROA, X.GCG
b. Dependent Variable: Y2.PBV
Source: SPSS 25 of 2024

The results of the analysis obtained a correlation coefficient (R^2) of 0.221, which means that there is a positive and unidirectional relationship between the independent variable and the dependent variable of 22.1% and the influence of other variables is 77.9% which are not included in the model.

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	1,249	2,873		,435	,665
X.GCG	2,674	7,366	,042	,363	,718
Y1.ROA	2,683	,680	,459	3,948	,000

a. Dependent Variable: Y2.PBV
Source: SPSS 25 of 2024

Statistical calculations show that the significant value of the independent variable (t statistic) Good Corporate Governance (GCG) is 0.718 > 0.05 so it can be concluded that the Good Corporate Governance (GCG) variable has no significant effect on Price to Book Value (PBV). Then for the variable Return on Assets (ROA), the significant value shows a significant value of 0.000<0.05. This indicates that the Return on Assets (ROA) variable has an influence on the Price to Book Value (PBV) variable.

2. Test results of the Good Corporate Governance (GCG) variable on Return on Assets (ROA)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,202[a]	,041	,025	1,15886

a. Predictors: (Constant), X.GCG
b. Dependent Variable: Y1.ROA
Source: SPSS 25 of 2024

The results of the analysis obtained a correlation coefficient (R2) of 0.041, which means that the Good Corporate Governance (GCG) variable which is proxied by institutional ownership of Return on Assets (ROA) is 4.1% while the rest is not included in the model.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1,838	,487		3,772	,000
	X.GCG	2,185	1,359	,202	1,608	,113

a. Dependent Variable: Y1.ROA
Source: SPSS 25 of 2024

The results of the equation show a significant value for the Good Corporate Governance (GCG) variable on Return on Assets (ROA) of 0.113 > 0.05. This means that the Good Corporate Governance (GCG) variable has no partial effect on Return on Assets (ROA).

3. Mediation effect detection test

No	Variable	Coefficient Values and Standard Error Values	Formula
1	X-Y1	0,202	(a)
		1,359	(Sa)
	Y1-Y2	0,459	(b)
		0,680	(Sb)

Source: SPSS 25 of 2024

The mediation strength test between the independent and dependent variables through the mediator variable produced a value of 0.145, which indicates that the mediation strength is quite low. Apart from that, the one-tailed probability value obtained was 0.442, greater than the general significance level (0.05). This indicates that the mediation relationship is not significant, or in other words, the mediator variable does not play a significant role in bridging the relationship between the independent and dependent variables.

6.2 Discussion

1. GCG against ROA

The research results show that the Good Corporate Governance (GCG) variable does not have a significant influence on Return on Assets (ROA). Based on agency theory, conflicts of interest between managers (agents) and shareholders (principals) often occur, and GCG should be designed to reduce these conflicts through good supervision. However, if the implementation of GCG is only a formality, the expected monitoring mechanism will not function optimally, so it will not be able to improve management performance or profitability. In some companies, GCG implementation is often seen as a formality to comply with regulations without a strong commitment to ethical and transparent business management. If GCG is only considered an administrative obligation, its impact on financial performance will be limited. Therefore, companies need to realize that implementing GCG alone is not enough to increase profitability. It requires integration of GCG with innovative business strategies, operational efficiency, and effective working capital management in order to have a positive impact on financial performance.

2. GCG against PBV

The research results show that the Good Corporate Governance (GCG) variable does not have a significant influence on Price to Book Value (PBV). The PBV value is strongly influenced by investors' perceptions regarding the company's future prospects. Although GCG plays a role in increasing transparency and accountability, the market may focus more attention on other factors such as profit growth, business strategy, or technological innovation. GCG is often seen as a supporting element for a company's long-term goals, rather than as a short-term driver of share prices. Based on the Efficient Market Hypothesis (EMH) theory, all available information is reflected in stock prices. If information about GCG is already known to the public or is deemed not to have a direct impact on the company's revenue prospects, then share prices will not be significantly affected. Therefore, PBV, which also depends on share prices, may not reflect the direct influence of GCG implementation because the market has already anticipated this information.

3. ROA to PBV

The research results show that the Return on Assets (ROA) variable has a significant effect on Price to Book Value (PBV). In the midst of intense market competition and economic uncertainty, companies that are able to optimize

ROA will be seen as more efficient and stable by investors. This condition can encourage an increase in demand for company shares, which ultimately increases share prices and PBV. Based on agency theory, high profitability indicates that management has succeeded in managing company resources well on behalf of shareholders. This reduces agency risk and increases investor confidence in the company, which ultimately contributes to increasing PBV.

4. GCG against PBV through ROA

The research results show that Return on Assets (ROA) as an intervening variable does not succeed in mediating the relationship between Good Corporate Governance (GCG) and Price to Book Value (PBV). Although GCG has an important role, investors and the market tend to pay more attention to factors that directly influence PBV, such as earnings per share (EPS), projected revenue growth, or product innovation. As a result, even though there was an increase in ROA, this was not enough to mediate the impact of GCG on PBV. Based on agency theory, GCG aims to reduce conflict between management and shareholders in order to improve company performance. However, in this case, if the implementation of GCG is ineffective or only a formality, the impact on profitability (ROA) will not be significant, so ROA cannot be an effective link between GCG and PBV.

5. Conclusion

Companies must understand that implementing GCG alone is not enough to increase profitability. It is important for companies to combine GCG with innovative business strategies, improve operational efficiency, and ensure optimal working capital management.

Companies with good GCG need to convey the long-term value of implementing this governance to the market. Without clear communication, investors may not be fully aware of how GCG can increase a company's attractiveness and competitiveness, which can ultimately contribute to increasing company value in the long term.

The finding that ROA has a significant influence on PBV is something that is normal in theory and practice. This relationship illustrates the link between operational efficiency and market assessment of company value. In today's business world, investors strongly consider a company's profitability as a basis for assessing market value, and a high ROA gives a strong signal about the company's efficiency and profit potential in the future.

Implementation of good governance does not directly impact profitability or market perception of company value. Companies must pay attention to other factors that have a more direct influence on PBV, as well as maintaining a balance between implementing GCG and business strategies that focus on increasing value for shareholders.

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