

PROFITABILITY SIGNAL BREAKDOWN DURING CRISIS PERIODS: THE ROLE OF CORPORATE GOVERNANCE IN INDONESIAN BANKING

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Abstrak

Studi ini menyelidiki apakah profitabilitas tetap menjadi sinyal yang dapat diandalkan dari nilai perusahaan selama periode gangguan ekonomi, dan apakah good corporate governance memperkuat hubungan ini. Menggunakan data panel dari perusahaan perbankan Indonesia selama periode yang terdampak krisis tahun 2020–2024, studi ini menerapkan regresi berganda dan Analisis Regresi Moderasi (MRA). Temuan menunjukkan bahwa profitabilitas tidak berpengaruh signifikan terhadap nilai perusahaan, menunjukkan bahwa informasi pendapatan kehilangan relevansi sinyalnya ketika ketidakpastian pasar tinggi. Lebih lanjut, mekanisme good corporate governance gagal memoderasi hubungan ini, menunjukkan bahwa struktur tata kelola mungkin tidak berfungsi sebagai peningkat kredibilitas dalam kondisi krisis. Hasil ini memberikan bukti bahwa asumsi valuasi tradisional yang berasal dari lingkungan yang stabil mungkin tidak berlaku selama guncangan sistemik. Studi ini berkontribusi pada literatur dengan menyoroti sifat kondisional dari sinyal profitabilitas dan keterbatasan kontekstual dari efektivitas tata kelola.

Kata kunci: Profitabilitas, Nilai Perusahaan, Good Corporate Governance, Krisis, Perbankan

Abstract

This study investigates whether profitability remains a reliable signal of firm value during periods of economic disruption, and whether corporate governance strengthens this relationship. Using panel data from Indonesian banking firms during the crisis-affected period of 2020–2024, this study applies multiple regression and Moderated Regression Analysis (MRA). The findings reveal that profitability does not significantly influence firm value, indicating that earnings information loses its signaling relevance when market uncertainty is high. Furthermore, corporate governance mechanisms fail to moderate this relationship, suggesting that governance structures may not function as credibility enhancers under crisis conditions. These results provide evidence that traditional valuation assumptions derived from stable environments may not hold during systemic shocks. This study contributes to the literature by highlighting the conditional nature of profitability signals and the contextual limitations of governance effectiveness.

Keyword: Profitability, Firm Value, Good Corporate Governance, Crisis, Banking

1. INTRODUCTION

Generally, every company has clear goals, both short-term and long-term. The major purpose of a firm or business is to produce profits and the desire to expand the enterprise even more. (Pakawaru et al., 2025). The better a firm's performance in terms of

profit generation, management, and asset utilization, the higher its value. In the long term, increasing company value aims to improve the welfare of its owners, as reflected in stock price movements (Gusriandari et al., 2022). Company value can be defined as a quantitative assessment of a company's worth. This term refers not only to financial wealth but also encompasses growth potential, reputation, and contribution to society. Furthermore, this value indicates investors' expectations for the company's future prospects and sustainability. Investor trust in the company's performance and stability is reflected in its high market value. Investors typically take into account a variety of data that illustrates the state and performance of the business when making judgments about investments. This includes not just financial statements but also the business's capacity to control risk and preserve operational stability. Companies that are able to send positive signals to investors will more easily attract market interest, thus increasing stock demand and firm value (Dina et al., 2020).

Profitability is a crucial metric for assessing a company's worth (Febiyanti & Anwar, 2022). The capacity of a business to produce steady and long-term earnings tells investors that the business has promising future possibilities. As a result, investors are prepared to pay more for stock in profitable businesses. High profitability is generally considered a positive indicator for a company. Because they anticipate larger returns, investors are more likely to be drawn to businesses with strong profitability. A business needs to be profitable in order to operate. Without the ability to generate profits, a company will have difficulty obtaining and attracting external funding sources (Ali et al., 2021). Although numerous studies have examined the relationship between profitability and firm value, existing findings remain inconclusive, particularly under conditions of economic instability. Most prior studies assume stable market conditions and treat profitability as a consistently reliable signal for investors (Ali et al., 2021; Febriyanti et al., 2025; Wibowo & Yuliana, 2020). However, limited empirical evidence in Indonesia investigates whether this signaling role remains valid during periods of systemic disruption such as global crises. In the international literature, evidence from studies of EU banks suggests that the contribution of business models to profitability deteriorates during systemic crises, indicating that firm structural characteristics lose their explanatory power under macroeconomic pressures. This supports the argument that profitability signals may become less informative to investors during periods of crisis (Bolivar et al., 2023). This gap is important because crisis conditions may fundamentally alter how investors interpret financial information, potentially weakening the traditional link between profitability and firm value.

