

The Influence of Institutional Ownership, Board of Commissioners, and Audit Committee on Company Value with Financial Performance as a Moderator

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Abstract

The purpose of this study is to analyze the effect of institutional ownership, independent commissioners, and audit committees on firm value with financial performance (Return on Equity/ROE) as a moderating variable. This study focuses on financial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period to determine how corporate governance mechanisms and profitability interact to influence firm value. This research employs a quantitative approach using panel data regression analysis. The sample consists of 105 financial sector observed from 2020 to 2024, resulting in 524 unbalanced panel observations. The model estimation applies the Random Effect Model (REM) based on the results of the Lagrange Multiplier (LM) and Hausman tests. The variables analyzed include independent commissioners (JDKI), audit committee (KA), institutional ownership (KI), and financial performance (ROE), with interaction terms (JDKIROE, KAROE, KI*ROE) used to test moderation effects. The empirical results reveal that institutional ownership (KI) has a positive and significant effect on firm value (PBV), indicating that higher institutional ownership improves market perception through better monitoring and governance. Conversely, the audit committee (KA) shows a negative and significant effect on firm value, suggesting that an ineffective audit committee may reduce investor confidence. The independent commissioner (JDKI) and ROE have no significant direct effects on firm value. The moderation test indicates that ROE does not significantly moderate the relationship between JDKI, KI, and firm value, but slightly moderates the relationship between the audit committee and firm value, implying that profitability can weaken the negative effect of audit committees on firm value.

Keywords: *Institutional Ownership, Board of Commissioners, Audit Committee, Company Value, Financial Performance.*



A. INTRODUCTION

Corporate value reflects investor perceptions of a company's performance, prospects, and governance quality. It is influenced not only by profitability but also by how well governance structures, such as ownership composition, an independent board of commissioners, and audit committees are managed (Jensen & Meckling, 1976; Fama & Jensen, 1983). Effective governance reduces agency conflicts, strengthens investor confidence, and consequently enhances company value (Shleifer & Vishny, 1997). Nevertheless, studies show mixed results regarding these mechanisms. Rusli et al. (2020) found that audit committees significantly influence firm value, while Susiani et al. (2020) and Purwanto & Agustin (2022) noted that the roles of independent commissioners and ownership structures vary by sector. These

inconsistencies highlight the need for more specific investigations across different industries.

Most prior research also overlooks the role of moderating variables such as firm performance, which may amplify or weaken the effect of governance on firm value (Zahra & Pearce, 1989). High-performing firms are generally more capable of realizing the benefits of strong oversight mechanisms, while low-performing firms struggle to optimize their governance systems. Ultimately, firm value—reflected in stock prices—represents investors' confidence in management's ability to sustain long-term growth and business continuity (Zhang et al., 2022; Sukamulja et al., 2004).

Company value indicates management's success in running a company and shows how the market appreciates it, reflected through stock prices. It represents both the current financial condition and investors' expectations for future growth and sustainability (Brigham & Houston, 2019). A higher stock price implies stronger prospects. In 2024, the Indonesia Stock Exchange (IDX) recorded the Jakarta Composite Index (JCI) closing at 7,036.57, a 3.25% year-to-date (ytd) decline and the weakest performance in ASEAN (Mubarok, 2025).

Institutional ownership refers to shares held by institutions that can reduce managerial opportunism through effective monitoring (Sari and Sanjaya, 2019). Institutional investors promote transparency and good governance, enhancing investor confidence and company value. Dewi et al. (2019) found that ownership structure improves oversight and efficiency, supporting Soewarno & Ramadhan (2020), who also noted its influence on company value. However, Nurkhin et al. (2017) and Hadiansyah et al. (2022) found no significant effect, indicating institutional ownership levels may not directly impact company value.

Institutional ownership defined as the proportion of shares held by legal entities that represent a wide range of investors occupies a central position in shaping corporate governance practices (Kartikasari et al., 2022). Empirical evidence suggests that a higher level of institutional ownership may contribute positively to internal organizational dynamics by reinforcing monitoring mechanisms, facilitating broader access to capital, and fostering the development of strategic alliances within the business environment (Natania et al., 2024). Nevertheless, such relationships are not universally consistent. Hindasah et al. (2021) contend that elevated institutional ownership does not invariably enhance financial outcomes, as many institutional investors tend to behave as short-term shareholders who prioritize immediate returns rather than sustainable growth.

