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The Influence of Profitability and Good Corporate Governance on Firm Value: The Moderating Role of Firm Size

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ABSTRACT

This study aims to examine the effect of profitability and Good Corporate Governance (GCG) on firm value, with firm size acting as a moderating variable, in pharmaceutical companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The background of this research is the fluctuation in firm value within the pharmaceutical sector following the post-pandemic period, indicating that financial and governance factors may influence market perceptions. This study employs a quantitative approach using secondary data obtained from annual reports and corporate governance reports. The sample consists of 33 firm-year observations selected through purposive sampling. The data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA). The results show that profitability has a positive and significant effect on firm value, indicating that investors respond positively to the company's ability to generate profits. Meanwhile, Good Corporate Governance does not have a significant individual effect, although it contributes simultaneously within the regression model. Furthermore, firm size is not proven to moderate the relationship between profitability and GCG on firm value. These findings suggest that investors in the pharmaceutical sector place greater emphasis on financial performance than on governance structure when assessing firm value.

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INTRODUCTION

Firm value is an important indicator that reflects the success of management in managing resources to enhance shareholder wealth. In the context of increasingly competitive business environments, companies are required to maintain solid financial performance and effective governance in order to attract investors and ensure business sustainability. For publicly listed companies, firm value is reflected in stock prices and other market indicators; therefore, factors influencing firm value have become an important focus in financial and corporate governance studies.

The phenomenon of fluctuations in the value of pharmaceutical companies in Indonesia during the 2021–2024 period shows significant dynamics. The pharmaceutical industry was selected as the object of this study because it plays a strategic role in the recovery and resilience of the national health sector, particularly in the post-pandemic period. According to capital market practitioners and financial analysts, fluctuations in firm value in the pharmaceutical sector are strongly influenced by changes in market demand, regulatory policies, and the ability of companies to adapt to post-pandemic conditions. Data from the Indonesia Stock Exchange also indicate instability in firm value influenced by changes in demand for healthcare products, industry innovation, government regulations, and operational efficiency.

Figure 1. Average Firm Value of Pharmaceutical Companies in 2021–2024
Source*:* data that has been processed by the author (2025)

Figure 1 illustrates the trend of the average firm value of pharmaceutical companies during the 2021–2024 period. These fluctuations indicate that the value of pharmaceutical companies is influenced not only by internal factors such as profitability but also by corporate governance quality and structural characteristics such as firm size.

Profitability is one of the primary measures used by investors to evaluate a company's ability to generate profits. Several previous studies have reported inconsistent results regarding the influence of profitability on firm value. Some studies have found that profitability has a positive and significant effect (Kusumaningrum & Iswara, 2022), while others have shown that the effect is not statistically significant (Larasati & Gantino, 2024). These inconsistent findings indicate the possibility that other variables may strengthen or weaken the relationship between profitability and firm value.

In addition to profitability, the implementation of Good Corporate Governance (GCG) plays an important role in enhancing transparency, accountability, and the quality of corporate decision-making. However, previous studies have also reported inconsistent findings. Sulastri and Nurdiansyah (2025) found that GCG has a positive and significant effect on firm value, whereas other studies indicate that GCG does not significantly influence firm value (Nadhiyah & Fitria, 2021). These differences suggest the need for more comprehensive analysis to understand the role of GCG in shaping firm value, particularly in the pharmaceutical sector.

From the perspective of agency theory, GCG mechanisms function to reduce conflicts of interest between principals and agents through improved monitoring and accountability. Meanwhile, signaling theory explains that profitability and the implementation of GCG serve as positive signals to investors regarding a company's prospects. However, these theories do not fully explain why the effects of these variables often differ across studies. One factor that may influence this relationship is firm size.

Firm size is considered capable of moderating the relationship between internal variables and firm value because larger companies generally have greater access to resources, stricter supervision, and better information transparency. However, previous studies have also produced mixed results. Some studies state that firm size strengthens the influence of profitability and GCG (Rositaningrum & Soleh, 2024), while others find that firm size does not play a moderating role (Pramestie & Atahau, 2021). This condition highlights the existence of a research gap that requires further examination.

Based on these empirical phenomena and research gaps, this study aims to examine more deeply the influence of profitability and GCG on firm value by incorporating firm size as a moderating variable in pharmaceutical companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The originality of this study lies in the more focused combination of variables compared to previous studies, the re-examination of the pharmaceutical sector with distinct industrial characteristics, and the use of the most recent

data reflecting post-pandemic conditions. This study is expected to provide theoretical contributions by strengthening empirical evidence and to offer practical implications for management and investors in assessing the factors that determine firm value.