Good Corporate Governance (GCG) is one of several variables that might affect the connection between a firm's value and profitability. A company's management and oversight are governed by a set of principles and practices known as good corporate governance. Many companies are beginning to believe that putting good corporate governance into practice is a necessity in the business world and can be used as a benchmark for corporate accountability (Rahardjo & Wuryani, 2021). Research conducted by Putra & Putri (2022), Abigail & Dharmastuti (2022), Jessica & Arfianti (2025) and Setiawati et al. (2024), which aims to examine Good corporate governance's function in reducing the impact of several elements on firm's value, has yielded inconsistent results, which provides an opportunity for researchers to re-examine the function of corporate governance in moderating the impact of profitability on company worth. Especially in a systemic crisis, high external pressure can reduce the ability of a company's internal mechanisms to maintain the quality of information signals. Macroeconomic uncertainty,

market volatility, and increased systemic risk can cause investors to focus more on external factors than on a company's internal governance structure. In such situations, the role of GCG as a credibility mechanism is potentially weakened because market confidence is no longer solely determined by the quality of governance, but rather by the perception of systemic risks beyond the company's control. Research conducted by Himadri (2013) shows that not all GCG mechanisms are effective during the global crisis period, which indicates that corporate governance does not automatically strengthen the credibility of information when external shocks occur. This raises important empirical questions about whether GCG remains effective in strengthening the validity of profitability signals during periods of high economic uncertainty. Previous studies on GCG examined how certain elements of corporate governance can influence investment effectiveness, particularly in companies listed on the capital market (Jafeel et al., 2023).

One of the capital markets in Indonesia is the Indonesia Stock Exchange (IDX). The IDX groups stocks based on sectors and subsectors, including the financial sector and the banking subsector. The banking sector is a significant contributor to Indonesia's Gross Domestic Product (GDP) due to its significant role in financial intermediation, payment services, and credit distribution to the real sector. Based on data from Statistics Indonesia (BPS), the Indonesian banking sector recorded a significant positive contribution to the GDP of Indonesia in 2024, with credit growth reaching 10.39%. The stability and performance of the banking sector have a broad impact on the economy, making this sector a key indicator of the health of the national financial system. But the banking industry is also very complicated. Because of the considerable operational risks that can directly impact the stability of the financial system, this business is subject to tight regulation by Bank Indonesia and the Financial Services Authority (OJK). Furthermore, this sector is highly dependent on public trust, so any weaknesses in management, transparency, or governance can impact company perceptions and value. Amid this complexity, even in the banking industry, profitability is frequently regarded as a crucial factor in determining a firm's value. To the best of our knowledge, no prior study has simultaneously examined the validity of profitability signals and the credibility-enhancing role of corporate governance during systemic crisis periods within the Indonesian banking sector.

This study contributes to the literature in three ways. First, it challenges the conventional assumption that profitability consistently enhances firm value by testing this relationship during a crisis-affected period. Second, it evaluates whether corporate governance mechanisms remain effective as credibility enhancers when market uncertainty is high. Third, it provides empirical evidence from the Indonesian banking sector, a highly regulated industry where investor perception is strongly influenced by systemic risk conditions.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a relevant and widely used grand theory in various accounting issues. This theory was first put forth by Demsetz and Alchian in 1972, and Jensen and Meckling extended it in 1976 (Sutisna et al., 2024). Three presumptions form the foundation of agency theory is human character, organizational structure, and information (Eisendhart, 1989). These three assumptions form the basis of agency theory in explaining the relationship between agent and principal. This theory stems from the reality that in modern companies, there is often a separation between those who own the company and those who manage it. The company's owners, or stockholders, act as principals, while

management acts as agents mandated to run the company on behalf of the owners. In practice, this relationship is not always harmonious because each party has different interests (Lesmono & Siregar, 2021). Adam (1996) found that two issues that emerge between agents and principals can be resolved by agency theory. It first has to do with issues that arise from the principal's incapacity to verify that the agent has acted honorably and in the principal's best interests. Second, there are risk-sharing issues resulting from differences in attitudes between the principal and the agent in dealing with risk (Kurniawansyah et al., 2018).