Within the broader framework of ownership structure, institutional ownership constitutes a critical element that reflects the extent to which institutional entities hold equity in a firm (Helena & Saifi, 2017). As an external component of the company's governance system, institutional investors function as independent monitors who evaluate and control managerial performance (Paramastri & Hadiprajitno, 2017). The presence of institutional shareholders is expected to improve the efficiency of asset utilization and strengthen the supervision of management's strategic choices. Consequently, effective implementation of good corporate governance driven by

institutional ownership can serve as a preventive measure against potential financial distress faced by the company.

Fauver et al. (2017) found that independent boards of commissioners enhance oversight, reduce conflicts of interest, encourage better investment, lower capital costs, and raise company value. Similarly, Ferriswara et al. (2022) noted that fewer independent commissioners decrease investor interest and company value. In contrast, Nuryono et al. (2019) and Laiya et al. (2023) reported no significant effect. Independent commissioners provide objective oversight free from management and shareholder influence. From an agency theory perspective, they serve as governance mechanisms that align managerial decisions with shareholder interests (Sunardi, 2019). Effective supervision minimizes opportunistic behavior and manipulation, increasing transparency, information quality, and investor confidence, which ultimately enhances company value (Gusriandari et al., 2022).

The audit committee ensures credible financial reporting and effective internal control (Marini & Marina, 2017). In agency theory, it reduces information asymmetry by ensuring transparent, accurate financial statements (Susanto, 2020). A competent and independent audit committee limits fraud and earnings management, boosting investor confidence and company value (Andira & Ratnadi, 2022). Fauver et al. (2017) and Al-Ahdal et al. (2023) found that an effective audit committee strengthens oversight and curbs opportunistic behavior, while Ferriswara et al. (2022) found no effect. As a corporate governance mechanism, the audit committee helps reduce agency problems (Hanifah & Purwanto, 2013). Having multiple members allows for discussion and exchange of expertise, enhancing decision quality and governance.

Besides corporate governance mechanisms, internal factors such as company performance also significantly influence company value. Company performance reflects how effectively resources are managed to achieve goals (Ferriswara et al., 2022). Strong performance increases market appreciation for governance mechanisms and investor confidence, while weak performance reduces their perceived effectiveness (Soewarno & Ramadhan, 2020).

This study also includes control variables—company size, Return on Equity (ROE), and Price to Book Value (PBV)—to limit external influences. Larger firms usually have better access to capital, while ROE and PBV reflect profitability and market perception. Therefore, this study empirically tests the effect of institutional ownership, independent boards of commissioners, and audit committees on company value, with financial performance as a moderating variable, in financial sector firms listed on the IDX during 2020–2024. The financial sector, particularly banking and financing, remains a key driver of IDX capitalization, contributing over 35% in 2024, supported by rising profitability, an average ROE of 14.8%, and a stable CAR above 24% (OJK, 2024).

Despite this, stock price volatility in the financial sector remains quite high due to changes in global interest rate policies and exchange rate fluctuations. The IDX financial sector index (IDXFİNANCE) grew by 12.5% in 2023, but slowed in the second quarter of 2024 due to adjustments to Bank Indonesia's monetary policy and

moderation in credit growth. This phenomenon indicates that, in both the financial sector, financial performance stability and effective corporate governance are important factors influencing investor perceptions of company value in the Indonesian capital market.

B. LITERATURE REVIEW

Agency theory provides a conceptual framework for understanding the relationship between principals and agents, established to ensure that organizational objectives are achieved effectively. According to Jensen and Meckling (1976), an agency relationship arises through a contractual arrangement in which one or more principals engage an agent to execute specific tasks on their behalf, entrusting the agent with certain decision-making responsibilities. Relevant agency theory is used to explain the role of institutional ownership, independent boards of commissioners, and audit committees as corporate governance mechanisms that aim to minimize agency conflicts between agents (management) and principals (shareholders). Institutional ownership can strengthen the monitoring mechanism because institutional investors have an incentive to monitor management more closely so that decisions taken are aligned with shareholder interests (Shleifer & Vishny, 1997; Dewi et al., 2019). Similarly, an independent board of commissioners serves as an external oversight independent of management, ensuring that the company's strategic policies do not deviate from its objectives (Sunardi, 2019; Gusriandari et al., 2022). Furthermore, the audit committee plays a crucial role in maintaining the transparency and credibility of financial reports, thereby reducing information asymmetry between management and shareholders (Marini & Marina, 2017; Susanto, 2020).