METHODS

This study employs a quantitative approach aimed at examining the effect of profitability and Good Corporate Governance (GCG) on firm value, as well as the moderating role of firm size. A quantitative approach was chosen because this study analyzes relationships among variables measured in numerical form and processed using statistical methods.

The population of this study consists of all pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, with a total population of 38 companies. The sampling technique used was purposive sampling, with the criteria that pharmaceutical companies must be consistently listed on the IDX during the research period and must publish complete annual financial reports in accordance with the variables required in this study. These criteria were applied to ensure the availability and suitability of the data for analysis.

The data used in this study are secondary data obtained from annual financial reports and corporate governance reports published by the Indonesia Stock Exchange through its official website, www.idx.co.id. Data collection was carried out using the documentation method, which involves collecting, recording, and processing financial data and corporate governance information relevant to the research variables.

The dependent variable in this study is firm value, which is proxied by the Price to Book Value (PBV) ratio. The independent variables consist of profitability, measured using Return on Assets (ROA), and Good Corporate Governance (GCG), proxied by the proportion of independent commissioners on the board. Meanwhile, firm size acts as a moderating variable and is measured using the natural logarithm of total assets (Ln Total Assets). The use of these proxies is consistent with relevant previous studies and the characteristics of the pharmaceutical industry.

Data analysis was conducted using multiple linear regression with the Moderated Regression Analysis (MRA) approach. Prior to hypothesis testing, classical assumption tests were performed, including the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, to ensure that the regression model meets the Best Linear Unbiased Estimator (BLUE) criteria.

The analytical model used in this study is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 (X_1 \times Z) + \beta_4 (X_2 \times Z) + e$$

Where:

- Y = Firm Value (Dependent Variable)
- α = Constant
- X_1 = Profitability (Independent Variable)
- X_2 = Good Corporate Governance (Independent Variable)
- Z = Firm Size (Moderating Variable)
- β_1, β_2 = Regression coefficients of the independent variables
- β_3, β_4 = Interaction coefficients between independent variables and the moderating variable
- e = Error term

Hypothesis testing was conducted using the t-test to examine the partial effect of independent variables, the F-test to assess the simultaneous feasibility of the regression

model, and the coefficient of determination (R^2) to measure the model's ability to explain variations in firm value. All data processing and statistical analyses were carried out using IBM SPSS statistical software.

RESULTS AND DISCUSSION

RESULTS

This study uses a sample of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. After the sample selection process using the purposive sampling technique and the application of specific criteria, a total of 33 observation data points were obtained that met the requirements for analysis.

Descriptive Statistical Analysis

Table 1. Results of Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1	33	-.13	.31	.0897	.10549
X2	33	.25	.75	.4712	.12054
Z	33	27.42	31.01	28.8018	1.07793
Y	33	.02	7.48	1.6685	1.84407
Valid N (listwise)	33				

Source*:* data that has been processed by the author (2025)

Based on the descriptive statistics of 33 observations from pharmaceutical sub-sector companies during the 2021–2024 period, profitability (ROA) has a minimum value of -0.13 and a maximum value of 0.31, with an average of 0.0897, indicating a relatively low level of profitability.

Good Corporate Governance (GCG), proxied by the proportion of independent commissioners on the board, has an average value of 0.4712, indicating that most companies have met the minimum governance requirements. Firm size, measured by the natural logarithm of total assets (Ln Total Assets), has an average value of 28.8018, reflecting differences in operational scale among companies.

Meanwhile, firm value, measured by Price to Book Value (PBV), has an average value of 1.6685, indicating variations in market valuation of pharmaceutical companies during the observation period.

Classical Assumption Test

Normality Test

Table 2. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		33
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.64336265
Most Extreme Differences	Absolute	.118
	Positive	.118
	Negative	-.073
Test Statistic		.118
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source*:* data that has been processed by the author (2025)

Based on Table 2, the results of the normality test using the One-Sample Kolmogorov–Smirnov method show an Asymp. Sig. (2-tailed) value of 0.200, which is greater than 0.05. Therefore, the residuals in the regression model are normally distributed, indicating that the normality assumption has been satisfied.

Multicollinearity Test

Table 3. Results of the Multicollinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.818	1.255		.652	.519		
	X1	7.946	2.851	.455	2.788	.009	.995	1.005
	X2	.291	2.495	.019	.117	.908	.995	1.005

a. Dependent Variable: Y

Source*:* data that has been processed by the author (2025)

Based on Table 3, the results of the multicollinearity test show that variables X1 and X2 have tolerance values of 0.995 (>0.10) and VIF values of 1.005 (<10). These results indicate that the regression model does not experience multicollinearity, meaning that the model is appropriate for further analysis.