Signaling Theory

According to signaling theory, businesses can give investors information about the company's prospects for the future by sending signals to them through the reporting of pertinent information. Investors consider the signals and information provided by companies as a foundation for choosing investments (Agus & Sutanto, 2024). Based on signaling theory, an increase in business profits can reassure investors that the company is successful and capable of supporting them. Furthermore, increased profitability will naturally attract investors to invest through share ownership (Cahyaningtyas, 2022). Signaling theory explains that company value can be perceived through positive signals provided by management to investors. These signals can include financial reports showing good performance, consistent dividend policies, disclosure of non-financial information, or other strategic decisions (Atmi, 2024).

Profitability

A company's ability to make money from its resources is demonstrated by its profitability, which is a crucial indicator of its financial performance. According to Salsabillah et al. (2025), profitability reflects management's performance in managing the company. A strong profitability level demonstrates how effectively management has utilized capital and assets to generate profits. A company's ability to generate profit is gauged by profitability ratios, and both high and low profitability levels may have an effect on the value of the business (Sultan et al., 2021). In the capital market context, Profit is seen as both the outcome of operational activity and a crucial piece of data that helps investors evaluate a company's potential and future state (Fitriani et al., 2026). For the banking industry, assets are a key component of operational activities, therefore, ROA is considered the most relevant and representative measure of profitability. Mathematically, profitability, as measured by ROA, is formulated as follows:

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Company Value

An investor's assessment of a business's degree of resource management success is known as its company value (Sultan et al., 2021). According to Sujoko & Soebiantoro (2004), Investors use a company's value, which is typically correlated with changes in the capital market's stock price, to gauge its success. The indicator for measuring company value in this study uses Tobin's Q. Tobin's Q is a book-value-based valuation model. In other words, to calculate a company's value, Tobin's Q compares its market value to the book value of its assets. A Tobin's Q value greater than one ($Q > 1$) shows that the market value of the company is greater than its book value. Conversely, a Tobin's Q value less than one ($Q < 1$) shows that the company's market worth is less than the value of its assets. If the Tobin's Q value is close to one, the company is considered to be in a fair condition or a balance between market value and book value of assets (Oktary, 2025). This measurement can be formulated as follows:

$$\text{Tobin's } Q = \frac{\text{Market Value of Equity} + \text{Book Value of Debt}}{\text{Total Book Value of Assets}}$$

Good Corporate Governance

Good Corporate Governance (GCG) is a concept that regulates how a company is managed properly and responsibly (Putri & Utomo, 2021). As a control mechanism, GCG works to reduce agency conflicts and stifle opportunistic management practices (Alif & Khalifaturfiah, 2023). Through the implementation of an effective oversight structure, like an audit committee and a board of commissioners, GCG helps ensure that management decisions align with shareholder interests. According to Putra & Putri (2022), the key focus of GCG mechanisms is the goal of increasing shareholder value without neglecting the interests of other stakeholders. Furthermore, GCG also serves as a signal to improve the quality of information disclosure, thereby reducing information asymmetry between management and external parties. GCG comprises fundamental principles that companies must adhere to, including transparency, responsibility, accountability, independence, and fairness (Atmi, 2024). GCG is measured using the GCG index. The method for measuring the index that has been formed is by applying an unweighted index using a dichotomous value, namely a value of 1 for each disclosed item and 0 for items that are not disclosed, so that a disclosure score will be obtained in the form of a percentage number. Natalia created the disclosure table that was used to calculate the GCG disclosure index. It was based on the General Guidelines for Good Corporate Governance in Indonesia and the BAPEPAM-LK Decree No. KEP-134/BL/2006 (Natalia, 2012). Mathematically, the GCG index is formulated as follows:

$$\text{GCG Indeks} = \frac{\sum \text{Disclosed Item Score}}{\sum \text{Total Disclosure Items}}$$

The Effect of Profitability on Firm Value

The ability of a business to turn a profit is the benchmark for profitability, this is one of the primary factors of firm value. Companies with high profitability generally have higher market values than less profitable companies. This is due to the fact that profitability indicates a company's potential for future positive cash flows, which attracts investors by increasing their return expectations (Febriyanti et al. 2025; Dewi et al. 2025).