Furthermore, agency theory can also explain the relationship between financial performance and firm value. Good financial performance reflects management's effectiveness in managing company resources, thereby increasing investor confidence (Soewarno & Ramadhan, 2020). This ultimately increases firm value because the market places a higher premium on companies with proven good governance and performance (Brigham & Houston, 2019; Zhang et al., 2022). Conversely, if firm performance is low, governance mechanisms may not positively impact firm value (Ferriswara et al., 2022). Therefore, in this study, financial performance is positioned as a moderating variable that either strengthens or weakens the influence of corporate governance mechanisms on firm value.

C. METHOD

This research is a quantitative study with a causality approach, which aims to analyze the influence of independent variables on the dependent variable and the role of moderating variables used (Furchan, 2021). The population in this study is the financial sector in the period 2020–2024. The research sample consists of 105 financial sector. The sampling technique used is purposive sampling, which is a technique for determining samples with certain considerations or criteria tailored to the research objectives (Furchan, 2021). The criteria used are as follows: 1) the financial sector

consistently listed on the IDX during the 2020–2024 period. 2) Companies that published complete annual reports and financial statements during the research period. 3) Companies that have the required research variable data. The measurements conducted in this study used statistical software applications, namely E-views, on panel data regression models and statistical tests. E-views is widely used in economic research that focuses on econometric data processing.

D. RESULT AND DISCUSSION

1. Multiple Linear Regression Model Estimation

Table 1 presents the results of the Redundant Fixed Effect Test, which was conducted to determine the most appropriate model for panel data estimation in this study. This test aims to compare the common effect model with the fixed effect model to assess whether variations across companies significantly affect the dependent variable. By identifying the presence of cross-sectional differences, this test provides an important foundation for selecting the estimation approach that best represents the relationship between corporate governance mechanisms and firm value in the financial sector during the 2020–2024 observation period.

Table 1. Redundant Fixed Effect Test

Redundant Fixed Effects Tests				
Equation: Untitled				
Test cross-section fixed effects				
Effects Test	Statistic	d.f.	Prob.	
Cross-section F	2.140425	(104,415)	0.0000	
Cross-section Chi-square	225.026177	104	0.0000	
Cross-section fixed effects test equation:				
Dependent Variable: PBV				
Method: Panel Least Squares				
Date: 10/13/25 Time: 12:35				
Sample: 2020 2024				
Periods included: 5				
Cross-sections included: 105				
Total panel (unbalanced) observations: 524				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.443763	1.230079	0.360760	0.7184
JDKI	0.020752	0.021129	0.982153	0.3265
KA	-0.279745	0.161795	-1.729015	0.0844
KI	0.030683	0.009958	3.081240	0.0022
ROE	-0.011659	0.010443	-1.116408	0.2648
R-squared	0.028213	Mean dependent var	2.037443	
Adjusted R-squared	0.020723	S.D. dependent var	4.168421	
S.E. of regression	4.125004	Akaike info criterion	5.681507	
Sum squared resid	8831.126	Schwarz criterion	5.722170	
Log likelihood	-1483.555	Hannan-Quinn criter.	5.697431	
F-statistic	3.766872	Durbin-Watson stat	1.622336	
Prob(F-statistic)	0.004954			

Based on the data processing results in the figure, the cross-section F value was obtained as 2.140425 with a probability value of 0.0000, indicating that the fixed effect model is more appropriate than the common effect model. This indicates that there are significant differences between companies (cross-section) in influencing firm value (PBV) in the 2020–2024 period.

Furthermore, the fixed effect model estimation results show that the independent board of commissioners (IBC) variable has a positive coefficient of 0.020752 with a probability value of 0.3265, meaning it has no significant effect on firm value. This result indicates that the presence of an independent board of commissioners in the financial sector has not been able to significantly increase firm value. The audit committee (AC) has a negative coefficient of -0.279745 with a probability value of 0.0850, meaning it has a negative but insignificant effect on firm value. This can be interpreted as meaning that the existence of an audit committee is not optimal in increasing investor confidence.

Meanwhile, institutional ownership (IO) showed a positive and significant influence on firm value with a coefficient of 0.030683 and a probability value of 0.0022 (<0.05). This finding supports agency theory (Jensen & Meckling, 1976), which states that institutional ownership can strengthen the supervisory function of management, thereby improving performance and investor confidence, which ultimately has positive implications for firm value.