Heteroscedasticity Test

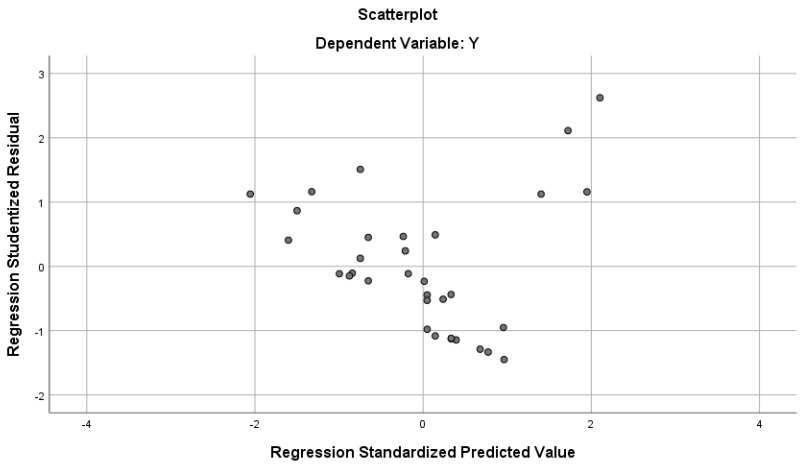

Figure 2. Results of the Heteroscedasticity Test

Source*:* data that has been processed by the author (2025)

Based on the heteroscedasticity test using a scatterplot between the standardized residuals and the standardized predicted values, the points are randomly distributed above and below the zero axis and do not form a specific pattern. This indicates that the regression model does not suffer from heteroscedasticity and therefore satisfies the homoscedasticity assumption.

Autocorrelation Test

Table 4. Results of the Autocorrelation Test
Model Summary[b]

Model	R	R Square	Adjusted R Square	Adjusted R Square	Durbin-Watson
1	.454[a]	.206	.153	1.69726	.758

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y

Source*:* data that has been processed by the author (2025)

Based on Table 4, the results of the autocorrelation test using the Durbin–Watson statistic show a value of 0.758, indicating that there is no indication of autocorrelation that could interfere with the regression model. Since all classical assumptions have been satisfied, the regression model is considered appropriate for hypothesis testing.

Multiple Linear Regression Analysis

Table 5. Results of Multiple Linear Regression Analysis
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.818	1.255		.652	.519		
	X1	7.946	2.851	.455	2.788	.009	.995	1.005
	X2	.291	2.495	.019	.117	.908	.995	1.005

a. Dependent Variable: Y

Source*:* data that has been processed by the author (2025)

Based on the results of the multiple linear regression test, variable X1 has a positive and significant effect on variable Y, with a coefficient value of 7.946 and a significance value of 0.009 (<0.05). This indicates that an increase in X1 will lead to an increase in Y. Meanwhile, variable X2 has a coefficient value of 0.291 with a significance value of 0.908 (>0.05), indicating that X2 does not have a significant effect on Y.

Coefficient of Determination (R^2) Test

Table 6. Results of the Coefficient of Determination (R^2) Test
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.606[a]	.367	.250	1.59687

a. Predictors: (Constant), X2_Z, X1_Z, Z, X2, X1

Source*:* data that has been processed by the author (2025)

Based on Table 6, the coefficient of determination test shows an Adjusted R Square value of 0.250, indicating that variables X1, X2, Z, and the interaction terms X1_Z and X2_Z are able to explain 25% of the variation in variable Y, while the remaining 75% is influenced by other variables outside the research model.

F-Test (Model Test)

Table 7. Results of the F-Test (Model Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.398	2	11.199	3.888	.032[b]
	Residual	86.421	30	2.881		
	Total	108.819	32			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

Source*:* data that has been processed by the author (2025)

Based on the results of the F-test, the significance value obtained is 0.032 (<0.05) with an F-value of 3.888. This indicates that the regression model used is appropriate and that the independent variables simultaneously influence firm value. Thus, profitability and GCG simultaneously have a significant effect on firm value.

Hypothesis Testing
Partial Test (t-test)

Table 8. Results of the Partial Test (t-test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.818	1.255		.652	.519		
	X1	7.946	2.851	.455	2.788	.009	.995	1.005
	X2	.291	2.495	.019	.177	.908	.995	1.005

a. Dependent Variable: Y

Source*:* data that has been processed by the author (2025)

The results of the t-test show that variable X1 has a significance value of 0.009 (<0.05) with a t-value of 2.788, indicating that X1 has a positive and significant effect on Y. This means that an increase in X1 will increase the value of Y.
Meanwhile, variable X2 has a significance value of 0.908 (>0.05) with a t-value of 0.117, indicating that X2 does not have a significant effect on Y.