From an agency theory perspective, there isn't always a direct association between firm value and profitability, as it is influenced by the agency relationship between the principal and agent (Sonbay, 2022). Management (the agent) is responsible for managing company resources to maximize shareholder (principal) welfare. The degree to which the agent can fulfill this obligation is reflected in profitability. High profitability indicates an agent's effectiveness, while low profitability raises doubts about the agent's performance. Under optimal conditions, increased profitability should improve company value, as investors regard the agent as acting in the best interests of the principal (Lesmono & Siregar, 2021).

Research conducted by Salsabillah et al. (2025), Dewi et al. (2025), Silaban et al. (2025), and Yondrichs et al. (2021) discovered that profitability has a positive and significant impact on firm value. According to the findings of this research, profitability has a positive and significant impact on firm value, which generally means that higher profitability results in higher firm value.

H1: There is a significant positive effect of profitability and firm value.

The Role of Good Corporate Governance in Moderating the Effect of Profitability on Firm Value

Good Corporate Governance mechanisms make company oversight more effective, which is anticipated to boost business performance and, in turn, raise firm value (Firdausya et al., 2013). Good Corporate Governance (GCG) ensures efficient and effective company management. A clear governance structure and appropriate role allocation minimize inefficiencies and maximize the value of company resources. GCG also encourages informed decision-making oriented toward long-term value, thereby increasing profitability, which also has a huge impact on firm value (Putra & Putri, 2022).

According to signaling theory, information is an essential component for investors and business actors since it includes records, information, and descriptions of the company's current and historical state. Businesses' attempts to provide investors with positive signals or accurate information demonstrate the connection between signaling theory and company value. In this case, GCG, as a signal, aims to help investors and shareholders distinguish high-quality companies from low-quality companies through company policies and management (Atmi, 2024).

The association between GCG and firm value, as well as GCG's function in mitigating the impact of profitability on firm value, has been the subject of numerous studies. Research conducted by Virliandita & Sulistyowati (2024) shows that Good corporate governance influences firm value as an intervening variable. This is because investors consider several factors in determining stock investment, namely Good Corporate Governance (GCG) and financial performance. Therefore, a company's firm value will likewise benefit from improved GCG and financial success. These results differ from research conducted by Gusriandari et al. (2022), which showed that GCG had no significant effect on firm value. Regarding GCG as a moderating variable, research conducted by Putri & Utomo (2021) showed that GCG cannot moderate the effect of profitability on firm value. These results differ from research conducted by Raafi'Udin (2023), which discovered that the impact of profitability on firm value is considerably strengthened by good corporate governance. These results provide empirical evidence that GCG increases the impact of profitability on company value. The researchers wished to test this idea in a different demographic and culture, where the results might change, in light of the findings of many other investigations.

H2: Good Corporate Governance strengthens the influence of profitability on the value of banking companies listed on the Indonesia Stock Exchange.

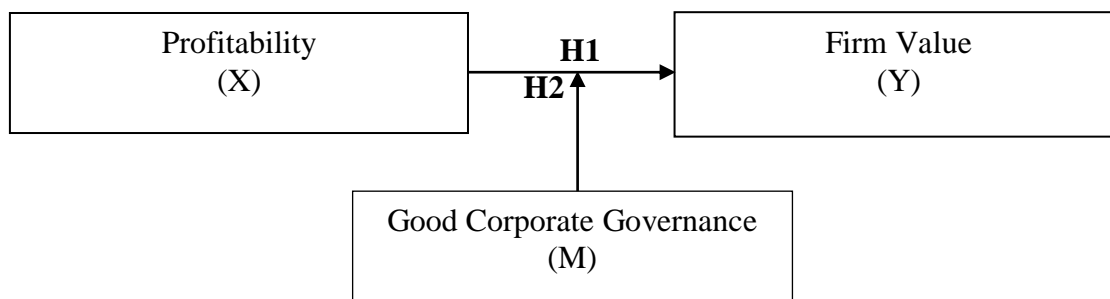


Figure 1. Research Framework
Source: Data Processed by Researcher (2026)