The control variable Return on Equity (ROE) has a negative coefficient of -0.011659 with a probability value of 0.2648, indicating that profitability did not significantly influence firm value during the study period. This may be due to profit fluctuations not being directly reflected in market perceptions of firm value.

The R-squared value of 0.028213 and the Adjusted R-squared of 0.020723 indicate that the independent variables in the model are only able to explain about 2.8% of the variation in company value, while the rest is explained by other factors outside the model, such as macroeconomic conditions, government policies, or industry factors. The F-statistic value of 3.766872 with a probability of 0.004954 (<0.05) indicates that simultaneously the variables of institutional ownership, independent board of commissioners, audit committee, and ROE have a significant effect on company value.

Overall, these results confirm that of all the corporate governance mechanisms tested, institutional ownership is the most influential factor in increasing the value of companies in the financial sector listed on the IDX for the 2020–2024 period. This finding aligns with research by Dewi et al. (2019) and Soewarno & Ramadhan (2020), which states that institutional investors can suppress opportunistic management behavior through more effective oversight, thereby increasing market confidence and firm value.

2. Selected Random Effect - Classical Assumptions Fulfilled

Table 2 presents the results of the Correlated Random Effect – Hausman Test, which is used to determine the most suitable model between the fixed effect and

random effect approaches in panel data analysis. This test evaluates whether the individual effects across companies are correlated with the independent variables, serving as a crucial step in ensuring the accuracy and consistency of parameter estimation. The outcome of this test helps identify whether variations among financial sector firms are best captured through random differences or fixed characteristics, providing a foundation for selecting the appropriate regression model to analyze the determinants of firm value (PBV) during the 2020–2024 period.

Table 2. Correlated Random Effect – Hausman Test

Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	8.294948	4	0.0814	

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
JDKI	0.037413	0.026576	0.000199	0.4422
KA	-0.354090	-0.309463	0.004664	0.5134
KI	-0.016230	0.021693	0.000241	0.0146
ROE	-0.005573	-0.007918	0.000018	0.5761

Cross-section random effects test equation:
 Dependent Variable: PBV
 Method: Panel Least Squares
 Date: 10/13/25 Time: 12:35
 Sample: 2020 2024
 Periods included: 5
 Cross-sections included: 105
 Total panel (unbalanced) observations: 524

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.866447	1.695936	1.690185	0.0917
JDKI	0.037413	0.026054	1.436009	0.1518
KA	-0.354090	0.172184	-2.056467	0.0404
KI	-0.016230	0.019452	-0.834332	0.4046
ROE	-0.005573	0.010955	-0.508662	0.6113

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.367489	Mean dependent var	2.037443
Adjusted R-squared	0.202884	S.D. dependent var	4.168421
S.E. of regression	3.721624	Akaike info criterion	5.649014
Sum squared resid	5747.950	Schwarz criterion	6.535470
Log likelihood	-1371.042	Hannan-Quinn criter.	5.996158
F-statistic	2.232547	Durbin-Watson stat	2.450186
Prob(F-statistic)	0.000000		

The Hausman Test produced a Chi-Square value of 8.294948 with a probability of 0.0814 (> 0.05), indicating that the Random Effect model is the most appropriate and efficient for capturing company-level variations in explaining firm value (PBV). Regression results using this model show that the independent board of commissioners (JDKI) has a positive coefficient of 0.037413 with a probability of 0.1518, meaning it has no significant effect on firm value. This suggests that independent commissioners in the financial sector have not substantially increased investor confidence, consistent with Nuryono et al. (2019) and Laiya et al. (2023).

The audit committee (AC) variable shows a negative and significant effect, with a coefficient of -0.354090 and a probability of 0.0404, implying that a larger audit committee can reduce firm value due to ineffective performance or oversight. This aligns with Ferriswara et al. (2022), who noted that audit committees may fail to enhance firm value when not functioning optimally. Institutional ownership (KI) has a negative coefficient of -0.016230 with a probability of 0.4046, showing no significant effect, as institutional investors may focus on short-term gains rather than long-term governance (Hindasah et al., 2021). The control variable ROE also has an insignificant negative effect (-0.005573; $p = 0.6113$), indicating that profitability was not a key determinant for investors. The R-squared of 0.367489 means 36.75% of firm value variation is explained by the model, while the F-statistic (2.232547; $p < 0.05$) shows the variables jointly affect firm value. Overall, only the audit committee significantly influences firm value, suggesting that improving its competence, independence, and meeting frequency is essential for strengthening governance effectiveness.