Moderated Regression Analysis (MRA)

Table 9. Results of the Moderated Regression Analysis (MRA)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11.060	33.730		-.328	.746
	X1	-144.500	92.322	-8.266	-1.565	.129
	X2	13.022	71.555	.851	.182	.857
	Z	.421	1.172	.246	.359	.722
	X1_Z	5.280	3.172	8.746	1.665	.108
	X2_Z	-.447	2.473	-.876	-.181	.858

a. Dependent Variable: Y

Source*:* data that has been processed by the author (2025)

The interaction between X1 and Z (X1_Z) has a significance value of 0.108 (>0.05), indicating that firm size is not able to moderate the effect of profitability on firm value, therefore Hypothesis 3 is rejected.

Furthermore, the interaction between X2 and Z (X2_Z) shows a significance value of 0.858 (>0.05), indicating that firm size is not able to moderate the effect of Good Corporate Governance on firm value, therefore Hypothesis 4 is rejected.

DISCUSSION

The Effect of Profitability on Firm Value

The results of the t-test and F-test indicate that profitability has a significant effect on the firm value of pharmaceutical sub-sector companies. This finding suggests that a company's ability to generate profits serves as a positive signal for investors in evaluating the company's performance and future prospects. From the perspective of signaling theory, profitability reflects management effectiveness in utilizing company resources, thereby increasing market confidence. Higher profits indicate efficient asset management, which can lead to an increase in stock prices and ultimately enhance firm value.

These findings are consistent with the studies conducted by Kusumaningrum and Iswara (2022) and Nugraha,et al., (2024), which state that profitability has a significant influence on firm value. However, the results differ from the findings of Pramestie and Atahau (2021), who reported that profitability does not significantly affect firm value.

The Effect of Good Corporate Governance on Firm Value

The results of the F-test show that the independent variables, including Good Corporate Governance (GCG), simultaneously influence firm value. However, the t-test results indicate that GCG does not have a significant partial effect on firm value. This finding implies that individually, GCG does not have sufficient strength to directly influence firm value. In other words, variations in the proportion of independent commissioners are not significantly responded to by the market in determining firm value.

Within the framework of agency theory, GCG mechanisms function as monitoring tools to reduce conflicts between principals and agents. However, in the pharmaceutical industry, which operates under strict regulatory standards, GCG is often perceived as a formal obligation rather than a strategic factor that differentiates firm value. These results support the findings of Nadhiyah and Fitria (2021) and Pramestie and Atahau (2021), which state that GCG does not significantly affect firm value. However, this finding differs from the study conducted by Sulastri and Nurdiansyah (2025), which reports that GCG has a positive and significant effect on firm value.

The Effect of Profitability on Firm Value with Firm Size as a Moderating Variable

Based on the results of the Moderated Regression Analysis (MRA), firm size is not able to moderate the effect of profitability on firm value. This means that the size of the company does not strengthen or weaken the relationship between profitability and firm value. Although larger companies generally possess greater assets and resources, investors tend to respond directly to profitability without considering firm size as a differentiating factor.

This finding indicates that in the pharmaceutical sector, profitability has a direct influence on firm value regardless of company scale. These results are consistent with the studies of Pramestie and Atahau (2021) and Rositaningrum and Soleh (2024), which also found that firm size is unable to moderate the relationship between profitability and firm value. However, this finding differs from the results reported by Putri and Triyonowati (2025), who found that firm size is able to moderate the relationship between profitability and firm value.

The Effect of Good Corporate Governance on Firm Value with Firm Size as a Moderating Variable

The results of the Moderated Regression Analysis (MRA) indicate that firm size is not able to moderate the effect of GCG on firm value. In other words, regardless of whether the company is large or small, the implementation of GCG does not create different impacts on firm value. This finding suggests that firm size does not strengthen the relationship between corporate governance practices and market perceptions.

One possible explanation is that investors may place greater emphasis on financial performance indicators and growth prospects rather than on structural governance aspects when evaluating firm value. These results are consistent with the findings of Doaly et al. (2025), which state that firm size is not able to moderate the influence of GCG on firm value. However, these results differ from the findings of Permatasari and Musmini (2023) and Rositaningrum and Soleh (2024), which indicate that firm size can moderate the relationship between GCG and firm value.

CONCLUSION

This study concludes that profitability has a positive and significant effect on firm value in pharmaceutical companies during the 2021–2024 period, indicating that investors prioritize a company's ability to generate profits when assessing performance and future prospects. In contrast, Good Corporate Governance (GCG) does not have a significant partial effect on firm value, although it contributes simultaneously within the regression model, suggesting that governance practices are perceived more as formal compliance than as a value-enhancing factor. Furthermore, firm size is not able to moderate the relationship between profitability and GCG on firm value, indicating that company scale does not influence how the market responds to financial performance or governance structure. Overall, firm value in the pharmaceutical sector is more strongly influenced by fundamental financial performance than by governance mechanisms or company size.

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