3. RESEARCH METHOD

This research uses quantitative methods. Quantitative methods are used when researchers intend to test research hypotheses and obtain accurate data based on empirical and measurable phenomena (Sugiyono, 2013:24). Quantitative research was chosen because all variables studied were measured using numerical data sourced from the official Indonesia Stock Exchange website (www.idx.co.id) provides access to the year-end financial and annual reports of banking companies listed on the Indonesia Stock Exchange.

Sugiyono (2013:80) indicates that a population is a wide category made up of items or individuals with specific characteristics chosen by the researcher to be investigated and from which conclusions are drawn. All 47 banking companies registered on the Indonesia Stock Exchange (IDX) between 2020 and 2024 made up the study's population. The sample is a subset of the size and makeup of the population (Sugiyono, 2013:81). Purposive sampling was used to select the study's sample based on pre-established criteria, resulting in a sample size of 18 companies. The sample size calculation is shown in the following table.

Table 1. Sample Company Criteria

Number	Criteria	Amount
1	Banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2020 – 2024	47
2	Companies that did not incur losses during the time 2020 – 2024	-24
3	Companies that publish complete and audited annual financial reports during the period 2020 – 2024	-1
4	Companies that provide financial reports in the rupiah currency	0
5	Have complete data regarding the factors employed in the research.	-4
Number of companies used as samples		18
Number of observations 18 (companies) x 5 (2020-2024)		90

Source: Data processed by researcher (2026)

This study used classical assumption tests such as normality, autocorrelation, and heteroscedasticity to determine the data's feasibility. The panel data regression model was selected using the Eviews analysis tool, and the Fixed Effect Model (FEM) was obtained. Furthermore, this study tested the association between the independent and dependent variables using multiple regression methods and Moderated Regression Analysis (MRA), which included moderating variables that played a role in strengthening or weakening the relationship. According to (Ghozali, 2013: 203), to use MRA with one predictor variable (X) and one moderating variable (M), the MRA regression equation used is:

$$Y = \alpha + \beta_1 X + \beta_2 M + \beta_3 (X \times M) + \epsilon$$

This equation is used to determine that good corporate governance plays a moderating function in the impact of profitability on firm value. If the b2 coefficient in the regression equation is insignificant while the b3 coefficient is significant, then the M variable is a pure moderator. Furthermore, if the b2 coefficient is insignificant and the b3 coefficient is also insignificant, then the M variable is not a moderating variable, but only functions as a homologizer moderator, so it does not play a role as either a moderator or a predictor variable. If the b2 coefficient is significant and the b3 coefficient is significant, then the M variable is a quasi-moderator. However, if the b2 coefficient is significant while

the b3 coefficient is insignificant, then the M variable cannot be categorized as a moderating variable, but only plays a role as a predictor (independent), intervening, exogenous, or antecedent variable.

4. RESULTS AND DISCUSSION

This study aims to examine the effect of profitability on firm value using the moderating variable, Good Corporate Governance, which can weaken or strengthen the relationship between the independent and dependent variables. To ensure that the regression model meets validity requirements, produces unbiased, consistent, and efficient estimates, a classical assumption test is performed.