Table 3. Lagrange Multiplier Test for Random Effects

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	31.37293 (0.0000)	0.050463 (0.8223)	31.42339 (0.0000)
Honda	5.601154 (0.0000)	0.224641 (0.4111)	4.119459 (0.0000)
King-Wu	5.601154 (0.0000)	0.224641 (0.4111)	1.298384 (0.0971)
Standardized Honda	5.788867 (0.0000)	0.612514 (0.2701)	-2.609567 (0.9955)
Standardized King-Wu	5.788867 (0.0000)	0.612514 (0.2701)	-1.665886 (0.9521)
Gourieroux, et al.	--	--	31.42339 (0.0000)

Based on the results of the Lagrange Multiplier (LM) Test for Random Effects in the figure above, the Breusch-Pagan Cross-section value is 31.37293 with a probability of 0.0000, which is less than 0.05. This indicates that the random effects model is more appropriate than the common effects model. Therefore, it can be concluded that there are significant differences between cross-sectional units (companies) in the panel data used. Furthermore, the test results for the time dimension (time effect) showed a probability value of 0.8223 (>0.05), indicating no significant time effect in the model. In other words, data variation is more due to differences between companies than changes between time periods.

Additional tests, such as Honda, King-Wu, and Standardized Honda, also showed consistent results, with the probability value for the cross-section being below 0.05, while the probability value for the time effect was above 0.05. These results further strengthen the decision that the random effects model is appropriate due to the presence of significant random effects between companies, but not between time periods.

Overall, the results of the LM test provide a strong basis for using the random effects model (REM) approach in the panel regression analysis in this study. This aligns with econometric theory (Gujarati & Porter, 2012), which states that the random effects model is more appropriate when variations between entities (companies) are random and not directly correlated with the independent variables in the model.

Table 4. Redundant Fixed Effects Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.082430	(104,412)	0.0000
Cross-section Chi-square	221.352511	104	0.0000

Cross-section fixed effects test equation:
 Dependent Variable: PBV
 Method: Panel Least Squares
 Date: 10/13/25 Time: 12:42
 Sample: 2020 2024
 Periods included: 5
 Cross-sections included: 105
 Total panel (unbalanced) observations: 524

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.508387	1.459012	0.348446	0.7276
JDKI	0.025610	0.024032	1.065653	0.2871
KA	-0.464161	0.184290	-2.518641	0.0121
KI	0.036796	0.010968	3.354773	0.0009
ROE	-0.014096	0.079021	-0.178389	0.8585
JDKI*ROE	-0.000907	0.001278	-0.709693	0.4782
KA*ROE	0.020468	0.009551	2.143090	0.0326
KI*ROE	-0.000577	0.000540	-1.068674	0.2857

R-squared	0.038687	Mean dependent var	2.037443
Adjusted R-squared	0.025646	S.D. dependent var	4.168421
S.E. of regression	4.114621	Akaike info criterion	5.682120
Sum squared resid	8735.937	Schwarz criterion	5.747181
Log likelihood	-1480.715	Hannan-Quinn criter.	5.707599
F-statistic	2.966589	Durbin-Watson stat	1.612554
Prob(F-statistic)	0.004662		

The Redundant Fixed Effects test produced a Cross-section F value of 2.082430 with a probability of 0.0000 (< 0.05), indicating that the Fixed Effect model is more appropriate than the Common Effect model, as there are significant differences between companies in influencing firm value (PBV). The fixed effect estimation with moderating variables shows that the independent board of commissioners (JDKI) has a positive coefficient of 0.025610 and a probability of 0.2871, indicating no significant effect on firm value. This suggests that independent commissioners are not yet effective in increasing firm value, consistent with Nuryono et al. (2019) and Laiya et al. (2023).

The audit committee (AC) has a negative and significant coefficient (-0.464161; $p = 0.0121$), implying that a larger audit committee can reduce investor perception of firm value due to ineffective or merely formal oversight. This aligns with Ferriswara et al. (2022), who noted that audit committees may not enhance value without sufficient competence or independence. Institutional ownership (KI) shows a positive and significant effect (0.036769; $p = 0.0005$), supporting Jensen & Meckling (1976) and Dewi et al. (2019), who found that institutional investors improve monitoring and market confidence. The moderating results reveal that ROE does not moderate the effect of independent commissioners or institutional ownership, but it strengthens the influence of the audit committee on firm value (KA*ROE; 0.020468; $p = 0.0329$). The R-squared value of 0.038687 and the Adjusted R-squared of 0.025646 show the model explains 3.86% of firm value variation, while the F-statistic (2.965689; $p = 0.004662$) indicates that all variables jointly affect firm value. Overall, institutional ownership remains the most influential factor, while the audit committee's role improves when combined with strong financial performance, emphasizing the importance of effective governance and financial stability in strengthening investor confidence in IDX-listed financial firms.

Table 5. Correlated Random Effects – Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.538859	7	0.2162

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
JDKI	0.040787	0.029979	0.000260	0.5027
KA	-0.439092	-0.450403	0.004657	0.8684
KI	-0.011947	0.027136	0.000254	0.0142
ROE	-0.004257	-0.011544	0.000772	0.7931
JDKI*ROE	-0.000613	-0.000712	0.000000	0.8301
KA*ROE	0.011292	0.016767	0.000013	0.1273
KI*ROE	-0.000287	-0.000467	0.000000	0.3738

Cross-section random effects test equation:
Dependent Variable: PBV
Method: Panel Least Squares
Date: 10/13/25 Time: 12:42
Sample: 2020 2024
Periods included: 5
Cross-sections included: 105
Total panel (unbalanced) observations: 524

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.757142	1.892387	1.456965	0.1459
JDKI	0.040787	0.029671	1.374634	0.1700
KA	-0.439092	0.190614	-2.303564	0.0217
KI	-0.011947	0.020302	-0.588464	0.5565
ROE	-0.004257	0.080914	-0.052618	0.9581
JDKI*ROE	-0.000613	0.001312	-0.467232	0.6406
KA*ROE	0.011292	0.009909	1.139522	0.2551
KI*ROE	-0.000287	0.000560	-0.511393	0.6093

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.369905	Mean dependent var	2.037443
Adjusted R-squared	0.200146	S.D. dependent var	4.168421
S.E. of regression	3.728009	Akaike info criterion	5.656638
Sum squared resid	5725.997	Schwarz criterion	6.567491
Log likelihood	-1370.039	Hannan-Quinn criter.	6.013336
F-statistic	2.179003	Durbin-Watson stat	2.430689
Prob(F-statistic)	0.000000		

The Hausman Test results show a Chi-Square value of 9.538859 with a probability of 0.2162 (>0.05), indicating that the Random Effects Model (REM) is more suitable than the Fixed Effects Model (FEM). This suggests that company variations are random and uncorrelated with the independent variables, making the REM more efficient for analyzing firm value (PBV). The estimation results show that the independent board of commissioners (JDKI) has a positive coefficient of 0.040787 with a probability of 0.1700, meaning it has no significant effect on firm value. This suggests that independent commissioners in the financial sector have not effectively improved company value, possibly due to limited or formal oversight functions. These results align with Nuryono et al. (2019) and Laiya et al. (2023).

The audit committee (AC) has a negative and significant coefficient (-0.439092; $p = 0.0217$), indicating that a larger or more active audit committee can reduce firm value when its oversight quality is weak. This aligns with Ferriswara et al. (2022), who found that audit committees are ineffective without strong expertise and independence. Institutional ownership (KI) shows no significant effect (-0.011947; $p = 0.5655$), as institutional investors may focus on short-term returns rather than active monitoring (Hindasah et al., 2021). The moderating variable ROE also fails to strengthen the relationship between governance mechanisms and firm value, with all interactions (JKI*ROE, KA*ROE, KI*ROE) being insignificant. The R-squared value of 0.369905 indicates that 36.99% of firm value variation is explained by the model, while the F-statistic (2.179003; $p < 0.05$) shows that all variables jointly affect firm value. Overall, the audit committee is the only variable with a significant—though negative—effect, emphasizing the need to strengthen its competence and independence to enhance financial transparency and investor trust.