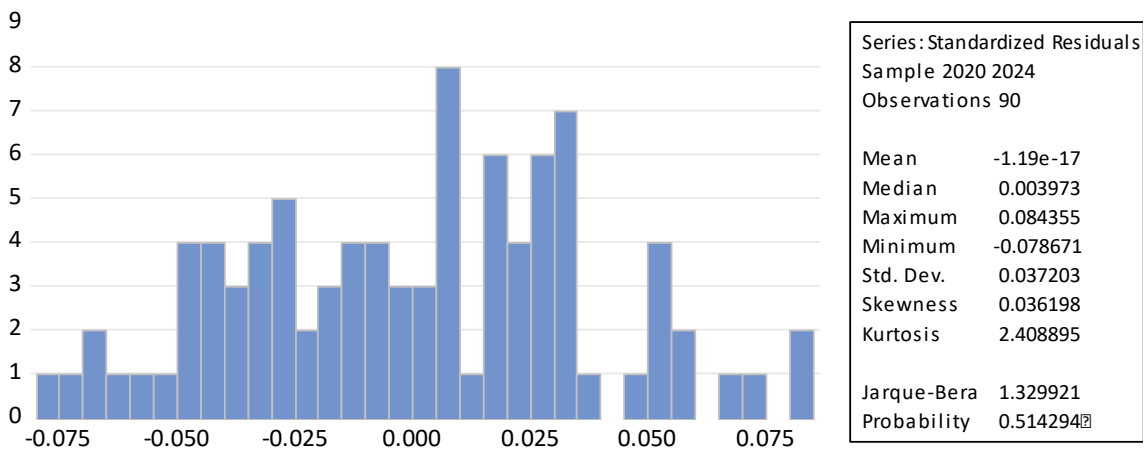


Figure 2. Normality Test Results
Source: Eviews 12 Output Results (2026)

Based on the results of the normality test, the probability value is 0.514 ($p > 0.05$), indicating that the data were normally distributed and can proceed to the next test.

Table 2. Autocorrelation Test Results

Durbin-Watson Stat	Criteria
1.805682	$1.7026 < 1.805682 < 2.2974$

Source: Eviews 12 Output Results (2026)

Based on the findings of the autocorrelation test using the Durbin-Watson statistics, the results obtained were in the range of $DU < DW < 4 - DU$ ($1.7026 < 1.805682 < 2.2974$). As a result, we can conclude that the model exhibits no positive or negative autocorrelation.

Table 3. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.015435	0.023447	-0.6582294	0.5125
ROA	-0.000181	0.001076	-0.167880	0.8672
GCG	0.032303	0.028658	1.127182	0.2635

Source: Eviews 12 Output Results (2026)

Based on the results of the heteroscedasticity test, it shows that the probability value of the Profitability variable (X) is 0.8672 ($p > 0.05$) and the probability value of the Good Corporate Governance variable (M) is 0.2635 ($p > 0.05$), thus, it may be stated that the research data is devoid of heteroscedasticity concerns.

To proceed with the MRA test, the panel data regression model to be employed must first be determined.

Table 4. Chow Test Results

Effects Test	Statistic	d. f.	Prob.
Cross-section F	51.224961	(17,70)	0.0000
Cross-section Chi-square	233.843509	17	0.0000

Source: *Eviews 12 Output Results (2026)*

The Chow test results show a probability value of 0.0000 ($p < 0.05$), indicating the selected model is the Fixed Effect Model (FEM), allowing for further Hausman testing.

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d. f.	Prob.
Cross-section random	28.833623	2	0.0000

Source: *Eviews 12 Output Results (2026)*

The Hausman test yields a probability value of 0.0000 ($p < 0.05$), indicating that the Fixed Effect Model (FEM) is the best fit. The Fixed Effect Model (FEM) was used to analyze panel data based on the results of the Chow and Hausman tests.

The following are the results of the statistical test of the Moderated Regression Analysis (MRA) method with the FEM regression model.

Table 6. Moderated Regression Analysis (MRA) Test

VARIABLE	STANDARDIZED COEFFICIENTS
	α
(constant)	0.5778
Return On Aset (ROA)	0.1753
Good Corporate Governance (GCG)	0.1480
Return On Aset (ROA)*Good Corporate Governance (GCG)	0.1707
F-statistic	76.329
Sig F	0.0000
Adjust R-squared	0.9442

Source: *Eviews 12 Output Results (2026)*

The MRA statistical results in the table yield the following equation:

$$Y = \alpha + 0.1753X + 0.1480M + 0.1707X.M + \epsilon$$

This equation can be explained by the positive constant value of 0.5778, indicating that the independent variables used by the researcher, namely profitability and good corporate governance, remain constant and unchanged (equal to zero). Therefore, the firm value, as proxied by Tobin's Q, is 0.5778.

The relatively high adjusted R-squared value indicates that the model explains a large proportion of variation in firm value. This result is likely influenced by the use of the Fixed Effect Model, which controls for unobserved firm-specific characteristics. By capturing cross-sectional heterogeneity, the FEM specification increases explanatory power compared to pooled models. Therefore, the high coefficient of determination should be interpreted as evidence of strong firm-specific effects rather than model overfitting.

The Effect of Profitability on Firm Value

The profitability variable, as measured by ROA, has a significance value of 0.1753, the regression test results indicate a significance level greater than 0.05. This indicates that firm value is not much impacted by profitability. This result contradicts agency theory, which holds that higher profitability is a sign of management's effectiveness in allocating corporate resources, boosting investor confidence, and enhancing firm value (Sutisna et al., 2024). According to this study, a company's profitability does not yet indicate to shareholders how well its management is performing. This shows that the principal and agent's objectives are not entirely in line, which prevents profit from being seen as a sign of improved shareholder welfare.

This finding differs from many previous studies, which generally find a positive relationship between profitability and firm value. One of the reasons for this key finding is related to the capital market and macroeconomic conditions during the 2020-2024 research period, which experienced abnormal economic conditions during the Covid-19 pandemic, particularly in 2020 and 2021. At the time, Indonesia's endemic conditions disrupted a number of industries (Mapparessa et al., 2023). In that year, most banking companies had ROA ranging from 0.01 to a maximum of 0.08, indicating low profitability during the study period. The low standard deviation of ROA indicates limited cross-sectional variation, reducing its discriminative informational value for investors. Given that investors typically do not react to very tiny differences in ROA between companies, this condition can be one of the factors causing profitability to have a negligible impact on company value. Conceptually, this situation can be explained through the perspective of information content theory, which emphasizes that the value of a financial indicator depends on its ability to convey new information to the market. If a company's profitability level falls within a narrow range, the indicator no longer provides relevant new signals, resulting in minimal market reaction. This explains why profitability statistically shows no effect on company value, even though it should theoretically.

The insignificant relationship between profitability and firm value suggest that, under crisis conditions, investors may shift their evaluation focus from short-term earnings performance to risk resilience and financial stability indicators. Under such conditions, investors may discount accounting-based performance indicators because they are perceived as less informative about long-term sustainability. Instead, market participants tend to prioritize indicators of resilience, stability, and risk exposure. This shift in investor focus reduces the informational relevance of profitability and weakens its signaling capacity. This finding implies that traditional valuation assumptions derived from stable economic environments may not fully apply during periods of systemic disruption.

This suggests the existence of theoretical boundary conditions that provide predictive power, suggesting that the relationship between profitability and firm value is contextual, not universal. This means that the predictive power of profitability depends on the economic environment. Under stable conditions, profit can serve as a primary signal of firm quality because it reflects sustainable operational performance. Conversely, during a crisis, external variables and systemic risk become the dominant determinants of market perception, leaving internal firm variables with a more limited influence. Thus, this finding strengthens the argument that the relationship between financial variables is state-dependent, that is, influenced by the surrounding macroeconomic conditions.

This study's conclusions are congruent with research conducted by Fitriani et al. (2026) and Bachtiar & Putri (2025), which demonstrates that profitability has no impact on firm value. These results differ from research by Alif & Khalifaturfiah (2023) and

research by Carissa & Arieftiara (2024), which found that profitability had a positive and significant effect on firm value. Differences in the study period, economic conditions, and research subjects could potentially yield different findings, given the changing economic conditions and levels of market uncertainty prevailing in each company and the study period. Therefore, the hypothesis that profitability has a positive and considerable impact on firm value is refuted.