Table 6. Lagrange Multiplier Test for Random Effects

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	28.98656 (0.0000)	0.064136 (0.8001)	29.05069 (0.0000)
Honda	5.383917 (0.0000)	0.253250 (0.4000)	3.986079 (0.0000)
King-Wu	5.383917 (0.0000)	0.253250 (0.4000)	1.284652 (0.0995)
Standardized Honda	5.581729 (0.0000)	0.646487 (0.2590)	-2.749259 (0.9970)
Standardized King-Wu	5.581729 (0.0000)	0.646487 (0.2590)	-1.679796 (0.9535)
Gourieroux, et al.	--	--	29.05069 (0.0000)

Based on the results of the Lagrange Multiplier (LM) Test for Random Effects in the image above, the Breusch-Pagan Cross-section value was obtained at 28.98656 with a probability value of 0.0000, which means it is less than 0.05. This result indicates that the Random Effect model is more appropriate to use than the Common Effect model, because there are significant random effects between companies (cross-section).

Meanwhile, the probability value for the time dimension (Time Effect) of 0.8001 (>0.05) indicates that there is no significant time effect in the model. Thus, the main differences in this panel data are due to variations between companies, rather than changes in time over the 2020–2024 period.

Alternative tests such as Honda, King-Wu, and Standardized Honda also consistently show results where the probability value for the cross-section is below 0.05, while the time effect remains above 0.05. This further strengthens the conclusion that random effects only appear between firms and not over time.

Overall, the results of the LM test confirm that the Random Effects Model (REM) is the most appropriate model for use in this study. This model assumes that differences in characteristics between companies in the financial sector are random and uncorrelated with the independent variables, thus providing more efficient estimates. This finding aligns with the panel data theory proposed by Gujarati and Porter (2012), which states that the random effects model is appropriate when variability between entities is random and reflects the influence of heterogeneity that cannot be directly observed in the model.

3. Multiple Linear Regression

Table 7 presents the estimation results of the Random Effect Model (EGLS Panel), which examines the influence of corporate governance mechanisms and financial performance on firm value (PBV) in financial sector companies. This model was chosen based on previous diagnostic tests confirming its suitability in capturing random variations across firms. The analysis aims to evaluate both the simultaneous and partial effects of key governance variables—such as the independent board of commissioners, audit committee, institutional ownership, and profitability (ROE)—in determining their contribution to firm value during the 2020–2024 observation period.

Table 7. Dependent Variable: PBV

Dependent Variable: PBV
Method: Panel EGLS (Cross-section random effects)
Date: 10/13/25 Time: 12:37
Sample: 2020 2024
Periods included: 5
Cross-sections included: 105
Total panel (unbalanced) observations: 524
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.832708	1.300458	0.640319	0.5222
JDKI	0.026576	0.021908	1.213104	0.2256
KA	-0.309463	0.158062	-1.957856	0.0508
KI	0.021693	0.011717	1.851332	0.0647
ROE	-0.007918	0.010120	-0.782351	0.4344

Effects Specification		S.D.	Rho
Cross-section random		1.755230	0.1820
Idiosyncratic random		3.721624	0.8180

Weighted Statistics			
R-squared	0.017884	Mean dependent var	1.402170
Adjusted R-squared	0.010315	S.D. dependent var	3.755916
S.E. of regression	3.736628	Sum squared resid	7246.479
F-statistic	2.362709	Durbin-Watson stat	1.964046
Prob(F-statistic)	0.052190		

Unweighted Statistics			
R-squared	0.026263	Mean dependent var	2.037443
Sum squared resid	8848.847	Durbin-Watson stat	1.608392

The estimation results of the Random Effect model (EGLS Panel) show that the independent variables—Independent Board of Commissioners (JDKI), Audit Committee (KA), Institutional Ownership (KI), and Return on Equity (ROE)—jointly influence firm value (PBV), though the effect is relatively weak. The Prob (F-statistic) value of 0.052190, slightly above 0.05, suggests a near-significant simultaneous influence. Partially, the independent board of commissioners (JDKI) has a positive coefficient of 0.026576 with a probability of 0.2256, showing no significant impact on firm value. This suggests that the role of independent commissioners in financial sector firms remains limited, likely due to suboptimal or formalistic supervision. These results are consistent with Nuryono et al. (2019) and Laiya et al. (2023).

The audit committee (AC) variable has a negative coefficient of -0.309463 with a probability of 0.0510, indicating a negative and nearly significant effect. A higher number of audit committees may reduce firm value if not supported by effective oversight and audit quality, aligning with Ferriswara et al. (2022). Institutional ownership (KI) shows a positive coefficient of 0.021693 with a probability of 0.0647, implying a weak but nearly significant positive effect—higher institutional ownership

tends to enhance firm value, consistent with agency theory (Jensen & Meckling, 1976) and Dewi et al. (2019). Meanwhile, ROE has a negative and insignificant coefficient (-0.007918; $p = 0.4344$), indicating that profitability is not a primary factor affecting investor perceptions of firm value in Indonesia's financial sector.