The Role of Good Corporate Governance in Moderating the Effect of Profitability on Firm Value

The interaction variable between profitability and Good Corporate Governance (GCG) shows a significance value of 0.1707 ($p > 0.05$), indicating that GCG does not significantly moderate the relationship between profitability and firm value. This finding suggests that GCG neither strengthens nor weakens the influence of profitability on firm value. Furthermore, the regression results show that both the coefficient of the moderating variable ($b_2 = 0.1480$; $p > 0.05$) and the interaction coefficient (b_3 ; $p > 0.05$) are statistically insignificant. According to moderated regression analysis (MRA) classification, this indicates that GCG does not function as a true moderator but rather as a homologizer variable.

This result contradicts signaling theory, which posits that strong governance mechanisms serve as non-financial signals capable of enhancing the credibility of financial information. Under normal conditions, effective GCG practices should reinforce investors' confidence in earnings quality and reduce information asymmetry (Atmi, 2024). However, the empirical evidence indicates that governance signals during the observed period were not sufficiently powerful to alter market interpretations of profitability information. The findings further imply that investors evaluate firm value using a broader set of criteria beyond formal governance structures. Market participants may incorporate additional dimensions such as liquidity resilience, capital adequacy, risk exposure, or crisis management capability, factors not explicitly included in this study.

Methodologically, the finding that moderating variables function as homologizers suggests that governance acts as a parallel explanatory variable, not a contingency mechanism. This means that governance may have a direct influence on firm value, but it does not affect the strength of the relationship between profitability and firm value. This interpretation is important because it emphasizes that not all institutional variables automatically function as moderators, despite the theoretical assumption that they do. Another plausible explanation lies in the statistical characteristics of the sample. The relatively low and homogeneous distribution of profitability values, particularly the limited variation in Return on Assets (ROA), may weaken the statistical interaction effect. When profitability indicators exhibit minimal dispersion across firms, they convey limited discriminatory information to investors. As a result, governance mechanisms cannot meaningfully amplify or attenuate a profitability signal that is already weak in informational content. This condition reduces the likelihood of detecting a moderating effect empirically.

The results of this study suggest important theoretical implications for signaling theory. Traditional formulations of this theory implicitly assume a relatively stable information environment in which governance structures operate as reliable indicators of firm quality. This suggests a theoretical boundary condition: this mechanism is most effective in stable environments where firm-level information dominates investor decision-making, but its influence weakens when systemic risk and external shocks become the

primary determinants of market perceptions. In a crisis context, investors may rely less on internal performance indicators and more on macro-level risk assessments, thereby reducing the explanatory relevance of traditional firm-specific variables.

Empirically, these results are consistent with Jessica & Arfianti (2025) and Bachtiar & Putri (2025), who report that GCG does not moderate the profitability and firm value relationship. However, the findings diverge from Setiawati et al. (2024) and Febriyanti et al. (2025), who document a significant moderating effect. Such inconsistencies may stem from variations in research periods, sample characteristics, measurement proxies for profitability, and operationalization of governance variables. Differences in economic conditions, especially crisis versus non-crisis periods, may also alter the effectiveness of governance mechanisms in influencing market perceptions. Therefore, the hypothesis stating that Good Corporate Governance strengthens the effect of profitability on firm value is rejected.

5. CONCLUSIONS AND SUGGESTIONS

Conclusions

1. This research concludes that profitability, as evaluated by the Return on Assets (ROA) ratio, does not significantly impact firm value. This finding indicates that during the study period, corporate profits were not yet the primary basis for investors in assessing companies due to high economic uncertainty and fluctuations in financial performance.
2. The impact of profitability on company value cannot be influenced by Good Corporate Governance (GCG). Although GCG theoretically functions as a control mechanism and strengthens the credibility of earnings information, during a crisis, this role is not yet effective.
3. The results of statistical tests show that the moderating variable, namely Good Corporate Governance, is not purely moderated but rather a homologizer moderator.

Suggestions

This study is limited by its observation period, which coincides with the pandemic, so the results are influenced by abnormal economic conditions. Furthermore, profitability is measured solely using ROA, thus not fully reflecting a company's comprehensive financial performance. Future research is recommended to expand the study period, use more diverse proxies for profitability and GCG, and add variables beyond financial performance. Furthermore, because the test results indicate that GCG is not a moderating variable but a homologizer moderator, although this variable remains theoretically important, further research is recommended to examine GCG as a control variable that controls corporate governance characteristics.

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