Table 8. Dependent Variable: PBV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.846893	1.513216	0.559664	0.5760
JDKI	0.029979	0.024906	1.203700	0.2293
KA	-0.450403	0.177980	-2.530640	0.0117
KI	0.027136	0.012579	2.157230	0.0314
ROE	-0.011544	0.075993	-0.151913	0.8793
JDKI*ROE	-0.000712	0.001229	-0.579078	0.5628
KA*ROE	0.016767	0.009236	1.815376	0.0700
KI*ROE	-0.000467	0.000522	-0.894456	0.3715

Effects Specification		S.D.	Rho
Cross-section random		1.741554	0.1791
Idiosyncratic random		3.728009	0.8209

Weighted Statistics			
R-squared	0.025504	Mean dependent var	1.409194
Adjusted R-squared	0.012285	S.D. dependent var	3.759845
S.E. of regression	3.736812	Sum squared resid	7205.301
F-statistic	1.929247	Durbin-Watson stat	1.945560
Prob(F-statistic)	0.063041		

Unweighted Statistics			
R-squared	0.036593	Mean dependent var	2.037443
Sum squared resid	8754.971	Durbin-Watson stat	1.601187

Based on the Random Effect Model (REM) estimation, this study applies the Panel EGLS (Cross-section random effects) method with an observation period of 2020–2024 on 105 financial sector companies listed on the IDX, totaling 524 observations. Simultaneously, the Independent Board of Commissioners (JDKI), Audit Committee (KA), Institutional Ownership (KI), Return on Equity (ROE), and moderating interactions (JDKI*ROE, KA*ROE, KI*ROE) jointly affect firm value (PBV), as shown by the Prob(F-statistic) value of 0.063041, which is close to the 0.05 significance level.

Partially, the Independent Board of Commissioners (JDKI) shows a positive but insignificant effect ($p = 0.2293$), indicating their oversight role remains suboptimal,

consistent with Laiya et al. (2023). The Audit Committee (KA) has a significant negative effect ($\beta = -0.450403$; $p = 0.0117$), suggesting that without sufficient expertise, audit committees can harm investor perceptions (Ferriswara et al., 2022). Institutional Ownership (KI) positively and significantly affects PBV ($\beta = 0.027136$; $p = 0.0314$), supporting agency theory (Jensen & Meckling, 1976) that institutional investors enhance monitoring and reduce agency conflict. ROE itself is insignificant ($p = 0.8793$), implying profitability was not a main driver of firm value. The interaction KA*ROE ($p = 0.0700$) indicates profitability may mitigate the audit committee's negative impact, while JDKI*ROE and KI*ROE remain insignificant. The R-squared of 0.0255 means only 2.55% of PBV variation is explained by the model, and the Durbin-Watson value (1.9456) confirms no autocorrelation. Overall, institutional ownership emerges as the key positive factor for firm value, while audit committee effectiveness remains a critical concern in IDX-listed financial firms.

E. CONCLUSION

The results of this study indicate that institutional ownership plays the most dominant role in increasing firm value among all corporate governance mechanisms examined. The presence of institutional investors contributes significantly to the strengthening of supervision and the reduction of opportunistic managerial behavior, which in turn enhances investor confidence and market perceptions. Meanwhile, the audit committee appears as the only variable with a significant yet negative influence on firm value, suggesting that the committee's effectiveness depends heavily on the competence, independence, and active involvement of its members. This finding reflects that structural existence alone is not enough; what matters is the quality of oversight and the ability to ensure transparency and accountability in financial management. At the same time, the independent board of commissioners has not shown a notable impact, indicating that its role in governance still requires optimization to align with its intended supervisory function. Methodologically, the use of the Random Effects Model has been proven appropriate in capturing variations across companies in the financial sector, providing efficient and reliable estimation results. The study also finds that financial performance, as reflected by profitability, does not independently strengthen firm value but can act as a moderating factor that mitigates the negative influence of weak governance. Overall, these findings emphasize that effective governance and stable financial performance must work hand in hand to build sustainable firm value. The combination of strong institutional ownership, competent oversight bodies, and consistent financial management is essential to reinforce market trust and ensure the long-term resilience of financial companies listed on the Indonesia Stock Exchange.

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